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Guanxi Embeddedness and Trust Building in Chinese Business Markets: A Confucianism Perspective

^{1,2}Kai-Ping Huang, ²Tsungting Chung, ^{3,4}Jane Tung and ^{4,5}Sheng Chung Lo

¹School of Management, University of Technology, Sydney, Australia

²Department of Business Administration, National Yunlin University of Science and Technology,
Taiwan, Republic of China

³Department of Marketing and Distribution Management, Hsing Wu University, Taiwan, Republic of China

⁴Department of International Business Studies, National Chi Nan University, Taiwan, Republic of China

⁵Department of Travel Management, Hsing Wu University, Taiwan, Republic of China

Abstract: The study explores the concept of Guanxi by understanding its cultural roots and connotations and its impact on trust building. The Confucian philosophy of 'lun' and the way in which the five cardinal relationships of 'wu-lun' have had a significant influence on how Guanxi operates. The study also takes a deeper look at the way in which Guanxi influences the way in which trust works in Chinese business markets. The main argument is to investigate how Guanxi operates at many different levels in Chinese business environment in relation to trust building. The increase in globalization has posed some challenges on how Chinese businesses interact with global players in terms of trust. The various types of trust such as goodwill trust, competence trust and collective trust that are involved in the business transactions indicate how Guanxi has a strong influence. By exploring the role of Guanxi, the study develops propositions that Confucianism and Chinese cultural lead to a strong perception of Guanxi, Guanxi relates positively to trust building in Chinese business markets and trust relates positively to the success in business activities in Chinese business environment.

Key words: Guanxi, wu-lun, chinese culture, trust, Confucianism

INTRODUCTION

The concept of Guanxi is one that is not just deep and rich, but also complex and dynamic. This idea is central to the Chinese society (Yang, 2001). The literal translations of this term could mean 'connections' and 'relationships', but both these translated terms cannot describe the deeper meaning and implications that it actually stands for. The concept of guanxi is no longer confined to China and is accepted in the west also. Guanxi has been defined in different ways depending on the various perspectives (Bian, 1997). The Chinese construct considers guanxi as a very specific personal connection between two different people. This connection is exemplified by an inherent psychological contract that needs to be followed. The social norms include being committed, maintaining loyalty and ensuring that the relationship is maintained over a long term. Guanxi also has the key characteristics of trust for the parties involved that is developed through long term interactions, reciprocity and self-disclosure. In literal sense, guanxi means connection. When it comes to

relationships, this term either refers to the connection between the parties that are involved, or to the connected parties. There are different stages of guanxi-either existent or non-existent, either good or bad, distant or close, deep or superficial and so on. Guanxi can exist between two or more individuals or even between organizations or different networks. It is also necessary to know that Guanxi is function in the different spheres of human life, such as the families, friends and professional groups, political and business. The term guanxi is used along with different verbs to give it different connotations and meanings. For example, if the phrase 'pull guanxi' is used, then it means the set of actions that indicate initiating and establishing a connection. Similarly, if the phrases 'walk guanxi' would mean using the established connections to achieve any purpose that needs to be achieved. Similarly, the term has been used in other verb forms such as building, developing, breaking etc. According to Gold *et al.* (2002) and Ho and Redfern (2010), guanxi can be described as part of China's national character.

Over the years, Guanxi has played a very important role in the business relationships in China. If the

businesses are Guanxi based, then, there would be a higher probability to reduce uncertainty, reduce the transaction costs and lower the search costs as trusted suppliers are already known. Guanxi based business relationships also add to strong sense of connectedness (Tung and Worm, 2001). Even while dealing with foreign investors, Guanxi helps in reducing the uncertainty associated with doing business with outsiders. This is because Guanxi helps in establishing informal relationships that can guard against any opportunistic behavior on both sides. Hence, Guanxi is a very integral part of how business operates in China.

This study explores the notion of guanxi and its cultural antecedents and how guanxi plays an important role in building trust in Chinese business markets. Confucianism is explored in the context of guanxi and also the various cultural context of Guanxi are explored in the study. Further, Confucianism in the form of certain dominant value is a necessary condition for economic growth in emerging economics such as China (Hofstede and Bond, 1988; Kang, 2006; Green and Mendis, 2008). Hence, this study would look at how guanxi relates positively to trust building in Chinese business markets.

