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GUANXI

Perceptions and Strategic Adaptations

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Abstract

Title: Guanxi – Perceptions and Strategic Adaptations

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Purpose: To explore perceptions of guanxi within Swedish establishments in China, and how these perceptions shape their China strategy.

Design/methodology/approach: The research is based on in-depth qualitative interviews that serve as empirical evidence to investigate the relation between managers' perception of guanxi and corresponding adaptation strategies. We have chosen a reflexive approach, assuming that guanxi is not a homogenous concept, but rather is constructed by our respondents.

Findings: We argue that guanxi is a form of socio-cultural embedded social capital that is constructed by managers, depending on their position in this economic exchange system. Four different perceptions have been identified and we argue that managers' tend to gravitate towards one or the other. Furthermore, we argue that these perceptions affect companies' adaptation strategies in China.

Research limitations/implications: We add further understanding to a complex social phenomenon. We demonstrate the need to evaluate social effects on economic transactions when establishing and operating in China.

Practical implications: Enabling practitioners to deepen their understanding of the connection between perceptions of guanxi and strategy.

Originality/value: The research fills an identified gap in the literature, addressing the question of perceptions of socio-cultural embedded social capital and their effect on business strategy.

Key words: Guanxi, interpersonal relations, China adaptation strategies, socio-cultural embedded social capital, corruption.

Laws control the lesser man. Right conduct controls the greater one.

- *Chinese proverb*

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1. Introduction

Today, China is a country in transition, moving from a planned economy towards a market-driven one. The unprecedented changes that occur in its social, legal, and economic institutions raise serious strategic challenges for foreign enterprises (Li et al. 2006). Furthermore, Confucian values result in motivators and business practices that are different from what western companies are used to (Yeung & Tung, 1996). A major difference lies in the practice of *guanxi*, which is a pervasive part of Chinese society. Any company that does business in China will inevitably face *guanxi* dynamics (Luo, 2007). As a result, in today's business environment, *guanxi*-based business practices can reduce uncertainty, lower search and other transaction costs; provide usable resources and a sense of connectedness (Buckley et al. 2006 in reference to Wellman et al. 2002). However, *guanxi*-based business can also become a liability in the long run, resulting in a costly lock-in effect for information, resources, and trust — which would be more effectively sought through an impersonal market (Li & Sheng, 2011).

1.1 Background

The Chinese word “guanxi” broadly means interpersonal relationships with the implication of continued exchange of favors (Luo, 2007; Chen & Chen, 2004), enabling bilateral personal and social transactions (Fan, 2002), between two individuals that are bound by an implicit psychological contract of social norms (Chen & Chen, 2004).

*Guanxi as interpersonal relationships binds millions of Chinese firms into a social and business web and it is widely recognized that *guanxi* is a key business determinant of a firm's performance, especially its market growth (Buckley et al. 2006; Davies et al. 1995; Langenberg, 2007; Luo, 2007; Pearce & Robinson, 2000; Tsang, 1998; Yeung & Tung, 1996). Any business in this society, including both local firms and foreign investors and marketers, inevitably faces *guanxi* dynamics. In the new, fast-paced China, *guanxi* has become more entrenched than ever, heavily influencing Chinese political landscapes, social behaviours and business practices (Luo, 2007).*

In the west a relationship follows a successful transaction. In China, business transactions are often a result of a successful *guanxi* (Park & Luo, 2001). The implication for Western businessmen in China is that it is necessary to look beyond the transaction at hand and understand its implication for the development of personal relationships (Howard et al. 1995). The reasons are cultural and institutional. China has a less sophisticated legal system, in which people have no choice but to rely on interpersonal relations to get things done (Lu & Reve, 2011; Tsang, 1998; Wilson & Brennan,

2010). As pointed out by Howard, et al (1995), in a society where the “rule of man” is more important than the “rule of law”, access to the person becomes an important substitute for access to the law. In contrast, the Western institutional context, contractual business method becomes superior to dependence on interpersonal relationships”.

Guanxi appears to be better understood today than during the early 1990s, and there are indications that its importance is in decline. However, uncertainties with Chinese legal standard are still a major issue and there are practical benefits available from personal contacts and loyalties. Most recently initiated rules and regulations remain ambiguous and their enforcement subject to personal interpretation of government officials. Despite nearly 20 years of reforms, officials at various levels of government still have considerable power to approve projects, allocate resources and arrange financing and distribution. Superior ties to government officials facilitate a firms’ access to regulated industries, constrained market segments and production factors (scarce raw material and capital procurement). Therefore, guanxi with government officials may be positively associated with firm performance. (Luo, 2007)

This importance of long-term relationships is a disadvantage to new players. A survey (swedishchamber.com.cn, 2012) conducted by the Swedish Embassy, the Swedish Trade Council and the Swedish Chamber of Commerce in China shows that one third of Swedish companies find government relations to be the greatest advantage for local firms in the competition with international companies. This shows the importance for foreign companies entering the Chinese market, to be able to understand this particular aspect of conducting business in China. China’s rapid economic expansion is also changing the country profoundly and therefore, it is interesting and relevant to research and update the understanding of guanxi and its effect on business conduct. For this reason we intend to add further knowledge to guanxi research by exploring an identified gap in the guanxi literature: there is not much research done regarding managers’ perceptions of guanxi and how it has shaped their China strategy. Therefore, our research will first bring practical value by exploring the relationship between managers’ views on guanxi and how they choose to engage this social phenomenon in terms of strategies. Secondly, we will add to the theoretical understanding to how a social-cultural embedded phenomenon like guanxi affects economic transactions and strategic action.

1.2 Purpose

The purpose of this paper is to explore managers' perceptions of guanxi, and furthermore explore how these perceptions shape their China strategy.

1.3 Research question

Empirical research question: How do employees of Swedish companies perceive guanxi and how does their perception affect their China strategy?

Theoretical question: How does the perception of socio-cultural embedded social capital affect a company's adaptation strategy in a foreign market?

1.4 Limitations

We intend to limit the study to Swedish companies operating in China. Furthermore, the scope will be limited to the correlation between perceptions of guanxi and strategy. Other aspects that affect strategy will not be addressed.

1.5 Definitions

The Chinese word "**guanxi**" broadly means interpersonal relationships with the implication of continued exchange of favors (Luo, 2007; Chen & Chen, 2004), enabling bilateral personal and social transactions (Fan, 2002), between two individuals that are bound by an implicit psychological contract of social norms (Chen & Chen, 2004).

Social capital is a feature of a country's social structure, such as the level of trust, means of setting up and actualizing networks, and generally accepted norms, which define the relations among social actors and facilitate their actions and interactions (Coleman, 1988). It involves opportunities that individuals can receive by building relationships, creating a web of personal relations, providing access to information and resources (Burt, 1992).

Swedish companies are defined as companies started in Sweden, with Swedish owners or headquarters in Sweden, but also companies that are no longer affiliated with Sweden in this way but have other strong ties such as company culture, Swedes as a majority of the workforce etc.

1.6 Structure

First, we take the reader through the relevant literature on the subject of guanxi and how it affects business strategy.

Second, we will present our methodological approach.

Third, we display our empiric findings. Our findings indicate that the perceptions of guanxi can be divided into four categories. We will go through each category in turn.

Fourth, we will discuss these perceptions, strategies and the correlation in further depth.

In the final part of this paper we will summarize our main arguments and possible implications. We will also suggest further areas for research.

2 Literature review

As our purpose explains, we want to explore managers' perception of the guanxi phenomenon and see how it shapes their China strategy. We argue that there is a relationship between perceptions and corresponding local adaptations strategies that we have identified. To give the reader a chance to understand this relationship we have chosen to summarize existing literature on guanxi. However, before we dive into the history of guanxi, we need to understand why and to what extent companies need to adapt their strategies, when establishing and conducting business abroad. Therefore we will start the literature review by going through relevant basic theories, which we later in the literature review and in our discussion can relate to guanxi.

In the first part we will define strategy and why companies decide to establish abroad, followed by a theoretical explanation on why companies need to adapt their strategies when entering new market, according to the management literature. What option do they have in terms of entry modes and how does this affect resource commitment, the level of control and risk. We will also explain why additional costs arise and why it is more complex to establish and conduct business in emerging markets because of unfamiliarity with the business environment. Furthermore, in accordance with our methodological approach, we will use existing literature to argue that companies need to consider other aspects than economic factors when analysing the context of a potential host market. There are also social conditions that affect economic transactions. This will be explained in terms of cultural and institutional distance (also referred to as socio-cultural distance), determining the level of difference in the social conditions of the home country and host country. The argument for this approach is that companies need to understand that large socio-cultural differences have substantial effect on economic action in the host country, and as we will explain these are factors that affect the dynamics of a country's social and economic exchange systems such as guanxi.

The second part of the literature review will focus on explaining guanxi. We have assumed that most readers do not have much knowledge about guanxi and therefore we have dedicated a large portion of the literature review to explain the concept. First we will provide the reader with a definition of guanxi, derived from the literature, together with the historic evolution of the phenomenon from China's cultural and institutional context. Secondly, we will explain how it has developed from China's specific socio-economic setting, we will go through its components and how it can be used in terms of business strategies and potential benefits. This approach serves two purposes; first it will introduce the reader to the concept and secondly it will serve as material that we can later use in our

discussion to compare and contrast with our results from our interviews. Because of our assumption that the reader has limited knowledge of guanxi, we are aware that some content of our literature review will not be used in the discussion.

Last but not least we have chosen to introduce the concept of social capital since we argue that guanxi is a Chinese version of this theoretical concept. Social capital is a more general and theoretically anchored explanation to the dynamics of networks and it argues that there are material gains embedded in an individuals' social network. This will enable us to analyse guanxi more theoretically, comparing and contrasting it to this theoretical concept.

2.1 Strategy: Definition

Corporate strategy is defined as the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim at fulfilling stakeholder expectation (Johnson et al. 2008). There is a Chinese expression that "the market place resembles a battlefield", where enemies are the other market actors (companies) and the battle is for market shares. In this reality companies use strategies to shape their competitive persona, i.e. determining what characteristics it is planning to use to succeed in this competitive environment (Langenberg, 2007).

There are three different kinds of strategies, normally classified in accordance with organizational level. First, there are *corporate strategies* that determine the firms overall direction (Langenberg, 2007). Secondly, *business-level strategies* define how to compete in a particular market (Johnson et al. 2008). They are less broad than the former type of strategies and their focus is on external relationships with competitors, government authorities, suppliers and customers, and how a firm plans to deal with these relationships (Langenberg, 2007). Finally, internal processes in terms of resources, processes and people that affect competitiveness fall into the category of *functional strategies* (Johnson et al 2008) and concern optimization of these processes (Langenberg, 2007).

We focus on *business-level strategies*, since they describe how to compete in a particular market and also focus on the companies' external relationships. The reason is, as we will show later in the literature review, that guanxi is an important aspect of external relationships in the Chinese business environment, e.g. with government, suppliers and customer.

The next section explains why companies decide to operate outside their home country. It allows us to understand some of the reasons behind why companies decide to establish operations in China, and why the need for strategic adaptation arises.

2.2 Internationalization

Barriers to international trade are decreasing and the success of new economic powerhouses such as China is generating new opportunities and challenges for business internationally (Johnson et al. 2008). The primary strategy of multinational enterprises (MNE) expansion is market-seeking, by entering a new market to expand its operations (Chen et al. 2006). An organization can also improve the configuration of its value chain and network by taking advantage of country-specific differences, by exploiting particular national advantages and sourcing advantages overseas via an international value network (Johnsson et al. 2008). Additionally, price pressures often drive resource-seeking strategies and investments, and companies choose locations for their facilities, enabling them to capitalize on lower costs of labour and raw materials (Chen et al. 2006).

Internationalization also needs to be based on possession of some sustainable competitive advantage on a global front (Johnson et al. 2008). Competitive advantage strategy concerns how to achieve customer value that is perceived to be higher than rivaling firms (Besanko et al. 2000) and it should ultimately lead to returns above the industry average (Gold & Sommers, 1996). Whether or not a competitive advantage is sustained depends upon the possibility of competitive duplication. To lower the risk of competitive duplication company resources need to be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment. Resources must be rare among a firm's current and potential competition, they must be imperfectly imitable, and there cannot be strategically equivalent substitutes that are valuable but neither rare nor imperfectly imitable (Barney, 1991). It could be argued that this also applies to companies' relations or networks, and that it is possible to develop *guanxi* that provides companies with a sustainable competitive advantage in terms of their network and in China (Langenberg, 2007; Tsang, 1998).

We will now explain entry modes into a new market and how the cultural and institutional environment affects the choice between wholly owned subsidiary and equity joint venture. This is an important discussion since the choice of entry mode is a significant part of dealing with the Chinese environment.

2.3 Entry modes

Once a particular national market has been selected for entry, an organisation needs to choose how to enter that market. Entry modes differ in the degree of resource commitment to a particular market (Johnson et al. 2008), control and risk at varying levels. The choice of entry mode therefore is a critical determinant of the likely success of the foreign operation. Hymer (1976) argues that additional costs arise from a MNE's unfamiliarity with the foreign environment in which it engages in operations. This includes discriminatory attitudes of customers, suppliers, and government agencies.

Therefore, the choice of entry mode becomes even more complex for firms operating in emerging markets, where they face high external uncertainty and internal constraints. Furthermore, the initial choice of entry mode is difficult to change without considerable loss of time and resources (Lin, 2008).

