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The Delta of Chinese Management

Guanxi, Rule of Law and the Middle Way

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Preface

Guanxi is not a fashionable topic, but with some changing characteristics and unique applications in the organisational context. The author was, initially, wondering what *guanxi* could have penetrated into and why *guanxi*-based employees (*guanxi-hu*) were so popular in a Chinese institute, as presumably, modern employment practices were supposed to be guided by the principle of *rule of law*. To explore the *guanxi-hu* versus *nonguanxi-hu* phenomena, she has immersed herself into different types of organisations for more than a decade, mainly observing the occurrence of *guanxi*, as an informal institution, and its impact on the formal aspect of managerial practices.

Up to today, hiring and managing *guanxi-hu* remains subtle, with some variance of procedural and distributive justice across formal and informal institutions from the public to the private sector. As Hellriegel et al. (1998, p.6) suggest: "if you view an organisation as an iceberg, what sinks ships isn't always what sailors can see—the overt, formal aspects on the tip of the iceberg, but what they can't see—the covert, behavioural aspects". The covert activities of people, such as *guanxi,* are often underneath the iceberg and underdiscussed in organisational studies.

The author's long-term engagement in this field partly reflects her expertise and experiences in personnel, people and professional management. By tracking people's attitude and actions towards *guanxi* in both private and public sectors, *guanxi* embedded in Chinese culture for organisational management is, however, argued as unique within the delta scenario. On the one hand, *guanxi* supports *favouritism* with evident emotionality (and rationality). On the other hand, *rule of law* sustains *institutionalism* with sufficient humanity (and legitimacy). In an attempt to resolve those conjoined yet opposing factors, this book hopes to reconcile the formal–informal dilemma in people management.

Guanxi is highly regarded in Chinese society and is seen as practically important. To co-exist with *guanxi*, an episode of *guanxi-hu*, either individuals or organisations emerged, developed or manipulated from various relationships, could be captured, compared and contrasted under the private, public and joint leadership. While *rule of law* is theoretically advocated by contemporary organisations, it is usually more welcomed by young, well-educated professionals in large multinational corporations (MNCs). In fact, *rule of man* still prevails in small- and medium-sized private entities, and *rule by law* copes well with the demands of *guanxi* in the public sector.

How management efficacy could be culturally and institutionally shaped seems intricately crafted by the way *guanxi* and *rule of law* compete with and complement one another. With empirical evidences, this book proposes the *middle-road* theory for managing people in the Chinese context that differs from the 'middle-of-the-road management' of the Blake and Mouton Leadership Grid.[1] Based upon the mandate absorbing the best of East and West (e.g. Zeng 2003/2005; Zhang 2007), the *middle-road* approach does not purely insist on the particularism of *guanxi* nor does it simply erase the universalism of institutions.

The *middle-road* platform is blended with various ingredients for a better chance of success in people management. By taking an approximate view of Fukuyama (1995) and Schauer (1991), at first, *rule of law* is not sufficient for the prosperity and stability of an organisation, which needs to be activated by *guanxi* that bears huge moral responsibilities. In both theory and practice, modern managers still need to adopt *guanxi* informally, rationally and value institutions formally and creatively. This could possibly effect reconciliation between particularism and universalism. Given the interests of the organisation, favourite—built upon personal and professional trust, favour—for the sake of human feelings and obligations, and face—concerning morality and authority should be logically rationalised in the day-to-day management.

With regard to managerial practice in Chinese culture, an 'indigenous' look is an alternative to the 'ethnocentric' view, which prioritises one culture's value and criteria against the other and presumes the former is superior to the latter. For the vast majority of *guanxi* studies, it is seen that scholars in China attempt to examine its internal mechanism while those in other cultures are more interested in its external applications (Zhai 2004). The book is inspired by the interactions between the practice of *guanxi* and the concept of *rule of law* based on long-term ethnographic observations of various organisations in China.