LITERATURE REVIEW AND PROPOSITIONS DEVELOPMENT

Confucianism and the Nature of Guanxi: As in the Chinese societies, guanxi has different meanings, in the modern world, there are numerous different connotations associated with Guanxi. However, in spite of these changes, it is possible to trace some of the core foundations and meanings of guanxi to the ancient Chinese philosophy of Confucianism, as guanxi has a very evident heritage associated with the principles of Confucianism (Lytras and de Pablos, 2008).

From as early as BC 206-Ad 220, Confucianism holds an important place in the Chinese society (Jacobs *et al.*, 1995). In the ideal society defined by Confucius, the individual is a relational being and hence, is a party of a community defined social system. The society is formed on the basis of personal and social networks. The study conducted by King (1991), took a deep look at the philosophy of Confucianism to understand the historical and cultural foundations of guanxi. According to King (1991), the works of Confucius does not have the term 'guanxi' mentioned anywhere. Instead, the word 'lun' is used. This term is not very well known to the general population in China, but it is very important because it accurately reflects some of the most important aspects of the political system and social system in ancient China.

Hence, it is necessary to understand the meaning of 'lun' to get a grasp of the historical background of guanxi.

The meaning of 'lun' held the key in understanding human relationships. The basic tenet of Confucian assumption is that human beings are individuals who exist in relationship with each others. There are different types of relationships that exist and out of those, Five Cardinal Relationships (ruler and subject, father and son, husband and wife, elder brother and younger brother and friend and friend) or 'wu lun' hold the key and each relationship is role and affective oriented (Han and Altman, 2009). Even though, the nature and type of relationships have undergone a drastic change when compared to the era when Confucius lived, the societies in modern China are still oriented towards relationships (Redding and Wong, 1986).

According to Fei *et al.* (1992), a second meaning is associated with lun and is known as social order or differentiated order. The stability in a society or social order is formed because of differentiation which could happen both hierarchically and horizontally. When it comes to hierarchical differentiation, equality in the relationship does not exist between the members or participants of each relationship. Therefore, one particular member enjoys more rights and obligations. The ruler, father, husband, elder brother and senior friend enjoyed stronger rights, prerogatives and authority when compared to that of subject, son, wife, younger brother and younger friend. Further, the concept of Guanxi is rooted in Confucianism because it links two people who are of unequal stature in such a manner that the weaker of the two in the relationship can request or ask for favors, but he or she does not have to reciprocate in an equal manner (Alston, 1989). The more powerful factor in the relationship has the obligation to assist the weaker one. However, in return the stronger gets a strong reputation and increased power. Hence, just as 'power distance' was an important factor in Confucianism, it also exists in guanxi. In other words, the self is at the center of concentric circles (Redding and Wong, 1986). Here, the others who were related in a social way get differentiated on the level of closeness to the self. The nature of interactions as well as the level of influence depends greatly on the degree of closeness, in the same manner in which close guanxi and distant guanxi operate.

In addition, 'lun' also refers to moral principles about the way in which the parties interact. As the relationships are differentiated, the moral principals also get differentiated. The bottom line being that there is no standard of moral that can be applied across all the relationships. Instead, the moral principles differ from relationship to relationship. Similarly, the different types of guanxi and the variations occur because of the fact that

various principles and approaches are adopted based on the nature and the type of relationship.

Therefore, all the three meanings of 'lun' (human relationships, differentiated order and moral principles) as described by Confucius closely reflect that nature of guanxi. It can also be said that the Confucian principles operated on two different levels when it came to the individuals. While the individual was a socially dependent being, the person also was the center of the concentric circles where they had to define, interpret and construct the 'lun' relations.

In Confucianism, the members of the society were closely interdependent on others and hence, were embedded in the social context (Jia *et al.*, 2012). Therefore, the relationships between different individuals, societies and organizations were harmonious and much sought after. The ethics of Confucianism also teach individuals to provide respect to patriarchs and elders and thus, the same level of respect is also provided to authority of all kinds (Alston, 1989). Evidently, Guanxi is highly influenced by this tenet of Confucianism. The concept of "li" (propriety) in Confucianism is that the individuals must follow the proper way and the proper formality of social interaction such as respecting for age, authority and social norms (Hong and Engestrom, 2004). 'Li' is clearly evident when describing guanxi (Wang *et al.*, 2005). Similarly, the concept of harmony that is very important in guanxi also has its roots in the Confucian philosophy where harmony is the central pivot around which various relationships are sustained, in a familial or an organizational environment. Guanxi also operates in a similar manner where it forms the central crux of the different relationships.

