

## Understanding the Importance of Guanxi in UK-Chinese Joint Venture Relationships

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### Abstract

The importance of the Chinese concept of *guanxi* is now widely acknowledged by cross-cultural management and marketing scholars. However, to what extent is it important in relation to UK-Chinese joint venture relationships? Although many British companies choose the IJV option for entering China, joint ventures often result in conflict and possible dissolution. We argue that one of the key factors in IJV success or failure is the degree of understanding of *guanxi* on the part of the UK partner. The primary purpose of this paper is to provide a better understanding of *guanxi* and its relative importance in UK-Chinese joint venture relationships.

The results from 25 interviews with managers involved in UK/Chinese joint ventures are discussed in the paper. Our research findings indicate that those companies that succeeded in China generally have a firm understanding of *guanxi*. This is largely because the majority of managers involved are Chinese. Many believe that *guanxi* and the understanding of *guanxi* is an important factor in successful UK-Chinese IJV relationships. We evaluate the argument that the significance of *guanxi* is already in decline, or will shortly be in decline, as a result of economic and legal reforms in China.

**Keywords:** Chinese culture, guanxi, joint venture, relationships

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### Introduction

Several authors have argued that it is important to understand culture, and inter-cultural variation, in order to develop and sustain effective inter-firm relationships in business markets (Hall, 1977 & 1990; Hofstede, 2001; House et al, 2004). For example, the negotiation process between companies with two diverse cultures such as the UK and China can easily collapse because of misunderstanding. From the Western perspective, perhaps the most widely publicised aspect of Chinese culture is *guanxi* (Fan, 2002). For UK firms entering China for the first time, certainly an understanding of *guanxi* is important, but just how important? A poor grasp of *guanxi* can easily lead to conflict between UK and Chinese companies involved in partnership agreements. If differences between national cultures are not understood, then this can lead to poor communication, mutual distrust and the termination of the venture (Lane and Beamish, 1990).

Within the IMP research tradition, there is clear evidence of a debate about whether business relationships between Chinese and Western firms can be effectively analysed using exactly the same tools that are used to analyse entirely Western relationships, or whether culturally specific Chinese concepts must be employed (Fang and Kriz, 2000; Kriz and Fang 2003; Shu 2004; Zolkiewski and Feng 2005). The concept of *guanxi* is a recurring feature of this debate.

In this paper we present the findings from a qualitative, empirical study of international joint ventures between British and Chinese companies. The focal concept for the study was the importance of *guanxi* in creating, developing and managing a UK-Chinese joint venture. The principal perspective investigated was that of the UK parent-company managers involved in setting up and/or managing the UK-Chinese joint venture agreements. A joint venture is both a separately operating legal entity, and the focal point for an inter-firm relationship between the two parent companies involved in the joint venture. The research that has been previously published on joint ventures between Western firms and Chinese firms has very largely dealt with American/Chinese ventures; in this study we focused on the role of *guanxi* in the relationship building process during the creation of UK/Chinese joint ventures.

