

## **Guanxi and Ethics-A Study of Chinese Management Behaviour**

Jane Tung

Department of Marketing and Distribution Management,  
Business Management School, Hsing Wu Institute of Technology, Taiwan

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**Abstract: Problem statement:** The concept of guanxi being a developing concept and used in the Chinese organizational management had been a topic of concern and interest as well for several authors to experiment on. The study focused on the determination of the impact of the use guanxi concept in the Chinese organizational managements and the effects on the ethical standards and judgement of the organization. **Approach:** The research had been a secondary source based research and obtained its materials and understanding from the earlier researches conducted on the concerned topic. **Results:** It had been obtained from the study that the concept of guanxi has an extreme significance in the management of organizations, particularly with respect to the Chinese organizations. **Conclusion:** Although there are certain negative aspects of following the concept of guanxi, yet from the study it has been concluded that the concept is an essential factor for the Chinese organizations that have records of success stories from using the guanxi concept and maintaining enhanced interpersonal relationships.

**Key words:** Guanxi concept, business ethics, management behaviour, ethical judgement

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### **INTRODUCTION**

If the world of business is considered, it can be realized that different decisions are taken within the managements that involve the relations that are prevailing among the organizational members. By Guanxi, it is referred to a unique form of relationship that involves reliance, favour, dependence and adjustment between the individuals thus enabling efficient decision making processes that are based on internal relationships. Theorists have speculated and mentioned that this could be used as an instrument for marketing as well since it involves decisions related to the performance of marketing and the business as a whole. However, there are other theorists who focused on different views and reflected that guanxi if followed at a personal level might lead to unethical behaviour (Chan *et al.*, 2002).

Guanxi believed to be capable of leading organizational members to unethical practices; there are severe concerns for the ethical considerations for the business practices in the Western countries. However, when China is considered for research, it has been observed that the Chinese organizations consider guanxi as an ethical practice (Chan *et al.*, 2002). Guanxi in China is recognized as a major activity in its world of business as well as the society. Guanxi had been realized and introduced in the management policies of Chinese organizations intending to cope

with the ever-changing business environment. Although the concept of guanxi has not been clear with respect to China, yet, the process is considered as a realistic way of bringing accord between the different organizational members (Wong *et al.*, 2010). The current research focuses on the practice of guanxi and its relation to ethical judgement in the context of Chinese management behaviour.

### **MATERIALS AND METHODS**

The literature review clearly presents the earlier studies of different authors reflecting on the usefulness of the guanxi in the Chinese culture of business as well as the harm that it might cause if it is misused.

**Guanxi and ethics practices in chinese business environment:** Several studies have been conducted on the business ethics practice in Chinese organizations and the use of guanxi in the management policies among the Chinese organizational members. Other researchers who had conducted studies on the business ethics in China focused on how the practice of ethics developed in the country. Earlier the concept of ethics did not have any practical implication. However, their studies imply that ethical practice has now developed to a great extent and it is a part of the organizational management in the Chinese business world. Al-Khatib *et al.* (2007) however mentioned that there has been a

huge decline in the moral standards of the organizational members and the managements in China in the current scenario. Other studies conducted before on the development of guanxi within the business management practices in the Chinese organizations intending to follow business ethics. Mentioned that the practice of guanxi involves partiality, discrimination, unreasonable antagonism as well as deception. However guanxi is supported by several organizational managers in the country of China (Al-Khatib *et al.*, 2007).

Both positive and negative features of the practice of guanxi have been reflected through the earlier researches conducted on the use of guanxi in the Chinese business world. For example the studies by Ho and Redfern (2010) along with results from previous researchers reflect the positive attributes of guanxi whereas some other researchers have focussed on the negative impacts of the practice. According to some the social associations as presented through the process of guanxi has been considered as a major cause of bringing success to a business within the society in China. Guanxi has also been coupled with power, position within the society as well as extension of resources. Research shows that improper use or misuse of the practice of guanxi might prove to be harmful for the organization since the organizational members may get involved in wrong and unethical practices like corruption or partiality, discrimination that are not acceptable within the society or the organizational management (Ho and Redfern, 2010).

There are two elements that determine a network of guanxi that businessmen or business organizations in China intend to form to practice in their business. They include links in the form of contacts and connections with friends or other acquaintances having associations with Chinese business organizations. Further research and studies have shown that the businessmen in China have reciprocation for each other and are committed to their relationships. Thus they also have expectations from each other in regard to their uses of the guanxi practice in their businesses. Other researchers had given their views on the different forms of associations possible within an organization. They explained that connections within the families are always the closest followed by the insiders of an organization and then with the outsiders of strangers. Thus if a businessman from the foreign country has to form a relationship with another businessman of the native land, or an organization, the bonding or relationship in regard to the insider can only be expected to prove to be success (Leung *et al.*, 2008; Huang, 2010).

**Guanxi is an essential factor in the successful business management:** It has been observed that the practice of guanxi is an essential factor in the businesses of China. Interviews conducted by earlier researchers on Chinese executives and managers reflect the view that guanxi involves the formation of relationships between two or more individuals within the organization. There are several success stories in regard to Chinese companies that can present the ways of successful implementation of guanxi. Interpersonal relationships among organizational members, partners as well as friends have been found to get enhanced by the use of guanxi. A third person is always preferred in order to initiate the guanxi as reflected by the successful cases of guanxi uses in the Chinese organizations (Zhu and Zhang, 2007).

