Guanxi: Business networking in Asia with a personal touch

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If you were doing business in Asia, there is one Chinese word that you would probably hear more often than anything else: Guanxi 关系

Although it is an age-old business practice in the region, guanxi is much misunderstood by the rest of the world. Global businesspeople can’t seem to get the gist combining business networking with personal relationships. They also find it hard to understand the concept of a commitment founded on trust instead of the legal system.

Paolo Tavolato examines the concept of guanxi, from its origin to misinterpretations that clash with the principles and practices of global business management.

The idea that relationships and “face” are important in Asia does seem to be known by most in the west. However, in my short time in Asia it seems most people from the west keep on applying their norms which are based on transactional and short term thinking because they think doing business applying those principles is more effective. When it comes to doing business in Asia, there is nothing more wrong than that. You can be incredibly successfully if you focus on relationships; it just takes more time and patience. I believe we’ll see a future where more companies in the west apply those principles coming from the east.

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Globalisation has provided tremendous opportunities for corporations to reach out across borders and grow by adapting to new markets, new customers and new opportunities. This makes the understanding of local cultures increasingly important in determining the success of global businesses.

Asia consists of some of the most dynamic and promising economies in the world. While there are plenty of opportunities in the region, they are only open to organisations that acknowledge the significance of traditional culture and social value in businesses. In order to foster deeper understanding on “Guanxi” - a common business and personal relationships concept in Asia - this briefing paper sets out to explore the underlying cultural root of guanxi, and the differences of trust and networking between cultures.

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What is guanxi?
An integral part of Chinese and east-Asian cultures, deeply woven into the fabric of society, guanxi literally means relations, ties, relationships or connections. However simple translation fails to fully capture the essence of a concept that has infiltrated the daily life of society.
Fundamentally, guanxi can be referred as the networks of interpersonal relationships which involve mutual obligation in continuous exchanges of benefits. At first glance, guanxi may not seem any different from the emphasis of network building in other business cultures, but it plays a more significant role in Asian countries such as China, Japan, Korea, Taiwan, Vietnam, Hong Kong, Malaysia and Singapore than in any other parts of the world.
One may be not able to close a deal just by having formal business meetings in these countries. It is common practise for businesspeople to spend time with counterparts in building guanxi outside the office, such as at the golf course or dinner banquets.
Guanxi often involves the development of personal relationships with business counterparts and it is much deeper than most business networking practised globally.
My experience: Tom Corkhill

After spending the last 20 years working in Asia, I realise that you can’t have a successful business network without strong and long term personal relationships. The development of a deep guanxi would be very advantageous in doing businesses in the region.

“I guess one of the most important lessons I learnt very early when I came to Asia was that ‘yes’ doesn’t always mean ‘yes’. If you took the western style approach and asked a direct question to a local business counterpart whom you just met, their polite response would possibly be ‘yes’ but the reality might be the opposite. Before you can understand your business partners, you have to develop a strong personal relationship with them and earn their respect and trust in the process.

“Back in the early 1990s, there was a rush of foreign multinationals from Europe and North America coming to Asia. Those western business executives would have a busy schedule with meetings arranged from 8am through to and including dinner. After a week’s visit, most of them would report back to headquarters concluding that the meetings were successful and leave Asia. When they went back to their home country, they would wait and wait for the reply from their Asian counterparts and wonder why those fantastic meetings they had didn’t develop to be fruitful.

“It’s not hard for multinationals to adopt guanxi into managing relationships with their clients, suppliers and partners. However, they must first acknowledge that doing business in Asia is culturally different. You need long-term efforts and a local team with full-time presence to build and maintain that guanxi.

“I have a personal story to share: 20 years ago I was assigned to set up an operation in China. In those days, foreign professional service providers were required to set up a joint venture partnership with a local counterpart in order to operate in the country. At first we spent many months talking to the head of our potential joint venture partner but it seemed to be going nowhere. Then, our local colleagues suggested that we should get outside the formal business environment to cultivate the personal relationship with our potential partner.

“Over the course of the next few weeks, we had lots of banquets and late night drinking sessions. Finally, we realised that what they really wanted was to understand us better and know who are they dealing with.

“To them, the business transaction was important but they needed to reach a certain degree of comfort with us and make sure we were someone they could trust personally before any decision was made.

“What I learnt from that experience is that it is very important to spend time with your business counterparts in both formal and informal business environment to develop the trust and relationship before any deal can be closed.”

