

Business Networks in China: Qinqi, Guanxi and Guanxiwang

The procedures in China are identical for all concerned and are an everyday occurrence. Something that must be borne in mind is that this China and the systems here do work differently from those employed elsewhere. Guanxi is a word that the West needs to learn and understand. We euphemistically call it "pay back" or "You scratch my back and I will scratch yours!"; in China it has real and lasting meaning that can extend across whole families and generations. We speak of "faith and trust" but really only mouth the words, if it is not supported by a "water tight" contract we do feel an obligation to honour our word, albeit given in "good faith".

Chambers of Commerce charge fees for you to address their breakfasts and for invitations. But when they come to China they expect to be hosted!!

Employment agencies charge a percentage of the employee's salary.

- Wellington, New Zealand, Chamber of Commerce charges \$US250 for a 2 ½ hours meeting.
- NSW Dept of Agriculture charges \$500 for ½ day services of an employee
- Austrade charges meeting fees of upto \$400
- Your doctor charges you, your accountant, your lawyer, as do the myriad of consultants.

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One can often hear the words qinqi and guanxi in any Chinese community, whether it is mainland China, Hong Kong, Singapore or Taiwan, though there may be some slight differences in pronunciation as a result of the distinctive Chinese dialects.

In China, qinqi means a relative and guanxi is used to express a special relationship two persons have with each other, as a special kind of personal relationship in which long-term mutual benefit is more important than short-term individual gain, and as having the status and intensity of an on-going relationship between two parties.

While guanxi operates on a dynastic level, guanxiwang (Network) certainly goes further than that. Guanxiwang refers to a network of exchanges or transactions between two parties and beyond. Goods and services such as physical

products or favours exchanged can be anything of value and mutual benefit to the parties concerned, for example, raw materials, promotion, gifts, information, facilitation and so on. Guanxiwang obtains when one set of separate, personal and total relationships between two individuals, A and B, and another set of such relationships between B and C are interlinked through the common agent, B, acting as a witness and facilitator. As a result, the original personal relationship transforms into a complex network of social exchanges with such inter-linkage extended into other sets through numerous common agents like A, B and C. Therefore, it can be concluded that guanxi is not simply, as many believe, one of the key features of Chinese culture but one of the key 'themes' which depict basic aspects of Chinese values, it is the mother of all relationships.

There is a bias in the study of Chinese business networks. Although there exists much corruption among overseas Chinese the same does not apply to mainland Chinese, although in the minds of most Westerners guanxiwang is immediately branded as corruption. Many people often treat guanxi and guanxiwang as derogatory terms. Guanxiwang is regarded as an unhealthy social tendency. The truth is guanxiwang per se is purely a form of organisational governance. Nothing more, nothing less. It has nothing to do with corruption when a transaction is legal and does not infringe any public interests, but simply takes place between members within a business network. Guanxiwang only becomes corrupt when exchange or transaction taking place within a guanxiwang involves corrupt activities such as bribery. Because of the special characteristics of guanxiwang such as trust and bonding, corrupt deals are more likely to take place between members of a guanxiwang particularly when an adequate and effective legal and disciplinary system is lacking.

Recommendations for Western Companies Whilst Operating in China

While an increasing number of western companies have entered the Chinese market, they are way behind firms from Hong Kong Taiwan and southeast Asian countries. The simple reason is that overseas Chinese share the common Chinese cultural values and they can either minimise or avoid problems by using their skills in understanding the Chinese cultural codes, In order to reduce these disadvantages, western firms are advised to pay attention to the following while operating in China.

Good Personal Relationship vs Contract

As has been clearly demonstrated, the most important part of a business relationship is the building of personal relationships. Personal relationships often entwine with business relationships in China. Many foreign companies conduct business based on market situations without too much consideration of the personal feelings involved. They treat business impersonally while Chinese do the opposite. Foreigners tend to be contented with the signed contracts while the Chinese look beyond the contract for sincere commitment as in a good personal relationship. This does not mean that the Chinese will not abide by the signed contract without a good personal relationship. It denotes the general tendency of Chinese people to do business with a long-term orientation. When a deal is closed, you can expect the Chinese to perform their part of it. With good personal relationships, you can always rely on your Chinese partner to find a better solution when unexpected circumstances occur. In many cases, one can be better off with goodwill and friendship than one can be with a signed contract.