At a societal level, there are noticeable political, economic, socio-cultural and technological factors that shape the institutional context for managerial values in a specific country. Within an organisation, there are strategic and personal variables, such as ownership, leadership, demographics, personality, education, experience and competence, which impact one's attitude, behaviour and perception of *guanxi* and

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[1] "Leaders in this position have *medium* concern for both people and production. They rely on tried and true techniques and avoid taking untested risks. They attempt to balance their concern for both people and production, but are not committed strongly to either. Conflict is dealt with by avoiding extremes and seeking compromise rather than sound resolution." (Mullins and Christy, 2016, pp.370–371).

regulations. For instance, Chen et al. (2004) report a higher level of trust in management from old peers and a lower level of trust from members, with working experiences in foreign firms. Holistically, the ethnographic approach proves to be of great value to this book as it allows a close look at the dynamics of rules that apply to *guanxi* and *nonguanxi* employees.

Time, trust and truth are three keys to success of *guanxi* (Zhang 2003) and *guanxi* studies. A good rapport with relevant individuals certainly ensures the true discovery of *guanxi-hu* stories within an organisation. As a *participant* and an *author*, it is important to be moderate, rational and reflective for contextual engagement. Due to the effect an observer might have on the respondents' behaviour (Bogdan 1972), it is essential to avoid being too close to some colleagues to accept more about their views or being distant from others to adopt less about their opinions. Meanwhile, being a *complete participant* enables a thorough examination of stories, myths, symbols and metaphors (Trompenaars and Hampden-Turner 2004). Hence, ethnography is realistic, telling a 'real-life tale' (Fine and Martin 1995) about people in a true sense.

Moreover, a way of seeing is always a way of not seeing (Wolcott 1995), so there is a potential gap in observing and interpreting the *reality*. It is possible to experience almost 'everything' around, but neither does it mean all the 'world' of it nor does it tell about all the 'world' seen for a variety of reasons. Also, a further obstacle exists in introducing the cultural *meaning* from one language to the other. Although the final show might not be exactly the same as the original one, speaking in a native tone and seeking help from local inhabitants are two coping strategies in presenting the original meaning. In addition, an ethical dilemma may arise from the extreme difficulties in managing *privacy* of *guanxi* and *legitimacy* of management. Since there is a private–professional boundary concerning social network studies (Borgatti and Molina 2003), studying *guanxi-hu* within the organisational context should be dealt with caution.

However, the political 'red' and the illegal 'black' practices of *guanxi* are not tackled. Because of ethical concerns, the book keeps the identity of the parties involved strictly confidential and completely anonymous but conveys full opinions of key informants in their titles or appellations. In total, there are ten chapters—each chapter begins with a brief introduction and ends with a concluding remark. Specifically, the first five chapters recapture the topic of *guanxi* with particular reference to its subtle, unique indigenous concepts, such as *guanxiwang*, *guanxixue* and *guanxi-hu*. From Chaps. 6 to 8, favourite—trusting individuals versus trusting institutions, favour—social exchange versus market exchange and face—moral *lian* and image *mianzi* are illustrated with regard to managing people in Chinese culture. Concluding, Chaps. 9 and 10 aim to strike a middle ground to offer practical implications for managers who are doing business and management in China.

Finally, it is difficult to conclude that the differential pattern of *guanxi* is in line with social network theory. While one person has a diverse network of connections, a tie between two people has a dynamic prospect and manifestation. Although there has been a shift from personal to professional contacts (Le et al. 2002) in Chinese society, the expressive role of kinship is not declining while the instrumentality of ties may better explain the ongoing cultivation of *guanxi* ties. Although an abysmal grasp

of values and relationships is a 'sword' for personnel decisions (Trompenaars and Hampden-Turner 2004), the middle-road paradigm could be a pragmatic complement to the classic Western management theories.