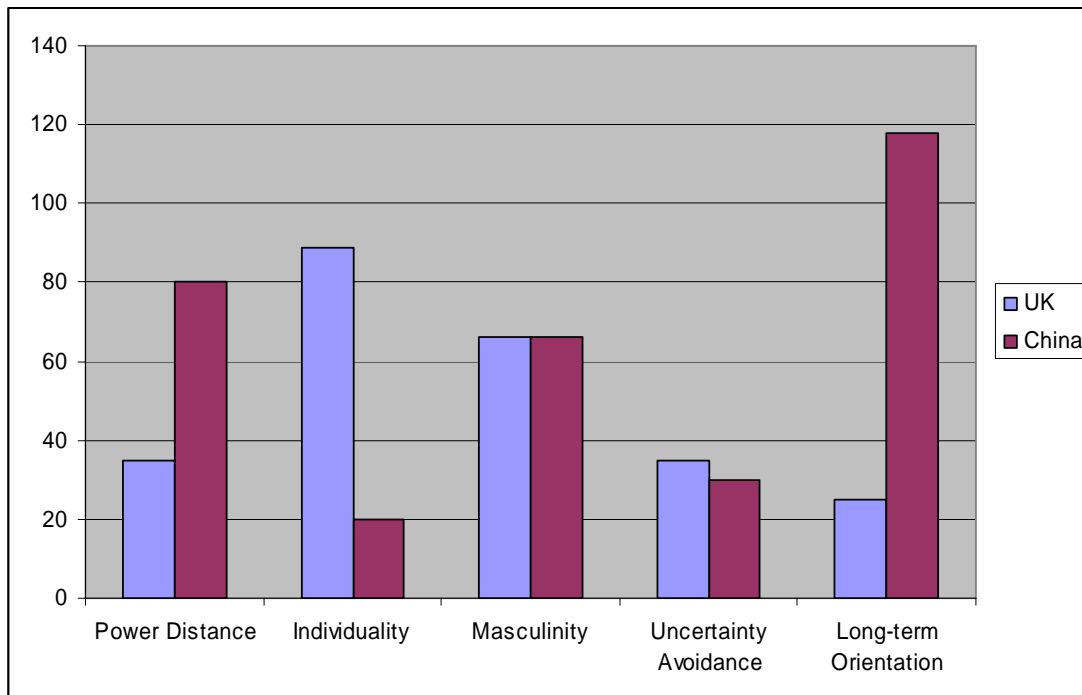
We begin by providing an overview of what is known about the Chinese concept of *guanxi*, its significance in business generally, and in inter-firm relationships specifically. There follows a brief description of the qualitative methods that were used to gather empirical data for this study. Subsequently, we discuss our findings about how *guanxi* works in a Chinese business context. Finally, the paper concludes with a discussion of the implications of the findings and directions for future research.

### The Cultural Context and *Guanxi*

This study is concerned with business relationships, specifically IJVs, between British and Chinese organisations. Intuitively one would expect there to be substantial differences between the national cultures, and more specifically between the business cultures of these two countries. Hofstede's (2001) cultural dimensions provide a convenient method of illustrating the cultural gap between the

UK and China. The comparative scores for the UK and China on Hofstede's well-known cultural dimensions are shown in Figure 1. For the purposes of this article, we will not enter into the acrimonious debate about the validity of Hofstede's cultural dimensions (McSweeney, 2002), since we are simply using them to provide some context for our much more detailed, qualitative investigation of *guanxi* in IJVs

**Figure 1: UK/China Cultural Dimensions Comparison**



Source: Based on data from <http://geert-hofstede.international-business-center/>

Clearly, from Figure 1, one would expect that the negotiation of IJVs between British and Chinese firms would be fraught with potential cultural misunderstandings, and one would recommend that careful, explicit attention should be paid to cultural factors when entering into such negotiations. In terms of 'masculinity' and 'uncertainty avoidance' there is little to choose between the two countries, but on all three of the other dimensions there are substantial differences. It is hardly surprising that the UK is a more individualistic society than China, nor that power distance is typically much greater in China than in the UK – suggesting that British negotiators must pay careful attention to the organisational hierarchy of their Chinese partners, and appreciate that their Chinese counterparts will be very sensitive to hierarchical issues. However, it is the very large difference in scores on the long-term orientation dimension that particularly draws the eye in Figure 1. Taken at face value, this would suggest that Chinese IJV partners enter IJVs with a long-term orientation and emphasise long-term goals, whereas British partners may be interested in shorter-term pay-offs. This brings us to our discussion of the role of *guanxi* in IJV relationships between British and Chinese firms.

