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TO MANAGEMENT SCIENCE

Eike A. Langenberg

Guanxi and Business Strategy

Theory and Implications for Multinational Companies in China

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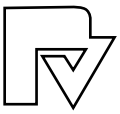
Guanxi and Business Strategy



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Werner A. Müller
Martina Bihn

Author

Eike A. Langenberg

holds a Ph.D. in Chinese Studies and an MBA from the University of Hamburg, Germany. Having spent more than five years in China, he currently works as a General Manager at Siemens Ltd., China. You may contact the author at eike.langenberg@gmail.com.

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for my parents

Preface

"If you want me to do research, send over some cigarettes and liquor!" (研究研究, 烟酒烟酒). These ironic (near-) homophones (*yánjiū yánjiū, yān jiǔ yān jiǔ*) are used by Chinese persons to describe what motivates people in general, not just researchers. The personal motives for the present analysis are of a different nature, namely an attempt to demystify the role of *guānxì* in the business world.

Popular business literature has used *guānxì* to explain the unprecedented economic growth that China and much of Southeast Asia enjoyed until the late 1990s. Shortly thereafter, *guānxì* was identified as one of the key factors behind the Asian economic crisis in 1998. Despite such contradictions, however, this curious specimen of oriental myth was able to triumph, and it has produced the widespread belief among managers and consultants that *guānxì* "constitute[s]…a 'secret' to corporate success in China" (Luo 2000: 175). Based on pseudo-profound arguments, *guānxì* is deemed "[unabated] Chinese conventional wisdom" (Luo 2000: 143) and a "[very Chinese] mystical concept" (*The Economist* 2000: 7) from which unlimited benefits are predicted to follow. The misperception that *guānxì* is a condition for business success is dangerous because it poses unforeseeable risks to foreign investments. In fact, unsuspecting managers have had to flee China in the past to save themselves from the legal consequences of such business conduct (incarceration or worse).[1]

During the five years that I spent working and researching in China, my colleagues and I often found ourselves asking an admittedly provocative question: what if multinational companies needed to make strategic use of *guānxì* in order to be successful on the Chinese market? Would this mean that they should terminate their business activities in China? Thoroughly answering these questions requires a large amount of precise theoretical

[1] Amnesty International estimates that over 3,000 people had been executed in China by September 2001 in that year's anti-corruption campaign (Yang MH 2000: 472f.; Smith 2001: 1). Most transactions were carried out through *guānxì* networks.

work in sociology, economics, business theory, and sinology. As will be discussed in great depth, only an integrative approach is capable of demystifying *guānxì*. I hope that my postgraduate studies at the Department of Sinology and the Faculty of Business Administration at the University of Hamburg have provided me with the qualifications required for such an approach.

Some technical notes are in order at this point. The Chinese characters used in this book are transcribed in accordance with the rules of *Hànyǔ Pīnyīn* (汉语拼音), the binding Romanization system for standard Chinese (普通话), as endorsed by the *Cí Hǎi* Dictionary of Modern Chinese (现代汉语辞海, 2003). As this analysis also addresses scholars from Anglo-Saxon countries who, in research on contemporary China, rarely use *Hànyǔ Pīnyīn* transliteration (van Ess 2003: 119), the Appendix provides a complete list of Chinese terms in Wade-Giles Romanization. Chinese names appear with the family name preceding the given name, except for a few Chinese authors who use the Western style of putting the family name last. Discussing social phenomena is inevitably colored by the language used to describe them. As the Chinese language has developed a special set of words, it is difficult to discuss Chinese cultural views without referring to these lexical items and the concepts they describe.[2] In order to minimize the number of terminological distortions, key terms such as *guānxì*, *rénqíng*, and *miànzi* will not be translated.[3] Although such an approach is indispensable without any doubt, the author apologizes to non-Chinese and non-sinologist readers for any resulting inconvenience. Foreign currencies

[2] Boas (1991[1911]: 21f.) illustrates this difficulty using "the words for *snow* in Eskimo (...). Here we find one word, *aput*, expressing SNOW ON THE GROUND; another one, *qana*, FALLING SNOW; a third one, *piqsirpoq*, DRIFTING SNOW; and a fourth one, *qimuqsuq*, A SNOWDRIFT". From an ethno-linguistic perspective, it is actually a truism that only a particular linguistic system is capable of expressing its culture's specificities. In fact, Sapir and Whorf hypothesize that the linguistic system even shapes mental schemes and directs individual thoughts (Whorf 1984: 12).

[3] In what has entered scientific discourse as *emic-etic* debate, this analytic feature is termed *emic*, i.e., conceptualization is based on culture-specific elements and specific interpretations. An *etic* approach, on the contrary, would rely on universal concepts (Triandis 1999: 136ff.; Hui/Graen 1997: 452). Consistency with the *emic* approach is extraordinarily difficult when analyzing the *guānxì* system because its terminological cornerstones, in particular *rénqíng*, have multiple meanings that defy easy, distinct definition. Therefore, any terminological notion is specified whenever it cannot be unambiguously inferred from the context.

have been converted into US dollars at the 2006 average exchange rates of EUR 1.3 and RMB 8.0 respectively (People's Bank of China, 中国人民银行).

I wish to express my gratitude to my teachers, Professor Dr. Bernd Eberstein at the Asia-Africa Institute, Faculty of Humanities, University of Hamburg and Dr. Margot Schüller at the Institute of Asian Affairs in Hamburg. Both of them have encouraged me in the research process, and whenever problems arose, gave me advice in their field of expertise. Needless to say, my family and friends have also supported me in the best way possible in the course of my research. Many Chinese colleagues, too, have taken the time to engage in lengthy discussions and provide constructive criticism.

I am also indebted to Siemens AG for providing me with generous financial support. As part of its Corporate Citizenship Program, Siemens granted me a full-time scholarship for two years—for a year of research in Shanghai and another one in Beijing. This is noteworthy, in particular, because Siemens has not interfered in any way with the academic research process. On the contrary, the company has entrusted me with the negotiation and general management of a joint venture in the transportation industry. The experience afforded by this responsibility was of great value because it allowed me to conduct this theoretical analysis in light of the most recent business practices in China.

Shanghai, Eike A. Langenberg
March 2007

Contents

Abbreviations

AD	*anno Domini*
BC	before Christ
c.p.	all other things equal (*ceteris paribus*)
CJV	Contractual Joint Venture
Co.	Company
CPC	Communist Party of China
e.g.	for example (*exempli gratia*)
et al.	and others (*et alii*)
EJV	Equity Joint Venture
FDI	Foreign Direct Investment
FIE	Foreign-Invested Enterprise
f./ff.	and following page(s)
GM	General Manager
i.e.	that is (*id est*)
ISO	International Organization for Standardization
JV	Joint Venture
L/C	Letter of Credit
Ltd.	Limited
MBA	Master of Business Administration
MNC	Multinational Company
MoR	(Chinese) Ministry of Railways
NES	New Economic Sociology
NIE	New Institutional Economics
p./pp.	page/s
PRC	People's Republic of China
R&D	Research & Development

RCT	Rational Choice Theory
RMB	Chinese currency (*Rénmínbì*)
SCA	Sustainable Competitive Advantage(s)
SME	Small and Medium-sized Enterprise
SNA	Social Network Analysis
SOE	State-Owned Enterprise
TVE	Township and Village Enterprise
US$	United States dollar(s)
WFOE	Wholly Foreign-Owned Enterprise

1 Introduction

This introductory chapter lays out the scientific problem that mainly stems from the ubiquity of *guānxì* in China, or more precisely, from the fact that businesses interact in a mixed order of the *guānxì* system and a market economy. Subsequently, this topic will be put into the context of various academic disciplines, where the findings presented by Chinese and international researchers will also be discussed (Section 1.2). As recent research has not been capable of integrating *guānxì* and business, mainly due to methodological flaws, a detailed description of the specific structure in which the problem at hand is solved will be presented (Section 1.3).

1.1 The Ubiquitous Phenomenon of *Guanxi*

Guānxì (关系) is a sociological term that describes a subset of Chinese personal connections between people (relationships) in which one individual is able to prevail upon another to perform a favor or service (Chung/Hamilton 2002: 2f.). It lies in the skillful mobilization of moral imperatives in pursuit of diffuse and calculated instrumental ends.

Guānxì is a phenomenon so ubiquitous in Chinese society that it has been given the name "*guānxì* wind" (关系风 He XM 2000: 19). As all Chinese are assumed to be part of at least one *guānxì* network (Schramm/Taube 2001: 7), China's prime sociologist Fei Xiaotong (费孝通, 1910–2005, 1992[1947]: 66) has argued that it is the fundamental organizational principle of Chinese society, irrespective of social strata: for some people, survival (生存) is a matter of *guānxì* (He Y et al. 1991: 58; He XM 2000: 19). Outside the network they have a "general feeling of discomfort" (感到浑身不自在, Yu 1998: 1). For those in a well-developed urban environment, *guānxì* enables them to conduct a convenient life (He XM 2000: 20), including luxury goods and international travel.

As the "value of life" (价值观) and "behavioral rule" (行为准则, Cao 2002: 73), *guānxì* is said to be the key to analyzing and understanding Chinese conduct (Chen JJ 1998: 107). *Guānxì* provides a "lubricant" (Chung/Hamilton 2002: 13; Gold et al. 2002: 3; Standifird/Marshall 2000: 23) that helps the Chinese to get through life. It "gives the flow of many events a helping hand" (Zuo 1997: 69): employment affairs, applying for projects, enrolling in schools and universities, successfully concluding bank loan negotiations, getting promotion at work, handling lawsuits (Cao 2002: 73), settling complicated Chinese household registrations (户口, Yang Minzhi 1995b: 42), medical care (Feng D 2002: 29), obtaining driver's licenses and license plates, printing articles in magazines, newspapers and journals; and even publishing Ph.D. theses (Si 1996: 18). An ideal *guānxì* network encompasses "everyone from store clerks who control scarce commodities to cadres who have [the] final say over (…) permits" (Gold 1985: 661). Not surprisingly, the prevalence of *guānxì* is not restricted to social interaction; rather it extends to business realms. "Dominat[ing] business activity throughout China" (Lovett et al. 1999: 231), *guānxì* affiliations, rather than "arm's length" principles, are the basis for transactions.

Due to its paramount role, *guānxì* is recognized as the life blood of the Chinese macroeconomic system (Luo 2000: 1). It is actually this ubiquity that renders *guānxì* the distinctive feature of the Chinese social and business environment. It has been widely acknowledged that a "gift economy" (Yang MH 1994: 8) coexists with the planned (state) economy and the market—in fact, the gift economy may be even more important than either of the latter. Unlike commodity transactions, which are dictated by purely economic motives, in *guānxì*, exchanges entail affection, face, gifts, and favors (Chen Hong 1997: 113; Yang MH 1989: 67ff.). *Guānxì* adds a "second currency"[1] (Luo 1997: 51) to the commodity exchange setting and creates a hybrid socio-economic exchange system in which it is unlikely that unidimensional business strategies appropriate in the Western context will work.

Scientific dispute has arisen on the longitudinal development of *guānxì*. For some scholars, *guānxì* is an "ancient system based on personal relationships" (e.g. Lovett et al. 1999: 231), while for others it is a "new thing" (新东西) in China that has only emerged in the past twenty years (Ma C

[1] As will be discussed later, the term "currency" can't actually be applied to the *guānxì* system.

2001: 19). These contradictory perspectives can be attributed to the fact that the *guānxì* system is hard to uncover (Ji 1999: 52) because it is an extremely "vague" (模糊, Chen JJ 1998: 117) phenomenon, resembling a "cloudy mountain covered by mist" (如云山雾罩, Nie 2001: 6). The following section will take a brief look at the ideas that *guānxì* emerged (a) in ancient China, (b) from rural China, (c) under Communism, and (d) in the economic reform period.

Some researchers think that *guānxì* is a consequence of China's ancient bureaucratic system of officials. Ji Jinduo (1999: 52f.), for instance, explains that what he terms the "ancient *guānxì* network" (古代关系网) has emerged from Chinese patriarchal bureaucracy. In order to minimize uncertainty from the dangers of a political career, state officials relied on a network of relationships. While uncertainty is, indeed, the element that gave rise to *guānxì*, considering a comparatively small number of officials (who furthermore had limited interaction with the people), it seems unlikely that the *guānxì* system could have had such strong carry-over effects.

What is more probable than noble origins is the explanation that modern *guānxì* has developed from village life (Yan 1996a: 2, 23; He XM 2000: 19f.; Hamilton 1998: 66). In Chinese history, people lived in encapsulated and autarkic villages between which almost no exchanges took place (Ma C 2001: 19). The exchanges between a few families (小农), the members of which formed the *guānxì* system comprised in each village (Ma C 2001: 20, Fei 1992[1947]: 81), were sufficient to fulfill the rather modest needs of rural people. Social relationships were primarily based on blood (亲缘关系), hence the traditional "culture of blood relationships" (亲缘文化) is present in villages (Cao 2002: 73). In the early 1970s, 80% of Chinese people were farmers or made a living from activities related to the primary sector; two decades later, in 1998, half of the Chinese labor force was still employed in agriculture. In terms of exchanges, this socio-economic setting has many similarities with the "agricultural village society" (村落社会), on which traditional China is based (Ma C 2001: 19). Personalistic loyalties and interpersonal obligations based on social standing have a similar structure in rural China to what they have in the *guānxì* system.

However, the importance of *guānxì* exploded after the "liberation" by Communists, in particular in the late Cultural Revolution (Yang MH 2002: 463; Ji 1999: 55f.). Owing to insufficient institutional support, imperfect distribution channels, and the bureaucratic maze of a socialist state (Yan

1996a: 3) in which few power figures in the hierarchy were in a position to arbitrarily allocate scarce resources, *guānxì* became a necessary component in the daily lives of Chinese people (see above). Making it possible to circumvent bureaucratic rules, *guānxì* provided leverage against the cumbersome Chinese state-run economy (Yang MH 1994: 320). Chinese people were often able to fulfill their basic needs only through *guānxì* (He XM 2000: 19).

The above finding that *guānxì* was a response to a state that was more powerful and socially pervasive than any other government in Chinese history (Yang MH 1994: 320; Huang 2002: 91) became obsolete, however, when it was observed that *guānxì* actually grew even faster in the post-Mao era (Yan 1996a: 3) when the state became less pervasive (Cao 2002: 73; Ma C 2001: 19). The fact that the prevalence of *guānxì* has never been as strong as during the period from economic "Reform and Opening Up" (改革开放) through today (Feng T 2002: 21) renders the earlier argument invalid. Many Western scholars, therefore, like to explain the network of interpersonal ties as being due to the lack of a stable legal and regulatory environment (Alston 1989: 25; Xin/Pearce 1996: 1652) or the "failure of hierarchy- and market-based governance structures" (Boisot/Child 1996; Feng T 2002: 21).

It should also be considered that the word *guānxì* itself is a relatively new term in the Chinese language; it is included in neither the 1915 *Cí Yuán* (辞源) nor the 1940 *Cí Hǎi* (辞海) dictionaries of the Chinese language.

From the above, it becomes clear that modern-day *guānxì* is to be treated as a new phenomenon, especially because it has grown since China's reforms. An analysis of *guānxì*, however, must not deny its cultural embeddedness, with its roots in the rural tradition of exchanging gifts. Since this custom goes back thousands of years, as scholars argue, it seems appropriate to take a close look at its characters 关 and 系, both of which have an individual meaning and etymology that can be assessed. Due to a shortage of words, especially for abstract terms, it is common in the Chinese language to fit two (or more) characters together in logically compounded words. What is relevant here is that the idea behind the individual characters has remained unchanged, and what *guānxì* means is best "felt" through the meaning of its components (Karlgren 2001[1923]: 8, 40).

Guān (关, 關), an amalgamation including 門 (door) and 丱 (bolt, latch), originally meant "wooden crossbar for doors", "strategic pass" or "toll gate" as a noun. As a verb, it signified "close", "relate", "receive" or "be concerned" (Ci Yuan 1994). The character is found in disyllabic expressions that refer to a "barrier" (e.g. technological barrier [技术关], Chen/Chen 2004: 307), "passing" (e.g. passing the toll gate [打通关卡], i.e., it's actually a synonym for overcoming obstacles by means of *guānxì* [Si 1996: 18]), and "showing solicitude for" (e.g. 关心, 关照). Luo stresses the metaphoric aspect of a door "inside [of which], you are 'one of us' but outside (…), your existence is barely recognized" (2000: 2).

Used as a noun, the second character, 系 (*xì*), mainly means "tie" and "subordination relationship", and as a verb, to "care for" (Ci Yuan 1994). *Xì* refers to the extension of relationships (e.g. lineage, 世系) and to actions that hold (维系) members of one's immediate family together (直系亲属). It implies formalization, as is also demonstrated by its application to an organizational context, where *xì* simply means "department".

The individual meanings of the characters *guān* and *xì* do not give rise to as much controversy as does their combination to form *guānxì*. In spite of the fact that dozens of researchers have elaborated on the concept of *guānxì*, no uniform definition has been presented so far. Reviewing earlier attempts at definition, Yang Meihui points out that due to the "ever-changing set of practices (…) the final word on guanxi can never be concluded" (2002: 459).

As can be seen from the definition "interpersonal connection or connection between people and things" (Ci Hai 2003), *guānxì* is "not a sociologically precise term" (Walder 1986: 179). When it is used to refer to interpersonal relationships, "not only can it be applied to husband-wife, kinship and friendship relations, it can also have the sense of 'social connections,' dyadic relationships that are based implicitly (…) on mutual interest and benefit. Once *guānxì* is established between two people, each [person] can ask a favor of the other with the expectation that the debt incurred will be repaid sometime in the future" (Yang MH 1994: 1f.). In her precise definition, Yang Meihui points to three crucial dimensions: instrumentality, affection, and norms.

Most popular academics (e.g. Fan 2002b, Xin/Pearce 1996; Yeung/Teung 1996; Leung 2000; Farh et al. 1998) share the view that the interpersonal linkages in question are essentially motivated by means-ends

calculation. Hence it seems safe to conclude that *guānxì* is characterized by a high degree of instrumentality. People draw on connections in order to secure favors in personal relations (Walder 1986: 179).

At the same time, attention is given to affection. An influential definition by Pye (1992: 101) interprets *guānxì* as "friendship with implications of continued exchange of favors". The inflationary use of the term "friendship", such as when Chinese strangers decide to "become friends" (交朋友) during their first encounter, shows that "friendship" in Chinese societies may be based on elements other than affection. Similar to what can be called "business friendship" (Ambler et al. 1999: 84), the expression "he has many friends" (他的朋友多) is frequently used to indicate that someone has a lot of *guānxì* (Bosco 1992: 158f.). Due to the multiple standards of interactive behavior the Chinese tend to adopt according to the hierarchical status of the persons in the relationship (Fei 1992[1947]: 66; Hwang 1987: 949), normative patterns of behavior greatly improve when individuals become friends.

Along with instrumentality and affection, people in contemporary mainland China often associate *guānxì* with implicit obligations (e.g. response to requested assistance) and a long-term attitude. *Guānxì* in social and business life is normatively defined by the principle of reciprocity (Fan 2002a: 372; Chung/Hamilton 2002: 2). Unfortunately, however, normative aspects have been "virtually excluded" from analyses (Dunfee/Warren 2001: 4).

For a phenomenon as complex as *guānxì*, it is suggested not to search for an overly precise definition, in particular because "definitions do not play a significant role in science" anyway (Popper 1997[1945]: 76). Rather, the above definitional framework should be taken as a starting point to be extended throughout the analysis. It is actually more insightful to investigate the connotation of vocabulary and proverbs frequently associated with *guānxì* in the Chinese language. The polyphonic character of *guānxì* in popular discourse (Chen/Chen 2004: 305; Yang MH 1994: 56) is also implicit in Zhong Qing's (1995: 157) statement that "*guānxì* networks tell endless stories of animosity, sadness and joy".

Carrying no specific undertone, *guānxì* expressions include "string-pulling" (拉关系, Fan 2002b: 550, and, more recently, 通关系), i.e., the means by which personal interests may be advanced, problems solved (处理 / 办事情), and resources obtained. When people "look for *guānxì*"

(找关系), they seek to "depend on it" (靠关系) and "get in by the back door" (走后门, Zuo 1997: 62; Zhong 1995: 159; Jilin Supreme Court of People 1995: 22).

The conjecture that *guānxì* usually does not carry any negative connotations because it is of neutral origin (Michailova/Worm 2003: 18) is not universally accepted. The Chinese government and Communist Party condemn *guānxì* as invariably negative and anti-socialist (Yang MH 1994: 58). In fact, even among ordinary Chinese people, *guānxì* often has a pejorative undertone (Gold et al. 2002: 3), for instance if the affective component is low, i.e., no intense feelings are involved (Zuo 1997: 62), or when laws and regulations are bypassed in "ceremonial bribery" (Walder 1986: 179).

Guānxì often leads to corruption and bribery (He XM 2000: 21), two phenomena that have constantly been shown to be extremely common (Schramm/Taube 2001: 1). According to Transparency International (2006), an international coalition against corruption in international business, the "Corruption Perceptions Index" for the People's Republic of China has stagnated at close to 3.4% in recent years.[2] In fact, *guānxì* and corruption have become such an epitome of a desirable, glamorous lifestyle that high-school students making plans for the weekend ask each other, "Where should we go to have as much fun as corrupt officials?" (去哪里腐败?).

However, there are subtle yet distinctive characteristics, and it would be wrong to equate *guānxì* with corruption. First, bribery is dominated by profit-and-loss calculation, while *guānxì* also contains an affective component. Second, *guānxì* is long-term and diffuse, as it requires the establishment and cultivation of a relationship, while illicit exchanges are characterized by immediate and specific obligations (Schramm/Taube 2001: 3). Howard Davies, Professor of Business Studies at Hong Kong Polytechnic University, argues (in an interview with McKinsey) that *guānxì* actually is "almost the opposite of bribery. If I can bribe you, then so can someone else" (McKinsey 2002: 68f.). Identically, a Beijing consultant explains to scholar Robert Marquand: "Look, if you don't have guanxi, you can't pay a big money bribe. (…) Not just anyone can bribe a customs official. You have to have guanxi" (2001: 6).

[2] Note that an increasing average period of case latency (1980–1992: 1.4 years, 1998–2002: 6.3 years) blurs this picture (People's Daily 2003).

Forming a contrast with official condemnation, *guānxì* practices at the same time hold a great deal of fascination for many Chinese people. Managing human relationships is the single most prized talent in Chinese societies; admiration for successful people grows bigger as *guānxì* gets closer to official corruption (Yang MH 1989: 36; Liu Z 2003). In any case, *guānxì* gives cause for optimism: in contemporary urban China, *guānxì* has become a synonym of efficiency—success through knowing people and places. On the internet, incidentally, *www.guanxi.com* is the largest dating site for Chinese people worldwide. Shanghainese people send text messages to Guanxi-SMS (the number is 885074) in order to receive details on leisure spots in the neighborhood. If *guānxì* were exclusively negatively connotated, businesses would hardly use it for advertising purposes. This analysis will come back to the different shades of *guānxì* in Section 4.2, where ethical issues are addressed.

Corporate interaction takes place in a pluralistically mixed system of market economy and *guānxì* exchange, as well as allocation through Chinese government authorities (Ahlstrom/Bruton 2002: 54ff.; Liu Z 2003; Walder 1995: 296). Although a complete integration would have to include all three exchange systems, this analysis will exclude the state economy because its importance, in particular for Western multinational companies (MNCs) in China, is low, and it will continue to decrease. Moreover, the market and the *guānxì* system have not been properly integrated yet. Hence, as *guānxì* is one of two exchange systems within which local or foreign firms perform business activities, choosing a purely market-oriented business strategy is not optimal from a theoretical point of view. The consequence of such strategizing is that foreign-invested enterprises (FIEs) might have a high rate of failure if they were to exclusively apply market-based strategies. This would be troublesome as foreign involvement in China is considerable and still rising: the total value of the world's trade with China more than tripled since 1999 to US$1,154.5 billion (PRC General Administration of Customs, 2005).[3] More importantly, China is the second-largest recipient of foreign direct investment (FDI) in the world, surpassed only by the United States. By the end of 2004, the Chinese Ministry of Commerce had registered a total of 508,941 foreign-invested enterprises, most of which were equity joint ventures (中外合资企业, 49.1%) and wholly foreign-owned enterprises (外资企业, 39.9%, PRC Ministry of Commerce, Foreign Investment Department).

[3] Note that PRC exports are reported on a *Free on Board* basis, while imports on a *Cost Insurance and Freight* basis.

Empirical evidence corroborates this suspicion about strategies that insufficiently take *guānxì* into consideration: analyzing a survey by the Economist Intelligence Unit (1995) on 70 MNCs operating in China, Wu Liqing (1999: 4) reports that 44% of the companies suffered losses from their overall operations in China. Moreover, 36% of all ventures did not yield an operating profit. In a similar survey, 22 of the 53 companies interviewed by Hong Kong's Bank of East Asia reported they were unprofitable (Wu Liqing 1999: 4).

While frontline practitioners drawing on everyday managerial experience may come up with intuitive answers advancing possible reasons, the situation is more complicated in terms of theory. Determining optimum conduct requires clarity on how *guānxì* exactly relates to the theory behind business strategy. As no prescribed instructions exist, e.g. algorithms that could be followed in order to address this problem, it is indispensable to develop a research strategy. Although this research strategy will be set forth in the methodology section (Section 1.3), it is helpful at this point to identify three specific questions, the answers to which illustrate the aim of this analysis and can be considered to solve the scientific problem at hand.

What are the individual incentives behind the *guānxì* system?

It is vital to note here that this analysis—in spite of a fusion of multiple layers of the Chinese socio-economic system—perceives *guānxì* as an isolated exchange system. Excluding organizations (and possible links between them), analysis is limited to inter*personal* relationships.

How can *guānxì* be integrated into business strategy?

The insights gleaned from this analysis are then carried over to a business context. As has been said, strategic choices tested and proven in the West may not be effective and efficient in China because they do not reflect this mixed environment. In order to determine the correct profit function of a firm, *guānxì* and the economic system of market exchange need to be formally integrated. This integration confirms that *guānxì*-based business strategies are effective and efficient, at least for some types of firms. However, since it is not possible to "uncritically accept guanxi[-based business strategies] as a Chinese cultural practice" (Dunfee/Warren 2001: 202f.), one also must ask the following question.

Does the application of *guānxì*-based business strategies conform to legal standards and ethical percepts, from both Chinese and Western perspectives?

If managers of MNCs followed the suggested strategy practices, they may find themselves in jail, confronted with a bad conscience, or both. This is because the theory of industrial organization, into which *guānxì* will be integrated in Chapter 3, is not concerned with legal or ethical issues. For the sake of simplicity, these additional constraints of the socio-economic optimization at hand are excluded from the initial problem statement. Hence, it needs to be verified that the set of optimum strategies is permissible in terms of laws and business ethics. The agreeableness of *guānxì*-based business strategies is a serious question for Western MNCs contemplating doing business in China. Note that this analysis is restricted to the law and ethics of *guānxì*-related business conduct; no other item from the long list of ethical concerns of doing business in China, e.g. human rights and environmental concerns, will be addressed.

1.2 Review of Previous Research

The previous chapter laid out the scientific problem at hand. To avoid reinventing the wheel, the existing corpus of knowledge shall be closely examined to determine whether it can solve the problem as set forth. After a presentation of the theoretical directions from which the problem can be approached, the existing literature will be evaluated. Due to large differences (and partial contradictions) in methodology, this review distinguishes between Chinese and international research. An overview of influential publications will be given for both and seminal works will be discussed separately.

Much has been written about *guānxì*. The scientific discourse of *guānxì* involves multiple fields of research, and it can be approached from different theoretical directions. In other words, research on *guānxì* is cross- or interdisciplinary. "'[B]oundary-spanning' scientists" (Xin/Pearce 1996: 1655) explore *guānxì* with concepts from the disciplines of sociology, economics, politics, anthropology, history, and psychology, as well as from a business perspective, e.g., management theory, marketing, organizational behavior, and human resource management. Each perspective explains a certain aspect of the rationale and processes of *guānxì* formation,

development, and consequences.[4] Assembling distinct yet interrelated paradigms certainly complements the general understanding of *guānxì*. If epistemological empirics are correct, "new scientific knowledge is largely produced by connecting sciences that had previously been monodisciplinary oriented" (Lüde et al. 2003: 1). This research follows such an approach.

The extreme integrativeness of research, unfortunately, has caused some scholars to mix elements of any kind beyond recognition. Instead of assuming a "unique, independent [methodological] core" (Luo 2000: 3) for *guānxì* studies, the author of this analysis suggests integrating and applying particular techniques from different fields of theoretical research. Also, not all disciplines make relevant contributions to explanations, although they may have a possible connection with *guānxì*. Some disciplines take the back seat here: politics, for instance, will only play a minor role in this analysis, i.e., when dealing with corruption. Psychology is of interest only in terms of the conceptualization of *gǎnqíng*, *miànzi* (face), and *xìnrèn* (trust), which influence the individual incentive structure. A longitudinal perspective, as taken by history, is relevant only in the discussion of the possible roots of *guānxì*. Finally, the analysis will not launch into an extensive description of the ethnographic details of *guānxì*, such as decorum and etiquette.

Much of what lies at the center of this book falls under "sociological economics", an approach that (re-)integrates sociological theory and economics. Unfortunately, as will also become clear in Chapter 2, what needs to be integrated is not standard Western sociology, but an adapted model that works for *guānxì*. This exercise is compounded by the fact that the sociological tools must be methodologically compatible with the economic concepts into which they are integrated. The survey of the literature will begin with the literature of *guānxìxué* (关系学, translated as "guanxiology" by Luo [2000: 4]).[5]

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[4] Articles on *guānxì* have been published in renowned scientific journals of many disciplines: *Current Anthropology*, *The American Economic Review*; *International Business Review*, *Management International Review*, *The Academy of Management Executive*, *Business Strategy Review*, *International Journal of Research in Marketing*, *Industrial Marketing Management*, *Administrative Science Quarterly*, *Organization Science*, *American Journal of Sociology*, and *Journal of Business Ethics.*

[5] The expression *guānxìxué* also denotes the "profound and improper method of using or seeking relationship for private benefit" (Ci Hai 2003).

Social science is a recent field of research in China. Virtually non-existent before the end of World War II, sociology was first introduced in China in 1947 when luminary Fei Xiaotong wrote his set of essays, *Rural China* (乡土中国).[6] It did not take the Communist government long to end the academic discourse, however: sociology was banned from 1952 to 1980, when the Institute of Sociology of the Chinese Academy of Social Sciences (中国社会科学院社会学研究所) was founded—by Fei Xiaotong himself. Starting in the mid-1980s, Chinese sociology slowly became re-established (Hamilton/Zheng 1992: 2f.).[7] The short 25-year period of research explains why little significant work on *guānxì* has been done so far.

Fei's statement that Chinese society and its exchange practices must be analyzed from their rural origins—hence the title "rural" (乡) and "soil" (土)—has been widely acknowledged in Chinese sociology (Cao 2002: 73). In 2003, the Chinese Academy of Social Sciences published an article stating that Fei's remarks are "still a precise judgement for contemporary Chinese society" (Liu Z 2003). However, their applicability to modern China is sometimes questioned.

He Xuefeng (2003), for instance, addresses the major string of criticism in his *Update on Rural China* (新乡土中国): at the time of Fei Xiaotong, China was indeed tied to the land with autarkic villages (see above); industrial and commercial activities accounted for a small portion of national GDP (He XF 2003: v). While the Chinese primary sector (agriculture) employed 84% of the Chinese labor force in 1952, the number today is 49% (2003, National Bureau of Statistics of China 2005). Even more importantly, with farmers purchasing products (e.g. fertilizers) from cities or from abroad and serving these markets with their products, rural villages are no longer autarkic. Also, migrant workers are an important bridge connecting the hinterland with urban areas: in Dongguan city (东莞市), Guangdong province, for instance, six out of seven million inhabitants are rural migrants working in factories (He XF 2003: vi). However, it seems

[6] Although the book provides an insider's view of China and is actually a standard text in many Chinese universities, it is almost unknown in the West.

[7] The hesitance to re-establish sociology is also illustrated by the fact that it took another seven years for Fei's classic text to become available to Chinese scholars in 1985. Fei had been attacked as a rightist during the Cultural Revolution (Cheng/So 1983: 471ff.).

that there is no transparency about what pattern and level of development are found in contemporary Chinese rural society (Liu Z 2003).

It is sometimes claimed that "Chinese research on *guānxì* has made great progress" (Chen JJ 1998: 107) and that "the analysis of guanxi has developed into a carefully calculated science" (Luo 2000: 2). Containing a corpus of assumptions that has been woven into a vociferous, self-conscious discourse (Yang MH 1994: 51ff.), *guānxìxué* is said to have turned into a full-fledged scholarly branch of knowledge that is equally valid and just as necessary as any other academic specialization. At the same time, the papers of Chinese academics are commonly criticized as "the works of copy-cats" (He XF 2003: 227)—first copying Marx and Engels, and today copying scholars that are popular in the West. Both stands are valid: there has been progress, and yet contributions to structural explanations are rare.

Guānxìxué plays a major role in practice-oriented publications. With theoretical considerations in the background, the paradigms developed are mainly directed at practical applicability in politics. Combined with *guānxì* on a macro level, a corpus of practices called "crooked winds" (不正之风, 歪风, Li 1998: 54f.) is well documented in the Chinese press: the use of an official position for private gain, nepotism, patronage, factional favoritism, bribery, or the exchange of "special privileges" (特权) among officials (Yang MH 1994: 62).

Influential accounts of the *guānxì* system have been provided by Hwang Kwang-kuo (黄光国, 1987, 2002, 2003), Professor of Psychology at National Taiwan University and a research fellow at the Academia Sinica. Seeking to explain the "small tradition" (小传统) of *guānxì* with the "large tradition" (大传统) of Confucianism, Hwang has analyzed *guānxì*, *rénqíng*, and *miànzi*. In spite of methodological inconsistencies, his "model of Confucian psychology" (儒家的心之模型) made him a star in *guānxì* research. Much more structurally insightful is Chen Junjie's (陈俊杰, 1998) *Guānxì Resource and the De-ruralization of Farmers* (关系资源与农民的非农化). Virtually unknown in the West, the book is an exception in that it pays great attention to methodological precision.

Although the structural input for this analysis is limited to the above publications, other Chinese sources have contributed to an up-to-date picture of *guānxì* semantics: newspapers and periodicals have offered

valuable information on contemporary utilization and public judgement. Papers in academic journals, dissertations, and research reports that have been included for their topicality were available through the China National Knowledge Infrastructure (中国期刊全文数据库). While many resources on the roots of *guānxì* date back several decades, most of the literature on the fast-changing utilization of *guānxì* that was considered here was published after 2000.

It is implicit in the above survey that research on *guānxì* is best structured along international sources. Western Europe and North America cannot be denied a serious history in the social sciences, particularly in theoretical research, which was basically non-existent in China until recently (see above). Therefore, it is mainly international literature in English and German that has been used for conceptualizing the *guānxì* system. Interestingly, Chinese scholars also acknowledge that at this stage *guānxì* is "best learned about from abroad" (e.g. Sun 2000).

A major difference from Chinese literature is that Western scholarship investigates the practical implications of *guānxì* for business. While generally speaking, researchers in the 1970s and 1980s explained to the West what *guānxì* was, the majority of studies in the 1990s were concerned with the question of why organizations needed *guānxì*. Today the Amazon.com online bookstore is packed with guidelines for managers on how to maximize benefits from the establishment and cultivation of *guānxì*, whereas theory is neglected:

> "The importance of good personal relationships to doing business in developing countries has been discussed widely in popular writings for managers (…), yet the advice given in business periodicals has rarely been analyzed in management scholarship." (Xin/Pearce 1996: 1641f.)

Moreover, China's opening up and the beginning of decentralization and privatization have not only raised foreign business interest in the Chinese market, but also the number of *guānxì*-oriented publications of questionable scholarliness. Unfortunately, many non-sinologists have fostered the development of myths and misconceptions that show a high degree of persistence. However, there are also some experts that have greatly contributed to the current understanding of the complex system. The following section will look at selected influential works, giving an overview of their particular object of interest, results, and weaknesses.

One of the most extensive treatments of *guānxì* is offered by Yang Mei-hui (杨美惠) in her classic *Gifts, Favors, and Banquets: The Art of Social Relations in Chinese Society* (1994). As can be expected from a professor of anthropology, Yang focuses on power relationships and their social and symbolic expressions, which have crystallized around the distribution and circulation of desirables in the *guānxì* system. In a highly politicized discourse on social relationships, Yang perceives *guānxì* as a set of practices that "self-consciously defines itself against the elements of impersonal money and direct buying and selling [as] those of the commodity economy" (Yang MH 1989: 48). Based on Foucault's concept of *biopower* (Yang MH 1989: 25), her anatomy of *guānxì* enactments unfolds in four stages: *transformation*, *incorporation*, *micro-antagonism of status*, *and conversion of values*. Yang's holistic anthropological approach, the adoption of which is actually quite common in publications on *guānxì*, "is destined to be contaminated with [the] author's personal preference and conceptual ambiguity" (Hwang 2003: 2). The main shortcoming of this book, however, is that it has become largely obsolete because it is based on the assumption of a political economy, where organization of production, planning of social activities, and distribution of the means of subsistence have long been the total responsibility of the state apparatus (Yang MH 1989: 25). The author acknowledged this fact herself in a later publication:

> "The focus (…) was on the social significance of *guanxixue* in the context of a state centralized economy that was still very strong in the 1980s, leading me to focus on the relationship between guanxixue and state redistributive power, and to describe the emerging commodity economy as only 'petty'." (Yang MH 2002: 460)

As the works of many other authors suffer from the same shortcoming, only more recent literature has been considered. It is a convenient coincidence that in Western management literature published in the past ten years, a strong focus on networks has emerged (Borgatti/Foster 2003: 992). Due to empirical evidence all over the world showing that inter-organizational ties improve firm performance, researchers of strategic behavior have increasingly analyzed the management of networks (e.g. Oliver 1990: 248ff.). In particular, and mainly as a consequence of the rapid economic development of China since the 1980s (Hwang 2003: 1), Chinese networks have increasingly become the focus of researchers' attention. This trend is illustrated by several publications:

Tsang (1998) investigates the relevance of *guānxì* with respect to transaction cost advantages.[8] Taking a resource-based perspective[9], the Singaporean researcher asked if the *guānxì* possessed by a foreign firm can be a source of competitive advantage when doing business in China, and if this advantage is sustainable. In order to grasp transaction cost advantages, *guānxì*-based exchanges are recognized as a structural alternative to contract law. Building on Tsang (1998), Standifird and Marshall (2000) also seek to demonstrate the relevance of *guānxì* in terms of transaction cost advantages. Their essay, which they see as a complement to—rather than an argument against—social embeddedness and resource-based explanations, concludes that *guānxì* can indeed provide firms with an imperfectly imitable resource that can yield a competitive edge.

A number of empirical studies have been conducted: the survey by David et al. (1995) included 150 Chinese business executives from Hong Kong who reported the benefits of *guānxì* in terms of access to scarce resources; Yeung and Tung (1996) detected a similar significant aspect of *guānxì* when examining the factors for long-term success and growth in China of 19 foreign companies; Peng and Heath (1996) investigated the growth of the firm in planned economies in transition; Xin and Pearce (1996) focused on the use of *guānxì* by private sector companies which lack the structural protection of governmental support; and Leung et al. (2003) analyzed the ethical implications of *guānxì* from the perspective of Hong Kong business negotiators. Others have empirically analyzed the social realms of *guānxì*: Chu and Ju (1993) questioned 2,000 people in the Shanghai area regarding the importance of *guānxì* in their daily lives. Applying the case study method, Yan (1996a, 1996b) studied the obligation of gift exchange and social interaction in villages in Northern China. He emphasized that establishing and maintaining a network of friendships by managing *guānxì* may help an individual to overcome several kinds of crises in life. Also looking at Northern China, Kipnis (1997) interpreted the art of producing *guānxì* in terms of Bourdieu's practice theory.

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[8] This concept has its roots in *transaction cost theory*, i.e., "the study of economic organization [that] regards the transaction as the basic unit of analysis (…). Applications of this approach require that transactions be dimensionalized and that alternative governance structures be described. (…) The approach applies to both the determination of efficient boundaries (…) and to the organization of internal transactions" (Williamson 1981: 548). Basically, transaction cost theory goes back to Coase's seminal work, "The Theory of Firm", in which contract costs are included in the explanation of why "a firm emerges at all in a specialized exchange economy" (1937: 390).

[9] For an overview of the *resource-based theory*, see Section 2.2.

It should be noted that, in general, the possibility of conducting empirical studies on the topic of *guānxì* is limited. Most people, and in particular managers, are reluctant to talk about their attitude to *guānxì*, and a great deal of self-deception exists. Non-Chinese researchers, in particular, are faced with another major problem, namely that their subjects are likely to have a strong propensity to present the "modern" side of China. Consequently, it's crucial for researchers to bear in mind that their interest in society might be interpreted by their subjects as an attempt to uncover traditional, feudal, irrational, and embarrassing aspects of the Chinese socio-economic order (Yang MH 2002: 462).

Unfortunately, recent years have also witnessed a large number of popular publications, most notably in the field of marketing: Lo and Everett (2001: 17ff.), for instance, claim to have found the "guanxi-strategy for e-commerce in China"; McGuinness et al. (1991) develop sales strategies by evaluating the Chinese perception of machinery suppliers from six countries; and Tsang concludes his transaction cost analysis (see above) by recommending "'guanxi audits' (…) that enable senior management to analyze the progress that the company has made in playing the guanxi game" (1998: 64f.). As a consequence, the implications of *guānxì* for business ethics have recently become the focus of analysis. For example, Lovett et al. (1999) have reviewed the effects of *guānxì*-based exchanges in terms of ethical concerns, restricting themselves, however, to efficiency as an ethical measurement.

Nevertheless, there are also excellent descriptions of the *guānxì* system, as provided, for instance, by Chung and Hamilton, Schramm and Traube, Fan Ying, and Gold et al. Exploring the nature of Chinese business practices, Chung and Hamilton (2002) argue that the inter-subjective logic of social relationships provides a (socio-)institutional foundation for Chinese business transactions. The authors convincingly explain that the rules prescribed by the *guānxì* system increase the calculability of economic outcomes, making decisions more "economic", rather than less so. Similarly, Schramm and Taube (2001) oppose exchanges in *guānxì* networks to economic practices in the Western legal framework. *Guānxì* networks are identified as an "optimum" solution to the problem of institutional arrangements—a finding that is found to have far-reaching implications for the dynamics of corruption. Charging that the conceptualization of *guānxì* is insufficiently questioned and that there is considerable confusion about its implications for business, Fan (2002b) analyzes *guānxì* from the perspective of social processes. Fan is one of the few authors who reject the regurgitated myth that so-called "*guānxì* bases" produce *guānxì*. The most

recent major anthology on the institutions, culture and changing nature of *guānxì* has been published by Gold et al. (2004). Since most of its 14 contributing scholars have a serious research history in the field, *Social Connections in China* delivers an interesting mix of assessments; for the same reason, however, the anthology does not contain many new insights regarding the conceptualization of *guānxì*.

What all the above publications have in common is that they constitute an offensive against the under-socialized human in the analysis of economic action. Yet many of them also share a basic methodological flaw: the role of *guānxì* in an economic context is explored without proper reconstruction of *guānxì* as a self-contained system. Using Coleman's sociological theory, this analysis follows a different path, as will be explained in great depth in Sections 1.3 and 2.1.

The survey of the literature available shows that the necessity of conducting research on *guānxì* has long been recognized, in particular by business practitioners. While the role of *guānxì* in a planned economy has been analyzed simply because there was plenty of time to do so (Feng T 2002: 41), *guānxì* and business strategy have not yet been properly integrated into one theoretical concept that links the relevant elements of both institutions. Because the existing corpus lacks the theoretical depth to sufficiently answer the three principle questions despite valuable contributions to the solution of sub-problems (see Section 1.1), this analysis will focus on socio-economic integration—the prerequisite for valid conclusions about how *guānxì* affects business success. A detailed account of the structure in which this problem shall be approached will be presented in the next section.

1.3 Methodological Considerations

The examination of the effectiveness and efficiency of *guānxì*-based business strategy, as well as its legal and ethical implications, involves a large amount of theory. Analysis is particularly challenging for the researcher because it involves different methodological perspectives and different levels of aggregation. The fact that even thinkers as illustrious as Max Weber have been criticized for "unprecise [*sic!*] metatheorizing" (Coleman 1990: 1) suggests the need for a rather extensive discussion, in which the methodological foundations of the three subsequent chapters are considered.

Above all, the methodological perspective of analysis needs to be determined. The social sciences recognize two types of explanations of collective phenomena: *methodological holism* and *methodological individualism* (Coleman 1990: 1). Conceiving the system as an entity, methodological holism derives scientific explanations from analysis with comparable systems, either within a (random) sample or through longitudinal observations. If it were true that the *guānxì* system is unique in the world (see Chen/Chen 2004: 306; *The Economist*, April 6, 2000), such a comparison would not be feasible. Although the *guānxì* system does actually share certain similarities with Western-style personal networks, this analysis shall not take on the task of a spatial comparison. The holistic approach is applied only once to the scientific problem—in Section 2.1, where Confucianism, a commonly assumed origin of the *guānxì* phenomenon, is ruled out as the primary source of (longitudinal) explanation.

Aiming at integrating *guānxì* and market competition, this analysis will therefore explain *guānxì* with the characteristics of elements that are located below the system level (Coleman 1990: 3ff.). Usually, these elements are individuals, but they could also be collective actors, such as organizations, and other sub-systems (Coleman 1990: 1). Irrespective of the level of aggregation, it is assumed that the characteristics, interests, preferences, beliefs, and eventually actions of sub-system elements are the foundation of systemic phenomena in social structures. Since Joseph A. Schumpeter's (1908: 90) post-doctoral thesis *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*, this explanatory structure has been termed *methodological individualism*.[10]

[10] The assumption that, in Chinese culture, the self is an independent entity and that individuals are aware of their goals and intentions, is disputed. Scholars like Fei Xiaotong (1992[1947]: 66) and Ho et al. (1991: 58ff.) deem methodological individualism inadequate for the analysis of social phenomena in China. Due to a lack of self-other demarcation, i.e., a clear-cut boundary between oneself and others, the Chinese are suggested to embody a *relational self*. Chinese scholars (e.g. Ho 1998: 3; He XM 2000: 20) thus propose the concept of *methodological relationalism*, in which the absolute units of analysis are interpersonal connections; also, according to Chen Junjie (1998: 99), relationalism is the Chinese "principle of social construction" (社会建构的基本原理). The difficulty of maintaining this methodological perspective becomes apparent in the works of Hwang (e.g. 2003: 21), who actually contradicts himself when addressing the question of whether, in dispute resolution, individuals seek to maintain interpersonal harmony or insist on their personal goal. Also, if it was true that "in China's collectivist culture, the 'real' decision-maker may be the

Furthermore, it is vital to establish the *level of aggregation*. As stated earlier, *guānxì* is essentially a sociologic construct, while *business strategy* has its roots in economic theory. Attempts at integration immediately reveal that the position of individuals is different in both structures: in sociologic theory, individuals (*I*) are assumed to be directly embedded into a system (*S*), i.e., $I \subset S$. Representing the absolute unit of analysis, individuals are hence understood to directly produce systemic phenomena (i.e., the structure of the *guānxì* network); in other words, social phenomena are conceptualized as the collective result of the consequences of individual actions.

The mechanism is quite different in the theory of economics: individuals are (additionally) embedded into an entity (*E*) that in turn is part of the wider system (*S*), i.e., $I \subset E \subset S$. If the characteristics of an entity meet certain conditions, such as firms in a market economy, they are termed *organization* (e.g. Büschges/Abraham: 1997: 52). If it is this aggregate that interacts with the system, it can represent the absolute unit of analysis. *Figure I-1* further illustrates the differences in the reference frames:

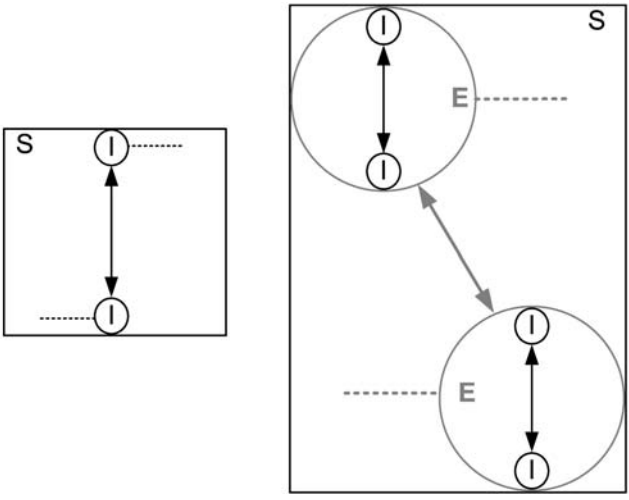

Fig. I-1. Level of aggregation (in the *guānxì* system, market economy)

From the above it follows that methodological individualism comprises two planes, namely a *micro level* and a *macro level*. While the former entails individual characteristics, preferences, and actions, the latter depicts

network as a whole" (Davies et al. 1995: 213), methodological individualism in the narrow sense could not be used.

collective phenomena or abstract system behavior, including the environment that acting individuals face. Since any explanation of macro phenomena that is derived by the means of methodological individualism must fall back on the micro level, there is always a transition from the sub-system to the system level (so-called *micro-macro problem*). If a system not only contains individuals but also one or more sub-system entities (e.g. organizations, firms), then a so-called *meso level* also exists (e.g. an organizational level). Recognizing the meso level in this analysis for the market system only, its characteristics, structure, and goals are the determining environment for individual actors. As shown in *Figure I-2*, transitions from the micro to the meso level and from the meso to the macro level become relevant each time their border is crossed.[11]

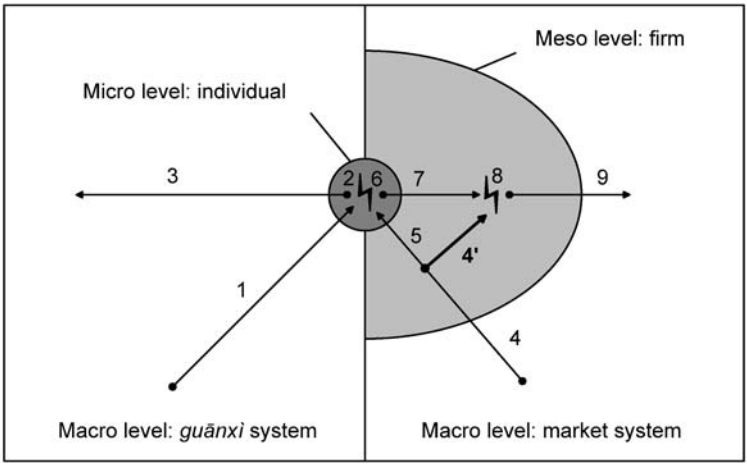

Fig. I-2. Micro and macro levels of analysis

Understanding the interplay of the two systems portrayed above requires three transitions within the *guānxì* system (arrow nos. 1–3) and six transitions within the market economy (arrow nos. 4–9, Coleman 1991: 24). More specifically, the following "rules of [the] game" (Coleman 1990: 19) are needed:

[11] Inherent to explanations that explicitly draw on micro-macro transitions is the problem of *reification*, i.e., representing a human being as a physical thing deprived of personal qualities or individuality. Since, for instance, market exchange rates are a characteristic of the system—caused by dyadic exchanges—it can be valuable to construct systems as loop processes, and explain their behavior with interdependencies of individual actions (Coleman 1990: 28).

No. 1: Embeddedness of individuals into the *guānxì* system (macro-micro transition): how is an actor's set of feasible actions related to the initial social context (institutional norms, traditions, and other codes of conduct)?

No. 2: Principle of action (individual reasoning): how does an individual select from the set of feasible actions? This assumption about the individual reasoning process shall analogously hold for transition no. 6.

No. 3: Combined effect of individual actions on the *guānxì* system (micro-macro transition). Due to unintended external effects of actions, the rules of transition may be more complex than the mere sum of the results of individual action.

No. 4: Embeddedness of a firm into the market (macro-meso transition).

No. 5: Embeddedness of an individual into a firm: what type of affiliation and financial incentives are contractually fixed (micro-meso transition)?

No. 7: Effects of individual behavior on the firm: how are individuals' actions incorporated into a firm?

No. 8: Corporate principle of action: what factors do a firm's decisions hinge upon?

No. 9: Effect of firm action on collective results in the market system (meso-macro transition)?