Tom Corkhill is TMF Group’s Global Head of Relationship Management; he was previously the CEO of the KCS Group prior to its acquisition by TMF Group. Tom joined KCS in 2004 when the company was a single office in Hong Kong with 45 employees, and led the company’s expansion to 15 offices across Asia in eight jurisdictions with 470 employees. Tom has a wealth of experience of Asian business and leads TMF Group’s China growth plans. He plays an active role in community activities in Hong Kong, being the current Chairman of the Australian International School and Vice Chairman of the Australian Chamber of Commerce in Hong Kong and Macau.
The fundamental of guanxi: the Five Cardinal Relationships in Confucianism

Although guanxi has evolved over time and is practised differently across various societies, the fundamental value of it can still be traced back to an ancient Chinese philosophy, the writings of Confucianism. For more than 2500 years, Confucianism has been the root of Chinese and east-Asian cultures and has a profound influence on the common values and behaviours shared across the region. Confucius advocated that the individual exists in relation to others, and that everyone has a responsibility to maintain a harmonised society. In a Confucian society, collectivism and group harmony are prioritised in a bid to build and sustain a peaceful and modest society.

The hierarchy of society’s power structure lies in the basic social norm of guanxi, or the Five Cardinal Relationships, which refer to:
1. Ruler and commoner
2. Parents and children
3. Husband and wife
4. Elder and younger siblings
5. Senior and junior friends

It states clearly the roles and responsibilities for each individual in ensuring social order and stability. Every member of society is required to commit to his or her given roles. They are expected to behave appropriately according to the rules and regulations so that harmony in society can be preserved.

Despite the transformation of social hierarchy and relationship structures in modern times, east-Asian societies today remain relationship-oriented. Their core values are heavily influenced by Confucius’s traditional virtues. Confucianism is ingrained deeply into every aspect of social life and guanxi manifests this influence from personal interactions to organisational behaviours.

As maintaining good guanxi is seen as fulfilling one’s social duties, businesspeople are often expected to spend time outside of working hours with business associates.

The importance of “face” in guanxi

Chinese and east-Asian cultures can be categorised as collectivist as opposed to the individualism emphasised in the western cultures. Collectivist cultures encourage individuals to take care of each other for the common good of the whole society. General opinion and feelings of the community are seen as more important than any one individual’s.

Conforming to societal norms is highly regarded and any attempt to disrupt this is seen as selfish. The culture advocates a social framework tightly knitted by deep interpersonal guanxi among its members for cooperation and group decision-making. As a result, the network of guanxi is seen as an asset and one’s social status is largely dictated by the extensiveness and maintenance of his or her social webs.

A guanxi network is founded on xinyong (信用), or trust, which refers to one’s commitment to fulfill the moral obligations to help and support when one is needed. Members of the network are bound together by an unwritten code of reciprocity. Everyone is accountable for the trust granted to him or her. They are expected to spend their lifetime and efforts in preserving their trust and gain “face” or respect from the society.

People will not take advantage of anyone with whom they have guanxi as everyone else within the network will eventually find out. They are liable for the risk of losing face and potentially destroying all the connections within their guanxi network. If this happens, one must rebuild one’s guanxi from scratch and it is extremely hard to carry out one’s social function in such circumstances. Maintaining face therefore becomes an important part of guanxi culture as it represents one’s personal dignity, integrity and honour.

What does it mean for foreign companies?

A guanxi society is low-trust toward outsiders because its trust orientation is only directed to the members within the network. This is the reason why there is a universal scepticism about foreign companies in China and east Asia. Companies in the region prefer to do business with local peers within their guanxi network as they find it easier to trust these companies with accumulated trust and track record. They feel more secure dealing with someone honoured with face and believe it will significantly reduce their risk of fraudulent exposure.

It is very important for multinational corporations to build long term guanxi with local companies and government organisations in order to expand into the region successfully. A strong guanxi will lead foreign firms to transform gradually from the outsider to become an insider. Once they enter the circle of trust, they can leverage on local counterparts’ guanxi to expand their networks even further.

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In Asia, we live and breathe guanxi. It permeates every aspect of our life. As a matter of fact, we seek recommendations from our friends and family for our choice of doctors, dentists, lawyers, contractors, plumbers, mechanics or even hairdressers because we feel more secure doing business with people who are endorsed by members of our guanxi network.