Of the several Chinese cultural concepts that have been investigated for their significance in business relationships – *mianzi* ('face'), *renqing* (reciprocity), *xinyong* (trust) and *guanxi* (personal connections) – it is *guanxi* that is probably the aspect of Chinese culture that is best known to Westerners (Wilson, 2005). For the purposes of this study we took the view that *guanxi* is a uniquely Chinese concept of an 'emic' (culturally specific) nature, which is to say that although one can explain and discuss the concept from a Western perspective one cannot simply 'translate' the concept. According to Tao (1996) *guanxi* is rooted in Confucianism, and is a central part of the

individual's self-definition within Chinese culture—the concept of 'self' being defined in terms of one's social roles and relationships.

Recognising the difficulty of doing business in China, many foreign firms employ local agents or consultancy firms in China to conduct business on their behalf (Yeung and Tung, 1996). The difficulty in understanding the Chinese culture, combined with the complexity of handling governmental and legal issues, make market entry a complex undertaking for even wealthy and professional multi-national companies. One of the first British companies to achieve success in China was B&Q, a retailer of household ('do-it-yourself' or DIY) products. B&Q has a number of stores in Shanghai, and plans to develop another fifty within the next five years. These were put in place through joint venture arrangements with a local retailer. Although establishing the joint venture was a time consuming process, B&Q appointed a local management team to liaise with the Chinese government and local community. This approach helped to overcome the problems of misunderstanding cultural values and attempting to establish *guanxi* (Wilson, 2005).

Consistent with the analysis provided of Hofstede's cultural dimensions above, the Chinese devote considerable time to establishing *guanxi* (Davies, 1995; Warner, 1987). *Guanxi* can be translated as 'personal connections' and refers to the existence of direct particularistic ties between one individual and others (Farh *et al.* 1998). According to Abrahamson and Ai (1997) *guanxi* can take two forms: firstly, a web of personal connections, relationships and obligations that businesspeople can use to obtain resources and advantages, and, secondly, the exchange of favours or the purchase of influence (Abrahamson and Ai, 1997). For foreigners seeking to do business in China it means that they must strive to cultivate personal connections, to establish a personal *guanxi* network. This involves identifying and seeking to establish a personal relationship with one or more influential people in an organisation with whom one is trying to develop an inter-firm relationship, and often involves seeking connections with influential government officials (Buttery and Leung 1998). *Guanxi* has been compared to the constructs of trust, shared goals, cooperation, a collaborative approach to disagreements, and the development of networks of importance connections (Abrahamson and Ai, 1997). Farh *et al.* (1998) found, in a study of business executives and their important connections in China, that a high level trust exists in *guanxi* relationships, as well as a willingness to share information or extend resources important to the executive's business pursuits.

The concept of *guanxi* has, of course, received considerable attention in the West. Fan (2002) suggests that *guanxi* is better considered as a tactical rather than a strategic aspect of relationship management, because it is a personal asset owned by an individual, which makes *guanxi* difficult to sustain at the corporate level. However, it has also been viewed as a strategic aspect of relationships because it plays a crucial, ongoing role in business transactions, and a company with good *guanxi* can enjoy a competitive advantage (Child and Lu, 1996). Certainly Chinese managers expect UK managers to have an understanding of *guanxi*, and abide by the implicit general rules of its use. However, the Confederation of British Industry (CBI) suggests that using *guanxi* can be a mistake because of the risks involved in the reciprocal giving of favours – accepting a favour from a Chinese official under the guise of *guanxi* puts you in debt, and the return of the favour may turn out to be inconvenient, unethical (in terms of normally accepted Western norms) or conceivably even illegal. This point of view indicates that UK companies need to be aware of the possible meanings associated by their Chinese counterparts with developing close relationships. The concept of *guanxi* is not unique to China; other Asian countries have corresponding types of personal connections e.g. Japan (*Kankei*) and Korea (*Kwankye*).

As China opens up, *guanxi* has become known as 'social capital' and has been seen in the West as an important element in serving commercial contracts between corporations. Arias (1998) further addressed the issue of a changing attitude in China. He acknowledged that *guanxi* remains important in China, but wondered whether the economic and structural conditions are changing so that *guanxi* is not as prevalent as it once was. Furthermore, Xin and Pearce (1996) found that *guanxi* and trust

between business connections were more important to private Chinese companies than to state-owned companies in China.