Companies will either form an equity joint venture (EJV) to collaborate with local partners, or establish a wholly owned subsidiary (WOS) to fully control their foreign operations. Each entry mode brings different benefits, but MNEs cannot select them simultaneously. Therefore, MNEs have to balance the need to collaborate and the need to control when choosing their entry mode (Chang et al. 2011).

2.3.1 Equity joint ventures

This is a mode to retain flexibility and shift risk to the local firm, who may have capabilities to influence host government policy (Hill et al. 1990). Fundamental differences in norms and values between the home country of MNEs and the host country of their foreign operations often create operational difficulties and increase the efforts required to enter a foreign market (Chang et al. 2011).

Collaborating with a local partner through an EJV arrangement allows an MNE to lower costs of monitoring, dispute settling, and reward refining, through leveraging on partners knowledge of the local economy, politics and customs (Hennart, 1988). Problems occur in identifying and managing the relationship with an appropriate partner and there is always a risk of losing competitive advantage through imitation (Johnsson et al. 2008).

2.3.2 Wholly owned subsidiary

This entry mode is characterized by relatively high level of control of resources and capabilities, and facilitates integration and coordination of activities across national boundaries. Disadvantages include economic and financial exposure due to substantial investment and it may lead to problems of integration and coordination (Johnsson et al. 2008). This route is preferred when the costs of arranging, monitoring and enforcing collaborative agreements are high (Kim & Hwang, 1992).

The following section will highlight how entry modes are normally affected by the cultural and institutional distance. We have two intentions by this approach; first we want to explain the logic behind the choice of one mode or the other. We also argue that in the case of guanxi, the logic does not always apply due to specific circumstances embedded in China. For example, although a company may face high uncertainty and risk of imitation from an equity joint venture, they will still

often choose this mode when guanxi is important to their business. One of many reasons is that it can give instant access to guanxi (Pearce & Robinson, 2000).

2.4 Entry mode: cultural and institutional (governance) distance

Lack of roots in the local environment is often most evident in social and cultural differences between countries (Chen et al. 2006). Moreover, international strategy, culture and institutions are inextricably interwoven (Hit et al. 2006), and these factors interact together and jointly affect entry mode choice.

2.4.1 Cultural distance

Cultural distance, as many international business researchers report, influences the entry mode decision of multinational enterprises (Morschett et al. 2010). National culture reflects the values of society, which establish norms for behaviour (Hitt et al. 2006) and the distance is the differences between these norms and values between the home country of MNEs and the host country of their operations (Ghemawat, 2001). Cultural distance between the home country and host country increases management costs because it creates knowledge barriers and hampers the transfer of knowledge and core competence to foreign markets (Chang et al. 2011). Chang et al. (2011, in reference to Gomez-Mejia & Balkin, 1992) also point out, that cultural distance impedes acquiring and interpreting information about foreign partners' behaviour and thus creates tremendous challenges for MNEs to safeguard against partners' potential opportunism.

The collaboration rationale contends that collaboration with partners from culturally distant countries can help through utilization of partners' local knowledge in order to bridge cultural gaps (Kim & Hwang, 1992). On the other hand, the MNE risks opportunistic behaviour from the partner, or in other words the loss of control inherent in WOSs. The impact of cultural distance may also be moderated by the level of subsidiary integration, or by an MNE's international or host-country experience (Slangen & Hennart, 2007). Thus, companies are able to bridge cultural gaps either through previous experience or by collaboration with a partner utilizing its knowledge of local conditions (Hennart, 1988; Kim & Hwang 1992).

2.4.2 Governance problems

Chang et al. (2011) have shown that cultural distance does not exclusively influence MNEs' entry mode choice. He uses Slangen and Beugeldijk's (2010) definition of formal institutional hazards resulting from deficiencies in a country's overall governance infrastructure, e.g. poor political, legal and social systems.

When entering a target country with poor quality institutions (e.g. the host country has a dysfunctional legal system or serious corruption issues), MNEs prefer WOSs as their mode of entry. However, if governance quality of the host country is satisfactory (e.g. the local law fully protects foreign investors from being exploited, the local partners' opportunistic behaviour will be restricted, and full control of subsidiary will not be necessary (Chan et al. 2011).

Now we have set the stage for what needs to be considered by multinationals in terms of strategy adaptation when internationalizing and establishing operations in cultural and institutional distant countries. It is time to define and describe guanxi in order to enable us to understand how this socio-cultural embedded social capital is perceived by foreign managers and how they accordingly choose to adapt their strategies to the Chinese business environment. The definition of guanxi will be further explained by considering the historic evolution of the concept from China's cultural and institutional context. We will also explain how guanxi is established; we will explain its components and the most important benefits that can be derived from engaging in guanxi building.

2.5 Guanxi: Definition, history and national context

According to Fan (2002), guanxi seen from the outside is complex and defies definition. He points out that there is no similar word in the English language with the exact same meaning. Therefore he argues that guanxi is best left un-translated. We agree with his argument but it would be hard to understand guanxi without a proper definition, so we have derived the following definition of guanxi from the literature.

The Chinese word "guanxi" broadly means interpersonal linkages with the implication of continued exchange of favors (Luo, 2007; Chen & Chen, 2004), enabling bilateral personal and social transactions (Fan, 2002). Exchanges take place between two individuals that are bound by an implicit psychological contract of social norms, such as maintaining long-term relationships, mutual commitment, loyalty and obligations (Chen & Chen, 2004).

Moreover, a requirement for the continuation of the relationship is that both parties must derive benefits from transactions (Yeung & Tung, 1996). It is not a unique Chinese feature and similar systems exist in other societies. What is special about Chinese society is that guanxi is ubiquitous and plays a crucial role in daily life (Tsang, 1998) and it operates in different life spheres, which means that there is family-, friendship-, political-, and business related guanxi (Chen & Chen, 2004).

Wilson and Brennan (2004) argue that the reliance on guanxi arises from the “traditional” nature of the culture and the absence of strong institutional infrastructure, which according to Lu & Reve (2011), have a strong influence on networks. For this reason, we will give a brief introduction to how the literature depicts the evolution of the guanxi phenomena in its historical context. We will outline the cultural and the institutional aspects that have shaped the use of guanxi in China.

2.5.1 Cultural aspects of guanxi

Langenberg (2007) refers to the cultural embeddedness argument, which states that certain social exchange patterns have been taken for granted as necessary and appropriate in China. The implication is that culture triggered a period of development, at the end of which guanxi emerged as a major exchange mechanism. One reason is that Asian countries method of organizing business networks and system for economic transactions is deeply impacted by Confucian culture (Lu & Reve, 2011). Confucianism is a way of life propagated by Confucius in the 6th-5th century B.C. It entails ancestor reverence and a profound human-centred religiousness. Although transformed over time, it is still the substance of learning, the source of values, and the social code of the Chinese people (Britannica.com). Some basic tenets specified by Confucius during the sixth century B.C. still dominate guanxi-based exchange and the importance of interpersonal relationships is persistent (Standifird & Marshall, 2000).

Confucian thinking has resulted in motivators that differ from western ones. Yeung and Tung (1996) stress that while westerners are motivated by self interest; the Chinese are motivated to live up to obligations based on roles in society. This means that the powerful have the obligation to take care of the ones that are less fortunate and therefore Chinese employees are often more loyal to their boss than their company, and will most likely follow him up the hierarchy, or out of the company if he decides to leave. Confucianism teaches governance by ethics, rather than governance by law, which explains the general aversion to litigation and law in China. For this reason, authority has at least traditionally had a greater say in how the law should be applied than formal institutions. The last tenet affecting the guanxi system is the emphasis on familiarity, resulting in a clear distinction between members inside or outside the network. (Yeung & Tung, 1996).

Many authors question the uniqueness of guanxi, comparing it with western style networking. Huang & Wang (2011) point out the differences; whereas westerners treasure networking, information and institutions, the Chinese place a premium on individuals’ social capital within their group of friends, relatives and associates. This is partly due to trust issues, which are embedded in the Chinese

culture. Westerners tend to trust others until proven wrong. In China, however, suspicion and distrust characterizes all meetings with strangers. To nurture trust and mutual understanding the Chinese appreciate long-term engagement. This highlights the importance of guanxi building at personal, inter-organizational level and with the government (Buckley et al. 2006). Another consequence from the low level of trust is that economic transactions in China often follow a successful guanxi, while in the west a relationship follows a successful transaction (Park & Luo, 2001). Therefore, guanxi is an inseparable part of the Chinese business environment and Western managers need to appreciate that in order to do business in China, they need to look beyond the transaction at hand, getting to know potential business partners and establish trust before they can do business (Buckley et al. 2006; Davies et al. 1995).

2.5.2 Political and structural aspects

The use of guanxi exploded after the Cultural Revolution. Owing to insufficient institutional support, imperfect distribution channels, and the bureaucratic maze of a socialist state (Yan, 1996) in which few power figures in the hierarchy were in a position to arbitrarily allocate scarce resources, guanxi became a necessary component in the daily lives of Chinese people. Coupled with the primitive legal infrastructure, guanxi thus became a popular way to solicit favors from authorities, who have control over scarce resources (Tsang, 1998). Langenberg (2007) argues in reference to Yang (1994) that it was possible to circumvent bureaucratic rules and that guanxi provided leverage against the cumbersome Chinese state-run economy.

State paternalism remains a dominant feature of China's business environment, though to a lesser extent than in the past. Moreover, the state retains powers to change the rules of the business system and to differentiate its policies towards firms of different categories (Child & Tse, 2001). Foreign investors therefore need to maintain communications with different levels of government in order to be well informed of the changing rules and policies. Shared mind-set and government support can only be secured when there is trust between the parties. Therefore, the essence of relationship building and the management of cultural awareness are to establish trust, which can only be achieved by long-term engagement in the context of China. (Buckley et al. 2006).

In today's society, distrust also stems from the less sophisticated legal system, in which people have no choice but to rely on interpersonal relations to get things done (Lu & Reve, 2011; Wilson & Brennan, 2010; Tsang, 1998). The idea of enforcing obligations via codified law, which basically emerged from the English Common Law tradition, stands in sharp contrast to traditional China

(Wang H, 2000). It was only after 1979 that a version of Western-inspired contract law came into being and thousands of laws were quickly passed, but few were strictly enforceable. After years of amendments and trial-and-error a standardized contract law was passed in 1999. However, property rights are still not consistently enforced. The reason behind why the *guanxi* system carries so much weight and is preferred over legislative procedure by a majority of Chinese, is that there is a lot of room for officials to make personal interpretations concerning the law (Langenberg, 2007). In addition, people who are entrusted with its enforcement are frequently insufficiently trained and the legislative procedures are slow. Therefore, the *guanxi* system is often portrayed as a “parallel mechanism” to contract law, which should ordinarily be seen as a self-contained institution (Schramm & Taube, 2001).

2.6 Establishing *guanxi*: An introduction to *guanxi* bases

The easiest way to start a *guanxi* relationship is to start from a *guanxi base*, which also determines how special (or close) one’s relationship is (Tsang, 1998). A *guanxi base* is defined as a demographic commonality of shared identification amongst two or more people, which include kinship, hometown, school, place of work etc. (Luo, 2007). For example, two people who enjoy classmate *guanxi* share identification with an educational experience, that both of them consider important (Tsang, 1998). Any commonality could trigger reminiscence of the past, recalling common events and acquaintances, thereby identifying *third party bases*. The existence of a common *third party base* makes *guanxi* dynamic in the sense that social *guanxi* is transferable through a third party for the purpose of obtaining help, resolving problems or simply getting connected. For example, if person A wants to make a request to person C, with whom he does not have any *guanxi*, he may seek out a member of his *guanxi* network, B, who also has *guanxi* with C, and ask B to introduce him to C. Thus, *guanxi base* is established between A and C through the common third party B, who has acted as a *door opener* between the other two (Chen & Chen, 2004).

Guanxi bases are not always transferable, since there might exist entry barriers. If an individual considers his network to be very valuable, he may feel reluctant to share it even with a friend (Fan, 2002). It is also possible for *guanxi* to develop between two total strangers, with no demographic commonalities or *third party bases* (Fan, 2002) but there has to exist what Chen & Chen (2004) refer to as *anticipatory bases*. The parties must express an intention or a promise to engage in future exchanges, collaborations or an equity joint venture.

Different guanxi bases tend to define different types of relationships and trigger different principles of interactions, which in turn bring out different outcomes. However, the existence of guanxi base does not automatically lead to what is referred in the literature as *active guanxi*, but they enable individuals to claim guanxi in the future both to each other and relevant third parties (Chen & Chen, 2004). Also, since guanxi requires limited resources such as time, energy, and money, an individual can only manage a handful of guanxi relationships (Fan, 2002).

Naturally, there are fewer common guanxi bases available to foreigners than to native Chinese. However, due to decades unprecedented economic, cultural, and educational exchanges between China and the outside world, common identifications between Chinese and foreign national such as universities, training institutions, and business companies, can be found by those who look for them. These are potential common bases to be utilized for guanxi building purposes (Chen & Chen, 2004). Secondly, finding a common third party is a popular strategy used by foreign companies in China (Tsang, 1998) through for example the establishment of an equity joint venture that can give instant access to guanxi (Pearce & Robinson, 2000). Last, in addition to direct guanxi building, foreign managers may rely on local Chinese who have are known for their guanxi or relevant skills for building a new guanxi. In selection, assignment, training and development, HR managers should take guanxi competencies and skills into account when hiring managers (Chen & Chen, 2004).

