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“The Guanxi Guide – A ‘How to’ Manual on Successful Relationship Management in China”

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To many foreign managers in China, the concept of *guanxi* is still a black box, or at least opaque, and not the golden network they expect it to be. Business relations in China not only consist of formal relationships and connections, but also of informal contacts and relationships. *Guanxi* – loosely translated as “relationships” – is probably one of the first ten Chinese words any foreigner learns in China. Everyone knows that you need *guanxi* in order to do business in China, but there is no way to learn about *guanxi* except by living and working in the country. Some Chinese even agree that you don’t have to have *guanxi* in order to do business in China, but that *guanxi* can be very helpful, especially when you plan long-term business relations with Chinese businesses. This not only means that *guanxi* is important for all kinds of businesses, but also that someone needs the right *guanxi*. In many cases, managers stick to the *guanxi* they have, or at least think they have; however, this is often neither valuable nor helpful. It is helpful, though, to understand the underlying basics of the Chinese concept of *guanxi*, and also how to develop a methodology that helps to reveal and evaluate *guanxi* in a company environment.

Understanding *Guanxi*

Chinese *guanxi* networks can be understood as institutions that arose many centuries ago as a means to stabilise social relations. They were used to secure trade relations in an environment that became increasingly complex and was insufficiently covered by an overarching system of order in the form of a more or less working legal

system. A major function of *guanxi* is to share information in order to reduce transaction costs in such an environment. In addition, business men and women today are faced with the problem of conducting transactions in a still comparatively unstable, high-risk environment that, at least to some degree, requires transaction-specific investments without being able to refer to an independent, formal legal system. In this context, the Chinese *guanxi* networks provide a practicable, and under the given conditions, a transaction-cost-minimising (best practice) solution: Therefore, the mutual exchange of services and the acceptance of abstract debt obligations is the main integrating force within a *guanxi* network.

Because *guanxi* networks can build up to complex systems, it is useful to invest some time in finding out more about the potentially invisible values and strengths a company owns. However, in order to identify the important existing and missing *guanxi*, it is necessary to understand some basic characteristics and different kinds of *guanxi*:

- There are insiders and outsiders of a *guanxi* network: If you were born in the same city as your business partner, if you joined the same school, or even if you are relatives, then you are automatically an insider. Otherwise, you have to invest time, money and effort into becoming a member of this network.
- The strongest type of *guanxi* is based on family, provenance, or education-related connections – other types of *guanxi* depend on the initial investment that is made.

- *Guanxi* is dynamic, which means that the network needs to be periodically re-evaluated.
- *Guanxi* needs to be actively cultivated. There is no such thing as unidirectional or one-way *guanxi*.
- *Guanxi* exists between people, meaning, for example, that successful business relations can be endangered if business partners change their position or job. This means that your *guanxi* move as well. In a worst case scenario, you have good *guanxi* with an employee in a company that you want to establish a relationship with, but this employee leaves the company and takes his *guanxi* network with him. As a result your connection to that company weakens, and you need to build a new, stronger *guanxi* network to that company.
- *Guanxi* embodies reciprocal obligations of the parties involved, resulting in a constant imbalance in the relationship.
- Not all *guanxi* holds the same importance – sometimes important *guanxi* is missing, and sometimes a potential investment is of no use for oneself, or is even dangerous: Try to avoid hiring someone only in order to invest in *guanxi* if the person isn't of any value for your corporation.
- Within a company, there is internal *guanxi* as well as external *guanxi*.
- *Guanxi* is hierarchical. In China, the CEO of a foreign company is expected to talk to a Chinese CEO, etc.
- *Guanxi* is transferable. This means that if A owes B a favour, and both A and B know C, the favour to A can be also be returned through C, if B does a favour for C.

Guanxi Management

In order to make use of the different kinds of relations, concise *guanxi* management is necessary. In particular, the transferability of *guanxi* (the last item on the previous list) can make a *guanxi* network multifaceted. The other

characteristics of *guanxi* add further dimensions to the network, thereby increasing its complexity. *Guanxi* maps or relationship maps can be very helpful in identifying treasures and gaps in your own network. However, creating such a map can be a complex task that requires extensive experience in finding out information about the members and nodes of a *guanxi* network. To help you with this task, we recommend involving some local Chinese. By “involve” we don't mean getting support in building or using relations through a Chinese employee or consultant, since most of them will not be willing to spontaneously open up their network. Rather, receive support in identifying the existing and missing *guanxi*.

Who's in?

The very first step in a *guanxi* management process is to collect all members of your network and find out more about their relations with your company and among themselves. Be aware that not every business card you own equals *guanxi*. A business card is merely a simple form of contact that can become *guanxi* through trust and commitment over time. Depending on the scope of your *guanxi* management project, start with one person's *guanxi* network (e.g. your own), or with the *guanxi* network of a few members of the same department. Make sure that you can attach all *guanxi* to a particular person – departments or other kinds of organisational units themselves never have *guanxi*, only the people in these departments can have *guanxi*. As already mentioned, this means that when a person leaves a company, he takes his *guanxi* with him and you then need to build up new relations with that company.