Instead of processing transitions 5–7, economic theory counters with a "corporate actor" that is embedded in the economic system (e.g. market). In curtailing assumption 4', the micro and meso level coincide and what remains is merely one micro-macro transition. A trivial case, in which the abstraction from individuals as acting entities obviously is redundant, is when a firm (*E*) contains only one individual (*I*). While the *principal agent theory* is explicitly concerned with the interplay of the interests of *I* and *E*, other economic theories often apply heuristic methods that, for the sake of simplicity, assume that employees (*agents*) fully support their employer (*principal*). Based on the above considerations, *Figure I-3* visualizes the role of individuals and firms in two exchange systems.

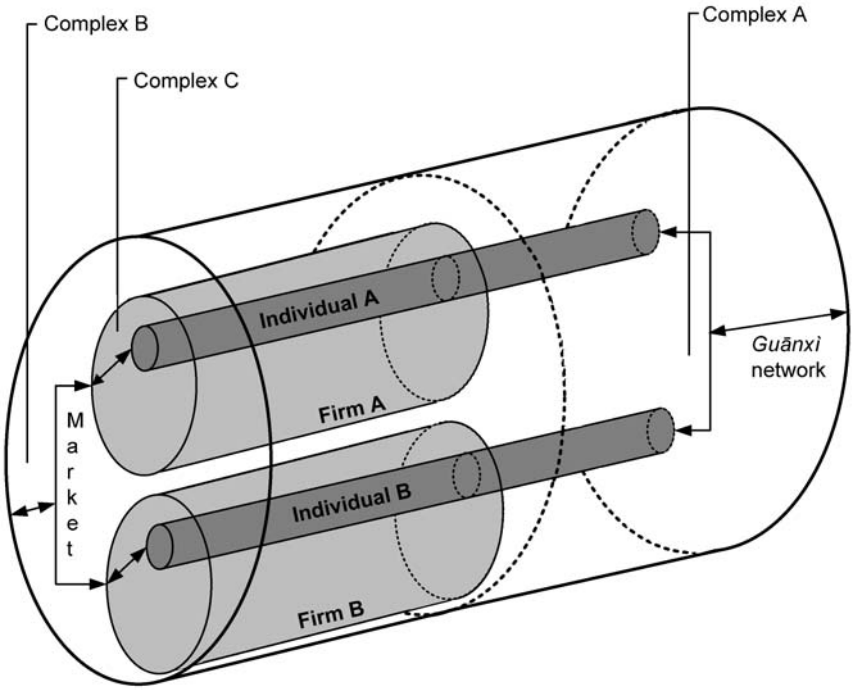

Fig. I-3. The role of individuals and firms in two exchange systems

In a market economy, interaction takes place (and alliances are established) between firms, whereas in a Chinese context, as indicated by the terms "interpersonal *guānxi*" (人际关系, Zhou X 2002: 1) and "personal *guānxi*" (私人关系, He XM 2000: 20), *guānxì* connects people. These individuals may, in turn, connect the firms with which they are affiliated, for individuals are "linking agents" (Bell 2000: 134) within the *guānxì* system. At the same time, as managers or employees of firms, individuals are the methodological starting point for this systematic, bottom-up analysis. As Chung and Hamilton (2002: 11) note on this matter, "a number of studies have shown [that] Chinese businessmen prefer to use guanxi as a primary medium for business relationships". Similarly, Su et al. (2003: 310f.) have empirically observed that *guānxì* is the "cultural way of doing business in China". The distinctive, socially-constructed world of interpersonal *guānxì*, represented by complex A in *Figure I-3*, is dealt with in Chapter 2.

Showing the economic activities of firms, which are embedded in the institution of a market economy, complex B is discussed in Section 3.1.

In order to understand the effects of *guānxì* on business strategy, the *guānxì* network and the market need to be merged.[12] This synthesis is done in Sections 3.2 and 3.3. Within this (new) mixed system, firms cannot arbitrarily choose to renounce elements of either system when conducting business. For the sake of simplicity, it will be temporarily assumed that individual and firm interests coincide because, for instance, each firm consists of only one individual that is part of a *guānxì* network (see above). This assumption, which eliminates complex C transitions (5)–(7), will be relaxed in Section 3.4 when individuals are (re-)introduced as employees.

These strategies, which have been devised based on effectiveness and efficiency considerations, are examined in Chapter 4 in terms of their legality and legitimacy. Here, the second part of the provocative question posed in the preface is approached: should FIEs actually apply *guānxì*-based business strategies? As a pluralistic approach also requires an unambiguous methodological point of view, if no paradoxes are to be built up, it shall be noted that the assessment of normative codes—i.e., the legal standards of the market environment on the one hand and *guānxì* ethics on the other hand—requires a methodological shift towards holism (see above). Because transitions nos. 1–3 and 4–9 have been explored separately, this shift is possible.

In this chapter, the scientific problem has been identified and explained by deconstructing its complexity and by describing its structure in linguistic terms. Since previous research is insufficiently capable of addressing this problem, mainly owing to methodological shortcomings, a précis of the argument has been provided. This research generates new knowledge mainly by integrating originally disconnected theoretical elements of sociology and industrial organization to create a more comprehensive concept. In order to put *guānxì*-based business strategies on a sound footing, empirical support for the assumptions about modern-day *guānxì* is provided at the end of each analytical unit. Statements in this scientific discourse are validated by Chinese sources and well-established facts from secondary literature. As this works remarkably well, only a few hypotheses call for further, dedicated empirical testing. It should be noted that some of the

[12] This move is in line with the demand made by both business administration and sociology scholars to systematically (re-)integrate business studies into sociology.

statistical surveys and examples provided in Chapter 2 permeate the border of the social system and extend into business realms, which are actually only introduced in Chapter 3. This is basically because in reality social and economic realms are anything but clearly separated in China (Yan 1996a: 2; Chung/Hamilton 2002: 11). Theoretical conclusiveness does not suffer as a result, however, as these examples merely serve the purpose of elucidating current *guānxì* practices.

2 The *Guanxi* System

The *guānxì* system contains "both cultural and structural elements" (Chen JJ 1998: 106). This chapter will therefore address *guānxì* as a cultural phenomenon (Section 2.1), and it will provide a detailed analysis of the structure of its sociologic elements (Section 2.2). For methodological reasons (see above), the cultural embeddedness argument will not be presented in great depth;[13] rather, *guānxì* is treated as a cohesive (socio-economic) exchange system. The structural factors behind *guānxì* will then be processed in Section 2.3, in order to allow for integration into a competitive environment in Chapter 3.

Guānxì has developed a level of persistence beyond what would be expected from the technical arguments at hand. From the sociological observation that institutions may persist even when they imply economic disadvantages (Coleman 1990: 302), it follows that the dominance and persistence of the *guānxì* system today may result from a deep-rooted, indigenous culture (Standifird/Marshall 2000: 29). The cultural embeddedness argument, therefore, assumes that certain exchange patterns have been taken for granted as necessary and appropriate, and that it was culture that triggered a period of development, at the end of which *guānxì* emerged as a major exchange mechanism in contemporary China (Day 2002: 85).

Because they clearly have interacted and stimulated each other, structural-economic and historical-evolutionary factors are somewhat complementary, but an analytic separation is necessary to yield the desired level of transparency. This assessment of the *guānxì* phenomenon begins with an overview of the cultural factors for two reasons. First, some general notes on cultural factors are in order because it is understood that the preexisting Chinese culture paved the way for the *guānxì* exchange system. However, in line with Standifird and Marshall (2000: 38), it is suggested that cultural arguments reinforce the *guānxì* system, and hence merely explain its persistence rather than its emergence. Second, the integration in

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[13] For a detailed account of the embeddedness of economic behavior, see Granovetter (1985: 482).

Chapter 3 takes a static perspective focused on the structural elements of *guānxì* rather than a dynamic perspective as in evolutionary theories. Presenting the cultural embeddedness argument before applying social exchange theory provides the reader with a basic understanding, as well as an insight into the shortcomings inherent in a structural approach. It also allows for an uninterrupted presentation of the argument.

2.1 The Cultural Embeddedness Argument

Interpersonal relationships are said to have been one of the major dynamics of Chinese societies during the past 2,000 years (Standifird/Marshall 2000: 29). Assuming that the historical roots of *guānxì* constitute a pervasive part of modern Chinese (business) conduct, it is commonplace—especially among popular scholars (e.g. Wong/Slater 2002: 339ff.)—to draw analogies between the situation two millennia ago and the present-day context. When espousing the idea that culture plays a dominant role in economic exchanges, most analyses leave out Chinese heterodox cultures (Pye 1988: 39f.) and restrict themselves to Confucianism, the elements of which are assumed to be predominant in Chinese civilization (e.g. Lam et al. 1994: 205). It will be shown that "[explaining] general values or ideals (e.g. […] preference for harmony, etc.) by reference to Confucianism" (Chaihark 2003: 42) is untenable when analyzing the *guānxì* system.

2.1.1 Overview of Confucianism

It was indicated earlier that many researchers (e.g. Yeung/Tung 1996: 54; Arias 1998: 151; Bell 2000: 133) identify *guānxì* as a product of Confucianism, such as "*ren*-based *guanxi*" (Hackley/Dong 2001: 18). The term *Confucianism* refers to the ethical and political teachings of Confucius. Initially, it was outside observers from the West who claimed that Asian nations—first and foremost China—were "Confucian" (Bell/Chaibong 2003: 2). Although many a Chinese scholar also identifies Confucianism as the "spiritual pillar" of modern society (He XM 2000: 20), this view is not, in fact, generally accepted (e.g. Bell/Chaibong 2003: 2ff.). Considering the large amount of idioms and vocabulary, as well as normative judgments, that are derived from the Confucian tradition (Bell/Chaibong 2003: 42), there certainly is truth in the idea that the codified societal rules and values specified by Confucian scholars influence modern China. However, their impact on *guānxì* practices is less pronounced than most authors have assumed. In 2003, van Ess (2003b: 1) deplored the fact that "the

question ['Is China really Confucian?'] is posed less and less. Rather, intercultural literature tends to take Confucian characteristics for granted and as an irrefutable basis of consecutive reflections".[14] Other sociological scholars, such as Fei Xiaotong (see below), assert that Confucian culture has had a neutral effect on the development of Chinese society.

It is difficult to explore the impact of Confucian culture on economic development because Confucianism has defied many attempts to identify a common core in the course of its four eras (van Ess 2003a: 7f.).[15] If it were true that Confucianism was actually "physically dead in the 20th century", as presumed by van Ess (2003b: 8), it certainly could not be used as an explanatory factor, especially not for the unprecedented economic boom of East Asian countries in the early 1990s that marked the beginning of "global dominance in what was to be the Pacific century" (*The Economist*, July 25, 1998).

American overseas Chinese and Southeast Asian statesmen have invoked Confucian values under the heading of "Asian values" (Fukuyama 1998; Bell/Chaibong 2003: 3), which were propagated most notoriously by former Prime Minister Lee Kwan Yew of Singapore and Prime Minister Mahathir bin Muhammed of Malaysia. It was the latter politician who, after the first Asia-Europe summit in 1996, made the bold assertion that "Asian values are universal values. European values are European values" (*The Economist*, July 25, 1998). It should be mentioned, though, that not even Asia's intelligentsia comes close to unanimity on what these Asian values actually are. Hence, overemphasizing the Asian values theory would be even more naïve than closing one's eyes to cultural influences. Rather, what can be observed is that Confucian morals are used to make investments sound appealing to foreign companies. Van Ess cynically notes on this count: "Confronted with incomprehension, managers of European and American companies like to believe that Confucian forces, once understood, could produce business success in remote areas of the globe" (2003a: 114f.).

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[14] Hui and Graen, for instance, assume that "the specific role definition of *wulun*" (2000: 454) explains why *guānxì* has emerged as *the* infrastructure of Chinese society.

[15] According to van Ess (2003a: 7f.), these four eras of Confucianism are (1) Confucius' lifetime until 300 BC; (2) 300 BC through 1000 AD; (3) 1000 through 1911; and (4) and the period since 1911.

Confucianism is commonly situated in Chinese philosophical history with reference to the *Historical Records* (史记) written by Sima Qian (司马迁, 145–86 BC). Dealing with the Six Schools of Philosophy (六家), Sima Qian's account of Confucius was the first of its kind; today it is still considered his authoritative biography (van Ess 2003a: 11). In order to take the influence of the societal context into account, analyses often begin with an outline of the environment in which Confucius (孔子)[16] lived. As the following section is restricted to socio-political concerns, it should be noted that a full appreciation of Confucianism would require knowledge of Chinese religious beliefs and practices at that time.

Confucius was born in an "ancient and troubled culture" (van Norden 2002: 4), coinciding with the downfall of the Eastern Zhou empire (770–221 BC). This empire had little power and it was no longer able to control the semi-autonomous vassal states that had come into being after the removal of the (Western) Zhou dynasty (1050–770 BC). When the hegemons lost their ruling power, there was constant discord between rival kingdoms (van Norden 2002: 5f.). This sub-period of Eastern Zhou is known as the Warring States Era (战国时代, 475–221 BC). Confronted with military warfare, political disorder, and social instability, some Chinese people began to look for an ideal structure for society. Confucius (551–479 BC) was one such Chinese thinker.[17]

Little is known about Confucius's life between the time of his birth and middle age, but it seems he lived in the small state of Lu (鲁国, today's southwestern Shandong province), which was intensively harassed by more powerful states on all sides (van Norden 2002: 9). At that time, state rulers started making use of officials instead of nobles. These uprooted members of the lower aristocracy, many of whom began touring the empire to advise the feudal dukes who had managed to remain in power. According to the standard account, Confucius, also being a descendant of a noble family in the state of Sung (van Ess 2003a: 12), left Lu for fourteen

[16] The Master's family name is *Kong* (孔) and his personal name is *Qiu* (丘). He owes his well-known Latinization, *Confucius,* to the translation of *Kongfuzi* (孔夫子) that was not actually used in classical texts, but was introduced by Jesuit missionaries in the 12th century AD (van Ess 2003: 1; van Norden 2002: 32).

[17] Warring States was a period of debate among various philosophical movements, hence the concurrent name for the period: "100 Schools of Thought" (诸子百家, van Norden 2002: 7; Bell/Chaibong 2003: 25).

years, hoping to find a ruler receptive to his ideas about good government. There is dispute as to whether Confucius was forced to leave or whether he left voluntarily (van Ess 2003a: 17f.). If Confucius was striving for a political career, seeking to end social chaos (乱) and establish a stable secular order, he obviously failed (Chaibong 2003: 342).[18] After resigning from this post, the Master turned to teaching young scholars and (unintentionally, it seems) started the intellectual school the Chinese refer to as the "School of Ru" (儒家).

There is an interesting connection between the state of Lu and the "ancient times" of the Zhou dynasty, whose ideals Confucius attempted to preserve (van Norden 2002: 12). One reason for which Confucius was heavily influenced by Zhou is that Lu was at the top of the hierarchy in terms of ancient ceremonial (van Ess 2003a: 14). The state of Lu, which had been established by the rulers of Zhou, had permission to closely follow the traditional rites of the Zhou dynasty (周礼, van Norden 2002: 9).

As will become apparent in the next section, there were not many new ideas in Confucius's teachings: "Already in Shang civilization, we see the characteristic Chinese joining of respect for ancestors, ritual activity, and political power" (van Norden 2002: 4). The Master, however, never claimed to be a pioneer, fully acknowledging: "I transmit but do not innovate (…); I am so faithful and so fond of ancient culture" (Analects VII.1).

2.1.2 Structural Elements of Confucianism

The search for an incontrovertible framework of Confucian elements has kept sinology scholars busy for over a hundred years. Also, non-sinologists in need of assumptions for grasping Chinese cultural elements for their respective fields of research have made inappropriate suggestions, drawn unwarranted parallels, and jumbled up terms (e.g. Luo 2000: 13). This next section sketches the structural elements of classic Confucianism.

[18] Only once was Confucius appointed to an executive position (in 505 BC) as Minister of Crime (司寇) for the state of Lu, a post from which he resigned in 492 BC for unknown reasons (van Norden 2002: 11). However, Sima Qian's outline depicting Confucius as a "loser" is not unproblematic, for its objectivity cannot be ensured. Sima Qian may actually have been much more open to Taoist ideas than to Confucianism (van Norden 2002: 7).

From a Confucian perspective, harmony is an unqualified good; rites and hierarchy provide the means to this great end (Chen A 2003: 260). Based on the assumption that individuals are never isolated entities, the Confucian socio-cultural structure assigns individuals positions that require the precise performance of ascribed rights and duties. The word guānxì, however, does not apply to these ancient relationships because it is not found in the Confucian classics (King 1991: 67). Instead, the character *lún* (伦) denotes the formal differentiation of interacting individuals.

Confucius assumed the existence of a proper way for humans to behave, and, hence, for society to be organized (Chaibong 2003: 342). This proper way, *lǐ* (礼), is typically translated as *rites* or *ritual propriety* (van Norden 2002: 25; Chaihark 2003: 43) by sinologists. Confucius changed the original meaning of *lǐ*, i.e. an ancestral (or religious) offering, to what he believed glued ancient society together: a certain etiquette that humans were supposed to follow (van Ess 2003a: 15, 36). In this worldview, individuals became "rites-bearers" (Chaihark 2003: 44f. drawing on Herbert Fingarette [1971]).

As will be explained in Section 2.2, norms may be enforced through internalization or through external sanctioning. Implicitly, Confucians also made this academic distinction: "On the educative side, *lǐ* is a behavioural norm that operates by being internalized by the person, so that in effect it becomes part of his or her entire being. Proficiency in acting according to ritual propriety is (…) acquired through practice and repetition" (Chaihark 2003: 43). In this sense, *lǐ* comes close to Foucault's understanding of discipline as "a highly individualized mode of regulatory norm which operates through minute training of the human body, under continuous observation and surveillance" (Chaihark 2003: 44, drawing on Foucault 1979), so that the person ultimately arrives at "watchfulness over himself even when alone" (慎独, Chaihark 2003: 44). Even though specific rituals had long since lost their function, it may have been continued compliance with *lǐ* that instilled Confucianism with its extraordinary persistence (Bauer 2001: 63). At the same time, *lǐ* transcends the realms of the individual. As addressed by the Confucian ideal of "cultivating oneself and governing others" (修己治人, Bell/Chaibong 2003: 7), actions had also been externally enforced by the family clan, i.e. the nucleus of ancient society, and by political rulers (Liu L 2002: 323; Bell/Chaibong 2003: 7).

In practice, people are protected from arbitrariness through specific concepts that operationalize *lǐ*.[19] The key term in Confucian ethics is *rén* (仁, van Ess 2003a: 21). Because the Master's interpretation of "love for one's fellow men" (Analects XII.22) obviously is not very clearly defined, there have been debates concerning what *rén* actually means ever since the time of Confucius. The original meaning of *rén* in the Zhou dynasty—i.e. philanthropy—was changed by Confucius to something that is variably translated as *benevolence*, *humanity*, *humaneness*, *human-heartedness*, or *charity*.[20]

Individuals whose conduct was benevolent became, regardless of their descent, "constitutionally noble", as suggested by the pre-Confucian meaning of *jūnzi* (君子): son of an aristocrat. Cultivating the qualities of *jūnzi* in order to achieve the consummation of personal ethical excellence (van Norden 2002: 27) is supposed to be the dictated aim of all human beings (Ho 2003: 290; van Ess 2003a: 21). Confucius expected individuals, in order to attain benevolence, to "restrain themselves in order to observe the rites" (克己复礼, Analects XII.1; Chen A 2003: 261).

As the fundamental basis that gives rise to and instills all virtues, benevolence comprises several principles of behavior in interaction; what is common to these principles is that they are based on positions, vertically directed, and not naturally given, but rather human artifacts (van Ess 2003a: 61). The types of authority practices differ between family and state, two normative realms that Confucius recognized as separate and equally important. The fact that it is "uncontroversial that Confucian virtues in the family should be pursued for their own sake" (Ho 2003: 291) may be attributed to the predominant role of the family in teaching ritual propriety, ancestral rites, and the codes of proper conduct (Ho 2003: 292ff.). Acknowledging that benevolence begins but does not end in a family context, the following discussion is restricted to family values within which individuals have certain obligations towards each other that are literally beyond choice.

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[19] Operationalizing *lǐ* with regards to its social, spiritual, ritual, and normative meaning certainly requires the "terminological rectification" (正名), which Confucius (and *Xunzi*) called for (van Ess 2003a: 37).

[20] Following van Norden (2002: 20), Joseph Chan (2003: 236), and many others, "benevolence" shall be considered an acceptable translation.

The most important expression of benevolence in the family sphere is *xiào* (孝), i.e. filial piety towards one's parents (Chan 2003: 242). Although the character has been found in bronze inscriptions from 1000 BC, exclusively signifying the son's worship of his late father, *xiào* may not have been used by Confucius, as it mostly appears in the first two chapters of the Analects (论语), which are more recent. In any case, it was only after the death of Confucius that *xiào* came to mean serving the living parents (van Ess 2003a: 22) and the young generation's obedience of the adults on whom they depend (Bell 2003: 228f.; Ho 2003: 291f.). In a rural context, the authority of the eldest male was crucial to ensure that the extended family was able to function as a unit of production and consumption. Piety, however, goes beyond economic concerns because it includes emotional support. A textbook example of this is the anecdote of a 70-year old son who, wearing his trousers at half-mast, plays a children's game in front of his parents in order to make them forget their advanced age.[21] As indicated above, one's obligations persist after the death of one's parents: with three years of mourning prescribed, piety prohibited the eldest son in a family from holding any official post during this period, i.e., it required him to interrupt or even completely abandon his career, and hence sacrifice his own interests (van Ess 2003a: 93). On a less dramatic note, cohabitation of Chinese family members is regulated by *tì* (悌), i.e. the benevolence of the younger brother towards his elder brother (He XF 2003: 34).[22]

In a hierarchy of fixed moral positions, which are not questioned in terms of legitimacy, stability and harmony require mutual responsiveness. The division of these (moral) spheres is mitigated by benevolence. The benevolence owed by a father to an obedient son is termed *cí* (慈, Chan 2003: 243). Between brothers or in the relationship between a husband and wife, the powerful male is obliged to act with self-restraint and show benevolence towards his younger brother or wife.[23]

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[21] This paradigm was taught to children only from the 15th century AD.

[22] The application of *xiào* to a political sphere of *rén* is termed *zhōng* (忠): "What is left to be done is simply the extension of [loving one's parents] to the whole Empire" (van Norden 2002: 27). Confucianism teaches that the supreme virtue in relationships is the subjects' loyalty towards the ruler. Holding the Mandate of Heaven (天命), this ruler is at the top of a hierarchy of officials who should rule through enlightened civil service. The political sphere will not be further discussed because it is not of interest in this context.

[23] In the political arena, the obedience of subjects is mediated by righteousness, *yì* (义), which was explicitly combined with *rén* only by Mencius. In an early definition, *yì* is the quality of an action that makes it appropriate*;* appropriate-

In general, "there is no need in promoting moral behavior if people are worried about their next meal" (Bell 2003: 224). This connection between *lǐ* and harmony is also suggested by the etymology of the character for *harmony* (和): the phonetic radical of *standing grain* (禾) and *mouth* (口). Closely related to harmony is the expression of the senses, i.e. emotions (情).[24] Depending on the extent to which emotions are developed, individuals fall into three categories. While good people have the optimum configuration of emotions and bad people the opposite, most people belong to the middle category, in which some emotions are overdeveloped and others are underdeveloped. Therefore, the virtue of moderation (中庸), i.e. a continuous balance of emotions, has implicitly been a major component of Confucian education (van Ess 2003a: 63; Zhang/Yang 1998: 258).

Finally, Confucian ethics entail another relevant element, namely cardinal virtues (德), i.e. the moral excellence of individuals.[25] The elaboration of cardinal virtues goes back to *Mencius* (孟子, 379–289 BC, van Ess 2003a: 31), a philosopher who studied in the academic lineage of Confucius' grandson (Bell/Chaibong 2003: 1). Mencian thoughts were of such great importance for the story of Confucianism that many elements of Confucianism should actually be termed *Mencian*.[26] Mencius assumes the existence of the four cardinal virtues of benevolence (仁), righteousness (义), ritual propriety (礼), and "straightness" (直); later, trust (信) was added to this set of merits (van Ess 2003a: 32f.). Since his time, benevolence has been explicitly perceived by Confucianism as incremental compassion that depends on the nature of the social relationship (Ho 2003: 290). People will feel more compassion for and show more benevolence to close family members than to distant individuals; impartial benevolence and the universal notion of equal concern for all people have never been part of Confucian teachings (Chan 2003: 244.)

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ness was determined not only by the circumstances of one's situation but by one's relevant social role. The ruler is obliged to show benevolence for his subjects. Since it is in the nature of things that only few persons can attain a high position in the hierarchy, the ruler shall also be a shining example for every man from top to bottom (van Norden 2002: 21).

[24] Interestingly, as part of *rénqíng*, *qíng* (情) expresses emotional interaction (van Ess 2003a: 63). *Rénqíng* will be discussed in Section 2.2.2.

[25] In pre-Mencian time, *dé* meant a ruler's charismatic power (van Norden 2002: 21, 35).

[26] Dr. Sun Yat-sen, founding father of the Republic of China, stated that the ancestor of the country's peaceful world would be Mencius, from whom all principles originate (Bell/Chaibong 2003: 9).

Mencian cardinal virtues find their application in *wǔ lún* (五伦), i.e. the five relationships to which every individual is assumed to be subjected (Mencius 3A/4). *Wǔ lún* classifies four sets of superior–subordinate relationships, namely father–son (父子), ruler–subject (君臣), husband–wife (夫妇), elder–younger brother (长幼), and an equal relationship between friends (朋友). Each relationship is governed by a particular norm: closeness (亲) between father and son, justice (义) between ruler and subject, the separation of (gender-specific) spheres between husband and wife (别), proper order between elder and younger brother (序), and trust between friends (信).[27] The attempt to arrange these five potentially competing forces, with a focus on the first and the second relationship, became one of the central doctrines of Confucianism (Hwang 2002: 10). The conflicting relationship between these Confucian dicta on the one hand, and the commercial ethos of profit and the pursuit of self-interest (Bell/Chaibong 2003: 1) on the other hand, will become relevant in Chapter 4.

2.1.3 Criticism

Criticism of the cultural embeddedness argument in general and of the Confucianism-based approach in particular draws on several observations. First, as the following overview of the macro development of Confucianism reveals, Confucian thoughts did not only intermingle with Buddhism and Taoism, as well as influences from other cultures; this thinking also lost a lot of its former influence due to political changes and suppression. Second, critics argue that Confucianism has lost its moral supremacy in modern China. Both of these arguments will be consecutively reviewed.

After the death of Confucius, which marked his near apotheosis, those 77 scholars who are said to have successfully received Confucius's teachings perpetuated the Master's thoughts on "ethical self-cultivatorism" (van Ess 2003a: 26). Because most scholars came from a life in cramped conditions (by teaching the masses, Confucius abolished the formerly exclusive right of nobles to education), few of his scholars became influential. In spite of this obstacle, Confucianism survived and became dominant during the Han dynasty (汉代, 206 BC–220 AD), which used knowledge from ancient texts to legitimize its autocracy (van Ess 2003b: 3f.).

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[27] For a more detailed discussion of this statement, which stems from the first part of Mencian "The Duke Wen of Teng" (滕文公上), see Hwang (2002: 10).

In the aftermath of the Han dynasty, as wars and short-lived dynasties ruled over a divided China, many people sought solace in Taoism and Buddhism, which met their desire for a spiritual world. Confucianism was not able to regain its former place as the state doctrine until the Tang dynasty (唐朝, 618–907), which was also when state official examinations (科举) were expanded. Although Confucianism was only one system of thought among others by then, the ruling elite selected it as the most suitable one for state administration. To advance their views, scholars exclusively referenced canonic books over 2,000 years old; until the Qing dynasty (清朝, 1644–1911), interpretations of these texts remained intact (van Ess 2003a: 74; 2003b: 4, 6). It was only at the end of the Qing dynasty and the advent of the Republic of China that the intelligentsia came to regard Confucianism as backward. In light of a changed environment, the state official examination system was abolished in 1905. Later, after the May 4th movement in 1919, students suggested that it was precisely this Confucian civilization praised by their fathers that had set China back in the competition of nations (van Ess 2003a: 104). Denied a philosophical or religious notion, the Confucianist social system was to be destroyed. During the Cultural Revolution (1966–1976), Confucius once more became evil in persona when Red Guards denounced former Secretary of Defense Lin Biao as a reactionary follower of the Master: "Criticize Lin Biao, criticize Confucius!" (批林, 批孔). Albeit for different motives than the Communists, who did their best to extirpate Confucian thoughts because of their feudal roots (van Ess 2003a: 109), the vast majority of East Asians (Bell/Chaibong 2003: 2) sought to overcome the Confucian obstacle to modern society ("社会进步了!").

In order to convey the delicate consequences of over-interpreting the cultural embeddedness argument, the following section provides an incomplete list of the recent criticisms that have been leveled against advocates who assert that Confucian values are the basis of the *guānxì* system.

Although many Chinese scholars hold Communism accountable for the destruction of Confucianism (He XF 2003: 7), the three central pillars of Confucianism had already collapsed before the 20th century (van Ess 2003b: 8). First and foremost, Confucianism had lost its status as state doctrine or "state-imposed cult". The second pillar to be eradicated was the state official examination system that had, as a multiplier, helped Confucianism spread through society for over a millennium (see above). The third anchor of Confucianism, namely the traditional worshiping of effigies and painted stories in temples, was weakened as Confucianism was

taught in schools, which had a negative impact on its spiritualism (van Ess 2003a: 113).

Skepticism regarding the prevalence of Confucianism in modern China is not new. While many scholars agree that Confucius plays a passive role (e.g. van Ess 2003b: 7, 13), about 100 years ago German sinologist Otto Franke (1863–1946) even stated: "What object is Confucianism (…) today? (…) The answer is: no object. Or at maximum: A dead body in a collapsed house." Similarly, Joseph Levenson had proclaimed in the beginning of the 1920s that for the Communists, Confucius would be nothing more than a national monument released into the silence of a museum (van Ess 2003a: 107).

Van Ess' (2003a: 119) statement that the Confucian influence decreased is further supported by the observation that 20th century Chinese society cannot be characterized as "Confucian". The central position of family is indeed well elaborated in Confucianism; nevertheless, because family is simply the smallest entity of society in which Confucian values are imparted (Bell/Chaibong 2003: 242), *xiào* remains active only to a very small extent (Zhuang/Yang 1991: 169f.). Moreover, the practice of *tì* has lost ground in modern China (He XF 2003: 34).

It can be concluded that Confucianism alone seems too weak to account for the emergence of the *guānxì* system. On the other hand, some scholars (e.g. Wu Liqing 1999: 40) argue that there is evidence that Confucianism, despite changes over the past two thousand years and Maoist attempts to exorcise it, still provides a moral, intellectual, and social nexus for the Chinese psyche. Rather than breaking the taboo to deny China a Confucian tradition, the suggestion is to assume that its ethics persist in the form of a substrate that influences the modern Chinese actor to some extent in various situations, including interaction in the *guānxì* system. This influence will become tangible in the discussion of *guānxì* norms and their enforcement (Sections 2.2.5, 2.2.7) as well as in the ethical assessment in Section 4.2.

2.2 Conceptualizing *Guanxi*

From the previous section, it is evident that cultural explanations of the *guānxì* phenomenon require an unacceptable number of Confucian elements to be reinterpreted in order to make them suit the conditions of

contemporary Chinese society. As will be argued in the following paragraphs, it seems more likely that structural factors have rendered *guānxì* a major system of social exchange and regulatory policy. The perspective that *guānxì* is "a system that depends on the institutional structure of society rather than on culture" (Guthrie 1998: 255) is not new, but has actually been taken in many influential discussions that relate *guānxì* with economic reforms in China. Also, Chung and Hamilton, for instance, have recognized that "*guanxi* is not so much a cultural logic as it is a structural system of repeated interactions based on ongoing (…) exchanges" (2002: 12). What is distinctively new in this explanation though is that it is based on (*New*) *Economic Sociology*, a state-of-the-art field of inquiry, and, more specifically, on the sociological theory of James Coleman. This approach and relevant modifications to it will be presented here, and then applied to the *guānxì* system in Sections 2.2.2 through 2.2.8.

2.2.1 The Underlying Theory: *New Economic Sociology*

In academic literature it is popular to attribute *guānxì* to a "lack of coherent business laws (…) and formal institutional support" (Xin/Pearce 1996: 1643, 1654; almost identically: Kiong/Kee 1998: 84) or the weakness of formal institutional arrangements (e.g. Schramm/Taube 2001: 7). Reflecting a preoccupation with legal systems, the terms "lack" and "weakness" clearly show that for Western economists, it is only natural to assume the existence of enforceable laws. In fact, as Smelser and Swedberg (2004: 5f.) point out, economists often assume social exchange norms and institutions only emerge when markets cannot be constructed. Consequently, most economists deal with *guānxì* as an informal system that is subordinate to another system (e.g. the market). However, as has been mentioned, at the time when the *guānxì* system arose as an institution and since it asserted itself in Chinese society, there was and has been no other institutionalized system in place. Therefore, theory should argue that *guānxì* has evolved as a primary, formal coordination mechanism. And this is exactly what economic sociology does (Smelser/Swedberg 2004: 6; Zafirovski 1999: 583ff.).

Economic sociology concentrates on three lines of inquiry: sociological analysis of economic process; analysis of the connections and interactions between the economy and the rest of society; and the study ranges in the institutional and cultural parameters that constitute the economy's societal context. Broadly, it can be defined as "the application of the frames of reference, variables, and explanatory models of sociology to that complex of

activities which is concerned with the production, distribution, exchange and consumption of scarce goods and services" (Smelser/Swedberg 2004: 3).

The term itself seems to have first appeared in the late 1870s. It was taken on by Émile Durkheim (*sociologie économique*) and by Max Weber (*Wirtschaftssoziologie*), who similarly suggested that analysis should not only cover economic phenomena, but also "economically relevant phenomena" and "economically conditioned phenomena" (1949[1904]: 64f.).[28] In *Economy and Society* (written between 1908 and 1920), Weber (1978[1922]: 4) constructed his entire sociological theory on the basis of individuals' *social actions*, i.e. actions that take into account the (past, present, or future) behavior of other individuals and are thereby oriented in their course. In the 1920s, the level of interest in economic sociology declined and remained low until its current revival, which began in the 1980s.[29] This renewed interest was sparked by James Coleman and Marc Granovetter, who in 1985 spoke of *New Economic Sociology* (*NES*). NES studies the interactions of rational choice theory between economics and sociology (Fannin/Henness 1999: 7). The prevailing questions addressed by NES are, however, the same as those of economic sociology, namely "What is the real nature of economic action?" and "How do economic institutions (or organizational forms) come about?" (Fannin/Henness 1999: 7). Therefore, Zafirovski and Levine deem the distinction between *old* and *new* economic sociology "spurious" (1997: 265).

The term *new economic sociology* yielded a "tangible name" (Smelser/Swedberg 2004: 14), suitable also for a counter attack on "economics [that] increasingly invaded the territory once reserved for sociologists" (Foss 1997: 3). This "counter attack against NIE [*New Institutional Economics*][30] scholars" (Richter 2001: 4) was most notably possible thanks to

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[28] Along with Weber and Durkheim, the classical tradition of economic sociology is found in the works of Marx, Simmel, Schumpeter, Polanyi, and Parsons.

[29] Economic sociology is mainly an American phenomenon; it has only recently begun to spread in Europe. The classic tradition was not maintained in Europe, probably because few scholars (e.g. Weber) had disciples (Smelser/Swedberg 2004: 11).

[30] *New Institutional Economics (NIE*) was introduced into economic analysis by Williamson (1975: 1ff.). It comprises elements of diverse groups of economists (e.g. *property rights*, *public choice*, *agency theory*, *transaction costs economics*, and *law & economics*). In the words of Coase (1998: 73): "Add to [the level of transaction costs] the influence of laws, of the social system, and of the culture, as well as the effects of technological changes such as the digital revolu-

James Coleman's highly relevant description of rational choice methodology (Smelser/Swedberg 2004: 17).[31] Despite the fact that NES is a substantially pluralistic approach with no single dominant perspective (Richter 2001: 5), there is no doubt that James Coleman's theory (1926–1995) occupies a unique place. Initiated in the early 1960s, Coleman's efforts culminated in his book *Foundations of Social Theory* (1990), which received the American Sociological Association's *Distinguished Publication* award in 1992 (*UC Chronicle* 1995).[32]

The argumentation used in "Foundations of Social Theory" is based on actors' interests. The idea that interests constitute an important element of sociology was not new (Richter 2001: 5). In fact, in the tradition of classic economic sociology, it was already accepted that investigation must combine the analysis of economic "interests of the actors as they themselves are aware of them" (Weber [1922]1978: 30) with an analysis of social relations (Smelser/Swedberg 2004: 7). Coleman, however, held that interests are responsible for all social actions. The tremendous influence of this view on the discipline is exemplified by the fact that it necessitated an update to the authoritative *Handbook of Economic Sociology* (2004), parts of which had to be completely rewritten, as its authors Smelser and Swedberg (2004: 20) have acknowledged.

Along with actors' interests, Coleman included control over resources; hence the key theoretical chapter in *Foundations of Social Theory* is entitled "Actors, Resources, Interest, and Control" (Coleman 1990: 27). These four components form the basis of Coleman's succinct, bottom-up framework. Since it will be applied almost without modification in the analysis of *guānxì*, a brief overview is in order; details will be discussed in depth in the subsequent subchapters.

Since Coleman's theory takes the perspective of methodological individualism (see above), *actors* represent its basic structural component. The

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tion with its dramatic fall in information costs (a major component of transaction costs), and you have (...) 'the new institutional economics'."

[31] For another center of attention in NES, i.e. the embeddedness of economic actions into concrete, ongoing systems of social relations, see Granovetter (1985: 487) and Richter (2001: 5). On the relationship between NIE and NES, and more specifically the promising merger of NIE and NES into what may become *New Socio-Economics* (NSE), see Richter (2001: 31).

[32] Note that James Coleman is also the father of modern mathematical sociology (Ritzer 1996: 487, 502ff.; Edling 2002: 197ff.).

second component is *resources*[33], the distribution of which differs across the system, depending on actors' knowledge, class, estate, prestige, race, gender and the like. Actors and resources are connected in two ways, namely through actors' *interest in* resources and/or *control over* resources (Coleman 1990: 34ff.).[34] It is important to note that actors thus relate to each other only indirectly through resources; the resulting relationships between actors account for the structure of the social exchange system.

Coleman's theory assumes actors to act in the pursuit of an *intentional goal*,[35] which is why the term *purposive theory of action* applies (Abraham 1996: 3). Which action subjects realize depends on the *principle of action* (Coleman 1990: 13). As multi-level analyses lend themselves to a simple principle of action, actors are assumed to follow the principle of *utility maximization*.[36] In other words, actors will select the one action that optimizes their interests with respect to the restrictions imposed by the social system. Interests may comprise single preferences, such as money, affection, or status, but more recently they also have included altruistic motives and fairness (Abraham 1996: 4) or they represent a combination of multiple preferences (Coleman 1990: 14).[37]

The assumption of a "psychological universe" (Smelser/Swedberg 2004: 3) of utility maximization has been criticized. Analyzing several points that have been made, it is clear that what is rejected most often is the notion that people always act rationally (e.g. Frank 1996: 117); for the case of Chinese people, Weber (in the *Religion of China*, produced 1916–1919) asserted that rationalism is "not complete". In line with Hwang (2002: 3),

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[33] Coleman's distinction between resources and *events* shall not be carried over in this analysis.

[34] Here, Coleman draws on the thoughts of Weber, who maintains that "it is essential to include the criterion of power of control and disposal (*Verfügungsgewalt*) in the sociological concept of economic action." Economics, even in theories as recent as *New Institutional Economics*, follow the tradition of assuming interaction among *equals* (Smelser/Swedberg 2004: 5) when they replace *power of control and disposal* with *property rights* that are explicitly based upon a system of legally enforced rights.

[35] For critical perspectives on this assumption, see Coleman/Fararo (1992: 101–180).

[36] Other principles of action would be *arbitrage choice* (see Nau 1999: 1ff.) or *framing* (see Abraham 1996: 3).

[37] The assumption of a rational choice principle of action is in line with Fei Xiaotong's understanding that actors are egocentric and all of their values are oriented to serving various needs (see Section 2.2.3). For a general criticism of this assumption, see Triandis (1999: 137ff.)

however, the suggestion is not to follow such claims, but instead to acknowledge that the interests of a Chinese actor may differ from those of a Western actor. In fact, rather than questioning the appropriateness of rational choice as an explanatory approach, researchers should interpret apparently irrational behavior as an indicator that they have not discovered the perspective from which the action is rational for the individual, i.e. by considering the limitations of the individual's mental capacity (Coleman 1990: 17f.) or a differing set of resources in which the actors are interested. This is what Fei Xiaotong (Pasternak 1988: 659) had in mind when calling for the "sinicization" of Western theories prior to their application. Considering that the "logic of *guanxi* (…) implies no trace of irrationality or of doing something out of the ordinary" (Chung/Hamilton 2002: 11) and that *guānxì* is structured by the norm of reciprocity (Hwang 1987: 944f.), which implies calculation, contemporary social science offers no better choice than assuming rational conduct.[38]

From this principle of utility maximization there follow three types of interaction in social exchanges. First, if an actor has interest in and control over a particular resource, he will exert his control for the purpose of consumption. If consumption has a (positive or negative) effect on one or more other actors, there will be interaction because of the structural interdependency in the system. As it is assumed until Section 2.2.5 that no external effects exist, this first type of action in Coleman's classification is trivial. The second type of action is a unidirectional transfer of control over a resource because one subject believes that another subject exerts control over the resource in a more beneficial way. For *guānxì*, more relevant than a unilateral transfer of control is the third type of action, in which an actor is interested in but does not control a particular resource. Suppose the actor finds an interested partner or that both have a pre-determined relationship; resources will then be bilaterally exchanged. The focus on the third type in this analysis is supported by Fan (2002a: 372f.), who draws on Osland to note that commonly one of two persons who have a special relationship with each other needs something and the other has the ability to give it.

Another element in the structural analysis of exchange systems is governance of behavior within the *guānxì* system. Under certain conditions, actors design rules of exchanges and enforce them through effective sanctions; this action co-determines the level of trust exchange partners show each other (Coleman 1990: 34ff.).

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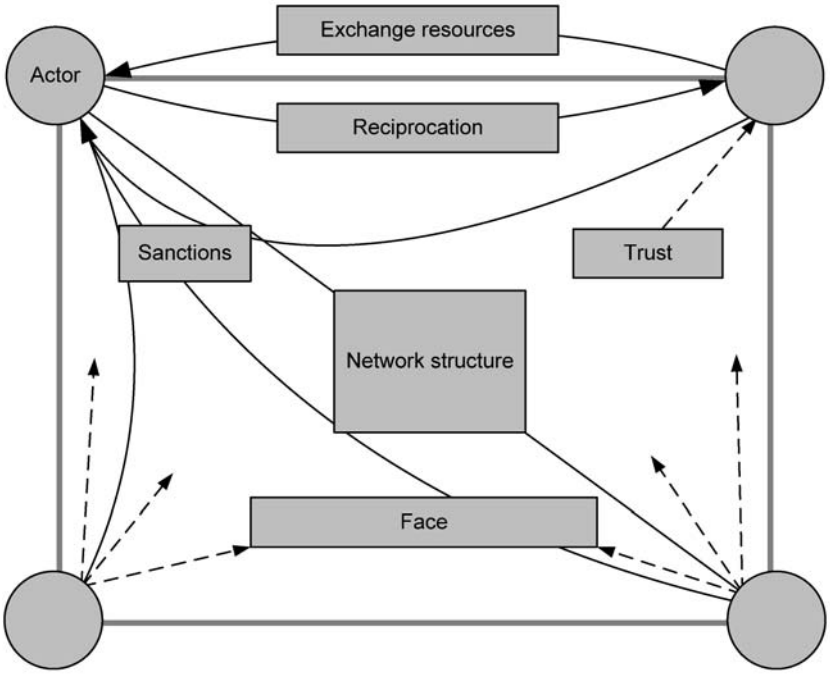
[38] For further discussion of this issue in general, see Hechter/Kanazawa (1997: 191f.).

Finally, the aforementioned components may be subject to evolving dynamics (Coleman 1990: 34ff.): as interests in and control over resources are changing, new relationships are established or existing ones dissolved. Norms and sanctions are adjusted, influencing in turn the importance of trust. Aiming to describe the emergence of the *guānxì* system in its current shape, this analysis will point to the dynamics to which individual elements have been subjected in the past. Note that in order to facilitate conceptual integration, the *guānxì* system will be regarded as static after its emergence has been explained.



Exchange resources	Section 2.2.2
Actors	Section 2.2.3
Network structure	Section 2.2.4
Reciprocation	Section 2.2.5
Face	Section 2.2.6
Sanctions	Section 2.2.7
Trust	Section 2.2.8

Fig. II-1. Structural elements of the *guānxì* system

Figure II-1 summarizes the structural elements of the *guānxì* system. The discussion in Sections 2.2.2 through 2.2.8 is organized in accordance with this. Interestingly, this analytic framework is also somewhat similar to linguistic approaches to *guānxì*: *rénqíng* and *miànzi*, for instance, represent terms that are frequently employed in Chinese to assess the appropriateness of exchanges (Hwang 1987: 945; Chen JJ 1998: 108).[39]

2.2.2 Exchange Resources

In Coleman's sociological theory, actors are connected through resources (see above). This section presents the resources that actors are assumed to control in a *guānxì* network, namely *rénqíng* (Section 2.2.2.1) and *gǎnqíng* (Section 2.2.2.2). The interests directed at these resources and the exchange that results from compatible interests are discussed in Section 2.2.2.3.[40]

2.2.2.1 Renqing

The first exchange resource in the *guānxì* system is referred to by the Chinese as *rénqíng* (人情). In addition to a variety of other meanings that will be discussed later, the most important denotation of *rénqíng* is an instrumental resource (资源, Zuo 1997: 64f.) that "an individual can present to another person (…) in the course of social exchange" (Hwang 1987: 954), either on his own initiative (送个人情) or because the individual has been asked for it (买 / 讨 / 求个人情, Ding 1997: 46).

Note that while this analysis perceives the role of *rénqíng* distinctively as an exchange resource in the *guānxì* system, the relationship between *rénqíng* and *guānxì* is confusing. Yan states that "[*guānxì* and *rénqíng*] in practice are two sides of the same coin" (1996a: 24) and that under certain circumstances both terms may be synonyms, as in "I have no *rénqíng/guānxì* so I failed" (Yan 1996a: 25). The People's Supreme Court of Jilin (1995: 22) obscurely commented that "*guānxì* includes *rénqíng*, and *rénqíng* includes *guānxì*". Moreover, Luo's (2000:15) imprecise perception of *rénqíng* as a "precondition for the establishment of *guanxi*" does

[39] At this point, note again the *emic* nature of this analysis (see above).

[40] Note that in Section 2.6, face (*miànzi*) will be introduced as a third resource. This resource, however, is special in that it is created by the social system, and hence cannot be directly controlled by actors. Therefore the *face* resource will not be discussed in the context of exchange resources but rather separately.

not help. Slightly clearer is Hwang's (1987: 953, 956f.) observation that, while Chinese people often weave networks of *guānxì*, they also weave networks of *rénqíng* obligations that are owed (欠人情) and that must be repaid in future. This confusion explains why, instead of *rénqíng*, *guānxì* is often erroneously referred to as a "resource" (e.g. Chen JJ 1998: 112) although the relationship *per se* cannot be exchanged, and therefore has no exchange value.

Before examining the role of obligations in the *guānxì* system, a classification of *rénqíng* as an exchange resource is in order. Drawing on Yang Meihui (1994: 199f.), it is suggested to assume that *rénqíng* is divided into two subcategories, namely *material rénqíng* and *body rénqíng*.[41] While *body rénqíng* is the energy and time expended in performing a favor or in buying or making a gift, *material rénqíng* describes resources that have a quantifiable material value. Body *rénqíng* and material *rénqíng* are not mutually exclusive, i.e. *rénqíng* may entail both elements at the same time. Applied to everyday exchanges, the body and material *rénqíng* categories find their expression in *favors* and *gifts* (He XM 2000: 19).[42] Discussed in the next passage, there are also two types of favors: members of the *guānxì* system share (classified) information and they render each other assistance.

The exchange of *information*[43] favors in the *guānxì* system is so common that *guānxì* is said to act as an "information bridge" (信息桥, Feng Tianli 2002: 40). In fact, powerful people often owe their success to informational benefits derived from the *guānxì* system (Chen Hong 1997: 113). While some pieces of information usually require the giver to make efforts, in particular when they are acquired for exchange purposes, other pieces may be available as part of daily work, e.g. business opportunities

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41 Yang MH also applies to *rénqíng* Pierre Bourdieu's (1977: 176ff.) division of *social capital*—a concept that will not be used in this analysis (see Section 2.3). She concludes that *guānxì* exchanges entail gifts, symbols, office resources, and political resources that are converted from one form to another at different stages. Since Yang's argument is not convincing, her idea shall not be further discussed. Yet, the exchange of symbols will become relevant in a different context (see Section 2.2.6).

42 Yang (1984: 45) does not distinguish between favors and gifts but subsumes the former under the term "gift".

43 Information here does not refer to other member's conduct, which is assumed to be flowing in the network anyway; because the context differs for these two types of information, a terminological distinction is not required.

or urban job vacancies (Bian 1994: 979).[44] Information acquired from *guānxì* partners is often seen as more reliable than documentary media (Luo 2000: 80). Therefore, it is not surprising that Qiu's (1998: 166) empirical findings indicate that friends and relatives are more often used as a source of information than newspapers, magazines, libraries, information centers, databases, and computer networks.[45] As valuable as information may be in the *guānxì* system, it is exchanged as *rénqíng* and requires that something be given in return.[46]

The second type of favor exchanged in the *guānxì* system is assistance (办事, 帮[个]忙). Typical instances of assistance are physical care-giving in cases of illness or access to restricted items such as hard-to-acquire medicine or scarce train tickets; other examples involve specific skills, such as proof-reading an article written in English. In business, common favors granted to *guānxì* partners include designing a logo, granting price discounts, and a large number of other means (Zhong 1995: 19). A widespread favor among leading executive and government officials is providing assistance in obtaining an academic degree, such as a Master of Business Administration (MBA). In order to profit from the advancement of their superior's political career, lower-ranking officials will "court for the privilege to write the final thesis for their superior" (Jiang X 2001: 58).[47]

Needless to say, the cost-benefit ratio of *rénqíng* is best for the giver at zero cost, i.e., when he allocates resources that he does not own but merely controls. The occupancy of positions and ranks may make available approvals of applications, grants of concessions or requests in tax affairs, or

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[44] Bian (1994) describes the importance of using *guānxì* in acquiring jobs in cities: "Because of a lack of advertising and formal hiring procedures, *guānxì* became the predominant means of channeling individuals into work units. People used their *guānxì* to solicit employment information, to create application opportunities and to influence informal screening."

[45] Note that Qiu's survey, which was conducted among managers of medium-sized companies in Shanghai, seems to suffer from an erroneous data collection method.

[46] According to Feng Tianli (2002: 40), pure information exchanges decrease over time. Feng's argument is based on Bian and Zhang's (1999) analysis of information *rénqíng* exchanges in China's labor market They found that the transfer of information in the *guānxì* system decreased in the period 1956–1999 (pure information by 5% to 19%, and information in combination with other forms of *rénqíng* by 10% to 38%).

[47] In the Chinese language, assistance seems to refer to the accomplishment of an entire task rather than minor advice or psychological support.

classified information (Yang MH 1989: 44). The important distinction of whether the cost of rendering a specific favor is borne by the individual or the institution cannot be made at this point, for individuals are assumed not to be embedded into meso-level institutions (see notes on methodology, Section 1.3). Suffice it to note here that the "exchange of power and money" (权钱交易, He XM 2000: 21f.) obtained by persuading the right official is macroeconomically disadvantageous.[48]

Along with favors, another type of *rénqíng* is exchanged in the *guānxì* system: gifts (礼物, Ci Hai 2003; Herrmann-Pillath 1997: 12). Most Chinese make use of both happy and unhappy occasions to send red envelopes, the so-called *hóngbāo* (红包), to their acquaintances. *Hóngbāo* originally meant "something wrapped in paper as gift for encouragements" (Jiang X 2001: 57). Customarily, members of the elder generation stuffed large amounts of coins (压岁钱) in red packages and gave them to members of the younger generation during festivities for the lunar New Year to express good wishes and hope. Since people are expected to give money to the children of relatives and close friends (Zhong 1995: 198), many parents collect the *hóngbāo* received by their children. As *hóngbāo* has material value (see above), it can be exchanged with a clear instrumental goal (Yang MZ 1995a: 6). Western ideology rejects such an extent of instrumentalism, tending to romanticize gift-giving as purely disinterested and related to affective sentiments (Yang MH 1989: 49). In the *guānxì* system, however, *hóngbāo* cannot be said to "[add] the emotional affect to an (…) investment", nor does it "[proffer] material rewards without explicitly demanding a return" (Luo 2000: 56); in fact, *hóngbāo* is limited in its ability to produce *gǎnqíng*.[49]

In *guānxì* practice, a wide variety of *hóngbāo* is exchanged, all forms of which have in common that they are suitable for raising the living standards of a *guānxì* partner. The most traditional forms are basic foodstuffs, such as fruits, cakes, fine cooking oil (Wang J 2000: 53), or Nescafe instant coffee presented with powdered milk, a cup and a spoon—all carefully wrapped up in a box. The most wanted items, however, are cigarettes and liquors, in particular China's most famous brand *Maotai* (茅台) from

[48] If, for instance, an official exerts influence on a public auction of scarce goods, they do not yield the maximum price tag (and hence are probably not allocated in the most efficient way).

