INTERPERSONAL RELATIONS IN CHINA: EXPATRIATES' PERSPECTIVE ON THE DEVELOPMENT AND USE OF *GUANXI*

Abstract

The literature on social networks identifies relationship building through *guanxi* as an effective way for Western organizations to reduce their liability of foreignness in China. Even though it is individuals rather than organizations who build these relationships, the focus in previous literature has been on organizational outcomes, and only a handful of studies have attempted to explain how expatriates perceive *guanxi*-relations are built and maintained. To help address this issue, we conducted in-depth, semi-structured interviews with 36 Western expatriates working in China. Our findings suggest that *guanxi* is perceived to be an informal process that is used to build trust between individuals, which in turn can reduce the uncertainty around contract enforcement in China. We also find that the process for building *guanxi* between parties is initiated by the individual whose organization has less market-power. Finally, the findings suggest that firms should be cautious if they elect to use agents as intermediaries to help connect to, and build relations with buyers and sellers.

1. Introduction

The opening of new markets in Asia, South America and Eastern Europe, and reduction in investment barriers has encouraged foreign direct investment (FDI) from developed into emerging economies. For many multinational enterprises (MNEs), the use of expatriate managers is an effective way to integrate the foreign subsidiary into the organization's operational network. These managers take on a boundary spanning role that involves facilitating intra-organizational knowledge transfer and the socialization process of the organizations' international operations (Johnson & Duxbury, 2010).

However, expatriates face challenges associated with working in foreign countries where the social, economic, cultural, and institutional environments are distinct from their home country (Ren, Shaffer, Harrison, Fu, & Fodchuk, 2014). These challenges are a result of the *liability of foreignness* that individuals face being seen as 'outsiders' and having a limited knowledge of the norms and process that locals or 'insiders' possess (Matsuo, 2000). Studies on cross-cultural adjustment suggest that expatriates can lower the effects of this liability by attempting to understand how interpersonal relations are built and used in the host country (Mahajan & Toh, 2014). Extant studies in this area tend to take the social network approach to analyze relationship building in task-oriented societies where work and personal lives are kept separate. However, in other societies such as China, where the lines separating work and personal lives are often blurred, it is necessary to study the relationship building process using an appropriate context-specific lens such as *guanxi*.

China was the third largest recipient of FDI in 2015 (UNCTAD, 2016), and hosts a large expatriate community. It is estimated that about 600,000 foreigners lived in China for at least half a year in 2011 (Cao & Zhao, 2012). However, China is also perceived as a challenging destination for Western expatriates due to its distinct social, economic, cultural, and institutional environments (Brookfield Global Relocation Services, 2016; HSBC, 2013). In contrast to the cultural orientation prevalent in the West, China is a highly collectivist and relationship-oriented society with a unique institutional environment that

has been influenced by both its history and political ideology. In such an environment, the use of interpersonal relations and networks remain highly relevant.

Guanxi is the term used to describe these relationships, and there are two main reasons for its continued use in modern-day China. First, Confucian philosophy emphasizes strong social relations, which are an effective way of obtaining resources and reducing transactional costs (Chan & Suen, 2005; Fan, 2002). Second, China is transitioning from a command to a market-oriented economy. The institutions charged with regulating business activities are still in their infancy stage, and this has led to concerns about the enforceability of commercial contracts, referred to as 'institutional voids', and is a common phenomenon observed in emerging market economies (Miller, Lee, Chang, & Le Breton-Miller, 2009). *Guanxi* serves as an informal institutional mechanism that can fill the institutional voids in the Chinese market by providing business information and market opportunities through personal connections (Björkman & Kock, 1995; Puffer, McCarthy, & Boisot, 2010; Yau, Lee, Chow, Sin, & Tse, 2000).

Previous studies on *guanxi* have focused on the outcomes such as knowledge transfer, business performance, relationship marketing, and the recruitment process when organizations engage in relationship building (Chung, Yang, & Huang, 2015; Luo, Huang, & Wang, 2012; Qian, Yang, Li, Johnston, & Johnston, 2016; Zhuang, Xi, & Tsang, 2010), and suggest that *guanxi* influences the manner in which local and foreign companies manage and operate in China. For example, *guanxi* networks are seen as a resource for organizations through which potential buyers and sellers are identified in China (Lyles, Flynn, & Frohlich, 2008). However, there are limited number of studies related to the antecedents and the process of *guanxi* building, developing and maintaining. Our review of the literature has revealed two areas in the extant research on *guanxi* that requires further investigation: (i) limited studies on *guanxi* at the individual level, and (ii) lack of information about how non-Chinese business managers develop and maintain *guanxi* relations. As *guanxi* is built at the individual level, this study aims to disclose the individual *guanxi* building process and investigate the factors influencing this process. Specifically, by understanding how Western expatriates perceive and experience the development and

use *guanxi* can help address some of the operational challenges faced by foreign managers in China.

This is the primary purpose of this study, and we attempt to answer the following research question:

> ***What are the perceptions and experiences of Western expatriates in developing, using, and maintaining guanxi networks to conduct business in China?***

This study contributes to the expatriate cross-cultural and *guanxi* literature in two ways. First, distinct from *guanxi* studies at the organizational level, we study the use of *guanxi* at the individual Western expatriate level. Second, the paper analyzes the process and approaches taken by Western expatriates to build and use *guanxi* in China rather than focusing on organizational level outcomes.

While there have been some previous studies looking at the issue of *guanxi* at the individual level, the emphasis has been on the outcomes for Chinese workers or organizations (see for examples, Han & Altman, 2009; Luo, 2011; Luo, Huang, & Wang, 2011). In this study, we are concerned with providing explanations for why individual expatriates, who are viewed as 'outsiders' in the Chinese society, engage in *guanxi* relationship building. We therefore contribute to the literature by attempting to detail the process involved in building *guanxi* relations, and how these are used by individuals to facilitate business in China.