Therefore, it is true that Confucianism leads to a very strong sense of Guanxi. Some thinkers are also of the opinion that guanxi is indigenous to the Chinese culture because it has its roots stemmed in the Confucian legacy with a very high importance given to both harmony and hierarchy. Out of this discussion the following proposition emerges:

- **Proposition 1:** Confucianism leads to a strong perception of Guanxi

Guanxi and its cultural contexts: As mentioned earlier, Guanxi is a very important dynamic in a Chinese society because of its cultural roots in Confucianism. Human relationships have historical heritages and vary according to the different nations. Hence, it is necessary to understand the culture and belief systems to grasp the significance of social interactions.

Essentially, Guanxi is a social phenomenon which can be understood within a social and cultural purview. The role and importance of Guanxi is exemplified in the

Chinese culture, where the concepts of roles and benefits are very closely associated with each other (Lin and Si, 2010; Dunning and Kim, 2007). Yang (1994) analyzed the role effect of guanxi in the modern Chinese society and concluded that guanxi is a very important element in helping the Chinese government to operate Lin (2011). Common people also use guanxi to exert influence on the others. According to Yang (1994), guanxi is established by the development and the maintenance of the network relationships so that an individual or a party is able to sail through any challenges that they may face eventually (Lin, 2011). Kipnis (1997) found that guanxi is formed because of a complex social network between peers, families and friends. These networks have three main characteristics that are Mianzi, affect and reciprocal favor which form the strong basis of Chinese culture. In order to elucidate the presence of guanxi in Chinese culture, it is necessary to understand these concepts.

Mianzi or 'face' refers to the individual identity of a person in any given situation (Alexander and Rudd, 1981). It also stands for the social value that an individual develops or earns because of the specific social interactions that he or she participates in. In order to ensure that there is a feasible guanxi, mianzi has to be maintained to a certain extent (Yeung and Tung, 1996; Hwang, 2006; Hwang and Han, 2010). If a strong mianzi is earned, then it is possible to control the way in which social networks operate. Mianzi also denotes the public image of any particular individual which is built by the social roles. Hence, it has an important influence on the Chinese social life. If an individual loses mianzi, then it is very difficult to survive in a society. Hence, Mianzi is a very key element of the way in which relationships operate in the Chinese culture.

Affect is a type of social resource which plays the role of leverage in interpersonal transactions (Yang, 1994). Affect does not remain confined to money or any tangible things, but it also includes emotions and feelings. In the Chinese culture, where guanxi and exchange of guanxi is important, affect is the factors that are used by the Chinese to maintain or strengthen their guanxi with others (Hwang, 1987). The criteria based on which guanxi exchange happens depends on if the situation is abides by 'affect'. Therefore, the leverage that is necessary to ensure that the social relationships are established, maintained or strengthened also holds a very important place in Chinese culture (Lin, 2011).

According to the study carried out by Park and Luo (2001), guanxi should be reciprocal. However, in the Chinese culture and society, it is reciprocal in the maintenance of guanxi but is not always in benefits (Jacobs, 1979; Lin, 2011). In the Western society, reciprocal favors are immediate and short term. However, in Chinese culture, it is long term and is not time bound.

While reciprocity is not time bound, it is necessary to have the sense of awareness and commitment; else the individual stands the chance to lose mianzi. According to Tsui and Farh (1997), this behavior of reciprocity takes root from affect and hence, leading to the utopian network of guanxi. Therefore, the three main characteristics of the social networks that help in the formation of guanxi are deep rooted in Chinese culture. Hence, Chinese culture leads to a strong sense of guanxi.

