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Interpersonal relations in China: Expatriates' perspective on the development and use of *guanxi*

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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

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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 of *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 (*guanxi*) 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 et al., 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

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