The remainder of the paper is organized as follows: in the next section, we review the literature on expatriate relational ability and relationship building (g*uanxi*) in China, followed by the methodology used in this study. The findings from the interviews are then presented, and the paper concludes by discussing the implications of the study for managers and the direction of future research.

2. Expatriate Relational Ability

Expatriates can lack a deep understanding of local business customs and norms, and tend not to have a strong network of links in the host country's business community (Fang,

Samnani, Novicevic, & Bing, 2013). This results in expatriate managers experiencing stress, anxiety and uncertainty when working in an environment that is distinct from their home country (Tungli & Peiperl, 2009). Failure to deal with the uncertainties may have a negative influence on the expatriates' performance and effectiveness, and can be costly for MNEs who commit resources for the expatriates' relocation and training programs (Farh, Bartol, Shapiro, & Shin, 2010). To decrease the level of uncertainty that expatriates experience in the host country, extant study suggests improving expatriates' cross-cultural competence, and highlights the importance of relationship building in helping expatriates engage with the local environment (Shin, Morgeson, & Campion, 2007; Wang, Feng, Freeman, Fan, & Zhu, 2014). Black, Mendenhall and Oddou (1991) describe expatriate adjustment as a multi-faceted phenomenon that includes work adjustment, interaction adjustment, and general adjustment dimensions. The ability of individuals to build and maintain relations (known as relational ability) helps expatriates to deal with culture shock, and acts as a resource for obtaining relevant information about the social norms and business culture of the host country (Templer, 2010).

Carpenter, Li and Jiang (2012) found that the literature on relationship building tends to use social network theory or social capital perspective to examine intra-organization relationships such as the influence of social network structure or network content on knowledge transfer and sharing within the organization's network (see for example, Tortoriello, Reagans, & McEvily, 2012). In this study, we are concerned with relationship building at the individual level, and therefore our review of the literature is focused on expatriates' experiences rather than on organizational outcomes.

There is empirical evidence that suggests a positive relation between social support and individual's wellbeing, trust building at workplace and employee job commitment (Chen & Tjosvold, 2007; Hutchings, French, & Hatcher, 2008), which also helps reduce job uncertainties and alleviate psychological pressures (Hippler, Caligiuri, & Johnson, 2014). The process of building interpersonal relations varies across cultural settings, for example, *guanxi* in China, *blat* in Russia (Panina & Bierman, 2013), *wasta* in the Arab world

(Khakhar & Rammal, 2013), *wa* in Japan, and *inhwa* in Korea (Lee, Brett, & Park, 2012). The high-context nature of the Chinese society means that building relations with relevant individuals can help gain support required to carry out the tasks one is responsible for (Xiao & Cooke, 2012). Research in the Chinese context has found that expatriate social network building influences job performance, job satisfaction, cross-cultural adjustment, and psychological well-beings (Bruning, Sonpar, & Wang, 2012; Chiu, Wu, Zhuang, & Hsu, 2009). Interpersonal relations are used as an informal system to fill the institutional voids as China is experiencing economic transitioning and the development between economic and institutional systems is not balanced (Puffer, et al., 2010). We therefore question the application and effectiveness of the traditional Western network building approach in a transitional market economy, and investigate the reasons for and the process of, building interpersonal relationship building in China using *guanxi* as the local network-building approach.

3. Relationship Building (*guanxi*) in China

Interpersonal relations play an important role in social and economic activities in China and the term *guanxi* is used to express these connections or relationships (Dong & Liu, 2010; Luo, et al., 2012). The earliest mention of *guanxi* can be traced back to over 2000 years ago in Confucian texts such as the *Lunyu* (Confucian Analects), which refers to *lun* (relations) (Wu, 2013), and can be loosely linked to the notion of *guanxi*. China has historically been an agrarian society, where people are bound to each other based on blood, kinship, and geography. Family or group obligations are emphasized in this collectivist environment, and a distinct boundary exists between insiders and outsiders within and between groups, communities and organizations (Fan, 2002; Tsang, 1998; Wilson & Brennan, 2001).

The way in which *guanxi* is perceived and understood today has evolved over time due to the social and economic transitions in China. During the pre-economic reform period (from the 1950s to the late 1970s), the shortage of certain goods forced the Chinese government to introduce a system where goods were rationed. Individuals and families were thus only

able to receive goods that were rationed to them. The limited availability of goods forced some people to circumvent the rations by bribing officials who in exchange provided food in excess of the amount allocated to them (Bardhan, 1997; Yang, 1989). This bribe was paid under the guise of personal relations or *guanxi* and thus the term came to represent the special relationship that provided the opportunities and information to obtain limited resources (Oi, 1989). The rationing of goods was gradually removed because of the reforms undertaken by the Chinese government as part of the open-door policy in 1978 (Alexander & Chan, 2004). Some studies on business in China continue to associate *guanxi* with nepotism and corruption (Luo, 2008; Nie & Lämsä, 2015), despite the fact that the term *guanxi* describes relationship building activity, and inherently has no moral or ethical connotations. Despite the large number of studies on *guanxi*, there is no precise definition for this phenomenon. As this study is concerned with the interpersonal relations, we explain *guanxi* as 'social connections' (Gu, Hung, & Tse, 2008), and explore how these are developed by Western expatriates in the country.