The various traits of Guanxi are closely linked with the way in which Chinese culture operates (Davies *et al.*, 1995; Lin and Si, 2010). For example, guanxi is a utilitarian concept, where the bonding occurs through an exchange of favors, rather than that of sentiment. Therefore, guanxi is purposely driven with the help of personal interest. A strong sense of reciprocity is associated with Guanxi, because the reputation of a person depends on the way in which they approach the reciprocal obligations. Guanxi is transferable to any given third party through a referral. As it is established between individuals, guanxi is also personal (Davies *et al.*, 1995). It is a long-term construct because it is reinforced through long-term cultivation. Guanxi is maintained with the help of an unspoken commitment and hence, is intangible (Barnes *et al.*, 2011). Two cultural dimensions that operate in the construct of Guanxi are power distance and collectivism. When it comes to Guanxi, self in relation to the other becomes the key focus rather than self on its own. Hence, this view of an interdependent self becomes a very important aspect of the Chinese culture (Yeung and Tung, 1996). Hofstede (1991, 2001), talks about collectivist society where the sense of communitarianism has a much more important role than pursuing one's own interests. Therefore, the concept of collectivist culture forms the building blocks of guanxi as seen in the Chinese society. Power distance refers to the extent to which the less powerful section of the society accepts the fact that power gets distributed in an unequal fashion. The power distance mentioned in the previous section about 'wu-lun' describes the interdependence between the two different parties that are unequal. This leads to a strong perception of guanxi in Chinese culture.

In addition, guanxi does not merely refer to the special relationship between two parties, but it also infers the endless favour exchanges (Alston, 1989). Therefore, it can be described as a strong interpersonal network of reciprocal bonds. Therefore, it is clear that the interpersonal relationship in Chinese society is established by culturally-rooted criteria (Tsui and Farh, 1997). The development of guanxi can be considered the way in which competitive advantage develops and thus, it is a vital source of social capital (Lin, 2007). All these

aspects help in explaining how Chinese culture leads to a strong sense of perception of Guanxi. The following proposition then emerges:

- **Proposition 2:** Chinese culture leads to a strong perception of Guanxi

Guanxi and trust building: In any business environment, there has been an increase in the importance given to trust over the past few years (Svensson, 2001). Each culture and geographical region has its own definition and dimensions of trust, but the common factor is that trust is a form of reliance on the other party involved (Blois, 1999).

In China, has been translated into three forms 'xin' (Luo, 2000), 'xinren' (Chua *et al.*, 2009) and 'xinyong' (Leung *et al.*, 2005). Of all these, xinren is considered to be a strong form of trust. While understanding the different connotations of trust in China, it is necessary to recognize the contextual realm in which trust operates. Hence, trust is associated with various characteristics of Chinese culture. According to the study done by Fang (1999), an interrelationship exists between trust, philosophy, politics, family obedience and corporate governance. Most of the study on guanxi also talks about trust, but they do not examine the construct in detail (Dunfee and Warren, 2001; Kriz and Keating, 2010).

According to the study by Lui (1998), trust is significant to cooperation and works as an aid to facilitate any transactions. Child and Mollering (2003), say that it is vital to develop trust building strategies as seen in the relationship context for the Hong Kong based firms that do business in China. Another matter that requires deliberation is how the interplay occurs between trust and guanxi. Over the years, guanxi has undergone a change to adapt and include wider social and business guanxi. The Confucian tenet of building trust based on guanxi has seeped into the business culture of Chinese markets also (Blackman, 2000). In China, trust is not something that is documented or categorized in a legal and formal format to provide protection or impose restrictions. Just like guanxi operates in the society in the manner of an undocumented code, trust also operates in the business markets. The Western business gives a lot of importance to formal contracts and rules, the Chinese have always used trust as a 'social credit rating' (Tong and Yong, 1998; Kriz and Keating, 2010). This means that the business community in China do the assessment of risk by understanding the social linkages of the other party involved. Then, a low risk perception is given to any individual/business which already has links with known parties which are credible. This method of approaching business is very different from the way in which it operates in the Western countries.

For Xinren to develop and prosper, mutuality is very important. Many people develop misunderstanding between trust and guanxi (Blackman, 2000). The presence of xinren indicates that guanxi already exists. However, guanxi stands only for the relationship or connection and hence, is not deep trust. Therefore, guanxi is the first steps and it provides the opportunity for the establishment of the business connection, but its xinren which ensures that a breach of trust does not happen.

As mentioned earlier, Trust in Chinese business context, operates at various levels and therefore, it is important to understand these types of trust. They include goodwill trust, competence trust and calculative trust. In each of these types, guanxi influences the way in which trust operates.