2.7 Components of guanxi

According to Buckley et al. (2006) foreign investors in China must be aware of the components of guanxi. They are the key to establishing trust and securing support from local stakeholders, such as the government, which can only be achieved from long-term engagement with the key actors.

2.7.1 Reciprocal obligations

A special feature of guanxi is that it has instrumental value. It embodies reciprocal obligations of the parties involved, with respect to the acquisition of resources (Tsang, 1998). Reciprocity makes guanxi more than a friendship or a simple interpersonal relationship, because it involves the obligation to respond to requests of assistance. Unlike the networking social system in the West, guanxi is socially binding and is an important aspect of everyday life in China (Luo, 2007).

Favors serve as a method of solving problems but also of evaluating guanxi quality. Asking is a sign of faith and trust in the party being asked but if the actual outcome is below expectation, there may be a sense of betrayal and the relationship may deteriorate. If expectations are met, the recipient will experience a sense of equity, and the level of guanxi will be maintained. Furthermore, it emphasizes

a long-term orientation, meaning that the response or return of a favor should not be immediate. (Chen & Chen, 2004).

2.7.2 Face

Face is also an important feature of Chinese culture (Buckley et al. 2006). Simply put, face is an individual's public image, gained by performing one or more specific social roles that are well recognized by others (Tsang, 1998). Protecting and saving face or dignity and prestige goes hand in hand with nurturing guanxi. They work on a reciprocal basis where the involved parties of a business relationship must show respect and save face for each other (Buckley et al. 2006). Though highly abstract, the concept of face is treated by the Chinese as something that can be quantified and measured. How much face an individual has depends partly on the person's guanxi network. The larger one's guanxi network and the more powerful the people connected with it are, the more face one has. In addition, one needs to have a certain amount of face in order to cultivate a viable guanxi network. (Tsang, 1998)

2.7.3 Trust and credibility

In Oriental cultures, trust is a vital supplement to contractual arrangements; it may even take their place. In pre-contractual contexts the establishment of trust frequently takes more time than Western executives are used to investing (Thorelli, 1990). As in many other family-oriented societies there is a low degree of trust between non-kin and to the larger collective (Fukuyama, 1995). To the extent that guanxi building represents efforts by individuals to deal with an environment lacking general trust, interpersonal trust is essential in building a quality guanxi (Chen & Chen, 2004; Yeung & Tung, 1996). Most Chinese do not trust strangers until they have had the opportunity to get to know them better. They have to go through a process of repeat exchanges of favors and the giving of face (Davies et al. 1995), during which trust is built between two individuals (Luo, 2007). A businessperson thereby demonstrates good faith, which forms the basis for a gradual transition from outsider to insider. Westerners have to handle exchanges with care and not overemphasize gift giving or wining-and-dining. There is a risk that this could be perceived as bribery or the Chinese may consider the Westerner as a "meat and wine friend", which in China equals mistrust (Davies et al. 1995).

2.8 Business guanxi: Potential benefits and guanxi strategy

Foreign managers working in China have to realise that it is difficult, if not impossible to be impersonal in China. Guanxi personalizes relationships even in formal business organizations (Chen & Chen, 2004) and business guanxi is defined as the process of finding solutions for businesses through personal connections (Lu & Reve, 2011).

It is debated whether it is possible to transfer business guanxi between individuals and organizations (Lu & Reve, 2011; Tsang, 1998). Implying the existence of guanxi between organizations is contradictory to the notion in most literature that guanxi only exists at the interpersonal level. Fan (2002) argues that inter-organizational guanxi does not exist in reality. Whether an organization can use an employee's guanxi assets is entirely up to the person himself and it will remain his property (Tsang, 1998). It can only be passed from one person to another, not to an organization (Fan, 2002), but can however be kept within the organization by involving more individuals in important relationships (Tsang, 1998).

Guanxi can be viewed as strategic since it often plays a crucial role in business transactions and good guanxi is considered a competitive advantage (Wilson & Brennan, 2010). Referring back to Barney's (1991) resource based view, Tsang (1998) argues that guanxi can be valuable in the sense that it helps to make business smoother, but managers should not forget the need to repay favors and be careful not to associate the brand with corruption. In making guanxi rare, there is certainly an advantage in long-term commitment, cultivating guanxi with key officials, thereby making it hard for competitors to operate in the same area. In terms of being imitable, a one year relationship can hardly be compared to a ten-year one.

The most important benefits of guanxi arise in respect to the smooth running of daily business operations, in securing information regarding government policies, and in securing administrative approvals. It also yields benefits when it comes to securing access to tangible resources in form of land, labour, raw materials and electricity as well as resources in the form of rights such as import licenses, local government approvals and central government approvals (Howard et al. 1995).

A key problem is that both central and local governments perform regulatory and participating roles that are not always consistent with each other (Walder, 1995). Local governments have become important stakeholders in Chinese business; in the interests of their own local people, they implicitly place barriers for resource flow and transactions to other regions in hopes of retaining resources and

opportunities under their own jurisdictions (Lin & Si, 2010). Policy outcomes and the regulatory process are largely determined at local levels through bargaining between foreign investors and local government authorities (Roehrig, 1994). Therefore, it is essential to treat the government as an important partner instead of a rival when operating in China. This is done by establishing relationships with relevant Chinese officials and offering them legitimate support to give face to the government, e.g. through active communication and participating in various social and charitable programs supported by the government. Establishing *guanxi* and giving face on a reciprocal basis will lead to the establishment of trust, which can save transaction cost and reduce uncertainty (Park & Harrison, 1993).

Last but not least, to be able to analyse *guanxi* more theoretically, we end this literature review by explaining social capital and its relationship to *guanxi*. Social capital has been described in economic sociology (Smelser & Swedberg, 1994) and we argue that *guanxi* is an example of social capital embedded in China's economic system with its own characteristics developed in its socio-cultural setting.

2.9 Relation to social capital

Social Capital is vital for the success of the firm in international markets and is highly valued in certain cultures (e.g. China) and thus especially important for corporate strategy (Hitt et al. 2006). The significance of the firm's network becomes increasingly crucial as firms move into emerging markets where formal market-supporting institutions are missing (Khanna & Palepu, 1997).

The central idea of social capital is that socially embedded relations are vital resources for social actions (Lin & Si, 2010). It is a feature of a country's social structure, such as the level of trust, means of setting up and actualizing networks, and generally accepted norms, which define the relations among social actors and facilitate their actions and interactions (Coleman, 1988). Unlike economic capital, in which money or commodities are incorporated into circuits of production in order to produce more money, social capital is an aggregate of actual or potential resources linked to the possession of a durable network of more or less institutionalized relationships (Luo, 2007).

Social capital involves opportunities which individuals can benefit from by building relationships, creating a web of personal relations, providing access to information and resources (Burt, 1992). Social capital is embedded within networks of mutual acquaintance and recognition. It is available through contacts or connections that networks bring and can be derived from membership in specific networks where such membership is restricted (Nahapiet and Ghoshal, 1998).

For social capital to have effect and make cooperation possible, trust must be established between individuals (Fukuyama, 1995). Social capital is fundamentally tentative and insecure, unlike economic capital which is objective, certain and enforceable. The reason is that obligation and trust are by their very nature vague and un-measurable (Luo, 2007). Trust lubricates cooperation but even in a high-trust society, trustworthiness is limited to a fairly tightly-defined radius. In a low trust society like China, trust has not disappeared but is limited to a small, exclusive clique consisting of network members (Lin & Si, 2010).

Social capital also involves values and norms (Coleman, 1988). Social trust and norms (sanction mechanisms), as contextual factors, ultimately shape and govern relations, and so profoundly affect the properties of social networks (Lin & Si, 2010).

The resource referred to as social capital is social because it is produced within particular social relationships. Although social capital can be converted into other forms of capital, it cannot be possessed. It is therefore contingent on the persistence of the social relationships within which obligation or trust is contained. If obligations can, in fact, be enforced and imposed on the obliged party by third parties, then they are economic capital rather than social capital (Luo, 2007).

There is a general belief that social capital can enhance the effectiveness of organizations in certain cultural contexts. Similar to physical and human capital, it serves to enhance achievements of certain economic and social ends (Lin & Si, 2010).

When China opened its economy to the rest of the world, *guanxi* became known as social capital serving as an important element in commercial contracts between corporations (Wilson & Brennan, 2010). It is a form of social investment, which a person can tap into when there is a need to find help or support and ultimately it will create value (Luo, 2007). Social capital focuses on how social relationships can help organizations generate trust and value and similar to *guanxi*, this trust cannot be legislated to apply to a broader community since it depends on interpersonal relationships (Huang & Wang, 2011).

Social capital is considered as both attributes of individuals and organisations, but *guanxi* is distinctively about interpersonal relationships. Also, social capital results from investments by individuals striving to form beneficial social relations, but with the focus on their own inputs rather than reciprocal gains (Huang & Wang, 2011).

3 Methodology and methods

3.1 Research design

This paper is exploratory and seeks to fill an identified gap in the literature. Guanxi is culturally embedded in Chinese society. It is not often spoken about among Chinese, rather it is implied. When gathering data for this type of phenomenon, the more personal the contact the better the answer will be. Qualitative data, collected face to face is preferred compared to data collected via email or phone. The possibility for understanding latent, underlying or nonobvious issues is greater in a face to face conversation (Miles & Huberman, 1994). Furthermore, guanxi is a social phenomena that would be hard to analyze numerically and therefore qualitative research is considered more suitable (Bryman & Bell, 2005). Lastly, we have chosen an inductive method since we want to render theories from real life situations portayed by our interviewees. (Bryman & Bell, 2005).

In the field of guanxi, we assign importance not only to the 'what' but also to the 'why' in relation to the respondents and their answers. When compiling responses from the interviews, we analyse opinions in the light of the respondents' background and experience. The face-to-face interview allows us to get a deeper understanding of underlying factors, leading to more depth and perspective in our analysis. Following these guidelines, we conducted in-depth interviews with employees of Swedish companies established in China, discussing their personal experiences.

In order to engage the concept of guanxi on a more theoretical plane, we have chosen a reflexive approach. We believe that when studying managers' perceptions one cannot assume that guanxi is a homogenous concept. After all, it is constructed by our respondents. We will reflect upon whether perceptions and the way companies choose to do business in China arise because of our respondents' position in the system. Thus we have deliberately chosen not to study the specific concept but the individuals who construct it; our respondents.

3.2 Research process

3.2.1 Pilot study

We started our research by conducting a pilot study with the Swedish Trade Council. According to Yin (2011) pilot studies help to test and refine one or more aspects of a final study, for example, its design, fieldwork procedures, data collection instruments, or analysis plans. In this sense, the pilot study provides another opportunity to practice.

The study consisted of a 90-minute interview with a representative from the Trade Council. This resulted in a discussion of *guanxi*, the Chinese business climate, and ending with a discussion regarding our interview selection process. The representative was asked to give a general overview of Swedish presence in China, which would act as an indicator on what kind of companies we would choose for our interviews. We then explained our field of study and our approach. From this practice session we were able to reformulate questions that were unclear to participants or if the question did not provide the answers we were looking for. Thus our interview questions became more effective and more suitable to our purpose.

3.2.2 Selection of interviewees

Our sampling had a maximum variation strategy, with an opportunistic aspect (Miles & Huberman, 1994). The sampling strategy was non-random, in order for us to get access to interesting interviews. We follow the example of Wilson & Brennan (2010), who argued that “any attempt to pursue a random sampling strategy under the circumstances of a study such as this is doomed to failure, since the researcher has to exploit his or her own *guanxi* to negotiate access for purposes of an interview.”

In order to get a representative view of the diverse Swedish presence, based on our pilot interview, we selected 3 categories of companies to approach for interviews:

1. Nine individuals representing six different big manufacturing companies with long-time operations in China.
2. Two individuals representing two smaller manufacturing companies with more recently established operations.
3. Seven individuals representing six service providers.

All except one of our interview subjects are Westerners. Nine respondents have extensive experience from working in China (at least six years) and seven are newly arrived westerners (less than six years). We had hopes of finding more Chinese interview subjects but certain circumstances made this harder than we thought. With only one Chinese respondent, our research must be seen through the lens of a westerner.

In order to get a nuanced view, we decided to choose interviewees of diverse backgrounds in terms of position and age. The interview base includes eight senior managers of some of Sweden’s biggest companies and seven senior managers working for smaller firms, and three entry-level employees. The interviewees with many years of China experience were chosen because of their experience in managing the establishment of business in China or big structural changes.

The interview subjects were contacted personally by telephone or email. Only one declined an interview.

3.2.3 Interview design

In preparing the interview subject for the interview, we described our focus area as 'Guanxi and Swedish business activity in China'. We also mentioned that we were looking for personal examples. The interviews were semi-structured, with open questions.

All except one interview were conducted face to face, in order to establish a good connection with the interviewees. The interviews were 60 to 90 minutes long and conducted in the office of the subject whenever possible, since we realised that respondents were more relaxed in their own office. When this was not possible, interviews were conducted in lunch restaurants or cafés chosen by the interviewee. Interviews were recorded and transcribed. All subjects were told that they will remain anonymous, and in this paper they are all treated as such. Names that appear in this paper are pseudonyms.