The continued use of *guanxi* in business activities in China can be in part linked to the weak formal institutional environment in the country. Khanna and Palepu (1997, p. 41) point out that doing business in emerging economies should take into consideration 'institutional voids', that is, a lack of legitimate institutional support for business. In the case of China, the imbalance between economic development and the lack of institution reforms has been increasing since the open-door policy was adopted. Business deals in China, therefore, tend to rely on mutual trust between the parties rather than a legal recourse for conflict resolution and contract implementation. To overcome these institutional voids, companies and individuals tend to use informal processes to build trust and interpersonal relations (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Xu & Hitt, 2012) and *guanxi* is seen to be the facilitator for these relations (Fan, 2002). Chen and Chen (2004) proposed a process of *guanxi* building in China that includes three stages: initiating, building, and using *guanxi*. To achieve different objectives in each stage, the whole process is accomplished through a series of communication activities and guided by various principles. Specifically, a *guanxi* base should be identified and built at the first stage by

becoming familiar with the related network members; the second stage should focus on affection, face, obligation, and reciprocity to increase *guanxi* quality and the final stage places emphasis on obtaining benefits through the established *guanxi*. Our focus is on understanding and learning from the perceptions and experiences of Western expatriates in *guanxi* building in China. Previous literature has focused on how Chinese managers and workers perceive and use *guanxi* relations (see for examples, Chen, Chen, & Xin, 2004; Lee & Dawes, 2005). However, little is known about the experiences of non-Chinese expatriates in developing these networks in China, even though, as highlighted earlier, the country is identified by expatriates as one of the most challenging destinations to work in. Hence, in order to understand how Western expatriates build, develop and maintain interpersonal relations, and how they perceive the elements of trust and reciprocity to influence these relations, we collected data from expatriate managers working in China.

4. Research Method

We conducted face-to-face in-depth, semi-structured interviews with 36 Western expatriates in China to gain insights from their perceptions and experiences of *guanxi* building and its use in business. The use of qualitative methodology was deemed appropriate for this study, as we are interested in answering the 'how' question relating to the way expatriates perceive the development and maintenance of interpersonal relations in China (Birkinshaw, Brannen, & Tung, 2011). The use of semi-structured interviews allowed for both open and close-ended questions to be asked and provided us with the opportunity to seek insights from individuals who had first-hand experience of building social networks in China (Birkinshaw, et al., 2011; Ghauri & Gronhaug, 2002). The interviewees were nationals of countries in Europe, the Americas and Oceania, and were identified through a combination of the researchers' personal networks within the business community in China and the use of the snowball sampling (Goodman, 2011).

On average, the interviews lasted for one hour and were conducted in English. As the expatriates selected for the study were all proficient in English, it removed the need for

conducting interviews in different languages, translation of interview protocol and interview transcripts, and back translation related issues often associated with ensuring that the meaning of the words used by the interviewees are not misunderstood during the translation process. The interviews were conducted in the Jing-Jin-Ji Economic Zone, which covers the cities of Beijing, Tianjin, and Hebei Province. This area has attracted large amounts of FDI in the last decade as the Chinese government has emphasized economic development of the Northern China region, especially the Tianjin Binhai New Area. The interviewees had on average spent 3.5 years working in China. Some of the expatriates interviewed for this study had also previously worked in other parts of China, and hence their responses provided a broader view of the relationship building experience across the country rather than from just one region or city. The profiles of interviewees are provided in Appendix 1.

All interviews were audio-recorded with the consent of the interviewees, and later transcribed. The transcripts were sent to the interviewees to seek their approval and agreement. The author team consists of five researchers, who during the time the study was conducted lived and worked in Australia. Two of the researchers were Chinese and had worked and lived in Australia for a while. To ensure consistency in all the interviews conducted, one of the Chinese researcher conducted all the interviews. The researcher was familiar with the location of the industrial parks and offices of the international subsidiaries, and was able to manage the language and social interaction required to gaining access to interviewees in China.

The interview questions were developed from literature on expatriate social networks, relationship building and *guanxi*. Some specific questions asked during the interviews included:

- What role does relationship-building play in your business dealings?

- What challenges (if any) have you faced in adjusting to working and living in China? (The interviewees were prompted to think about the various social, personal and

professional organizations and individuals that helped them with the adjustment in the country).

- What has been your experience with relationship building in China? (The interviewees were prompted to think about the relationships they built with various stakeholders, and to compare it with similar experiences in their home country and other previous expatriate assignments).

- How do you perceive the use of *guanxi* in China?

Other questions asked during the interviews concerned the context of Chinese business culture, the use of relationship building in China, and the factors that influenced relationship building.

Instead of choosing an arbitrary number of interviews, the data collection process for our study was completed when we found that we had reached the point of saturation, with new interviews not revealing any new information (Daniels & Cannice, 2004; Ghauri & Gronhaug, 2005; Sinkovics, Penz, & Ghauri, 2008). The analysis of the data was undertaken immediately after the interview was completed. This helped to identify any new issues that was worthy of further investigation and covered in subsequent interviews. We identified themes in our analysis of the interview data, which is the most common approach used in the social sciences (Roulston, 2010). The process of thematic analysis involves addressing the transcript data with the research questions repeatedly and then summarizing the similar contents. Open coding was employed through each interview transcript, followed by focused coding, which provided further understanding of interviewees' opinions rather than a simple summarization (Saldaña, 2013). The interview data was manually coded by each member of the research team. The codes were then compared to ensure consistency in coding (Krippendorff, 2004; Silverman, 2011).

The analysis of the data was undertaken by each member of the research team. The diversity of the research team allowed rich interpretation of the data, where both Chinese and Western perspectives were used to understand and explain certain phenomenon. After coding and category development, the key themes and concepts related to the research

questions were identified. For example, codes such as "doing favor", "returning favor", "losing face", and "saving face" were categorized under "emotional context of *guanxi*". We also employed narratives as evidence to further support the identified themes. Table 1 provides a list of the codes and themes that were developed from the interview data.

Table 1 goes about here

We followed a number of steps to ensure the quality of our study as well as enhancing the reliability and generalizability. Gummesson (1993) states that the quality of research can be enhanced by understanding the settings in which the research is being conducted and the process of access in the study (see also Stenbacka, 2001), and identifies three types of access: physical, continuing and mental. Physical access refers to the access the researcher can get by getting close to the object of the study, while continuing access refers to ongoing access to that physical closeness. The third form is mental access which refers to the researcher being able to understand what is happening and why. By conducting face-to-face interviews in China, we were able to gain access to the physical setting, which allowed us to explore what happened and why. This provided us with a deeper understanding of the development, use and maintenance of *guanxi* by Western expatriates. As Stenbacka (2001) suggests, the process of gaining such access enhances the quality aspect of qualitative studies.