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Contents

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Jane Jian Zhang has earned her Ph.D. degree from the University of Bristol. She was the recipient of the Book Prize and WUN (Worldwide University Network) RMP (Research Mobility Programme) Awards in the UK. She has covered top leadership and management roles both in NGOs and in the commercial sector. She is now holding senior managerial and teaching positions in consulting firms and higher education institutions across China and the UK. Her research interests include Chinese Management, International Business and Cross-cultural Management.

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Chapter 1
The Managerial Puzzle

While China becomes a more powerful economy, how *guanxi* impacts doing business and managing people, in China, increasingly attracts attention from the international community. Within the *rule of law* framework, Western managers are easily confused when dealing with their *rule of man* oriented Chinese counterparts with a *rule of what* puzzle in daily practice. With the gradual acknowledgement of cultural adaptation in cross-cultural management, it seems essential to explore the Chinese characteristics of Chinese management by identifying the interrelated effects between the formal and informal institutions within a conditional map (Fig. 1.1).

Fig. 1.1 A conditional map of Chinese management

Rule of Man

competitor

facilitator

Guanxi

Chinese Management with Chinese Characteristics

substitute

Rule of Law

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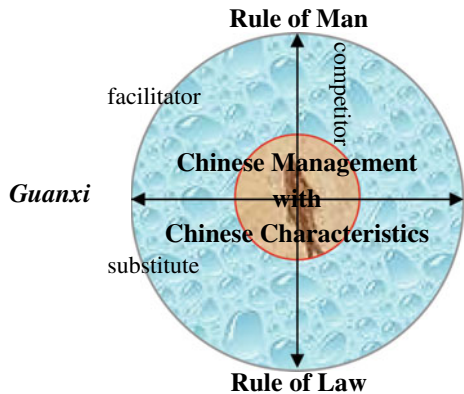
A Rule of What Puzzle

People management has been defined as leading, hiring, evaluating, and motivating employees (e.g. Hunt 1992; McGregor 1960; Trompenaars and Hampden-Turner 2004). In a relationship-oriented society like China, this means managers have to balance personal relations and rational laws (Mukhopadhyay and Mukhopadhyay 2020) between Daoist relativism and Confucian proactivism (Isac and Remeș 2021). In particular, handling affairs (*guanshi*) and dealing with people (*liren*) (e.g. Shen and Wan 2006; Yan et al. 1991; Zeng 2005) are two well-known commonsense notions of management practices in Chinese organisations.

Managing people in Chinese context unavoidably suggests a need of understanding *guanxi* at personal, interpersonal and social levels. *Guanxi*, understood as individual and organisational bounds, for human affections and mutual obligations based on strong faith in ethics and morality, nurtures a typical form of social capital and social norm (Bernat et al. 2021). To explore both local and global relevance (Li et al. 2012), it is meaningful to tackle unique organisations under public, private and joint leadership from an anthropological emic-etic perspective.

Bernat et al. (2021) claim that Chinese society is ruled by *people* other than by *law* based upon interpersonal connections. However, China has undergone systematic transformations after the introduction of 'open door and reform' policy in 1978. The mixed slogan—'socialist market economy with Chinese characteristics', in principle, lays a foundation for the *rule of what* evolution as cited below. While harmony becomes a great banner along with persistence in the institutional reform, *rule of virtue* (*dezhi*) has been advocated to complement *rule of law*.

> In February 1978, *socialist legalism* (*fazhi*) was raised to the Chinese People and Political Consultative Conference (CPPCC) since the government had called for an end to *rule of man* (*renzhi*). The mottos of those days were: "There must be laws to rely on; Where there are laws, they must be followed; laws must be strictly enforced; and violations of laws must be corrected (*youfa keyi, youfa biyi, zhifa biyan, weifa bijiu*)." In March 1999, "rule the country in accordance with law, establish a socialist 'rule of law' state" (*yifa zhiguo, jianshe shehui zhuyi fazhiguo*) was formally written into the constitution. (Zhu 2007, p. 64)