In order for us to capture different views on guanxi, particular attention was paid to comments that reflected a different opinion than previously expressed by other subjects. We asked subjects to define guanxi and the path of the interview was decided by this definition. We emphasized a wish for concrete examples regarding the use of guanxi. We paid particular attention to negative and positive experiences, which in turn shape the managers perception of guanxi in accordance with our reflexive approach. At the end of each interview we also asked subjects to add general thoughts on guanxi that had not been treated during the interview, or to put extra emphasis on one aspect that they thought more important than others. This way, after discussing different aspects of guanxi for an hour, we got a summary of their general view in short and powerful statements.

3.2.4 Discourse analysis

We began our analysis of the empirical material by reading through the 18 transcripts, thereby getting an overview of our material and enabling identification of potential themes for coding the material. We finally chose four main topics that capture the different views on guanxi. We believe that these perceptions have an effect on adaptation strategies (see Results). We then sorted relevant quotes into these four topics to construct our empirical material. Potter & Wetherell (1987) argued that this categorization process is useful for analytical purposes but also that we have to be aware that there is a risk of suppressing variation and nuances as the data is matched to a pre-structured framework.

3.3 Weaknesses of study approach and steps taken

This area of study concerns a Chinese phenomenon, deeply rooted in history, culture and habits. By its very nature it is hard for westerners to fully grasp. Besides the difficulty of understanding itself, there might be some aversion for Chinese to share insights with “outsiders” as proposed by Fan (2002): “As guanxi is a typical backstage culture people would be reluctant to share their guanxi secrets with an outsider unless the researcher succeeds in being accepted as an insider.” In a short space of time, we do not have the necessary resources to become insiders. However, when dealing with Chinese we have tried to mitigate the effects by contacting interviewees through our own personal contacts, thus making us more trustworthy.

By default, there has been a certain difference between nationalities in the conducted interviews. Swedes have been interviewed in their native language. The Chinese interview subjects and other managers who were not native Swedes, however, have been interviewed in English, which presented some difficulties in interpretation. In cases where the meaning was unclear, the interviewee has been called up and asked to clarify further.

The companies approached are all located in Shanghai or Beijing, and therefore the sampling may not reflect reality in lower tier cities in China. However, many of the interviewees are now or have in the past worked in different areas of China. During interviews, we also raised the question of provincial differences.

3.4 Generalisability and applicability

We believe that this study is relevant for all Swedish companies who operate in China, or are considering expansion in China. The reader must bear in mind that it is not our intention to construct universally applicable truths, but we aim to add knowledge and understanding to a complex social phenomena and its effect on Swedish companies and their China strategy.

To a great extent, the results are also relevant for companies of other "western" nationalities, since any cultural comparisons have been made between western and Chinese business practices rather than specifically Swedish and Chinese practices.

4 Results

We have conducted 18 interviews with individuals working for Swedish companies in China. Our aim is to understand how they perceive guanxi and what adaptations this perception leads to.

During the interviews we found that most, if not all, of our respondents found guanxi to be important. However, since their view of guanxi differed widely, we came to the conclusion that our questions could not be answered without first asking for a definition of guanxi. Most of them had firmly rooted opinions regarding the nature of guanxi, which coloured the interview. From the respondents' definitions of guanxi, as well as examples and stories in the interviews, we managed to form an impression of their attitude towards guanxi and subsequent adaptations to it. Below, we will illustrate four different categories of perceptions that we have identified. We will also show examples of statements that illustrate the strategies employed as a result. A more detailed discussion of what the discourse means can be found in the next chapter, Discussion.

4.1 Guanxi - introduction

All our respondents agree that guanxi is an important part of doing business in China. One manager illustrates:

In China, business is not always based on legal or business factors, but also on guanxi and personal relationships. **Yuan (senior executive at a large manufacturing company)**

All respondents agree that guanxi is important and is a big topic of discussion among expatriates working in China. However, some think that the importance of guanxi is overstated; it may be important but the frequency with which it is mentioned does not reflect its importance in daily life. Later on in the same interview, the respondent goes on to say:

With good service and products, there is no reason not to do business with you. Guanxi is a facilitator but does not play a determining role. **Yuan**

When pressed on the meaning of guanxi as a facilitator, he mentioned that Chinese may feel more comfortable doing business with someone they know. This is not a deciding factor, but may help smooth certain processes.

Several managers expressed the view that guanxi is overrated among expatriates to the point of being presented as a universal solution of problems.

There is too much belief in the potential of guanxi; its power is embellished. **Andreas (senior manager at a medium size manufacturing company)**

This was a common attitude among all interviewees; guanxi is not a universal solution to every problem. However, respondents claim it can make a difference at critical moments such as in the establishment phase or in a company crisis. In other cases, connections create trust that opens doors for new business. These connections do not necessarily need to be business related. One of our respondents shares an example of this;

We are involved in a gigantic project where a big Asian corporate group wants to buy a well known Swedish company. The sole reason why our small company got to handle their business was that one of our employees and a key person in this group had had a personal relationship for a very long time. This decreased the risk for failure since he knew he could trust my employee. It is all about trust rather than what is written on our homepage or what we have accomplished in the past. **Anna (owner of a Swedish consulting company)**

The statement above shows that personal relationships can trump a brand or a successful history. With a well built personal trust, other aspects become moot.

We quickly found that the perceived importance of guanxi differs between respondents. It could be for different reasons. Based on the responses, the importance of guanxi may differ between industries.

The need for guanxi depends on what kind of business you are in. Some businesses do not need guanxi here more than they would back in Sweden. **Tom (senior manager at a consulting company)**

Tom goes on to say that some important factors seem to be how much you deal with the government, and who your clients are;

I think it is more important if you have physical facilities, like manufacturing. Also for larger companies, who need to influence legislation. When you are only dealing with foreign companies, guanxi is rarely important. **Tom**

Tom himself rarely had anything to do with guanxi. In fact, he said that he has spent too much time investing in relationships that he will never be able to use because his clients are westerners and guanxi is not necessary. We will get back to this issue in our discussion.

4.2 Definitions affecting perceptions

When respondents were asked about the importance of guanxi for business, we came to the conclusion that their definition of guanxi differed. Two respondents illustrate different views. The first tells of a way of using guanxi for sales.

In technical sales, many companies have a door opener, a person that handles dinners and builds client guanxi. At the right time a technical person comes into the picture and explains the technical part. **Anders (senior executive, consulting industry)**

According to Anders, guanxi is useful for business, to the extent that many companies have adopted this as a strategy. Guanxi is important in recruiting these 'door openers', and also in shaping the sales process. Another respondent, however, bristled at the idea of using guanxi for business, arguing that real guanxi is something too valuable to use for sales; for him it is about friendship and mutual benefit in the long term. He would never use it for short term gains.

Relationships as door-openers in the short-term perspective are not real guanxi. One of my co-workers has good relations since two generations with a very influential and powerful family in China. He would never ask them for help unless he was on the verge of ruin, or for that matter offer them money to help one of our clients solve a problem. That would not be guanxi, but simply cash business. **Christopher (senior manager at a consulting company)**

Because of his view of guanxi, he does not see it as beneficial for sales. He does not consider it in the recruitment phase, and he will not make it a part of the sales process.

From the above section, we conclude that respondents disagree on what guanxi is, and how it should be used. We will come back to these differences in definition, and how they affect perceptions and strategies later on in the results section and in our discussion.

4.2.1 Government relations

In order to provide some background to our next section, we wish to highlight respondents' comments regarding the government's role in China. When asked about government relations, some respondents referred to the history of communist China. They talked about the involvement of the state in different components of the society, exemplified by this manager;

50 years ago the government was like a parent, taking care of everything for the entity. The level of control has been decreased but it still gives directions. **Yuan (senior executive at a large manufacturing company)**

Although the state has released a lot of control compared to 50 years ago, the majority of respondents agree that economy and politics are still very much connected. This is why most respondents believe it is essential to build government relations. One manager provides an illustration of the extent of government involvement in business transactions:

By and large, the government is involved in every transaction here in China. Most documents require government approval, sometimes by several departments. This process provides the government with an opportunity to ask questions or hinder the transaction if it is not in line with their objectives. For this reason, relationships with the government are extremely important, even for what is considered day to day commercial work.

Carl (senior executive at a large manufacturing company)

In summary, respondents report extensive interaction with the Chinese government. Relationships with government officials are an important aspect of guanxi, and one that will be treated below.

4.3 Four perceptions on guanxi

In the course of our interviews, we found that respondents view guanxi in different ways, which in turn affects the perception of the potential usefulness and risks of the concept. We have decided to illustrate four extreme perceptions of guanxi:

1. Guanxi as a necessity. In this view, guanxi is cultivated as a forced response to the Chinese business climate.
2. Guanxi as corruption. In this view, guanxi equals bribes and other unsavory activities that can lead to punishment or bad publicity for the company.

3. Guanxi as favors and return favors. A view that sees guanxi as favors that need to be repaid in order to restore the balance. The favors mentioned are not of the illegal kind. Guanxi is seen as a last resort because owing someone a favor means a risk; you never know what you may need to do to repay it.
4. Guanxi as mutual benefits. A positive view of guanxi, meaning that both parties trust each other, do what is best for the other, and both benefit in the long term.

From our interviews, no respondent is completely in favor of one perspective, rather using parts of different views in different situations. However, in analyzing their discourse, most managers can be categorized as gravitating towards one of the perspectives. We will show how their perception of guanxi affects their strategy. Below are examples of how managers describe guanxi.

4.4 Guanxi as a necessity

Guanxi may not be optional. Some respondents talk about guanxi as a crucial aspect of doing business in China. One respondent illustrates.

No one should think that they are able to do anything by themselves in this country; you need a network. **Malin (senior executive, financial industry)**

In a society with no trust for strangers, a lack of guanxi can cause problems, big and small. A manager tells of a situation sparked by the lack of a relationship between landlord and tenant:

One day the landlord of one of our clients informed that the rent was going to increase by 100 % starting from today. The landlord probably already had another tenant, which meant he did not incur that much risk. Most importantly, he did not have a close relation with our client, and therefore nothing to lose. **Anna (owner of a Swedish consulting company)**

Many respondents agree that it is strictly necessary to develop guanxi in order to work in China. This applies to both business partners and important stakeholders in general.

However, different companies have very different needs. A senior manager of a famous Swedish manufacturing company claims that their strong brand is part of the reason that they do not need to spend much time on guanxi; it comes to them.

Because of our strong brand, we are courted by government officials, suppliers and clients alike. We do not fight like Mr. Nobody. **Joakim, (senior executive at a large manufacturing company)**

Many respondents concurred, meaning that a strong brand leads to a good bargaining position for the company. The Chinese want to cultivate guanxi with people who can help them. A strong brand or other valuable assets will enable companies to sit back and be approached, rather than having to do all the work themselves.

4.4.1 Government guanxi as a necessity

Guanxi becomes especially important when dealing with government entities. A respondent illustrates the power that the government wields.

The real boss of all companies is the mayor. He has the power to stop all your activities, so you have to work with him and make sure to align your agenda with his. **John (senior executive at a large manufacturing company)**

In fact, working against the government's wishes can have direct and serious consequences, as experienced by one respondent:

When we acquired a factory we wanted to incorporate it under an existing legal entity, to minimize administration. Legally this is standard practice and our lawyers advised us to do it this way. But the local government said that if we did that we would not be welcome in their region. They wanted us to create a new legal entity, in order for them to get more tax revenue. We still decided to push our solution against their wishes. Finally, the local government threatened to cut our electricity, which would have stopped production. We had to forget our initial plan and follow their instructions. **Fredric (senior executive at a large manufacturing company)**

The respondent went on to say that this situation seriously damaged the relationship with the local government and the company consequently had to spend time and energy on rebuilding the guanxi from scratch.

4.4.2 The bureaucratic process

When discussing government relations our interviewees invariably touch upon the Chinese bureaucracy, which they describe as slow and complicated. It usually involves several steps where companies need the right signature and stamp to be able to move forward. It can be very time consuming, as illustrated by the following example.

Companies hire personnel whose only task is to drive around to different authorities to arrange and renew permits. **Sanna (senior executive, Swedish law firm)**

Speeding up the otherwise slow bureaucratic process is one of the major reasons to develop guanxi with government officials.

Guanxi can make the bureaucratic process run smoother and faster. I know companies who can just walk into a local government office and get the necessary stamps in a couple of minutes. **Sven (junior manager at a medium sized manufacturing company)**

In the view of guanxi as a necessity, the lack of government guanxi can directly affect the efficiency of your business. Government approvals are necessary to conduct business, and the right relationships will make a difference in both time and results:

You cannot just walk into the tax authorities and expect that they will treat your case objectively. They prioritize their relations and if you do not know them you will never get anything done. **Sanna (senior executive, Swedish law firm)**

The respondent implied that not only will documents be processed in a few days rather than a few months but the likelihood of a favourable outcome is much improved by good government guanxi.

4.4.3 Government guanxi in a crisis

In a crisis situation, government guanxi can be essential for solving difficult situations, as illustrated by this example:

In a case of violence against our factory, we called in the police. They came when we called but they took no proactive actions. As soon as they had left, the violence started again. Luckily, we had a good relationship with the mayor, so we involved him. He made

our case a priority and lined up the police department, the labour bureau and the judicial court. They teamed up and created a small crisis committee to help us. Together, they quickly solved what would otherwise have been a dangerous situation. **Fredric (senior executive at a large manufacturing company)**

The government took direct action in helping the company and their involvement was seen as necessary to avoid a serious crisis for the company.