Our systematic approach to the collection and analysis of data also fulfills the carefulness and reliability requirement (Glaser, 1992; Seidman, 2013). Finally, our interviewees were selected using purposive sampling based on the criteria described above rather than being randomly selected (Robinson, 2014). Thus, by making the strategic choice of seeking insights from selected experts who are relevant to the study we have enhanced the generalizability of the findings (Myers, 2013).

5. Findings

The analysis of the data identified three key themes that explain from the perspective of Western expatriates the importance of relationships in China, the way *guanxi* relations are built and maintained, and the emotional context of these relations.

5.1 Relationships in China

The interviewees described relationship building as an accepted norm of doing business in China. Western expatriates viewed the Chinese society as distinct from their own because private and business lives are interconnected and personal relations between individuals were highly valued. This contrasts with task-oriented societies where work is kept separate from private life. As one of the interviewees explained:

> *For Chinese clients, a lot of it* [business] *is based on relationships, if you don't know someone in the company personally, or there is no direct benefit for that person in working with your company, often they won't use your company* [E18].

The interviewees explained that personal relations (*guanxi*) in China often facilitate the carrying out of work-related tasks and overcame the issues associated with lack of enforcement of contractual agreements. Thus, *guanxi* is used as an informal process that attempts to overcome the lack of enforcement of formal agreements due to the inadequate contract law system in the country. Personal relations therefore help build trust and provide confidence that the parties involved will honor the agreement. The interviewees expressed the view that contracts in China are not usually detailed and the terms can often be changed unilaterally. This is one of the key reasons for expatriates to build *guanxi* first and then move to discussions about business. Thus, goodwill and trust is viewed as being more important than the contract signing process when doing business in China. As the interviewees explained, individuals can access better market information, business opportunities, and the connections with business partners through personal relations:

when you know someone and trust them, [then you hope they are] *willing to introduce you to other people that they also trusts. .....so if I know a person* [and] *I know he is very good at making bikes and I have a friend who wants to buy a bicycle, I will introduce* [them]*, because I can trust him* [E17].

These *guanxi* relationships are built with individuals, and depending on the purpose of the relationship, have to be managed accordingly. The expatriates explained that within the Chinese subsidiary, they built and maintained good relationships with colleagues who helped them to learn about the business culture and facilitated their work in the country. Outside of the organization, timely approval from government departments and payment or delivery commitments from buyers and suppliers were facilitated through the *guanxi* networks built with individuals in public institutions and private enterprises in China.

The onus on which party would maintain the relationship depended on the market power that they held. In our study, the interviewees revealed that they took the initiative in maintaining their relationships with government officials and with individuals from other organizations that had a stronger market power than their firm. This generally meant that the firm would host banquets for their key contacts, and make significant efforts to demonstrate their appreciation of the relationship they shared. These efforts were seen as providing long-term benefits for the company and ensuring the smooth operations of their business. However, buyers or suppliers that had lower market power were expected to make efforts to ensure that the relationship with the expatriate's firm was maintained:

…with customer and suppliers [outside the company's network], *the relationship is very different. Here* [in China] *the customer is somebody is powerful and, suppliers are more equal to each other. So, when I talk with a customer, I have to be extra polite* [about] *everything. In Europe, it is different,* [the relationship] *is more equal…*[E21].

Thus, *guanxi* assumes a hierarchical relationship where one party tends to have higher power. Understanding this power is important as it dictates how the relationship will be maintained and used by the expatriates.

5.2 Building Guanxi

The expatriates recalled that one of the first things they learnt after arriving in China was how *guanxi* networks had to be built. As 'outsiders' they learnt to use the firm's existing networks to build their own personal *guanxi*. This required creating interpersonal relationships with colleagues from within the local subsidiary to help overcome their outsider status and then working with colleagues to organize meetings with existing clients and other government officials to introduce themselves and reinforce the established relationships between the parties.

In addition to the existing firm-level *guanxi*, the expatriates invested time to develop and extend their personal network through individual-level contacts. The interview findings showed that expatriates would tend to join relevant business councils and attend their networking events (for example, the US-China Business Council) and meet other expatriates at the local expatriate club. These meetings provided opportunities for expatriates to meet other business managers from their industry and other expatriates from their home-country with whom they could share experiences. Over time, the expatriate could use these connections and local knowledge and insights to widen their own *guanxi* network and gain access to other relevant individuals. Hence, these connections acted as intermediaries that helped the expatriate connect to the right people.

In terms of the relationship-building process, the interviews revealed that the expatriates understood the importance of gift giving and hosting events in honor of their *guanxi* partners in China. The interviewees explained that the process of building relationships commences when the parties first meet and the expatriate manager presents gifts as a symbol of goodwill and trust. In some instances, the other side reciprocates this gift-giving

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act. This introduction usually lays the foundations for a solid relationship and over time the expatriates would seek opportunities to meet the relevant individuals and host a dinner for them. This process of building *guanxi* is time-consuming but in the long-term these relationships could help expedite matters like approvals or delivery and payment issues. The trust element between the parties ensures that these routine processes are completed without the bureaucratic delays that one associates with doing business in China. The interviewees also commented that the pace at which the task is completed when their *guanxi* network is used is even faster than what they had experienced in their home country. Some described the distinct Chinese business culture as '*building the relationship first and then talking about business*'. The interviewees elaborated on the time element of *guanxi* relations, and as one explained:

> [connections in China] *will let you work more comfortably when you deal with a lot of paper work or documents...In China,* [I find that] *having a good relationship with a local partner is very important, otherwise, it slows down your business dramatically* [E8].

However, the outsider status of the expatriate can make it difficult to build *guanxi*. Individuals who have a limited understanding of the importance of *guanxi*, or how the networks are developed in the country, find the process to be too time-consuming, especially when their assignment in China is for a relatively short time:

> *You have to keep the relationship* [going] *for a long time and then you have guanxi. Guanxi is not just a regular relationship and cannot be built very quickly* [E8].