The purpose of *rule of law* is to rationalise and enhance administrative efficiency (Peerenboom 2004). In correspondence to the more formalised institutional policies forged at the state level, people are expected to welcome new customs grafted onto old traditions, and thus are pushed to change their thoughts and behaviours regarding *guanxi*'s pull towards reciprocal obligations and backdoor activities (Guthrie 2002). Meanwhile, *guanxi* involves a hidden and dynamic relationship (Chang and Lii 2005). In business practice, managers may place enormous efforts into setting up various relationships to gain an important source of sustainable competitive advantage (Chang and Lii 2005; Luo 1997; Park and Luo 2001; Tsang 1998). From a resource point of view, *guanxi* is related to strategic capability that contributes to the growth of a firm's market competitiveness and external liaison (e.g. Park and Luo 2001).

For instance, an increased connectivity between people could bring the organisation closer to the community and its various stakeholders. Such connectivity

creates more opportunities for new inter-unit linkages (Tsai 2000), promotes greater frequency of information exchange, and introduces more efficient ways of resource acquisition (Gulati 1998; Gulati et al. 2000). Thus, *guanxi* serves as relationship marketing (Mukhopadhyay and Mukhopadhyay 2020) for doing business in China.

With the traditional ethical precepts, people are encouraged to advocate *guanxi* for favouritism against institutionalism. As a part of Chinese cultural traditions, *guanxi* plays the differential role of informal institutions, substituting or supplementing formal institutions (Horak and Restel 2016; Li et al. 2019) in regulating business behaviour and impacting the development of an organisation (Hwang 1987). However, such effects do not necessarily improve internal operations on an equal basis (Park and Luo 2001). If a candidate, without the right credentials and skill set, joins a firm because of *guanxi*, the perceived *quality* and *equality* of employment could certainly be deteriorated to a large extent.

Therefore, it is necessary to examine the process of adopting cultural traditions and their actual impacts, on the formation of new precepts that could hinder desirable managerial patterns. On the one hand, managers must learn to steer through a sea of *guanxi* (Lockett 1988; Wall 1990) for business development and personnel recruitment; On the other hand, managers should keep relational neutrality and procedural justice in making decisions if inclining to shift from *rule of man* to *rule of law* (Chen et al. 2004). These two controversial directions lead to a relationship-driven or performance-based management dilemma.

Guanxi no doubt helps win credits for personal *favourites*, *favour* and *face* in either social or organisational settings. With no exception, it is apparent that managers should have the right ability and rationality to manage employees through either *guanxi* or formal hires. To absorb the best of *guanxi* into the best practice of *rule of law*, or vice versa, the plural versions of 'legitimacy' should not be ignored when engaged in Chinese management.

As a formal concept, 'legitimacy' is often interpreted on the basis of organisational strategies, structures and systems while considering social norms, values and beliefs. Accordingly, the actions of an entity being deemed desirable, proper or appropriate are defined as legitimate (Suchman 1995). A typical example is the fact that managers making decisions as per organisational rules, regulations and procedures, is called institutionally legitimate (Hwang 1980). By contrast, granting favour and giving face are usually means of expressing emotional feelings, helping important others, and repaying human debts. All this would perhaps destroy the 'legitimacy', and thus undermine the principle of 'universalism' so as to underlie the practice of 'particularism' (Trompenaars and Hampden-Turner 1997).

As Zhang (2015, pp. 208–209) put forward, the three general sources of managerial philosophies of Chinese management are culture, socialism and foreign ideas. These thoughts could be authentic materialised and classic institutionalised embedded in authoritarianism, familism, paternalism and personalism. They, in turn, determine how power is operated and legitimacy is gained, how order is achieved, and how interpersonal relationships are dealt with. With a focus on egalitarianism, socialism denies family value and kinship with omnipresent and intrusive state, which shapes the recent tradition and source of legitimacy. Under this circumstance,