In summary, the necessity of guanxi can depend on many factors. In the end, the perceived necessity will affect the strategy of the company. Below, we look at other views of guanxi, and how they combined with necessity form adaptation strategies.

4.5 Guanxi as corruption.

Many managers are concerned that guanxi may lead to corruption. The below respondent tries to avoid guanxi since he does not see any substantial benefits, only risks.

Guanxi in business is sometimes a bit too close to corruption. I scratch your back and you scratch mine. **Joakim (senior executive at a large manufacturing company)**

Another respondent strengthens this image by illustrating how guanxi and corruption go together.

I think that guanxi and corruption are closely interlinked. It is hard to be corrupt if you do not have a close relationship to your counterpart. It is a lot easier to talk about bribes with friends. **Sven (junior manager at a medium sized manufacturing company)**

Sven's view is that guanxi and corruption are not necessarily the same thing, but one may lead to the other. In other words: without guanxi, corruption would not exist.

Some respondents talked about corruption as the price of doing business in China. The below manager comments on bribes and other forms of corruption as unavoidable. He mentions foreign enterprises' ethical rules:

All big companies violate these rules, because otherwise they would not have any business in China. They use their own business partners for this kind of thing, and look the other way. There are stories, including some very big Swedish companies. If you do

not want to violate those rules, content yourself with 10-15 % of the market, or just stay away from China. **Tom (senior manager at a consulting company)**

Other respondents agree that corruption can be difficult to avoid altogether.

As a multinational it is an art to completely stay out of corruption. **Malin (senior executive in the financial industry)**

4.5.1 Corrupted partners

Many respondents showed a certain amount of cynicism, saying that most foreign enterprises use corruption in order to make business happen here. A respondent tells of a common method used for smoothing the business process.

Corruption is not really seen in daily life but there are many methods commonly used for business. An example is the use of external agents in “helping the process”. It is a part of doing business. I do not want to comment any more than that. **Martin (senior executive at a large manufacturing company)**

This strategy that has come up in several interviews; using agents or Chinese partners to handle any immoral aspects of the business. A respondent describes the environment that creates this need of bribery.

A friend started a food import business in China by himself, not creating a Joint Venture. When his food arrived to customs in December it was blocked and he did not really know why. One day one paper was missing, next day another one and of course you cannot ask directly if the customs officials want a bribe. In this kind of situation you should partner with a local Chinese person who can use his guanxi to put some pressure on the customs department, pay some money and you will get your products quickly. **Fredric (senior executive at a large manufacturing company)**

The manager felt certain that in that industry, business would not be possible without guanxi, which in this case equals corruption.

4.5.2 Consequences

There are obvious risks in accepting bribery: legal implications as well as damage to the brand.

Paying bribes could hurt your brand outside China. It may become a huge scandal so it is important to have clear principles. **Anna (owner of a Swedish consulting company)**

In fact, many respondents mention that the Chinese government clamps down harder on foreign enterprises than on local ones.

The Chinese authorities will more quickly follow up and prosecute foreign corruption or general violation of law, to a greater extent than local corruption. The reason is either that the authorities want to set an example or that local companies have better relations. **Carl (senior executive at a large manufacturing company)**

Because of the risks of corrupted practices and the difficulty of avoiding these practices, respondents' comments suggest a tightrope that needs to be walked in order to do business in China. Respondents talk about limitations for the China business when you do not accept the practice of bribes. There is an expectation of "gifts" in certain situations, and not following this expectation has consequences.

Some companies bribe journalists to show up at press conferences and dozens of reporters and magazines cover their story. We do not and this means that we cannot guarantee our clients the same results. **Anna (owner of a Swedish consulting company)**

Even for companies working with government entities this problem presents itself.

It can be hard to follow the rules since sometimes even the administrative authorities are asking for bribes. Even when we asked to see a copy of our own tax declaration, the official would not give it to us without a bribe. It was not big money, but we can simply not afford to do anything remotely resembling illegal activity. We had to do it the right way, and that made the whole process slower and more complicated. **Sanna (senior executive, Swedish law firm)**

The view of guanxi as corruption is negative in the extreme. In many cases, the respondents who expressed this view made it clear that they had nothing to do with guanxi in any form. The guanxi connotation was not something they wanted to associate with their brand.

4.6 Guanxi as favors and return favors.

The second view of guanxi is more neutral. In this view, guanxi is seen as a service that can be bought in return for a similar service in the future. A barter, strictly between business partners.

4.6.1 Favor balance

Guanxi is seen as a pure favor exchange, with “favor accounts”, which need to be balanced. Asking for a favor means incurring a debt, as illustrated below:

Using guanxi for favors is like taking an SMS loan; the interest keeps growing. **Tom (senior manager at a consulting company)**

Another aspect of this view is that guanxi is used solely for selfish purposes. A manager points out that guanxi is not based on friendship or the goodness of your heart; it is just business.

Guanxi exists only in a business environment. You cannot build it with people you consider friends. **Fredric (senior executive at a large manufacturing company)**

Another respondent elaborates this thought, saying that the whole idea of relationships and the base for building them is different in China.

Guanxi is based on the Chinese pragmatic thought on relationships. While westerners tend to build relationships on emotional value, the Chinese think relationships should have material gains. **Alexander (senior executive at a large manufacturing company)**

This suggests an impersonal view of guanxi, calculating and distanced from any semblance of friendship.

4.6.2 Guanxi as favors and return favors

Some respondents that are of this view suggest that the favor and return favor system can work as an investment. Doing a favor for a business partner means that being able to collect a return favor in the future. Some respondents collect favors for a rainy day. However, it is not without cost. One manager stresses that maintaining a guanxi relationship takes time and energy.

Cultivating a healthy, corruption free guanxi is like art. It is very time consuming. As a foreigner you need to consider how much to invest in guanxi. **Tom (senior manager at a consulting company)**

In fact, once you have it, you cannot simply let it go. A Chinese respondent explains it this way.

When you have guanxi, you had better keep it forever. It is nothing that you can drop when it is convenient. **Yuan (senior executive at a large manufacturing company)**

Many respondents of this view stress the need for evaluating guanxi as an investment. They recommend not diving into it headfirst but thinking of it as something that will cost time and resources now and may yield returns later on. By thinking long term and connecting with the right people, they seem to agree that guanxi can be very beneficial.

4.6.3 Guanxi with consequences

Many respondents separate guanxi and corruption as two different things. However, in the view of guanxi as favors and return favors, respondents are still careful in asking for favors, because of the reciprocity expected in a guanxi relationship.

Just like in Sweden, if you need help, you ask for it. The difference lies in the mindset. In Sweden a favor is just a favor and quickly forgotten. But the Chinese will remember the favor and the debt that has been incurred. **Anders (senior executive, consulting industry)**

Another manager shows his unease in owing such favors.

If I get help, one day someone will ask for my help back. I do not want that hanging over me. Guanxi is like a nuclear bomb; good to have but nothing you plan on using. **Tom (senior manager at a consulting company)**

Many respondents had this concern and even though the favor asked for is not illegal or in any way immoral, there is a perception that their “debt” could make them implicated in less savory activities later on.

You have to be careful for what you ask for using guanxi since it always involves some kind of payback. A situation could emerge which is not comfortable, for you personally or the company. It is better to keep your distance when you feel that something can become unethical. **Joakim (senior executive at a large manufacturing company)**

When asked about turning down a return favor, respondents often said that they cannot be forced to do anything illegal. However, they mention consequences of backing out of the guanxi relationship. Trust that has been built up, sometimes over many years, quickly evaporates and the relationship can be terminated immediately. Furthermore, competitors, suppliers and clients may see the termination of the guanxi relationship as a sign of untrustworthiness, making it harder to develop new guanxi.

4.6.4 Understand it or stay away

Part of this view of guanxi is the ambiguity. Guanxi is not seen as corruption, but neither is it something wholly positive. It is seen as gaining short term advantage, but there is a risk implied in not knowing what the return favor will be. Inherent in this view of guanxi is an element of distrust of business partners. One manager illustrates the complicated nature of the concept.

Those who have lived in China for a year and claim to understand guanxi...They have no clue what they are talking about. I have been here for three years, I speak Mandarin fluently and my wife is Chinese. I still don't understand it fully. **Anders (senior executive, consulting industry)**

Several respondents mention examples of foreigners who do not sufficiently understand the socio-cultural setting and fail when they try to play the guanxi game.

I have seen Western businessmen getting stuck in the guanxi system, losing time, resources and being deceived. A big Swedish company gave away a design for free, thinking that it would be good for the guanxi with their Chinese partner. The Chinese counterpart understood what this design was worth and they gave nothing in return. It was just plain stupidity. If you do not put a value on something you give away, you will get nothing back. **Alexander (senior executive at a large manufacturing company)**

Another example came from a respondent who told us of a western businessman that regularly came to China. He went for a meeting in a nearby province for a meeting, and afterwards bragged that he had met the mayor. After a few drinks, the mayor had said they were best friends and promised to help the businessman if he ever needed a favor.

How could he be so stupid as to actually believe it? One night of drinking will not make you best friends with the mayor of an important city. The mayor had probably said the same thing to 500 others and won't even remember him if he calls. In most cases such promises mean nothing; it is just evening talk. It would be a mistake to take that promise at face value, and definitely a mistake to brag about it. Real relationships take time to build. **Tom (senior manager at a consulting company)**

Most respondents agree that it takes many years of experience to understand guanxi and faulty assumptions could bring about grave consequences for the business. Some respondents clearly show that they do not fully understand what using guanxi will mean for the business and therefore choose to stay away.

There are a lot of discussions concerning guanxi and its ability to fix your problems but I think this is a jungle we will never understand. **Joakim (senior executive at a large manufacturing company)**

Even though guanxi is not seen as corruption or immoral in any way, managers of this view still avoid using it. In considering guanxi to be based on strict business values and material gains, using it would be equal to taking out a loan that will need to be repaid. Many of these respondents seem unsure about the nature of the return favor that will be asked for in the future and do not want to put themselves in a situation where they owe someone a favor.

4.7 Guanxi as mutual benefits.

Guanxi is not universally seen as something negative or a necessity. Many respondents bring up positive sides of the concept and would like to see more of those aspects in western society. Some respondents believe that the confusion of guanxi and corruption makes westerners reluctant to get involved in personal relationships, instead preferring to keep business strictly professional.

The concept of guanxi is perceived as something bad in the West but it is really about relationships and respect. If we could just respect each other and read more about

China, history and what makes people the way they are today, China would be less alien.

John (senior executive at a large manufacturing company)

In fact, many respondents see guanxi as a longterm partnership with mostly positive consequences.

The Chinese view on partnership is different from the western one. What westerners might see as a win-win in the short run, the Chinese see as helping each other today so that we can both be rich in ten years. **Malin (senior executive, financial industry)**

In this view, guanxi is positive, natural, and inherently different from corruption. A manager points out that real guanxi cannot be accomplished with money.

It is not possible to bribe your way into a network, since guanxi is built on ethics and respect. **Andreas (senior manager at a medium size manufacturing company)**

Another respondent elaborates on his view of guanxi as positive and mutually beneficial.

This is how China works. You develop a relationship and help each other when you can. Many times it is almost without expecting anything back. However, then the obligation is even stronger. I think it works quite well because you tend to deal with friends more than just faceless people. **John (senior executive at a large manufacturing company)**

He stressed that there is great trust and friendship between guanxi relations. A favor incurs a debt, but there is no risk. Repayment is tied to respect rather than monetary gains.

Many respondents made a distinction between superficial relationships and “real” guanxi. They were adamant that “real” guanxi is not something that can be bought or sold.

You have to be careful if someone offers to introduce you or solve a problem for a fee. Guanxi is not for sale. If you have it, it is so precious that you do not sell it. **Carl (senior executive at a large manufacturing company)**

4.7.1 Guanxi as an information source and business development tool

Mutually beneficial guanxi can work as a source of information, as well as a marketing tool. A manager compared guanxi to western sources of information such as the internet or the phone directory. Since online information in China is rarely accurate, and trust is harder to come by, most new business partners are personally introduced.

In China it is hard to find information about other companies, so guanxi works as a platform for recommending and getting information about other businesses. **Andreas (senior manager at a medium size manufacturing company)**

An introduction does not have a price tag and can be beneficial for all involved. However, it has great value, as a personal introduction inspires trust and leads to new business. Our respondents saw great potential in this form of mutually beneficial guanxi.

Guanxi can also be a source of other information that is hard to come by. A respondent gives an example of how their partner's guanxi gave them advantage.

At the end of the procurement process we knew that we were one of two companies left standing and we were about to hand them our final quote. Our partner pulled a string or two and managed to find out what our competitor had offered. Thanks to this information, we could offer a slightly lower quote, and thus win the bid. What was magical was that we had a better network than our competitor. **Malin (senior executive, financial industry)**

Securing this information led to winning new business, for them as well as for the partner.

4.7.2 Cornerstones in mutually beneficial guanxi

So how can one build mutually beneficial guanxi? One respondent suggests immersing oneself in the China way.

Get interested in the culture, get interested in the people and the guanxi will come naturally. **John (senior executive at a large manufacturing company)**

Having a partner can be a good way to jumpstart you relationship building.

If you can be introduced by a trusted person, you will have a head start in building trust. If his trust level is ten, you will start at level five. You still have a long way to go to reach his level but without an introduction, you would be at zero. **Anders (senior executive, consulting industry)**

In contrast to the view of guanxi as favors and return favors, the below manager believes that friendship is crucial for certain business situations. However, he maintains the importance of not crossing the border to corruption. Mutually beneficial guanxi requires finding an acceptable level of adaptation to the Chinese way of doing business.