In some instances, where the existing organizational networks, personal *guanxi*, and intermediaries are unable to help the expatriate connect with the right people, the expatriates used the services of a local agent. These agents provide two kinds of services: (i) they act as a source of knowledge and provide the relevant information when the firm

seeks to expand to new cities and regions in China; and (ii) the agents act as middlemen and make the connection between the expatriates' firm and relevant suppliers/buyers and government officials in the target city:

> *They* [agents] *are normally selected because they know the market and their personal network can help you to do business. They have the guanxi that you don't. But you have other resources, you come here as an investor or you bring technology* [E12].

However, these services required the payment of a substantial agent's fee and had the potential to raise concerns about the role of the agent. We cover these issues further in Section 5.3.

5.3 The Emotional Context of Relationships

The final theme that emerged from our analysis of the interview data relates to the emotional context of relationships, and reveals that *guanxi* not only explains relationships, it is also seen as an obligation to reciprocate favors for individuals and groups. The interviewees described the exchange of favors as an important feature of *guanxi*. Building relationships in China meant that an individual could use their networks to seek favors to facilitate certain business activities or to further build their network. However, the interview data revealed that seeking a favor also meant that the individual would be expected to reciprocate the favor in the future. Although this phenomenon is not unique to China, as one interviewee explained there is an inherent expectation of reciprocity:

> *Personal responsibility to do a favor or return a favor and to build relationships and maintain them is much stronger in China than in other societies* [E22].

The favor sought in return by the network member may be of a much higher value and could require a significant personal commitment from the expatriate. One interviewee [E4]

provided an example of a favor they asked from a government official. This favor was to seek expedition of a routine task, and the expatriate understood that they would be expected to reciprocate the favor in the future. However, when the official asked for the favor to be returned it required a significant investment of time and resources. This level of reciprocity is linked to the issue of *mianzi* or face. The interviewees explained that face was related to an individual's reputation and respect in society, and refusing a favor request from your *guanxi* network members would result in a loss of face for both individuals:

> *here* [in China] *asking favor and returning favor goes beyond your professional life…it is really deep. Guanxi could make or break you in a certain profession or your relationships in this area… I think it is seen as a personal responsibility for everyone to do a favor/return a favor or build relationship/maintain relationship. I also get the sense that without guanxi, you couldn't really improve your business* [E22].

Previous studies have sometimes labeled *guanxi* as a form of corruption, and an activity that promotes nepotism. The interviewees in our study described *guanxi* to be neutral in nature, where it was neither good nor bad, and the notion that *guanxi* promotes nepotism is often a discussion the expatriates have to undertake with colleagues in the head office who have not previously worked in China. The interviewees explained that managers in head office remain cautious about using *guanxi* as a means of conducting work in China, and the expatriates are made personally responsible for any ethical issues that may emerge. Our data shows that questionable decisions and actions linked to *guanxi* may occur when the expatriate has little control over the way the relations are being built. This can happen when agents are used to approach local businesses in other parts of China on behalf of the expatriates' firm. The agent may sometime oversell their ability to seek business contacts in other cities and regions of China and may use questionable practices, including making cash payments to win business deals without the knowledge of the expatriate. The interviewees shared their experiences of using agents in China, which were mostly positive, but there were also some negative experiences. The expatriates warned that one should be

cautious when using agents to build new business relations in China:

> *If there is a middle person like an agent involved, there is a risk that the business activity may include some unethical practices and what they want is much more than a favor* [E4].

The interviewees cautioned that any attempts to use *guanxi* in an unethical manner would be a threat for organizations and managers in the future as evidenced by the recent arrests of government officials and expatriate managers under international and Chinese anti-corruption laws. There was a general view expressed in the interviews that over time as the contract law system matures in China, *guanxi* as an informal business practice will have less relevance:

> [In terms of] *enforcement of contracts, eventually the situation will* [change]*, but it is not going to change tomorrow or next year. It is going to be a long process. It has actually changed a little bit ……..So eventually we will get there, but it will be a long time* [E21].

6. Discussion and Propositions

The findings of our study suggest that *guanxi* continues to be an important feature of doing business in China, and is considered by Western expatriates to be an informal system that helps them to effectively engage with the local business environment. The continued emphasis on *guanxi* can be explained from cultural and institutional contexts in China. Although the Chinese economy and institutional structures have continued to develop since the government adopted the open door policy, the regulatory system remains under-developed (Teagarden & Hinrichs, 2009). *Guanxi* is therefore used as an informal approach to overcome the lack of transparency in the bureaucratic process and institutional environment, in particular legal support for contract enforcement in China (Dunfee & Warren, 2001). Some previous studies have suggested that the perceived function and

importance of *guanxi* in the Chinese business environment depends on the company size and expatriate working experience/duration in China (Hutchings & Murray, 2002). Our findings suggest that the Chinese business system focuses on *guanxi* building first and then move to cooperation with the business partner with whom they have established *guanxi*.

The second finding relates to the process of *guanxi* building by Western expatriates in China. Considering the work-centered role of Western expatriates in China, newcomers to the country can experience task uncertainties due to the insufficient knowledge of the local environment, and their work role. The findings of the present study suggest that due to the limited networks held by them when they first enter China, expatriates have to invest substantial time and effort in building and maintaining *guanxi* compared to local managers. Being outsiders, expatriates do not have the existing *guanxi* network that local business managers have due to their family/clan networks, education networks and other social relationships.

Depending on the role they are expected to play and the level of interaction they have with the local population in China, expatriates develop and extend their network both internally (within the Chinese subsidiary) and externally (with buyers/suppliers and government officials). Colleagues from the Chinese subsidiary play an important role in helping expatriates become familiar with the local business culture and introducing their existing networks ties to expatriates. Externally, the expatriate has to build the relationships by demonstrating a long-term commitment to the other party. In order to initiate contact with the relevant people in various institutions/organizations, expatriates are expected to use existing organizational networks, and build their personal networks through social meetings at expatriate clubs, where other expatriates from their home country may provide access to other relevant persons. The findings also show that joining trade councils and attending their events regularly provided the opportunity to meet people of interest. However, if these efforts did not result in the establishment of appropriate connections to facilitate business activities, some expatriates would utilize the services of agents in China. These agents act as intermediaries and can initiate contact between the expatriates' firm

and the buyer/seller or government agency. The agents were primarily used when the company wished to expand operations to other parts of China, where existing networks proved to be insufficient. Figure 1 illustrates the various approaches Western expatriates take in developing *guanxi* networks. Although these agents can help widen the network links, concerns about unethical behaviors such as corruption and nepotism are sometimes raised, as expatriates are not able to control the manner in which the agent conducts business with the potential clients.