[49] The normative aspect of *hóngbāo*, which often is merely a matter of courtesy and observance of proper social form and etiquette, will be discussed later.

Guizhou province or, for Chinese yuppies, imported Chivas Regal whiskey. By the early 1990s, luxury goods had turned out to be of too little value and they were replaced by fashionable clothes, watches, home appliances (commonly color television sets and refrigerators), calligraphy works of famous people (名人字画, Jiang X 2001: 57), cars, and even villas (Wu Z 2003: 45).

Another kind of *hóngbāo* that is common in urban areas includes public transportation cards (交通卡) and prepaid IC phone cards, which reduce the recipient's living expenses (Jiang X 2001: 58).[50] There is, however, some inefficiency in giving away public transportation cards because the pleasure is not derived from the gift itself, but from enjoyable purchases made possible through the savings. Therefore, supermarket cards (超市卡) or shopping vouchers (购物券) are more effective: paying for another person to shop for desired items gives the giver much better chances of being remembered. Since the balance cannot be converted to cash, supermarket cards and vouchers increase the likelihood of the recipient purchasing an item he likes.

Cash too, can be a gift (Yang MH 1994: 199). Indeed, cash rather than in-kind benefits is the number one gift in China.[51] While in earlier times money was given to officials as a token of gratitude for artfully painting one's signature with a calligraphy brush (Luo 2000: 56) or to the head of a family on occasions related to engagements or weddings, today it often comes in the form of securities (有价证券) or bank accounts. As money is sometimes wired to a bank account that has been newly opened in another person's name, cash gifts are also termed "concealed *hóngbāo*" (隐蔽红包, Jiang X 2001: 58). Although cash is never refused (货不对路, Yang MZ 1995b: 43), Wu Zhiru (2003) ironically points out that "everything [but credit cards] will be regarded as annoying" (太麻烦, Wu Zhiru 2003: 45).

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[50] It seems to be a common misunderstanding among Chinese givers that using private money to purchase transportation services from the state is good for the public. In terms of market distortion through *hóngbāo,* however, Chinese legal practice does not distinguish among the sources of money spent on transportation cards (see Section 4.1).

[51] The amount of cash varies as a function of the region, period, and the closeness of the relationship (Yang MZ 1995: 42).

Although the nature of gifts is "constantly changing, cash will not be eliminated [from *guānxì* exchanges]" (千变万变, 钞票不变, Zhong 1995: 29). What does change, however, is the details of its transfer: a technique that is much more fun than wire transfers is intentionally losing at gambling (Liu L 2002: 240, 249). Playing cards or mahjong (搓麻将) creates a fine social atmosphere (Jiang X 2001: 58).[52] As the "new rule of mahjong actually is to never win" (麻桌新规定只输不赢, Zhong 1995: 89), gambling among leading CPC executive and government officials had to be restricted to small amounts of money (小赌).[53]

"People, too, can be a gift" (人同样也是物, Zhong 1995: 38), especially beauties (美女), who are "very useful indeed" (Zhong 1995: 38; similarly: Yang MH 1989: 466) as exchange gifts. Because they are "something personal" and because they involve knowing the "taste of the recipient", they are termed "spiritual *hóngbāo*" (精神红包, Jiang X 2001: 58). Introducing[54] lithe and lissome public relations ladies (公关小姐) to one's *guānxì* partner also goes by the term "pillow wind" (枕边风, Zhong 1995: 38). This phenomenon, which Zhong Qing (1995: 39) claims has a long tradition in China,[55] has become so widespread and popular that people have humorously modified "The Four Cardinal Principles"[56] (四项基本原则) of Chinese government to "(1) one's salary basically remains untouched, (2) for food one is basically always invited, (3) the wine one drinks basically

[52] Liu Linping (2002: 240, 249) explains that gambling is popular in China, because life often is boring (生活无聊), because time needs to be killed (要打发时间), and because husband and wife can go gambling together (丈夫妻子一起赌).

[53] A quantification is not provided in this regulation, "Explanations on the legal practice when dealing with gambling cases", issued by the People's Supreme Court and People's Supreme Prosecutor on May 12, 2005 (see Section 4.1).

[54] A common way of introduction is for interested businessmen to ask for an arrangement "to become friends with the PR lady" (跟公关小姐交个朋友, Jiang X 2001: 58).

[55] For the relationship between the *guānxì* system and the story of *Xi Shi* (西施), one of China's ancient Four Beauties, see Zhong (1995: 61ff.).

[56] The Four Cardinal Principles, as stated by Deng Xiaoping in 1979, are: (1) the principle of upholding the socialist path; (2) the principle of upholding the people's democratic dictatorship; (3) the principle of upholding the leadership of the Communist Party of China; and (4) the principle of upholding Marxist, Leninist, and Mao Zedong thought.

is a gift, and (4) one's wife is basically not used" (工资基本不动, 吃饭基本有人请, 喝酒基本有人送, 老婆基本不用, Jiang X 2001: 59).

Hóngbāo exchanges are particularly active during annual festivals (时历仪礼, Huang 2002: 91), such as the Spring Festival, Mid-Autumn Festival, and Dragon Boat Festival (Jiang X 2001: 57). The main occasions for giving *hóngbāo*, however, are personal events (生命仪礼, Huang 2002: 91). Birthday banquets, and even more importantly, weddings and funeral ceremonies, offer the opportunity for large *hóngbāo* exchanges. Having the illustrious guests enter in a register the amount of money they have given is not meant to save the merry couple from the task of counting cash, but rather it ensures that they remember what is owed to each giver.

Although *hóngbāo* obviously can be exchanged on many occasions, its modalities (方法) are not optional. In fact, the high degree of "culturally embedded symbolism" (Yang MH 1989: 38) makes appropriateness complicated. This is why *hóngbāo* exchanges are said to be "elegant" (大方体面的), and why *guānxì* cultivation is termed an "art" (一门艺术, Yang MZ 1995b: 43). Since good *guānxì* requires knowledge about the partner's interests, their mood (脾气), preferred topics of discussion, favorite restaurants and brand of cigarettes, it is not surprising that "flattery" (拍马屁) is also considered an art (Zhong 1995: 50, 136). This analogy, which also holds for the work of pickpockets, qualifies the expressiveness of terming *guānxì* an "art".

In general, people will remember gifts, even small ones (小意思), if they are presented in an unexpected way (飞来的, Zhong 1995: 17, 23). Shang (1999: 41) reports an amusing anecdote showing that an unusual approach may still fail due to bad luck. It tells the bizarre story of Old Tian (老田), whose son is a leading executive. For the old man's 80th birthday, someone who seeks *guānxì* with his son sends a big birthday cake with a rare, very precious diamond ring hidden inside. Tasting the cake, Old Tian chokes on the ring and, suspecting a murder attempt, gets extremely upset. The attempt to establish *guānxì* with the son failed, and the investment was lost.[57]

The above discussion depicted *rénqíng* in a purely instrumental manner. However, the Chinese term *rénqíng* has multiple meanings, and it also

[57] For the creativity required in gift-giving, see also Chen Junjie (1998: 196).

describes non-instrumental aspects of the *guānxì* system. Along with its meanings of favor and gift, it is also defined as normal human feelings (人之常情), mainly as affection (Ci Hai 2003). Confucius is said to have originally defined *rénqíng* as "joy, anger, sadness, fear, love, disliking, and liking. These seven feelings belong to men without their learning them" (Liji VII.19, Legge 1885). Although the meaning of *rénqíng* has changed over time, in contemporary Chinese language it still indicates emotions and empathy (Zuo 1997: 64), such as "false display of affection" (空头人情). The ability of an individual to "understand people's emotional responses to various situations of daily life" (懂人情, Hwang 1987: 953) is highly appreciated in China. This denotation of *rénqíng* as the "milk of human kindness" (人情味, He XF 2003: 33) comes close to the above Confucian remark.

A second connotation of *rénqíng* is social norms (社会规范, Zuo 1997: 64) and rules of etiquette, as well as compliance with them (Ci Hai 2003). Providing the *guānxì* system with a moral foundation, *rénqíng* is inseparable from or even synonymous with ethics, *lǐ* (see Section 2.1.2; Ding 1997: 46; Hwang 1987: 953). This linguistic diversification beyond the meanings of favor and affection complicates the use of Western theory to assess the role of *rénqíng* in the *guānxì* system. As norms do not result from the actions of one individual—they are consciously produced by the social system (Coleman 1990: 241)—the normative meaning of *rénqíng* can be analyzed only after the emergence of the system has been discussed in Section 2.4.

2.2.2.2 Ganqing

Along with *rénqíng*, actors in the *guānxì* system have control over and/or interests in a second resource: *gǎnqíng* (感情), loosely translated as "sentiment" in a relationship (Bian/Ang 1993: 981ff.). Individuals also establish *guānxì* based on affection for a person or a "sense of attachment", with an emphasis on genuine warmth (温情) (Zhong 1995: 39; 41), safety, and a considerable degree of emotional concern.[58] Reflecting the qualitative element, good *gǎnqíng* means that two people have a good rapport or considerably deep feelings within a social relationship (Yang MH 1989: 48). For obvious reasons, *gǎnqíng* is gender specific, i.e., it develops mostly among actors of the same sex.

[58] *Gǎnqíng* may also be interpreted more broadly as emotion or sentiment, i.e. "strong psychological response to external stimuli" (Ci Hai 2003).

Just as with *rénqíng*, the assumption is made that *gănqíng* is controlled by some actors and that other actors are interested in it.[59] To be precise, actors are actually interested in *gănqíng*, not in the "expressions of *gănqíng*", as implied by Chung and Hamilton (2002: 2). For obvious reasons, however, *gănqíng* must be expressed to become exchangeable.[60] Implicit in the above discussion are several examples of *gănqíng* exchange, such as the expression of warmth (Zhong 1995: 39).

Gănqíng can be elucidated by reference to *rénqíng*, more precisely as an attachment to the exchange of little gifts (the "unexpected way", see above). Surprising a recipient requires knowledge about his expectations, which, in turn, implies empathy and possibly *gănqíng*. This same psychological pattern also explains how supermarket gift cards and vouchers actually seek to incorporate *gănqíng* into a *guānxì* exchange. Actors who have nothing in common but instrumental interests disguise the lack of *gănqíng* by outsourcing the selection of a proper gift to the recipient. In this way, the gift will correspond exactly to the preferences of the recipient, and it may yield amazing results in terms of suggested *gănqíng*, provided that the recipient does not reflect too thoroughly on the details of the purchase.

Yet another expression of *gănqíng* is banquets, for wining and dining with kindred spirits is often enjoyed by participants. The willingness to spend an evening with important *guānxì* partners, however, must not be attributed to *gănqíng* alone. The idea that participation in a banquet does not "impart affection into interest-based guanxi" (Luo 2002: 57) is supported by the fact that the expression "wine and meat friends" (酒肉朋友, Standifird/Marshall 2000: 22) is actually a metaphor for mistrust. In fact, banquets keep down the personal cost of living, and they offer access to extravagant food, drinks and entertainment otherwise beyond the means of ordinary people (Pearce/Robinson 2000: 35).[61]

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[59] Note, therefore, that *gănqíng* as an exchange resource is restricted to affection. Although actors control the capability of producing negative emotions (e.g. hatred), the reasonable assumption is made that no actor is interested in it.

[60] For a discussion of two competing models of how emotions can be brought into social exchange theory, see Lawler and Thye (1999: 217ff.).

[61] Beyond acting as *rénqíng* and *gănqíng* exchange resources, banquets contribute to the *guānxì* system as a structural element (catalyst) as they facilitate communication, which is required for the emergence of norms and for sanctioning. Again, the reader will be better informed after the structure of *guānxì* networks has been presented.

The word *gănqíng* also describes the quality of a relationship, as in the negative statement "their relationship is disturbed" (他们的感情受伤了or, in a marriage, …破裂了). *Gănqíng*, in this sense, is based on a "commonality of shared identification", as Bruce Jacobs (1979: 243), a professor of Asian languages and studies at Monash University in Australia, terms the same world view, taste, habits etc. In the Chinese language, the strong impact of congenial personality on behavior with strangers is expressed as a "feeling of connectedness at first sight" (一见如故); the gap between inside and outside is closed, identities are fused (Yang MH 1989: 41), and *gănqíng* instantly develops. The difference between such an understanding, as interpreted by methodological relationalism, and the understanding of *gănqíng* as an exchange resource, as in this analysis, is not to be underestimated.

Similar to *rénqíng,* which has multiple connotations, *gănqíng* cannot be denied a normative component. Actors develop *gănqíng* by accomplishing tasks and helping one another, and for *gănqíng*, one must live up to one's social obligations (Yang MH 1994: 122). For the sake of simplicity, however, it shall be acceptable to drop the normative connotation of *gănqíng*, and the affective connotation of *rénqíng*. Such a clear distinction ensures that these two central—yet somewhat ambiguous—elements do not produce terminological confusion. This distinction has no analytic side effects because both resources are only exchanged in combination (see Section 2.2.3).

2.2.2.3 Dyadic Exchanges

Dyadic exchanges, in the *guānxì* system and in general, take place if individual control over resources is simultaneously met by reciprocated interests in these resources (Coleman 1990: 28ff.). Let's assume that two actors (A, B) have control (c) over and are respectively interested (i) in two resource bundles (ρ^1 and ρ^2) of *rénqíng* and *gănqíng*.[62] Actors A and B will exchange resource bundles, provided that they are aware of the allocation of control, that actor A's interest in ρ^2 is larger than his desire for ρ^1, and that actor B has more interest in ρ^1 than in ρ^2, i.e. formally speaking

[62] The details of the relationship between *rénqíng* and *gănqíng* will be discussed in Section 2.2.3. Along with interests in the primary exchanges of *rénqíng* and *gănqíng* resources, actors are interested in *miànzi* (face). As the secondary resource, *miànzi*, is given by actors outside of the dyad, it is not included in exchanges at this point.

$i^A_1 < i^A_2$ and $i^B_2 < i^B_1$. In order to elucidate this structure with a simple numerical example, let's assume the figures below in *Table II-1*:

Table II-1. Interests in and control over resources in a deterministic exchange

		A		B	
ρ^1	Interests	i^A_1	20	i^B_1	80
	Control	c^A_1	YES	c^B_1	NO
ρ^2	Interests	i^A_2	60	i^B_2	30
	Control	c^A_2	NO	c^B_2	YES

Control over resource bundle ρ^2 increases the utility of actor A by 60, as compared to a utility loss of 20 from relinquishing control over resource bundle ρ^1, for which he would otherwise have had an alternative use (consumption or another exchange). The exchange yields him a net benefit of 40. Actor B, for the same reasons, enjoys a net benefit of 50, assuming a (deterministic) exchange that does not involve uncertainty or cost. In their simplest form, such bilateral in-kind exchanges will take the form illustrated in *Figure II-2*.

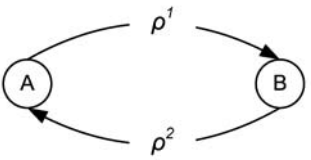

Fig. II-2. Structure of deterministic exchanges

Often, however, exchanges are characterized by time asymmetries, i.e. actors perform at different points of time ($t_1 \neq t_2$). This is the case in the *guānxì* system. *Figure II-3* depicts this structure, in which actor A hands over control over resource bundle ρ^1 to actor B in period t_1. Actor B then makes promise π^1 (Ye/Zhang 2003: 1), which obliges him to transfer resource bundle ρ^2 at a later point in time (t_2). In practice, such a promise is implicit in statements like "Thank you so much—if there's anything I can help you with, let me know!" (真的太谢谢你了, 如果以后有我能帮忙的事请尽管说!).

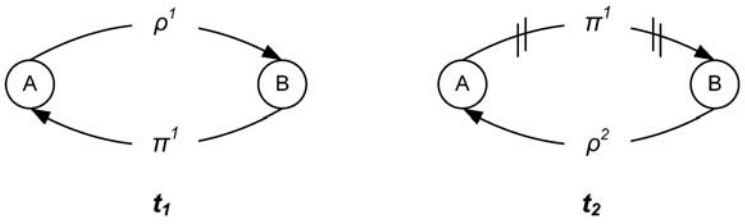

Fig. II-3. Structure of probabilistic exchanges

If actor B keeps his promise and hands over control over resource bundle ρ^2 later, as expected by actor A, the exchange yields the utility profits (from above) of 40 and 50 respectively. Social welfare rises by 90. The exchange, or more specifically, the transfer of ρ^1, creates a temporary imbalance of ρ credits at the end of t_1:

Table II-2. Temporary imbalance in the course of a *guānxì* exchange

	Credit of A	Credit of B
Debt of A	-	60
Debt of B	0	-

While the actor who performs last (actor B) always improves his situation because he has already appropriated the benefits of 80, the situation for the first performer (actor A) will only improve if the exchange partner acts as expected. Actor A's situation deteriorates (by 20) if the partner fails to reciprocate.[63] Excluding partial returns, the profits (μ) in the payoff matrix below (*Table II-3*) represent the incentive structure of both actors:

Table II-3. Payoff matrix of a deterministic exchange

	μ (t_1)	μ (t_2)	μ
A	-20	60	40
		0	-20
B	80	-30	50
		0	80

[63] For situations that involve uncertainty for both parties, which will not be further investigated here, see Coleman (1990: 177ff.).

Since at this stage of analysis there are no credibility guarantees (信誉保证, Feng T 2002: 20), the value of the promise is probabilistic.[64] The uncertainty associated with up-front performance cannot be eliminated, but rational actor A can seek to quantify the probability (p) of reciprocation and include it in his calculation (Coleman 1990: 98). As a result of probabilistic utility maximization, a risk-neutral actor will exchange in the time asymmetry case if the expected profits (μ^A) are positive:

Table II-4. Payoff matrix of a probabilistic exchange

	t_1	t_2	$p\ (t_2)$	$exp.\ \mu$
A	-20	60	0.8	28
		0	0.2	0
B	80	-30	0.8	58
		0	0.2	0

As can be seen from *Table II-4*, the uncertain environment reduces social wealth to 86 (28+58), as compared to 90 (40+50) in a climate of certainty. Before discussing the options to increase certainty and social wealth in subsequent sections, some notes on the categorical frame of interaction are in order.

2.2.3 Categorical Frame of Interaction

When explaining the emergence of the *guānxì* system, it is helpful to consolidate actors' control over and interest in resources into a categorical frame of interaction. Aside from convenience, such consolidation is valuable for another reason: traditional Chinese people are frequently said to structure rights and obligations along social positions, and to adopt multiple standards of behavior towards their interaction partners. Fei Xiaotong (1992[1947]: 21, 66) therefore assumes Chinese society to be structured by the *differential mode of association* (差序格局), i.e. a system of egocentric networks that place distinctive moral demands on persons in each tie (see Section 2.2.4). Following Fei's idea that actors construct their environment relationally, rather than relying on discrete and unified ontological

[64] Note that for the sake of simplicity, preferences in time are excluded here. In other words, the time(-asymmetry) of performance in the *guānxì* system is associated only with uncertainty (i.e., interests are neglected).

categories (Yang MH 1989: 39), a number of *taxonomies*[65], each with a different focus, are presented.

Yan (1996b: 99f.) highlights a *personal core* of immediate relatives (实在亲戚); a *reliable zone* of good friends and more distant relatives who can always be counted on for help (靠得住的人); and an *effective zone* of friends in a broader sense. Based on fieldwork in Singapore and Malaysia, Kiong and Kee (1998: 77ff.) found that managers of Chinese businesses felt connected through six *guānxì* bases: *locality/dialect*, *fictive kinship*, *kinship*, *workplace*, *trade associations/social clubs*, and *friendship*. Yang Meihui (1994: 111ff.) identified the categories of *family and kinship*, *neighbors and native places*, *non-kin relations of equivalent status*, and *non-kin superior and subordinate status*. Tsang (1998: 65ff.) classified the groups into *blood bases* (family members, relatives, clan members) and *social bases* from one's social life (e.g. acquaintances from school or work).

This section will discuss recurring themes in the above taxonomies as well as the permeability between them. However, irrespective of how systematic such taxonomies may appear, their explanatory power is limited due to arbitrary selection. Since actors are understood to be connected through resources (see Section 2.2.1), it is recommended to apply Coleman's distinction between simple and complex relationships instead (1990: 43f.).

Chinese cultural ideology has been observed to split the individual's personal entourage into insiders and outsiders (Chung/Hamilton 2002: 8). Social relations may include two kinds of insiders and outsiders: "one's own people" (*zìjǐrén*, 自己人) and outsiders (*wàirén*, 外人) on the one hand, and "people inside the circle"[66] (*quānnèirén*, 圈内人) and "those outside the circle" (*quānwàirén*, 圈外人) on the other hand. This dichotomy is well manifested in linguistic expressions such as "There's a difference between the inside and the outside" (内外有别) or the request "Don't

[65] The term *taxonomy* is being applied here because the following sets of configurations, i.e. "any multidimensional constellation of (…) characteristics that commonly occur together" (Meyer et al. 1993: 1175), are empirically derived. If the following sets of configurations had been conceptually derived, they would be *typologies* (Meyer et al. 1993: 1182).

[66] Chinese people often refer to their individual circle of people as their entourage (周围).

treat me like an outsider!" (不要排外), a common exclamation used by non-local Chinese (外地人), such as visitors to Shanghai. The distinction between inside and outside is crucial considering the drastic stigmatization of out-groups that embraces exaggerated collective aggression for the sake of the group (Hwang 1987: 952).

The most common refinement of the above dichotomy is the distinction of the three categories, namely *family members* (*jiārén*, 家人), *friends/ acquaintances* (*shúrén*, 熟人), and *strangers* (*shēngrén*, 生人). This categorical frame of interaction, which will be discussed next, distinguishes "modes" of *guānxì* (Luo 2000: 7) according to the degree of permeability between psychological boundaries. Two interesting—though not crucial—connotations are inherent in these categorical expressions: *shēngrén* literally means a "raw (or unripe) person", while *shúrén* means "cooked (or ripe) person", i.e. someone with whom one is familiar (Yang MH 1989: 40).

Jiārén

The category of family members (家人) refers to "expressive", inbred ties (先赋性关系) with primary groups (Hwang 1987: 949; Huang 2002: 7; Zhang/Yang 1998: 256; Hamilton 1998: 66). While these ties certainly comprise consanguine relationships (血缘关系), it is not clear to what extent the term *jiārén* extends to other relatives (核心亲属, Huang 2002: 95; similarly: Liu L 2002: 152) and to members of congenial groups (同一关系, Tan/Man 2001: 55), such as intimate friends (亲密朋友, Zhou X 2002: 8). Chung and Hamilton (2002: 4) point out that family relationships are not *guānxì*, because "[o]ne cannot say, for instance, that one 'has *guanxi*' with one's father or that one needs to '*la guanxi*' (pull connections) with one's brother". This argument is invalid because while the Chinese do not look upon their own family relationships as *guānxì*, they frequently use the term to describe other people's connections with relatives, as implied by expressions such as "Studying mathematics, physics, and chemistry will never get you as far a father with good *guānxì* does" (学好数理化不如有个好爸爸, Zhong 1995: 94).

Shúrén

The second category, *shúrén* (熟人), includes "everyone beyond family" (家庭之外, Tan/Man 2001: 56), with whom one has a relationship, namely

distant relatives and friends or acquaintances (亲戚朋友). The range is rather wide, from peripheral relatives (外围亲属), adopted children, stepfathers, stepdaughters etc. (法定关系, Zhou X 2002: 8), to good friends (Huang 2002: 95), "half-acquaintances"[67] (半熟人, He XF 2003: 1) and people met only once (一面之交, Zhou X 2002: 8). For this type of *guānxì*, "commonality of shared identification" is a necessary condition (see Section 2.2.2.2; Jacobs 1979: 243; Luo 2000: 4). Emphasis lies on the notion of shared (同) qualities and experiences that close the gap between inside and outside and fuse individual identities (Zuo 1997: 63; Yang MH 1989: 41).

As was said at the beginning of this section, researchers have expended quite some effort identifying typologies. Below, a detailed overview of what commonalities *shúrén* may share shall be given. The sources of these commonalities, so-called "*guānxì* bases", are oriented toward Luo's (2000: 4ff.) update of Jacobs's (1979: 243) influential classification of locality, kinship, co-workers, classmates, sworn brotherhood, surname, teacher-student, and economic/public relationship. The reader shall not be bothered by the fact that this classification lacks mutual exclusiveness, and therefore distinctiveness, because it will not be used to explain the emergence of the *guānxì* system.

Fellow villagers and people from the same province (同乡, 老乡, Zhou X 2002: 6) tend to form groups according to their native area.[68] Geographic *guānxì* (地缘关系, Ma C 2001: 19) is established most easily when people from the same home town meet, as implied in the proverb, "When fellow villagers meet, they'll burst into tears" (老乡见老乡, 两眼泪汪汪). Emigrants in Chinatowns all over the globe (e.g. New York, Singapore) hence institutionalize mutual help organizations based on locality. *Guānxì* may be formed according to vernaculars, which are directly related to locality and which, for the most part, are mutually incomprehensible. Also, living next door for decades may qualify a neighbor as a *guānxì* partner (老邻居,

[67] In fact, He Xuefeng (2003) establishes "half-acquaintances", a society of which modern China is assumed to be moving towards, as a separate category. This analysis, however, subsumes actors of different degrees of closeness under the term *shúrén*.

[68] The notion (Farh et al. 1998: 474) that Chinese people group according to the birthplace of their father's ancestors has not been supported by empirical evidence; moreover, the local dialect of the father's ancestors may differ from the local dialect in which the child was raised.

Liu S 1995: 39). Through interaction with neighbors, and because "people behind walls are listening" (隔墙有耳), information is shared and trust is built up—maybe even unintentionally.

Mutual personal identification may stem from the workplace (Zhou X 2002: 8). The educational experiences or years of working together shared by classmates (同学) and colleagues (同事) are important when judging the skills of a partner. This explains why there are countless alumni associations of US schools in Shanghai and Tongji alumni clubs in the United States. Military or political party units also play an important role in gluing together people. Similarly, travel companions (同路人关系) and army comrades (老战友) may have a good understanding of each other's trustworthiness (Liu S 1995: 39).

Kinship with distant relatives may also yield strong feelings of commonality. Kinship is either *agnatic*, i.e., it refers to blood relations, usually on the father's side, or it is *affine*, describing relation by marriage. Although agnatic *guānxì* is generally regarded as more reliable, traditional families may fall back on affine *guānxì* as a means to integrate outsiders. The practice is not limited to rural areas: business people today use affine *guānxì* to enlarge their network of close and reliable *shúrén*. It must be acknowledged, however, that the importance of kinship-based *guānxì* decreases as the head of the family slowly loses influence on his descendants' decision-making, for instance in terms of marital affairs.

Guānxì may also be based on *fictive kinship* (Farh et al. 1998: 481). Many Chinese believe persons who share the same surname have the same ancestors and therefore are kinsmen. Because the number of surnames is limited—as implied in the term for ordinary people (老百姓), which literally translates as "the old one hundred surnames"—the size of surname-based clans is potentially huge. Over 250 million Chinese go (in descending order of frequency) by the names *Li* (李), *Wang* (王), and *Zhang* (张) alone.

Finally, associations and social clubs may produce the identification required for *shúrén* relationships. Luo (2000: 56) points out that there has been a revival of associations in the reform era, namely of the Individual Laborers' Association, the Metropolitan Chamber of Commerce, the Young Factory Director and Manager Association, the Artist and Entrepreneur Association, and the Association for Overseas Chinese. Wank (1995: 59f.) mentions the Self-employed Laborer's Association

(个体劳动者协会), specialized trade associations (同业会), and local civic Associations of Private Industry and Commerce (私营企业协会).

The major shortcoming of such a *shúrén* typology is quite obvious: it is not exhaustive. While here most researchers add stress with the prefix *old-* (老, see above), other institutionalized commonalities can be selected to arbitrarily construct classifications (Hwang 2003: 14). Fan, therefore, rejects the dogmatic primacy of *bases* for the emergence of *guānxì*: "*Guanxi* can occur between two persons without any shared attributes" (2002b: 551). The role of mere shared experiences as a catalyst is illustrated by the following example:

> "Charged with bribery, an entrepreneur was repeatedly brought in for interrogations by the investigating agency. Shortly after he was finally cleared of all charges, the city decided to contract out public bus transportation. When this very entrepreneur was awarded the contract, he explained in private that during the frequent investigations he had developed guanxi with some of the officials, who supported him." (Luo 2000: 55)

Much of the confusion about the relevance and structure of *guānxì* bases, as well as about the role of intermediaries, can be attributed to the fact that all suggested distinctions do not adequately account for resources; this problem will be solved later in this section.

Shēngrén

According to Hwang (1987: 950f.; 2002: 7), the opposite of relations with *jiārén* is ties with *shēngrén* (生人, strangers). The term *shēngrén* describes persons with whom one has not established any exchange relationship. While in traditional, rural China *shēngrén* used to play a minor role, they are of rising importance to interactions in a modern, urban environment (Tan/Man 2001: 55). Due to the shift toward a market economy, migration, and other recent developments, Chinese people increasingly perform exchanges according to the principle of "short, equal, and quick" (短, 平, 快, He XM 2000: 23).This development, however, does not culminate in "single-serving *guānxi*" (一次性关系, He XM 2000: 21) or "non-connected *guānxi*" (非连结关系, Tan/Man 2001: 55): isolated exchanges with strangers have nothing to do with *guānxì*, and the introduction of *shēngrén* into a taxonomy would be purely academic.[69]

[69] For the sake of completeness, strangers will be excluded from analysis only after this section.

As will be discussed in the next section, Chinese actors perceive themselves as the focal point of a unique network. Relationship categories, therefore, may be visualized as concentric circles. *Figure II-4* shows how *jiārén*, *shúrén*, and *shēngrén* are arranged peripherally around each actor, with increasing distance from the actor.[70]

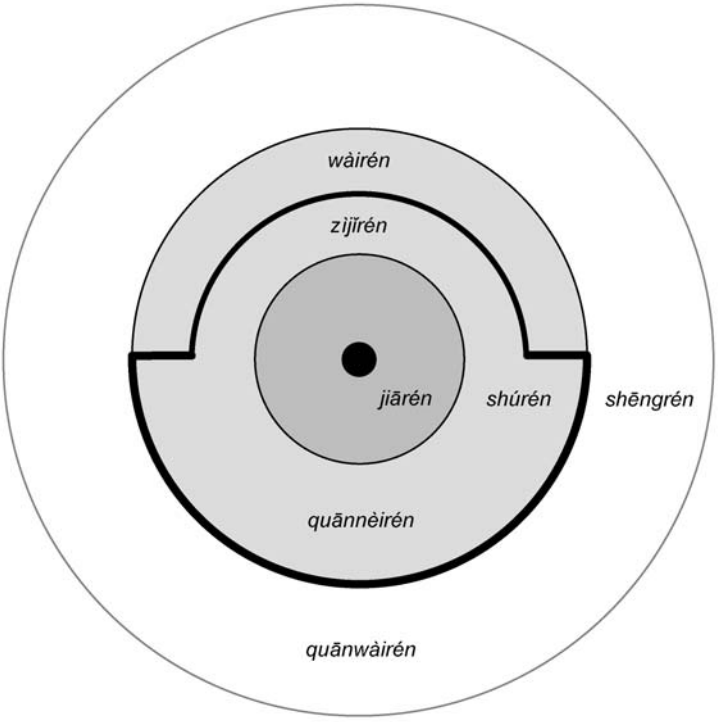

Fig. II-4. Illustration of relationship categories

Because interaction with *shēngrén* is anonymous, this category obviously refers to outsiders in both dichotomies (Schramm/Taube 2001: 11), i.e. *wàirén* (upper semicircle) and also *quānwàirén* (lower semicircle). *Jiārén* lie within both semicircles, i.e., they are insiders both in the sense of *quānnèirén* and *zìjǐrén*. What is less clear, even among Chinese scholars (e.g. Zuo 1997: 70), is the position of *shúrén*. In a traditional setting, any person beyond *jiārén*, irrespective of how meaningful the relationship may be, is a *wàirén* (Zuo 1997: 69). In contemporary urban China, however,

[70] Chen Junjie's (1998: 113) suggestion to refine this classification of *guānxì* partners according to *depth*, *closeness*, and *quality* does not yield any additional insights for this RCT framework, and therefore shall be neglected.

close *shúrén* are also included in *zìjǐrén*; it is probably most appropriate to conceptualize *quānnèirén* as the aggregate of *zìjǐrén* and *shúrén*.

The assumption that each relationship falls wholly into one category is a noticeable idealization. In reality, there is a "near-cultural law" that boundaries are blurred—even between one's self and others—because there is "a me inside you, and a you inside me" (Sun L 1994: 135). The observation that Chinese culture frequently lacks clear-cut boundaries is partially inconsistent with the above-mentioned opposition of inside and outside. Rather than addressing this inconsistency, which does not affect the validity of argumentation in this analysis, it is suggested to proceed by discussing the permeability between categories.

According to Confucianism-focused Hwang, changing from one relationship to another should be a task that is "quite difficult" (1987: 949) to accomplish for any person. Family members are surrounded by a psychological boundary (心理界线, Hwang 2002: 11), which outsiders "frustratingly" (Lovett et al. 1999: 236) cannot enter. Similarly, Liu Song (1995) points out that traditionally outsiders rarely get into a *guānxì* network (Liu S 1995: 41). Looking at modern *guānxì*, however, other scholars disagree: due to changes in the quality of the relationship, people may be "upgraded" (Chung/Hamilton 2002: 8) from *wàirén* to *zìjǐrén*, or from *shúrén* to *jiārén*, or downgraded in the opposite direction (Zuo 1997: 64; Zhang/Yang 1998: 256). This understanding is supported by the fact that (fictive) brotherhood (哥们儿情谊) is frequently decided or sworn.

The above classification into *jiārén* and *shúrén* is based on two idealized *guānxì* dimensions. First, there is an instrumental dimension (工具性, Hwang 2002: 7), which is strong when actors are driven by profit (Tan/Man 2001: 55) or by any other sort of benefits (好处, Chen JJ 1998: 104). Second, there is the expressive or affective dimension (情感性, Hwang 2002: 7), which increases commensurate with emotional involvement.[71] In fact, the preoccupation with "dimensions" in popular literature makes analysis of *guānxì* much more complicated than necessary and, more importantly, it defies the idea that relationships are the result of choices that actors make based on their interests in and control over two resource bundles of *rénqíng* and *gǎnqíng*.

[71] A third dimension—the normative one—will be discussed later in Section 2.2.5, once *miànzi* (face) has been explicitly introduced into analysis.

According to Coleman (1990: 43f.), there are two types of relationships in terms of emergence and stability. *Simple relationships* assert themselves, i.e., individual incentives are sufficiently large to establish and ensure the continuity of the tie between actors. On the contrary, the continuity of *complex relationships* requires a stimulus outside the relationship, for instance a norm established together with third parties.

As most *guānxì* is self-assertive (获致性的, Chen JJ 1998: 114), *guānxì* belongs to the first type. Chinese actors choose and maintain a great deal of relationships that are based on individual willingness (愿意, Chen JJ 1998: 114). Playing an active role in determining the character of exchanges, they seek to optimize the allocation of *rénqíng* and *gǎnqíng*. Ma Cong's analysis of *guānxì* among friends (朋友关系) supports the significance of self-determined *guānxì* (2001: 19).

In terms of self-assertion, it must be asked what resources need to be exchanged in the *guānxì* system. *Guānxì* exchanges are said to require an instrumental trigger: they "can only happen when something needs to be done" (Fan 2002b: 548). Identically, Chen Junjie (1998: 104, 157), Luo (2000: 10), and Yang Meihui (1994: 123f.) point out that *guānxì* practice is essentially utilitarian,[72] and that *guānxì* among friends breaks down if it repeatedly entails unfavorable transactions. It seems safe to conclude that (instrumental) *rénqíng* is an indispensable resource in *guānxì* exchanges: no *rénqíng* means no *guānxì*.

In spite of the heavy dose of gain-and-loss calculations and means-ends concerns that characterize *guānxì*, instrumentality is not sufficient to build *guānxì* (Chung/Hamilton 2002: 6). Establishment of *guānxì* "depends upon *ganqing*" (Luo 2000: 16);[73] without it, *guānxì* would be temporary and unstable or *guānxì* bases could not even be transformed into *guānxì* (Hwang

[72] Note that Yang Meihui (1989: 171) does not distinguish between *rénqíng* and *gǎnqíng* as sharply as this analysis does. She goes on to say that a consequence of the rising instrumentality of *guānxì* (i.e. *commoditization*) is that the system becomes increasingly *masculine*. In fact, a 1999/2000 survey in Shanghai by Leung (2000: 51ff.) confirms that men tend to engage in *guānxì* more than women do.

[73] In a different context, Luo (2000: 6) contradicts himself, however, by stating that "without *ganqing*, *guanxi* is more distant and less reliable", which implies that *gǎnqíng* is not required.

1987: 950).[74] Therefore, if an actor stresses instrumental interests in an exchange between *shúrén*, conflict is likely to arise (Chung/Hamilton 2002: 7f.). It can be unmistakably concluded that *gǎnqíng*, too, is a *conditio sine qua non* in *guānxì* exchanges. To summarize, the *guānxì* system requires actors to exchange resource bundles containing both *rénqíng* and *gǎnqíng*. Hwang (2002: 7, 11) terms such exchanges "mixed *guānxì*" (混合性关系), and Tan and Man (2001: 56) concur.[75] In reality, however, all *guānxì* is mixed in this conceptualization.

The strength of self-assertive *guānxì* is determined by the combined amount of resources exchanged in the relationship; the potential of *guānxì* hence turns on how much *rénqíng* and *gǎnqíng* actors possess.[76] From this perspective, it is not at all "impossible to provide clear elements for the maintenance of *guanxi*" (Chen JJ 1998: 115). Rather, it suggests that the basis for *guānxì* exchanges can be maintained by enhancing resource ownership. For instance, actors may increase their instrumental attractiveness by acquiring skills that can be used for rendering desired *rénqíng* favors. As affection increases with shared identification, the joint pursuit of hobbies (e.g. playing mahjong) possibly strengthens *guānxì*.[77] For other affective elements, such as shared beliefs and character, chances for maintenance are limited. Always having business opportunities in mind, Luo (2000: 16) states that "to strengthen *guānxì*, both parties must cultivate *ganqing*".

In order to avoid the near-philosophic matter of to what extent actors of an affective tie may pursue instrumental interests, it shall be assumed that *rénqíng* and *gǎnqíng* are not interrelated. In other words, for the sake of simplicity, it is assumed that there is no connection between the ownership

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[74] According to Kipnis's statement, both terms "are often interchangeable" (1997: 23). Although Coleman's sociological theory does not allow this equation in the analysis of *guānxì* exchanges, Kipnis's statement supports the importance of *gǎnqíng* in the *guānxì* system.

[75] Hwang (1987: 949), however, also allows for exchanges of purely instrumental and purely affective resources in the *guānxì* system. The assumption of mixed exchanges is actually an anticipation of the emergence of norms (Section 2.2.5).

[76] Taking a relational perspective, Chung and Hamilton (2002: 4) predict that *guānxì* is strongest and most stable "if all [dimensions] are aligned in the same direction."

[77] Unlike the etymology of the English term—*hobby* originates from *hobbyhorse*, a small light horse—the Chinese word *àihǎo* (爱好) refers to joy; eventually, "what one likes" may be shared with other actors in the *guānxì* system.

of *rénqíng* and *gǎnqíng*; the non-exclusiveness of these resources becomes obvious in rural families, members of which materially depend on each other though they are tied by an affective bond (Tang J 1998: 128).[78]

Earlier, the taxonomies of several researchers were criticized as arbitrary classifications. As this analysis, for simplicity's sake, also resorts to distinguishing between *jiārén*, *shúrén*, and *shēngrén*, an explanation is in order. Reviewing the classification in terms of control over *rénqíng* and *gǎnqíng*, it becomes obvious that *shēngrén* need to be excluded and that such a typology can actually be explained with resources.

The defining features of *shēngrén* ties are instrumentality (Luo 2000: 9) and impersonal decision-making (Hwang 2002: 7). *Shēngrén* engage in purely "utilitarian exchange[s] without affection" (Tsui et al. 2000: 231), which is why haggling over prices is common. As control over *gǎnqíng* has been identified as a prerequisite for *guānxì* exchanges, *shēngrén* must be excluded from analysis.[79]

The strongest *gǎnqíng* in which individuals are interested is controlled by *jiārén*. In light of self-assertion, the strength of *gǎnqíng* between *jiārén* can be attributed to the fact that usually a large number of experiences have been shared. Furthermore, in the process of socialization, the values and beliefs of descendants have been made compatible by the generation in charge of education. Since norms are assumed not yet to have emerged at this point in the analysis, the pre-determined nature of family relationships, as implied in Hwang (1987: 949f.), cannot be used as an explanation. From this perspective, achieving a great degree of intimacy (亲密程度, He XF 2003: 16) is not an end in itself, but a prerequisite for exchanging *gǎnqíng*.

However, *jiārén* also control *rénqíng*. A traditional (or rural) family performs various functions covering most of the needs of its dependents, including education and recreation. Instrumentality in *jiārén* ties is enhanced by the integration of all family members into one financial unit, a long-established ideal of Chinese culture: "In traditional Chinese society, property was considered owned by the family not the individual. The clan lived

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[78] For an example showing that *rénqíng* and *gǎnqíng* are imperfect substitutes for one another, see Tang Jinsu (1998: 128).

[79] Due to the affective and normative connotation of *rénqíng*, which has been excluded here for the sake of simplicity (see above), the Chinese language usually does not even apply the term *rénqíng* to exchanges between *shēngrén*.

together and pooled family property" (Bell/Chaibong 2003: 230f.).[80] Family members are expected to turn over their income to the family fund (钱柜), from which the *dāngjiārén* (当家人) pays for daily expenses. Permissible spending and surplus shares are determined according to positions within the family (Hwang 1987: 950). As stated in Section 2.1.2, family is the basic building block of Chinese society: on family one depends, and in family one trusts.

Unlike *jiārén*, *shúrén* often control a large amount of *rénqíng*. In fact, if an individual cannot satisfy his instrumental interests by interacting with *jiārén*, he will seek to select *shúrén* from a large pool of actors according to competence and specialization: For the same reason, *shúrén* often control less *gǎnqíng* than *jiārén*. However, depending on the number of commonalities, *shúrén* may control a considerable amount of *gǎnqíng*. Possibly aware of the requirements of self-assertive *guānxì*, actors may decide to regularly get together in order to maintain the underlying feelings of affection and intimacy. Similarly, *shúrén* seek to prolong the voluntary—ideally never-ending—relationship by concealing or even suppressing authentic emotions, for both positive and negative sentiments can lead to aggressive confrontations and public conflicts (公开冲突, He Y et al. 1991: 57). This is what He Xuefeng has in mind when he says that *shúrén guānxì* is cultivated according to the "basic social principles of *rénqíng* and *miànzi*" (2003: 57).

Such distribution of *rénqíng* and *gǎnqíng* suggests that actors in the *guānxì* system fall into the two clusters *jiārén* and *shúrén*. Individuals within these clusters are assumed to exhibit a large number of structural similarities in terms of control over and interest in *rénqíng* and *gǎnqíng*. The members of each cluster are also considered to be fairly distinct from individuals in the other. Needless to say, assigning to a category those actors who are located close to the borderline of both clusters may be difficult (see *Figure II-5*).

[80] Note that "in an economic sense, *guanxi* networks are a cultural-specific form of 'clans'" (Hermann-Pillath 1994: 282).

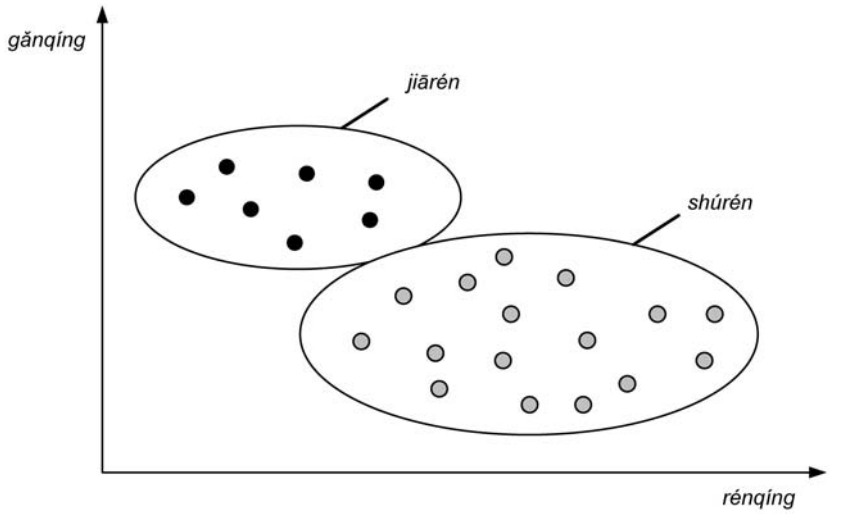

Fig. II-5. *Jiārén* and *shúrén* clusters in resource-based actor classification

Chung and Hamilton's assertion that "*guanxi* (…) is an iterated process and not a condition of being" (2002: 13) perfectly fits into the above explanation that *guānxì* is a result of individual interests in and control over *rénqíng* and *gǎnqíng*. Some relationships in (traditional) China, however, are maintained in spite of a shortage (or even in the absence) of these resources, suggesting that an external force binds actors. These so-called *complex relationships* (Coleman 1990: 43f.) are continued because of the existence of social norms.[81] Although inbred ties should be "easiest to accept" (最易接受的, He XF 2003: 33), the Chinese are actually forced into them.

While such predetermined ties are believed to have been the foundation of traditional Chinese society (see above), their importance has weakened over time (Zhuang/Yang 1991: 169f.), as migration has widened the spatial gap between family members and the number of arranged weddings has decreased. Chen Junjie (1998: 109) further supports the idea that *guānxì* is self-assertive rather than based on predetermined ties: if brothers get into a row, their strong normative foundation from close lineage will not produce good *guānxì*. Also, if relatives fail to see each other regularly, their relationship cools off (人走茶凉). Conversely, Chinese people who are tied by

[81] The organization of family positions according to *wǔ lún* (see above) would be one such norm.

strong affection often call each other "brother" (哥哥, 弟弟) or "sister" (姐姐, 妹妹).

Sections 2.2 and 2.3 respectively addressed *rénqíng* and *gǎnqíng* as exchange resources and their role in actor classification. However, an actor's "face" (*miànzi*) must be interpreted as an exchange resource too. As *miànzi* is not controlled by individual actors, its introduction as a "prerequisite of the *guānxì* [system]" (Chen JJ 1998: 106) would represent a (methodologically invalid) *ad hoc* assumption. Rather, it is suggested that "face" be introduced as a (third) exchange resource after the emergence of norms has been dealt with in Section 2.2.5.

2.2.4 The Emergence and Structure of *Guanxi* Networks

The exchange setting depicted in Section 2.2.2.3 becomes more complicated if more than two individuals are involved. Let's assume a situation in which actor A controls resource bundle ρ^1 and is interested in ρ^2, actor B controls ρ^2 and is interested in ρ^3, and actor C controls ρ^3 and is interested in ρ^1. *Figure II-6* depicts such a case of sequential exchanges.

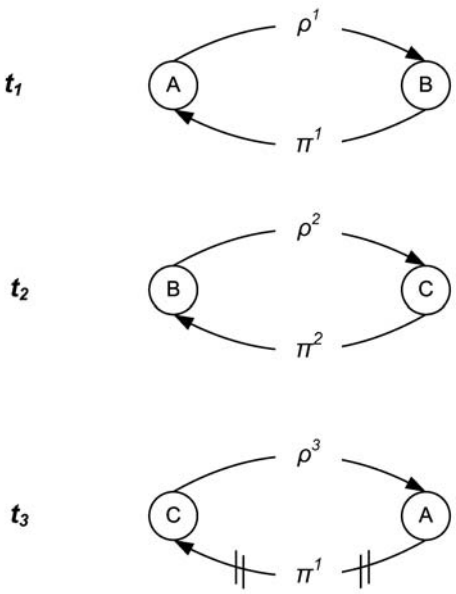

Fig. II-6. Sequential exchanges in a three-actor setting

If "repayment" in such a setting were to be actual rather than "implicit" (Luo 2000: 42), it would be necessary for received promises to be valid in other relationships. A common currency makes it possible to split each transaction into two "half-transactions" (Coleman 1990: 120f.), each involving a promise of payment. Half-transactions bring together control over resources and interests much more easily than in-kind exchanges because the accounts of the participating actors are settled after each half-transaction. Therefore, the market economy has introduced money as a negotiable medium of exchange and as an objective conversion unit.[82]

In the *guānxì* system, however, there is a problem with using resource bundle promises as clearing units, for the medium of exchange lacks a single, objective value. Promised resource bundles are "person-specific debts" (Yang MH 1989: 45), the value of which may be precisely known only by the actors within a given relationship.[83] This value can sometimes be difficult to quantify, but it is by no means "unmeasurable" (Luo 2000: 42). Due to an inability to overcome the problem of balancing debt and credit, the *guānxì* system—like many other non-economic exchange systems—has no "universal exchange rates" (Yang MH 1989: 143). Thus it would be incorrect to apply the term "currency" (Luo 2000: 14) to any exchanged resource in the *guānxì* system, as appealing as this expression admittedly sounds.

For the above reasons, promises are transferred from one relationship to another only to a minor extent. Chains of promise exchanges are very short and, in general, they do not involve more than two relationships. Only in extremely firm and entrenched networks, may people say "Mr. Wang owes me a favor, he'll help you for me".[84] Due to the non-transferability of resource bundle promises, *guānxì* exchanges are restricted to a system of dyads (recall *Figure II-3*), rather than the structure depicted in *Figure II-6*.

It must be noted that transferability differs based on the type of resource bundle. While banquets—and the associated joy of good food—are never transferable, information that can be used by another actor is, as are

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[82] The author is aware that money serves purposes other than standardizing the exchange medium (e.g. value deposit).

[83] It must be added though that, in order to ensure sanctioning (see Section 2.2.7), the *guānxì* network must also have an understanding of the value exchanged.

[84] The classic example for transferred promises, first investigated by Bronislaw Malinowski (1922), is the exchange circle of Kula islanders. In this structure, promises are handed in the form A-B-C-D-A, while resources run A-D-C-B-A.

money, public transportation cards, and other material gifts. Even if gifts are not directly transferable, such as personalized supermarket cards, they allow for conversion through the purchase of other material gifts: either they can be returned at the shop for cash (Jiang X 2001: 58), or they can be sold.[85] Expensive cigarettes (one carton of the famous brand *Zhonghua* [中华], for instance, sells at RMB 650 [US$81], or up to RMB 850 [US$106] when festivals approach) are given as gifts in quantities so large that many officials have relatives open cigarette stores to sell them for cash. However, since resource bundles require *gǎnqíng* (see Section 2.2.3), which cannot be redeemed, the above statement regarding the limited transferability of resource bundles should largely be valid.

It would definitely be wrong to apply the term "transferability" (Luo 2000: 10; Ambler 1994: 69) to *guānxì.* Using a powerful actor in the *guānxì* system to be introduced to disconnected actors does not transfer *guānxì*, but merely allows the exchange of resource bundles, which in turn produces new *guānxì*. In order to avoid confusing the role of intermediaries, they will be dealt with below in the context of network extension.