If you keep your relationship clinical, the chances of miscommunication are extremely high. As a Westerner, you need to strike a balance of becoming friends and maintaining objectivity (in the interest of your company). You need to advertise to the counterparty that even though you are enjoying the time together, you are still representing your company. If you can make that clear, it is OK to become personal friends, which is a necessity in a complex transactional deal. **Carl (senior executive at a large manufacturing company)**

4.7.3 What is really corruption?

Bribery and corruption may not be condoned by the management but some respondents complain that these policies are too strict. In China, small gifts are sometimes tokens of respect rather than a financial incentive. The view of guanxi as mutual benefits questions the assumption that gift-giving is the same as corruption.

Certain laws restrict the value of a gift you can give to a government official to 25 USD. However, most companies in China will give government officials moon cakes at a certain time of the year. This is part of the culture, an established practice and done even by companies that are not involved in any kind of corruption. A good box of mooncakes can be worth 50 USD, which exceeds the limit for most companies. However, failing to give mooncakes is quite literally viewed as an insult. No Chinese company would ever refrain from giving mooncakes. You look like you are cheap and you do not care about them. **Carl (senior executive at a large manufacturing company)**

In this example, giving mooncakes to officials would not be a way of gaining unfair advantages but rather showing respect for the culture and traditions of the host country.

4.7.4 Government guanxi with mutual benefits

Guanxi with the government can help companies create some stability and security in a relatively unpredictable system. A manager illustrates the need of this guanxi from a business point of view.

When the law and institutions cannot guarantee protection of your interests, you can resolve it by building your own safety net. You have to invest a lot of time in building relationships based on trust with people that can protect and prioritize your transactions. **Alexander (senior executive at a large manufacturing company)**

Government connections will be especially helpful. Respondents say that it is important to have an on-going dialogue with the government. The following manager illustrates this interaction.

The government is involved in transactions and you need to be aware of the government's goal and match it in your strategy. Then you will receive full and strong support. **Yuan (senior executive at a large manufacturing company)**

Another respondent corroborates this opinion, saying that the government can either impede progress or help in a difficult situation.

The government is a dual edge sword: on one hand they can be a barrier, on the other, in crisis they can intervene on your behalf. **Carl (senior executive at a large manufacturing company)**

A senior manager told us that it takes time to develop this relationship, but indicated that it should be considered a good investment. It is a relationship that will benefit both parties. The government gets information about corporate activities in their area, and in exchange they will facilitate corporate activities.

I spend a lot of time talking with government officials, mayors, the development zone and so on. I tell them what we do and what our plans are. In exchange, they look at us as

a partner in their development and are willing to assist us, give guidance and support.

John (senior executive at a large manufacturing company)

One manager pointed out that this is about communication and not corruption.

The communication is not corrupted in any way, but it is about showing respect to Chinese traditions and their way of working. **Emelie (middle manager at a large manufacturing company)**

One respondent commented on a common mistake in dealing with the government.

Western people do not always understand what the drivers are, e.g. the government is interested in the welfare of the people (employment etc.) If you understand the right button to push, you can get a very good relationship. **John (senior executive at a large manufacturing company)**

In his view, the government wants what is best for the people of their region. In helping them realize their goal, a company can gain government support.

In summary, the view of guanxi as mutual benefits focuses on trust and respect between partners. The guanxi relationship is characterized as positive and benevolent, with no apparent risk or investment, but with great potential rewards.

5 Discussion

The purpose of our thesis is to explore managers' perception of guanxi and see how it shapes their China strategy. From our interviews we have identified four different perceptions. We argue that these perceptions of guanxi affect the extent to which managers adapt to the Chinese business environment.

In this section we are going to discuss the four different perceptions and what they actually generate in terms of strategy adaptation.

There are certain limitations to our research. As highlighted by our respondents and in our literature review, there are many factors that affect the level of adaptation. This could be factors such as industry, size, the maturity of the business venture, time spent in China, the amount of interaction with the Chinese government, and the customer profile. We will not fully explore these factors' influence on managers' perceptions. We urge the reader to consider this implication and keep in mind that our findings are not universally applicable truths, but an attempt to further understand why foreign companies act the way they do in China. Our research adds further understanding to a very complex social phenomenon.

In the following sections, we will go through our aforementioned perceptions in further depth, discussing the connection between them and strategies that we argue arise as a result.

5.1 Guanxi as a necessity

As mentioned in the literature, in China trust often takes the place of contractual agreements (Thorelli, 1990). Our respondents agree with this, saying that contracts may be written, but are hardly enforceable. Instead, enforcement is built on mutual understanding and trust between the parties. Managers of this view therefore see guanxi as mandatory for successful business.

As mentioned in our literature review (Thorelli, 1990, Chen & Chen 2004, Yeung & Tung 1996), the building of trust is often required before any business discussions will even take place. The majority of our respondents mention this as a major change from doing business in the West. When doing business with Chinese, trust is essential, and this changes the strategy of the company. More time needs to be spent on the personal aspects of business. Dinners, discussions, family level get-togethers are all standard practice in order to get to know each other. Then, respondents say, you can get down to business. The element of personal relationships puts extra focus on a long term strategy. Many managers mention problems that arise because many expatriates are present in

China for only two or three years. When they leave, the guanxi that they have built risks being lost, and has to be rebuilt from very low levels.

Especially for businesses who deal with the government on a regular basis, guanxi is portrayed as crucial. On this point our findings corroborate the literature. Some respondents mention that when moving into a new province, first priority is to build government guanxi. Because of the arbitrary power of the government, their cooperation is seen as necessary. For this reason, strategies are altered in order to “align with the local government’s agenda”. This is seen as leading to business success. In this discussion, many managers state that this cooperation with the government is not in any way associated with corruption. Instead, they often describe the government’s agenda as benevolent, with focus on the interest of local residents. By understanding the government’s interests and explaining the corporate plans, a mutually beneficial partnership can be reached. Our findings thus agree with the literature, that guanxi with the government can reduce transaction costs and reduce uncertainty.

One respondent illustrated how moving against the wishes of the government has serious consequences; the company had to completely rethink their strategy to appease the local government.

This view has a negative connotation in the sense that guanxi is seen as something that is needed in order to do business. It is not a benefit, but a requirement that makes business more complicated. This sets it apart from the view of guanxi as mutual benefits, where guanxi is strictly positive.

Thus, in our identified view of guanxi as a necessity, the development of guanxi is not optional. This view is rarely separated from the other views of guanxi. In fact, it defines the other views by its presence or conspicuous absence. For example, many respondents who see guanxi as corruption still talk about it as a necessity. This complicates the situation; on the one hand, corruption is not an option for their business because it would destroy their reputation if it ever became public. On the other hand, they state clearly that if they do not tolerate guanxi (in this case meaning corruption) to some extent, they will significantly limit their business potential. The necessity aspect will define the strategy they choose, as will be explained in the ‘guanxi as corruption’ segment. The same goes for ‘guanxi as favors and return favors’, and ‘guanxi as mutual benefits’.

5.2 Guanxi as corruption: Non guanxi strategy

As mentioned in our results, managers who gravitate towards this perception of guanxi tend to connect the phenomenon to illegal activities. Their view is very similar to Fan (2002), who stated that guanxi between businessmen and government officials is inherently corrupt and ethically questionable. Managers express a fear of hurting their brand and getting prosecuted by Chinese authorities. For this reason, they try not to associate their brand with guanxi. Instead, they strive to separate business from personal relationships. In refusing the guanxi relationship, they accept that many processes will be more complicated and take longer time. We have dubbed this a “non-guanxi strategy”.

This strategy minimizes risk, and respondents argue that it is increasingly possible to maintain impersonal relationships in the tier one cities. Respondents have acknowledged that they sometimes lose the advantage of speed when they refuse to use guanxi, but they mention that in tier-one cities, information is increasingly available through official channels. For example, the local government will often supply an official contact person without any kind of personal relationship. Since personal relationships are seen as a risk, and the company can get by with impersonal connections, non-guanxi strategy will enable them to avoid perceived risk without losing any perceived benefits.

Another big challenge arising from not cultivating any guanxi relationships seems to be conflicts with suppliers or customers, especially if they are Chinese. The majority of our respondents have stated that Chinese counterparts are treated favorably by the judicial system. In tier-one cities this issue can be compensated to some extent by hiring good lawyers and having reliable employees that can interpret the system, but in lower tier cities this obstacle is harder to overcome. As foreigners, the opponent will likely have the upper hand.

Respondents also mention challenges in making employees understand that the company does not want to be a part of the guanxi system, and furthermore that bribes are unacceptable. Respondents state the importance of having clear ethical principles and communicating and training employees to follow the official policies. Managers stress the dangers of naiveté in China. In the non-guanxi strategy, internal audits are an important part of making sure that no immoral activities occur. Ethical principles also need to be communicated to other stakeholders, such as government authorities, suppliers and customers. Respondents who follow the non-guanxi strategy stress the challenge of making stakeholders accept this way of doing business, but that the rewards can be great, since the quality and moral principles are seen as increasingly important in China.

In summary, the non-guanxi strategy comes from a perception of high risk related to guanxi, leading to a distancing from personal relationships. Maintaining moral standards is seen as imperative, and although this strategy may entail some missed opportunities, the integrity remains intact and this aspect may lead to advantages in the long term.

5.3 Guanxi as corruption: Scapegoat strategy

It is natural to ask if the conduct described above is consistent with reality. Most managers hinted that corruption is almost impossible to avoid. When it comes to their own company however, most managers claim model behavior.

If guanxi as corruption is intolerable, yet necessary, then how should it be managed? Many respondents became tense when asked questions on how to deal with this particular situation and we were rarely offered an example from their own organization. However, from stories told about other firms, we were able to deduce how some companies deal with the problem. Some seem to manage to avoid associating their brand with guanxi and corruption, yet still enjoy many of the benefits of such practices. The basic strategy involves a third party to handle this part of the transaction, and to assume the risk of discovery. For that reason, we have named this the “scapegoat strategy”.

Not all companies use their partner for corruption. In fact, partnering with a local entity is quite common, and not always for nefarious purposes. It corresponds to what Kim & Wang (1992) calls the collaboration rationale, bridging cultural gaps through an equity joint venture. This entry mode is commonly used by our respondents companies and it facilitates dealing with governmental and legal issues (Wilson & Brennan, 2010). However, according to some of our respondents there are often less noble motives. The partnership may be used to deal with corruption as a necessity, by letting the partner “smooth transactions” through their guanxi network, thus enabling foreign enterprises to get benefits. We speculate that this is at least a part of the reason why many companies in China choose to establish through an equity joint venture. Respondents also described the use of agents known for their guanxi networks, and insinuated that parts of the agent’s commission sometimes worked as bribes. Thus, the deal gets done and the foreign entity can claim ignorance of any inappropriate processes. The level of insight that foreign enterprises have into these procedures can always be discussed, but from our respondents’ discourse we deduce that some level of irregularity is typically known and tolerated.

We do not assume that this strategy is used by all of our respondents involved in equity joint ventures. However, we argue that the strategy is used by companies who perceive guanxi as corruption, yet a necessity for the business.

5.4 Favors and return favors: Guanxi evaluation strategy

The second perception, as explained in results, sees guanxi as favors that need to be repaid to restore balance in the relationship. This corresponds to Fan's (2002) view that guanxi is a favor exchange with the ultimate goal to get "special" treatment from those with influence over scarce resources (Tsang, 1998). In this view, guanxi can also help companies to circumvent the cumbersome bureaucracy (Langenberg, 2007). Another component of this perception is that respondents compare guanxi to a loan, based on material gains and not so much on personal relationships with your counterparty (Luo, 2007; Chen & Chen, 2004).

Many managers mention the importance of building guanxi, for the purpose of using it as a backup in a crisis situation. This strategy entails doing favors for business partners today in order to accumulate "capital" in the guanxi "account" that can be withdrawn when needed. Besides the advantages of having a partner in "debt", there may also be other reasons for granting a request; there are possible negative consequences of declining a favor. In a new relationship, when a business partner asks for a favor, respondents feel obliged to comply because declining a favor may result in a serious lack of trust. This corresponds to Chen & Chens (2004) findings, which say that asking for a favor may be a test of the relationship. Not meeting expectations can result in the deterioration of the partnership.

Respondents who see guanxi as favors and return favors, but who not see it as a necessity, tends to focus on the risks of owing somebody. Their discourse reveals that this category of managers is not comfortable with getting involved in a system where the consequences are not clear from the outset.

Inherent in this view is that using guanxi entails a certain amount of risk, although less than the perception of guanxi as corruption. It is seen as safer, at least initially, for companies to distance themselves from guanxi. A number of reasons have been suggested by our respondents that support the idea that using guanxi entails a risk. First, it can be hard for foreigners to estimate the expectation of the Chinese counterpart concerning the return favor, leading to unbalanced relationships. Second, as pointed out by Davies et al. (1995), Westerners easily exaggerate gift-giving and wining-and-dining, which may be perceived as either bribery or a sign of mistrust (there is a risk of becoming a so called meat and wine friend). Third, understanding the concept of giving face, which also is an important aspect of guanxi, is hard for foreigners because of the abstract nature of the concept (Tsang, 1998). Therefore it will be hard to establish trust with a Chinese counterpart,

which is necessary to move from an outsider to an insider in the guanxi network (Luo, 2007). Fourth, managers stress that developing and maintaining guanxi is an investment that will require a lot of time, energy and resources, which can be a major disadvantage in the long term (Fan, 2002). In summary, as pointed out by our respondents, if you do not know what you are doing, your company could easily get stuck in the guanxi system, spending time and resources in vain and risk being deceived. Therefore, strategies evolving from this perception typically strive for a certain distance from guanxi. It is used on occasion, but only when deemed necessary and always after careful evaluation. For this reason, we have chosen to call this strategy “Guanxi Evaluation”. Managers look at guanxi as a long-term investment (Chen & Chen, 2004) and before engaging in it, they assess if potential gains are higher than the risks.