Figure 1 goes about here

The last finding relates to the importance of face, favor and obligation of *guanxi* building in previous studies (see for example, Park & Luo, 2001; Wong & Leung, 2001). Previous studies have found that favor exchange is a challenge and failure to return favor or giving face to the other party in a relationship will be harmful for the quality of *guanxi* between the parties (Khan, Zolkiewski, & Murphy, 2016; Lee, Pae, & Wong, 2001; Yen, Barnes, & Wang, 2011). The findings of this study are consistent with the literature, and suggest that face, favor and *guanxi* are all interrelated. Although these emotional factors in relationship building are not unique to China, this study argues that the influences of these factors in interpersonal relationship building are much deeper in China compared to Western countries. The research findings suggest two important arguments in relation to this issue. First, the extent of emotional context influencing *guanxi* building is deeper compared to social network building in Western countries. Second, the position of each party in *guanxi* relations is decided by the market power they possess, as *guanxi* relations do not assume equal power between business partners. We posit that:

Proposition 1: *To build, develop and maintain guanxi in China, Western expatriates need to consider the influence of the emotional factors related to Chinese traditional culture such as face, favor and affection.*

Unlike the social network perspective, *guanxi* relations assume inequality of power between the parties. Hence, the party with the lower market power is expected to initiate, build and maintain the *guanxi* between the parties. For example, if there were many sellers in the market but only a few buyers, then the seller would attempt to build and maintain *guanxi* to ensure that there is a long-term business relationship. Similarly, when *guanxi* was with government departments and officials, it was the expatriate who initiated, built and maintained the relationships. Based on this finding, we propose that:

Proposition 2: *The extent to which Western expatriates invest their time and effort in building and maintaining guanxi is related to the perceived market power the individual's organization possesses.*

A key theoretical contribution of this study is that it provides an alternative view on the ethical aspect of using *guanxi* for business. Fan (2002) argues that unethical behaviors such as money-power exchange might be involved in business-to-government *guanxi*. Bu and Roy (2015) discuss the different role of gift-giving in the process of *guanxi* building and developing between business to business and business to government. For example, the process of gift-giving and hosting banquets are seen as practices that promote nepotism and are viewed as a form of corruption (Millington, Eberhardt, & Wilkinson, 2006). However, the interviewees in our study explained the process in the context of Chinese society. The idea of gift-giving is not seen as a way of influencing business managers or officials, rather it is seen as a gesture of goodwill and is a common practice in the society and not just restricted to business. Nonetheless, the issue of corruption and nepotism might be involved when using agents to develop *guanxi*, as the process of *guanxi* building by agents may have different meanings or objectives. According to the interviewees, some agents may oversell their network or their ability to initiate contacts between parties and then use questionable means (such as offering expensive gifts or cash) to gain access to certain organizations. This is usually done without the knowledge of the expatriate's firm. The importance of selecting the right agent is therefore critical in such instances.

Under President Xi Jinping's leadership, the Chinese government commenced a widespread anti-corruption campaign (China daily, 2013; Gracie, 2014). Our interview data suggests that the convictions of high-profile business managers and government officials found guilty of alleged corrupt practices in the public sector is perceived by Western expatriates as having a positive impact on business activities (Sender, 2017). This finding is consistent with the general perception about corruption in China that was captured by Transparency International's Corruption Perception Index. According to Transparency International, China in the year 2016 was ranked 79 out of 176 countries, up from being ranked 100 out of 174 countries in 2014 (Transparency International, 2017). The Transparency International study only captures perceptions about the level of corruption in the country, and although the corruption issues have been raised in the mainstream local media recently, it cannot be eliminated in a short period of time. A list of alleged corrupt public officials continues to be published on social media by anti-corruption agents, and these acts seem to have created the impression among expatriates that steps are being taken by the formal institutions in China to address corruption. For expatriates, these media reports about convictions send a signal that any illegal use of networks to receive benefits can potentially result in incarceration, and this acts as deterrence for the individuals to avoid any risk-taking guanxi activities involving the use of agents, and to operate within the *rules of the game*. Our interview findings indicate that expatriates perceive the use of *guanxi* as a facilitating mechanism to develop trust between the network members and enhance organizational equity through personal goodwill. Figure 2 highlights the factors that influence *guanxi* relations. Expatriates are also aware that the legal view of gift-giving and favor exchange is different in China compared to Western countries. Therefore, activities involving *guanxi* building and consolidation should be undertaken with care as headquarters may consider *guanxi* to be an unethical and possibly illegal way to develop business activities in China. This can be understood in the context of Western organizational practices where the idea of exchanging gifts can be frowned upon (Moynihan, 2003). Therefore, while the practice is not linked to corruption, it may appear to be so when viewed from a Western perspective. This is consistent with the findings of Dunfee and Warren (2001) study, who observed that there were particular types

of *guanxi*, some of which may raise concerns about perceived corruption. We therefore propose that:

Proposition 3: *Concerns about corruption and nepotism are likely to be higher when local agents are tasked with developing guanxi in China on behalf of Western expatriates.*

Figure 2 goes about here

Guanxi building facilitates expatriate international assignments and their adjustment in China. As *guanxi* is developed from Chinese traditional culture and relates to the institution system, it can be difficult for outsiders such as Western expatriates to develop and use these networks. Extant studies raise the issues of corruption and nepotism when using *guanxi* in China, which is distinct from the application of social network building in Western countries. In this paper, we studied the *guanxi* phenomenon at the individual level and contribute to the understanding of the process involved in the development and maintenance of *guanxi* by Western expatriates in China.