Since it is an important concept in inter-firm business relationship development, it is not surprising that *guanxi* has received some prior attention from researchers in the interaction and networks (IMP) tradition. Indeed, Fang and Kriz (2000) remarked on the striking similarity between the IMP analysis of business markets using ‘relationships’ and ‘networks’, and the Chinese belief that ‘connections’ (*guanxi*) and ‘connected networks’ (*guanxiwang*) are key success factors for business. They asserted that “the concept of *guanxi* is programmed into the Chinese psyche throughout the world” (Fang and Kriz, 2000, p7), and claimed that the failure to incorporate cultural concepts such as *guanxi* into the IMP analysis of business relationships and networks was a major lacuna. In a later paper, Kriz and Fang (2003) again argued that *guanxi* is important as a means of developing business relationship in China, and went on to explore the role of *xinren* (‘deep trust’) in the development of successful partnerships. The concept of *xinren* concerns inter-personal trust, while the concept of *xinyong* (mentioned on the previous page) is a more widely used term in business and is closely linked to reputation. Subsequently Shu (2004) has argued that *guanxi* serves, to some extent, to compensate for the poor framework of economic institutions to be found in China. Shu (2004) contended that because many of the basic institutions required to develop complex business structures do not exist in China, it follows that Chinese business-people come to rely on personal connections and personal trust in people whom they have found reliable and with whom they have developed reciprocity. More recently, Zolkiewski and Feng (2005) have investigated the role and importance of *guanxi* in Chinese business relationships in the context of a single-company case study at a Chinese electronic component manufacturer. They concluded that “*guanxi* is critically important supporting factor throughout the whole process of customer assessment ... *guanxi* plays its role by way of personal friendships between key contacts” (Zolkiewski and Feng, 2005, p9). In the present paper, we add to this body of knowledge by investigating the concept of *guanxi* in the context of IJVs between British and Chinese firms.

## Methodology

The principal method of data gathering employed was qualitative interviews. The interviewing was largely conducted with managers working in China for the UK parent company of a UK/Chinese IJV. The interviewees were selected on the basis that they had been personally involved in establishing and running the IJV. The interviews were conducted in China by one of the co-authors, during an extended field trip to the country, when secondary data and documentary evidence were collected in addition to the interviews. All but one of the interviewees were of Chinese ethnicity (the other was British), and a native Chinese translator was always present to facilitate the interviews if necessary. In practice, however, for the most part the interviews were conducted wholly in English, since the Chinese interviewees demonstrated excellent facility with the English language.

As might be expected, the sampling method used for this study was non-random. Indeed, any attempt to pursue a random sampling strategy under the circumstances of a study such as this is doomed to failure, since the researcher has to exploit his or her own *guanxi* to negotiate access for purposes of an interview. The firms selected come from a variety of industries and joint ventures that had been established over different periods of time and were located in several different cities in China. As far as possible, and given the considerable constraints involved in negotiating access for research purposes in China, the firms selected to take part in the study were selected to give a reasonably good representation of the IJVs currently in existence between British and Chinese firms (based on such criteria as location, duration of the IJV, and industry sector). In some companies it was possible to

undertake multiple interviews, so that in all 25 interviews were conducted, to gather data on the 21 IJVs.