5.5 Guanxi as mutual benefits: Chameleon strategy

The main difference between the views of guanxi as corruption and guanxi as mutual benefits is the connotation of personal relationships. Where the “corruption” view leads to business leaders shying away from anything that is not clinical and impersonal, managers who see it as mutual benefits embrace the personal aspect of doing business in China. The majority of respondents agree that the personalization is natural, and a necessary adaptation to the business climate. However, their discourse reveals the difference in attitude. Managers who are of the mutual benefits view typically use positive words to describe guanxi: trust, loyalty, friendship and long term relationships. They do not associate the word with any type of risk; rather they encourage the use of it.

Managers of this view are typically positive towards Chinese business practices and strive to adapt to the greatest extent possible, thus blending into the cultural landscape. The strategy that evolves from this perception has therefore been dubbed the “Chameleon” strategy. These managers see no negative consequences of developing personal relationships. Still, they do not engage in guanxi building with just anyone. Selecting partners can be a quite complicated affair that takes a lot of time, but it is a good investment according to our respondents. In order to keep it positive, however, interviewees have stressed the importance of keeping objectivity and clearly state to your Chinese counterpart that you represent your company and cannot do anything to jeopardize the brand.

The perception resembles and shares characteristics to what Buckley et al. (2006) have termed shared mindset between the company, its suppliers and the government. It is essential to fulfill the shared mindset requirement in order to secure trust between the involved parties, enabling cooperation that will lead to a win-win situation. Respondents have given many examples on how to deal with the government and in essence, mutual benefits evolves from communication with

government at different levels. The respondents of this view stress that the government is interested in the welfare of its people and if companies are able to align the government goals, offering them legitimate support through active communication and participating in social and charitable programs supported by the government, they will give face to the government and trust will naturally arise (Park & Harrison, 1993). Demonstrating that the company is prepared to assist in the development of the community can lead to the government seeing them as a partner in their development and they will provide stability and security in an unpredictable environment. This involves protecting transactions, being a source of information, and speeding up the bureaucracy, leading to a competitive advantage through reducing uncertainty, by having superior knowledge and being able to act quicker, compared to your competitors (Buckley et al. 2006; Davies et al. 1995; Park & Harrison, 1993). Furthermore, in accordance with Roehrig (1994) managers argue that relationships with mutual benefits give the local government an incentive to treat the foreign company favorably when implementing laws, rules and regulation.

Furthermore it will strengthen cooperation in an EJV by developing an understanding for the common development of both firms through building respect through giving face and developing relationships at a personal level (Buckley et al. 2006). Respect and understanding is an important aspect of this view and managers have expressed the importance of reading and trying to understand the Chinese culture. In embracing the Chinese culture, developing long-term relationships based on ethics and respect, *guanxi* will develop naturally along with its benefits. *Guanxi* and corruption does not go hand in hand according to managers sharing this view since according to them when enjoying real *guanxi* it is too precious to sell.

5.6 Perceptions turn into adaptation strategies

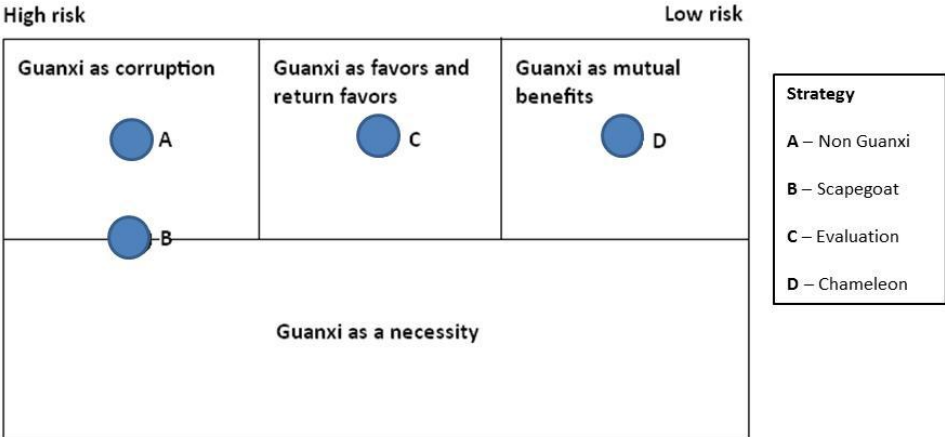


Figure 5:1 Perception and corresponding adaptation strategies

The four different perceptions we have identified are illustrated in figure 5:1. It displays the level of perceived risk of guanxi, related to the four perceptions and the four strategies that follow.

Guanxi as corruption is connected with the highest level of risk, while guanxi as mutual benefits is seen as hardly carrying any risk at all, reflecting the gradual differences in perceived risk levels of the different perceptions. We urge the reader to note that managers rarely identify with just one view of guanxi. More common is a combination of them all. In fact, different situations may lead to different views and consequently different strategies. In general, however, we argue that most managers gravitate towards one of these views. For the sake of simplicity, we have illustrated each extreme case. We found that guanxi as a necessity is not a standalone view. Rather, it runs parallel to the other views, and its presence (or absence) helps define them.

The four dots (A, B, C and D) represent four different strategies that were identified from our results. We argue that these strategies are linked to the respondents' perception of guanxi, as we have explained above.

5.7 Socio-cultural embedded social capital

Let us address our initial theoretical question: How does the perception of socio-cultural embedded social capital affect a company's adaptation strategy in a foreign market? In order to be able to generalize in this section, we equal guanxi to socio-cultural embedded social capital. As social capital, guanxi involves opportunities individuals can receive from networks (Burt, 1992). It requires the establishment of trust between individuals (Fukuyama, 1995), includes reciprocal obligations and

values and norms (Coleman, 1998), for example the giving of face. It is a Chinese version of social capital that has developed from its specific socio-cultural setting, and differs in the sense that it is more ubiquitous than social capital in many Western countries. This explains why most respondents consider guanxi as vital to business success, and the expressed significance is in line with Khanna & Pelepu (1997), who argued that it becomes increasingly crucial where market-supporting institutions are missing. We have argued that this is the reason guanxi evolved in the first place combined with the cultural embeddedness argument, that states that certain exchange patterns have been taken for granted as necessary and appropriate (Langenberg, 2007).

Managers need to relate socio-cultural distance between home and host country when analysing the dynamics of the target country's exchange system to be able to see differences and design proper adaptation strategies. According to Coleman (1988) social capital defines the relations among social actors but we argue that it is also defined by the actors and that their perceptions thus affect economic action. The perception is turn affected by how actors have positioned themselves in the system, for example previous positive or negative experiences. For example if one respondent work in an industry where bribes are common in relationships with for examples customers, they will naturally associate guanxi with corruption because they believe that it is a part of building and maintaining relationships with external stakeholders in China. Therefore these respondents will construct the social capital system as inherently corrupt.

From our respondents, we observed two aspects of perceptions that affected behaviour and adaptation in the foreign market: the perceived risk and the perceived benefits, or necessity, of using social capital. In any foreign market, the balance of these aspects will affect adaptation strategies. High perceived risk and low perceived necessity and potential benefits will result in low-adaptation strategies concerning socio-cultural embedded social capital. In other words: seeing guanxi as corruption with no necessity will result in distancing oneself from the concept in general, as in the non-guanxi strategy above. The reverse situation will result in a high adaptation strategy: the chameleon strategy.

Based on our empirical results, we can speculate regarding what aspects affect the perceived risk, necessity and/or benefits of social capital. The first is the level of personal experience. We have seen empirical evidence that respondents who have longer experience from China tend to be more positive towards the use of guanxi, whereas newcomers frequently speak about risks. We can speculate that with experience comes understanding and confidence in the ability to navigate complicated social interactions, thus lowering the risk of adaptation and increasing potential benefits.

The second is the level of exposure to social capital. Certain industries and geographical locations in the host country may have more focus on social capital. Respondents have pointed to a lack of education leading to an arbitrary justice system in certain areas, or strong local traditions strengthening the power of social capital. Individuals active in such environments tend to see increased perceived necessity of using social capital. Perceived benefits may be identified in industries with a high level of government interaction.

We argue that the perception of social capital affects adaptation strategies. One of our respondents saw social capital as a useful sales tool, so he based recruiting partly on individual’s existing networks, and structured the sales process to accommodate the social capital aspect and use it to its full potential. Another respondent would not use social capital for short term gains, but only in a crisis situation. For him, employees’ personal networks were not important because he would not accept using them.

The perceptions and adaptation strategies that we have discussed are summarized in figure 5:2.

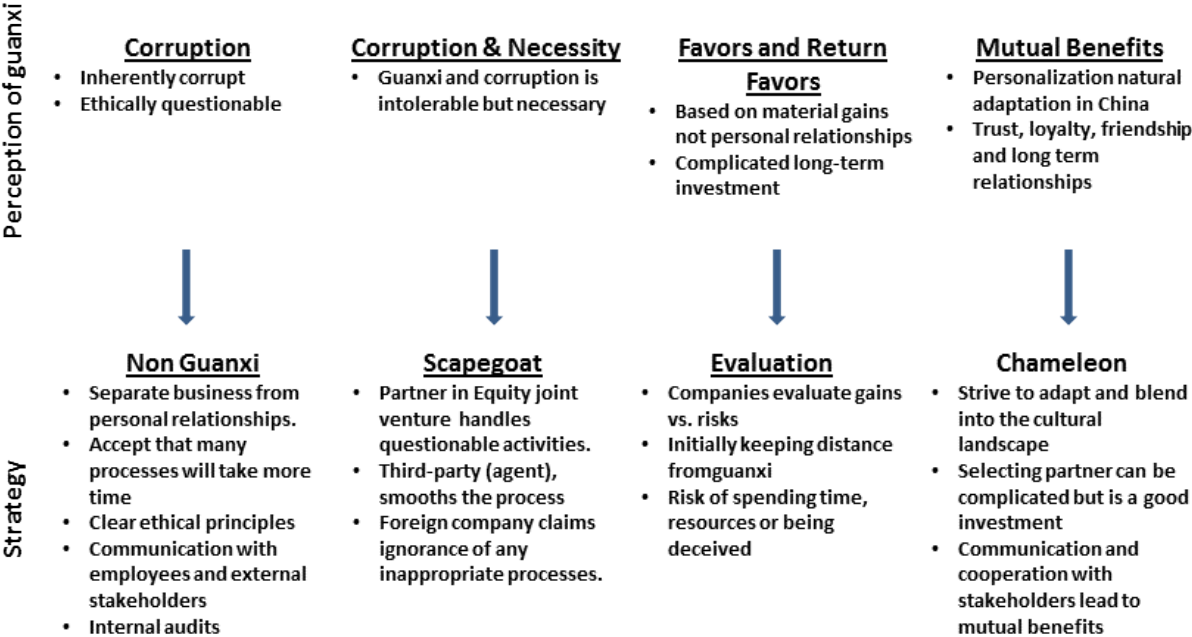


Figure 5:2 Summary of findings: Perceptions and strategies

6 Conclusions

The purpose of our research was twofold. One, exploring how Swedish companies in China perceive guanxi and how these perceptions affect their China's strategy. Two, how perceptions of socio-cultural embedded social capital affect a company's adaptation strategy in a foreign market. The first part has been our main focus. The second part is an attempt to generalize our findings and bring them to a higher, theoretical level.

6.1 Guanxi affecting strategy in China

In order to add further understanding to the guanxi phenomenon and its effect on strategy adaptations in the Chinese business environment, we started by reviewing existing literature. We were able to identify a knowledge gap in the understanding on how managers' perception of guanxi shapes their adaptation strategies.

From our interviews we were able to identify four different perceptions of guanxi. We argue that a manager's perception of guanxi generates a response in the form of a strategy. Below, we have summarized our four identified perceptions, and four strategies that arise as a result.

1. **Guanxi as a necessity.** In this view, guanxi is cultivated as a forced response to the Chinese business climate. This perception is not directly linked to a strategy, as it is seldom used to the exclusion of the other views. Rather, it is combined with the other perceptions and its presence or absence defines the other views.
2. **Guanxi as corruption.** In this view, guanxi equals bribes and other unsavory activities that can lead to punishment or bad publicity for the company. Depending on whether the manager sees guanxi as necessary or not, the strategy that will be employed could be one of two. The *non-guanxi strategy* is an attempt to distance the business from personal relationships, as the manager sees only risks connected to guanxi.

In the case of managers seeing guanxi as corruption, but a necessity, they may use the *scapegoat strategy*, meaning that third party is allowed to handle bribes and other unsavory activities.