This study has a number of practical implications for expatriate managers and their firms. First, emotional factors have deeper impact on *guanxi* building in China, and for expatriates having a sound understanding and making good use of emotional elements such as face, favor and reciprocity can reduce the perceived impact of the liability of foreignness they face in the country. Second, MNEs should create an environment where expatriates are encouraged to use the existing network ties of their colleagues to extend their networks in China. The findings of our study also highlight the importance of cross-cultural training for expatriates to assist their adjustment in China, and to help them understand the various approach to developing *guanxi* in the country. In addition, the company policy regarding unethical behaviors should be clear for expatriates conducting international assignment in a different institution and culture environment. Distinct from social network building, market power between business partners is not equal in *guanxi* networks, and the party

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with lower market power needs to show goodwill through gift-giving and hosting banquets in honor of their business partners.

7. Conclusion

This study focuses on *guanxi* building in China from the individual expatriate's perspective. The detailed process and approach towards *guanxi* building provided in this study is based on the views of Western expatriates, and future studies could investigate the *guanxi* building process and its use from the perspective of non-Western expatriates from Asia, Africa and South America. A potential limitation of this study is that the participants from this study were primarily from Jing-Jin-Ji Economic Zone of China, and future studies could undertake similar research in less developed areas, such as Western areas or third-tier cities in the country. Future studies could also further investigate the potential issues of ethics surrounding the use of local agents to build relationships in China. Another limitation of the study is that it focuses on how Western expatriates perceive, build and maintain interpersonal relations in China using *guanxi*, and does not explore the effectiveness of these relations. Future studies could test the effectiveness of the *guanxi* building exercise by checking the initiatives of the expatriates with how the Chinese counterparts view them.

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Table 1: Coding Sheet

Relationships in China:	Building/maintaining *guanxi*:	Emotional context:
interpersonal relationship building	expatriates	Favor
political environment	gifts	reciprocity
guanxi preference	banquets	face/*mianzi*
legal system (contract law)	key persons	nepotism
work and private lives	intermediaries	corruption
family/clan connections	agents	reputation
	trust	
	government/supplier/buyer	
	time	
	market power	

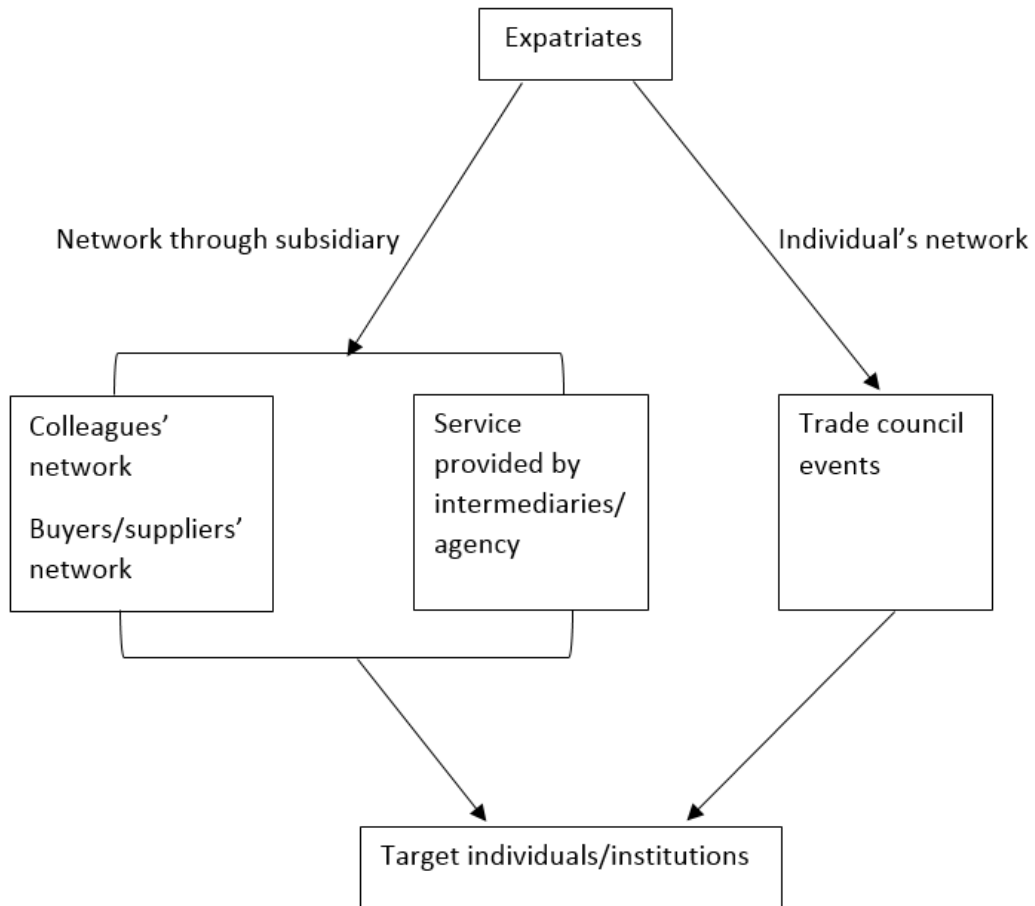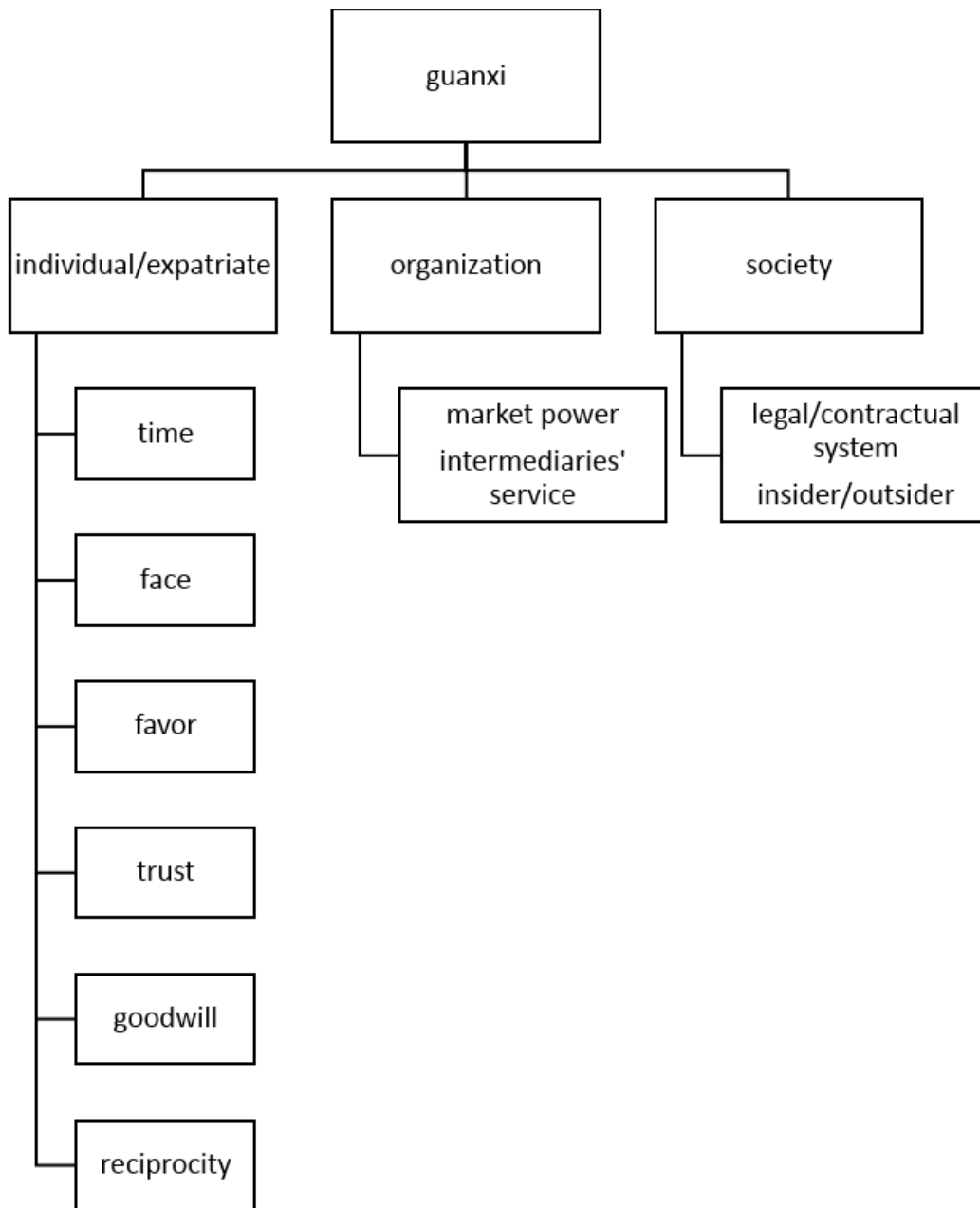**Figure 1: The process of *guanxi* building by Western expatriates in China**

