Putting guanxi back into the study of multinational Chinese family business

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Abstract - Research conducted into the areas of guanxi and family business has lasted for decades. Nevertheless, little research has been carried out to combine the two areas. Since the behaviour of family firms has been labelled as more emotional when compared to nonfamily businesses, it is assumable that guanxi, which is also closely associated with human emotions, should be dealt with differently in the context of family businesses. By adopting a case study method, this study investigates guanxi in four large, Taiwanese-owned, multinational Chinese family businesses in order to elucidate whether or not guanxi has altered over time in the Chinese family business setting as formal institutions have become more developed. Our findings reveal that, in general, very few changes have indeed occurred to guanxi in the family firms we studied as formal institutions have become more developed.

1. INTRODUCTION

Recently, the phenomenon of the increasing number and significance of large multinational family businesses, including Chinese family businesses (CFBs, hereafter), as key economic actors in the global arena has drawn researchers’ attention in various disciplines such as management, organisational studies, international business and so on to investigate the mechanisms that assist multinational family businesses to overcome specific obstacles (e.g. limited resources, nepotism, opportunism) in order to enhance and develop their scale and scope. With reference to CFBs, researchers (e.g. Shieh, 1992) have identified guanxi as one of the key elements that has enabled the growth of CFBs. Although there has been abundant literature regarding guanxi, very few studies have examined guanxi in the context of CFBs. It is rare for one to even observe any detailed discourse of guanxi in a large multinational CFB setting. This is the first gap this study is seeking to bridge.

Moreover, researchers who have conducted research into guanxi (see. Horak, et al., 2020; Lu et al., 2021) have debated whether or not guanxi will disappear in emerging markets such as China as their formal institutions are developed. The research question of this study initially emerged from this contemporary debate. We are endeavoring to answer whether guanxi will disappear in Taiwanese-owned multinational CFBs when formal institutions become more developed in Taiwan and China by focusing on two domains viz., staff recruitment and guanxi with government. If so, the nature and cause of the changes will be illustrated.

2. LITERATURE REVIEW

2-1. Definition of a CFB

A CFB, in this research, is defined as a particular type of economic organisation which is owned(1) and managed by either a single family or multiple families and is profoundly influenced by the values of jia 家, viz. Chinese family values(2) . Jia is a Chinese word which is translated into English as family. The reason for employing the specific phrase—“values of jia” or “Chinese family values” is an attempt to emphasise the unique characteristics of the family (i.e. paternalism, nepotism and personalism or guanxi) embedded in traditional Chinese society. In Chinese societies such as Taiwan, the jia is the fundamental social unit (Sung, 1997: 361), the ‘unit of procreation’ and the ‘foundational building block of a patrilineal, patrilocal kinship system’ (Hamilton, 1997: 258), and the ‘single most important social institution’ (Farh, 1995: 285; also see Oh, 1991).
2.2. Guanxi 關係

Since Confucianism, which highlights the importance of relationships between human beings, has exerted a profound influence on society in many parts of Asia, similar practices of establishing and maintaining relationships with others have been found in these areas. For instance, guanxi is mainly observed in Chinese societies in countries such as the PRC, Singapore, Taiwan as well as several Southeast Asian countries such as Malaysia (Gomez, 2000; Smith, 2003), Thailand (Atmiyanandana and Lawler, 2003), and Indonesia (Munandar, 2003), countries in which Chinese diasporas have settled. Inman is observed in Korean society (Hitt et al., 2002) and kankei, tsunagari, kone and enko(3) are observed in Japanese society. Yet, due to the fact that the interpretation of, degree of influence of, and practices of Confucianism differ slightly, the concepts of these terms are likely to be slightly heterogeneous (Hitt et al., 2002).

Research into guanxi has mushroomed since the early 1990s. Nevertheless, it is still difficult to find an English term which can exactly capture the meaning of guanxi. The most common translations of guanxi into English are ‘relations’, ‘relationships’ and ‘connections’ (Chen et al., 2004). However, many researchers (e.g. King, 1991; Tsui et al., 2000; Chung and Hamilton, 2001; Chow and Ng, 2004; Lu et al., 2021) still feel uncomfortable replacing guanxi with either personal relationships or connections in their research since the translations do not capture the subtle nuances embedded in guanxi. They prefer to use the original Chinese term guanxi. As Chung and Hamilton (2001: 325) point out,

‘Guanxi [original italics] has been translated into English in different ways. They include social relationship, social connection, personal relationship, particularistic relationship and personal tie. Guanxi [original italics] certainly is about relationship or connection, but none of those translations conveys the idea of how people are related or connected in a Chinese context. Since the cultural meaning of guanxi [original italics] is more than what can be represented by the term “relationship” or “connection”, we prefer not to translate it’.

Indeed, Chen and Chen. (2004:305) point out that ‘…guanxi has recently gained its status as a legitimate socio-cultural construct in Western mainstream literatures of cultural anthropology, sociology, social psychology, political science, and business and management’. It is felt to be more appropriate to retain the word guanxi in this research rather than to use other words to replace it.

Moreover, due to the subtle nature of guanxi, a universal definition upon which all researchers agree has not yet been found. In the literature concerning guanxi, a number of different definitions of guanxi are found (Tsui and Farh, 1997; Dunfee and Warren, 2001; Chow and Ng, 2004). For instance, guanxi has been defined as relations (Hwang, 1995; Keister, 2000); as social connections (Jacobs, 1980; Xin and Pearce, 1996; Gomez and Benton, 2004); as a sort of social capital (Bourdieu, 1986; Shao and Pan, 2019); as personal relationships (Yeung and Tung, 1996; Wu, 2000; Chen et al., 2004); and as an institution (Guthrie, 1999). It seems to be the case that the concept of guanxi is perceived differently by different researchers. Therefore, different researchers stress different characteristics of guanxi. This, eventually, leads to divergent definitions of guanxi.