Table II-4 showed that actors who sequentially exchange resource bundles face a certain degree of uncertainty. In order to explain how norms are able to reduce this uncertainty, the setting needs to be extended to include multiple dyads. The most popular approach to this extension is based on Fei Xiaotong's (1992[1947]: 63ff.) perspective on traditional Chinese society, in which the pattern of individual connections resembles the concentric "ripples flowing from the splash of a rock thrown into a pond" (水的波纹), the strength of which diminishes as distance from the center increases (Fei 1992[1947]: 62).[86] This metaphor is illustrated in *Figure II-4*, where sets of actors were connected. Fei's approach, however, is inconsistent with RCT, because the strength of an actor's relationships is assumed *ad hoc*.[87]

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[85] Reimbursement of Shanghai Transportation Cards (上海交通卡, valued at RMB 100 [US$12.50]), for instance, is limited to RMB 39.50 (US$4.90, in 2004), including a card deposit.

[86] For further analysis, see He Xuefeng (2003: 33)

[87] For further criticism of the *ad hoc* assumption of norms, in particular reciprocity, see Kirstein and Kirstein (2002: 185ff.).

Here, the combination of two or more *guānxì* dyads into an aggregate structure shall be performed by *social network analysis* (*SNA*),[88] i.e. a powerful metaphor that delimits, describes, and analyzes interaction within and between groups (Wasserman et al. 2005: 1; Lang 1997: 1). SNA equates actors with nodes, a finite number of which is assumed ($V = \{v_1, v_2, ..., v_n\}$), and it equates social connections between actors with edges ($L = \{e_1, e_2, ..., e_m\}$). Connections between interacting individuals become social relationships ($<v_i, v_j>$, Marsden 2005: 8). According to the configuration of the particular social setting, SNA organizes these elements into a social network, which is depicted as a graph (G). Since the conceptualization of social structure as a network is centered on relationships (Thorelli 1986: 37), SNA is well suited to exchanges within the *guānxì* system.

In order to avoid the utopia of a *whole network* that depicts all the links of an actor, *partial networks* limit analysis to a certain number of aspects (Marsden 2005: 8, Barnes 1969: 57). This analysis will be limited to *rénqíng* and *gǎnqíng* exchanges.[89]

Very much in line with Fei Xiaotong's (1992[1947]: 63ff.) assumption that Chinese individuals have an egocentric perspective of their entourage (以己为中心), each actor composes his own unique *personal network* of *guānxì*. From the center of this network, each actor (*ego*) maintains relationships with other actors (*alteri*, McCallister/Fischer 1978: 134; Collins 1988: 414; Marsden 2005: 8). Other actors that occupy a focal point are termed *guānxìhù* (关系户).[90] As depicted in *Figure II-7*, the dyads between an *ego* and his *alteri* constitute a *sociometric star*.

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[88] Although Coleman apparently does not use the term *social network metaphor*, his influential conception would probably not exist without this network modeling component. For recent research on the synthesis of network theory and sociological concepts using a social network metaphor, see Davern (1997: 288ff.); for an overview of how social network analysis has developed, see John Scott (1991: 7ff.)

[89] The fact that *miànzi* (face) will be introduced later as a third resource does not affect the validity of this argument.

[90] The term *guānxìhù* is not restricted to individuals: it may refer to organizations (Ci Hai 2003).

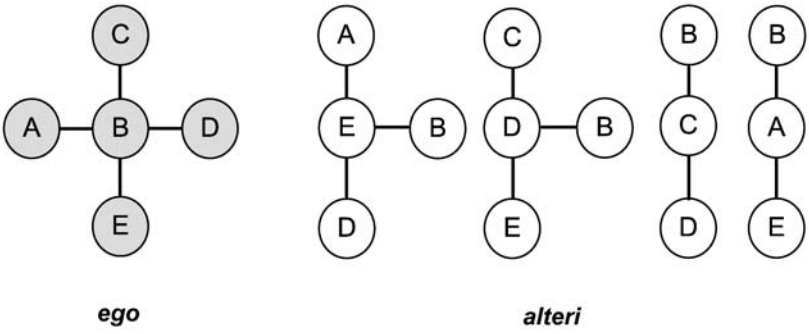

Fig. II-7. Personal networks in the *guānxì* system

In the *guānxì* system, the combination of the personal networks of member B (left) and his *alteri* constitute the *guānxì* network (关系网, see *Figure II-8*).

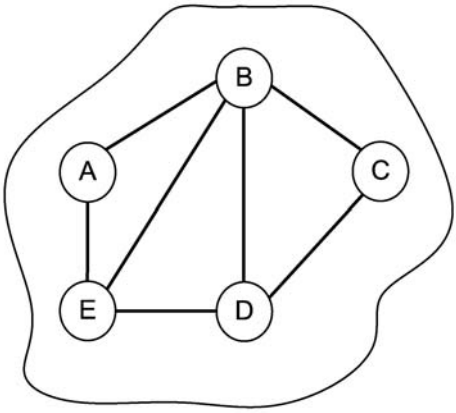

Fig. II-8. *Guānxì* network

The dynamics through which a *guānxì* network emerges from dyads shall be illustrated with the earlier example. Assuming the initial allocation of resources and interests (see *Table II-1*), the exchange structure is extended by several additional actors. In an effort to keep things as simple as possible, the entire analysis of the *guānxì* network will not exceed four actors and five relationships. This choice is not arbitrary, but rests on specific

requirements of *guānxì* norms and sanctioning mechanisms that will be addressed in Section 2.7.

First, however, assume a three actor scenario in which actor A has established *guānxì* with actor B, and actor B has established *guānxì* with actor C, or formally G: $\{<v^A;v^B>; <v^B;v^C>\} \setminus \{<v^A;v^C>\}$. Suppose that actor A is facing a problem, e.g. a document that he cannot translate by himself. He may then ask actor B, knowing that B is incapable of performing this task (e.g. due to a lack of language skills), but aware that he may have an actor in his personal network who is able to provide the service (Chen JJ 1998: 113).[91] Suppose as well that actor B learns that actor A's interest in the resource bundle (e.g. translation) is larger than actor C's interest (e.g. time).

Actor B may decide not to get involved in the transaction between A and C, but merely introduce both parties to each other, for instance indicating that "this person is an important person in my network" (这是我们的关系户, Zuo 1997: 62) or providing a signed letter of introduction (条子, Ma C 2001: 26).[92] If actor B takes on the role of an intermediary (中间人, Graham/Lam 2003: 86; Yang MH 1994: 124), or more precisely an introducer (介绍人), actor A and actor C establish *guānxì* by creating an imbalance in their exchange accounts.[93] For A, this may be advantageous as he would be able to contact C directly if the same problem were to arise again. The incentive of an intermediary (actor B in this case) to facilitate the exchange of actors A and C is that both parties incur a (minor) obligation towards the intermediary. Fan (2002b: 550) states that exchanging

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[91] If actor B is both willing and able to help actor A, no *guānxì* network emerges. This case is redundant with the situation discussed in section 2.2.2.

[92] As an example witnessed by the author in the Chinese railway industry shows, such a letter need not be formal: a director of the Ministry of Railways had simply signed his name and written two cell phone numbers on a napkin, which in fact opened the door to the Ministry's license department. Perfectly in line with this anecdote, the magazine *Passport China* (June 30, 1996; similarly: Li/Labig 2001: 345ff.) recommends the following to foreign negotiators: "If you have friends (…), ask them to write a letter introducing you (…), explaining the reasons for your visit and providing an itinerary. As a next step, you should write to request an appointment. If you do get a meeting, bring an additional letter of introduction from your friend that affirms your character."

[93] For details on *trust intermediaries*—consultants, guarantors, and entrepreneurs—see Coleman (1990: 232ff.).

actors often treat the intermediary "with a nice dinner".[94] Also, commissions (回扣) are a common way to compensate intermediaries (Chen JJ 1998: 158).[95]

While the personal networks of actors A and C are extended, the size of the *guānxì* network remains unchanged (see *Figure II-9*). However, the introduction is beneficial for the network, because by establishing (建立) additional *guānxì*, actors increase the number of resources that are directly available.

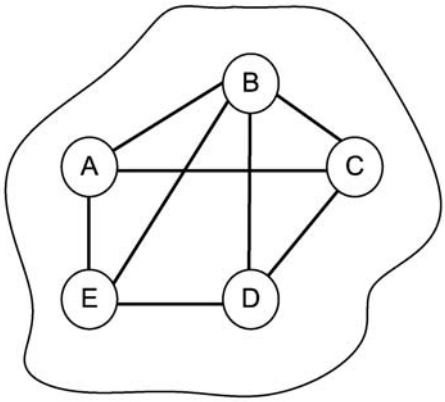

Fig. II-9. Increased connectedness in a *guānxì* network

It is important to note that the *guānxì* network is not extended (or does actually not emerge) if actor B decides not to introduce actors A and C, but rather to forward the resource bundle. The same logic applies to any finite number of actors that function as go-betweens, which would result in a "*guānxì* chain" (关系链条, Zuo 1997: 226). The exchange is performed through the dyads of the initial *guānxì* network (Fan 2002b: 550).

Unlike in the above scenario, it is also possible that actor C is not a member of the same *guānxì* network. In this case, the resource that solves

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[94] Actually, the incentive of introducing actors to each other can be modeled as a resource. This idea is implicit in the discussion of the role of *miànzi* in the *guānxì* exchange system (see Section 2.2.6).

[95] Commissions in the Chinese construction industry usually account for around 8% of project cost.

actor A's problem would not be available in the initial network.[96] From the fact that exchanges take place only within a network and that *guānxì* requires the existence of an unbalanced obligation (Yang MH 1994: 122f.; Luo 2000: 14), it follows that actor B must be a member of another *guānxì* network, in which he has exchanged with actor C (for the sake of simplicity, actor D and his connection to actor C shall be excluded here). Such a setting, in which actor B is a *boundary spanner* (Kostova/Roth 2003: 310; Brass 1989: 523) connecting a *guānxì* network with an initially disconnected actor (C), is depicted in *Figure II-10*.

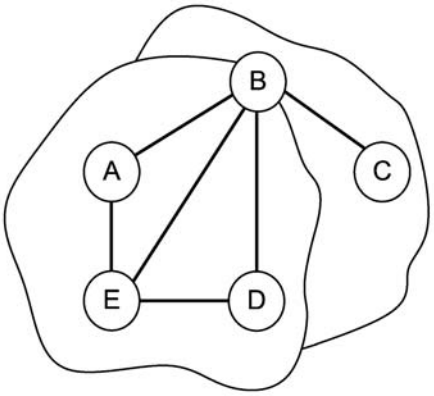

Fig. II-10. *Guānxì* network with an initially disconnected actor

Actor C is integrated into the network by the intermediary, actor B, who introduces both exchange parties to each other, thereby enabling them to extend (扩大) their personal networks. Also, the overall *guānxì* network expands, as visualized in *Figure II-11*.[97] As intermediaries vouch for the proper exchange conduct of both parties (Coleman 1990: 180ff.; Schramm/Taube 2001: 7), the network expands without increasing

[96] Note that it is regarded as "improper and indeed unthinkable" (Yan 1996a: 16) to resort to an outsider if a network member is capable of assisting.

[97] Similarly, Schramm and Taube (2001: 7f.) state that the connection that enlarges the *guānxì* network is frequently established by giving gifts. Such dynamics can also be analyzed with *Petri nets* (Rosenstengel/Winand 1982: V), Petri nets are a tool for modeling processes; they are named after their developer, Carl Adam Petri from the Faculty of Sociomatics at the Technical University of Hamburg.

uncertainty; this important issue will be addressed later in the context of sanctioning (Section 2.2.7).

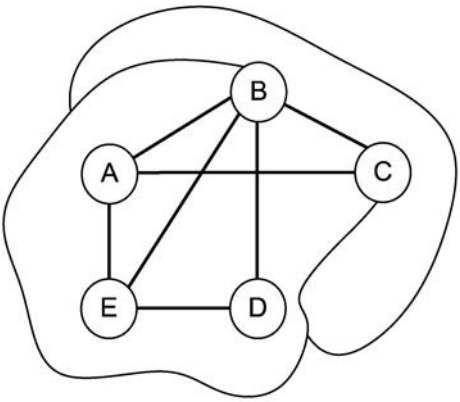

Fig. II-11. Extension of the *guānxì* network

Obviously, for a *guānxì* network to emerge or expand, individuals do not need to be bound by a "circle of insideness for the two strangers", as predicted by anthropologist Yang Meihui (1994: 194). In Coleman's sociological theory, an intermediary is a mutual acquaintance who introduces two parties and vouches for their exchange conduct. Nevertheless, from this simple network extension mechanism, there may emerge an "extremely complicated structure of social relations" (Hwang 1987: 952). Three issues that are related to the structure of *guānxì* networks merit further attention, namely network size, connectedness and symmetry, and membership costs.

The enlargement of the *guānxì* network is advantageous for its members because with each additional relationship they gain access to more diverse exchange resources. The larger the network, the greater the chances that certain resource bundles can be supplied from within the network (Schramm/Taube 2001: 18). The *guānxì* network, however, will not expand infinitely (Yang MH 1994: 140), for structural constraints limit its size. Governance costs increase in proportion with the number of network members because effective information processing, which forfeits defection as the dominant strategy, becomes more difficult. Technically speaking, there is rivalry in the consumption of network governance (so-called

crowding effects). The problem of an inefficient surveillance mechanism will be discussed in depth in Section 2.2.7.

The trade-off between these two structural forces explains why there is an "optimum size" (Sandler/Tschirhart 1997: 344ff.) for a *guānxì* network. This limitation in size may cause in-groups to also perform tasks that, if division of labor prevailed, out-group individuals could perform better or cheaper. The existence of an optimum size calls into question the validity of statements such as, "Guanxi links millions of Chinese […] throughout the region into a social and business network" (Day 2002: 85; similarly: Luo 1995: 249). Since a *guānxì* network observes the transaction conduct of network members, it would actually make sense to define network size in terms of transactions (rather than members). Postulating that *guānxì* networks have an immanent incentive to maximize the number of transactions, Schramm and Taube (2001: 18) correctly pointed out that there will be a threshold for the total number of transactions.

Network size also depends on the ability of the average actor to maintain *guānxì* ("*guānxì* capacity", Luo: 2000: 53ff.). *Guānxì* cultivation is subject to constraints in terms of time, money, and emotional efforts. Due to the obvious difficulties of quantification, this discussion shall not go beyond the above determining forces; rather it shall turn to empirics.

Empirical data on the size of *guānxì* networks is sparse. Statistics are available neither for the number of transactions within *guānxì* networks nor the number of network members. This is likely because *guānxì* networks do not have an "office" (办事机关, Ji 1999: 52). A rough idea is provided by the story of Wu Biao, who introduced 76 executives into his *guānxì* network (He XM 2000: 22). Another impression can be found in Huang Yuqing's 1999 analysis on rural exchanges in Xu village, Hubei province, which had 200 actors (Huang 2002: 89). Although the average size of rural *guānxì* networks tends to be smaller in some parts of China (e.g. Hubei) and larger in others (e.g. Jiangxi),[98] this figure seems a good estimate of the number of *jiārén* and *shúrén*; He Xuefeng (2003: 3, 21, 25) further supports this approximation of the size of a *guānxì* network.

Environmental uncertainty in a *guānxì* network is significantly lower when information flows are characterized by alacrity, and when the capacity for penalizing opportunistic behavior is high (Standifird/Marshall

[98] The size of *guānxì* networks in a rural setting mainly depends on demographic factors, such as the size of the community.

2000: 32). These two features depend on communication, which in turn mainly hinges upon network connectedness and symmetry. Connectedness simply refers to the total number of links within a given network; the higher connectedness is, the higher efficacy will be. Symmetry describes resource distribution across a network. If a large amount of connections originate and/or terminate at one actor, this actor may create a personally beneficial bias in the flow of information in terms of recipients, speed, and content. As shall become evident in Section 2.2.7, both connectedness and symmetry have a strong impact on the ability of the network to effectively coordinate the enforcement of norms. Statistical data on the connectedness and symmetry of *guānxì* network are not available. Regarding the strength of ties, Peng and Heath (1996: 514) speculate that *guānxì* partners in business build "loosely structured networks". On the contrary, Bian Yanjie (for instance in Bian/Ang [1993: 981ff.]), professor at the Hong Kong University of Science and Technology, and Liu Linping (2002: 294f.), state that *guānxì* networks are composed of "strong ties", referring to Granovetter's split into *strong ties* (i.e. friends) and *weak ties* (i.e. acquaintances, Granovetter 1983: 201).[99] If Granovetter (1983: 210) were right, the average strength of social ties should increase the lower the class stratum of the people connected. This insight, however, is based on the analysis of Western societies and has yet to be tested for the *guānxì* system.

The third and last issue that shall be addressed here is cost. As all actors of a network assume a portion of the costs of running the network, membership in a *guānxì* network is not free (Lee/Ellis 2000: 26f.). On the contrary, network cultivation can be extremely pricey if high-class wining and dining with people of large discretionary power is involved. These expenses represent a potentially very large investment (Luo 2000: 55f.)—the term "fee" does not apply, because the money is not formally collected by an organizational body (无组织, Ji 1999: 52).

Only few studies hint at the amount spent on *guānxì* cultivation in practice. Referring to a survey by Hong Kong's Independent Commission Against Corruption, Leung et al. (2003: 2) indicate that 3% to 5% of the operating costs of Hong Kong firms are spent on their managers' *guānxì*. Yan's (1996a: 12) survey in Xiajia village (下岬村), rural Heilongjiang province, suggests a figure of 10% to more than 20% of annual net income. In a study conducted by Zhong Qing (1995: 226), villagers'

[99] This treatment using the four criteria (*frequency of interaction*, *degree of emotions*, *intimacy*, and *reciprocation* actually) goes back to Granovetter's "The Strength of Weak Ties" (1973).

expenses for *guānxì* ate up as much as 30% of annual net income; some individuals substantially exceed their income, making up for the difference with bank loans (贷款). The study also suggests that expenses grew annually at double-digit rates in the early 1980s (Zhong 1995: 226). In spite of the fact that that these scattered data do not produce a clear picture, it seems safe to conclude that membership in a *guānxì* network is associated with significant costs.

2.2.5 The Norm of Reciprocity: *Bao* and *Renqing*, Again

The network presented in the previous section represents a structure in which exchanges may take place. Its emergence has been explained based on the simplifying assumption that actors consider only direct exchange interests. In fact, however, the rules that specify what actions a group of individuals considers appropriate are more refined in the *guānxì* system. Despite isolated claims that reciprocity "is not required or expected—indeed, it would be inappropriate" (Bell 2000: 134), it is widely accepted that *guānxì* is driven by reciprocation, *bào* (报, 回报, Hwang 1987: 956; Graham/Lam 2003: 86), i.e. *exchange reciprocity* (交换性的酬报, Huang 2002: 90; Chen JJ 1998: 158). This reciprocity is part of a specific set of social norms (社会规范, Chen JJ 1998: 112), i.e. the norms of the *guānxì* system (关系规范, Chen JJ 1998: 102).[100] The fact that these social norms are not codified may render them invisible, but not "intangible" (Luo 2000: 10). Social norms are rarely written down, and it would be wrong to mystify the *guānxì* system, just because these norms are complicated (复杂, Ma C 2001: 20). Usually these "inter-subjective rules (…) are well recognized by the people involved" (Kao 1991: 269) in the *guānxì* network.

In general, the longer the tradition of a culture, the more differentiated the set of interdependent norms (*norm structure*). Due to the great complexity and pervasiveness of the norms that Chinese tradition has produced, Fei Xiaotong (1992[1947]: Chapters 4–6) structured social relationships primarily normatively. Analyzing Fei, Hamilton and Wang (1992: 25) argue that Chinese society rests on networks of social relationships that

[100] The relationship of codified laws and norms shall not be discussed here, but rather in the concluding chapter, which assesses the results of this analysis in terms of ethics; suffice it to say that social norms exist in the absence of a legal system.

emerge from actors' obedience to normative roles.[101] This assumption, however, is invalid in Coleman's sociological theory.[102]

As an advocate of methodological individualism, Coleman (1990: 260) explains the emergence of a norm mainly with goal-oriented actions at the micro-level—"mainly" because his full explanation, along with the interests in and control over resources of *guānxì*-embedded individuals, takes into account the conditions that have to be met for a norm to actually come into being. Rather than the notion of rational network members overdirected by norms, the modern Chinese *guānxì* system is understood to entail motile (能动性的) individuals (Chen JJ 1998: 102). These self-determined actors consciously create norms because they yield benefits. Note that although they are a socio-structural element resulting from the micro-level, norms are the property of the system, not of the actor.[103]

Exchange systems may restrict interaction in terms of exchange actors, time, place, resources and reciprocity. While the *guānxì* system seems not to have devised major norms for the selection of network actors, time, and place, the situation is different for the other two structural elements. As was mentioned in Section 2.2.3, *guānxì* networks expect actors not to pursue solely instrumental or affective interests, but to exchange resource bundles; this clearly represents a norm concerning exchange resources. Much more relevant in the context of uncertain exchanges, however, is reciprocity (Chung/Hamilton 2002: 3f.; Schramm/Taube 2002: 6f.; Fan 2002a: 372; Chen JJ 1998: 158). This section will discuss the specific aspects of reciprocity imposed on exchanging *jiārén* and *shúrén*.

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[101] In this context, Coleman (1990: 242) draws an analogy to the Indian concept of *dharma*.

[102] It is for this reason—i.e. the presumption that individual ties are predetermined through Confucianism—that Hwang's (1987) well-elaborated scheme produces merely a partial understanding of the *guānxì* system.

[103] The necessity of such an approach is disputed. Many scholars do not formally raise the question of the nature of the mechanisms required to start such a system. In his best-known article, Alvin Gouldner (1960) elaborates on the norm of reciprocity and its role in social systems. He takes, as he acknowledges, the "usual perspective of functional theory" (Gouldner 1960: 177) that focuses on established social systems and on the mechanisms by which they maintain themselves. While for individuals the norm may be seen as a "starting mechanism" because it helps to initiate social exchanges, the beginnings of such a social system are not addressed by Gouldner.

Chinese society is structured along the "principle of reciprocity" (互惠原则, Huang 2002: 90). As this principle is the "credo of life" (生活信条, Zuo 1997: 223), long-term relationships are maintained only if *guānxì* partners obey its normative provisions (Huang 2002: 90). Although reciprocity may be explained with strong Buddhist influences (Herrmann-Pillath 1997: 7), it is actually important in most societies. Gouldner (1960: 161ff.), therefore, has termed reciprocity a "universal norm". This analysis shall be restricted to the reciprocity of *guānxì* exchanges, which empirical studies (e.g. Yan 1996a) has shown to indeed play the primary role.

In the *guānxì* system, actors who accept a gift incur the obligation to reciprocate (礼尚往来, He XM 2000: 21), i.e., gifts "must be returned" (必回, Huang 2002: 92) and, proverbially expressed, "favors may not be held back" (以德报惠). In order to "not forget what other people have done for you" (感恩戴德 / 知恩图报), not even "if the benefit is small" (不以利小而忘之), actors usually keep records of the resource bundles received and given, particularly at ceremonies (Yan 1996a: 5; also see above).[104]

In addition to the "principle of give-and-take" (给受原则, Huang 2002: 90) there is a norm that ensures the continuance of relationships (and thereby stability of the network), even if a dyadic exchange yields a loss in terms of *rénqíng* and *gǎnqíng*. Such sacrifices will be rewarded by the network with "face" (*miànzi*). Actors who have much "face" are expected to accept more sacrifices than those who have not; the latter may even be forgiven greed (贪财) or thrift with money (小气). This issue will be summarized in the next section.

It was said in the introduction to this section that reciprocity in the *guānxì* system is actually more diverse than assumed in Section 2.2.2. What allocation of *rénqíng* and *gǎnqíng* is desirable depends on the role of exchange partners (Chen JJ 1998: 158; Chung/Hamilton 2002: 11). Reciprocation among *jiārén* and *shúrén* can be distinguished by applying Hwang's (1987: 945ff.; 2002: 7) structure of the traditional Chinese understanding of fairness. Drawing on Deutsch's (1975: 137ff.) concept of justice norms, Hwang elaborates on how the Chinese perception of fairness in social exchanges depends on equity, equality, and need.

---

[104] Exactly the opposite is claimed by Day (2002: 85), who states that "no formal accounting (…) is maintained."

The equity rule (公平法则) distributes profits or losses yielded by the social exchange according to the contributions of individuals (Hwang 2002: 7). Actors emphatically insist that a minute balance (十分平衡, Huang 2002: 90) be produced: "I gave you a lot of benefits, now I want something back" (我使你受用, 我也要从你身上捞一把; He XM 2000: 22). This exchange pattern actually describes reciprocation between strangers that have been excluded from the *guānxì* system due to a lack of control over *gǎnqíng* (see Section 2.2.3). Therefore, the below discussion of reciprocity can be restricted to *jiārén* and *shúrén*.

As in most traditional societies, close kin are ideally perceived to fulfill one another's needs without anticipation of reciprocity, which is why *jiārén* are expected not to calculate debts (不计较, Yang MH 1989: 42).[105] *Jiārén* are observed to usually apply the need rule (需求法则, Hwang 2002: 7) and distribute profit and losses according to the legitimate needs of an individual. A differing understanding of needs, however, may lead to conflicts (亲情冲突, Hwang 2002: 7) between close family members.

A rather romantic explanation would argue that rendering support to people without the prospect of reciprocation would be based on the Confucian principle of forgiveness. This "ideal of sages" (Hwang 1987: 957, drawing on King [1980]) certainly is too weak to produce a stable social structure among ordinary Chinese people. In fact, expectations for reciprocation vary across *jiārén* based on positions.

In traditional China, there is a strong tendency for offspring to reimburse their parents for the expenses incurred in their childhood (Hwang 1987: 956). This prospect is implicit in the idiom, "Foster your children in order to prevent misery in old age" (养儿防老). This expression must be understood—just as the primary role that male descendants have in Chinese cultural and spiritual traditions (Chen JJ 1998: 104, 108)—in the context of the hard physical labor in the fields that is required to ensure the welfare of elderly family members. Considering the better job opportunities and salaries for young men, the Chinese preference for male over

[105] Note that Bell (2000: 136) criticizes the notion of "gift exchange". He prefers "gift giving", because "there is only a flow of *liwu* [gifts] in one direction and nothing coming back—a process for which the term 'reciprocity' is misleading." Also, according to Gouldner's (1960: 171) definition of reciprocity as a "roughly equivalent" return, exchanges among *jiārén* are not guided by the norm of reciprocity.

female children makes sense even today, and certainly helps explain the persistence of this momentous attitude over time. In order not to risk their old-age insurance, the elder generation expects its offspring to take care of the body, reminding them that "body, hair and skin are inherited from the parents" (身体发肤, 受之父母, Tan/Man 2001: 56)—an idiom that is frequently used in contemporary Chinese language.[106]

This logic does not only apply to basic care-giving (i.e. family responsibility, Chung/Hamilton 2002: 5); it also holds for transactions in the *guānxì* system. If a father asks a favor of his traditionally raised son, the son will seek to live up to the father's expectations and not ask him for reciprocation. At the same time, if the same son seeks a favor from his father, the son is expected to give him something in return, maybe of equivalent value. Such obligations depend on the "thickness" of blood (亲疏, He XF 2003: 16), i.e., they are deepest between parents and children (in particular father and son), and they become less binding for brothers, cousins on the father's side etc. (Chen JJ 1998: 104ff.; Luo 2000: 9). Although Confucian *wǔ lún* does not seem to play an important role in contemporary China (see Section 2.1), such asymmetric reciprocation could be the essence of Confucianism that still "shapes the minds of Chinese people" (Chen JJ 1998: 108) in present-day China.

It was stated earlier that reciprocation among *shúrén* is different from reciprocation among *jiārén*. Probably due to their crucial position in the *guānxì* system, *shúrén* face a refined scheme of reciprocation (Zuo 1997: 223). According to Hwang (1987: 945), relationships that place great value on continuation (and hence emphasize harmony, cooperation, and solidarity) frequently apply the equality rule. This norm prescribes that actors allocate resources irrespective of individual contributions. Chung and Hamilton (2002: 9) thus note that exchange partners generally tend to share benefits more or less equally. The normative structure of *shúrén guānxì*, however, is sufficiently explained only with a derivate of the equality norm, namely the "rule of *rénqíng*" (人情法则, Hwang 1987: 946; Hwang 2002: 7; Zhang/Yang 1998: 257; Tan/Man 2001: 57).[107] The normative

[106] There is isolated disagreement. Huang Yuqin (2002: 90) states that in China, "persons of lower status traditionally do not need to reciprocate gifts received"; status, however, is likely not to refer to family but to the wider social context. Similarly, Luo (1997: 44) believes that in *guānxì*, often the weaker transaction partner is favored.

[107] Note that Gouldner (1960: 171f.) expected the norm of reciprocity for different groups of social actors to vary across cultures.

connotation of *rénqíng* was mentioned in Section 2.2.2, when *rénqíng* was introduced into the analysis as an exchange resource. The lack of distinctiveness of the term *rénqíng* in the Chinese language becomes clear when Chen Junjie (1998: 158) opposes reciprocation with *rénqíng* resources to the normative reciprocation pattern of instrumental exchanges.

Reciprocity in the norm of *rénqíng* is best described by some common Chinese idioms:

> "If you have received a droplet of generosity, repay it like a gushing spring." (受人滴水之恩, 誓将涌泉相报, Zuo 1997: 67)
>
> "If someone honours you with a foot, honour him with a yard." (人敬你一寸, 你敬人一尺, Yeung/Tung 1996: 55f.)
>
> "Return for each peach received a [more precious] plum." (投之以桃, 报之以李, Hwang 1987: 957), which goes back to the "Papaw Story" (木瓜) in the *Book of Songs* (诗经, Zuo 1997: 224)

In spite of the difficulties of objectively calculating the value of resource bundles (see above), paying back the approximate amount received is considered "a refusal [of the relationship] and an insult" (拒绝和侮辱, Huang 2002: 90). The dynamics of such exchange patterns are visualized in *Figure II-12*. If actor B, in accepting resource bundle ρ^1, incurred an obligation valued at π^{1*}, the exchange would be balanced once actor B reciprocated by transferring a resource bundle of the value π^{1*} to actor A. The norm of *rénqíng*, however, adds to each obligation a mandatory surcharge (the difference in the areas of the gray and black arrows, i.e. $\pi^{1*} - \pi^1$). Requiring actors to return more than they have received (Fei 1992[1947]: 124), the norm of *rénqíng* modifies the exchange structure, so that at no point in time are debt and credit accounts at equilibrium (Yang MH 1994: 143).[108]

If actor B fails to create a new, reversed imbalance, either by returning an object of equivalent value or by non-reciprocation, the exchange partner will eliminate affection from the relationship (Hwang 1987: 957) and—as

[108] Gouldner (1960: 176) already supposed the existence of such a convention in social systems: "We should also expect to find mechanisms which induce people to *remain* socially indebted to each other and which *inhibit* their complete repayment. This suggests another function performed by the requirement of only *rough* [see above] equivalence of repayment that may be involved in one of the norms of reciprocity."

affection is required in *guānxì* exchanges (see above)—this would terminate the relationship. Hwang (1987: 957) reports that people could even become enemies. One of the reasons why gifts may differ according to the status of the recipient (对什么人, 随什么礼, Yan 1996a: 5) and according to other people's gifts (Huang 2002: 92) is that all gifts must be reciprocated. If the size of the gift does not take the recipient's ability to reciprocate into account, the partner who is unable to reciprocate will face a *rénqíng* dilemma (人情困境, Hwang 2002: 7). Eventually, the gift may even "press [the recipient] to death" (被礼大压死, Huang 2002: 92). Obviously, the norm of *rénqíng* implies a "propensity for escalation" (Yang MH 1994: 143; Yau et al. 2000: 16ff.).

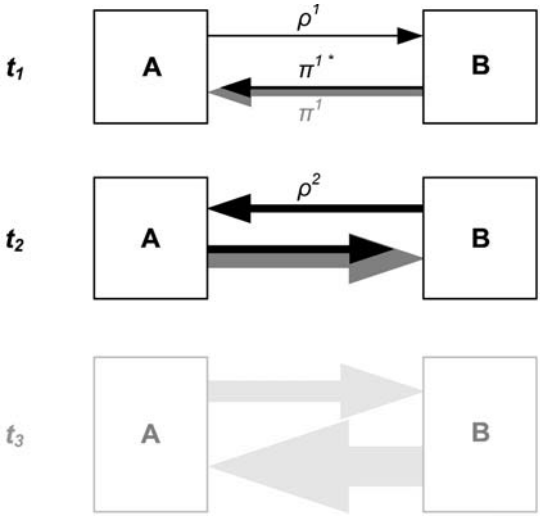

Fig. II-12. Reciprocity in *shúrén* ties: the norm of *rénqíng*

It would appear that the norm of *rénqíng* at each stage "exhibit[s] a tilt of disadvantage directed to the self (self-loss)" (Yeung/Tung 1996: 55). Yeung and Tung attribute this phenomenon to the fact that "[m]embers of Confucian societies assume the interdependence of all events" and that they "understand all social transactions in the context of a long-term balance sheet" (1996: 55). Rather than facilely suspecting Confucian forces, the "expectation of an unlimited exchange of favors" (Luo 2000: 10) can be explained by the future benefits actors are able to derive from commitments to long-term relationships.

In an exchange system that forces both actors to return more than the interest the exchange partner requires for an isolated exchange transaction,

the resulting permanent imbalance prolongs their relationship indefinitely. Presuming that both actors derive benefits from exchanges, neither of them has an incentive to terminate the relationship. If reciprocity were 100%, both actors could terminate the relationship without cheating and hence violating the norm. Therefore, the norm of *rénqíng* stabilizes the exchange system by creating indefinite relationships.[109]

From this perspective, the ubiquitous struggle over paying the bill in a restaurant (*mǎidān*, 买单) is not merely "an honor, for which one has to fight! Even people who urgently hope to lose the fight [of paying the bill] will pretend to want to pay" (Chen Hanne 2002: 225). Although there certainly are genuinely generous people, it would be wrong to ignore the utilitarian aspect here. *Mǎidān* is a common way in the *guānxì* system to consciously create obligations. Instead of interpreting *chīkuī* (吃亏) as "coming up short" in an exchange, members of a *guānxì* network understand it as the temporary, one-sided imbalance upon which the exchange system is based (see Sections 2.2.2.3 and 2.2.4), i.e. as credits that have not yet been reciprocated (or, if partial returns are assumed, repayments that do not yet amount to the total obligation). Elaborating on the moral subordination associated with exchanges, anthropologist Yang Meihui (1989: 44) goes even further by stating that "the recipient becomes subject to the internalized will of the (…) person of the donor".

"The science of ending up short tells you that in order to receive, something must have been given in the first place" (吃亏学告诉你: 欲将取之, 必先与之, Tang J 1998: 9, 111). If performed anti-cyclically in a long-term relationship, i.e. in multi-stage exchanges, *chīkuī* not only loses its negative meaning, but actually becomes beneficial. By deliberately incurring obligations when they do not cost much effort—preferably when the gift or favor is of great importance for the recipient—rational actors pile up a reserve of resources that can be brought out in times of need. As such obligations represent an "insurance policy" (Coleman 1990: 310; Yau et al.

[109] Michailova and Worm (2003: 10) argue that the maintenance of *guānxì* itself would be the reason not to reciprocate immediately because "continuity of relationships is a precondition for the existence of (...) *guanxi.*" Herrmann-Pillath (1997: 11) points out—though without providing convincing arguments—that reciprocity alone would ensure the long-term stability of the *guānxì* system. In their comparative macroeconomic analysis, Lovett et al. (1999: 236) find that, by prescribing long-term patterns of behavior, appropriateness in the *guānxì* system involves a "large perspective".

2000: 16ff.), it is not surprising that *chīkuī* is associated with good fortune (吃亏是福).

It has been implied in this section that, for a norm to constrain a specific action, control over a resource bundle needs to be held not by the owner but by other actors that exert authority by virtue of consensus. In order to answer the questions of when there will be consensus within the social (sub-) system and why norms may not emerge despite a majority of individuals in a group having an interest in it, Coleman (1990: 247) drew up a three-level typology, which revolves around who claims the norm and the person to whose action it is directed.

First, norms fall into two categories, namely *proscriptive norms* and *prescriptive norms*. The former forbid *focal action*, i.e. the particular action at which the norm is directed, while the latter describe actions an actor must perform. From the indicative structure (e.g. "you should return a fountain…"), it is clear that the *guānxì* system applies prescriptive norms. However, whenever an actor has the choice between only two alternatives, the distinction between proscriptive and prescriptive norms is redundant: proscribing one focal action (reciprocity) implicitly prescribes its alternative (non-reciprocity). At the same time, the norms of the *guānxì* system contain proscriptive elements, leaving actors considerable room to maneuver. Neither exact time nor specific value of the reciprocation are defined (Chung/Hamilton 2002: 8f.; Schramm/Taube 2001: 8); only early or late reciprocation is prohibited.

Second, Coleman distinguishes between disjunctive norms and conjunctive norms. If the interests of *target actors*—i.e. the group of individuals that perform the focal action—and *beneficiaries*—the group of individuals that benefit from the focal action—are conflicting, the *norms* are termed *disjunctive*. Beneficiaries have an interest in all actors abiding by the norm, while target actors aim at performing their action regardless of the norm. If the sets of target actors and beneficiaries coincide, norms are termed *conjunctive*. In the *guānxì* system, target actors are those individuals who receive resource bundles, while beneficiaries are the individuals who give them. As the members of a *guānxì* network are both target actors and beneficiaries at the same time, since they are embedded into multiple relationships in which they (alternately) receive and give, the norms of reciprocity take the form of a conjunctive norm.

Finally, *conventional norms* can be set apart from *essential norms*. Conventional norms are selected randomly by actors, but after the norm has

been fixed it is in their interest to follow it (e.g. drive a car on the right/left side of a street). On the contrary, the content of essential norms coincides, at least partially, with the interests of the beneficiaries, which persist regardless of whether other actors are following the norm. The norms in the *guānxì* system are essential norms because reciprocation is purposefully selected, and its interests persist even if no actor follows the norm.

Zuo Bin (1997: 68) explains that Chinese people need the norms of the *guānxì* system because they are "fond of the idea of 'reacting' [反应] in social intercourse". Although need is indeed a requirement for a norm to emerge, it seems that the situation is less trivial than that.

As developed by Coleman, several conditions must be met for a norm to emerge. For the sake of simplicity, these conditions will be condensed to the *need for a norm* and *effective sanctioning*.[110] Seeking to reduce the degree of uncertainty in exchanges, actors transfer their right to terminate membership to the *guānxì* network (see Section 2.2.7). As this act is beneficial for actors, the *guānxì* system meets the first condition for the emergence of an effective norm of reciprocity.

The need for a norm, however, amounts to an insufficient condition for its emergence. Norms will come into existence only if the beneficiaries of the socially defined right of control over an action have the capacity to enforce it. Because enforcement mechanisms are based on "face" (*miànzi*), effective sanctioning can only be addressed after *miànzi* has been introduced into the analysis in the next section.

2.2.6 Chinese Face (*Mianzi*)

Before turning to sanctioning mechanisms, another key component of the *guānxì* system must be introduced: Chinese "face". Considering that "one should know the master's face before beating his dog" (打狗要看主人面, Zuo 1997: 17), face represents a piece of information that is used in

[110] Coleman (1990: 250f.) explains that the emergence of the need for a norm requires several conditions to be met, among which the most important ones are (a) the existence of external effects, that (b) must be similar for a group of persons, (c) that these external effects cannot be overcome by a market for control rights or other simple transactions, and (d) that members communicate before and after the norms are agreed to. As communication is more crucial in the context of punishing non-compliance, this issue will be addressed in the context of sanctioning (Section 2.2.7).

interaction, and it implies a credible threat (可置信的威胁, Ye/Zhang 2003: 2). Yet Chinese scholars have only recently started to extensively analyze "face". The famous writer Lu Xun (鲁迅, 1881–1936) explained why: "Face is frequently heard in our daily conversation, but because it is easily understood, few people will actually think about [and analyze] it" (Lu Xun 1973[1934]: 127).

Actually, the Chinese language distinguishes two kinds of face: *liǎn* (脸) and *miànzi* (面子). Unlike *liǎn*, the semantic character of the latter, *miàn,* has been found in oracle bone inscriptions (甲骨文, Zuo 1997: 19). Although *miàn(zi)* has the longer etymological history, it is the character *liǎn* that in modern Chinese visually describes "face". More importantly, it is the abstract meaning behind both terms that is of interest here. Although *liǎn* and *miàn* can be used in combination (脸面), their differences are well understood in Chinese culture. The following incomplete opposition illustrates the chief differences between *liǎn* and *miànzi*.

While *liǎn* is inbred, *miànzi* is a product of socialization; therefore, the focus of *liǎn* lies within an individual, while *miànzi* lies on the outside. In Chinese culture, people believe they have only one *liǎn* but various kinds of *miànzi*. The evaluation basis for *liǎn* comprises personal details while *miànzi* is judged by conduct in social life, capabilities, and power. *Liǎn* is much harder to lose and to reproduce than *miànzi*, which is why individuals usually seek to keep *liǎn*, but are willing to risk *miànzi* in order to increase it. While an individual that has lost *liǎn* "no longer is a human being" (丢脸即不是人), the effects of losing *miànzi* are slightly less serious (Zuo 1997: 58f; Yang MH 1994: 140).

Obviously, *miànzi* is more important in the context of social exchanges.[111] The language for portraying the things that can happen to *miànzi* is rich: individuals can hurt or damage face (伤 / 损面子) and they lose face (失 / 丢面子) until they have no more face (没面子, Zuo 1997: 12f.); on the contrary, people who do face work (讲面子) may gain face (增加面子). Individuals who like face (好面子, Zuo 1997: 13) often are just fine at keeping it (保 / 顾 / 护面子), while others who love face

[111] It is therefore common to exclude *liǎn* from analyses of the *guānxì* system (Yang MH 1994: 140).

(爱面子) or pursue it all costs (死要面子)[112] may seek to make face up for themselves (假装 / 充面子, Zuo 1997: 15). Face can then be given (给 / 留面子, Zuo 1997: 14), lent (借面子) or sold (卖面子, Zuo 1997: 222); it can also be compared (XX面子比XX大) or put to contest (争面子). While all these expressions appear in written Chinese, some of them are rarely used in everyday language.

It is implied in the above discussion that *miànzi* has multiple functions: a source of intrinsic satisfaction, an indicator of member conduct in the *guānxì* system, or a medium of exchange. These three characteristics will now be discussed in detail.

As psychologists have long recognized, individuals in Chinese society have a strong interest in keeping their face intact because it is a major source of intrinsic satisfaction (Yang MH 1994: 141; Ma Y 1994: 13). Like the Western concept of prestige (Coleman 1990: 129ff.), *miànzi* operates through the internalization of others' judgment or approbation of oneself. It is the worth that people claim for themselves by virtue of their position within the social network. As an intangible form of and emblem for personal identity, *miànzi* is closely linked with dignity, self-esteem, vanity, and even "peacockery" (虚荣, Zuo 1997: 8; Ding 1997: 47; Ci Hai 2003). Hence threats to one's *miànzi* constitute threats to one's identity, though to a lesser extent than for *liǎn* (see above). Notwithstanding the psychological motives behind *miànzi*, the absolute units of analysis in sociology are actors, not brain cells. Therefore, *miànzi* must be perceived as a "socially

[112] As already indicated by the term dying (死), "pursuing *miànzi* at all costs" has an explicitly negative connotation. The Chinese press (Wang Z 1999: 44) reports a case that revolves around a dispute between a butcher and a tax collector in rural Anhui province: a tax collector visiting a butcher shop asks the owner how many pigs he had slaughtered that day. Pointing to two pig heads on display, the tax collector questions the butcher's reply ("one pig") and requests an additional tax payment of RMB 20 (US$2.50) for the suspected second pig. The two men get into a huge row. Afraid of losing *miànzi* in front of his customers and of never being able to do business again in the neighborhood, according to the article, the butcher picks up a knife and stabs the tax collector to death. Although the way the story is told suggests that it may have been fabricated for educational purposes, it highlights the dark side of *miànzi*. The article refrains from specifying the consequences for the butcher, for readers socialized in China know that "pursuing *miànzi* at all costs is living death" (死要面子活受罪, Yang MH 1994: 141).

constructed" (Standifird/Marshall 2000: 33) indicator and exchange resource in the *guānxì* system.

Miànzi is often approached *ex negativo*, i.e. by looking at its loss through withdrawal (e.g. Luo 2000: 10ff.). New Economic Sociology, however, does not subscribe to the teleological view that *miànzi* exists merely because it allows actors to be punished by taking away their *miànzi*. Actually, NES explains the emergence of *miànzi* with uncertainty, a varying degree of which actors need to cope with (see Sections 2.2.2 through 2.2.5).

When rational actors are uncertain about what conduct to anticipate in an upcoming exchange, they attempt to extrapolate from previous activities. Consolidating past exchanges into one indicator, *miànzi* is derived from the exchange history that an actor has within the network (Hwang 1987: 960). As a means of "interpersonal communication" (Zuo 1997: 8), *miànzi* includes information about the compliance of an actor with the norms of reciprocity.[113] *Shúrén*, for instance, cannot have *miànzi* "without [following the norm of] *rénqíng*" (Ding 1997: 47). In a process of "social evaluation" (社会评价, Tan/Man 2001: 55; Ye/Zhang 2003: p.1, Wang X 1996: 49), the network assesses an actor's visible success in complying with norms.[114]

Following from Section 2.2.5, norm compliance (mainly) refers to reciprocity. Upon performance of the stages of giving and returning, both exchange partners are rewarded by the network with *miànzi*.[115] Due to a lower risk of being cheated, actors generally prefer to exchange with actors who have attained large *miànzi*. With each successful exchange an actor gains *miànzi* and actors who have achieved large *miànzi* exchange mainly with each other (i.e., they exclude actors that are low in *miànzi*). Increased

[113] Drawing on Hu (1944), Hwang (1987: 960) provides a slightly wider definition of *miànzi* as "an individual's social position or prestige, gained by successfully performing one or more specific social roles that are well recognized by others [within the social network]."

[114] This is also why the terms "social esteem" (尊严) and "public image" (公众形象) are near-synonyms with *miànzi*, and why they can be used interchangeably (Ye/Zhang 2003:1).

[115] As this analysis is interested in the mechanism of *miànzi* creation, it shall not speculate as to its increments. Note, however, that *miànzi*, despite its high degree of abstraction, is treated by the Chinese as something that can be quantified (Luo 2000: 14).

miànzi grants access to exchange candidates with high *miànzi*. The ability to initiate new *guānxì* depends on historic success: success breeds success (Yang MH 1994: 126).

Therefore, actors who are low in *miànzi* have an interest in sending out false signals about the *miànzi* that the network has assigned them. By "hitting one's face until it is swollen in order to appear like a fat person" (打肿脸充胖子, Wu Q 1995: 17), as the Chinese saying goes, farmers in starving China used to pretend wealth. In this sense, *miànzi* comes close to the original Latin meaning of prestige (*præstigum*) of "delusion": boasting about oneself (自我吹嘘), showing off (自我炫耀), and self-demonstration (自我展示, Zuo 1997: 139ff.). Along with paying attention to personal image (e.g. appearance, conduct), actors seek to create a socially favorable impression of themselves through exaggeration and fabrication. The pretense of having *guānxì* with prestigious actors works best in a loosely connected network because misrepresentations there are hard to disprove. However, the easier it is to verify the *miànzi* claimed by an actor, the more accurately it approximates the predictability of his conduct and the more important it is in the *guānxì* system.

The higher the structural importance of *miànzi*, the better it will be communicated among network members. This motivation becomes apparent from the emergence of *guānxì* networks. As explained in Section 2.2.2.3, an outsider is integrated into the network when no member controls a resource bundle at which a member actor's interest is directed. But if newcomers have no information on the past conduct of network members, it is possible that actors who have cheated will continue exchanging with said newcomers. In order to prevent this from happening, the network is interested in sharing with newcomers all information available on the earlier conduct of network members; eventually newcomers and established members have the same knowledge.[116]

From the above analysis, it follows that there are two reasons for which an actor can have low *miànzi*. Either he has a short exchange history or he has lost *miànzi* because of earlier cheating. The implications of *miànzi* and length of membership for decision-making will be further addressed in Section 2.2.8 when the role of trust in the *guānxì* system is discussed. It

[116] Effective sanctioning has been mentioned as a condition of norm emergence and will be further addressed in the next section.

will become clear that the role of *miànzi* as an indicator is identical to the role of information in calculative trust.

Miànzi can be gained or lost only when there is an audience to bestow or deny it. Therefore, what is actually meant by the expression "to give face" (see above) is that an actor makes the network assign *miànzi* to another actor. On the one hand, exchange actors determine their own and other peoples' *miànzi* by deciding whether to reciprocate. On the other hand, actors—to some extent—influence the amount of *miànzi* bestowed by the network through their decisions about what they accept from others. As compliance with the norms of *guānxì* requires conduct free of greed and stinginess (see Section 2.2.5), it is not surprising that "*mianzi* [is] inversely related to the substance that one receives from others" (Yang MH 1989: 43), or expressed proverbially: "Eating from others, one's mouth becomes soft; taking from others, one's hand becomes short" (吃人嘴软, 拿人手短, Yang MH 1989: 44). Obviously, the less *rénqíng* and *gǎnqíng* an actor decides to accept, the more *miànzi* the network assigns him; analogously, accepting a gift reduces *miànzi.*

Therefore as *miànzi* constitutes a resource (He Xuming 2000: 19), the *guānxì* system comprises a total of three resources (*rénqíng*, *gǎnqíng*, *miànzi*), which in reality are exchanged in combination.[117] The identification of a tripartite resource bundle is supported by Chen Junjie (1998: 103, 108), whose focus on relationships led him to identify three dimensions (三维性), namely instrumental, affective, and normative dimensions. Decision-making depends on the value that an actor assigns to these resources.[118] In general, it follows from Coleman's (1990: 129ff.) framework that *miànzi* should play an important role as its exchange is the most widespread functional substitute for *rénqíng*.[119] Although *miànzi* may be

[117] Similarly, Chung and Hamilton (2002: 7) assume that "[t]wo persons can be close (…) because they are bound by obligations, or because they have strong affection for each other, or because they are instrumentally related to each other. Most of the time, there is a combination of the above three dimensions."

[118] By participating in a banquet, an influential member of the *guānxì* network increases the *miànzi* of the host and the distinguished guests, an act for which he is reciprocated with *rénqíng* and *gǎnqíng*. The result of a transaction system that is completely imbalanced in terms of *rénqíng* and *gǎnqíng*, i.e., debts are repaid with *miànzi*, is a perfect *miànzi hierarchy* (adopted from Coleman (1990: 130).

[119] The logic of Coleman's (1990: 130ff.) analyses of social status and money applies to *miànzi* and *rénqíng*.

convertible in *guānxì* exchange systems (Yang MH 1989: 49), it is not a "social currency" [120] because it lacks a nominal value (see Section 2.2.2.3).

Here, the Chinese haggling over paying the bill in a restaurant (*mǎidān*, see above) comes to have a different significance. Section 2.2.5 explained this behavior with the simultaneous interest of two actors in establishing indebtedness, possibly because they are uncertain about their future situation. As this section suggests, such a dispute may also stem from the fact that two actors, in terms of interests, prefer *miànzi* over the benefits from the resource bundle (*rénqíng*, *gǎnqíng*).

The analysis will next turn to the question of how the *guānxì* system ensures that network members comply with norms. The three-resources setting will become relevant again during the systems integration in Chapter 3.

2.2.7 Norm Enforcement: Sanctions

The discussion of norms in Section 2.2.5 concluded with the statement that the emergence of a norm does not only hinge upon the need for it but also upon effective sanctions. Therefore, it is not surprising that, like in most exchange systems (Coleman 1990: 115), surveillance mechanisms (监督机制, Feng T 2002: 43) and sanctions occupy a predominant position in the *guānxì* system. Only if a *guānxì* network is capable of punishing actors who do not comply, e.g. by preventing red envelopes (*hóngbāo*, see above) from being turned into *black* ones (黑包, Feng D 2002: 29) will the specific norms of reciprocity emerge.[121]

In order to render cheating an inferior strategy, the *guānxì* network must raise the individual cost of member non-compliance until the practice is no longer beneficial. More specifically, the punishment must be equal to the amount that an actor would gain from cheating plus an (at least infinitesimally small) unit ε; cheating then yields the actor a negative return valued at ε. This paragraph will present the two standard means by which networks may modify the incentives of their members, namely *norm internalization* and *external sanctions*.

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[120] For the conditions that exchange resources must meet in order to be currency, see Section 2.2.2.3.

[121] This analysis will exclusively address sanctions for non-reciprocation, for reciprocity is the most important norm and the logic is identical for other norms.

Internalized Norms

In a system of internalized norms, the network makes the actor who has internalized a norm subject himself to intrinsic punishments (Coleman 1990: 292ff.).[122] Norm internalization, however, is not "manna from heaven"; rather it requires active groundwork in the social system. In the wider process of socialization, the network teaches the individual how to distinguish between right and wrong, and it imparts to the individual an internal surveillance system (*consciousness*, Marini 1992: 37). Once the network has assigned the individual new incentives that entail increased cost of non-compliance, it becomes inactive because supervision is not necessary.