Guanxi and Transaction Costs

A well-established guanxi, however, can go beyond just business facilitation. In the Chinese business community, one can often hear people say, 'This is our old client, we should give them special terms' and 'We are old guanxi, therefore we can get better deals'. If someone chooses to ask why he or she is not treated on an equal footing, the answer is very likely, 'you are not our old client'. As a supplier, a good guanxi means that you can stay on the value chain of a manufacturer as long as you do not break the codes of guanxi even if you have competition from other suppliers. As a buyer, an old client can get better terms of payment or take delivery of goods on credit, all of which would be impossible without maintaining a good guanxi. A well-established guanxi is built on the basis of mutual trust, giving face to one another, a good track record of exchanges of favours, long-term non-opportunistic intimacy, obligation or gratitude from past help, etc. It cannot be overused and the favours will have to be reciprocated in one way or another.

Guanxi and Consumer/Customer Loyalty

In a business-to-business relationship, guanxi is usually with individuals who are often the representatives of firms. Apart from consistent quality, timely delivery, attractive price and good after-sales services, a good guanxi should also be built into the business relations. The obligation that a guanxi carries can be developed into a loyalty that ordinary business relations cannot achieve. Without guanxi, one can easily lose a

customer simply because of an unavoidable human error. You will not even have recourse to remedy. With guanxi, you will be excused for future improvement and the business stays.

For a business that is serving the consumer market, guanxi or a relationship with the consumers shall be considered as an alternative perspective in approaching the objectives of brand image and brand loyalty. Many foreign companies are using a number of different ways to get publicity, secure more trials and create trust by consumers. Many of these efforts, although appealing and persuasive, still give people a feeling of distance, not being involved or directly related, and therefore cannot be translated into effective means of reinforcement. This also explains why people prefer, among many other means of promotion, discounts or give-away types of promotion. Obviously; price discount is not the best way to establish brand image and loyalty. But it will certainly help if you establish your image as a friend, communicate with the consumer on a friendly basis, provide favours to the consumer community, offer opportunities for consumer involvement and give consumers a privileged sense of belonging.

Reciprocity and Long-Term Business Relationship

In China, any business relationship should be considered from a long-term view. To maintain a long-term business relationship, one must reciprocate. One never knows when one will be in trouble and a friend in need is a friend indeed. This reflects the necessity, of reciprocity. The experience of a joint venture in Beijing offers a typical example of reciprocity. In the early 1990s one of the suppliers of cashmere in Inner Mongolia had funding problems when planning its technical transformation. The joint venture, a producer of cashmere knitwear, was approached for help. Considering the long-term relationship, the joint venture decided to provide funding for the supplier. In the mid-1990s, the market for cashmere knitwear heated up and the price of cashmere raw material rocketed and, as a consequence, many cashmere knitwear producers had difficulties in absorbing the price rise and had to reduce production. The joint venture faced the same problem. However, the supplier in Inner Mongolia did not forget the help that the joint venture had given and offered to supply cashmere raw material at below market price. The joint venture not only survived the price rise in raw material, but also captured the market that their competitors left because of the price rise. The implication of this joint venture's experience is that the commitment to a good and

long-term business relationship and the obligations arising from such a relationship will survive market changes.

Maintain Guanxi when Terminating Business Relationship

If a business is not meant to be long term, the way to end a business relationship should be properly selected. It is inappropriate to end a business relationship when a deal cannot be closed by complaining about the way the Chinese counterparts do things. This may not only cause loss of face by the Chinese counterpart, but also put an end to the guanxi that may otherwise have continued. Some foreigners who know very little about China even threaten to report the business failure to the boss or the supervising authority. This conduct is business relationship not only with the Chinese counterparts but also with the people in the network. As a result, many Chinese companies will avoid doing business with the foreign company. Network codes and Chinese cultural values require that disputing parties solve problems through amicable means, i.e. solving the problem without damaging the harmonious business relations. This does not suggest that no litigation is used in setting problems through friendly discussions. It is advisable to exercise care and caution when taking court action. Litigation should be used as a last resort only when the future course of the business relationship has become clearly unpredictable.