Basic information about the interviewees is provided in Table 1. All but three interviews were held face-to-face; for logistical reasons three were conducted via telephone. Each interview was recorded and transcribed, and the analysis was conducted on the transcribed data. Each respondent was telephoned prior to the interview, to ensure that the respondent's position met the criteria of the research. Of the 25 managers interviewed, all but one were employed by the UK parent company. It is acknowledged that our inability to gain access to the managers of Chinese parent companies is a limitation of the study – in practice, insuperable access problems were encountered in trying to interview managers employed by Chinese parent companies. Clearly having good '*guanxi*' makes it easier for a researcher to access appropriate individuals, and the researchers were able to exploit relationships in the UK with UK parent companies to gain access to their colleagues employed in China. Where possible, more than one manager within a UK parent firm was interviewed, since obtaining more than one perspective on an IJV relationship may yield interesting comparisons and can be used to increase confidence in the findings (Beamish, 1993). However, where one respondent from a parent company is used, on the whole it is likely they will provide reliable data. In their study into Canadian and U.S. joint ventures, Geringer and Herbert (1991) found that a single respondent from a parent company was able to provide accurate data about the joint venture. The fundamental purpose of the study was to investigate the importance of *guanxi* in the relationship development process of IJVs, and the interviewees were carefully screened to ensure that they had personally played an active role in setting up and managing the IJV.

In addition to a qualitative, thematic analysis of the 25 interviews, a simple quantitative content analysis was conducted to see how often key relational constructs were mentioned. For our purposes we treated content analysis as a means of systematically converting text into numerical variables (Collis and Hussey 2003). The steps in the process were to identify the 'themes' or 'codes' to be used in the analysis, to identify and enumerate instances where those themes occurred in the interview transcripts, and then to tabulate the resulting data. Themes or codes can either be identified prior to the analysis on theoretical grounds (*a priori* codes), or can be developed from the qualitative data (*in vivo* codes). For our purposes, simply to tabulate the relative frequency with which the key Chinese cultural terms appeared in the transcripts, the *a priori* method was employed. The results from both procedures are discussed in the next section.



## Results

The discussion of the results is organised into four sub-sections. The first three are concerned with the thematic analysis of the qualitative interview data, and deal in turn with issues to do with the nature and dimensions of *guanxi*, the importance of *guanxi*, and the broader appreciation of cross-cultural management issues demonstrated by the interviewees. The final section provides a brief discussion of the quantitative content analysis of the interviews, in which the number of appearances of key cultural themes was investigated.

### Nature and dimensions of *guanxi*

There is no doubt that there remains a certain amount of debate in the Western literature on Chinese management about the conceptual definition of *guanxi* and about the dimensions that underlie this concept. In the discussion of the prior literature it was observed that Abrahamson and Ai (1997) distinguished between two forms of *guanxi*: personal connections, and mutual favours. In general, our interviewees conceived of *guanxi* as the exploitation of personal connections for business purposes, but there were also some instances where they referred explicitly to the ‘favour-for-a-favour’ aspect of *guanxi*:

*“The other part of guanxi, the cash changing hands, is still there. It is still an issue. It is still difficult to manage and it is less obvious and less of an issue than it was five years ago. Not because there is a changed attitude of whether it is right or wrong, but because it is much more dangerous to do.”*

(UK General Manager, Telecommunications IJV)

This manager supported this general assertion with a very specific illustration of an instance in which the price of a contract was artificially inflated in order to provide sufficient funds to finance bribes to relevant parties, such as the procurement manager and other members of the procurement committee.

Another interviewee, while asserting the high importance of *guanxi*, also claimed that the concept was badly misunderstood by Western managers. The way in which he explains his point of view makes it clear that he sees *guanxi* as something that can only be built up over an extended period. Nevertheless, he then goes on to explain that it is possible to acquire *guanxi* by employing Chinese people who are already enmeshed in *guanxi* networks. His argument is that there is no short-cut to the development of one’s own personal connections (*guanxi*), but that there *is* short-cut for a business which can afford to hire the right Chinese employees with the right connections:

*“First of all, guanxi is a very important thing in China, but to be honest it is totally misquoted and misunderstood in the West. As a Westerner you cannot just walk into a joint venture negotiation with a new partner in China and have guanxi. You just can’t. You don’t just develop guanxi over night, in one week or one month or even in one year. It’s a long-term thing. I’m saying after 10 years I have got some guanxi in China. With people that I have known for 10 years ... If you’ve got the right Chinese employees they may have some guanxi that’s useful to connect with the other side. ... There’s some existing guanxi or you can buy some in. The things are to find out who these guys pals are, then get this guy working for us. You can more or less buy into guanxi or borrow it. If you get hold of the right Chinese staff or contacts.”*