“Asian businesses, too, are all about guanxi. When there is no relationship, everything becomes harder and nothing will happen. It is the unspoken code of mutual respect and concession within a circle of trust. Everyone within the guanxi network is on the same page and the goal is to pursue mutual benefits. This is in line with our culture and core values that emphasise cooperation and harmony in the society. People will try not to harm or take advantage of others for their own benefits as they face the risk of losing respect and eventually being pushed out the circle.

“Guanxi and a good track record play a significant role part in business-to-business marketing. The wider and deeper your guanxi network, the more opportunity you have.

“Asians tend to be more reserved and less outspoken, I would encourage MNCs to spend more time in listening and understanding instead of overly pushing forward their own agenda. They must also consider what their business counterparts want and how they can achieve mutual benefit from the cooperation.

“Also, MNCs must refrain from abandoning a guanxi connection once a deal is sealed or transaction is done. Guanxi is built to last for the long term and sometimes it could even extend beyond several generations. Maintenance of the connection is utterly important.

“We actually build guanxi through every interaction on a daily basis, and you will never know what benefit it might bring you. Years ago, I was attached to a medium-sized chartered accounting firm in London. I was conducting an audit on a UK firm which was being taken over by a Japanese electronics giant. Out of goodwill, I helped a representative from the Japanese firm’s headquarters who was tasked to translate all the financial statements from English to Japanese. My contribution was minimum as I can only recognise the Japanese Kanji (originated from traditional Chinese characters). But in the process of working together, we developed trust, respect and good guanxi.

“After the initial audit was completed, we were supposed to pass the audit to a larger audit firm. But instead, we were retained to continue working on the project and more works were assigned to us subsequently. Later on, I found out that the Japanese representative whom I had assisted actually reported back to his headquarters that we were extremely helpful and recommended our services to be continued. It didn’t stop there; the guanxi kept expanding. Eventually, it led us to be introduced to many other Japanese companies operating in the UK.

“This experience showed me that guanxi goes deeper than the typical stereotypes of lavish banquets, expensive gifts or outright bribery. It is about being sincere, understanding, helpful, respectful and honourable.”
The difference between guanxi and business-to-business relationships

In today’s competitive business environment, networking is the key in ensuring the success of companies anywhere in the world. However, the characteristic of guanxi is very different from networking in global businesses.

In Chinese and east-Asian societies, business networking and personal relationships are merged into guanxi to form the bedrock of commercial activities. Guanxi networks are developed on a personal level between individuals and it extends beyond the organisation to which one is attached. Guanxi can be considered a personal asset because it will come in handy during emergencies when support is needed from members within the network.

Guanxi is reciprocal in nature as it involves a continuous exchange of personalised assistance with the notion that the relationship will be maintained on a long-term basis. One may not have a particular purpose in the initial stage of guanxi as immediate gain is not anticipated. However, constant support and cooperation is expected throughout the relationship. The ultimate goal of guanxi is to achieve social harmony through collaborations in pursuit of mutual benefit.

In contrast, the dynamic of business relationships practiced globally is purely organisation-to-organisation, restricted to short-term commitments and bound by written agreements and legal contracts. In this transactional-based relationship, trust is embedded in each party's integrity and competency in performing their roles according to legal documents. Once the legitimacy expires, both parties have no further statutory obligations to each other.

Unlike guanxi, in which favours are not quantifiable and infinitely pending, the use of legal documents globally to determine the terms and methods of repayments are measurable and properly documented. It makes business relationships more transparent and straightforward. The concept of credibility is completely founded on contracts and agreements instead of personal attributes such as dignity, integrity and honour.

Asian companies find the process of networking with multinational corporations to be rigid, bureaucratic and indifferent because it does not involve personal relationships. They can consider strictly business-to-business relationships as a reflection of a fear of commitments on a personal level; the absence of human connections are not trusted as everything is resolved by the legal system.

On the other hand, global businesses are uncomfortable with the subjective and informal nature of guanxi which cannot be measured and is not restricted by any rules or regulations. For them, the concept of guanxi is vague, confusing and prone to misinterpretations as the line between guanxi and bribery is often debatable. Activities to develop and maintain guanxi such as gift-giving during festive seasons and “wine-and-dine” after working hours are tainted with corruption prejudices.

However, the reality is these practices are considered as means of giving face or showing respect to business counterparts. They are interpreted as gestures of sincerity and appreciation for long-term guanxi. One-off bribery is definitely not adequate to build healthy long-term friendships, and therefore not encouraged.