Anticipation of the negative intrinsic effects may keep a network member from cheating. With *shúrén*, for instance, "the mere thought of not living up to the norm of *renqing* but returning too little makes an actor who has internalized the norm feel uncomfortable [不好意思]" (Zhong 1995: 125). The actor will have a guilty conscience (内疚) and feel shame (羞耻), which Chinese society is univocally said to have cultivated as the primary deterrent against behavior that deviates from cultural standards of morality (耻感文化, Zuo 1997: 69; Li/Fischer 2002).[123] Recall in this context the attempt of Confucian ideology to instill in the people an "inner sense of propriety and an accompanying sense of shame" (Bell/Chaibong 2003: 342, see Section 2.1.2).

The efficiency of internalization as a means of ensuring norm-compliance depends on two factors (Coleman 1990: 296). First, the cost of the lengthy socialization process may exceed the sum of discounted (future) profits from internal sanctions.[124] In general, norm internalization allows for frequent updates of the catalogue of regulated focal actions with low losses in efficiency. The second limitation of the efficiency of norm internalization is of a practical nature: internalization cannot be directly

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[122] Analogously, they may provide themselves with intrinsic rewards for norm compliance.

[123] In spite of the fact that the internal control mechanisms of guilt and shame exist in most societies (Li/Fischer 2002), it is popular to oppose Chinese societies to those that are characteristic of the West. As their role in the *guānxì* system is identical, this distinction shall not be further addressed.

[124] Coleman (1990: 297)—probably for his personal interests in research on family and society—points to the problem of "underinvestment" in socialization, in particular in disaggregated modern urban societies. This problem can be explained with the incongruence of target actors and beneficiaries of norms (see above).

monitored, so the network does not know if an actor actually chooses the imaginary will of others as a basis for action and thus performs the sanction himself; persons who are incapable of doing so are termed *sociopaths*. Considering that in the *guānxì* system compliance with the norm of reciprocity is easily observed, and that the set of regulated focal actions does not constantly require updates, external sanctions are easy to implement. As they are also favorable in terms of observability and efficiency, it is not surprising that *guānxì* networks do not rely too much on norm internalization, but rather on external sanctions, which will be addressed next.

External Sanctions

If an actor has violated a norm—by performing (not performing) a proscribed (prescribed) focal action—and if, for the above reasons, no internalization has taken place, the network must punish him; this act is termed an *external sanction* (Coleman 1990: 269f.).

External norm enforcement may be divided into *heroic sanctions* and *incremental sanctions* (Coleman 1990: 278ff.). If the task of sanctioning is indivisible, the sanction can only be carried out by a single sanctioner, who often incurs a personal loss;[125] in this case, the term *heroic sanction* applies. The difficulty of organizing heroic sanctions may be overcome by socialization, in the process of which the obligation to sanction is internalized, or by applying second-order external sanctions. In general, a wide range of arrangements is conceivable: dice may be thrown or, if network members are not deemed equal, other rules may be applied to determine the heroic sanctioner.

Incremental sanctions are a substitute for heroic sanctions—or their alternative if a social system has the choice. Being the standard form of norm enforcement, incremental sanctions rely on the contributions made by several or all of the members, distributing the cost among several or all of these actors. Increments are often fixed at meetings, which is why regular gatherings are important for successfully running a *guānxì* network. Typically, delinquents will be shut out or scorned by network members; this involves low individual costs, or more specifically, costs that are lower than the revenue share from the sanction. Although the individual

[125] An early paradigm for the indivisibility of heroic sanctions is one of Aesop's fables, in which a (heroic) mouse is required to attach a bell around a cat's head. Performing this task, which significantly increases safety in the mouse community, entails the risk of being eaten by the cat.

contribution to the sanction is small, when added up, the total effect can be immense. It would obviously be incorrect to cast norm compliance in the light of strong network identification or spirit, which would cause *guānxì* networks to interpret "[o]pportunistic behavior with one exchange partner […] as opportunistic behavior with the entire network" (Standifird 2000: 24).

Sanctions may be further differentiated based on whether they are performed by a network member or by an outsider. Consider this not at all unrealistic scenario: the cheater stores the resource bundle that he owes at his home, which can only be accessed by network members. Thus the sanctioners recovering the bundle owed would have to be network members. It is not clear whether, generally speaking, using a network member is more efficient than outsourcing: on the one hand, network members perform the sanction at a marginal cost, but, on the other hand, members may suffer heavy losses when sanctioning an old friend.

Sometimes, however, no network member fits the bill and an outsider is required (e.g. a strong debt collector, who is not part of the network). Such an actor is, for instance, someone who has "many brothers, great strength and is not afraid of dying" (兄弟多, 力气大, 不怕死, He XF 2003: 14) or, more precisely, a member of the *Black Hand Faction* (黑手党), i.e. the Mafia (Clissold 2004: 207).[126] This outside sanctioner could be a very powerful person (一把手, Jiang X 2001: 58), such as the most influential villager (大社员)—usually a former executive or relative of senior officials. An important role in norm enforcement is played by "seniors' associations" (老人协会). These assemblies of senior citizens over the age of 60 have emerged as important institutions not only for "drinking tea and playing cards" (He XF 2003: 137f.), but for conflict resolution between villagers.

Harmony, after all, is an important theme in China, and a particularly sensitive issue in dispute settlement (Zhou Y 1998: 19; Zhong 1995: 53f.; Tan/Man 2001: 57). Chinese people are traditionally said to believe that "harmony in interaction has primacy" (和为贵, Hwang 1991: 78), because

[126] The *Black Hand Faction* itself is a *guānxì* network. By restricting membership to the clan, the Mafia protects itself through a virtual rampart (土围子). It sends gifts to government officials—because "with money one can even control the ghost" (有钱能使鬼推磨)—and thereby constantly maintains its protective umbrella (保护伞) of power (Jiang Renbao 2002: 20).

it is the "spiritual target state" (致中和, Hwang 2002: 1). "Harmony ensures that everything will be prosperous" (家和万事兴, He XM 2000: 19), for in the "Chinese primitive agrarian society" (Zhong 1995: 53f.) its stabilizing effects fostered economic development (Bell/Chaibong 2003: 286f.). The role of harmony in Chinese sanctions falls into a wider discussion about the varieties of dispute settlement, about which Auerbach notes:

> "The socially sanctioned choices in any culture communicate the ideals people cherish, their perceptions of themselves, and the quality of their relationships with others. They indicate whether people wish to avoid or encourage conflict, suppress it, or resolve it amicably. Ultimately, the most basic values of society are revealed in its dispute settlement procedures." (Auerbach 1983: 3f.)

Since the invitation of a third party into dispute resolution may sever the relationship between the two parties (Hwang 2003: 21), many Chinese people seek to settle disputes in a one-on-one way (私了) and to straighten out (理顺) their relationship. Only when mediation by human compassion is impossible will they resort to reason and laws (合情, 合理, 合法, Zhang/Yang 1998: 253).

In spite of its preference for harmony, the network may need to resort to external sanctions. The methods of raising the (prospective) cheater's costs may be classified according to the extent of punishment that is necessary to exclude deception from his set of strategic actions: withdrawal of *miànzi* and/or network ostracism.

"A non-reciprocating actor will be reputed an ungrateful person" (忘恩负义的小人, Tan/Man 2001: 56), which means that his *miànzi* will be withdrawn by the *guānxì* network (Day 2002: 88). Consequently, this actor needs to rebuild *miànzi* from scratch by exchanging on the basis of *rénqíng* and *gǎnqíng* with other actors that have no or little *miànzi* (see Section 2.2.6). Losing *miànzi* may also damage the *interpersonal attractiveness*[127] (人缘) of his entourage. The consequences may be so far-reaching that the members of the extended family can no longer function in society.

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[127] An attractive person has connections with powerful *guānxì* exchange partners (Zuo 1997: 65). Although Chinese culture assumes that interpersonal attractiveness depends on people's bound destinies to meet (*yuánfèn*, 缘份), its shape and meaning largely depends on *miànzi*. What is interesting at this point is that *yuánfèn* originates in Buddhism, showing the heavy impact of non-Confucian elements on contemporary Chinese thought (see Section 2.1.1).

Miànzi can also be withdrawn for disobeying conventions other than exchange-related norms. Examples of such violations include (in order of severity): "one's personal weaknesses become known to the public, being insulted, farting loudly, gifts are rejected, being scolded by one's spouse, being caught pretending something, not keeping promises, flirting or silly behavior, drunkenness during banquets, and failing examinations". Although this list from a 1992-survey in Wuhan city (武汉市), Hubei province, cannot be held valid without further data on the statistic population, it bolsters the external orientation of *miànzi* (Zuo 1997: 32, 58f.).[128]

It may be the case, however, that the network's threat of withdrawing *miànzi* is not capable of sufficiently raising the individual cost of (prospective) malfeasance. Then, effective sanctioning may require the noncompliant performer to be punished more harshly, namely through ostracism (排斥) from the *guānxì* network.[129]

As network membership is a result of interests in and control over the resources *rénqíng, gǎnqíng*, and *miànzi*, the consequences of ostracism must be defined in terms of their loss. In addition to his *miànzi*, the excluded actor loses all unbalanced *rénqíng* and *gǎnqíng* credits that he has distributed to other network members and that have not yet been reciprocated (except for the credit of the network member he cheated). Also, the cheater squanders the opportunity for future exchanges within the network. Therefore, his consideration of whether to cheat must acknowledge the gains that he could have derived from the network. Ostracism from a rural network may have existential implications if an actor is a member of only one *guānxì* network. Yan (1996a: 8) observed that ostracism is associated with death: depending on the local dialect, the excluded person is metaphorically deemed *dead* skin (死皮), *dead* door (死门), or even a *dead* character (死性).

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[128] Since *liǎn* was excluded from analysis in Section 2.6, its loss (丢脸) does not need to be discussed. Suffice it to state that in terms of severity, the loss of *liǎn* is traditionally compared to the physical mutilation of one's eyes, nose, or mouth (Luo 2000: 14): "Face is like the bark of a tree: without its bark the tree dies" (人要脸, 树要皮); the analytic separation of losing *miànzi* and losing *liǎn* is valid here, because they have no connection (Zuo Bin 1997: 31).

[129] Identically, Yan (1996a: 8) states that the person who does not abide by the rules (不做人) will be relegated to a socially disadvantageous position. Note that the case of temporary suspension from the network shall be neglected because a survey of the literature did not yield any evidence of this type of sanction.

Ostracism does not require *guānxì* networks to designate a heroic sanctioner (see above). In this archetype of incremental sanctions, each network member renounces exchanging with the sanctioned actor or even ignores (不理) him:[130] "anyone who has done something immoral and shameful will be spit upon and cursed and it is a disgrace", as Liu Zuoxiang (2003) puts it. Incremental sanctions in some traditional Chinese networks go even further by expelling the cheater's relatives from the *guānxì* network (He XM 2000: 21; Day 2002: 85) or by transferring obligations from one generation to the next (unborn) generation (He Y et al. 1991: 56). By doing so, the network is capable of ensuring that liability holds even over time.

Often the threat of network ostracism is sufficient to attenuate the probability that a network member will act opportunistically. Yet, there is a problem associated with external sanctions, namely that actors may not be interested in contributing. If an actor leaves the job of sanctioning to others, his likelihood of being cheated at a later point in time is mitigated to zero cost. This externalization of sanctions leads to what is termed the *second-order problem of free-riding* (Coleman 1990: 270f.). In the same way that the network externally enforces a norm, however, it may also enforce a sanction by applying a so-called *second-order sanction*.[131] Close-knit communities with homogeneous interests commonly establish the norm not to participate in transactions with a person that has dealt with a party who violated the norms. If the cheater is always penalized, the *guānxì* system also fulfills the second condition for the emergence of a norm in the absence of a powerful internalized control mechanism. In this case, in the words of the eminent scholar Malinowski (1932: 55), norm conformance is not sanctioned "by a mere psychological force, but by a definite social machinery".[132]

Effective sanctions and second-order sanctions require communication, so-called *gossip*, which enables network members to coordinate joint

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[130] An example of ostracism through incremental sanctions is the collective refusal to attend the funeral of a malfeasant or his relatives (Yan 1996a: 19).

[131] Note that the second-order problem of sanctioning always comprises one actor less than the norm problem.

[132] Chen and Chen's (2004: 306) statement that "two individuals […] are bound by an implicit psychological contract to follow the social norm of […] a long-term relationship, mutual commitment, loyalty, and obligation" mixes too many things; it is also wrong: the contract is an explicit one, and it is socially enforced.

action. Although people will often feel bad when others are talking behind their back, gossip is a separate step from sanctioning. Gossip, which actually precedes sanctions, diffuses information about the wrong-doing and facilitates the emergence of a consensus on the moral judgment and an appropriate punishment (Coleman 1990: 283f.; Hwang 1987: 966).

The more connected the circle of communication (交往圈, Ma C 2001: 20), i.e. the more members who know each other, the more gossip they can produce. Coleman (1990: 267) discusses the problem of communication within a network of three actors (V=3) and three connections (L=3)[133]. Rather than interpreting this setting as a fully connected network with $L = \sum_{i=1}^{V}(V - i)$—three actors can have no more than three connections—it shall be deduced from Coleman's explanations that actors must have connections to at least two actors in the *guānxì* network (L=V). In order to reflect this structural difference, the emergence of the *guānxì* network (see Section 2.2.4) was explained with a four-actor structure (V=4; L=5), which was then extended (V=5; L=6).

External sanctions work best in close-knit, homogeneous networks where information about wrongdoings travels fast (Coleman 1990: 285). The costs of gossip are lowest and motivation to engage in it is at its highest when gossip is a by-product of relationships that have been established and that are maintained for some other purpose. Therefore, it is not surprising that empirics show that members of a *guānxì* network frequently communicate through otherwise existing relationships and during banquets (Huang 2002: 88).[134] Along with the characteristics of banquets as an exchange resource, social drinking and dining (拉拉扯扯, 吃吃喝喝, 搞外交, Yu 1998: 17; also see Section 2.2.2.2), are a prerequisite for information flow within a *guānxì* network.

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[133] Depending on the type of interaction analyzed, different networks of social relationships emerge. As exchange requires communication, any communication network contains at least as many relationships as the corresponding exchange network. Going beyond the scope of this analysis, a distinction between the two types would shed further light on the specifics of sanctioning in the *guānxì* system.

[134] In an empirical study, Tung and Worm (2001: 529) found that the frequency of interactions with one's *guānxì* partners was about once a month (57%) or once every few months (33%).

From the above assessment, it follows that, unlike financial capital, the capital in *guānxì* systems is not, by its very nature, "fundamentally tentative and insecure, (…) non-enforceable (…) and vague" (Luo 2000: 42). *Guānxì* networks are often capable of enforcing the obligations incurred from accepting resource bundles. Two configurations of interests in and control over resources, however, may limit the effectiveness of external sanctions, namely power and mobility.

The distribution of *power* (权力)—a concept central to network analysis—has far-reaching implications for *guānxì* systems (Jiang R 2002: 20). Power expresses the total (intra-system) value of the resources controlled by an actor (Coleman 1990: 132f.). The value of a resource depends on the interest of powerful actors in it.[135] Connected in this circular structure, both power and resource value can be derived from the distribution of interests and control in the social system. This explains why exchanges of resources change the loci and magnitude of power. It is important to note that power—just like *miànzi*—is a characteristic of an actor within the social system and not a characteristic of a relationship between two actors. Therefore, the statement "A has power over B" should be formulated as "A has more power than B" (Coleman 1990: 133).

Power equips some actors with more cheating options than others (Coleman 1990: 286f.).[136] Powerful malfeasants are in a favorable position, for sanctioning them generates higher costs than sanctioning non-powerful actors and the higher the cost of a sanction, the lower the likelihood that an actor is subjected to it. For instance, if members expel a powerful actor from the network, they members lose a great deal of resources in which they are interested. If a sanction yields individuals a negative net profit, even though the cost of its increments are distributed among all network members, a powerful actor is in fact immune to sanctions, particularly to ostracism. Therefore, powerful people regularly violate norms,[137] and they

[135] An actor's interest in a resource is equal to its contribution to utility satisfaction, i.e. the difference between his gains from using the resource and the costs of obtaining it (see Section 2.2.2.3).

[136] Also, power may affect the emergence of norms or give rise to a norm conflict if external effects are distributed asymmetrically across a social system. A group of powerful people may prescribe a focal action that has positive external effects, although another group of less powerful people feels negative external effects.

[137] Today criminologists refer to the crimes of the powerful and privileged as *white collar crime* (Coleman 1987: 406). Such criminal behavior can be seen

tend to sanction non-compliance most often. In short, powerful people have much to lose, but they can prevent this from happening.

The second feature that qualifies effective sanctioning, and hence impairs the emergence of a norm, is *mobility*. Mobility refers to the ability of a target actor to escape sanctioning—physically or *de facto*. Norm compliance is less likely for boundary spanners (see Section 2.2.4) because they may fall back on exchanges in one or more other *guānxì* networks. Boundary spanners are more difficult to punish because of lower *opportunity costs*—i.e. the difference in the benefits yielded by membership in the actual network and by membership in the second-most beneficial network. For the same reason, Granovetter (1983: 209) speculates that high-status individuals tend to have a large amount of bridges, which makes them mobile. Coleman's (1990: 287) elaborations further suggest that mobility is high for people with no *miànzi*, in particular in the lower social stratum of a disorganized urban environment.[138] The chief problem with mobility is that the *guānxì* network may not know about the outside connections of its members. From this perspective, it is a wise decision by Hong Kong billionaire Ying-tung Fok not to reveal his outside connections (Doebele 1996: 161).

Recall that credible sanctioning is designed to eliminate uncertainty from *guānxì* exchanges. Depending on the specifics of the setting (see above), however, this risk may not be excluded: If norm conformance relies on a sound socialization process, there is a residual risk because the success of internalization and the sanction itself are not observable. In the case of external sanctions, residual uncertainty exists due to imperfect information about a partner's mobility. In these cases, which will be presented in detail in the next section, it is trust that makes actors accept the uncertainty associated with a promised resource bundle.

It should be noted that there is another reason why trust may play an important role in the *guānxì* system, namely the undeniable phenomenon of "underground *hóngbāo*" (地下红包), which, owing to their illegal nature, are exchanged in private (一对一, Yang MZ 1995b: 43). In China, smuggling and other crooked business deals, for instance, typically rely on

as a result of the coincidence of appropriate motivation and opportunity (Coleman 1987: 408).

[138] For arguments on why mobility is also high for people with very great status, see Coleman (1990: 286).

the *guānxì* system (Schramm/Taube 2001: 15; Liu/Mooney 2002: 20ff.).[139] As the general manager of a *Wuxi*-based company comments, "If my partner is afraid that everybody will know about our exchange, he will not accept anything. The best way is if nobody but the two partners knows." In other words, exchanges are safer from the sharp eye of the law if only two people are aware of them (天知地知你知我知, Yang MZ 1995b: 43). In an effort to exert control, and probably encouraged by the successful operations of the Ministry of Supervision (监察部) and relevant contributions from the Ministry of Public Security (公安部) and the Ministry of State Security (国家安全部), the Chinese government warns: "Hiding is useless, someone will always know" (要想人不知, 除非己莫为, Zu 1998: 14). In spite of such wishful thinking, it can be concluded from the above that the *guānxì* system cannot enforce norm compliance in transactions of which the network has no knowledge. Thus, as will be discussed next, actors accept uncertain promises because they have trust in each other.

2.2.8 The Role of Trust

Arguing that *guānxì* and the concept of trust (信任) are inextricably linked to one another, virtually all *guānxì* scholars (e.g. Yeung/Tung 1996; Tsang 1998; Su/Sirgy/Littlefield 2003; Luo 2000; Lui 1998) include trust in their work. Luo, for instance, states that trust is "an essential condition for *guanxi*" (2000: 17). In fact, however, psychological trust does not always emerge in the *guānxì* system.[140] Reference to trust, whenever it is "irrelevant in (…) exchanges (…) promotes confusion" (Williamson 1996: 260). This section seeks to prevent such confusion by providing a detailed account of the emergence of different forms of trust and their relationship to the *guānxì* system.

The general notion of trust in modern China is "firm reliance on the integrity (正直), competence (能力) or character (性格) of a person" (Jinshan Ciba 2005).[141] In spite of the fact that in different cultures very different things can be meant when an exchange partner (or an intermediary)

[139] Illicit exchanges imply the existence of a legal system. As the structural introduction of a legal system into analysis requires wide-ranging considerations, this issue will be taken up in Section 4.1.

[140] Actually, in this RCT there never is a *necessity* to trust. When an actor has no choice other than to exchange, the term trust cannot be applied.

[141] The reference to trust in a thing (事) is not of interest in the context of *guānxì* exchanges.

claims that he (or the introduced person) is "trustworthy" (Nooteboom 2002: 48, drawing on Sako 1998), there obviously is no contradiction to the Western understanding that "someone has trust in someone with respect to something, under certain conditions" (Nooteboom 2002: 41).

For some individuals trust may be an end unto itself in interaction, but in this analysis, "the value of the relationship itself is (…) ignored and the impersonality of the transaction is assumed" (Murakami/Rohlen 1992: 70). In line with Nooteboom, trust is assigned an extrinsic value that is "instrumental, and suggests a strong focus on self-interest" (2002: 4).[142]

Using Deutsch's (1962) definition, Coleman (1990: 100) understands trust as an action, through which a person increases his/her vulnerability by another person, whose action he/she is unable to control.[143] Rational actors base their decision on whether to accept vulnerability on a calculation that weighs the benefits of appropriation against the risk of non-appropriation (Coleman 1990: 115). Other scholars (e.g. Rousseau et al. 1998) hold the view that trust is a psychological state. A frequently used definition from Rousseau et al. (1998: 395) reads that "trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of others" (similarly: Sako 1992: 32). The understanding of trust as a state of mind allows for the case that the prospective trustee rejects resource bundles that are offered by the prospective truster. As "it is part of *guānxì* to skillfully reject gifts" (He/Chang 2002: 30), such a definition of trust as a unilateral decision is highly relevant. This analysis will follow Nooteboom's (2002: 37) approaches to trust as trusting behavior in the discussion of calculative trust, and it will refer to an actor's underlying disposition in the discussion of psychological trust.

As was addressed in Sections 2.2.2.3 and 2.2.7, time asymmetries in dyadic *guānxì* exchanges entail a unilateral risk, i.e. a risk that depends on the conduct of one actor only. Therefore, two parties must be distinguished: truster and trustee. The former decides to grant or withhold trust, which the latter then justifies by reciprocating or disappoints by not

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142 For the intrinsic value of trust, see Nooteboom (2002: 4).

143 While the analysis of the *guānxì* system in Sections 2.2.2–2.2.7 largely draws on Coleman's sociological theory, the following argumentation draws more from other authors. This is because Coleman, who did not seem particularly interested in the concept of trust, did not sufficiently distinguish his sources.

reciprocating (Coleman 1990: 90).[144] This bilateral nature of trust ties is well recognized by Chinese scholars: trust on the side of the truster and trustworthiness (可信) on the side of the trustee (e.g. Ha/Ma 2001: 34). Although the sources of trustworthiness and trust are analytically separated, the potential trustee may influence the potential truster's decision-making process (e.g. by pretending to have *miànzi*, see Section 2.2.6), provided he is aware of the potential truster's reasoning scheme (Coleman 1990: 96).

The potential truster anticipates his partner's trustworthiness, i.e., he makes an assumption about the potential trustee's incentives to return an obligation. The result of this assessment is then integrated into the decision-making process by what game theory calls *backwards induction*.[145] This reasoning scheme is linguistically reflected in the Chinese word 可信, someone who *can* be trusted. Because the basis of trustworthiness was discussed in the preceding paragraphs, this argument will focus on trust. Building on the above understanding that trust is the deliberate acceptance of vulnerability before another person, whose actions one cannot control, on the assumption that this person will not cheat, this assessment of rational trust revolves around two elements: vulnerability and expectation.[146]

Vulnerability is determined by the truster's potential loss if the trustee disappoints his trust by not fulfilling the promise.[147] According to Coleman (1990: 99f.), trust occasionally has been restricted to situations where potential losses (L) are larger than potential gains (G). Although such a restrictive definition would not harm this argument, there is no need to exclude $L < G$ from the notion of trust; hence, in line with Coleman, no assumption shall be made for the truster's vulnerability in terms of L and G.

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[144] Instead of a trustee, the object of trust may also be an institution. This so-called *systemic trust* or *confidence* (Luhmann 1979) in the institution may be the basis for trust in its individual members.

[145] *Backwards induction* is defined as the anticipation by which one player includes in his calculation the optimum response of another player to his action (Gibbons 1992: 58). Game theory is the study of multi-person decision-making problems (Gibbons 1992: xi).

[146] Identically, Ci Hai (2003) identifies trust with the willingness to "take this risk of committing to somebody's care."

[147] Coleman (1990: 124) identifies three more important "premises of trust": (a) the allocation of gains from utilization of the desired resource controlled by the actors; (b) the specifics of time asymmetry; and (c) the fact that the trustee does not make a real commitment when receiving the resource provided by the truster.

While potential trusters often have rather precise information on the volumes of *L* and *G*, they usually know less about the second element of trust: behavioral *expectation (p)* (Coleman 1990: 102f.). This is troublesome, for rational trusters need to weigh potential gains (*G*) and potential losses (*L*) against their respective probabilities, (*p*) and *(1-p)*. Embracing *G*, *L* and *p*—which Coleman (1990: 99f.) considers the dominant elements of calculative trust—utility maximization under risk postulates that a person should trust if the ratio between the chances of gaining and the risk of losing is greater than the loss-to-gain ratio, i.e. if $p / (1-p) > L / G$.

As implied in the earlier definition, expectations are directed at the competence and intentions of a person, hence the distinction of *competence trust* and *intentional trust* (Nooteboom 2002: 50). While the former refers to the individual's ability to deliver the promised outcome, the latter describes an actor's willingness to use this competence to deliver the promised outcome.[148] Whether an actor will have competence trust or intentional trust depends on the source of uncertainty. Family businesses, for instance, often employ relatives in spite of miserable capabilities because they believe they face a high degree of uncertainty from disloyal conduct.[149] Because in the *guānxì* system uncertainty of reciprocation is likely to be attributable to bad intentions rather than a lack of technical competence, and because actors are assumed to be capable of assessing their own competencies, performance depends largely on intentional trust.

What are the determinants of expectation? In Coleman's theory trust is high when probability is. Probability depends on information, and if there is a gap between total information and available information, two kinds of probability need to be distinguished. From the information available to him a truster infers *subjective probability*. Additional information will move subjective probability towards the actual *(objective) probability*, and hence make it more likely that the actor makes the right decision (Coleman 1990: 103). The larger the amount of information, the better subjective

[148] In their analysis of *guānxì* networks, Lovett et al. (1999: 240) invoked a similar understanding of trust when they distinguished integrity from ability. However, Lovett et al. also include the concept of "benevolence", which, to their regret, is completely lacking in traditional Western models (1999: 241). It shall be noted that this lack, in fact, is rather fortunate, for benevolence is included in integrity, and it does not constitute a separate form of trust.

[149] Recall that the earlier statement that family members are recruited from a small circle (see Section 2.2.2.3), which tends to explain their lower level of performance.

probability approximates objective probability; with perfect information, both coincide. Actors, however, do not necessarily strive to close the gap between subjective and objective probability. Rather they gather information only until the cost of an additional piece of information is equal to its benefits. As the impact of *p* on decision-making largely depends on *G* and *L*, actors gather more information if their values are high.

Drawing on Pagden (1988: 134), Nooteboom (2002: 40) states that trust entails "a lack of information, which yields risk, but also information, which limits perceived risk". What is ambiguously expressed here is that the lack of information represents a risk, and that also the information itself may entail a risk. Obviously, trust implies an *information paradox*. Because information contains both risk and risk limitation, it follows that the notion of trust as subjective probability is dropped and the information paradox maintained, or *vice versa* (Nooteboom 2002: 37).[150]

In keeping with Nooteboom ("We always need to allow for the possibility that we do not have complete knowledge" [2002: 44]) and with Simon ("The standard theory, [in which] uncertainty is generally represented by probability distributions of future outcomes, (…) is a wholly unsatisfactory framework" [1993: 134]), it is assumed that an actor will always face residual uncertainty about his degree of information.[151] Therefore, it would be wrong to define trust exclusively by the notion of expectation as subjective probability. Rather, expectation should be conceptualized in terms of probability and the degree of information. In order to avoid confusion in the following treatment, *probability* (*p*) shall refer to subjective probability, while the ratio of total information to information available to the truster, i.e. the quality of (subjective) probability, shall be termed *predictability* (*i*). It is important to note that the two elements (*p*, *i*) are unrelated:

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[150] In this context, Nooteboom (2002: 40) points to Shackle's (1961: 6) insightful observation: "We think of uncertainty as more than the existence in the decision-maker's mind of plural and rival hypotheses amongst which he has insufficient epistemic sources of choice (…). Decision is not choice amongst the delimited and prescribed moves in a game with fixed rules and known list of possible outcomes of any move or sequence of moves. There is no assurance that anyone can in advance say what set of hypotheses a decision-maker will entertain concerning any specified act available to him. Decision is thought and not merely determinate response."

[151] This feature has entered economics as the assumption of *bounded rationality* (Simon 1991: 26). For a model that incorporates bounded rationally into incomplete contracts, see Hart and Moore's famous article (1988: 757) in *Econometrica*.

an increase in predictability does not necessarily increase trust, but may also lead to mistrust. Defining expectation in terms of probability and predictability basically represents the introduction of a meta-level, which makes it possible to work with the above information paradox; however, it does not "dissolve" it, for paradoxes, by definition, cannot be dissolved.

Intuition suggests that (additional) information produces higher expectation (and hence higher trust) if the potential trustee is likely to comply with a norm ($p > 0.5$). The opposite is true if the potential trustee is likely not to comply with a norm ($p < 0.5$). Since this analysis does not require any assumption about how probability and predictability are combined into expectation, no speculations shall be made.

It is interesting to link calculative trust, defined in terms of probability and predictability, with *miànzi*. *Miànzi* has been said to represent information about the likelihood that the potential trustee will comply with the norm of reciprocity (by inference from records of previous exchanges within the network, see Section 2.2.6). Hence as a network indicator, *miànzi* represents a piece of information that increases predictability (*i*); this holds whether *miànzi* is high or low. Note, however, that predictability may entail false information that has been intentionally generated by the prospective trustee (e.g. by "hitting his face swollen", see above). At the same time, *miànzi* conveys information on the probability (*p*) of norm compliance. Signaling high probability, high *miànzi* produces high trust, while low *miànzi* leads to distrust. "Substantiating expectations for an actor's purposive rational behavior" (Schramm/Taube 2002: 28), *miànzi* is thus no substitute for trust, nor does it "replace (…) trust in an exchange relationship" (Luo 2000: 14). *Miànzi* is actually a source of trustworthiness and credibility (信用[152], Herrmann-Pillath 1997: 21; Kiong/Kee 1998: 75ff.).[153]

[152] In spite of its reference to "trust that one gains due to (...) promise-keeping" (Ci Hai 2003), credibility (信用) is mainly associated with distinct business-related meanings.

[153] Note in this context that the notion that Westerners attach great value to *systems trust*, while the Chinese are assumed to rely on *personal trust* (Luo 2000: 17), which *per definitionem* bypasses the external body, must be questioned. Calculative trust is based on sanctions, to which a third agency subjects non-complying actors, and it renders trust in the sanctions of Chinese *guānxì* networks no more personal than in Western legal institutions.

In this conceptualization, along with the possible gains and losses, calculative trust is based on the information of which an actor is aware. Although such an approach is perfectly in line with statements like, "The problem of trust is reducible to the problem of information" (Bell/Chaibong 2003: 251), it implies that uncertainty persists due to a lack of information (*1-i*); this important issue will be addressed later.

The above assumption that actors know both the total amount of information required for an optimal (trust) decision and the residual uncertainty is questionable. This is especially true in cases of radical uncertainty, where rational actors tend to recognize that they are not capable of quantifying the amount of necessary information that is missing for a proper assessment of a prospective partner's trustworthiness. Therefore, this conceptualization of trust will follow Nooteboom's understanding that "there is nothing in the basic notion of trust that indicates that it must be (…) calculated. (…). To allow for a non-calculative basis of trust, such as routinized behavior, naivety [*sic!*] or even sheer stupidity, the definition should be wide enough" (2002: 45).

While it is acknowledged that beyond present knowledge, a leap of unreasoned trust is always needed; naïveté is excluded here in order to maintain methodological consistency with RCT. It is assumed that less mentally gifted actors are aware of their "limited cognitive abilities" (Conner/Prahalad: 1996: 477). This feature shall distinguish less mentally gifted actors from naïve ones. The following passage provides a brief explanation of how rational actors alleviate the problem of imperfect information by resorting to psychological measures.

The inclusion of psychological elements, which leads to a notion of trust that comes close to its understanding in everyday language, is an extension of Coleman's sociological theory. However, as Richter (2001: 8), a down-to-earth economist and founding father of NSE (see above), notes, average regularities in human behavior may be reduced to underlying principles like neurobiological laws.

As a result of advances in recent years, mainly in terms of high technological approaches to brain physiology, the neural sciences allow for a deeper understanding of the biological basis for behavior. The central tenet that constitutes the current thinking of modern biologists about the relationship of mind to brain is that all mental processes—even the most complex psychological ones—derive from operations of the brain. As Kandel states:

"[The principle that] the actions of the brain underlie (…) all of the complex cognitive actions, conscious and unconscious, that we associate with specifically human behavior (…) is so central in traditional thinking in biology and medicine that it is almost a truism and hardly needs restatement. This principle stands as the basic assumption underlying neural science, an assumption for which there is enormous scientific support." (Kandel 1998: 460)

Today there is ample evidence that some memory systems in our brains process information implicitly. It has been shown that perceptions run along sub-cortical nerve tracks before they reach those parts of the brain in which emotional reactions are produced. Incidents, such as those of shared experiences, cause people to trust even if they do not know why.

Because the establishment of such findings has led to the proclamation of "the return of Sigmund Freud" (1856–1939),[154] the author wishes to avoid any confusion. While for Freudian scholars the existence of unconscious processes was just the starting point for the development of a mentalist theory, this is exactly as far as this analysis needs to go in order to justify the compatibility of psychological trust with RCT.

Nooteboom's (2002) extensive analysis of trust suggests that the expectation that the potential trustee will behave in a certain way may be based on four psychological causes—instinct, routine, lack of awareness/risk negligence, and affect—or on two psychological phenomena, namely cognitive dissonance and decision heuristics.

As there is no need to extensively discuss the relationship between trust and these psychological causes and phenomena,[155] the only element that shall be mentioned here is *heuristics*, i.e. "decision-making processes that economize on cognitive resources, time, and attention processes" (Uzzi 1997: 44), and one of its features, *intuition*, i.e. knowledge that cannot be acquired either by inference or observation. As Wilhelm Pfähler, Professor of Industrial Economics at the University of Hamburg, regularly points

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[154] One of the best-known advocates of Freud's return is, for instance, Mark Solms (2004: 82ff.), Professor of Neurosurgery and Psychology at the Royal School of Medicine and at the University of London.

[155] For instance, the psychological cause *affect* (*gǎnqíng*) is said to be "highly relevant" (Luo 2000: 16) to trust because it involves one's ability to identify with people that have similar behavioral schemata. Similarly, Nooteboom (2002: 63) notes that knowledge of a partner's mental framework makes it possible to attribute motives and infer causes of behavior.

out: "Successful managers use intuition to make decisions in a complex environment that heavily relies on speed—it's all about 'gut'".

This idea has been corroborated, for instance by Miller and Toulouse (1986: 1405), who find that chief executive officers' (CEO) decisions that are based on intuition yield extraordinary results in small firms and in a dynamic, rather complex business environment. Henry Mintzberg's *The Nature of Managerial Work* (1973), which debunked the image of the manager as a rational, plan-oriented, decision maker, has been empirically confirmed by Carroll and Teo (1996: 437). In fact, the idea that intuition plays a crucial role in a manager's reasoning is so widely acknowledged that Mintzberg et al. (1998: 5, 73ff.) have made it into a self-contained strategy type—*the Entrepreneurial School*—that is solely based on the entrepreneur's intuition. If the reasonable assumption is made that actors do not arbitrarily rely on intuition (or other decision-making heuristics), as they would in the case of "unthinking belief" (Smelser/Swedberg 2004: 17), but rather that they deliberately do so in order to mitigate uncertainty, psychological trust is consistent with RCT.[156]

Empirically, not much is known about the role of trust in the *guānxì* system. A survey by Yeung and Tung (1996: 54ff.) claimed that trust is the number one prerequisite for *guānxì*. Of the managers polled, 85% recognized trust to be the essential condition for *guānxì*. Unfortunately, the authors did not provide an elaborate definition of the kind of trust their survey covered. A study conducted by Luo comes to an even less precise conclusion: "Your capital is *kexin*: they trust you, they'll do business with you" (2000: 18). That is, if "[t]hey trust you they will give you credit" (Tong/Yong 1998: 85). In terms of probability and predictability, Herrmann-Pillath (1997: 18) found that Chinese actors often assume subjective probability much larger than the objective probability actually is; this phenomenon is called *over-confidence*.

Looking at the history of trust in traditional Chinese merchant networks, Lin (2002: 18) found that trust played an important role: "First, there were merchants like Tao Zhu and Duan Mu, then there were merchants from Jiangxi and Anhui" (先有陶朱端木, 后有晋商徽商). This proverb refers to the two famous merchant clans, *Tao Zhu* and *Duan Mu*, which engaged

[156] For an example of an analysis that introduces interpersonal trust *ad hoc*, see Ariño et al. (2001), who state that "parties that trust each other may undertake joint activities that exhibit a level of risk that would preclude others from doing so" (2001: 9).

in business on the basis of trust. Their immense success inspired other people in their home provinces, and a "business model of trust" emerged. Interestingly, the meaning of this saying has changed to signify "shrewd businessmen" in contemporary usage.

2.3 Transitory Considerations

This analysis of the *guānxì* exchange system shall conclude with several considerations regarding the subsequent integration into business realms. This section will address social capital, to which *guānxì* is often reduced, and the relationship between the *guānxì* system and commercial law.

Many Western sociologists relate *guānxì* to the concept of *social capital*; some even go so far as to equate them with each other (e.g. Luo 2000: 41). Social capital, however, is a problematic concept, and its definition is disputed.[157] The scientific literature offers "multiple definitions, operationalizations, and perspectives for social capital that reflect the work of sociologists, economists, and organization theorists" (Kostova/Roth 2003: 297). As this analysis is based on Coleman's sociological theory, it is suggested that his basic understanding be used here. Coleman (1990: 302ff.) assumes that social capital does not lie within individuals or production facilities because it is embodied in the social connections of two or more actors.[158] In a more restrictive manner, Smelser and Swedberg require these connections to be "the unintended result of some action, undertaken for a different purpose" (2004: 17), whereas instrumental resources are no prerequisite for the establishment of the ties that represent social capital. Although social capital may be a by-product of economic exchanges, it is "established for non-economic purposes" (Coleman 1994: 175), such as receiving affection, status etc. However, since relationships in the *guānxì* system do require instrumental resources, it would be wrong to interpret an actor's *guānxì* as social capital. If the term "social capital" were to be applied at all, it would have to refer to *miànzi* (Graham/Lam 2003: 90), which, as an indicator, is created unintentionally through *guānxì* exchanges.

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[157] A typical example is Fukuyama, who is researching on trust, and hence defines social capital as the "capability that arises from the prevalence of trust in a society or certain parts of it" (1995: 27).

[158] In fact, Coleman (1984: 86) implicitly rejects definitions of social capital that are not based on the macro-level (see above).

There is another reason why the *guānxì* system should be perceived as a self-contained *institution*[159] (Schramm/Taube 2001: 15f.), rather than as an unintentionally created, informal mechanism (非正式制度性的方式, Feng T 2002: 20) that is subordinate to an existing system (e.g. market exchange, state economy).[160] Despite the existence of a commercial legal system, obligations from the *guānxì* system can be enforced only through the *guānxì* network.

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: 23). Indicating "bad faith" (Luo 2000: 142), contracts were barely existent between business partners. It was only after 1979 that a version of Western-inspired contract law came into being. In a "gradual transition (…) of trial-and-error" (Schramm/Taube 2001: 10), the dissolution of the traditional regulatory mechanisms of China's central administrative economic planning structure was not accompanied by the simultaneous formation of more market-oriented elements. Thousands of laws and regulations were passed by the National People's Congress (NPC), but relatively few of them were strictly enforceable. On July 1, 1982, years after the beginning of the reform, China's first formal commercial contract law took effect. Apart from inconsequential amendments in 1993, another 17 years passed before the NPC passed a standardized contract law in October 1999. There is, however, wide agreement that property rights are still haphazardly enforced. It is perspicuous that the *guānxì* system carries a great deal of weight when personal interpretations are made in lieu of legal standards, when the people entrusted with enforcement are insufficiently trained, and when legislative procedures are slow. This explains why, according to a survey conducted by Chu and Ju (1993) in Shanghai, the majority of Chinese people (72%) prefer to solve problems in transactions via *guānxì* instead of bureaucratic channels (see Section 2.2.7).

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[159] In general, *institutions* represent humanly devised social constraint systems, i.e. a set of formal and informal norms that limits the scope of individual actions (North 1990: 3) and hence facilitates socio-economic exchange (Richter 2001: 31). Similarly, Scott (1995: 33) defines institutions as "cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior." From the normative framework of how obligations are made and reciprocated, and how actors are sanctioned, it becomes clear that the *guānxì* system is as much an institution as a market exchange system that is based on contract law.

[160] Recall in this context the criticism of Yang Meihui's (1989: 49) perspective in Section 1.2.

Observing that the *guānxì* system and contract law operate as "parallel mechanisms" (Schramm/Taube 2001: 10; 并存, Zhou Yi 1998: 19) in China, business practitioners have suggested that coordination through *guānxì* complements economic interaction (Ambler 1995: 22ff.; Luo 2000: 28)—an understanding that is similar to Axelrod's (1997: 61) generalized statement that law is a supplement to the informal enforcement of norms. However, *guānxì* networks and commercial legal structures are not "counterparts" (Ambler 1995: 27f.), not even "in a certain period and a certain scope" (Liu Z 2003). Representing a self-contained institution, the *guānxì* system must be understood as a substitute for the legal regulation of exchanges (Jones 1994: 216). From this perspective, it would be logical to assume that the presence of one reduces the need for the other, and that protection in exchanges is ensured when one mechanism is weak, provided that the other is strong (Schramm/Taube 2001: 15).

Without launching into a discussion about the precise relationship between the enforcement of obligations incurred from contracts and *guānxì*, there is reason to believe that two simultaneous governance mechanisms will be less effective than the isolated existence of either of them. This is because from a theoretical perspective, the assumption that both governance mechanisms coexist without interfering is wrong. In the case that both systems are operating simultaneously, an actor whose connections extend all the way to court may influence the judge in order to be relieved of his obligation. In fact, *rénqíng*, money, and other benefits have entered Chinese courtrooms and they regularly influence the proceedings of trials (Li Xinjian 1998: 54).[161] Through benefits offered to the judge to win a case (People's Supreme Court of Jilin 1995: 22), the *guānxì* network seriously interferes with prosecution in China (Chen JP 1994: 25).[162] Chinese legal journals commonly discuss the problems of *rénqíng*, *guānxì*, and money under the term "three cases" (三案). Similarly, officials of the Anti-Corruption Bureau who judge the appropriateness of gifts ask for bags of money or cars (Clissold 2004: 153).

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[161] Not surprisingly, a similar phenomenon exists in dispute resolution overseen by powerful villagers outside the *guānxì* network (see above): as these (unofficial) judges also administer justice according to the rule of maximum *hóngbāo*, there is constantly interference from people who seek to have influence on future judgments (收买大社员, He XF 2003: 16).

[162] Also consider the interesting phenomenon of retired judges, who are not permitted under PRC law to become attorneys, but who open legal services firms. Employing inexperienced law school graduates to send to court, these firms are successful in winning civil suits.

This chapter has interpreted *guānxì* as a self-contained system, which, as the above transitory considerations have shown, is a structural alternative to other institutions of exchange. As the emergence of the *guānxì* system has been explained with the tools of New Economic Sociology, it is now possible to integrate the elements of the *guānxì* system into the market setting in order to derive business strategies that take into account the mixed institutional order that is prevalent in China (see Section 1.1).

3 *Guanxi*-Based Business Strategies

Significant progress has been made with respect to defining, operationalizing, and measuring the *guānxì* system in the business field. Yet research still lacks a clear understanding of exactly how its elements (identified in Chapter 2) are embedded in the theory behind business strategy.

The academic framework into which this chapter seeks to incorporate *guānxì* is called the *theory of monopolist competition*, i.e. a school of economics that was developed in the 1920s/1930s (e.g. by Chamberlin 1933) as a means to overcome the classic dichotomy of pure monopoly and perfect competition. Focusing on oligopolies, i.e. markets with few suppliers, the theory of monopolist competition is based on the observation that in many industries, firms are distinct in variables other than price (or quantity). These deviations from the assumptions of perfect competition are interpreted as monopolistic elements. Allowing for heterogeneous products, monopolistic competition was established as a third economic system, located on a continuum between the extremes of pure monopoly and perfect competition.

More precisely, this analysis draws on *managerial economics* and *industrial organization*, i.e. two branches of economics that explore conflicting cause-effect relations in oligopolistic processes. Although both managerial economics and industrial organization are offshoots of the theory of monopolist competition, their objectives are diametrically opposed. Originally used by governments for anti-trust policy, industrial organization strives for workable competition in order to increase social wealth. On the contrary, firms applied managerial economics in attempts to deactivate competition, thereby achieving increased profitability. For obvious reasons, the analysis in this chapter will take a managerial economics perspective on *guānxì*-based business strategies; the impact of these strategies on social wealth will then be discussed in Chapter 4.

The point of departure for this analysis is the *structure-conduct-performance paradigm* (SCP), which assumes that *market structure* and *market conduct* determine *market performance* (Bain 1951: 293ff.).

Market structure is represented by a set of relatively constant factors that have an impact on conduct. Among the so-called *expectation parameters* of market structure, there are the number of buyers and sellers, product homogeneity, market transparency, barriers to market entry, product life cycle, market size, and growth.

Market conduct is expressed through variables that actors influence within the structural framework. These so-called *action parameters* include price, quantity, payment terms and conditions, product quality, service, R&D intensity, and advertising. The elements of the *guānxì* system can also be established as action parameters.[163]

Finally, market performance is understood as the result of market structure and market conduct. Defined in terms of profitability and market shares, performance reflects the relative quality of a firm's market conduct in the competitive environment.[164] Due to the observation that superior economic rents often attract new competitors, more recently the static link between market structure, conduct and performance has been replaced by a circular pattern.

Sections 3.1 through 3.3 facilitate the translation of strategic market conduct into qualitative predictions of performance by idealizing firms as entities without internal organization (i.e. as *corporate persona*). Given that *guānxì* is essentially personal, this simplification (recall the curtailing element 4' in *Figure I-2*) will be eliminated in Section 3.4, which explicitly re-introduces individuals into the business context.

3.1 What Is Strategy?

Tracing its roots back to the Greek word *strategia*, the term *strategy* originally referred to "generalship", i.e. the "art of the general". In antiquity, what was adopted by the military to achieve victory was its strategy. In a present-day business context, *strategy* continues to bear a notion of victory. As the means of confronting enemies in the battle for market shares

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[163] This book deliberately neglects collective market conduct (e.g. alignment with the market leader's action parameters), for its analysis requires the application of *game theory* (Gibbons 1992: xi; see Section 2.2.8.).

[164] In order to assess market performance in absolute terms, the specifics of the market structure (see above) would have to be taken into account.

are not arms, however, the definition of victory is weaker than that suggested by "cutthroat competition" (Granovetter 1985: 501) or the celebrated Chinese expression "the marketplace resembles a battlefield" (商场如战场). Several notions of strategy have evolved in the business area, some of which are conflicting (Besanko et al. 2000: 1). It is worth considering how three leading contributors to this area define the concept of strategy. Consider these definitions of strategy:

> "The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." (Chandler 1962: 13)

> "The pattern of objectives, purposes or goals, and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is or should be in and what kind of company it should be." (Andrews 1971: X)

> "One might say, […] decision making that deals with the 'Big Questions'. […] The strategic problem is concerned with establishing am 'impedance match' between the firm and its environment." (Ansoff 1965: 5)

What these definitions have in common is that they consider issues to be strategic if they are concerned with and limited to a company's major policies.[165] Stressing patterns of objectives and frameworks, strategy is revealed in a sequence of united events which amount to a coherent pattern of business behavior (Kay 1993: 27f.). Strategy, once set, is not easy to reverse; however, it should not be concluded from this fact that strategy must be long-term oriented. Rather, a definition of strategy should target the connectedness of reactions between firms (Pfähler/Wiese 1998: 5). Finally, the emphasis on what kind of firm the company *should* be suggests that strategy shapes the company's *competitive "persona"*, i.e., it determines what characteristics it is planning to use to succeed in the competitive environment.

Notwithstanding these shared properties, there are different kinds of strategies. It is common to classify managerial strategies according to organizational levels, for which Backhaus (1999: 195ff.) has suggested three

[165] Consider Shapiro's (1989: 127ff.) six typical examples of areas in which strategies are crucial: investment in physical capital, investment in intangible assets, strategic control of information, horizontal mergers, network competition, and contracting.

ideal types: *corporate strategies*, *business strategies*, and *functional strategies*.

By developing a *corporate strategy*, management determines the company's overall direction: its vision, general goals, ethical perspectives on the (social) environment, and corporate identity, as well as the scope of its operations (i.e. served market segments, Kay 1993: 25ff.).

The formulation of corporate strategy is usually too broad to effectively improve the competitive position. Therefore, firms devise *business strategies* that are concerned with the relationship between the company and its environment. This type of strategy describes how a firm plans to respond to competitors, governmental authorities, suppliers, and customers in the market. As can be inferred from the title of this book, the following analysis will focus on these external relationships.

Internal processes that may also affect competitiveness fall into the category of *functional (area) strategies* (Besanko et al. 2000: 420). This strategy type shall not be discussed in further detail because it is concerned with the optimization of processes within the firm, such as technological R&D (e.g. resource productivity); finance (e.g. investment, accounting); production operations (e.g. scheduling); procurement and logistics (e.g. inventory control); and human resources (e.g. employee motivation).

Due to its fundamental contribution to corporate success (Besanko et al. 2000: 2), strategy is assumed to have primacy over all other management elements. While this assumption has been corroborated by empirical tests (e.g. Powell 1992: 556f.), there is no consensus among academics and business practitioners regarding exactly which indicator should represent the success of a company (e.g. firm size, market share, profitability, shareholder value, technical efficiency, capacity for innovation, or the reputation enjoyed among stakeholders; Kay 1993: 20). As this analysis does not aim at measuring the efficacy of strategies, the success of a firm shall simply be understood as the economic value created by a company.

3.2 The Role of Sustainable Competitive Advantage

The SCP paradigm assumes that firms in any given market influence performance merely through strategic action (see above). Over the years, the business strategy literature has attributed success to many kinds of

strategic actions (Kreikebaum 1991: 50). In particular, a multitude of classificatory schemes have been proposed for the Chinese business context, including concepts as exotic as Sunzi's *36 Stratagems* (三十六计, Wong 1998: 25ff.; Ambler 1995: 22ff.). Written in the 6th century BC as part of *The Art of War by Master Sun* (孙子兵法), Sunzi's popular strategies are constantly re-interpreted to provide explanations for the position of a company relative to its competitors. Strategic action shall be approached in a more scientific fashion in this thesis; it is assumed that the success of any business strategy depends on its ability to create a *sustainable competitive advantage* (*SCA*, Hoffmann 2000: 1) or *sustained competitive advantage* (Barney 1991: 99f.). Since the body of literature on this matter contains no unified definition of SCA, this concept shall be approached by analyzing its two constituent parts: *competitive advantage* and *sustainability*.

Competitive Advantage

The basic tenets of *competitive advantage* were hinted at as early as 1937, when Alderson made the sensational assertion that the fundamental aspect of business is to meet variations in buyer demand. Inspired by Alderson, other scholars (e.g. Hamel/Prahalad 1989: 1ff.; Henderson 1983: 7ff.) followed the general idea that a competitive advantage is a lead that one firm has over a rival or a group of rivals in a particular market. Competitive advantages are derived from superiority (Day/Wensley 1988: 1ff.) or distinctiveness in some characteristic(s) in which customers place some level of value and that competing companies are not yet offering in the market. Implicit in the term *advantage* is that only one firm may have it (Kay 1993: 17), although this company may not be a monopolist if there is simply a lack of competitors with whom it could be compared. What is possible, however, is that firms enjoy a competitive advantage in one market segment while they are at a competitive disadvantage in another.