(Director, UK Engineering Company)

### Importance of *guanxi*

One finding that emerged consistently from the interviews was that *guanxi* is considered to be important in the development and management of IJVs between British and Chinese firms and that it will continue to be so. Several interviewees were clearly familiar with the form of argument that



states that the reliance on *guanxi* in China arises from the absence of a strong institutional infrastructure and the ‘traditional’ nature of the culture, and that the reform of the Chinese economy will render *guanxi* less important. There was a general sense of scepticism towards this argument; most interviewees clearly believe that *guanxi* is important and is going to remain important for the foreseeable future.

One interviewee of British origin, who had over two decades of experience of doing business in China, nevertheless considered an understanding of *guanxi* and Chinese culture of such importance that he still preferred to travel on business with a Chinese-born colleague, to ‘translate the culture’ as well as the language:

*“It’s a very complex society. I’ve been going there since 1980 and I still find it difficult. But fortunately we employ a person who was born in China, now based in the UK and is an UK citizen. I normally travel with him. He not only interprets language for me, but also culture.”*

(Director, UK Food Producer)

Some researchers have commented that *guanxi* is taking on less significance in China given its legal reforms. Many of the comments received from our interviewees contradict this. Clearly *guanxi* is still an extremely important factor when doing business in China. This is highlighted by the following comments:

*“If you don’t have guanxi in China, then it is very hard. For example, relation with customs office is very important in our industry. Every joint venture here must find the right people to have the relationships Special relationship with the customs officer. After WTO it will be easier for us to contact the customs office.”*

(General Manager, Logistics Company, Beijing)

On the other hand, one respondent was of the opinion that *guanxi* is of declining importance, and that, in any case, *guanxi* alone will not generate profits, but will merely create the conditions under which business relationships can be instigated. This point of view echoes the argument of Fang and Kriz (2003), explored above, that *guanxi* opens doors but does not cause relationships to flourish:

*“Guanxi is important to some extent, but I think the situation is changing now. Because guanxi only brings you to the clients, but does not provide you with the profit. I think when the market enters into maturity, professional business integrity will prevail. I mean profit, client, market share will dominate and be targets of top management, not only guanxi.”*

(Director, Chinese Bank)

### **Awareness of cross-cultural management issues by Western partners**

One of the issues that has arisen in prior studies has been the extent to which the Western partners in a Western/Chinese joint venture understand and take account of Chinese cultural factors in their management decision-making. In our interviews we found mixed evidence on this matter. For example, our single respondent from a Chinese parent company (a Chinese bank) acknowledged that their UK partner was aware of the concept of *guanxi*:

*“Yes. They are aware of guanxi. So that’s why their people always talk to top management because they know Chinese culture is top down. After the company was established everything was going smoothly. We have a board meeting on a monthly basis. Discussing about the business target, back office establishment, client complaints, our investment performance, IT all of those important issues were discussed on a monthly basis.”*

(Director, Chinese Bank)

Notice how this respondent has also implicitly mentioned the cultural dimension of ‘power distance’, and implied that the UK partner understood both *guanxi* and the importance of respecting the formal hierarchy when doing business in China.

However, a British respondent admitted that he knew very little about Chinese culture. This General Manager of a UK Scientific research company said “I don’t even know what *guanxi* is”. Nevertheless, this manager emphasised that the relationship with the Chinese partner was working well and that the joint venture was performing well. This can perhaps be attributed to the very active involvement of a Chinese consultant with the IJV.