3. **Guanxi as favors and return favors.** A view that sees guanxi as favors that need to be repaid in order to restore the balance. The favors mentioned are not of the illegal kind. However, guanxi is still seen as a last resort, because owing someone a favor means a risk, because you never know what you may need to do to repay it. This is connected to the *evaluation strategy*, meaning initially distancing oneself from guanxi until a thorough evaluation of each situation has been completed.

4. **Guanxi as mutual benefits.** A positive view of guanxi, meaning that both parties trust each other, do what is best for the other, and both benefit in the long term. This is connected with the *chameleon strategy* which sees guanxi as positive and without risk. Using this strategy, managers strive to develop guanxi in most situations.

The reader should note that these four views and strategies represent extremes, and should be seen as existing on a sliding scale of risk, where guanxi as corruption is high risk and low benefits, while guanxi as mutual benefits is low risk and high benefits. We have illustrated this in figure 6:1.

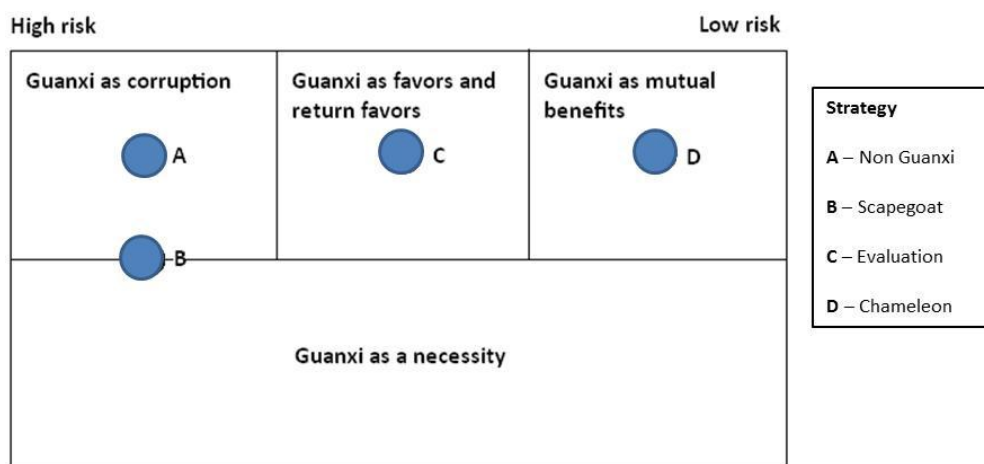


Figure 6:1 *Perceptions and corresponding adaptation strategies*

6.2 Social capital affecting strategy in culturally and institutionally distant countries

We argue that our conclusions can be generalized to a certain extent. We chose to explain guanxi through the lens of social capital, which enabled us to explain economic transactions in culturally and institutionally distant countries. We argue that our findings also apply to the perception of socio-culturally embedded social capital and how this affects strategy in the host country. We suggest that when establishing in such a country, managers can use our findings as a base to evaluate their own perceptions of social capital and ensuing strategies that may arise, keeping in mind that adaptation strategies for establishing and conducting business abroad are submitted to both a cultural and institutional (structural) dimension.

6.3 Implications for further research

Our findings suggest that perceptions of guanxi indeed affect strategy. However, we have focused solely on Swedish companies operating in China. Because of differences in mind-set between nationalities, we can only speculate as to how our results translate to companies from other western cultures who establish in China.

Our findings raise some interesting questions for further research. Does our model apply to companies of other nationalities that establish in China? How do perceptions and adaptations differ between industries, phases of establishment and geographical regions? Can the model be applied to establishments in other culturally and institutionally distant countries?

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8 Appendix 1 – Article

Guanxi – Perception and Adaptation by Swedish Companies in China

By: Christoffer Carleson & Erik Hellstam

Today, China is a country in transition from a planned economy towards a market-driven one. The unprecedented changes that occur in its social, legal, and economic institutions raise serious strategic challenges for foreign enterprises (Li et al. 2006). A major difference lies in the practice of guanxi (basically interpersonal relationships), which is a pervasive part of Chinese society, and companies operating in China, both local firms and foreign investors, will ultimately face guanxi dynamics (Luo, 2007). Furthermore, it is widely recognized that guanxi is a key to business success (Buckley et al. 2006).

Background

The Chinese word "guanxi" broadly means interpersonal relationships with the implication of continued exchange of favors (Luo, 2007; Chen & Chen, 2004), enabling bilateral, personal and social transactions (Fan, 2002), between two individuals that are bound by an implicit psychological contract of social norms (Chen & Chen, 2004).

The first reason why this system has evolved is the traditional nature of the culture. Certain exchange patterns have been taken for granted as necessary and appropriate, leading to the emergence of guanxi as a major exchange mechanism. The other reason is the absence of strong institutional infrastructure, where access to a person becomes an important substitute for the access of law (Langenberg, 2007; Lu & Reve, 2011; Tsang, 1998; Wilson & Brennan, 2009). In contrast, the Western institutional context, contractual method becomes superior to the dependence on interpersonal relationships (Howard et al. 1995). The implication is that in China, transactions often follow a successful guanxi, whereas in the West a relationship follows a

successful transaction (Park & Luo, 2011). This is in part due to trust issues embedded in the Chinese culture, where suspicion and distrust characterizes all meetings with strangers. Western businessmen therefore need to look beyond the transaction at hand and realize that it is difficult, if not impossible to be impersonal in China (Chen & Chen, 2004). They need to cultivate personal relationship to nurture trust through mutual understanding and long-term commitment in order to secure future transactions. This highlights the importance of guanxi building at personal, inter-organizational, and government level. (Buckley et al. 2006)

Purpose

The purpose of our research has been to explore managers' perceptions of guanxi and see how this shapes their China strategy. We argue that there is a causal relationship between managers' perception of guanxi and how they shape strategies for entering and conducting business in the Chinese business environment.

Findings: Four different perspectives on guanxi

From our interviews with 18 managers, representing Swedish companies from manufacturing and service industries we have identified four different perceptions, which we argue affect the extent to which managers adapt to the Chinese business environment.

Guanxi as a necessity

In China, trust often takes the place of contractual agreements (Thorelli, 1990). Our respondents agree, explaining that contracts are in fact often written, but are hardly enforceable. Instead enforcement is built on mutual understanding and trust between the parties, which according to this view guanxi as mandatory for business success in China.

When doing business in China, trust is essential and therefore managers need to spend a lot of time cultivating personal relationships. Dinners, discussions, family get-togethers are all standard practices before you can start discussing business. Also, the arbitrary power of the government makes highlights the importance of aligning and altering strategies with the local governments' agenda. By understanding the government's interest and explaining the corporate plans, a mutually beneficial partnership can be reached. Thus, our findings agree with the literature, that guanxi with the government can reduce transaction costs and reduce uncertainty.

This view had a negative connotation in the sense that guanxi is seen as something that is needed in order to do business, or in other words it is not optional. This view is rarely separated from the other views of guanxi. In fact, it defines the other views by its presence or conspicuous absence, and consequently the strategy adaptation.

Guanxi as Corruption – Non Guanxi Strategy

Managers gravitating towards this perception of guanxi tend to connect the phenomenon with illegal activities. Thus, they strive to separate business from personal relationships in order to ensure that their brand will not be associated with guanxi, and therefore accept that many distinct processes in China will be more complicated and take longer time. We have dubbed this a "non-guanxi strategy".

Arguments supporting this strategy include that at least in the bigger cities, information is becoming increasingly available through official channels, without the reliance on personal relationships. The arbitrary judicial system can be dealt with by hiring good lawyers and having reliable employees that can interpret the system. Still in smaller cities, court officials will in most cases favor those with whom they have a relationship and a Chinese opponent will likely have the upper hand.

Another is to make Chinese employees understand that the company wants to distance itself from the guanxi system and also that bribes are unacceptable. It is important to have clear ethical principles, communicate and train employees, and have regular internal audits to identify potential irregularities.

Guanxi as Corruption and Necessity - Scapegoat Strategy

If guanxi as corruption is intolerable, yet necessary, then how should it be managed? The basic strategy involves a third party to handle this part of the transaction, and to assume the risk of discovery. For this reason, we have named this the "Scapegoat Strategy".

Partnering with a local entity through an equity joint venture is a common strategy to bridge cultural gaps and in most cases it does not involve illegal activities. However, there are sometimes less noble motives. The partnership may be used to deal with corruption as a necessity, by letting the partner "smooth transactions" through their guanxi network, thus enabling foreign enterprises to get benefits. Another strategy is to use agents known for their guanxi network that makes sure that the deal gets done and the foreign entity can claim ignorance of any inappropriate processes. The level of insights foreign enterprises have into these procedures can always be discussed, but from our discourse we have deduced that often some level of irregularity is typically known and tolerated.

Favors and Return Favors – Guanxi Evaluation Strategy

First this perception sees guanxi as favors that need to be repaid to restore balance in the relationship. Guanxi is compared to a loan, based on material gains and not so much on personal relationships with your counterparty.

It entails doing favors for business partners today in order to accumulate "capital" in the guanxi "account" that can be withdrawn when needed.

Inherent in this view is that using guanxi entails a certain amount of risk, although less than the perception of guanxi as corruption. It is seen as safer, at least initially, for companies to distance themselves from guanxi. A number of reasons support the idea that using guanxi entails a risk. First, it can be hard for foreigners to estimate the expectation of the Chinese counterpart concerning the return favor, leading to unbalanced relationships. Second, as pointed Westerners easily exaggerate gift-giving and wining-and-dining, this may be perceived as either bribery or a sign of mistrust. Third, understanding the concept of giving face, which also is an important aspect of guanxi, is hard for foreigners because of the abstract nature of the concept (Tsang, 1998). Therefore it will be hard to establish trust with a Chinese counterpart, which is necessary to move from an outsider to an insider in the guanxi network (Luo, 2007). Fourth, developing and maintaining guanxi is an investment that will require a lot of time, energy and resources, which can be a major disadvantage in the long term (Fan, 2002). In summary, if you do not know what you are doing, your company could easily get stuck in the guanxi system, spending time and resources in vain and risk being deceived.

Evaluation strategy involves keeping a certain distance from guanxi. It is used on occasion, but only when deemed necessary and always after careful evaluation. Guanxi is a long-term investment (Chen & Chen, 2004) and before engaging in it, they assess if potential gains are higher than the risks.

Guanxi as Mutual Benefits – Chameleon Strategy

Where the "corruption" view of guanxi leads to business leaders shying away from anything that is not clinical and impersonal, managers who see it as mutual benefits embrace the personal aspects of doing business in China. Managers of this view are typically positive towards Chinese business practices and strive to adapt to the greatest extent as possible, thus blending in to the cultural landscape.

Managers' having this view still point out that the process of selecting a partner can be quite complicated affair that takes a lot of time, but it is a good investment. Embracing this strategy involves keeping objectivity and clearly state to your Chinese counterpart that you representing your company and cannot do anything to jeopardize your brand.

The goal is to create a shared mindset between the foreign company, suppliers and government through communication and cooperation that will lead to trust and ultimately create a win-win situation. For example if companies offer legitimate support through active communication and participating in social and charitable programs supported by the government, they will give them face and trust will naturally arise (Park & Harrison, 1993). Demonstrating that the company is prepared to assist in the development in the community can lead to the government seeing them as a partner in their development and in exchange they will provide stability and security. This involves protecting transactions, being a source of information, speeding up the bureaucracy, which in turn could lead to a competitive advantage that is not easily copied by competitors.

Limitations

We have limited our focus to how perceptions of guanxi affect strategy adaptations but there are other factors. This could be factors such as industry, size, the maturity of the business venture, time spent in China, amount of interaction with Chinese government, and the nature of the customers. We have deliberately chosen not to discuss these further since it fall outside our focus and we urge the reader to keep in mind that our findings are not universally applicable truths but an attempt to further understand why foreign companies act the way they do in China in respect to a complex social phenomenon.

9 Appendix 2 – Interview Questions

Presentation

Name, age, company, the company's activities in China, nationality, position and duration of stay in China

1. General Business Environment

1. How would you briefly describe the general business environment in China?

- a. What is your view on the Chinese legal system?
- b. How would you describe its enforcement?
- c. How does the legal system affect your business?
- d. What is the role of trust in China compared to elsewhere?

2. Defining Guanxi

2. How would you describe guanxi?

- a. How are your networking strategies in China different from the west?
- b. In China, how does networking differ when targeting foreign firms, compared to networking targeting Chinese firms?
- c. How does guanxi differ between provinces in China?

3. In what ways might Guanxi be changing? Why?

- a. How is the adoption of Western business practices affecting guanxi? Can you describe a trend?
- b. Is Guanxi becoming more or less important? Why?

3. Guanxi Strategy

1. How important is guanxi for your business in China?

- a. How does guanxi affect the company's strategy?
- b. How do you know the results of your work with guanxi?

2. How does your company work with guanxi today?

- a. Does your company have an official networking (guanxi) strategy?
- b. If that is the case, how would you describe this strategy? Is the strategy effective? Describe?
- c. If you have no official networking strategy, how do you develop important relationships in China?

d. What has happened with past strategies? If they have changed, how and why?

3. In your opinion, what are the major guanxi challenges for your company?

4. Experiences

1. Please describe your most valuable guanxi experience

- a. Positive?
- b. Negative?
- c. Do you have any experience that transactions have followed a successful guanxi?
- d. How would you describe another example of successful use of guanxi?
- e. Examples of lost business because of lacking guanxi? Concrete examples.
- f. Do you see any situations where guanxi is only negative?

2. Key learnings

- a. What do you wish you knew about guanxi when you got to China?