Consumers perceive a product or service, defined as a bundle of characteristics, to have a particular benefit (Besanko et al. 2000: 391f.). This benefit (*B*), which may be monetarily expressed, denotes the maximum amount the consumer is willing to pay for one unit. In the "discrete choice" model of consumer behavior, given the choice between two or more competing products, consumers will purchase the product or service for which the monetary price (*P*) is lowest. The difference between benefit and price is called *consumer's surplus* (*B-P*, see *Figure III-1*).

In the process of creating this benefit, firms sacrifice inputs. The value sacrificed when raw material is converted into components and when these

components are assembled into finished good and services is represented by costs (*C*). The difference between price and cost is termed *producer's profit* (*P-C*, see *Figure III-1*).

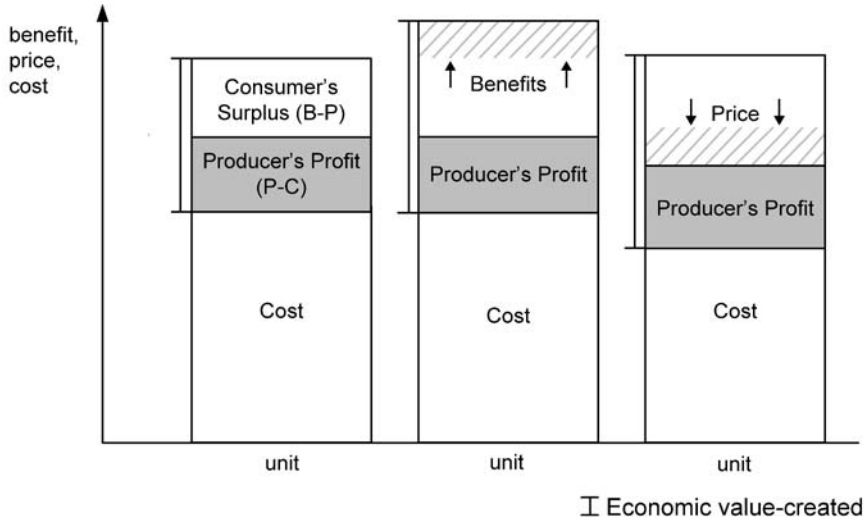

Fig. III-1. Components of value-created (adapted from Besanko et al. 2000: 396)

The difference between the value (*B*) that resides in the product and its costs (*C*) represents the *economic value-created* (*B-C*; Besanko et al. 2000: 395). This value is distributed between consumers and producers, the former "capturing" the consumer's surplus, and the latter the producer's profit. Competition among firms can be regarded as a process whereby firms "bid" on the basis of consumer's surplus. Consumers "award" the bid to the firm whose product characteristics and price offer the largest surplus. That is, "to achieve a competitive advantage, i.e. outperform competitors in its market, a firm's product must not only create positive value, it must create more value than its competitors" (Besanko et al. 2000: 399). In a market equilibrium in which all firms have attained consumer's surplus, the firm that creates more economic value than its rivals will set a price that renders it more profitable than the industry average (Besanko et al. 2000: 452).

Two strategies emerge from this duality of value creation: *consumer benefit advantage* through effective positioning in the market, and *price advantage* through cost-efficient resource allocation (Hungenberg 2000: 2; Geruson 1992: 62ff.). This simple dichotomy—depicted in the central and right-hand columns of *Figure III-1* respectively—offers a good starting

point for discussing the economic logic of business strategies in general, and for analyzing the impact of *guānxì* on business strategies in particular. Since the consumer's willingness to pay increases with the benefits of a product, there are benefit-price combinations that yield the consumer the same surplus (Besanko et al. 2000: 393f.). These different levels of benefits and prices may be depicted in *indifference curves* (see *Figures III-2/3*).

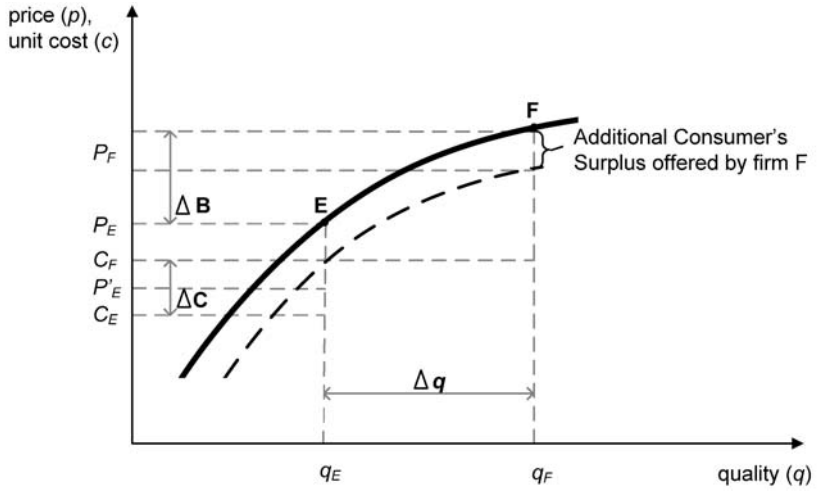

Fig. III-2. The economic logic of benefit advantage (Besanko et al. 2000: 414)

Value is created as consumer benefits increase, *ceteris paribus* (*c.p.*). In heterogeneous oligopolies where firms compete on aspects other than price, a variety of product attributes (e.g. durability, design) may determine consumer benefits. In order to simplify this discussion, it shall be assumed, in keeping with Besanko et al. (2000: 317), that all non-price attributes can be lumped into a single dimension termed *quality*. Consider a firm (E) that provides a moderately priced product with quality (q_E) and unit production cost (C_E), and a firm (F) that offers a product with significantly higher quality (q_F) that costs only a little extra to produce. The additional benefit (ΔB) provided by F more than offsets the additional costs (ΔC), so firm F creates more value than firm E. If firm F sets a unit price (P_F) that is slightly below the solid indifference curve on which the price-quality position is located, it is able to increase its market share at the expense of firm E (Besanko et al. 2000: 414).

While firm F must share with its consumers at least an infinitesimal part of the extra value-created, its price increase may not be of the same magnitude as the benefit increase because the action would merely represent a

move on the consumer's indifference curve. Even if firm *E* cut its price to P'_E in order to restore consumer's surplus parity with firm *F*—thus also moving to the dashed indifference curve—firm *F* would have a higher profit margin than firm *E* (Besanko et al. 2000: 414). In a market context, positioning is effective when the actual product characteristics meet the requirements of all consumers. As benefits may vary for different consumers, effective product characteristics require *horizontal differentiation* (variants, location), *vertical differentiation* (different levels of quality), *image differentiation*, or *compatibility differentiation* (Pfähler/Wiese 1998: 218ff.).

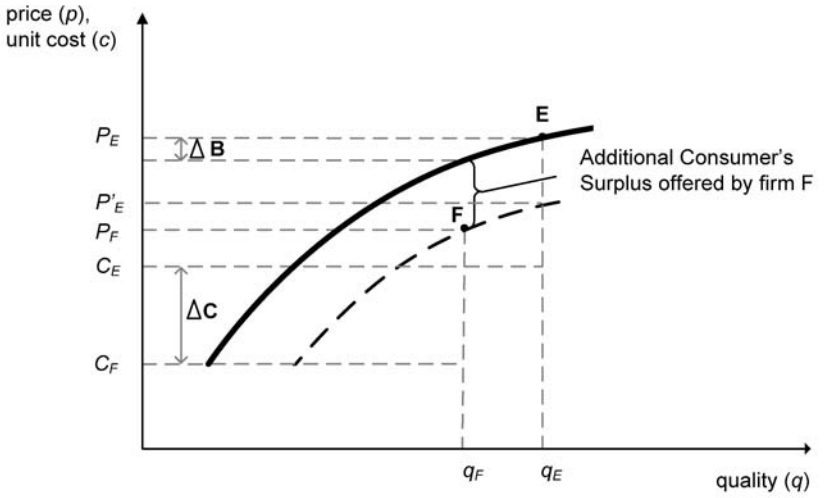

Fig. III-3. The economic logic of cost advantage (Besanko et al. 2000: 413)

The second form of competitive advantage is based on operational efficiency. The firm that operates at lower costs creates more value than its competitors (*c.p.*). Consider an existing producer (firm *E*) that offers a product with quality (q_E), and unit cost (C_E), and a new supplier (firm *F*) that manufactures a product at a substantially lower cost (C_F) with only a small sacrifice in quality (q_F). Creating more value than firm *E*, firm *F* can share some of the additional value-created by setting a unit price (P_F) below the solid indifference curve. Even if firm *E* lowered its price to P'_E in order to restore consumer's surplus parity, firm *F* would enjoy the higher profit margin (Besanko et al. 2000: 413). An example is traditional piano producer Steinway, which suffered heavy losses to Japanese manufacturer Yamaha's advantageous position of cost leadership.

Any profit-maximizing firm will seek to keep for itself as much value-created as possible. The fact that the firm that offers a consumer's surplus "bid" slightly above its rivals will capture the entire market leads to two strategic options (Besanko et al. 2000: 415):

- firms may strive for a benefit advantage (*c.p.*), in order to raise the price to just below unit cost plus the additionally created benefit ($C + \Delta B$) relative to the competitor with the next highest benefit; or
- firms may strive for a cost advantage (*c.p.*), in order to lower the price to just below the unit cost of the next most efficient competitor.

These academic prescriptions result from the (unrealistic) assumption that consumers have identical preferences and that an infinitesimally small decrease in price or increase in benefit leads to a large shift in market share. The relationship between changes in demand and price is represented by the *price elasticity of demand* (or, analogously, *quality elasticity of demand*, Besanko et al. 2000: 416). Since the strategic effects of price and quality on demand have been sufficiently covered, the analysis shall proceed with the dynamics of competitive advantages.

Sustainability

Notwithstanding the fact that corporate success is usually not attained through copycat business strategies, the practice is warranted over time only if the source of the competitive advantage is *sustainable* (Hoffmann 2000: 6). Although the idea of *sustainability* was implicit in Schumpeter's *creative deconstruction*, by which entrepreneurs "destroy equilibria" (1934: 64), the actual term goes back to Porter's (1985) discussion of the basic types of competitive strategies. As Porter did not actually provide a formal definition, Barney's formulation may be applied. It states that SCA is the result "of a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy" (1991: 101). Sustainability neither refers to a particular period of time nor does it imply that advantages persist indefinitely; rather it is describing the extent to which it is possible for competitors to duplicate this strategy. Hence, Besanko et al. define a competitive advantage as *sustainable* when it persists despite real efforts by competitors or potential market entrants "to duplicate or neutralize [its] source" (2000: 451f.). The duration of persistence varies across industries. In some industries (e.g. financial services), competitive moves are imitated more rapidly than in others (e.g. in the automotive industry).

Generally speaking, it is easier to sustain a distinctive capability in a narrow market than in a wide one, but more profitable to hold it in a wide market than in a narrow one.

If all firms had the same pool of resources and capabilities (i.e. the ability to manage these resources), no firm could achieve a comparative advantage in a way that was not also accessible to other firms. Therefore, any SCA must be underpinned by resources and capabilities that are scarce and imperfectly mobile (Besanko et al. 2000: 407, 452).[166] In fact, resource heterogeneity is the cornerstone of an important strategy framework, namely the *resource-based view of the firm* (Hamel/Prahalad 1994: 13). Along with firm-specific assets, such as trademarks, workers with specific know-how etc., *guānxì* has been explored in terms of scarcity and mobility. However, since *guānxì* is not a *resource* (see above), no attempt shall be made to develop this idea.

Value is created as goods move along the vertical chain, which therefore is referred to as a *value chain*. In his 1985 bestseller *Competitive Advantage*, Michael E. Porter (1985: 36ff.) deconstructs a firm by depicting it as a collection of *value-creating activities*, i.e. physically and technologically distinct elements and tasks executed within the company.[167] Each activity has the potential to increase consumer benefits, and the combined activities will add up to the cost incurred by the producer. As depicted in *Figure III-4*, value chains are made up of five *primary activities* and four *support activities*. The former include all tasks that are directly connected to the production of physical output and its transmission to the customer: *inbound logistics*, *operations*, *marketing and sales*, *outbound logistics*, and *service*. These tasks are supported by—not subordinated to—the activities of *procurement*, *technology development (R&D)*, *human resource management*, and *infrastructure* (Porter 1985: 37).

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166 The characteristic of imperfect resource mobility, which will be taken up later, is required because a well-functioning market would allow firms that bid against each other to trade scarce resources (e.g. technical experts).

167 In a more detailed manner, *The Supply Chain Operations Reference Model* splits elements into process, category, element, task, and activity (Supply Chain Council 1999: 17f.).

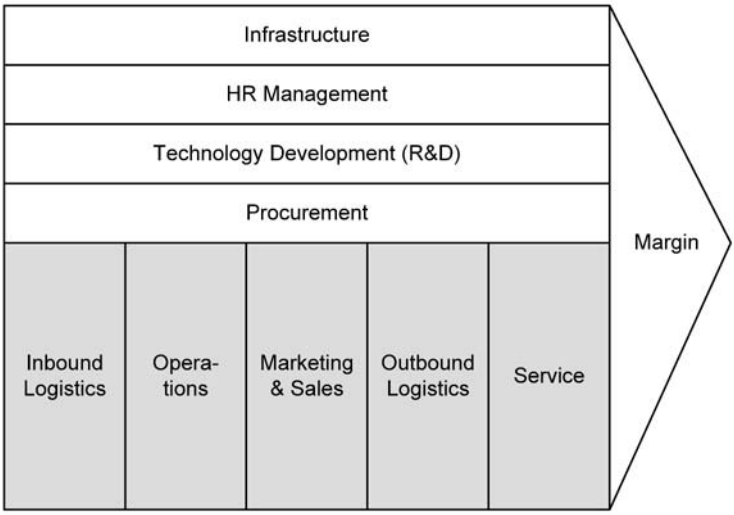

Fig. III-4. Value chain of a firm

The process of value creation is optimal when all the elements and tasks required for a product or service that meets customer requirements (e.g. quality [Eversheim 1996: 35] and flexibility [Meffert 1988: 362; Simon 1989: 71f.]) consume a minimum amount of resources. In this case, the gap between consumer benefits and the cost of performing the activities widens, and the profit margin increases.

Porter's model makes it possible to define specific targets for the primary and secondary activities of a firm's internal value chain (Pfähler/Wiese 1998: 26). However, considering that the managers and employees of a firm are members of a *guānxì* network, analyses of value-creating activities must "extend beyond firm boundaries" (Dyer/Singh 1998: 660). It has therefore been suggested to analyze the link between the *guānxì* system and business activities with an extension of Porter's view: the *relational view of the firm*.

First presented by Dyer and Singh in 1998, the relational view of the firm explains SCA with *external* resources that are accessible to managers. Dyer and Singh (1998: 660) identified four specific sources of the so-called *relational rents* that inter-firm linkups (e.g. strategic alliances, joint ventures) may produce: relation-specific assets; knowledge-sharing routines; complementary resources and capabilities; and effective governance. Six mechanisms were found to preserve above-average returns: (1) causal ambiguity on what generates above-average returns; (2) disability of quick

resource replication; (3) time compression diseconomies; (4) asset stock interconnectedness; (5) scarcity of partners with complementary resources and resource indivisibility; and (6) impossibility of replicating a complex social institution.

The relational view of the firm has a number of advantages over earlier models that explained the creation of SCA (for instance, it allows for discouragement of opportunism through social networks). However, it suffers from the same problem as all the models that are based on methodological relationalism: the basic unit of analysis is relationships, not (corporate) actors.[168] In order to remain consistent with the individualist methodological perspective taken in this analysis, the notion of the external must be incorporated in a different way. It seems most apt to extend Porter's value chain model by including three types of external linkages. As depicted in *Figure III-5*, the firm's management personnel has relationships with suppliers and customers (*vertical guānxì*), with competitors (*horizontal guānxì*), and with authorities (*lateral guānxì*).

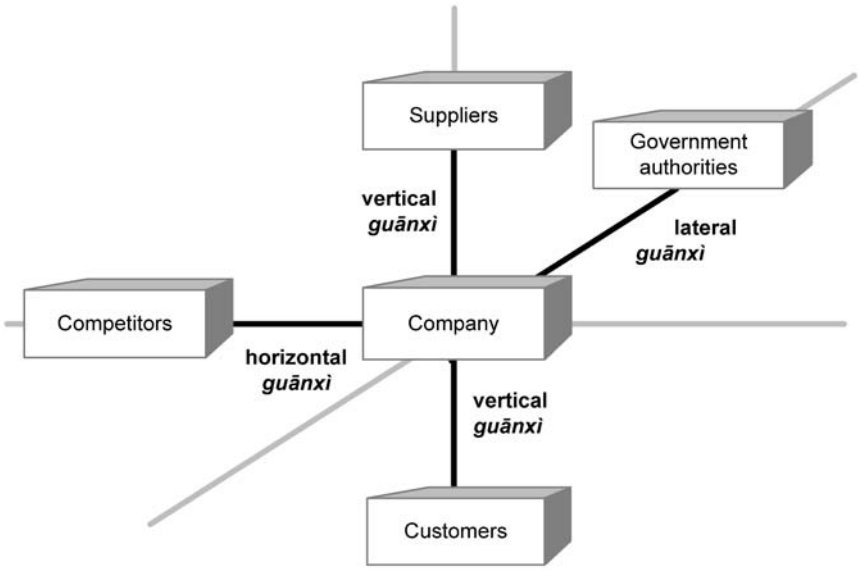

Fig. III-5. Vertical, horizontal, and lateral *guānxì*

[168] Obviously, if the *guānxì* system had been approached from the perspective of *methodological relationalism*, the relational view of the firm would be appropriate.

This simple yet powerful distinction allows the classification of *guānxì*-based business strategies. Finally, integrating primary and secondary processes with vertical, horizontal, and lateral *guānxì*, *Figure III-6* points to the organization of Section 3.3, in which the impact of each arrow on firm performance will be analyzed.

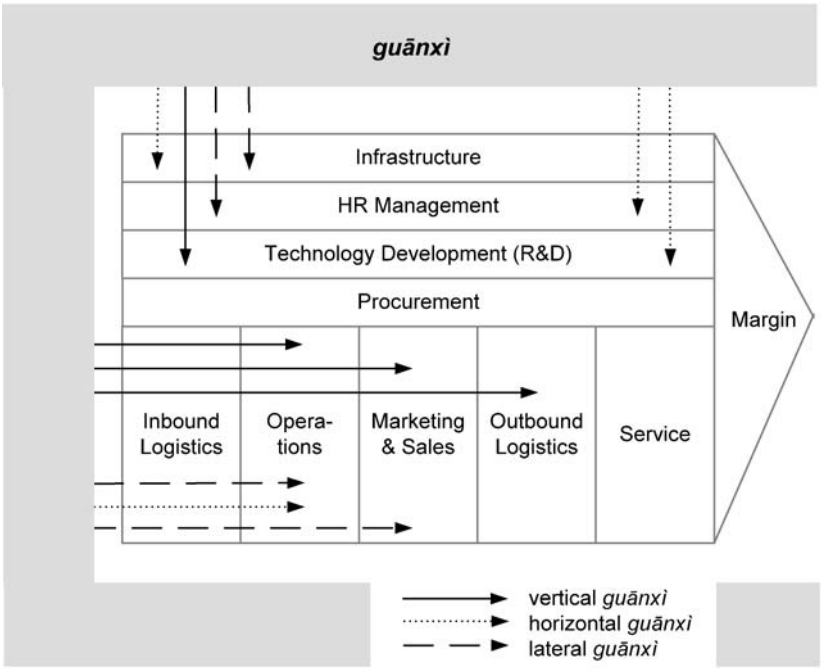

Fig. III-6. Vertical, horizontal, and lateral *guānxì* in Porter's value chain

3.3 Typology of *Guanxi*-Based Business Strategies

This section deals with the strategic influence of *guānxì* in terms of benefits and costs. It analyzes the relationship of the action parameters of the *guānxì* system and the market economy, as well as their contribution to value-created.

Management literature has suggested a wide array of action parameters. The empirical *PIMS Project* (***P**rofit **I**mpact of **M**arket **S**trategy*, Hansmann 1997: 40), for instance, identifies 40 action parameters that explain up to 80% of variations in return on investment, depending on the industry in question. In search of China-specific action parameters, management

scholars (e.g. Luo 2000: 79) have included *guānxì* in this panoply, which Chinese and foreign executives have consistently classified as the parameter with the single most profound impact on business strategy.

Guānxì, however, may not always be established as an independent action parameter. This is because the strategic action parameters of instrumental *rénqíng* in vertical *guānxì* coincide with those of products and services in a market economy (e.g. price, payment terms and conditions etc.). In a mixed system, the resources—products/services, (instrumental) *rénqíng*, *gǎnqíng*, and *miànzi*—must then be perceived as components of the same exchange unit. Composed of consumer's surplus and producer's profits, value-created is thus equal to the combined area of the six shaded rectangles in *Figure III-7*.

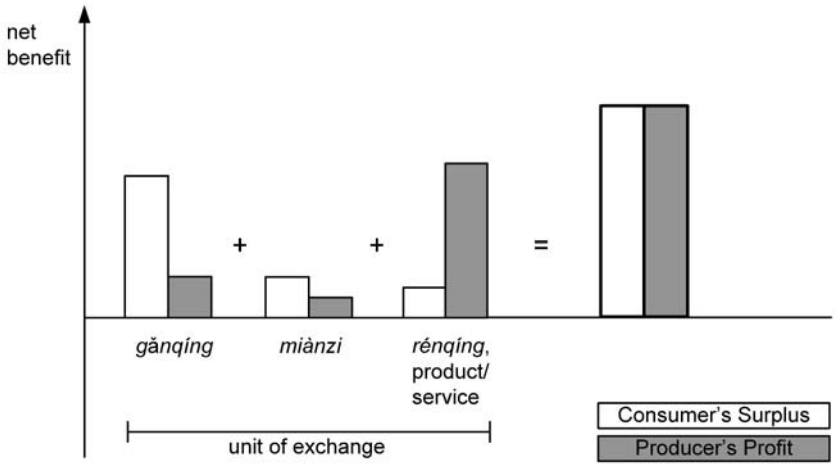

Fig. III-7. The components of value-created in a mixed system

The following discussion of the required "boundary blurring" (Peng/Heath 1996: 512ff.) strategy will be based on the interaction of these action parameters.[169] Furthermore, it will be assumed that *gǎnqíng* and *miànzi* may be lumped into a single non-market action parameter, which,

[169] Acknowledging that *guānxì* strongly affects the optimal choice of business strategy (Day 2002: 87), Ye and Zhang (2003: 1) formally incorporated *miànzi* as an independent variable into a game theory model. In spite of the fact that, in a mixed environment of *guānxì* and a market system, such a formal model is needed, too many of the basics are still disconnected (Lovett et al. 1999: 237), preventing precise integration.

for the sake of conceptual clarity, shall be called *guānxì*. Although the earlier argument would suggest that this is a dramatic simplification, such contrasting greatly enhances the precision of the discussion.

The integration process is different for horizontal and lateral *guānxì* because the recipients of products/services—i.e. the customers—are distinct from the recipients of (instrumental) *rénqíng*, *gǎnqíng*, and *miànzi*—i.e. competitors, government officials etc. As will become clear in Sections 3.3.2 and 3.3.3, such exchanges increase the producer's surplus. As was the case for vertical *guānxì*, the set of strategic action parameters in horizontal and lateral *guānxì* will also be called *guānxì*; however, here it entails not only *gǎnqíng* and *miànzi* resources, but also instrumental *rénqíng* (products/services remain an independent action parameter).

Due to the heavy influence of game theory, it is common in strategy analysis to distinguish between short-term and long-term action parameters (Pfähler/Wiese 1998: 25, 27). While prices and payment terms and conditions, for instance, may be quickly reversed, decisions about the majority of action parameters are long-term oriented. As it takes time to establish *guānxì*, strategic control over *gǎnqíng* and *miànzi* resources is a long-term action parameter.

Note that the strategic arrangements with *guānxì* partners presented in Sections 3.3 and 3.4 may induce an SCA via restraints such as trade, discrimination, kick-backs, boycotts, and the like. These strategies for disrupting competitors' activities are exclusively derived from economic considerations. The author insists that the results be interpreted only in connection with an assessment of legal compliance and ethical standards (Chapter 4).

3.3.1 Strategic Vertical *Guanxi*

In contemporary theory, vertical business connections are modeled on the concept of *supply chain management*, which is also applied in practice. Supply chain management represents "the integration of business processes from end user through original supplier that provide products, services, and information that add value for customers" (Lambert et al. 1998: 504). The concept of supply chain management distinguishes between downstream elements and activities with customers (wholesalers, retailers, consumers) on the one hand, and upstream elements and activities in the

supply chain (suppliers, sub-suppliers) on the other (Handfield/Nichols 1999: 2).

As shown in *Figure III-6*, vertical *guānxì* is the strategic potential for creating value in the primary functions of *inbound logistics*, *marketing and sales*, *outbound logistics*, and *(after-sales) services*, and in the secondary activity of *procurement*. In keeping with common business practice, the primary functions of inbound/outbound logistics and the secondary function of procurement will be dealt with together.

Procurement and Logistics

Organizing procurement and logistics with *guānxì* partners may give a firm superiority in terms of resource quality, prices, payment terms and conditions, access to information, and/or inbound and outbound logistics.

Items bought from within the *guānxì* network often are of better quality and have a shorter delivery time than those of other competitors. Vertical *guānxì* partners are likely to spare no efforts to deliver the agreed-upon level of quality. Reliance on the *guānxì* network considerably reduces the risk of receiving bogus offers from suppliers.

For the same reason that members of a *guānxì* network endeavor to meet customer expectations in terms of quality, they also grant preferential prices and payment terms and conditions (Graham/Lam 2003: 90). Tong and Yong (1998: 81) collected empirical evidence indicating that discounts can account for up to 30% of the market price. It is commonplace that favorable payment periods are granted and that due dates are postponed as needed. In the same vein, the credit lines of buyers who maintain an extensive *guānxì* network often are liberally extended (Luo 1995: 249). From the fact that "*guanxi*-conscious suppliers may be inclined to extend credit rather than embarrass customers who are temporarily unable to settle accounts" (Lee/Ellis 2000: 26), it seems wrong to conclude that credit-granting practices reflect culture. Rather, high credit lines are a consequence of the tight monetary policies implemented by Chinese authorities: they lead to a higher volume in accounts payable, which may be conducive to firm performance in a financially weak market environment. The significant improvements to buyers' competitive positions through relaxed payment terms and conditions are empirically supported (Luo 1995: 258).

Guānxì may facilitate superior procurement and logistics through exclusive access to supply markets. Market access that is limited to members of

a *guānxì* network may directly yield an SCA if it blocks competitors from acting in the market. This idea has been empirically confirmed (Davies et al. 1995: 207ff.). The following example from the Chinese media shows a common instance of *guānxì*-based purchasing in China (obviously in a slightly exaggerated fashion). A general manager (GM) describes how his mold factory once got hold of a scarce industrial product:

"One of our company's agents arrived at the factor, from which we wanted to purchase a special steel plate. After asking around who would have the power to decide on this matter, the agent found out that Director A was in charge. He followed the director for seven days because it was not convenient to talk with him in the office. The night our agent found out where the director lived, he went to his home but was rejected when the director understood what he meant to do. Accidentally, however, our agent discovered that the director's wife was from the same village as him, so he could ask her for help. The next day, our agent brought a box of the director's favorite brand of cigarettes to his home. Now, the director agreed to sell us one of his steel plates. The agent invited the director's family to dinner and, because he had learned that the director's daughters had a weakness for quail eggs, he gave them one and a half kilograms as a present. Of course, the director was very glad, and our company was able to pick up the plate the next day." (Hu 1995: 63f.)

Unlike in 1986, when the above story took place, these days a box of cigarettes and some quail eggs would accomplish little to advance a sourcing problem (see Section 2.2.2.1). Another, more recent example of vertical *guānxì* blocking market access is China's railway electrification industry. In May 2005, the managers of the largest local equipment sub-supplier limited participation in the bid to electrify the Hangzhou (杭州)–Zhuzhou (株洲) line by offering its German *guānxì* partner a preferential price for standard components low enough to spoil the chances of all other bidders.

In procurement and logistics, *guānxì* also makes available information on the supplier's cost structure (or information on the costs of a competing supplier), which can be used in price negotiations. Empirics show that Chinese sourcing managers have much more information on business partners than Western purchasers (Bjorkman/Kock 1995: 525).

Unlike the secondary value chain activities of corporate purchasing and procurement, logistics refers to the physical flow of materials and goods. Concerned with raw materials and components, inbound logistics in China heavily depend upon *guānxì* (Ambler et al. 1999: 81f.). The same is true for the distribution of finished goods (outbound logistics), which in the West is often conducted through long-term contracts with professional

freight forwarders. Logistics may yield superior value through cost-efficient transportation and priority access to scarce infrastructure; they may also enhance consumer benefits in terms of favorable distribution channels and availability. *Guānxì*-enabled access to distribution channels was one of the reasons for the success of the Finnish company Nokia in the Chinese mobile phone market (Vanhonacker 1997: 131).

Marketing and Sales

Marketing and sales are the second area in which vertical *guānxì* plays an important role. More specifically, *guānxì* has implications for quality and pricing, and it is often analyzed in connection with a particular market phase (market entry, market penetration).

Unexpected drops in quality and delivery delays, which occur in all industries, are less difficult to accept from a *guānxì* partner than from a stranger. Moreover, *guānxì*-based selling can produce impressive results if products are of poor quality, the level of service is bad, or delivery times are too long. Even fake goods are regularly sold through *guānxì* kick-backs that involve large commissions and commercial gifts for the responsible purchaser in the customer's firm (Ren 1995: 15; Si 1996: 17). Such findings underscore the capacity of *guānxì* to offset competitive advantages from product quality (see above). In a similar vein, vertical *guānxì* is a strategic substitute for competitive retail prices because *guānxì* partners can be expected to often accept above-market resale prices and because vertical *guānxì* allows for vertical fixing (Tang J 1998: 110).

It is not reason (理), which would translate to choosing the highest instrumental consumer's surplus, but rather gifts that get suppliers inside (有理无礼莫进来, Zhong 1995: 96). *Guānxì* is also a door opener (敲门砖, He/Chang 2002: 30) for foreign companies that aim to sell industrial or consumer goods in China (Vanhonacker 1997: 130). The fact that local partners ease market entry by assisting with sales contracts and distribution access (Day 2002: 91) was crucial for many companies that successfully entered the Chinese market. Take, for instance, retailer Wal-Mart or fertilizer manufacturer AgriGlobal, which entered China by teaming up with partners that had an extensive *guānxì* network (Standifird/Marshall 2000: 31; Murphy 1996: 12ff.). Deeming *guānxì* a "market entry strategy" (Standifird/Marshall 2000: 39), however, is problematic, for it is merely one aspect of business life, and it may be discussed as a special case of market penetration (with initial sales of zero).

For market penetration and marketing, the importance of downstream *guānxì* depends on the market structure. Selling techniques for consumer products are different from those used in the world of bidded contracts. While *guānxì* cannot be used when serving millions of customers (e.g. end users of toothbrushes) because the number of personal relationships is limited (see Section 2.2.4), relationship-based sales are possible for a few customers of investment goods. For instance, in procurement contracts put out to public tenders (投标), it often is the volume of *hóngbāo*, rather than the bid price, that determines the awarding of the bid (中标, Si 1996: 17).[170] When marketing towards only a few customers, "*guanxi* (…) is not only at the forefront of Chinese marketing thinking (…) seen as a competitive advantage which the Chinese are in no hurry to explain" (Ambler 1995: 26).

The crucial role of *guānxì* in sales force marketing and direct selling has received wide empirical support. Luo (2000: 136f.), for instance, reported findings of his earlier study (Luo/Chen 1996) that show a significant positive effect of expenditures in *guānxì*-based sales force marketing on overall firm performance (sales growth, account performance, and asset turnover). Further empirical confirmation is provided by Luk et al.'s (1999: 264f.) inquiry into the Chinese cosmetics industry.[171] The talkative GM of the mold factory (see Procurement and Logistics), provides an example of how his mold factory has utilized *guānxì* in marketing and sales:

"One of our sales guys called up a potential customer because he felt that this firm might need our products. The director of the potential client firm made a gesture of refusal, indicating that his company had already ordered molds from another factory. Later that day, however, he called up our sales rep again, and mentioned to him that his son was about to get married. As our guy has years of sales experience, he was immediately aware of the director's intention and promised a large commission. The deal for the purchase of the mold factory's products was made the same night." (Hu 1995: 65)

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[170] Such practices severely damage social wealth, for the unjustified high price is usually not lowered in subsequent bid clarification meetings. Furthermore, public funds (公款) are regularly used by low-quality bidders to improve their chances (Si 1996: 17).

[171] The specificity of this finding was qualified, however, by a replication study by Merrilees and Miller who found that presumed key "components of *guanxi* [reciprocity, trust, friendliness] play the same role in Australian direct selling activities" (1999: 272).

(After-Sales) Services

Vertical *guānxì* also has an influence on another value-creating activity: (after-sales) services. As was mentioned above, purchasing in China entails a considerable risk of receiving smuggled or counterfeit products for which manufacturers do not offer after-sales services. Booths in Shanghai's electronic mall Meiluo City (美罗城), for example, offer Sony laptops that are intended for sale in the US only. Sony rejects warranty claims for these devices and flatly refuses to repair them, even at the owner's expense. To obtain after-sales services, buyers need to establish *guānxì* with the retailer.

The above discussion of procurement and logistics, marketing and sales, and (after-sales) services shows that *guānxì* has a strong effect on vertical business activities. However, these interpretations of vertical *guānxì* are ambiguous: for instance, superior service obtained from suppliers may give a company the potential to increase consumer benefits. However, the obligation of rendering superior service may create extra costs. Obviously, competitive advantages from vertical *guānxì* are qualified by the relativism of the terms *upstream* and *downstream*: all the elements in a supply chain but the first and last one simultaneously act as supplier and customer. Hence, advantages on one side of the *guānxì* network may be neutralized by disadvantages on the other side, depending on one's position in the value chain (see *Figure III-8*).

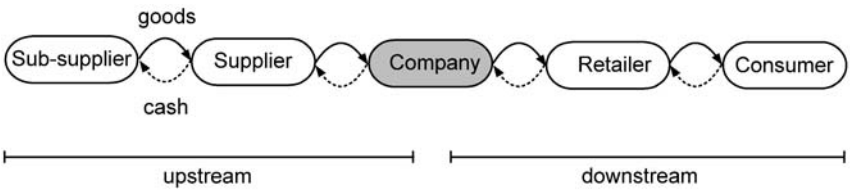

Fig. III-8. Positions in a supply chain

This criticism can be further illustrated with the above strategies in pricing and payment terms and conditions. On the one hand, members of a *guānxì* network expect favorable prices when *purchasing* from each other; on the other hand, *selling* to customers within the network is also supposed to yield good prices. Equally contradictory is the effect of strategic extensions of commercial credit lines: favorable accounts payable for one *guānxì* partner are only possible because another member in the supply chain increases its accounts receivable. In order to prevent the argument from being undermined by such contradictions, Luo (2000: 139f.)

described the positive effects of accounts receivable: because many Chinese firms encounter liquidity squeezes, flexible payment terms and conditions are likely to increase order intake and sales, thereby contributing to beneficial asset turnover for the firm.

However, it is still erroneous to maintain that "*guanxi* allows for overinvoicing by buyers and underinvoicing by sellers" (Root 1996: 746). If favorable prices, payment terms and conditions, or other action parameters facilitating SCA are granted upstream within a particular *guānxì* network, they will also be granted downstream. In other words, SCA through vertical *guānxì* can only be achieved by favorable purchases from the network partner and selling at market prices to an outsider, or by purchasing at market prices from an outsider and selling at favorably high prices to a network member. The *guānxì* model in this analysis allows for an actor to accept instrumental losses—by buying/selling at favorable prices from/to his *guānxì* partners—that are (over-) compensated by *gǎnqíng* or *miànzi*.

3.3.2 Strategic Horizontal *Guanxi*

Beyond *guānxì* with suppliers and customers, strategic connections with horizontal partners may also produce SCA. As shown in *Figure III-6*, horizontal *guānxì* may create value in *procurement and logistics* and *marketing and sales* as well as in the secondary processes of *human resources* and *technology development (R&D)*.

Procurement and Logistics

The application of horizontal *guānxì* to procurement and logistics may improve the competitive position of a firm. It increases buying power and thereby allows for direct or indirect pressure on one or more upstream partners' input prices, payment terms and conditions, quality, and other action parameters.

Marketing and Sales

In the same vein, harmony among rivals (from horizontal *guānxì*) in terms of marketing and sales has the potential to improve the competitive position of a firm. Implicit collusion keeps selling prices high in the downstream supply chain and rules out the risk of competitors spoiling the environment with discounts and favorable terms and conditions. Often, the purpose of price-fixing meetings appears to its participants only "to be

correcting a horrible price level situation" (Geis 1977: 123). Such collaboration among *guānxì* partners is common, for instance, in the Chinese mobile communications market or Nanjing's gas utility industry (e.g. Nanjing China Resources Gas Co., Ltd. [南京华润燃气有限公司] and Nanjing Panva LPG Co., Ltd. [南京百江液化气有限公司是]). Another means by which horizontal *guānxì* may enhance business performance is market segmentation. Dividing up nations, regions, territories, or customers prevents the emergence of a larger common market with more competition. A survey by Wong and Ellis (2002: 267ff.) confirms that horizontal *guānxì* also plays an important role in JV partner selection.

Human Resources

Although *guānxì* itself is not a "value-creating human resource" (Luo 2000: 53), horizontal relationships may create value in the support activities related to human resources. For joint ventures between Chinese and foreign companies in the chemical industry, such as Henkel, staffing is one of the major obstacles to expansion in China (Wood 1995: 12). Specialized staff, such as experienced engineers or mold designers, are found through *guānxì* rather than professional headhunters. Considering that Chinese employees are not provided with letters of reference when leaving the company, hiring on the labor market involves a great deal of uncertainty. The knowledge of human resources that is embedded into an institution through horizontal *guānxì*, therefore, has the potential of substantially improving a firm's competitive position. Also, employees who have been recruited through horizontal *guānxì* often have an incentive to work hard, i.e., they wish not to disappoint the intermediary who vouched for them (Lew/Chang 2003: 211). Further benefits from horizontal human resource strategies may be derived from coordinated salary and non-labor benefits (福利) paid to specialists. Analyzing Chinese TVEs, Chow and Fu (2000: 822) reported that the importance of *guānxì* in human resource management is beginning to fade, albeit slowly.[172]

Technology Development (R&D)

For industries that mainly compete on the level of product quality, horizontal *guānxì* in technological R&D may yield an SCA. By agreeing to cap expensive R&D investments, rivals slow down technological progress and hence allow for a higher price level than competition would establish. Siphoning off above-average profits by jointly limiting R&D efforts is com-

[172] For further analysis, see Bian (1994: 971ff.) and Bian and Ang (1997: 981ff.).

mon in industries that have a short product life cycle, such as the consumer electronic industry (in particular APU processors). Such benefits of horizontal *guānxì*, however, are rather small, probably because the intensity of R&D efforts largely relies on operations inside the firm (Luo 2000: 136).

Competitive distinctiveness, however, is not only derived from interaction directed at the vertical elements; it may also stem from coordinated behavior with actual and potential competitors. Horizontal *guānxì* may allow actual competitors to jointly set up strategic barriers in order to prevent market entry by potential newcomers who are not members of the *guānxì* network. Or they may seek to obstruct an actual competitor whose managers are not members of the *guānxì* network when serving the market.

3.3.3 Strategic Lateral *Guanxi*

As expressed in the proverb, "No signed official paper is as useful as a small chit" (一纸公文,三村白条, Chen Hong 1997:113), relationships with government officials are highly significant for modern-day business. This is not surprising considering that China's "unique context of (…) institutional forces" (White/Liu 2001: 104) still contains many elements of state-designed arrangements and functions. Actually, relationships with personnel of the state administration and CPC executives (干部) are often considered the "real" *guānxì*. As assumed in *Figure III-6*, firms have a strong incentive to strategically cultivate *lateral guānxì* because of the resulting positive effects on the primary activities of *business operations* and *marketing and sales*, as well as on the secondary activities concerning *infrastructure* and *technology development (R&D)*.

Business Operations

Licenses and permits are mandatory for all business operations in China, and requirements differ across provinces, provincial districts, municipalities, counties, and townships or villages (Walder 1995: 273). In a speech given at Eyefortransport's China Summit 2005,[173] Gary So, Vice-President of Kerry EAS Logistics, said, "In order to do business in one Chinese province, we need more than 17 different licenses and nationwide we need more than 200 licenses", the most important of which are the *business license* (企业法人营业执照) issued by the local Administration of Industry

[173] Shanghai, July 12–13, 2005.

and Commerce and the *certificate of approval* (中华人民共和国外商投资企业批准证书). Ang and Leong (2000: 131ff.) detailed the case of Avon, the world's largest direct-sales company:

> "When Avon encountered initial difficulties in convincing the Chinese government on the benefits of direct marketing, it approached a local banker known for his guanxi with the Chinese government for help. Through his connections, he successfully introduced Avon to the government and thereupon, Avon obtained its licence. To reciprocate, Avon made him an equity partner." (Ang/Leong 2000: 131f.)

Furthermore, in China ministries of industry or governmental agencies control the market structure (Cheng/Wu 2001: 349). The Chinese Ministry of Railways (MoR, 中华人民共和国铁道部), for instance, utilizes a variety of limited licenses (e.g. 入网证). In order to comply with WTO principles, the MoR will officially abandon such practices by the end of 2007. However, it has already decided on the implementation of a "safety certificate" for products, which gives it virtually the same latitude to act.

Licenses issued by government-related institutions may also hinge upon *guānxì* (Si 1996: 18): quality certificates such as ISO 9001:2000 are obtainable within a week for as little as RMB 2,000 (US$250). Information on upcoming changes in environmental policies and technology standards (国家标准)[174] or the replacement of people in the provincial government that condemn previously permitted practices (Luo 2000: 47) is often channeled only through lateral *guānxì*, for its access is restricted to insiders (内部, Day 2002: 86). Needless to say, informed entrepreneurs have the

[174] Clissold (2004: 285f.) provides an insightful example of ever-changing regulations. In China, exploding bottles of beer injure scores of people—which is, mentioned in passing, why in the 1990s many people with facial injuries could be seen in the streets. Made of poor glass and bearing thin patches, beer bottles in China were reused many times. Each time they were steamed during the cleaning process, which weakened the bottle walls. Also, variations in temperature further weakened the glass. In early 1999, the Chinese government introduced a new regulation that required breweries to use "B-bottles", which had a minimum wall thickness. Since B-bottles were much more expensive, their implementation was enforced by announcing fines in case of non-observance. While the Chinese-foreign JV Five Star Brewery immediately replaced its bottles, Yanjing Beer Brewery, in which the Beijing government was a major shareholder, refused. Instead, it used lateral *guānxì* and made the government withdraw the regulation. Shortly thereafter, Five Star Brewery went bankrupt.

potential to achieve SCA, for they can initiate countermeasures or work out ways of coping with the changes before they take effect.

Government allocation of scarce electricity resources in the summertime also depends on lateral *guānxì* (Davies et al. 1995: 211). In particular, if a large quantity is required for production operations, such as the turbine testing unit of Lufthansa's Aircraft Maintenance JV Ameco, a company may easily be at the mercy of the local Chinese electricity bureau. In the late 1990s, power shortages were a sensitive issue for Ameco, as delayed turbine testing kept aircraft on the ground, producing delays that were heavily penalized by the customer maintenance contract.

Further licenses are required for real estate. In China, real property belongs to the state, from which individuals and corporate entities purchase land-use rights (土地使用证), usually for a period of fifty years. Because land property is an extremely valuable resource, the local officials in charge are of it are in powerful positions (Root 1996: 743; Davies et al. 1995: 211f.). Considering the miserable wages of these officials (Clissold 2004: 300), it is hardly surprising that land-use rights are often allocated in return for personal favors, i.e. lateral *guānxì* (Zhou Y 1998: 32). Of the many cases all over the country, the most famous one probably is the eviction of McDonald's from its prime spot at Beijing's Tian'anmen Square. Despite the existence of a 20-year contract, the fast food company was booted out of the choice real estate site just two years after the restaurant opened because Hong Kong billionaire Li Ka-shing (李嘉诚) had better connections with Beijing's Communist leaders, according to *The Economist* (2003). This example shows that lateral *guānxì* not only garners the necessary approvals from government officials, but may also obstruct potential competitors (see Section 3.3.2).

The importance of lateral *guānxì* was confirmed in a 1992 survey that Davies et al. (1995: 211f.) conducted in Hong Kong with Chinese executives doing business in mainland China. Besides enabling the "smooth running of routine business operations" (1995: 213), they found *guānxì* to be particularly important for access to information about government policy and for obtaining administrative approval.

Infrastructure

The same is true for the secondary activity *infrastructure*, i.e. financing, taxes, and subsidies. Considering that financial capital used to be a scarce resource, *guānxì* with the personnel of local financial institutions is of

great importance (Yan 1996a: 16; Shimizu 1998: 84; Wright 2001: 17f.). As Clissold noted about the 1990s, "[c]apital was simply assigned to whoever worked their government networks most successfully" (2004: 170). The situation has changed slightly, but today still the approval of a bank loan (贷款) that may be hard to get because of a poor credit rating requires internal support at the banking institution (Si 1996: 17; Standifird/Marshall 2000: 35). Also, it is easier to obtain the granting of a favorable interest rate with internal support—Chinese banking institutions may select from a range of -10% to +90% of the base rate (6.12% in January 2007) issued by the People's Bank of China (中国人民银行). Another frequent benefit from lateral *guānxì* may be improved liquidity from cashing letters of credit (L/C) received from overseas customers. Through *guānxì* with the local bank manager (行长), Chinese export agents can cash a share of the L/C that is large enough to enable them to establish an export business without a single dime of their own equity.

An example reported by Hu (1995: 64f.) revolves around a factory that needed a major capital injection to keep pace with rapid growth in its business. The factory's initial application for a loan was turned down by the bank because it lacked approval from the county CPC (县委) and local government. The GM therefore turned to the county's vice-magistrate (副县长), whose father used to work in the same unit (单位) as him; within one day the factory obtained the note required for the loan.

Before bank loans were available to private businesses, cash was regularly obtained from *guānxì* partners (Liu L 2002: 146). As an example of SCA yielded by simplified credits, Liu Linping (2002: 204ff.) pointed to the transportation industry of Pingjiang village (评江市), Guangdong province. Accidents to the truck fleet regularly occur, requiring large-scale payments. Entrepreneurs in the industry mitigate this uncertainty by relying on family members who can provide immediate access to short-term loans.

Due to the rather wide scope of action of local tax bureaus, firms may receive favorable treatment from top tax officials. The tax rate in development zones, such as Nanjing Jiangning Science Park (南京市江宁科学园), depends on the interpretation of a variety of parameters, such as investment volume, planned length of operation, and technological progress. While the policy of "two years of tax exemption and three years of 50% tax reduction" (两免, 三年半) commencing from the first profit-

making year applies to all new companies, firms with lateral *guānxì* may obtain five years of tax exemption. Interestingly, many Chinese companies boast about the amount of taxes they pay. Paying taxes makes economic sense if it strengthens the lateral *guānxì* that is needed for licenses, subsidies, bid awards etc. (see above). A successful group company (集团公司) from Yangzhong city (扬中市), Jiangsu province, for instance, even covers its employees' individual income taxes (IIT) to become the number one taxpayer in the county.

Technology Development (R&D)

Finally, lateral *guānxì* may reduce a firm's spending on technological R&D. In the railway industry, for instance, officials of the Chinese Ministry of Railways constantly reveal to their partners drawings from the technical documents submitted by bid rivals, which obviously saves the cost of reverse engineering. Also, relationships with the personnel of design institutes (设计院) are fundamental, not just in the transportation sector but in many other industries (e.g. pharmaceuticals, White/Liu 2001: 109).

The discussion in this section has shown that vertical, horizontal, and lateral *guānxì* are capable of providing a firm with sustainable competitive advantage, and that relationships with authorities are the most crucial form of *guānxì*. In order to co-opt sources from a regulatory regime that is more complex, more influential, and less predictable, the average Chinese manager maintains disproportionately greater contact with the government establishment than his average Western counterpart. This tendency is given further impetus by the fact that in China the power to allocate many scarce resources lies with local officials who, instead of distributing resources according to bureaucratic rules, confer them primarily on *guānxì* partners. The "extremely close relationship between bureaucratism[175] and *guanxi*" (Yang X 2001: 55) has led business practitioners to conclude that "in essence, *guānxì* facilitates business dealings while formal bureaucratic rules often inhibit them" (Luo 2000: 84). The prominent role of the Chinese government explains why companies with good lateral *guānxì* tend to have better market and financial performances (Luo 2000: 84f.).[176]

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[175] In fact, in China today the term *bureaucracy* (官僚主义) has a distinct undertone of corruption.

[176] *Guānxì* with members very high in the hierarchy, however, may be disadvantageous. Although officials in a higher bureaucratic position have more discretionary power, it is more expensive to cultivate *guānxì* with them. In addition to being an overinvestment, it would also be shortsighted, for some decisions

3.4 Notes on Strategy Implementation

Management consultant group McKinsey Inc. recommends that firms make *guānxì* "the essence of strategy, not a by-product of it" (*The Economist*, March 29, 1997). As implied in Section 3.3, however, not all types of companies are advised to follow such suggestions to compete for *gǎnqíng* and *miànzi*. This section will address what type of firms should avoid *guānxì*. Prior to this, the discussion will analyze how firms that benefit from their managers' and employees' membership in *guānxì* networks can implement *guānxì*-based business strategies in order to realize SCA potential.

It is true that "you need to have meetings if you want to have a rich life" (要享福, 就开会, Zhong 1995: 25), for meetings offer the chance to give *hóngbāo* to the individuals (consultants, intermediaries, partner's employees etc.) who are involved in a business deal. In practice, gifts presented at company opening ceremonies (喜庆红包), press conferences, product launches, shows, and symposia (会议红包, Ren 1995: 15) have proven particularly helpful. Also, running a company-owned restaurant may support *guānxì* strategies because it enables discreet banqueting with officials, while keeping entertainment expenses down. Consider, again, the abovementioned group company from Yangzhong city that, in a bold act, opened a luxurious hotel with an affiliated night club in its home town. The location has no tourist attractions or conference business and it is in the middle of nowhere—a four-hour drive from Shanghai; but none of that poses a problem, for the intent was never to appeal to tourists or conference planners.

Beyond the classification of measures that support *guānxì*-based business strategies, more insight can be derived from a discussion of the costs that managers and employees incur when using their *guānxì* for the purposes of the organization. It follows from Section 2.2.5 that the costs of reimbursement depend on the reciprocation scheme and, more specifically, on the role of the *guānxì* partner as *jiārén* or *shúrén*.

In general, parents are endowed with stronger *guānxì* than their sons or daughters (Riley 1994: 801). For this reason, but even more importantly because parents may ask their offspring for non-reciprocated favors,

require commitment by lower level officials; for a negative example, see Clissold (2004: 254–291).

making use of such *jiārén* can be highly beneficial for a firm. If the phenomenon of *sorting* (Besanko et al. 2000: 526) exists in this context—no empirical studies have been conducted on the topic yet—fathers who are members of an extensive *guānxì* network will seek employment in companies that are willing to pay for it. Analogously, hiring young people could be detrimental because they may be asked by their parents for non-reciprocated favors. However, the important role of the so-called *princelings* (太子, Liu/Mooney 2002: 20ff.) in contemporary Chinese business somewhat calls into question the pattern of reciprocity assumed in Chapter 2. It is likely that the strategy of employing an influential person's *jiārén* is not restricted to parents.

In the event that family members are not available to assist with a particular matter, firms may rely on *shúrén* instead. Here, the norm of *rénqíng* renders *chīkuī* the classic strategy of entrepreneurial *guānxì* utilization (see Section 2.2.5).