The positive attributes of guanxi can be realized in comparison to the relationship marketing techniques followed in the western countries. The primary difference occurs in the fact that in case of guanxi the relationship formed is informal in nature (Huang and Wang, 2011). It is more based on the interpersonal relation based on friendly participation. Thus there is an effect of sentiments and emotions prevailing in the relationships formed in this manner. Thus the emotions and the feelings between the individuals determine the strength of guanxi. The feature of guanxi is explained in quite general terms. In reality it comprises much more to it in the way that it allows exchange of facilities and support between the individuals sharing the relation. Also, reciprocity is another factor that becomes essentially visible through the incorporation of guanxi practice (Yang and Wang, 2011).

From the different studies as mentioned above it can be realized that the practice of guanxi is an essential factor in the Chinese businesses. Although there are negative aspects of the practice as well, yet greater number of studies has focused on the positive benefits that guanxi has to provide to an organization where it would be practiced. If the relations between individuals can be enhanced then it can be expected that greater cooperation and motivation would work for the betterment of the organization resulting in improved performance by the members and hence greater business profits for the company. However, it should keep its focus on the fact that the guanxi practices do not get misused by the organizational members.

**Proper use of guanxi has positive effects on the ethical judgment in the chinese business management:** Factors affecting the ethical standards of the business organizations in China include the corrupt practices being initiated by the organizational members,

lack of consistency in the planning process of the organizations, rights of shareholders provided with lesser regards from the organizations, as well as modifications that take place in the market. The practice of guanxi has been found to have both positive and negative effects on an organization depending on the use of the practice. As various studies reflect, guanxi is often realized as a concept based on ethical grounds. Thus it positively influences the organizational performance in cases of expansions of businesses or improving the rank of the organization in the market. However, the negative influences arise when the practice is misused by the members releasing doubts on the ethical standards and hence the ethical decisions taken within the organization (Sardy *et al.*, 2010).

The ethical regards of guanxi are always encountered with controversies (Moorthy and Jeyabalan, 2012). Since many people are of the opinion that guanxi lead to corruption thus in many cases, the ethical decision making becomes a difficult task. However, there are others who bring out the positive impacts of the practice and incorporate guanxi in the ethical judgement. There is a set of rules and practices that can be followed under the influence of guanxi for a number of organizational objectives. One such development is the enhancement process in regard to actions undertaken. If a particular set of actions under guanxi is used in this respect then it is expected that problem related to ethical issues might not arise (Dunfee and Warren, 2001).

Guanxi is capable of creating effective relationships within complex networks of organizations that act as an essential tool for business success moderating and determining the ethical judgments of the management of the organizations (Szeto *et al.*, 2006). It has been observed that the presence of harmony is much high in the organizations of China reflecting the usefulness of guanxi in the Chinese organizations (Hoivik, 2007). Thus the development of the proposition can be stressed on the fact that the practice of guanxi has an effective and essential influence on the ethical judgment in the management in Chinese organizations leading to enhanced business outcomes and profits.

## **RESULTS AND DISCUSSION**

Guanxi is known as the special form of relationship between two or more individuals particularly in relation to business organizations. In the present world, the concept of guanxi is highly popular since it utilizes specific measures in enhancement of business

performances and hence delivers improved business results. The current study focused on the Chinese business world and the use of the guanxi practice in the Chinese organizations and relating their impacts on the ethical perspectives of the organizational managements. The effects of guanxi have been studied both on a positive as well as on a negative respect. The studies have thus obtained that the use of guanxi in the management of organizations do enhance the relationships among the organizational members thus motivating them and encouraging more towards efficient performance fulfilling the goals of the organization. However the negative features of the guanxi approach is more concerning since misuse of the practice might lead to corruption.

The studies on the Chinese companies have clearly presented several success stories depending on the guanxi concept that enhanced the interpersonal relationships within the organization. If the literature review of the concerned topic I concerned then it can be realized that the concept of guanxi has become a matter of severe importance and been the interest of study for several authors and theorists. Most of them have reflected on the positive aspects of guanxi. Considering the business world in China, the guanxi has been obtained to be an essential factor in implementation of ethical judgments and decision making processes. The informal relationships between the organizational members formed as a result of guanxi have been found to be more effective than other organizations. If the misuse of the practice can be prevented then the guanxi concept would prove to be a great success for Chinese business organizations.

## **CONCLUSION**

The study has clearly reflected that not only do the Chinese organizations support the concept of guanxi and follow it within their management, but these organizations have also benefitted from the enhanced interpersonal relationships within the organizations. It can be realized that good relationships among the organizational members get them close to each other, thus sharing their values, their emotions and sentiments, as well as helping each other in their required needs. To this aspect guanxi seems to provide with the appropriate approach that every organization needs to follow. This is primarily because if proper relationships among all the organizational members prevail within the organization, a positive atmosphere can be expected to spread in the surroundings that might involve everyone and let them get engaged with their true spirits towards their work and responsibilities. Thus, a thorough study

on the concerned topic clearly reflects the fact that the Chinese organizations, with keeping focus on limiting the misuse of the concept, have benefited and shall in future benefit as well from the use of guanxi in the ethical judgment of the managements of the Chinese organizations. It might also be reflected that every other organization in the world might benefit from the concept of guanxi if properly utilized.

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