Visualising the Network

The second step in *guanxi* management is to create the map. Depending on the size of the company, a *guanxi* map can be huge, especially if it includes the formal and legal relationships in addition to the informal relationships. There are two ways to create the map: You can either use software that is specifically made for relationship mapping, or even use a mind-mapping tool. These kinds of tools are very convenient because

you can zoom in and out of the map you create and also create sub-networks. A second way of creating a map is to use sticky notes of different colours to map out the relationships on a large area of a wall or a large sheet of paper. It also helps if you have (copies of) name cards or even photos of the persons in the network. Use different colours or shapes for formal or informal relations. Try to identify every connection between the persons inside and outside of your network with the help of your Chinese (and ideally local) support.

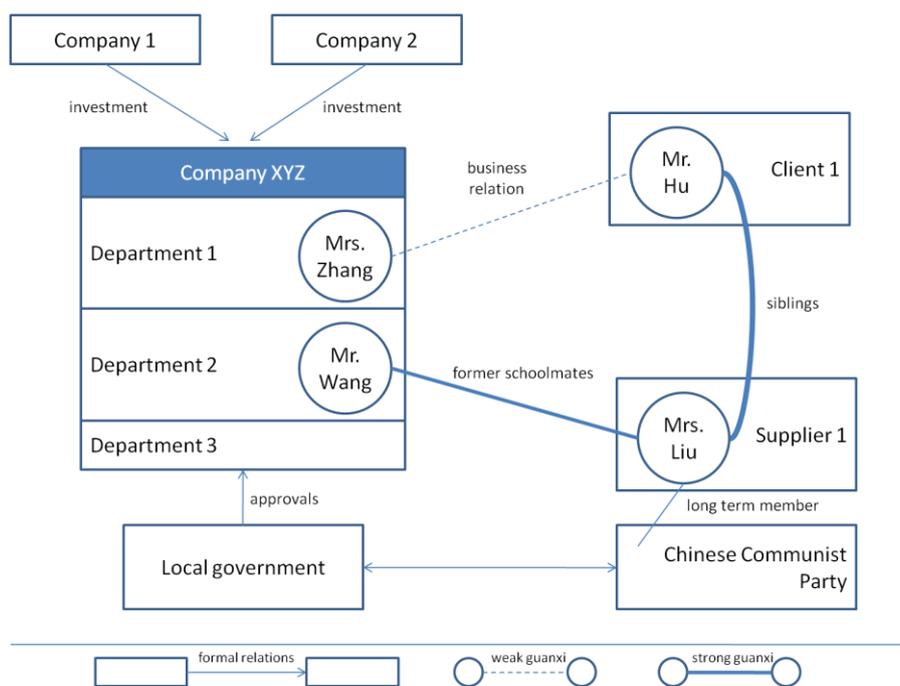


Fig. Example of a guanxi map

Evaluating Each Contact

The third step to managing *guanxi* involves assessing your *guanxi* with each individual person. As mentioned, not all *guanxi* relationships are equally important for your business. Mark all important persons in your network and even add important persons who are not (yet) included in your network. Leave unimportant *guanxi* out. Connect the players in the network by using different colours according to the strength of the existing *guanxi* with the respective person. The

visualisation of the relations within the network helps you to find not only all members and third degree connections, but also imbalances within your network. In this step you can already see, for instance, that a person is important for you, but your *guanxi* with this person is weak or even non-existent. In this case, it is important for you to invest in strengthening the relationship. In other cases, you might have great *guanxi* with people who are not essential for your business success. Here you should try to invest less time and effort. It is very important to understand that *guanxi* is

never built overnight, but only through continuous efforts over many, many years. This is one reason that a *guanxi* network is in a constant state of imbalance. Depending on its size, a *guanxi* network needs a dedicated person whose only tasks are to bring transparency into the *guanxi*, manage the network, and build the golden connections and nodes within it. The *guanxi* map in the figure below is a simplified, schematic detail of a possible result of your work.

Continuous evaluation of your *guanxi* network is the fourth and final step of the *guanxi*

management process. People inevitably move to different hierarchies, change jobs, and become more or less important for your business, thus making it essential that you re-evaluate and adjust your *guanxi* map according to these dynamics. New members of the network need to be added and members with no contact for a longer time should be excluded. Most Chinese managers constantly and automatically re-analyse their *guanxi* relationships, since their network, just like a foreign manager's network, is also in a constant state of flux.

Is Guanxi Losing Importance?

There is an ongoing discussion about whether *guanxi* is still valuable, because there is a growing legal framework in China that offers legal security at a supra-individual level beyond social relationships. This framework can lead to a situation where individuals no longer rely on the system of *guanxi* networks to secure their transactions, as there is no longer any uncertainty regarding the enforcement of contractual rights. From this standpoint, *guanxi* networks could indeed lose importance over time and ultimately disappear once a functioning legal system becomes established. However, the superiority of a supra-individual legal system vis-à-vis the personalised *guanxi* networks are, at closer examination, doubtful and certainly not supportable as a categorical formulation. Legal systems appear superior in terms of their ability to provide legal security; however, this unambiguous

assertion is no longer possible with respect to the transaction costs that are linked to the provision of the good 'legal security'. For the reason of path dependency and because *guanxi* is embedded it would be very expensive to virtually shift the transactions from a *guanxi*-based system into a legal system. Therefore, a working legal system will for the time being only support the economic order in China, but will not be able to replace the deeply-rooted system of *guanxi*.

In your company, Mr. Wang might be more important for your business than you thought: His former schoolmate, Mrs. Liu, not only is an employee of a supplier, but she is also the sister of one of your client's employees, Mr. Hu, (meaning that your client might know more about your company than you ever thought), and is a member of the Chinese Communist Party and as such might have some useful *guanxi* to the local government.

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