Tang Jinsu (1998: 107f.) illustrated the application of *chīkuī* in a business context: Zhen Zhouyong (郑周永), GM of a construction company, signed a long-term contract for the reconstruction of a bridge. Less than two years into work on the project, however, input prices rose sevenfold. As the price had been fixed in the contract, the construction company sustained losses. Mr. Zhen explains why he decided not to back out of his obligation, but to finish the project on time: "Although I ended up very short this time, and even came close to bankruptcy [吃了这回大亏, 以致濒临破产], my standing increased significantly. As a result I received four ten-year bridge construction projects, whose large profits [暴利] made up for the initial losses." The principle of "not focusing on immediate profits" (不贪近利), but "looking at big business in the long run" (放长线, 钓大鱼) is actually identical to Western-style investment behavior (Tang J 1998: 109, 114).[177]

As will become obvious from the analysis in Chapter 4, stipulating in employment contracts that managers and employees must use their *guānxì* for business purposes is not an acceptable option. Firms must rely on moral obligations or substantial rewards (e.g. commissions, bonuses, and promotion, Luo 2000: 106) to motivate their employees to cooperate.

[177] Therefore, it is not surprising that Tang Jinsu (1998: 108f.) supported his analysis of *chīkuī* in business with international examples (e.g. the strategy of car producer Ford).

A popular technique used by firms to heighten the willingness of foreign managers to engage in *guānxì* activities is to take out Directors and Officers (D&O) insurance policies that reduce personal risk (in terms of legal compliance). Wong et al. (2001: 336) stated that for Chinese managers, the traditional cultural value of loyalty is sufficiently strong to motivate managers and employees to offer their *guānxì* to the organization. Wong et al.'s statement, however, conflicts with the results of the Hewitt Annual Study Report (2005), which actually found money to be the most influential motivational factor for Chinese managers and employees.[178] This key issue of *guānxì* strategy implementation has not been sufficiently addressed to date, and it will be interesting to learn from further academic analyses how managers' and employees' interests in *rénqíng*, *gǎnqíng*, and *miànzi* are reflected in a more complete motivation scheme.

Guānxì is not "organizational", as it is often claimed (e.g. Seligman 1999: 34); rather, it's personal. Hence, it is as mobile as the employee who possesses it. If an employee with a particular *guānxì* capacity leaves the organization, the firm can no longer appropriate its benefits. From a resource-based perspective (see above), this characteristic of *guānxì* violates the assumption that strategic resources may not be mobile across firms. Considering that the employee turnover rate among urban Chinese firms is just below 20%,[179] employee mobility is indeed a highly critical issue. Therefore, it is not surprising that firms that create incentives for *guānxì*-relevant employees to stay in their folds tend to be more successful than those that do not (Wong et al. 2001: 326; Jenkins 2000: 23ff.).

This chapter shall conclude with some remarks on what type of firms should not, for economic reasons, implement *guānxì*-based business strategies. Too much *guānxì* in general can be a trap, for it increases the risk of not being able to live up to all the expectations in the network (He XM 2000: 20). Moreover, firms with particular attributes in terms of ownership structure, origin, firm size, time in business, and technological

[178] Note that monetary remuneration works better for male Chinese employees than for their female counterparts (Ang 2000: 56).

[179] Empirics suggest that this figure well reflects the labor market conditions: in a July 2005 report, the US-based employment consulting firm Mercer (2005 China CBM) found an average turnover rate of 19% in consumer goods companies. Drawing on field research by Hewitt Associates (Hewitt Annual Study Reports 2005), the newspaper *Xinhua* (September 28, 2005) reported that an average of 14% of employees left their companies in 2005. However, the turnover rate topped 20% in some sectors (e.g. non-manufacturing) and some business functions (R&D).

competitiveness, can be expected in theory—and are found in reality—not to apply *guānxì* strategies.

Unlike privately-owned companies—and similarly, Township and Village Enterprises (TVEs, 乡镇企业)—for which political despotism and changes in relevant government policies render lateral *guānxì* a matter of survival, State-owned Enterprises (SOEs) enjoy a more stable and secure institutional environment (Zhao/Aram 1995: 354; Hu 1995: 63). Therefore, managers of SOEs have fewer incentives to strive for long-term relationships with officials than their counterparts at private firms. On the other hand, as SOEs tend to have lower product quality, less advanced production technology, and less well-trained personnel, they rely more on vertical and horizontal *guānxì* than private companies (Xin/Pearce 1994: 1642; Standifird/Marshall 2000: 31).

In terms of origin, local firms can be broadly distinguished from Foreign-invested Enterprises (FIEs), i.e. Wholly Foreign-owned Enterprises (WFOEs), Equity Joint Ventures (EJVs), and Contractual Joint Ventures (CJVs). While local managers of Chinese companies do business in their mother tongue, foreign managers usually work in English. An even more serious "liability of foreignness" (Luo et al. 2002: 283) is that non-Chinese managers were not raised to possess the skills needed to engage in *guānxì* exchanges and, in particular, do not have intimate knowledge of the subtle practices of *guānxì* cultivation.[180] As Chung and Hamilton (2002: 6) pointed out, Chinese managers doing business with non-Chinese partners take for granted—with good reason most of the time—that the latter do not comply with Chinese societal norms. In order to compensate for his foreignness, many an international manager in China overemphasizes gift-giving and wining and dining (Luo/Chen 1996: 298f.). Reducing *guānxì* to a "fee-for-service", however, is dangerous as it is classified as bribery. Furthermore, even when they are not deemed bribery, inappropriate gifts are deemed inauthentic and hence they do not create any obligation. This limited access to vertical, horizontal, and lateral *guānxì* puts Western businesspeople at a disadvantage vis-à-vis Chinese competitors.[181]

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[180] As Hu and Chen (1996: 165, 172) have observed, this disability is correlated to the socio-cultural distance between the foreign investor's country of origin and China.

[181] However, Westerners may fall back on their attractiveness in terms of the "internationalism" with which Sino-foreign JVs are associated. Plus, many Chinese realize that with "foreign friends" a visit or study program abroad becomes easier (Seligman 1999: 36).

A firms' size, too, can be expected to have an impact on the applicability of *guānxì*-based business strategies. In general, large firms should place less emphasis on vertical and horizontal *guānxì* than small and medium-sized enterprises (SMEs), whose limited access to resources (e.g. capital) requires stronger reliance on external contributions (Luo 2000: 123). Supporting municipal tax yield and a high employment level in the region, large enterprises often become the focus of political attention, rendering lateral *guānxì* more important than for SMEs. An empirical study by Yeung and Tung (1996: 60) came to similar conclusions.

The amount of time a firm has been in business has a positive effect on performance, not only because the complex Chinese socio-economic order demands experience (Luo/Peng 1999: 287), but also because the establishment of *guānxì* is time-consuming.[182] Actually, in terms of *guānxì*, time in business must be interpreted as the history of personal connections between individuals. Therefore, purchasing a company whose managers have well-established relationships (artificially) extends its time in business beyond its continuous presence in the market. While such acquisition activities may thus be an attractive option for the offshoots of wealthy giants, most young organizations are bound by strict budget constraints when entering the market. Analyzing the use of *guānxì* over the lifetime of foreign ventures in China, empirics (e.g. Yeung/Tung 1996: 59f.; Luo 2000: 53) have shown that its significance is highest in the beginning; after ten years in business, *guānxì* is superseded by other action parameters.

Unlike their imitators, technologically competitive firms are advised to commit themselves to *guānxì*-free business strategies in order to protect their superior resources and capabilities. The risk of knowledge drain associated with extensive *guānxì* utilization is presumably greater than its benefits. In fact, for technological leaders, *guānxì* cannot even be termed an "overinvestment" (Luo 2000: 117).

Successful business operations in China require a "basic understanding of *guānxì* dynamics—even if [foreign investors] don't want to play by the Chinese rules" (Luo 1995: 258). Companies that act carelessly with the reception of gifts may ruin themselves. Recipients will be personally indebted to the donor and may lose loyalty to their employer. Rather than "showing respect for *guanxi*" (Hui/Graen 2000: 462), an effective strategy must prohibit employees from demanding/accepting and offering/

[182] Note that length of time in business and firm size (see above) are correlated.

providing trips, entertainment, gifts of significant value, or other benefits on behalf of their organization.

The effect of carelessness is shown in an amusing anecdote. Due to limited parking space in Beijing's Chaoyang district (北京市朝阳区), a German MNC had an employee in the real estate department negotiate with the local police station so that its managers could park their cars on the sidewalk. A year after this arrangement had been made, the employee was laid off due to poor job performance. The next day all the company's cars were towed away by the police for parking illegally.

4 Discussion

To conclude this analysis, Chapter 4 shall answer the third question raised in the introduction: Does the application of *guānxì*-based business strategies conform to legal and ethical standards, both from Chinese and Western perspectives? Because strategy, in a (game) theoretical sense, is not concerned with legal standards, the business strategies of companies whose effectiveness and efficiency improve through the strategic use of *guānxì* need to be reviewed in terms of legal compliance (Section 4.1). In order to take practical cases into account, such as the "principled withdrawal" of Levi Strauss & Co. (ILO 2004) from the Chinese (production) market, the ethical implications of *guānxì*-based business strategies will be discussed (Section 4.2). Finally, Section 4.3 concludes this book with a prediction of the period of validity of these findings.

4.1 Assessment from a Legal Perspective

A legal assessment of *guānxì* practices requires investigating two regulatory frameworks, for non-Chinese companies and their managers are held liable both under Chinese laws and under the legal system of the firm's home country. This analysis will begin with the question of whether the "*guānxì* system has an illegal nature" (Ji 1999: 52) in the eyes of Chinese law and will then turn to foreign law.

4.1.1 Chinese Law

Since 1979, the Chinese government has passed a series of laws and regulations to govern the business conduct of different legal entities, with a particular focus on economic legal entities like companies. The content of these laws and regulations mainly relates to anti-trust, unfair competition, and bribery.

Although an anti-trust code has been on the legislators' agenda for quite a long time, no single statute has yet been promulgated. There are,

however, some relevant provisions in current laws and regulations, such as in PRC contract law (中华人民共和国合同法) and the "Law Against Unfair Competition" (中华人民共和国反不正当竞争法). Corporations are prohibited from engaging in three types of anti-trust activities: negotiation of cartel prices, restrictions on competition created by enterprises with a dominant position (e.g. public utilities), and the creation of monopolies via mergers.[183] If a company is found to have violated relevant PRC anti-trust provisions, the applied remedies include invalidation of the contracts in question or a fine. Engaging in monopolistic business practices is also an offense under criminal law (中华人民共和国刑法, Article 225). Individuals found guilty of disrupting the market order are sentenced, in serious cases, to imprisonment for up to five years and/or a fine ranging from 100% to 500% of the illegally obtained income. In cases where the circumstances are particularly serious, private property may be seized. As anti-trust issues are related to horizontal *guānxì* only, more attention shall be devoted to unfair competition and bribery offenses.

There are quite a number of laws and regulations that touch on issues related to unfair competition. The cornerstone is the PRC "Law Against Unfair Competition", which took effect on December 1, 1993. According to this law, "unfair competition" means activities that violate the legal rights and interests of market participants and disturb the "healthy development of the socialist market economy" ("Law Against Unfair Competition", Article 1). Four kinds of conduct that constitute acts of unfair competition are related to *guānxì*:[184] divulging trade secrets, collaborative tendering, commercial bribes, and trade libels. While divulging trade secrets, collaborative tendering, and trade libel mostly refer to the exchange of information, commercial bribes are related to *hóngbāo*.

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[183] If a contemplated merger is likely to result in a dominant position that hinders competition in the relevant market, an investigation is initiated (for FIE, for instance, by the Ministry of Foreign Trade and Economic Cooperation, MOFTEC).

[184] Acts of unfair competition considered not to be directly related to *guānxì* are (1) the imitation of registered trademarks or the unauthorized use of the characteristic name, packaging or design of a well-known commodity; (2) provisions pertaining to misleading advertising that apply to both advertisers and their agents; (3) predatory pricing, i.e. with few exceptions sales below cost for the purpose of pushing out competitors; (4) tying sales, i.e. forcing customers to buy unwanted goods; and (5) drawings with prizes in excess of RMB 5,000 (US$630).

One of the major legal concerns of unfair competition is *trade secrets* (商业秘密), i.e. "technological information and business information not in the public domain, which can bring economic benefits to the owner of the information and has been kept confidential by the owner" ("Law Against Unfair Competition", Article 10). Corporations are prohibited from infringing on commercial secrets by various unfair means, such as theft or breaching confidentiality agreements, and from disclosing, using or permitting others to use trade secrets belonging to others. Any person who obtains trade secrets as a result of an infringing act is also liable under the law if he/she is aware of or should have been aware of the infringing act, and if he/she obtains, uses or discloses such commercial secrets. The administrative authorities are required to bring the particular infringing act to an end, and depending on the seriousness of the case, may impose fines between RMB 10,000 and 200,000 (US$ 1,250 to 25,000).

Another important area covered by the "Law Against Unfair Competition" is commercial *bribes* (行贿). Corporations may not transfer money or property, including unwarranted discounts, to any entity or individual representative thereof for the purpose of advancing sales or purchases. Anyone who violates this law may be subject to fines ranging from RMB 10,000 (US$1,250) to 200,000 (US$25,000) or to criminal liability, where the offense constitutes a felony. Due to the high importance of bribes, a special law on bribery has been passed (see below).

A third offense revolves around collaborative tendering (串通投标), *ex post* bid price manipulation, and the exclusion of competitors ("Law Against Unfair Competition", Article 27). The specific penalties assigned are invalidation of the tender and fines of RMB 10,000 to 200,000 (US$1,250–25,000). Actually, collaborative tendering triggers individual consequences under criminal law. If the circumstances are serious, this crime of disrupting order in the market is punished by three years of fixed-term imprisonment or criminal detention and the perpetrator may additionally or alternatively be sentenced to pay a fine (Criminal Code, Article 223).

Finally, the law includes a broad prohibition of what is referred to in common-law countries as *trade libel* (虚伪事实): "Corporations shall not fabricate or spread false information to harm the commercial goodwill of competitors or the reputation of their commodities" ("Law Against Unfair Competition", Article 14). This illegal practice can be applied to the context of *guānxì* strategies only as a reaction—i.e. not as proactive

behavior—which comes in the form of the ostracism of non-conforming partners. Although no specific penalties are stipulated in the law, pursuant to the general principles of PRC civil law and other relevant regulations, anyone who causes losses to a third-party business is liable to pay compensation. Where the losses are difficult to calculate, this compensation will be equal to the income earned during the period of infringement ("Law Against Unfair Competition", Chapter 4, especially Article 20). The successful plaintiff can also recover "reasonable expenses" related to the investigation of the infringements, which often include local legal costs.

To summarize, in terms of competitive fairness, *guānxì*-based business strategies engender two major legal problems: (unspoken) exclusivity agreements and preferential treatment. Exclusivity agreements, euphemistically called "gentlemen's agreements", limit the choice of business partners to members of the network. Regardless of whether these members actually feel exploited, such exclusivity is interpreted by anti-trust law as discrimination against competitors.[185] The second legal problem is related to the preferential treatment of members of the *guānxì* network in terms of prices, terms and conditions etc. Rather than prohibiting firms from treating partners well, vertical arrangements are banned because, in a closed setting, such favoritism inevitably leads to discrimination against competitors. All the aforementioned business strategies that entail exclusive partner selection and preferential treatment distort competition; hence they violate the rules of fair competition stipulated by PRC legislation.

As stipulated in the "Law Against Unfair Competition" (Articles 8, 22) and the Criminal Code (Chapter 8), managers are prohibited from engaging in bribery (贿赂) in order to sell or purchase commodities. Depending on the recipient, there actually are two types of bribery. Money, property, or valuables in any form constitute bribes if they are given in exchange for improper benefits from state functionaries (国家工作人员)—i.e. persons in official positions within governmental agencies, SOEs, and other public organizations. This provision also applies to civil servants assigned to non-state-owned institutions for official business (Criminal Code, Article 93) and to employees of collectively-owned organizations and other public personnel. While giving money or other benefits to state employees without obtaining improper benefits—as in the case of extortion—is not treated as bribery (Criminal Code, Article 389), giving gifts to the spouse or

[185] Exploitation of upstream and downstream partners in the narrow sense, such as *compulsory bundles of products and services* (Law Against Unfair Competition, Article 12), is likely to be rare in the *guānxì* system.

offspring (配偶子女) of these persons is illegal. The second category of target for bribery comprises the personnel of private companies; giving them any form of money or property that is excessive in value also constitutes bribery if the purpose is to derive improper benefits.

Turning to *guānxì* exchanges, the impropriety of gifts and favors is difficult to judge because the relevant PRC laws fail to draw a clear line between bribery and acceptable behavior. The regulations suggest that a favor or gift constitutes a bribe (a) if there is an intention of deriving improper benefits or (b) if an excessive amount of money or any other valuable is given.

Giving gifts in order to promote sales or purchases to corporations may suffice to establish "intent". The great attention that Chinese legal practice pays to the objective behind the exchange is further illuminated by the PRC anti-corruption rules that apply to the CPC's leaders and personnel of the state administration. These rules, which also apply to non-governmental institutions, provide for accounting and reporting requirements that pertain to authorized gift-giving. A lack of accounting and reporting transparency in a company tends to increase the likelihood that the intention to derive improper benefits will be established. The ramification for business practice is that gift-giving foreign investors should, in addition to exercising due care, seek to further protect themselves by ensuring that gifts are accounted for in the company's records and by abstaining from assisting officials in the circumvention of these reporting rules.

In the absence of a clearly defined threshold of "excessiveness", the emphasis placed on several types of bribery provides some notions or guidelines. During the course of performing official duties, leading CPC executives and personnel of the state administration may not receive gifts, shares, jewelry, or money (from third-party individuals or legal entities) that may affect their duties. Any gifts received must be registered regardless of their value, and those worth more than RMB 200 (US$25) must be handed over to relevant authorities. Gifts valued at over RMB 1,000 (US$125) must be submitted to the State Council (国务院). Furthermore, a series of gifts received in the course of a year whose total value exceeds RMB 600 (US$75) must also be relinquished. Gifts that cannot be used for work (非工作需要), e.g. clothes, cigarettes, or wine, shall be sold for 70% of the market price (CPC Central Committee/State Council 1996, Articles

1–3, 6, 7; CPC Central Committee/State Council 1995).[186] These provisions explain that compensation, whether in the form of a salary or fee for consultation services, is illegal; this also holds true if payments are made in the name of meetings or conventions (e.g. business meetings, exhibitions, receptions, press conferences, seminars), festival observance (e.g. Spring Festival, National Day), or celebratory occasions (e.g. birthdays, weddings, and funerals).

Top CPC executives and personnel of the state administration may travel abroad only on official business directly related to their position. Invitations to and funding for travel from FIEs are illegal (CPC Central Committee/State Council 1989, Article 1). Further regulations regarding the frequency and duration of overseas travel apply to top executives.[187] Along with overseas travel, the law generally curtails gift articles, money, valuable securities, property, credit cards, payment vouchers, rebates and non-public discounts, goods purchased at a nominal price, handling fees, and sales and purchasing commissions given to business partners and not recorded in accounting. Moreover, banquets that may undermine impartiality in the performance of official duties are prohibited. It is not merely a coincidence that these resources perfectly match the description in Section 2.2.2.1 of the items that constitute exchange resources in the *guānxì* system.

[186] For top CPC executives, the law actually contains a more complete list of prohibited conduct in the exercise of official functions. It contains three main regulations on domestic or foreign-related dealings which are less relevant here: (a) extorting money or property from any person under his administration or to whom he is providing service; (b) seeking to obtain honor, professional title or other such recognition through falsification; and (c) using public funds or property for weddings, funerals or other similar events. Furthermore, the law prohibits CPC executives from engaging in private (domestic and international) profiteering dealings, namely (a) engaging in commercial activities or establishment of an enterprise; (b) purchasing or selling stocks in violation of relevant regulations; (c) investing in companies both in and outside the PRC; (d) concurrently assuming a position in an economic entity or a position with monetary compensation; or (e) engaging in intermediary service activities in violation of relevant regulations.

[187] Namely, a maximum of one trip per year, limited to three to five days at each location, unless otherwise required by official business. Deviations from the official travel plan and extensions of the trip are not permitted (CPC Central Committee/State Council 1989, Articles 4–7).

Sanctions are different for individual and institutional offenders. An individual offering a bribe will be subject to detention or imprisonment. Depending upon the seriousness, the term ranges from five years to lifetime imprisonment, plus confiscation of personal property for cases in which the attempt to derive improper benefits is extremely serious or there is substantial damage to state interests (Criminal Code, Article 390). Again, the characteristics of "seriousness" and "extremely serious" are not defined in the Criminal Code (Article 389). Offenders who admit to their crime before prosecution may receive lighter punishment or be exempted from punishment (Criminal Code, Article 390). Rather than making use of this option, however, guilty CPC executives regularly play their criminal activity down by stating, "I had to accept [this *hóngbāo*], because I was approached so enthusiastically" (盛情难却, 碍于情面, Zu Yan 1998: 1). The continuous exchange of and requests for *hóngbāo*, for instance by sending flowers to one's staff (Jiang X 1999: 58), increase the penalty (*Preliminary Regulation of Guangdong Province on the Prohibition of Exchanging Hongbao with Leading Executives 2001*). As top CPC executives and personnel of the state administration are punished by their respective employers, i.e. the CPC or government, violations often do not trigger legal consequences in the strict sense. Ironically, for other non-functionary offenders, one of the most effective strategies for protecting themselves is to maintain good *guānxì* with the investigating officials.

Institutions that have committed bribery may be ordered to pay a fine (Criminal Code, Article 393). The managers held responsible may be subject to detention or imprisonment for a term of less than five years. Bribing also triggers legal consequences under the "Law Against Unfair Competition" (Article 22), which stipulates that the illegal income be confiscated and that a fine of RMB 10,000 to 200,000 (US$1,250–25,000) be paid.

Both individuals and institutions are prohibited under PRC laws from acting as an intermediary for any form of bribery (Criminal Code, Article 392). Offenders who have introduced a bribe may be subject to detention or imprisonment for a fixed term of less than three years in serious cases. Considering that intermediaries have been identified as a crucial element of network extension (Section 2.2.4), this can be regarded as a major setback for the utilization of *guānxì* in business.

4.1.2 Foreign Law

PRC laws classify many *guānxì*-based business strategies as statutory offenses. Although the prospect of Chinese-style imprisonment should sufficiently intimidate Western MNC managers, further discouragement stems from the legal system in their home countries. The German Criminal Code (*Strafgesetzbuch*), for instance, extends to offenses committed in foreign places if a German is harmed by an action that is either punishable in the particular foreign place or if the foreign place does not have a legal system (Criminal Code, Articles 5–7). From this perspective, illegal behavior is in fact more risky for foreign businessmen than for Chinese managers. German criminal law is also applicable if the culprit was a German citizen at the time the crime was committed, if he became a German citizen after committing the crime, or if he is a foreigner who cannot be extradited for some reason. The following section will discuss the legal implications of *guānxì*-based business strategies according to the German Criminal Code and "Law Against Unfair Competition".

As in China, German Criminal Code contains several provisions against anti-competitive conduct. Most notably, these include collusive tendering, as well as corruptibility and corruption in business.

Tender participation constitutes a criminal offense (Article 298) if the submitted bidding documents are based upon a horizontal or vertical arrangement that is intended to influence the awarding of the bid by the party organizing the tender. The legal consequences are imprisonment for up to five years or a fine. Note that several restrictive activities only constitute *one* criminal act if they are directed at the same bid (Troendle/Fischer 2003: 1924).

No person who *de facto* influences business affairs (paid employee, company representative, intermediary) is permitted to request, accept the promise of, or physically accept benefits—neither for himself nor for third parties—in return for favoring a supplier in the market (Article 299).[188] This act of corruptibility and corruption in business, which is defined as any exchange of goods or services that is conducted for some period of time not limited to profit-seeking intention, is subject to punishment by

[188] Interestingly, the owner of a company is not held liable under Article 299 (not even if he uses an intermediary). This shows that Article 299 is actually geared toward preventing *disloyalty* rather than unfair competition (Troendle/Fischer 2003: 1936).

imprisonment for up to three years or a fine. It is important to note that "success" is not a prerequisite for bribery. The first of the three stages that characterize bribery—*offer* (suggestion by party A), *promise* (assent by party B), and *realization*—already amounts to an offense (Troendle/Fischer 2003: 1933). The German Criminal Code, moreover, does not require that considerations and returned services be precisely specified. The intent to distort a future market transaction is sufficient to establish the action as corruption.[189]

Illegal benefits comprise "anything that is capable of improving the situation of the recipient, and that he is not entitled to" (Troendle/Fischer 2003: 1935): *material benefits* (e.g. provisions, discounts, fees, special compensations, granting of loans, payment deferral, donation of durables, accommodation, invitation to travel, or arrangement of extra income) and *immaterial benefits* (e.g. prize awards, career advancement, conferment of honorary positions, support in private matters and sexual attendance).

While personnel of the state administration are not allowed to accept any benefits, *socially adequate* benefits—e.g. small gifts marking the New Year and anniversaries, occasional offerings of food and service, moderate tips—are not defined as criminal offenses (Article 331). The basis for evaluating social adequacy is the individual's personal situation and the value of the benefit, not common practice (Troendle/Fischer 2003: 1935). Outsized fees for insignificant speeches or studies and large promotional gifts are commonly interpreted as corruption. The ceiling of EUR 30 (US$39) is suggested as a maximum value for promotional gifts (Troendle/Fischer 2003: 2160f.). In the case of an excessive (individual) benefit or if the crime has been committed by a *criminal gang,*[190] then Article 300 applies. Interestingly, a chain of dyads, i.e. the structure of modern Chinese *guānxì*, may be interpreted as a *criminal gang* (Troendle/Fischer 2003: 1941f.) Although excessiveness is not quantified, it is suggested that in practice EUR 5,000 to 20,000 (US$6,500–26,000) would establish the criminal element of excessiveness.

German criminal law is applicable to business conduct abroad. The scene of the crime abroad may be either the place at which the unfair competition is effected or the site at which the illegal benefit is appropriated

[189] Benefits compensating previous actions are illegal only if these actions themselves were illegal (Troendle/Fischer 2003: 1936).

[190] A *criminal gang* is a structure of three or more people that repeatedly commits crimes of corruption.

(Troendle/Fischer 2003: 1934). Acknowledging the fact that in many regions of the world corruption is not merely a commonplace, interpretations of the law clearly point out that:

> "No justification may be inferred from the fact that business success in (…) foreign markets is possible only though paying bribe money, and definitely also not from the fact that such money can be deducted as operating expenses from income tax due." (Troendle/Fischer 2003: 1939f.)

Acts of non-government-related bribery were added to the Criminal Code as recently as August 1997. Although the damage in terms of reduction of social wealth is immense—EUR 5 billion (2003, US$6.5 billion) in civil engineering alone—anti-competitive behavior plays a minor role in current prosecution. One of the reasons why a marginal number of known cases are brought forward is that culprits exist on both sides of corruption. Due to the large degree of opacity, the effectiveness of preventive measures ultimately hinges on the internalization of wrongfulness (Troendle/Fischer 2003: 1924f.). Another explanation is that offenses are only prosecuted on demand (Article 301),[191] except for cases in which legal action is of public interest (Troendle/Fischer 2003: 1942).

Introducing the normative term *fairness*, the second German law that is relevant in this context is the "Law Against Unfair Competition" (*Gesetz gegen den unlauteren Wettbewerb*). The object protected by the law is *fair competition*, i.e., competition that is free of invisible influences that distort the exchange relations of products and services in favor of any market participant.[192] Implicit in this is an understanding of fairness by which merit should be allocated according to performance. In fact, this principle is the key constituent of societies that have chosen to organize exchange through the market (Troendle/Fischer 2003: 1924f.). The German "Law Against Unfair Competition" further defines the types and consequences of market actions that interfere with the idea of free competition. Those actions are *unfair* in that, by circumventing the rules of the market (Troendle/Fischer 2003: 1937), they result in "more than marginal disadvantages to a competitor, consumer, or any other participant in the market" (Article 3), for instance due to the "deliberate impediment of a competitor" (Article 4, Paragraph 10). Because *advantage* is a relative term (see above), the law

[191] Cases can be brought to action by the impaired party, chambers of commerce and similar institutions (Troendle/Fischer 2003: 1942).

[192] Note that in the next section it will be argued that in China *free* competition is not necessarily seen as *fair* competition.

requires the existence of at least one competitor. For the same reason, the law only applies to monopolies in terms of their intent to block potential competitors. When found guilty, companies must eliminate the impediment, pay indemnity, and transfer the illegal income from the impediment (Articles 8–10).

Of foremost importance in terms of *guānxì* is the exchange of trade secrets. Individuals who, for their own interests or those of a third party, reveal information with which they have been entrusted as part of their job are to be sentenced to a fine or imprisonment of up to three years (Article 17, Paragraph 1). Felony, which is punishable with imprisonment of up to five years or a fine, is the commercial organization of revealing commercial secrets, knowledge that these secrets will be used in a foreign country, or the intent to use them for one's own gain oneself in a foreign country (Article 17, Paragraph 4). The attempt is punishable (Article 17, Paragraph 3), as is incitement (Article 19). Great importance is also attached to the protection of trade secrets by the German Criminal Code (Article 7, Paragraph 7). As in the case of high treason or perjury, if trade secrets belong to a German company or to a subsidiary of a holding firm consolidated in Germany, the applicability of the law does not depend on the legal situation at the place where the crime is committed.

In sum, the implementation of *guānxì*-based business strategies is illegal under German law.[193] While intuition already suggested this outcome for practices like preferential treatment, kickbacks, unfair pricing, and sharing of trade secrets, it is interesting that even the transfer of *promises* that are structurally uncertain in value and time also amounts to an offense. This feature is highly relevant in this context, because the *guānxì* system is based on the exchange of such promises, the uncertainty of which is reduced by the network. Because they are governed by two legal systems, foreign managers who implement *guānxì*-based business strategies are more likely to face legal consequences than Chinese managers.

4.2 Implications for Business Ethics

The *guānxì* system is said to be "like a vine full of evil grapes" (如同那结满恶果的藤, Nie 2001: 6f.). What is suggested by this play on words—

[193] In light of this information, it is unintelligible why Kristen Day (2002: 88) from the World Bank claims that the utilization of *guānxì* in business is legal.

恶果 means both "evil fruits" and "negative consequences"—are the ethical implications of *guānxì*-based business strategies.

Generally speaking, ethics is "the science of human duty; the body of rules of duty drawn from this science; a particular system of principles and rules concerting duty, whether true or false; rules of practice in respect to a single class of human actions" (Webster's Revised Unabridged Dictionary 1913). A sense of when behavior is right and wrong comes from many sources, such as religion, family and friends, teachers, and role models. Although both laws and ethics define proper behavior (and hence distinguish it from improper behavior), they are not quite the same. Laws are a society's attempt to formalize (by reducing to written rules) the general public's ideas concerning various aspects of life. Ethical concepts regularly are more complex than laws, and ethical dilemmas frequently go beyond the formal language of legal rules and the meanings assigned to them. As ethical norms are stricter than the law, obeying the latter could still constitute unethical conduct.

Business ethics[194] is "the application of general ethical ideas to business behavior" (Post et al. 1996: 90). Although this is not a special set of ethical standards applicable only to business, managers and employees are sometimes tempted or even encouraged to apply special or weaker ethical rules to business situations. Society, however, does not permit exceptions: if dishonesty is considered unethical, then anyone in business who is not honest is acting immorally. It is important to note that ethics is understood to be determined not by common practice, but by reflected behaviors that have a cultural foundation to which an actor appeals. The mere fact that Chinese people resort to pulling strings in spite of "hating it" (Ma C 2001: 20), does not (ethically) legitimize the *guānxì* system.

In the following discussion, distinctions will be made between the Chinese and Western perspectives on *guānxì*-based business strategies.

[194] As with the classification of strategies in Section 3.1, different levels of business ethics may be distinguished. The most concrete form is found at one end of an imaginary continuum: *face-to-face ethics*, which apply to the interaction of individual employees. If moral issues are involved in business functions (e.g. accounting, human resources), *functional ethics* apply. The general discussion of *guānxì* and business ethics falls under the heading of *corporate ethics*, located at the other end of the imaginary continuum. Firm *guānxì* policy is dictated on the executive floors of corporations, and it affects business operations across many functions and divisions (Post et al. 1996: 94ff.).

Managers of Western MNCs usually have strong incentives to conform to certain ethical standards—if not for their own beliefs, then because of the expectation of shareholders and the general public that they not just abide by the law but also recognize ethical principles (Post et al. 1996: 109). The situation seems to be different for Chinese managers, who often do not support the legal framework but resort to *guānxì* morals. Therefore, an ethical evaluation is required in spite of the fact that *guānxì* strategies do not fulfill minimum legal standards (see Section 4.1).

Chinese MNCs

Business ethics have slowly been entering the public discourse in China; academic interest in this field of research only began in the late 1980s or early 1990s (Tao 1999: 8).[195] According to Day (1997), the first survey on Chinese business ethics was conducted as recently as 1995.[196] While some scholars simply crib from Western ethics concepts (Tao 1999: 8), others feel strongly that business ethics should "have Chinese characteristics" (有中国特色的, Ma W 1996: 50; Zhou Zhongzhi 2001: 25; Lu Xiaohe [1997] from the Shanghai Academy of Social Sciences). As Enderle (2001) points out, the extraordinary difficulty in finding a common ethical ground in China can mainly be attributed to the mix of a Confucian legacy and the history of a Socialist regime (see above), as well as the recent multitude of international influences. These three factors will be discussed next.

In order to challenge international concepts, or probably inspired by popular Western scholars, Chinese thinkers believe that the fundamental ethos of moral business conduct rests upon the cultural heritage outlined earlier (Lin 2002: 17f.). Based on this presumption, questionable classifications linking business ethics to Confucianism have been drawn up. For instance, in a famous anthology Taiwanese scholar Liu Junping (2002: 68) claimed that business ethics were comprised of the "four [Confucian] levels" (四个层次): profit (利), happiness (乐), harmony (和), and peace (安).

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[195] Zhou Zhongzhi (2001: 22) claimed, though without providing valid arguments, that this *beginning stage* lies between a "pre-discipline stage of research", which started in the early 1980s, and a "period of shaping" in effect since the mid-1990s.

[196] The survey was conducted by Wu Xinwen (1999), an ethics lecturer at Fudan University in Shanghai. Wu questioned managers of 59 companies in Shanghai, Qingdao, Ji'nan, Changzhou, Hangzhou, and Tianjin about their perceptions of ethics in the workplace.

Since the ethical standard in Confucian interpersonal conduct should actually comprise benevolence, righteousness, ritual propriety, straightness, and trust (see Section 2.1.2), it is not surprising that Liu did not explain the derivation of these "four levels". In particular, incorporating profit into the scheme is incompatible with the Confucian admonition that it is the mean person who is interested in profits.[197] Similarly, Yang Dongcai (2002: 36) arbitrarily listed ethical conditions that should apply to Chinese companies: credibility (信誉), honesty (诚), fairness (公平), harmony (和), and righteousness (义).[198] Even more scholars (Gong/Zou 2003: 22) found that in "Confucian managerial ethics" (儒家经营伦理), "humanity is the core, rituals the rule, and harmony the goal" (以仁为核心, 以礼为准则, 以和谐为鹄的). Finally, Lin Ping (2002: 21) identified four "Confucian" components in the ethics of production, exchange, allocation, and consumption. Since the author does not clearly define the categories of classification, i.e. for him they are non-exclusive (Lin 2002: 18), its elements become blurred. For instance, production ethics are said to traditionally require profits to be generated through hard work, with respect to overall social wealth, and through diligent conduct. Statements like "taking into account ethics in business decision-making [directly] increases profits" (Xiao 2002: 49) reveal a lack of understanding of the formal context: ethics place a constraint on the firm's profit maximization function. In order to attain prosperity through ethical business conduct (Shen 2001: 79), the average customer would have to assign value to ethical companies—this, however, seems unlikely for China at the current stage of socio-economic development.

As implied, Chinese business ethics constitute an extremely politicized field, hence communist stereotypes are commonplace. Business ethics are supposed to lead to "social stability and development" (社会稳定与发展, Yang D 2002: 36) and to strengthen the structure of social organization

[197] Yet another Chinese scholar who introduced profits into Confucian ethics is Chan (1997). He failed in his attempt to "prove" with a hypothetical example—a Confucian businessman decides to run a green business that helps to improve people's living environment and at the same time brings him profits—that Confucian ethics are compatible with profit-oriented business decisions.

[198] For each of the characteristics, Yang Dongcai (2002: 36) provides explanations, which, however, sound more like political slogans: (1) credit is the overriding concern; (2) be honest to make friends with business partners, then the company's good reputation will come from credibility; (3) fair trade, no cheating on children and the elderly; and (4) profits through harmonious atmosphere, be righteous to make profits.

(Shen 2001: 79). "In addition to the guidance of Marxism, […business ethics] impart the best of traditional Chinese morality", as former Minister of Commerce Hu Ping (胡平) pointed out at an ethics conference in Beijing (Xinhua 1996). Popular themes in the current debate are criticisms of "money worshipping" (拜金主义) and the "primacy of profit-seeking behavior" (唯利是图, Jiang X 2001: 59). However, these should not be interpreted as a renaissance of Confucian ethics; rather, they coincide with the political debate over the socialist allocation of wealth in a Chinese market economy (Ma W 1996: 52).

Due to their brief academic history, business ethics are almost unknown to Chinese managers.[199] Ethical concerns eroded in the Cultural Revolution, and, in general, Chinese managers are believed to still be suffering from the shock that the planned economy has dealt them (Xiang 2003: 25). It therefore seems appropriate—for Chinese researchers as well (e.g. Zhang/Yang 1998: 254)—to approach the ethics of *guānxì*-based business strategies with a Western framework, which commonly applies the ethical measures *utility*, *justice*, and *rights* (e.g. Velasquez 1998: 222ff.). Note that what is used here is a Western *framework*, not Western *ethics*. In order to maintain the socio-economic perspective adopted throughout this analysis, the focus will be on teleological (rather than deontological) measures. This makes it possible to neglect *rights*; the ethical measures of utility and justice remain to be discussed.

Triggered by the observation that personal gains can lead to social losses (以公换私, Si 1996: 17), one approach to ethics is based on utility. If the socio-economic benefits of an action exceed its socio-economic cost, i.e., if there are net benefits, *utilitarianism* holds that "the action (…) is ethical, because it produces the greatest good for the greatest number" (Post et al. 1996: 125). There are two major drawbacks to utilitarian reasoning: it is difficult to accurately measure costs and benefits and the rights of minorities can be overridden by the majority. In spite of this, utilitarian measurements are widely applied in business ethics, as in Lovett et al.'s (1999) analysis of *guānxì*.

[199] Shen Junxi (2001: 79) quoted a non-specified 1996 study, according to which two out of three Chinese managers could not describe what business ethics are. It is interesting that those managers who had a basic understanding of ethics placed it above the law (see above).

Taking a utilitarian perspective, Lovett et al. (1999) sought to prove their hunch about the efficiency of a market economy and the *guānxì* system using a simple static model. Their comparison is interesting because, in addition to contract cost, it incorporates the "preference of 'old friends' over 'new friends/strangers'" (Lovett et al. 1999: 240). Their reasoning led the authors to conclude that the efficiency of the *guānxì* system is greatest in a *stable and uncertain* environment, a scenario that resembles the socio-economic situation during the Zhou dynasty (see Section 2.1.1). In fact, Lovett et al. further suggested that in such an environment, the *guānxì* system outperforms the market institution (or any structural alternative) in terms of efficiency. In the *guānxì* network the negative impact on wealth stemming from a bias towards old business partners, i.e. delayed acceptance of new members or restriction of business to old members, is lower than the negative impact of high contract costs in the market. Due to these contributions to social wealth, *guānxì*-based exchanges are found not only to be "as ethical as Western principles", but even more so (Lovett et al. 1999: 236f.).

It is important to note that Lovett et al. assumed that *guānxì* networks and the market exist as mutually exclusive institutions, although they actually exist in parallel (see Section 2.3). As the macro-economic effects of the *guānxì* system are anything but clear, Chinese scholars engage in "never-ending discussions" (争论不休, Feng T 2002: 40) about whether or not *guānxì* networks are beneficial.

It follows from the above that many Chinese people deem resource allocation in the *guānxì* system "unfair" (不公平; Ha/Ma 2001: 35; Liu Song 1995: 39; Chen Hong 1997: 114f.), but it would be wrong to conclude that any system based on non-universally accepted principles must be unethical (Schramm/Taube 2001: 12). Actually, if the measure of *justice* is applied, the *guānxì* system may be ethical despite its negative impact on social wealth. In the justice-based argument, it matters who pays the cost of the focal action and who gains its benefits. Distribution is *fair* when privileges are granted according to a particular, socially accepted rule (Post et al. 1996: 127).[200]

More precisely, in the *guānxì* system the criterion of fair distribution is determined by the relationship of the exchange partners' social value (He XM 2000: 19). Yang Zhongfang noted on the ethics of his fellow

[200] Note that distributive justice can also be part of utilitarian considerations (Hoffmann/Frederick 1994: 64f.).

Chinese countrymen that "paying great attention to the obligation and responsibilities from personal relationships, [we] apply […] principles that are related to the social status within the community" (1991: 3). As ethical requirements hold for all members that occupy the same "place in society" (社会处境, He Y et al. 1991: 52), Chinese culture is said to apply "status ethics" (地位伦理, Hwang 2002: 10). Because "ethical discourse is usually principle based" (Kleinman 1992: 363), this fact is quite interesting in light of the controversial debate on whether Chinese ethics are "situation based" (状态, Chen JJ 1998: 114; He Y et al. 1991: 52f.; Fei Xiaotong 1992[1947] 79) or "situation specific" (Leung/Wong 2001: 62ff.), i.e., acts would be judged by the system within their contexts instead of by categorical principles. Certainly the rules are more complicated than in, for instance, Protestant ethics, in which all individuals consider themselves subject to the same set of social norms. However, it would be wrong to deduce from the fact that multiple, non-equality standards are employed that Chinese ethics would not adhere to universal principles. Notwithstanding the fact that Chinese contemporary ethics are not equivalent to Confucian thoughts, Section 2.1 of this analysis supports this idea: Confucians hardly thought that obedience of the son to the father should apply in certain situations only. Similarly, the Chinese sense of fairness (公平感) generally holds that "outsiders are not important" (无关紧要, Tan/Man 2001: 57; Liu Song 1995: 41).[201] As wrong as it would be to deny Chinese ethics a high degree of casuistry, which makes obligations and distributive justice contingent upon power relations and personal circumstances, it would also be incorrect to argue that no abstract, universal criteria for distributive justice exist. If *guānxì* stands in contrast to the principle-based theory of ethics, this contrast is not as sharp as is often thought.

In general, an ethical judgment that takes utility and judicial concerns into account would be better than one that is based on only one of these considerations (Post et al. 1996: 128). Assuming, for the sake of simplicity, that economic efficiency and fairness of distribution are not interrelated, the trivial case is that both measures yield identical results, i.e., they either both establish that a policy is ethical, or are a twofold "no" indicating that it is not. This is not the case in the *guānxì* system, however.

In fact, the focal action *pre*scribed by one system is *pro*scribed by the other. The mutual exclusiveness of both sets of moral principles can be

[201] It is actually a common phenomenon in many network structures that network members ruthlessly take advantage of outsiders (Schneider 2002: 100).

elucidated with the case of preferential treatment (see above). In the West, preferring a friend in business is unethical as it undermines functional efficiency; such behavior is associated with pejorative terms like "nepotism" (Day 2002: 89).[202] On the contrary, not preferring a friend in China is deemed unethical and intolerable (Ang 2000: 46; Ang/Leong 2000: 131ff.). It is imperative in traditional Chinese exchange morals to treat *jiārén* better than *shúrén*, and to share with the *guānxì* network competitive information at the expense of out-groups. Exposing a close *guānxì* partner to open competition is considered "disloyal and even stupid" (Xin/Pearce 1996: 1642) because equal opportunity deteriorates the situation of friends who perceive a relatively higher chance of success as fair (Wright et al. 2002: 166; Zhang/Yang 1998: 254).

The above incompatibilities have been empirically surveyed, for instance by Zhang and Yang (1998). Based on utilitarian principles, Chinese managers were found to be relatively unethical, while in terms of "human heartedness"—operationalized through the managerial attitude towards group harmony and sympathy for group members—they were more ethical than their American counterparts (Zhang/Yang 1998: 254).[203] This result is in line with the observation that Chinese businessmen tend to complain that "foreigners have no human feelings" (外国人没有人情味儿, Clissold 2004: 182), a complaint that, after all, seems appropriate in light of statements like "[Chinese people] cannot be trusted because they will always help their friends" (Lovett et al. 1999: 241; similarly: Trompenaars 1994: 34). The incompatibility also explains the strong reservations about Western management methods: as successful Chinese business operations are

[202] In fact, proponents of Western law and equal competition are not the only ones to resist *guānxì*; the Chinese government does too. Yang Meihui (1989: 38, 51) explained this with the subversive effects of *guānxì*. Not to be cast in the light of a "heroic and organized stance of defiant and uncompromising resistance"—Yang seemed well aware of her politicized tone, because she stressed in her conclusion that she would be free of any judgment—subversion rather means "redistribut[ion of] what the state has already distributed, according to the people's interpretations of need and to the advantages of (horizontal) social relationships". Hence *guānxì*-"vengeance" may be more ethical than the prevailing exchange system.

[203] Identically, in an empirical analysis of business ethics perceptions in Eastern China, Wu Xinwen (1999: 548ff.) found that 39% of interviewees accepted the popular practice of offering and accepting kickbacks as ethical (more managers of privately run companies than of SOEs take this view). Also Ang and Leong (2000: 131ff.) noted that the establishment and maintenance of *guānxì*, in particular through gift giving, may involve unethical practices.

based on "knowledge of *rénqíng*" (不知人情, 不经商 / 人情即商情, 经营要知情, Ma W 1996: 50), such an import from the West is believed to be doomed to failure (Yu/Hwang 1991: 213, 219), or to even be harmful to China (Yu/Hwang 1991: 233).

Ethically speaking, when market and *guānxì* exchange systems coexist (see Section 2.3), gift-giving in return for preferential treatment obviously becomes a relative issue (Schramm/Taube 2001: 22). Notwithstanding the above comment, it seems logical to conclude that, in terms of macroeconomic efficiency, such a coexistence is actually worse than the isolated existence of either of them. If actors can arbitrarily select the more favorable institution, for instance in dispute resolution, the efforts of both institutions to reduce transactional uncertainty are undermined. In theory, it would probably be best to make use of the specific advantages of both institutions in a particular setting, i.e. solving minor problems using *guānxì* and settling major disputes using the legal system. This idea requires a clear minimum value that demarcates the two institutions. Note, however, that it would be hard to prevent actors from also turning to the *guānxì* system for large-scale transactions.

Non-Chinese MNCs

The second issue addressed in this section is the implications of *guānxì*-based business strategies for non-Chinese MNCs. As Clissold noted on the matter of business practices in the Chinese market, "one thing is for sure: if you played by the rules [of the West], you were finished" (2004: 170). In fact, the more ingrained and culturally derived a practice, the greater the likelihood of cross-cultural dilemmas occurring (Su et al. 2003: 204f.). Considering that *guānxì* is "one of the most dramatic examples of an entrenched cultural norm" (Dunfee/Warren 2001: 4), international firms doing business in China ought to face ethical quandaries. The controversy over whether the ethical principles present in social institutions should be defined differently is reflected in the debate of *ethical relativism versus universal ethics*. Although it will be argued that the debate is purely academic in the case of *guānxì*, its popularity suggests a short explanation is in order.

If whatever is practiced at any location (or time) may be acceptable, the term *ethical relativism* is applied. One of the major advocates of this idea, DeGeorge (1993), called it the "when in Rome [do as the Romans]" approach to ethics. If morals are defined *absolutely*, regardless of the prevailing circumstances (e.g. time and place), ethics are termed *universal*.

Universal ethics claim that individuals all over the world will agree to what is right and wrong, and thus that the best concept should become a general rule; this approach is termed the "righteous American" (DeGeorge 1993: 17) approach.

With a similar yet probably less ideological attitude, various international bodies have attempted to agree upon a single code of ethical business conduct. Seeking to curtail unethical business practices, these efforts all have the fact in common that they assume a set of universal ethical values to which companies ought to adhere when conducting international business. The most important codes are the Organization for Economic Cooperation and Development's (OECD) *Guidelines for Multinational Enterprises* and *Convention Against Corruption*; the International Labor Organization's (ILO) *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy* and its *Declaration on Fundamental Principles and Rights at Work*; the *International Chamber of Commerce Code*, and the relevant guidelines passed by the UN Commission on Transnational Corporations.[204]

These recommendations and standards represent guiding principles for global companies. Some firms have joined the international organizations in defining unethical behavior, either for noble motives or to limit the impact of the inevitable rules to come. Although the "teeth of the law", combined with the above international codes, should suffice to prevent firms from committing white collar crimes, 93 of the *Fortune* 100 companies have established their own corporate codes of ethics that are enforced internally with disciplinary measures. The self-imposed company codes explicitly endorsed by the United Nations include those of companies like BP Amoco, Levi Strauss & Co., Nokia, PepsiCo, Reebok International Ltd., Shell, Starbucks, Toyota, and Volkswagen AG (Weissbrodt 2000).[205]

Inspired by foreign MNCs, the managers of Chinese companies have also started to pass guidelines. In 1997 Hefei-based home appliance manufacturer Rongshida (荣事达) was the first Chinese company to issue a

[204] Another example is "The Interfaith Declaration: A Code of Ethics on International Business Ethics between Christians, Jews, and Muslims", which appeared in 1994 (Chryssides/Kaler 1996: 157).

[205] In China, IBM is seen by many scholars (e.g. Gong/Zou 2003: 23) as a role model in business ethics. It will be interesting to see if IBM's ethical awareness will have a spill-over effect on the Chinese Lenovo Group Co. (联想集团), which took over IBM's personal computer division in 2004.

"Declaration on Self-Discipline in Competition" (企业竞争自律宣言), advocating the concept of "harmonious business" (和商, Shen 2001: 79).

Three points merit attention, as they qualify any praise of such corporate commitment. Designed to guide puzzled managers, corporate codes of ethics serve the role of a "moral compass" (Post et al. 1996: 132). By "help[ing] professionals to translate general ethical principles into specific working rules", corporate codes of ethics are typically concerned with those conflicts of interest that are harmful to the company, such as acceptance/refusal of gifts from suppliers, employment of relatives, and employee shareholdings in a competitor's firm.

There is another issue that offers managers incentives to structurally promote ethics at work. Pursuant to newly revised US sentencing guidelines, insufficient compliance within an organization can lead to stiffer punishment for that firm's executives. Moreover, if employees advance the usual excuses of "It was customary", or "Management's expectations left me no choice", the organization may be held liable as a legal entity (see Section 4.1).

Finally, firms that strictly adhere to ethical principles make a good impression on the public (Post et al. 1996: 92). Most managers are aware of the fact that MNCs are quickly singled out, criticized, and avoided by customers and shareholders if they fail to meet public demand by exhibiting a minimum level of corporate social responsibility (CSR). Therefore, the motivation of taking ethics into consideration is not merely an altruistic one, but may be of economic interest to the firm (Post et al. 1996: 91ff.).

Of the 1,000 largest international firms, 200 have included in their organizations some version of a chief ethics officer (Shen 2001: 79); those who occupy these posts are often said to face "global ethical dilemmas" (e.g. Post et al. 1996: 105; Sorell/Hendry 1994: 215). This may be true for many aspects of business, but not for the use of *guānxì*, for such ethical dilemmas require an action to be illegal under German law (or the law of the country where the company is based) but legal under Chinese law. As Chinese legislation prescribes the utilization of the market exchange system and its associated dispute resolution mechanisms (see Section 4.1), foreign MNCs have no moral grounds for implementing *guānxì*-based business strategies; if they cannot make up for their structural disadvantages, they best retreat from China.

4.3 Outlook: Durability of Results

The dilemma that firms face due to legal restrictions and ethical standards would dissolve, if the benefits of using *guānxì* in business were reduced. Therefore, it is a popular exercise among scholars to speculate on the future importance of the *guānxì* phenomenon. Some believe that "gradually, the Chinese will have to reconcile their *guanxi* networks with the inescapable dictates of market rationality" (Luo 2000: 140, drawing on Chen 1994), while others expect no substantial change (Schramm/Taube 2001: 20ff.; Chung/Hamilton 2002: 20). Observing that *guānxì* has become "more entrenched than ever" (Day 2002: 91), even predicts that its influence will, in all likelihood, further expand.

Speculating on the future of the Chinese socio-economic system, however, is difficult. Recall the prediction by the renowned United Nations Development Program (UNDP) that a *Gini coefficient*[206] larger than 0.4 would trigger social upheaval (Melinda Liu 2005; Chang 2002: 335ff.). To the surprise of UNDP experts, this did not happen in 1994 when China surpassed this international warning level. Moreover, there have been no indications of this happening since, although the parameter has attained a value of 0.46 (in 2005). In order to spare the reader from erroneous conjecture, the following paragraphs will only outline the institutional forces that will determine the future importance of the *guānxì* system, namely internally-induced changes in actors' incentives or external pressure on non-market exchange mechanisms by political decision-makers.