The linkage of corruption and guanxi may be ethnocentric in nature because the concept of employing relationships in enabling businesses is not new or only applicable to Chinese and east-Asian cultures. In fact, relationship marketing itself is an age-old business concept that shifts the focus of marketing from pure sales facilitators to acknowledging the importance of long-term relationships between buyers and suppliers. Its emphasis in achieving customer retention and loyalty through the process of building satisfaction, trust and commitment is actually a different form of business-to-consumer guanxi development.

Anything but simple... Yet, essential

In short, guanxi is not a simple concept in Asian businesses; it is a complex and unwritten code of conduct that is deeply woven into the fabric of society and has served as the foundation of social relationships for 2500 years.

With the growing importance of China and east-Asian countries in the global economy, it is only practical for the rest of the world to learn and master the art of guanxi for their own benefits.

The informal nature of guanxi should not be considered as a challenge in establishing successful cross-culture business networking. Instead, it should be seen as a means to develop additional competitive advantages to harness the abundance of opportunities in Asia.

Global corporations should see guanxi as part of their localisation strategy and adopt it to their advantage in facilitating growth in the region. The key to expansion in Asia is local guanxi. Without it, companies can put themselves at serious disadvantage.

However, building and maintaining a strong guanxi network requires long-term efforts and full-time local presence. Therefore, it will be more practical for organisations to work with third party partners with a strong local presence, particularly in the early stages of territorial expansion. That local presence also means companies can leverage on the partner’s guanxi networks, knowledge and experience to reduce risk, control costs and simplify operations.
“Making friends before making deals, that’s how I would summarise Guanxi from my 18 years of experience living and working in Asia. Guanxi is psychologically significant in Asia. It creates a good chemistry between people and makes them feel comfortable with you, trust you, respect you and want to do business with you.”

“The biggest challenge for MNCs to adopt Guanxi in managing their relationships with partners, suppliers and customers lie in recognising the cultural differences and respecting local cultures. They have to refrain from being ethnocentric and lose the mind-set of thinking they are far more superior than their Asian counterparts. They should try to listen and understand the locals before trying to impose their ways of doing things onto them.”

“My advice to the MNCs would be to send the right people to Asia. Individuals with the correct attitudes whom are empathetic, open minded, patient, and interested in understanding foreign cultures. We must acknowledge the fact that people who excel in the Western business world might not be equally successful in an Asian environment.”

“Asian cultures promote modesty, self-control and avoidance of direct confrontation. Overt expression of personal thoughts and feelings are not encouraged. As a result, metaphors and non-verbal gestures are often used in communication. Therefore, it is absolutely necessary to have someone with strong local knowledge and experience on the ground. This would help in interpreting the real meaning behind conversations and avoid inflicting unnecessary conflicts.”

“Global businesses often misunderstand Guanxi and draw a connection between bribery and Guanxi. But this is not true at all. Let me share a short story with you. In October 2013, I was invited to deliver a keynote speech at the China International Finance Forum (CIFF) in Shanghai, as well as participate in a panel to discuss the setting-up of the Shanghai Free Trade Zone (SFTZ). Senior executives from the likes of Merrill Lynch, Bloomberg and JP Morgan were very bashful about the free trade zone because so little had been documented about it. They didn’t want to give a strong opinion, just in case.”

“As the last speaker I had a choice to make – finish the discussion as vaguely as it had begun or be forthcoming. Personally, I think the SFTZ might be one small step in financial and economic reforms for these critics but it is definitely one giant leap for the Chinese government in carrying out structural reforms to embrace the free market. So I gave my speech an optimistic twist, complimenting the China government for this unique first step in opening their financial market.”

“My speech gave rise to thundering applause followed by a stack of name cards, contacts and later a meeting with the Vice Chairman of the SFTZ Administration. This experience gave me a deeper understanding of how Guanxi can be built beyond dinner banquets, golf courses, drinking sessions and festive gift giving. At the end of the day, it all boils down to building relationships by showing empathy, respect and understanding. And this applies to across all cultures.”

Jochum Haakma, a lawyer and former career diplomat and an expert in trade and investment promotion, was a Dutch ambassador in Asia from 1986 until 2006, working specifically in Jakarta, Hong Kong/Macau and Shanghai. An expert on Asian affairs, he is now Chairman of the Board of the Netherlands Council for Trade Promotion and Chairman of its China Chamber, Chairman of the China Group of the Holland Financial Centre and a frequent commentator in the media on Asian affairs. He is also TMF Group’s global director of business development.