Figure 2: Influencing factors of Western expatriate *guanxi* building in China

Appendix 1: Profile of Interviewees

Code	Age group	Gender	Nationality	Educational qualification #	Industry	Company location
E1	20-29	M	Canadian	P	Hotels and Catering Services	Tianjin
E2	20-29	M	German	U	Manufacturing	Hebei
E3	20-29	M	German	U	Manufacturing	Hebei
E4	30-39	M	Australian	P	Wholesale and retail trades	Beijing
E5	30-39	M	American	P	Leasing and Business service	Tianjin
E6	30-39	M	Finnish	U	Information Technology	Beijing
E7	20-29	M	German	P	Manufacturing	Beijing
E8	44-49	M	Dutch	U	Leasing and Business service	Beijing
E9	60+	M	American	U	Hotels and Catering Services	Tianjin
E10	20-29	M	Danish	P	Manufacturing	Tianjin
E11	40-49	M	New Zealander	U	Manufacturing	Tianjin
E12	20-29	M	French	U	Manufacturing	Tianjin
E13	20-29	M	French	U	Manufacturing	Tianjin
E14	40-49	M	Belgian	U	Manufacturing	Tianjin
E15	40-49	M	Belgian	U	Manufacturing	Tianjin
E16	20-29	F	Russian	U	Hotels and Catering Services	Tianjin
E17	30-39	M	Spanish	U	Leasing and Business service	Tianjin
E18	20-27	M	Canadian	P	Leasing and Business service	Tianjin
E19	30-39	M	American	P	Hotels and Catering Services	Tianjin
E20	30-39	M	American	P	Manufacturing	Tianjin
E21	30-39	M	Spanish	U	Manufacturing	Tianjin
E22	20-29	F	American	U	Leasing and Business service	Beijing
E23	30-39	M	Canadian	U	Leasing and Business service	Beijing
E24	50-59	M	Australian	P	Information Technology	Beijing
E25	20-29	M	American	U	Leasing and Business service	Tianjin
E26	20-29	M	Argentine	U	Leasing and Business service	Tianjin
E27	50-59	M	British	U	Education	Tianjin
E28	50-59	M	French	P	Education	Tianjin
E29	30-39	M	German	P	Manufacturing	Tianjin
E30	20-29	M	British	U	Education	Tianjin
E31	40-49	M	Danish	P	Manufacturing	Tianjin
E32	50-59	M	Norwegian	P	Leasing and Business Service	Beijing
E33	60+	M	Spanish	P	Education	Tianjin
E34	60+	M	Canadian	P	Education	Tianjin
E35	20-29	F	Romanian	P	Entertainment	Beijing
E36	60+	M	Norwegian	U	Leasing and Business Service	Beijing

Education Qualification Code: U = Undergraduate; P = Postgraduate