[206] The Gini coefficient is a measure of inequality expressed as a figure between 0 and 1. A coefficient equal to 0 means that there is no inequality, i.e., everybody in society has an equal share of total wealth, whereas a coefficient equal to 1 indicates that total wealth belongs to a single person.

Fig. IV-1. "Updated Story of Yu Gong" (愚公新传)

Figure IV-1 caricatures the "Updated Story of Yu Gong" (愚公新传): a foolish (愚) man seeks to move the huge mountain of *guānxì* networks,[207] just as Yu Gong wanted to shovel away Mount Taihang (太行山) and Mount Wangwu (王屋山) because they blocked his path to the nearby village. In the ancient story (愚公移山), Yu Gong, when mocked by neighbors, counters: "My sons will have sons, and my sons will have grandsons" (子又有子, 子又有孙) who will continue the efforts. Whether this analogy holds, and "one day, the phenomenon will be eliminated" (Si 1996: 18), largely depends on actor incentives to transition to markets governed by codified contract law (Yang MH 1995b: 43).

As long as the benefits, calculated for a given period, from upholding the prevailing structure (the *guānxì* system and a market economy with a legal system) exceed the opportunity costs of establishing a new system (market economy only), individuals will be reluctant to change. Given the low variable costs of transacting in the *guānxì* system, Chinese people would have to perceive a market economy/legal system structure as being much more efficient in order for a change to happen (Schramm/Taube 2001: 21).

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[207] Discussing the dynamics of the *guānxì* system, Yang Minzhi's (1995b: 43) caricature originally referred to corruption (腐败).

Due to the normative propensity for escalation (see *Figure II-12*), the increased frequency of *guānxì* exchanges has resulted in an immense spiral of *rénqíng* debts (人情绳索, Zuo Bin 1997: 225; Huang 2002: 93). As a reaction to the seriousness of this burden, individuals have developed the specific Chinese nightmare of being caught in a network of relationships, as described in Lu Xun's "A Madman's Diary" (狂人日记, 1918). He Xuefeng (2000: 21) even predicts a destabilization of society (社会不稳定) if the prevalence of *guānxì* does not erode. However, considering the crucial role of *rénqíng* in private and business life, it seems unlikely that the majority of people will agree to "no longer send customary gifts for annual festivals" (Huang 2002: 99). As gift exchange is deeply ingrained in people's minds (Scott 1969: 322), "wherever there are Chinese, there will be gifts" (Zhong 1995: 82). Chinese immigrants in the United States, for instance, send out *hóngbāo* to driving test officials (*Party Conduct & Clean Government* 2002: 37). The idea that the *guānxì* system will soon perish due to internal changes seems unlikely for two more reasons. First, the fact that debts in the *guānxì* system may be transferred to the next generation,[208] which, as the flip side of the desired uncertainty-reducing effect (see above), provides the *guānxì* system with a high degree of resistance (He Y et al. 1991: 56). Second, *guānxì* exchanges are already popular among teenagers on high-school and college campuses (Zhong 1995: 107).[209]

A farmer interviewed by Huang (2002: 94) stated that he "wished Jiang Zemin would issue a decree to no longer engage in it [*rénqíng* exchange]" (真巴不得江泽民下命令不许再做事!). Not only does this statement reflect the aforementioned inability of ordinary Chinese people to "crash *guānxì* networks" (敢破关系网, Liu Wugen 2002: 38), but it also represents an alternative source of change: external pressure from political decision-makers.

It is widely accepted that this pressure would have to be "massive" (Schramm/Taube 2001: 20), and accompanied by the application of "drastic measures" (Nie 2001: 7; similarly: Liu Song 1995: 39). In fact,

[208] However, in light of the conceptualization of the *guānxì* system in Chapter 2, such an inter-generational transfer of debts (particularly *gǎnqíng*) seems problematic.

[209] Interestingly, however, actors in the Japanese economy have successfully—at least partially—reduced the plague of personal connections in business on their own: grocery giants like Donkihotei committed themselves by printing on the rear of their buyers' business cards, "Please let me pay for coffee myself".

however, Chinese government attempts are half-hearted and do not go much beyond political posturing geared towards the media. Examples of this include the death penalty carried out in the case of the vice-minister of Jiangxi Province, Hu Changqing (胡长清), who was the "Master of *Guānxì*" (关系高手, He XM 2000: 21), and the conviction of former Beijing mayor Chen Xitong (陈希同), who, convicted in 1995 in the "Wuxi Xinxing Co. illegal fundraising case", became famous for his extensive collection of Rolex watches (Day 2002: 89; People's Daily 2003). Immense pressure seems unlikely, mainly because officials would have to bite the hand that feeds them.

Yet the strong impact of *guānxì* on firm performance need not continue "unabated over time" (Luo 2000: 142). Its significance in business will actually weaken as laws become more strictly enforced (He XM 2000: 21ff.; Ma C 2001: 19; Cao 2002: 73),[210] and as frustrated Chinese managers with international academic degrees (e.g. MBAs) continue to replace family business partners with acquaintances who can be selected according to aptitude. Supporting this view, Lovett et al. (1999: 245) even predicted that the *guānxì* system and modern Western management philosophy will converge. Running contrary to the growing focus on ability in China is a trend in Western markets towards "relationship marketing": managers establish and maintain tight relations with a few partners (e.g. Ambler et al. 1998: 75; Dunfee/Warren 2001: 21).

Despite the fact that *guānxì* is not an idiosyncratic phenomenon in China and that many features of *rénqíng*, *gǎnqíng*, and *miànzi* actually exist in cultures all over the world (Hwang 2002: 968), scholars are nearly blind when it comes to analyzing similar structures in non-Chinese communities. With few exceptions, such as Schramm and Taube (2002), who apply their knowledge of the *guānxì* system to the Islamic *hawala* finance networks, the sinology elite does not even investigate nearby cultures. Italy, for instance, is well-known for its uncertainty-reducing structures of familiarism (Bell 2000: 137), which are not limited to the Sicilian Mafia (Bandiera 2003: 218). It has been observed that business transactions place value on non-market elements throughout the Italian economy (Post et al. 1996: 105). Systemic kickbacks are common in Russia (through the *blat* system, Rose 1998: 10; Walder 1986: 179; Michailova/Worm 2003:

[210] This is probably why *guānxì* in Singapore and Taiwan appears to be less important (Riley 1994: 801; Zhong 1995: 255). Farh et al. (1998: 487) oppose this view, arguing with their empirical findings that *guānxì* also plays a major role for Taiwanese managers.

7ff.),[211] Korea (through the *kwankye* system, Yeung/Tung 1996: 54), and Japan (through the *kankei* system, with the *on*-rule of reciprocity, Post et al. 1996: 105; Hwang 1987: 946).

In fact, even in Germany *guānxì*-like transactions take place. As it was revealed in July 2005, for over a decade managers of German automaker Volkswagen AG eased the climate for reforms by greasing the palms of union officials. In order to secure consent for resolutions regarding workers' rights, the board of directors provided union officials and members of the works council with company-funded first-class trips to overseas nightclubs and established fronts from which expenses were claimed without receipts. In just two years, the Board of Directors approved a total of EUR 780,000 (US$1 million) in such expenses, which allows the reader to appreciate the rougher dimension that this stable system has produced (Fröhlingsdorf et al. 2005; Hawranek 2005). The Chinese press covered this scandal in great depth, and many a Chinese manager may have found his way of doing business quite international indeed.

[211] An explicitly comparative analysis of *blat* and *guānxì*, as provided by Michailova and Worm (2003: 7ff.), actually reveals stunning parallels; for similarities regarding debt collection practices, see Hendley et al. (2000: 17).

Figures & Tables

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Transliteration of Chinese Characters

Character	*Hànyǔ Pīnyīn*	Wade-Giles
爱好	*àihào*	*ai4hao4*
爱面子	*ài miànzi*	*ai4 mien4tzu*
安	*ān*	*an1*
拜金主义	*bàijīnzhǔyì*	*pai4chin1chu3i4*
办事	*bàn shì*	*pan4 shih4*
半熟人	*bàn shúrén*	*pan4 shu2jen2*
帮(个)忙	*bāng (gè) máng*	*pang1 (ko4) mang2*
办事机关	*bànshì jīguān*	*pan4shih4 chi1kuan1*
保 / 顾 / 护面子	*bǎo / gù / hù miànzi*	*pao3 / ku4 / hu4 mien4tzu*
报, 回报	*bào, huíbào*	*pao4, hui2pao4*
保护伞	*bǎohùsǎn*	*pao3hu4san3*
暴利	*bàolì*	*pao4li4*
北京市朝阳区	*Běijīngshì Cháoyángqū*	*Pei3ching1shih4 Ch'ao2yangch'ü1*
被礼大压死	*bèi lǐ dà yā sǐ*	*pei4 li3 ta4 ya1 szu3*
必回	*bì huí*	*pi4 hui2*
别	*bié*	*pieh2*
并存	*bìngcún*	*ping4ts'un2*
不公平	*bùgōngping*	*pu4kung1p'ing*
不计较	*bùjìjiào*	*pu4chi4chiao4*
不理	*bùlǐ*	*pu4li3*
不贪近利	*bùtān jìn lì*	*pu4t'an1 chin4 li4*
不要排外	*bùyàopáiwài*	*pu4yao4 p'ai2wai4*
不以利小而忘之	*bùyǐ lì xiǎo ér wàng zhī*	*pu4i3 li4 hsiao3 erh2 wang4 chih1*
不做人	*bùzuò rén*	*pu4tso4 jen2*
不好意思	*bùhǎoyìsi*	*pu4hao3i4szu*
不正之风, 歪风	*bùzhèngzhī fēng, wāi fēng*	*pu4cheng4chih1 feng1, wai1 feng1*
不知人情, 不经商	*bùzhī rénqíng, bùjīngshāng*	*pu4chih1 jen2ch'ing2, pu4ching1shang1*

差序格局	*chā xù géjú*	*ch'a1 hsü4 ko2chü2*
超市卡	*chāoshì kǎ*	*ch'ao1shih4 k'a3*
陈希同	*Chén Xītong*	*Ch'en2 Hsi1-t'ung2*
诚	*chéng*	*ch'eng2*
吃了这回大亏, 以致濒临破产	*chīle zhè huí dà kuī, yǐzhì bīnlín pòchǎn*	*ch'ih1le che4 hui2 ta4 k'uei1, i3chih4 pin1lin2 p'o4ch'an3*
吃人嘴软, 拿人手短	*chī rén zuǐ ruǎn, ná rénshǒu duǎn*	*ch'ih1 jen2 tsui3 juan3, na2 jen2shou3 tuan3*
耻感文化	*chǐgǎn wénhuà*	*ch'ih3kan3 wen2hua4*
吃亏	*chīkuī*	*ch'ih1k'uei1*
吃亏是福	*chīkuī shì fú*	*ch'ih1k'uei1 shih4 fu2*
吃亏学告诉你: 欲将取之, 必先与之	*chīkuī xué gàosu nǐ: yù jiāng qǔ zhī, bì xiān yǔ zhī*	*ch'ih1k'uei1 hsüeh2 kao4su ni3: yü4 chiang1 ch'ü3 chih1, pi4 hsien1 yü3 chih1*
吃亏学	*chīkuīxué*	*ch'ih1k'uei1hsüeh2*
串通投标	*chuàntōng tóubiāo*	*ch'uan4t'ung1 t'ou2piao1*
处理 / 办事情	*chǔlǐ / bàn shìqing*	*ch'u3li3 / pan4 shih4ch'ing*
慈	*cí*	*tz'u2*
辞海	*Cí Hǎi*	*Tz'u2 Hai3*
辞源	*Cí Yuán*	*Tz'u2 Yüan2*
村落社会	*cūn luò shèhuì*	*ts'un1 lo4 she4hui4*
大传统	*dà chuántǒng*	*ta4 ch'uan2t'ung3*
打狗要看主人面	*dá gǒu yāo kàn zhǔrén miàn*	*ta2 kou3 yao1 k'an4 chu3jen2 mien4*
大社员	*dà shèyuán*	*ta4 she4yüan2*
打通关卡	*dǎ tōng guān kǎ*	*ta3 t'ung1 kuan1 k'a3*
打肿脸充胖子	*dǎ zhǒng liǎn chōng pàngzi*	*ta3 chung3 lien3 ch'ung1 p'ang4tzu*
大方体面的	*dàfāng tǐmiànde*	*ta4fang1 t'i3mien4te*
贷款	*dàikuǎn*	*tai4k'uan3*
当家人	*dāngjiārén*	*tang1chia1jen2*
单位	*dānwèi*	*tan1wei4*
德	*dé*	*te2*
丢脸	*diū liǎn*	*tiu1 lien3*
丢脸即不是人	*diū liǎn jí búshì rén*	*tiu1 lien3 chi2 pu2shih4 jen2*
地位伦理	*dìwèi lúnlǐ*	*ti4wei4 lun2li3*
地下红包	*dìxià hóngbāo*	*ti4hsia4 hung2pao1*

地缘关系	*dìyuán guānxì*	*ti4yüan2 kuan1hsi4*
懂人情	*dǒng rénqíng*	*tung3 jen2ch'ing2*
东莞市	*Dōngguǎnshì*	*Tung1kuan3shih4*
短, 平, 快	*duǎn, píng, kuài*	*tuan3, p'ing2, k'uai4*
对什么人, 随什么礼	*duì shénme rén, suí shénme lǐ*	*tui4 shen2 me jen2, sui2 shih2 me li3*
恶果	*èguǒ*	*e4kuo3*
法定关系	*fǎdìng guānxì*	*fa3ting4 kuan1hsi4*
放长线, 钓大鱼	*fàng cháng xiàn, diào dà yú*	*fang4 ch'ang2 hsien4, tiao4 ta4 yü2*
方法	*fāngfǎ*	*fang1fa3*
反应	*fǎnyìng*	*fan3ying4*
非工作需要	*fēigōngzuò xūyào*	*fei1kung1tso4 hsü1yao4*
飞来的	*fēi láide*	*fei1 lai2te*
非连结关系	*fēiliánjiē guānxì*	*fei1lien2chieh1 kuan1hsi4*
非正式制度性的方式	*fēizhèngshì zhìdù xìngde fāngshì*	*fei1cheng4shih4 chih4tu4 hsing4te fang1shih4*
夫妇	*fū fù*	*fu1 fu4*
副县长	*fù xiàn zhǎng*	*fu4 hsien4 chang3*
父子	*fùzǐ*	*fu4tzu3*
腐败	*fǔbài*	*fu3pai4*
福利	*fúlì*	*fu2li4*
复杂	*fùzá*	*fu4tsa2*
改革开放	*gǎigé kāifàng*	*kai3ko2 k'ai1fang4*
感恩戴德	*gǎn ēn dài dé*	*kan3 en1 tai4 te2*
敢破关系网	*gǎn pò guānxìwǎng*	*kan3 p'o4 kuan1hsi4wang3*
干部	*gànbù*	*kan4pu4*
感到浑身不自在	*gǎndào húnshēn búzìzài*	*kan3tao4 hun2shen1 pu2tzu4tsai4*
感情	*gǎnqíng*	*kan3ch'ing2*
高额回扣	*gāo é huí kòu*	*kao1 o2 hui2 k'ou4*
隔墙有耳	*gé qiáng yǒu ěr*	*ko2 ch'iang2 yu3 erh3*
哥哥, 弟弟	*gēge, dìdi*	*ko1ko, ti4ti*
给 / 留面子	*gěi / liú miànzi*	*kei3 / liu2 mien4tzu*
给受原则	*gěi shòu yuánzé*	*kei3 shou4 yüan2tse2*
哥们儿情谊	*gēmenér qíngyì*	*ko1menerh2 ch'ing2i4*
跟公关小姐交个朋友	*gēn gōngguān xiǎojie jiāo gè péngyou*	*kên1 kung1kuan1 hsiao3chieh chiao1 ko4 p'eng2yu*

个体劳动者协会	*gètǐ láodòngzhe xiéhuì*	*ko4t'i3 lao2tung4che hsieh2hui4*
公安部	*gōng'ān bù*	*kung1an1 pu4*
公关小姐	*gōngguān xiǎojie*	*kung1kuan1 hsiao3chieh*
工具性	*gōngjùxìng*	*kung1chü4hsing4*
公开冲突	*gōngkāi chōngtū*	*kung1k'ai1 ch'ung1t'u1*
公平	*gōngpíng*	*kung1p'ing2*
公平感	*gōngpíng gǎn*	*kung1p'ing2kan3*
公平法则	*gōngpíng fǎzé*	*kung1p'ing2 fa3tse2*
公众形象	*gōngzhòng xíngxiàng*	*kung1chung4 hsing2hsiang4*
工资基本不动, 吃饭基本有人请, 喝酒基本有人送, 老婆基本不用	*gōngzī jīběn búdòng,* *chīfàn jīběn yǒu rén qǐng, hē jiǔ jīběn yǒu rén sòng, lǎopó jīběn búyòng*	*kung1tzu1 chi1pen3 pu2tung4, ch'ih1fan4 chi1pen3 yu3 jen2 ch'ing3, ho1 chiu3 chi1pen3 yu3 jen2 sung4, lao3p'o2 chi1pen3 pu2yung4*
购物券	*gòuwù quàn*	*kou4wu4 ch'üan4*
关 (關)	*guān*	*kuan1*
官僚主义	*guānliáozhǔyì*	*kuan1liao2chu3i4*
关系	*guānxì*	*kuan1hsi4*
关系高手	*guānxì gāoshǒu*	*kuan1hsi4 kao1shou3*
关系规范	*guānxì guīfàn*	*kuan1hsi4 kui1fan4*
关系链条	*guānxì liàntiáo*	*kuan1hsi4 lien4t'iao2*
关系学	*guānxìxué*	*kuan1hsi4hsüeh2*
关系资源	*guānxì zīyuán*	*kuan1hsi4 tsu1yüan2*
与农民的非农化	*yú nóngmínde fēinónghuà*	*yü2 nung2min2te fei1nung2hua4*
关系风	*guānxìfēng*	*kuan1hsi4feng1*
关系户	*guānxìhù*	*kuan1hsi4hu4*
关心	*guānxīn*	*kuan1hsin1*
关系网	*guānxìwǎng*	*kuan1hsi4wang3*
关照	*guānzhào*	*kuan1chao4*
古代关系网	*gǔdài guānxìwǎng*	*ku3tai4 kuan1hsi4wang3*
国家安全部	*Guójiā Ānquánbù*	*Kuo2chia1 An1ch'üan2-pu4*
国家标准	*guójiā biāozhǔn*	*kuo2chia1 piao1chun3*
国家工作人员	*guójiā gōngzuò rényuán*	*kuo2chia1 kung1tso4 jen2yüan2*
国务院	*guówùyuàn*	*kuo2wu4yüan4*

汉代	*Hàndài*	*Han4-tai4*
行长	*háng zhǎng*	*hang2 chang3*
杭州	*Hángzhōu*	*Hang2-chou1*
汉语拼音	*Hànyǔ Pīnyīn*	*Han4yü3 P'in1yin1*
好面子	*hào miànzi*	*hao4 mien4tzu*
好处	*hǎochu*	*hao3ch'u*
禾	*hé*	*ho2*
和	*hé*	*ho2*
合情, 合理, 合法	*hé qíng, hé lǐ, hé fǎ*	*ho2 ch'ing2, ho2li3, ho2fa3*
和商	*hé shāng*	*ho2 shang1*
和为贵	*hé wéi guì*	*ho2 wei2 kui4*
和与义	*hé yú yì*	*ho2 yü2 i4*
黑包	*hēibāo*	*hei1pao1*
黑手党	*hēishǒudǎng*	*hei1 shou3 tang3*
核心亲属	*héxīn qīnshǔ*	*ho2hsin1 ch'in1shu3*
红包	*hóngbāo*	*hung2pao1*
胡长清	*Hú Chángqīng*	*Hu2 Ch'ang2-ch'ing1*
胡平	*Hú Píng*	*Hu2 P'ing2*
互惠原则	*hùhuì yuánzé*	*hu4hui4 yüan2tse2*
回扣	*huíkòu*	*hui2k'ou4*
贿赂	*huìlù*	*hui4lu4*
会议红包	*huìyì hóngbāo*	*hui4i4 hung2pao1*
户口	*hùkǒu*	*hu4k'ou3*
混合性关系	*hùnhéxìng guānxì*	*hun4ho2hsing4 kuan1hsi4*
货不对路	*huò bùduì lù*	*huo4 pu4tui4 lu4*
获致性	*huòzhìxìng*	*huo4chih4hsing4*
甲骨文	*jiǎ gǔ wén*	*chia3 ku3 wen2*
家和万事兴	*jiā hé wàn shì xīng*	*chia1 ho2 wan4 shih4 hsing1*
监察部	*Jiānchábù*	*Chien1ch'a2-pu4*
监督机制	*jiāndū jīzhì*	*chien1tu1 chi1chih4*
讲面子	*jiǎng miànzi*	*chiang3 mien4tzu*
建立	*jiànlì*	*chien4li4*
交朋友	*jiāo péngyou*	*chiao1 p'eng2yu*
交换性的酬报	*jiāohuànxìngde chóubào*	*chiao1huan4hsing4te ch'ou2pao4*
交通卡	*jiāotōng kǎ*	*chiao1t'ung1 k'a3*
交往圈	*jiāowǎngquān*	*chiao1wang3chüan1*
家人	*jiārén*	*chia1jen2*

家庭之外	*jiātíngzhī wài*	*chia1t'ing2chih1 wai4*
价值观	*jiàzhí guān*	*chia4chih2 kuan1*
假装 / 充面子	*jiǎzhuāng / chōng miànzi*	*chia3chuang1 / ch'ung1 mien4tzu*
借面子	*jiè miànzi*	*chieh4 mien4tzu*
姐姐, 妹妹	*jiějie, mèimèi*	*chieh3chieh, mei4mei4*
介绍人	*jièshàorén*	*chieh4shao4jen2*
精神红包	*jīngshén hóngbāo*	*ching1shen2 hung2pao1*
技术关	*jìshù guān*	*chi4shu4 kuan1*
酒肉朋友	*jiǔ ròu péngyou*	*chiu3 jou4 p'eng2yu*
拒绝和侮辱	*jùjué héwǔrǔ*	*chü4chüeh2 ho2 wu3ju3*
君臣	*jūn chén*	*chün1 ch'en2*
君子	*jūnzi*	*chün1tzu*
靠得住的人	*kào dé zhùde rén*	*k'ao4 te2 chu4te jen2*
靠关系	*kào guānxì*	*k'ao4 kuan1hsi4*
克己复礼	*kè jǐ fù lǐ*	*k'o4 chi3 fu4 li3*
科举	*kē jǔ*	*k'o1 chü3*
可置信的威胁	*kě zhì xìnde wēixié*	*k'o3 chih4 hsin4te wei1hsieh2*
可信	*kěxìn*	*k'o3hsin4*
孔子	*Kǒngzǐ*	*K'ung3-tzu3*
孔夫子	*Kǒngfūzǐ*	*K'ung3fu1-tzu3*
空头人情	*kōngtóu rénqíng*	*k'ung1t'ou2 jen2ch'ing2*
口	*kǒu*	*k'ou3*
狂人日记	*kuángrén rìjì*	*k'uang2jen2 jih4chi4*
扩大	*kuòdà*	*k'uo4ta4*
拉关系	*lā guānxì*	*la1 kuan1hsi4*
拉拉扯扯, 吃吃喝喝, 搞外交	*lālā chě chě, chī chī hē hē, gǎo wàijiāo*	*la1la1 ch'e3 ch'e3, ch'ih1 ch'ih1, ho1 ho1 kao3 wai4chiao1*
老邻居	*lǎo línjū*	*lao3 lin2chü1*
老田	*lǎo Tián*	*lao3 T'en2*
老战友	*lǎo zhànyǒu*	*lao3 chan4yu3*
老百姓	*lǎobǎixìng*	*lao3pai3hsing4*
老人协会	*lǎorén xiéhuì*	*lao3jen2 hsieh2hui4*
老乡	*lǎoxiāng*	*lao3hsiang1*
老乡见老乡, 两眼泪汪汪	*lǎoxiāng jiàn lǎoxiāng, liǎng yǎn lèi wāngwāng*	*lao3hsiang1 chien4 lao3hsiang1, liang3 yen3 lei4 wang1wang1*
乐	*lè*	*le4*

利	*lì*	*li4*
礼	*lǐ*	*li3*
李	*Lǐ*	*Li3*
理	*lǐ*	*li3*
李嘉诚	*Lǐ Jiāchéng*	*Li3 Chia1-ch'eng2*
礼尚往来	*lǐ shàng wǎng lái*	*li3 shang4 wang3 lai2*
理顺	*lǐ shùn*	*li3 shun4*
脸	*liǎn*	*lien3*
两免, 三年半	*liǎng miǎn, sānnián bàn*	*liang3 mien3, san1nien2 pan4*
脸面	*liǎnmiàn*	*lien3mien4*
联想集团	*liánxiǎng jítuán*	*lien2hsiang3 chi2t'uan2*
六家	*liù jiā*	*liu4 chia1*
礼物	*lǐwù*	*li3wu4*
鲁国	*Lǔ guó*	*Lu3 kuo2*
鲁迅	*Lǔ Xùn*	*Lu3 Hsün4*
乱	*luàn*	*luan4*
伦	*lún*	*lun2*
论语	*Lúnyǔ*	*Lun2-yü3*
麻桌新规定只输不赢	*má zhuō xīn guīdìng zhǐ shū bùyíng*	*ma2 cho1 hsin1 kui1ting4 chih3 shu1 pu4ying2*
买 / 讨 / 求个人情	*mǎi / tǎo/ qiú ge rénqíng*	*mai3 / t'ao3/ ch'iu2 ko jen2ch'ing2*
卖面子	*mài miànzi*	*mai4 mien4tzu*
买单	*mǎidān*	*mai3 tan1*
茅台	*Maotai*	*Mao2-t'ai2*
没面子	*méi miànzi*	*mei2 mien4tzu*
美罗城	*Měiluóchéng*	*Mei3-lo2ch'eng2*
美女	*měinǚ*	*mei3nü3*
門	*mén*	*men2*
孟子	*Mèng zǐ*	*Meng4-tzu3*
面子	*miànzi*	*mien4tzu*
名人字画	*míngrén zì huà*	*ming2jen2 tzu4 hua4*
模糊	*móhu*	*mo2hu*
木瓜	*mù guā*	*mu4 kua1*
南京百江液化气	*Nánjīng Bǎijiāng Yèhuàqì*	*Nan2ching1 Pai3-chiang1 Yeh4hua-4ch'i4*
有限公司	*Yǒuxiàngōngsī*	*Yu3hsien4kung1szu1*

南京华润燃气有限公司	*Nánjīng Huárùn Ránqì Yǒuxiàngōngsī*	*Nan2ching1 Hua2-jun4 Jan2ch'i4 Yu3hsien4kung1szu1*
南京市江宁科学园	*Nánjīngshì Jiāngníng Kēxuéyuán*	*Nan2ching1shih4 Chiang1-ning2 K'e1hsüeh2yüan2*
内外有别	*nèi wài yǒu bié*	*nei4 wai4 yu3 pieh2*
内部	*nèibù*	*nei4pu4*
内疚	*nèijiū*	*nei4chiu1*
能动性	*néngdòngxìng*	*neng2tung4hsing4*
能力	*nénglì*	*neng2li4*
拍马屁	*pāi mǎpì*	*p'ai1 ma3p'i4*
排斥	*páichì*	*p'ai2ch'ih4*
配偶子女	*pèiǒu zǐnǚ*	*p'ei4ou3 tzu3nü3*
朋友	*péngyou*	*p'eng2yu*
朋友关系	*péngyou guānxì*	*p'eng2yu kuan1hsi4*
批林, 批孔	*pī Lín, pī Kǒng*	*p'i1 Lin2, p'i1 K'ung3*
评江市	*Píngjiāngshì*	*P'ing2-chiang1shih4*
脾气	*píqì*	*p'i2ch'i4*
普通话	*pǔtōnghuà*	*p'u3t'ung1hua4*
千变万变, 钞票不变	*qiān biàn wàn biàn, chāopiào bùbiàn*	*ch'ien1 pien4 wan4 pien4, ch'ao1p'iao4 pu4pien4*
欠人情	*qiàn rénqíng*	*ch'ien4 jen2ch'ing2*
钱柜	*qiánguì*	*ch'ien2kui4*
敲门砖	*qiāomén zhuān*	*ch'iao1men2 chuan1*
亲	*qīn*	*ch'in1*
情	*qíng*	*ch'ing2*
清朝	*Qīngcháo*	*Ch'ing1-ch'ao2*
情	*qíng*	*ch'ing2*
情感性	*qínggǎnxìng*	*ch'ing2kan3hsing4*
亲密程度	*qīnmì chéngdù*	*ch'in1mi4 ch'eng2tu4*
亲密朋友	*qīnmì péngyou*	*ch'in1mi4 p'eng2yu*
亲戚朋友	*qīnqi péngyou*	*ch'in1ch'i p'eng2yu*
亲情冲突	*qīnqíng chōng tū*	*ch'in1ch'ing2 ch'ung1t'u1*
亲疏	*qīnshū*	*ch'in1shu1*
亲缘关系	*qīnyuán guānxì*	*ch'in1yüan2 kuan1hsi4*
亲缘文化	*qīnyuán wénhuà*	*ch'in1yüan2 wen2hua4*
丘	*qiū*	*ch'iu1*

企业法人营业执照	*qǐyè fǎrén yíngyè zhízhào*	*ch'i3yeh4 fa3jen2 ying2yeh4 chih2chao4*
企业竞争自律宣言	*qǐyè jìngzhēng zì lǜ xuānyán*	*ch'i3yeh4 ching4cheng1 tzu4 lü4 hsüan1yen2*
去哪里腐败	*qù nǎli fǔbài*	*ch'ü4 na3li fu3pai4*
权钱交易	*quán qián jiāoyì*	*ch'üan2 ch'ien2 chiao1i4*
权力	*quánlì*	*ch'üan2li4*
圈内人	*quānnèirén*	*ch'üan1nei4 jen2*
圈外人	*quānwàirén*	*ch'üan1wai4 jen2*
仁	*rén*	*jen2*
人敬你一寸, 你敬人一尺	*rén jìng nǐ yī cùn, nǐ jìng rén yī chǐ*	*jen2 ching4 ni3 i1 ts'un4, ni3 ching4 jen2 i1 ch'ih3*
人同样也是物	*rén tóngyàng yě shì wù*	*jen2 t'ung2yang4 yeh3 shih4 wu4*
人要脸, 树要皮	*rén yào liǎn, shù yào pí*	*jen2 yao4 lien3, shu4 yao4 p'i2*
人走茶凉	*rén zǒu chá liáng*	*jen2 tsou3 ch'a2 liang2*
人际关系	*rénjì guānxì*	*jen2chi4 kuan1hsi4*
人情	*rénqíng*	*jen2ch'ing2*
人情法则	*rénqíng fǎzé*	*jen2ch'ing2 fa3tse2*
人情即商情, 经营要知情	*rénqíng jí shāng qíng, jīngyíng yào zhī qíng*	*jen2ch'ing2 chi2 shang1 ch'ing2, ching1ying2 yao4 chih1 ch'ing2*
人情困境	*rénqíng kǔnjìng*	*jen2ch'ing2 k'un3ching4*
人情绳索	*rénqíng shéngsuǒ*	*jen2ch'ing2 sheng2so3*
人情味	*rénqíngwèi*	*jen2ch'ing2wei4*
人缘	*rényuán*	*jen2yüan2*
人之常情	*rénzhī chángqíng*	*jen2chih1 ch'ang2ch'ing2*
入网证	*rù wǎng zhèng*	*ju4 wang3 cheng4*
如云山雾罩	*rú yún shān wù zhào*	*ju2 yün2 shan1 wu4 chao4*
儒家	*Rújiā*	*Ju2-chia1*
儒家经营伦理	*Rújiā jīngyíng lúnlǐ*	*Ju2-chia1 ching1ying2 lun2li3*
儒家的心之模型	*Rújiāde xīnzhī móxíng*	*Ju2-chia1te hsin1chih1 mo2hsing2*
如同那结满恶果的藤	*rútóng nà jiē mǎn èguǒ-deténg*	*ju2t'ung2 na4 chieh1 man3 e4kuo3tet'eng2*
三案	*sān àn*	*san1 an4*
三十六计	*sānshíliù jì*	*san1shih2liu4 chi4*
三维性	*sānwéixìng*	*san1wei2hsing4*

伤 / 损面子	*shāng / sǔn miànzi*	*shang1 / sun3 mien4tzu*
商场如战场	*shāngchǎng rú zhànchǎng*	*shang1ch'ang3 ju2 chan4ch'ang3*
上海交通卡	*Shànghǎi jiāotōng kǎ*	*Shang4hai3 chiao1t'ung1 k'a3*
商业秘密	*shāngyè mìmì*	*shang1yeh4 mi4mi4*
社会不稳定	*shèhuì bùwěndìng*	*she4hui4 pu4wen3ting4*
社会处境	*shèhuì chǔjìng*	*she4hui4 ch'u3ching4*
社会规范	*shèhuì guīfàn*	*she4hui4 kui1fan4*
社会建构的基本原理	*shèhuì jiàngòude jīběnyuánlǐ*	*she4hui4 chien4kou4te chi1pen3yüan2li3*
社会进步了	*shèhuì jìnbùle*	*she4hui4 chin4pu4le*
社会评价	*shèhuì píngjià*	*she4hui4 p'ing2chia4*
社会稳定与发展	*shèhuì wěndìng yú fāzhǎn*	*she4hui4 wen3ting4 yü2 fa1chan3*
设计院	*shèjì yuàn*	*she4chi4 yüan4*
慎独	*shèn dú*	*shen4 tu2*
生存	*shēngcún*	*sheng1ts'un2*
生活无聊	*shēnghuó wúliáo*	*sheng1huo2 wu2liao2*
生活信条	*shēnghuó xìntiáo*	*sheng1huo2 hsin4t'iao2*
生命仪礼	*shēngmìng yí lǐ*	*sheng1ming4 i2 li3*
盛情难却, 碍于情面	*shèngqíng nán què, ài yú qíng miàn*	*sheng4ch'ing2 nan2 ch'üeh4, ai4 yü2 ch'ing2 mien4*
生人	*shēngrén*	*sheng1jen2*
身体发肤, 受之父母	*shēntǐ fà fū, shòuzhī fùmǔ*	*shen1t'i3 fa4 fu1, shou4chih1 fu4mu3*
事	*shì*	*shih4*
失 / 丢面子	*shī / diū miànzi*	*shih1 / tiu1 mien4tzu*
史记	*Shǐjì*	*Shih3-chi4*
诗经	*shī jīng*	*shih1 ching1*
十分平衡	*shífēn pínghéng*	*shih2fen1 p'ing2heng2*
时历仪礼	*shílì yí lǐ*	*shih2li4 i2 li3*
世系	*shìxì*	*shih4hsi4*
实在亲戚	*shízài qīnqi*	*shih2tsai4 ch'in1ch'i*
受人滴水之恩, 势将涌泉相报	*shòu rén dī shuǐzhī ēn, shì jiāng yǒng quán xiāng bào*	*shou4 jen2 ti1 shui3chih1 en1, shih4 chiang1 yung3 ch'üan2 hsiang1 pao4*
收买大社员	*shōumǎi dà shèyuán*	*shou1mai3 ta4 she4yüan2*
水的波纹	*shuǐde bōwén*	*shui3te po1wen2*
熟人	*shúrén*	*shu2jen2*

死	*sǐ*	*szu3*
四个层次	*sì gè céngcì*	*szu4 ko4 ts'eng2tz'u4*
司寇	*sī kòu*	*szu1 k'ou4*
私了	*sī liǎo*	*szu1 liao3*
死门	*sǐ mén*	*szu3 men2*
死皮	*sǐ pí*	*szu3 p'i2*
四项基本原则	*sì xiàng jīběn yuánzé*	*szu4 hsiang4 chi1pen3 yüan2tse2*
死性	*sǐ xìng*	*szu3 hsing4*
死要面子	*sǐ yào miànzi*	*szu3 yao4 mien4tzu*
死要面子活受罪	*sǐ yào miànzi huó shòu zuì*	*szu3 yao4 mien4tzu huo2 shou4 tsui4*
私人关系	*sīrén guānxì*	*szu1jen2 kuan1hsi4*
私营企业协会	*sīyíng qǐyè xiéhuì*	*szu1ying2 ch'i3yeh4 hsieh2hui4*
送个人情	*sòng gè rénqíng*	*sung4 ko4 jen2ch'ing2*
孙子兵法	*Sūnzi bīngfǎ*	*Sun1-tzu ping1fa3*
他的朋友多	*tāde péngyou duō*	*t'a1te p'eng2yu to1*
太行山	*tài háng shān*	*t'ai4 hang2 shan1*
太麻烦	*tài máfan*	*t'ai4 ma2fan*
太子	*tàizǐ*	*t'ai4tzu3*
他们的感情受伤了 (…破裂了)	*tāmende gǎnqíng shòushāngle (... pòlièle)*	*t'a1mente kan3ch'ing2 shou4shang1le (... p'o4lieh4le)*
贪财	*tāncái*	*t'an1ts'ai2*
唐朝	*Tángcháo*	*T'ang2-ch'ao2*
滕文公上	*téng wén gōng shàng*	*t'eng2 wen2 kung1 shang4*
特权	*tèquán*	*t'e4ch'üan2*
悌	*tì*	*t'i4*
天命	*tiān mìng*	*t'ien ming4*
天知地知你知我知	*tiān zhī dì zhī nǐ zhī wǒ zhī*	*t'ien1 chih1 te4 chih1 ni3 chih1 wo3 chih1*
条子	*tiáozi*	*t'iao2tzu*
同	*tóng*	*t'ung2*
通关节	*tōng guānjié*	*t'ung1 kuan1chieh2*
通关系	*tōng guānxì*	*t'ung1 kuan1hsi4*
同路人关系	*tónglùrén guānxì*	*t'ung2lu4jen2 kuan1hsi4*
同事	*tóngshì*	*t'ung2shih4*
同乡	*tóngxiāng*	*t'ung2hsiang1*
同学	*tóngxué*	*t'ung2hsüeh2*
同业会	*tóngyèhuì*	*t'ung2yeh4hui4*

同一关系	*tóngyī guānxì*	*t'ung2i1 kuan1hsi4*
投之以桃, 报之以李	*tóu zhī yǐ táo, bào zhī yǐ lǐ*	*t'ou2 chih1 i3 t'ao2, pao4 chih1 i3 li3*
投标	*tóubiāo*	*t'ou2piao1*
土	*tǔ*	*t'u3*
土围子	*tǔ wéi zǐ*	*t'u3 wei2 tzu3*
土地使用证	*tǔdì shǐyòngzhèng*	*t'u3ti4 shih3yung4cheng4*
外地人	*wàidìrén*	*wai4ti4jen2*
外国人没有人情味儿	*wàiguórén méiyǒu rénqíng wèiér*	*wai4kuo2jen2 mei2yu3 jen2ch'ing2 wei4erh2*
外人	*wàirén*	*wai4jen2*
外围亲属	*wàiwéi qīnshǔ*	*wai4wei2 ch'in1shu3*
外资企业	*wàizī qǐyè*	*wai4tsu1 ch'i3yeh4*
王	*Wáng*	*Wang2*
忘恩复义的小人	*wàng ēn fù yìde xiǎorén*	*wang4 en1 fu4 i4te hsiao3jen2*
王屋山	*Wángwūshān*	*Wang2wu1shan1*
唯利是图	*wéi lì shì tú*	*wei2 li4 shih4 t'u2*
伪劣产品	*wěi liè chǎnpǐn*	*wei3 lieh4 ch'an3p'in3*
维系	*wéixì*	*wei2hsi4*
温情	*wēn qíng*	*wen1 ch'ing2*
我使你受用, 我也要从你身上捞一把	*wǒ shǐ nǐ shòu yòng, wǒ yě yào cóng nǐ shēn shàng lāo yī bǎ*	*wo3 shih3 ni3 shou4 yung4, wo3 yeh3 yao4 ts'ung2 ni3 shen1 shang4 lao1 i1 pa3*
五伦	*wǔ lún*	*wu3 lun2*
无组织	*wú zǔzhī*	*wu2 tsu3chih1*
无关紧要	*wúguān jǐnyào*	*wu2kuan1 chin3yao4*
武汉市	*Wǔhànshì*	*Wu3han4shih4*
系	*xì*	*hsi4*
西施	*Xī Shī*	*Hsi1 Shih1*
下岬村	*Xiàjiǎ cūn*	*Hsia4chia3 ts'un1*
先赋性关系	*xiān fù xìng guānxì*	*hsien1 fu4 hsing4 kuan1hsi4*
县委	*xiàn wěi*	*hsien4 wei3*
先有陶朱, 端木, 后有晋商徽商	*xiān yǒu táo zhū, duān mù, hòu yǒu jìn shāng huī shāng*	*hsien1 yu3 t'ao2 chu1, tuan1 mu4, hou4 yu3 chin4 shang1 hui1 shang1*
现代汉语辞海	*xiàndài hànyǔ cíhǎi*	*hsien4tai4 han4yü3 ts'u2 hai3*
乡	*xiāng*	*hsiang1*

乡土中国	*xiāngtǔ zhōngguó*	*hsiang1t'u3 chung1kuo2*
乡镇企业	*xiāngzhèn qǐyè*	*hsiang1chen4 ch'i3yeh4*
孝	*xiào*	*hsiao4*
小传统	*xiǎo chuántǒng*	*hsiao3 ch'uan2t'ung3*
小赌	*xiǎo dǔ*	*hsiao3 tu3*
小农	*xiǎo nóng*	*hsiao3 nung2*
小意思	*xiǎo yìsī*	*hsiao3 i4szu1*
小气	*xiǎoqì*	*hsiao3ch'i4*
血缘关系	*xiěyuán guānxì*	*hsieh3yüan2 kuan1hsi4*
信	*xìn*	*hsin4*
新东西	*xīn dōngxi*	*hsin1 tung1hsi*
新乡土中国	*xīn xiāngtǔ zhōngguó*	*hsin1 hsiang1t'u3 chung1kuo2*
性格	*xìnggé*	*hsing4ko2*
行贿	*xínghuì*	*hsing2hui4*
行为准则	*xíngwéi zhǔnzé*	*hsing2wei2 chun3tse2*
心理界线	*xīnlǐ jièxiàn*	*hsin1li3 chieh4hsien4*
信任	*xìnrèn*	*hsin4jen4*
信息桥	*xìnxī qiáo*	*hsin4hsi1 ch'iao2*
信用	*xìnyòng*	*hsin4yung4*
信誉	*xìnyù*	*hsin4yü4*
信誉保证	*xìnyù bǎozhèng*	*hsin4yü4 pao3cheng4*
兄弟多, 力气大, 不怕死	*xiōngdì duō, lìqi dà, búpà sǐ*	*hsiung1ti4 to1, li4ch'i ta4, pu2p'a4 szu3*
喜庆红包	*xǐqìng hóngbāo*	*hsi3ch'ing4 hung2pao1*
修己治人	*xiū jǐ zhì rén*	*hsiu1 chi3 chih4 jen2*
羞耻	*xiūchǐ*	*hsiu1ch'ih3*
序	*xù*	*hsü4*
学好数理化不如有个好爸爸	*xué hǎo shù lǐ huà bùrú yǒu gè hǎo bàba*	*hsüeh2 hao3 shu4 li3 hua4 pu4ju2 yu3 ko4 hao3 pa4pa*
需求法则	*xūqiú fǎzé*	*hsü1ch'iu2 fa3tse2*
虚荣	*xūróng*	*hsü1jung2*
虚伪事实	*xūwěi shìshí*	*hsü1wei3 shih4shih2*
XX面子比XX大	*XX miànzi bǐ XX dà*	*XX mien4tzu pi3 XX ta4*
养儿防老	*yǎng ér fáng lǎo*	*yang3 erh2 fang2 lao3*
扬中市	*Yángzhōngshì*	*Yang2-chung1shih4*
研究研究, 烟酒烟酒	*yánjiū yánjiū, yān jiǔ yān jiǔ*	*yen2chiu1 yen2chiu1, yen1 chiu3 yen1 chiu3*
要打发时间	*yào dǎfa shíjiān*	*yao4 ta3fa shih2chien1*

要想人不知, 除非己莫为	*yào xiǎng rén bùzhī, chúfēi jǐ mò wéi*	*yao4 hsiang3 jen2 pu4chih1, ch'u2fei1 chi3 mo4 wei2*
要享福, 就开会	*yāo xiǎngfú, jiù kāihuì*	*yao1 hsiang3fu2, chiu4 k'ai1hui4*
压岁钱	*yāsuìqián*	*ya1sui4ch'ien2*
义	*yì*	*i4*
一把手	*yī bǎ shǒu*	*i1 pa3 shou3*
以德报惠	*yǐ dé bào huì*	*i3 te2 pao4 hui4*
一对一	*yī duì yī*	*i1 tui4 i1*
以公换私	*yǐ gōng huàn sī*	*i3 kung1 huan4 szu1*
以己为中心	*yǐ jǐ wéi zhōngxīn*	*i3 chi3 wei2 chung1hsin1*
一见如故	*yī jiàn rú gù*	*i1 chien4 ju2 ku4*
一门艺术	*yī mén yìshù*	*i1 men2 i4shu4*
以仁为核心, 以礼为准则, 以和谐为鹄的	*yǐ rén wéi héxīn, yǐ lǐ wéi zhǔnzé, yǐ héxié wéi gǔde*	*i3 jen2 wei2 ho2hsin1, i3 li3 wei2 chun3tse2, i3 ho2hsieh2 wei2 ku3te*
一纸公文, 三村白条	*yī zhǐ gōngwén, sān cūn bái tiáo*	*i1 chih3 kung1wen2, san1 ts'un1 pai2 t'iao2*
一次性关系	*yīcìxìng guānxì*	*i1tz'u4hsing4 kuan1hsi4*
一面之交	*yímiànzhī jiāo*	*i2mien4chih1 chiao1*
隐蔽红包	*yǐnbì hóngbāo*	*yin3pi4 hung2pao1*
有价证券	*yǒu jià zhèngquàn*	*yu3 chia4 cheng4ch'üan4*
有理无礼莫进来	*yǒu lǐ wú lǐ mò jìnlái*	*yu3 li3 wu2 li3 mo4 chin4lai2*
有钱能使鬼推磨	*yǒu qián néng shǐ guǐ tuī mò*	*yu3 ch'ien2 neng2 shih3 kui3 t'ui1 mo4*
有人好办事	*yǒu rén hǎo bàn shì*	*yu3 jen2 hao3 pan4 shih4*
有中国特色的	*yǒu zhōngguó tèsède*	*yu3 chung1kuo2 t'e4se4te*
愚	*yú*	*yü2*
愚公新传	*yú gōng xīn zhuàn*	*yü2 kung1 hsin1 chuan4*
愚公移山	*yú gōng yí shān*	*yü2 kung1 i2 shan1*
缘份	*yuánfèn*	*yüan2fen4*
愿意	*yuànyì*	*yüan4i4*
增加面子	*zēngjiā miànzi*	*tseng1 chia1 mien4tzu*
战国时代	*Zhànguóshídài*	*Chan4kuo2shih2tai4*
张	*Zhāng*	*Chang1*

长幼	*zhǎng yòu*	*chang3 yu4*
丈夫妻子一起赌	*zhàngfu qīzi yìqǐ dǔ*	*chang4fu ch'i1tzu i4ch'i3 tu3*
找关系	*zhǎo guānxì*	*chao3 kuan1hsi4*
这是我们的关系户	*zhè shì wǒmende guānxì hù*	*che4 shih4 wo3mente kuan1hsi4 hu4*
真巴不得江泽民下命令不许再做事	*zhēn bābùdé Jiāng Zémín xià mìnglìng bùxǔ zài zuò shì*	*chen1 pa1pu4te2 Chiang1 Tse2-min2 hsia4 ming4ling4 pu4hsü3 tsai4 tso4 shih4*
真的太谢谢你了, 以后如果有我能帮忙的事请尽管说	*zhēnde tài xièxie nǐle, yǐhòu rúguǒ yǒu wǒ néng bāngmángde shì qǐng jǐnguǎn shuō*	*chen1te t'ai4 hsieh4hsieh ni3le, i3hou4 ju2kuo3 yu3 wo3 neng2 pang1mang2te shih4 ch'ing3 chin3kuan3 shuo1*
枕边风	*zhěnbiānfēng*	*chen3pien1feng1*
争面子	*zhēng miànzi*	*cheng1 mien4tzu*
正名	*zhēng míng*	*cheng1 ming2*
郑周永	*Zhèng Zhōuyǒng*	*Cheng4 Chou1-yung3*
争论不休	*zhēnglùn bùxiū*	*cheng1lun4 pu4hsiu1*
正直	*zhèngzhí*	*cheng4chih2*
直	*zhí*	*chih2*
知恩图报	*zhī ēn tú bào*	*chih1 en1 t'u2 pao4*
致中和	*zhì zhōng hé*	*chih4 chung1 ho2*
直系亲属	*zhíxì qīnshǔ*	*chih2hsi4 ch'in1shu3*
忠	*zhōng*	*chung1*
中标	*zhòng biāo*	*chung4 piao1*
仲尼	*zhòngní*	*chung4ni2*
中庸	*zhōng yōng*	*chung1 yung1*
中国共产党	*Zhōngguó Gòngchǎndǎng*	*Chung1kuo2 Kung4ch'an3tang3*
中国期刊全文数据库	*Zhōngguó qīkān quán wén shùjùkù*	*Chung1kuo2 ch'i1k'an1 ch'üan2 wen2 shu4chü4k'u4*
中国人民银行	*Zhōngguó Rénmín yínháng*	*Chung1kuo2 Jen2min2 yin2hang2*
中国社会科学院社会学研究所	*Zhōngguó shèhuì kēxuéyuàn shèhuìxué yánjiūsuǒ*	*Chung1kuo2 she4hui4 k'e1hsüeh2yüan4 she4hui4hsüeh2 yen2chiu1so3*
中华	*Zhōnghuá*	*Chung1hua2*

中华人民共和国 反不正当竞争法	*Zhōnghuá rénmín gònghéguó fǎn bùzhèngdāng jìngzhēng fǎ*	*Chung1hua2 jen2min2 kung4ho2kuo2 fan3 pu4cheng4tang1 ching4cheng1 fa3*
中华人民共和国 合同法	*Zhōnghuá rénmín gònghéguó hétong fǎ*	*Chung1hua2 jen2min2 kung4ho2kuo2 ho2t'ung fa3*
中华人民共和国 铁道部	*Zhōnghuá rénmín gònghéguó tiědào bù*	*Chung1hua2 jen2min2 kung4ho2kuo2 t'ieh3tao4 pu4*
中华人民共和国外商投资企业批准证书	*Zhōnghuá rénmín gònghéguó wàishāng tóuzī qǐyè pīzhǔn zhèngshū*	*Chung1hua2 jen2min2 kung4ho2kuo2 wai4shang1 t'ou2tzu1 ch'i3yeh4 p'i1chun3 cheng4shu1*
中华人民共和国刑法	*Zhōnghuá rénmín gònghéguó xíngfǎ*	*Chung1hua2 jen2min2 kung4ho2kuo2 hsing2fa3*
中间人	*zhōngjiānrén*	*chung1chien1jen2*
中外合资企业	*zhōngwài hézī qǐyè*	*chung1wai4 ho2tzu1 ch'i3yeh4*
周礼	*zhōu lǐ*	*chou1 li3*
周围	*zhōuwéi*	*chou1wei2*
诸子百家	*zhū zǐ bǎi jiā*	*chu1 tzu3 pai3 chia1*
状态	*zhuàngtài*	*chuang4t'ai4*
子又有子, 子又有孙	*zǐ yòu yǒu zǐ, zǐ yòu yǒu sūn*	*tzu3 yu4 yu3 tzu3, tzu3 yu4 yu3 sun1*
自己人	*zìjǐrén*	*tzu4chi3jen2*
自我吹嘘	*zìwǒ chuīxū*	*tzu4wo3 ch'ui1hsü1*
自我炫耀	*zìwǒ xuànyào*	*tzu4wo3 hsüan4yao4*
自我展示	*zìwǒ zhǎnshì*	*tzu4wo3 chan3shih4*
资源	*zīyuán*	*tzu1yüan2*
走后门	*zǒu hòumén*	*tsou3 hou4men2*
最易接受的	*zuì yì jiēshòude*	*tsui4 i4 chieh1shou4te*
尊严	*zūnyán*	*tsun1yen2*

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