*“We were greatly helped by a Chinese consultancy organisation. Dr ... who is native Chinese and speaks mandarin runs the company. And he came in with some valuable advice at every stage on how to proceed. So although I’m not familiar with many of the cultural things to do with the Chinese, by working very closely with Dr ... it has helped us enormously. As head of sales and marketing I got to know the proper thing you would do in any sales situation.”*

(Sales and Marketing Manager, UK Scientific Research Company)

One respondent, a Director for a UK manufacturing company, demonstrated considerable knowledge of the Chinese cultural concept of ‘face’ (*mianzi*) as well as *guanxi*, but argued that such understanding could only be developed through practical business experience.

*“I’ve been going out there since 1978 on a regular basis. I know the Chinese, there’s good and bad in China, as there is in any other country. I think you have to know how to handle them. For example, you have to leave them a way out to save face, and all the rest of it. I think that comes with experience.”*

An international executive from a UK retailer seemed to espouse a similar point of view, namely, that only a limited amount can be learned through formal education or training in cultural values, and that accumulated experience is more important. This was one of the few respondents to mention explicitly academic research into cross-cultural business (the work of Fons Trompenaars), and yet he seemed to have concluded that certain core aspects of business are universal (‘drink, food and cash’), and that cross-cultural variations could be minimised:

*“You can go on forever about cultural values. If everyone that joins the company reads Trompenaars book, that’s all they need to know! The relationship with the partner is based on drink, food, and cash! If we can minimise cultural differences by separating it from the equation i.e. the complicated bit isn’t there any more. That’s in our court and we are in control various locations in China of that.”*

(International Executive, UK retailer)

### **Quantitative content analysis**

Table 2 is based on a quantitative content analysis of the qualitative findings. This process involved counting the number of interviewees who commented that *guanxi* is an important factor in *both* relationship development *and* joint venture performance. The Table shows the same analysis for other key relational constructs, both Chinese and Western. Table 2 does not simply report the number of times on which an interviewee *referred to* a particular concept, rather it reports the occasions on which the concept was mentioned as an important factor in relationship development and performance. The ‘Western’ relationship constructs (trust, commitment, cooperation, satisfaction) appear with overall frequency of 60 in Table 2, while the ‘Chinese’ constructs (*guanxi*, *mianzi*, *renqing*, *xinyong*) appear with overall frequency of 31. Specifically, *guanxi* was considered to be an important factor by 14 of the interviewees.

**Table 2: Content analysis: Factors in IJV performance**

<i>Constructs</i>	<i>Number of instances where construct has been discussed as an important factor in joint venture performance (no/% of interviews)</i>
Trust	20 (80%)
Commitment	18 (72%)
Co-operation	16 (64%)
Guanxi	14 (56%)
Mianzi	7 (28%)
Satisfaction	6 (24%)
Renqing	5 (20%)
Xinyong	5 (20%)

## Discussion

Our findings have provided an interesting insight into culture and IJV performance. Clearly, the balance of opinion among our interviewees was that understanding traditional Chinese values such as *guanxi* remains important. Although one respondent admitted to not knowing anything about *guanxi*, his business employed Chinese nationals and a Chinese based consultancy company to oversee their operations. It can be argued that one reason why this particular venture has been so successful is because of the key Chinese personnel working on the project and their developed *guanxi* networks within China. Time and again our interviewees asserted the importance of *guanxi* in developing and managing IJVs between British and Chinese firms. In general, the interviewees had a fairly congruent understanding of the meaning of *guanxi*, which was also consistent with the academic consensus, that *guanxi* concerns ‘personal connections’.

On the basis of our data, we would concur with Vonhanacker (2000) who has argued that a good understanding of *guanxi* is crucial for UK firms intending to succeed in business in China. Failure to understand and employ the concept is likely to have a negative impact on any IJV relationship. One area of debate is the fact that *guanxi* may have lost some of its significance because of economic reforms in China. It can be argued that with the further progress in the market economy and an emerging democratic civil society, the importance of business *guanxi* (in its current form) will gradually decline (Fan, 2002). Although there was some suggestion of this from respondents, the clear majority believe that *guanxi* is still very important, despite China’s legal reforms. It is important to observe here that several of the interviewees were aware of the argument that ‘reform’ and ‘modernisation’ in China will make, or have already made, *guanxi* less important. Only one interviewee really believed that this was the case. Several interviewees had clearly reflected on this argument and had found it to be false in their own experience. One may speculate that these business-people, all of whom are engaged in the management of a UK/China joint venture on a daily basis, must adopt a fairly conservative attitude towards dominant Chinese cultural values. They cannot afford to under-estimate the importance of *guanxi* since their prior experience has taught them