In the Chinese business markets, especially when it comes to aspects such as marketing and sales, 'goodwill' trust holds a very prominent place (Das and Teng, 2001; Qin, 2011). For example, if a sales manager has a higher level of goodwill, then this manager is more likely to understand the point of view of the purchasing manager, resulting in an increased level of trust. Therefore, trust in the goodwill of the sales' manager can reduce the perception of risk (Wang, 2007). As Guanxi is inherently reciprocal, if the purchasing manager has faith in the fact that the sales manager would reciprocate appropriately, he or she would be much more likely to offer a favor (Hwang, 1987; Shou *et al.*, 2011). Guanxi also combines both instrumental and impressive components, hence the outcome of guanxi behavior reflects not just in giving and receiving of favors, but also has emotional impact. In China, if there are people with 'perceived goodwill', then it is likely that they become friends even among business partners and receive/give more favors (Heide and Wathne, 2006). Therefore, it can be said that goodwill trust is closely associated with the guanxi behavior in Chinese business markets.

Competence trust is about the assurance that a person has about the competence of the partner involved. In China, there is a high tendency to get social resources with the help of personal connection. Therefore, if any business partner sees that the other partner or a potential supplier has both clout and power, then this business partner would try to show affect and develop a friendship (Su *et al.*, 2009). This is because of the belief in guanxi where people have the notion that help, support and protection is much more likely to come from those people with whom they have an attachment (Shou *et al.*, 2011). Therefore, competence trust strongly correlates with guanxi behavior in Chinese business set up.

Calculative trust is defined as the willingness of a party to be vulnerable because of the other parties' actions or decisions (Noorderhaven, 1996). For example, a party which is dependent on another would worry more about maintaining the long-term friendship, rather than taking actions that are opportunistic (Ganesan, 1994). As opportunism is very risky in such an atmosphere, the parties involved would conduct guanxi behavior. Therefore, it is clear that all the three types of trust result in the promotion of guanxi behavior. Competence trust promotes guanxi by ensuring that the anticipated value of repayment is increased. Goodwill trust also promotes guanxi by making sure that the perceived risk associated with any form of default or cheating is reduced. In addition, Calculative trust reduces opportunism and enhances guanxi.

However, it would be unfair to assume that guanxi only provides advantages to the business environment. There are numerous other factors that come into play along with guanxi. According to Iyer *et al.* (2006), Guanxi entails both cost and risk. While offering favors can endanger the concern related to repayments, developing friendship can often involve the risk of abuse. As globalization takes place, the markets have opened out and are expanding to global ideas and thought processes. In such an environment, a higher importance is provided to the way in which transactions happen in the western world, as the west is the source of globalization. In such a context, guanxi may often take a back seat. Else, it may also create a situation where the ideas of trust building in Western world may clash with the tenets of guanxi, creating a conflict situation. These situations can create a roadblock if not properly negotiated. Due to this reason, many multinational enterprises often face challenges when they work with their Chinese counterparts (Yang, 2002). However, even though these risks and costs are involved, guanxi is still a very important aspect of entrusting trust and its importance cannot be undermined. Modern day commerce cannot operate without the involvement or trust and with guanxi; this trust takes on a whole new gamut of meaning. Unlike Western societies, there is no formal written agreement that talks about trust, but it still operates as a strong point along with business dealings and transactions take place. Hence, it is very important to understand how guanxi operates and enhances the trust in Chinese business markets. Therefore:

- **Proposition 3:** Guanxi relates positively to trust building in Chinese business markets

- **Proposition 4:** Trust relates positively to the success in business activities in Chinese business environment

CONCLUSION

The study has explained the concept of guanxi and traced its cultural roots. Guanxi is a very important aspect of Chinese society. It has a role to play not just in personal relationships, but the business ties are also influenced because of guanxi. The philosophy of Confucianism leads to a strong perception of guanxi as the principles found in the works of Confucius correlate strongly with the way in which guanxi operates in the society. In addition, Chinese culture also leads to a strong perception of guanxi. Be it day to day association or the way in which the government machinery operated, Guanxi has a major role to play. The cultural construct of collectivism and power distance also cannot escape the power of guanxi. Therefore, it is not just a concept that operates, but in effect, it works as a way of life. Furthermore, guanxi also has a strong correlation to the way in which trust works in Chinese business markets. When it comes to the Chinese business environment, it is very important to understand the way in which guanxi and trust operate because it operates at various levels. On one hand, the influence of guanxi in business trust has many different advantages because it can enhance credibility, result in the development of long-term trust and develop friendships, it can also lead to abuse of power and entail risks. Therefore, it is important to understand the numerous ways in which trust operates in the Chinese business markets, especially in the context of globalization. The fact that markets have become broader and wider poses new challenges to the situation.

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