
PREFACE

Interpersonal relationship (*guanxi*) is one of the major dynamics of Chinese society. *Guanxi* has been a pervasive part of the Chinese business world for the last few centuries. It binds literally millions of Chinese firms into a social and business web. It is widely recognized that *guanxi* is a key business determinant of a firm's performance, especially its market growth. Any business in this society, including both local firms and foreign investors and marketers, inevitably faces *guanxi* dynamics. In China's new, fast-paced business environment, *guanxi* has become more entrenched than ever, heavily influencing Chinese political landscapes, social behavior, and business practice.

Despite the current academic and practical interest in *guanxi*, there is no book-length treatment systematically and vigorously exploring the concept and practice of *guanxi* from the business perspective. This book addresses this lacuna by exploring various social, economic, cultural, and business issues relating to this complex concept and practice. As perhaps the first systematic effort along this line, this book, I hope, can serve as a conceptual, theoretical, and practical foundation upon which future studies may build so that our understanding of *guanxi* will no longer be fuzzy. This book is written not merely for academics but also for executives and business students who have an interest in doing business in China and beyond. It is intended to provide important managerial lessons and insightful practical guidance for them. Each chapter attaches several minicases illuminating how business people or companies develop and utilize *guanxi* to nourish economic activities. These minicases, except those directly adapted from public sources, are prepared by myself based on publicly available information solely for the purpose of class discussion.

The concept of *guanxi* is extremely nebulous and cross-disciplinary. The first chapter provides a definition of *guanxi* and other relevant concepts

and delineates major principles underlying *guanxi* dynamics. It illuminates the social philosophy behind *guanxi* cultivation, utilization, and maintenance and outlines the importance of *guanxi* to social life. The relationships between *guanxi*, gifts, and bribes are also articulated. The expected importance of *guanxi* in the future and theoretical directions for future research are highlighted.

Legitimate, healthy *guanxi* is a valuable asset for its possessor and aids in gaining economic rent, although it does not necessarily add value to the social welfare of the nation. The second chapter offers the economic rationale of *guanxi* and explains the difference between Chinese *guanxi* and Western networking. It also elaborates on *guanxi* as a necessity for achieving a competitive edge in the Chinese market. Managerial implications of *guanxi* are also illustrated.

Guanxi network affects managers' strategic choice and hence impact the performance of the firms they lead. *Guanxi* has a direct impact on the market expansion and sales growth of Chinese firms by affecting resource sharing and social, economic, and political contexts in inter-firm transactions. The third chapter discusses *guanxi* network in relation to firm performance. It illuminates the influence of two forms of *guanxi* — with other businesses and with government officials — on two major aspects of performance, namely market growth and financial return.

Although *guanxi* is embedded in almost every part of social life in China, companies demonstrate different needs and capacity toward *guanxi* cultivation. Chinese firms develop *guanxi* as a strategic mechanism to overcome competitive and resource disadvantages by cooperating and exchanging favors with government authorities and other stakeholders. The fourth chapter develops an integrative framework about *guanxi* development according to institutional, strategic, and organizational factors. It outlines *guanxi* at the organizational level, i.e. cross-organizational connections among managers. It articulates the influence of organizational dynamics on *guanxi* utilization and explains how firms with heterogeneously institutional, strategic, and organizational attributes use *guanxi* differently.

The ultimate realization of *guanxi* potentials depends upon the application and operation of several business variables in which *guanxi* is

embedded since business activities are the breeding grounds where *guanxi* can play its role. The fifth chapter illustrates what *guanxi*-embedded business strategy variables are. Among these variables, sales force marketing and credit liberalization in transactions are the focus. This chapter also proposes and tests the influence of *guanxi*-based business determinants on firm operations.

Foreign businesses can gain an edge over their competitors in the Chinese market by building and maintaining their own *guanxi* network in the country where *guanxi* often constitutes an effective and efficient marketing tool. The sixth chapter introduces strategic and operational traits of foreign direct investment in China in recent years. It is followed by the discussion of how *guanxi* is important to foreign businesses and how foreign business attributes may affect *guanxi* cultivation. This chapter offers some managerial lessons to foreign companies.

The “red envelope” culture is now popular and pervasive in China and beyond, a situation which calls for a distinction between *guanxi* and corruption. Chapter 7 addresses several critical issues pertaining to business implications of corruption. It defines the concept of corruption, explains the differences between *guanxi* and corruption, and describes corrupt activities, types, and reasons. This chapter also presents economic rationalities and business implications of corruption. I argue that, at the organizational level, corruption is an evolutionary hazard, strategic impediment, competitive disadvantage, and organizational deficiency. In a demoralized society, *guanxi* and corruption are increasingly intertwined. This chapter discusses this issue and explains the relationships among *guanxi*, corruption, and governance. This chapter ends with the discussion on how to build up an effective organizational architecture to resist corruption.

Knowing how to construct, maintain, and reinforce legal, ethical, and healthy *guanxi* relations is imperative for any business in China. This knowledge has a favorable impact on both the effectiveness and efficiency of operations. The last chapter aims to provide practical guidelines to companies operating in China with respect to properly cultivating *guanxi* connections. This chapter lists eight suggestions: (1) constructing own network; (2) utilizing intermediaries; (3) searching for the right people; (4) transforming individual *guanxi* into organizations; (5) hiring locals and

dispatching ethnic Chinese; (6) monitoring *guanxi* within an organization; (7) maintaining *guanxi* relations; and (8) improving credibility.

Guanxi is really dynamic that its practices have been constantly changing and its normative and cognitive legitimacy is shifting as the social and economic structures in the society are drastically transforming. For this reason, this book is only a primitive piece, but I do hope that readers will share my enthusiasm for the rich subject of *guanxi*.

Yadong Luo, Ph.D.
University of Miami