that ‘this is how business is done in China’. One would expect them to adopt a sceptical attitude towards putative ‘long-term trends’ in cultural values, since the cost of under-estimating the importance of *guanxi* would very likely be long-term damage to an important business relationship.

A number of authors support the view that the relevance of *guanxi* is unlikely to diminish. Parnell (2005, p.44) states “ Neither *guanxi* in general nor *guanxi* networks in particular are likely to be replaced, it is a matter of a new synthesis, a new cultural symbiosis, consistent with China’s historical traditions and current socio-political realities, a new variation on the enduring theme of yin and yang.” Certainly feedback from the majority of respondents suggests that *guanxi* plays an important role in their business operations. In one case part of the *guanxi* relationship involved gift giving, in the form of a significant amount of money given to a government official. Obviously legal reform is likely to make this more difficult in the future, although the *guanxi* relationship may still be capable of reinforcement in other ways.

The ability to understand and willingness to adapt to culture is an important part of IJV relationships. Many IJV’s fail because foreign partners fail to recognise cultural differences.

## **Conclusion, limitations, and implications and future research**

The majority of studies of international joint ventures involving China have taken the perspective of the foreign parent company, and ours is very largely not an exception. It is understandable that Western researchers, ourselves included, struggle to gain access to Chinese organisations in order to implement genuinely dyadic research methods that would no doubt yield fascinating results. Nevertheless, the consequence is, very likely, a substantially biased account of a relationship that exists between at least two parties (Shenkar, 1994). This problem could be overcome by using a multi-cultural research team, an approach that is beginning to be used fruitfully; both Fang and Kriz (2000) and Zhang and Goffin (2001) have had some success with such an approach. We would acknowledge that our failure to gain access to Chinese organisations is a limitation of our research approach, and we would encourage researchers in this field to strive to overcome the difficulties involved in order to seek out dyadic data on inter-firm relationships (whether joint ventures, supplier-customer relationships, or other business forms) between Western and Chinese businesses.

One very important question, from both an academic and a practitioner point of view, has arisen both from our review of the literature and from our field research. It is clear that *guanxi* is important in Chinese business generally, and in building partnerships between Western and Chinese companies specifically. However, is the importance of *guanxi* constant, is it already in decline, or can it be expected to go into decline during the next phase of Chinese economic development? From an academic point of view one can build an apparently strong rationale for the decline of *guanxi* – namely that it is a traditional practice that is rooted in the absence of good institutional structures for business, and that it will decline in importance as better institutional structures are put in place. However, thus far, this appears only to be a conceptual argument, unsupported by empirical evidence. Furthermore, this argument may even suggest a ‘Western imperialist’ perspective on business, namely, that traditional Chinese business practices are ‘old-fashioned’ and will soon be swept away by the ‘superior’ Western way of doing business. This, in turn, tends to suggest that there is a single ‘best’ way of doing business, which has already been discovered by the West, and that this model of business will inevitably supersede the cultural practices of other societies. This argument, in its turn, tends to suggest that cultural differences are fairly superficial phenomena that can be fairly easily swept away in the interests of business efficiency and effectiveness. When analysed in this way, the overall argument begins to look anything but watertight. To that, we would add that the consensus from our interviewees was that *guanxi* remains important in UK/Chinese IJV relationships, and that they do not foresee any substantial decline in its importance in the near future. We would suggest that this area requires far greater research attention, with an emphasis on

gathering additional empirical data to supplement the rather dubious theorising that has been in evidence so far.

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