In this research, guanxi is considered as a background social institution(4) linked to personal relationships and connections. It emphasises human feelings (e.g. trust, reciprocity, face and renqing 人情 (5) and is profoundly influenced by Chinese culture and Confucianism(6).

Basically, guanxi is established between two individuals based on family ties, ties of acquaintance (e.g. between work colleagues, classmates and military colleagues) and other ties (e.g. between people from the same village, region or nation and between people who share the same surname). In other words, in this research, guanxi is analysed from the dyadic angle(7). This means that guanxi exists between two individuals rather than amongst a group of people. The latter is referred to as guanxi wang 關係網 (guanxi network) in this research. The guanxi wang which includes only Chinese people is the so-called Chinese network. Guanxi is the salient element forming the formation of guanxi wang. Guanxi wang exists amongst Chinese businessmen in an international context and in turn becomes what is known as a Chinese business network or bamboo network.

Moreover, guanxi exists in both business and social domains (Kipnis, 1997). Simply put, in general, a friendship can be transformed into a business relationship and vice versa. Business guanxi and social guanxi tend to overlap in many cases. There is no concrete barrier separating these two kinds of guanxi.

2.3. Guanxi Management

In spite of the various definitions of guanxi, two key elements which are deeply associated with human feelings, namely, trust and reciprocity, are inherent in the context of guanxi. These are the two crucial factors which determine and maintain the quality of guanxi. First of all, it is essential to point out that trust cannot be regarded as a synonym of guanxi in the Chinese context. As Fang (2004: 131) states, ‘…guanxi [original italics] does not necessarily mean trust; guanxi [original italics] does not lead automatically to a trusting relationship…’. However, guanxi forms a foundation for trust to emerge (Yeung and Tung, 1996; Schak, 2001) and flourish. This is frequently observed in the cases of family members, relatives and, in a broader context, individuals from the same region or country. For instance, in the case of father and son, the emergence of trust between the two individuals is based upon guanxi.

On the other hand, trust is the essential factor which determines the quality of guanxi (Hamilton, 1996a). In the Chinese context, ‘…trust is neither absolute nor unconditionally given’ (Wong, 1996:20). The implication is that the degree of trust within guanxi is likely to change...
over time according to the interaction between the two parties involved. The degree of trust may be intensified when both sides fulfil anticipated reciprocal obligations. Conversely, the degree of trust may decrease when one side fails to fulfil what he is expected to achieve. For instance, one person may trust another at the very beginning owing to the guanxi resulting from their being related to each other. The degree of trust may decline if one person does not fulfil his obligations. This condition, therefore, leads to a poor quality of guanxi. The higher the degree of trust between two individuals the better the quality of guanxi between them.

Next, guanxi maintenance lies in adhering to the practice of reciprocity. As Alston (1989: 28) affirms, ‘[g]uanxi ties have to be continuously reinforced’. Individuals involved in guanxi must obey the norms of “give-and-take”. Simply put, one must return favours received if one wants an established guanxi to persist or to improve in quality. A sense of obligation emerges from this context. Basically, such an obligation relies solely on the individual’s ethics (Su and Littlefield, 2001) rather than on any legal instrument such as a contract.

In the literature, the terms “favour exchange” and “gift-giving” are frequently utilised to illustrate the mechanism of guanxi maintenance (e.g. Wilson, 2002; Chou and Ng, 2004). Giving gifts to someone who has offered assistance is a way of expressing appreciation and fulfilling reciprocal obligations (Su et al., 2003). Gifts here are not confined solely to tangible objects such as presents, banquet or cash. Intangible gifts such as favours are also included. Favourites can include actions such as preserving other people’s face (Luo, 1997; Su and Littlefield, 2001), and services such as providing useful information and speeding up a process. Consequently, “gift giving” can be regarded as synonymous with “favour exchange” in this context. Moreover, according to the Chinese norms of favour exchange, a greater favour should be returned than the one you have received (Su and Littlefield, 2001; Wilson, 2002) and, in addition, there are no precise rules specifying when a favour should be returned or the exact size of the favour. Consequently, this leads to a situation in which the activity of returning favours will never end once someone starts it.

Owing to its strong connection with the practice of “gift-giving”, guanxi has been criticised as a cause of “corruption” in Chinese societies (Nojonen, 2003). However, a number of researchers (e.g. Su et al., 2003; Tung and Worm, 2001) argue that guanxi does not necessarily lead to corruption and does not have ‘negative connotations’ (Xin and Pearce, 1996). In practice, these two concepts are separate (Tung and Worm, 2001). As Wu (1994: 3) affirms, ‘[g]oods exchanged within a guanxi [original italic] network can be anything as long as they are of value to the parties concerned, be it legal or illegal, corruptive or non-corrupitive’. Moreover, Su et al. (2003) divide guanxi into two categories (i.e. favour-seeking guanxi and rent-seeking guanxi) to analyse the relation between guanxi and corruption. They conclude that rent-seeking guanxi is the one which can lead to corruption.

2.4. Function of Guanxi in the CFB Context

In this section, the utilisation of guanxi will be investigated in order to illustrate its function in the CFB context. First of all, the internal guanxi issues which concern activities occurring within the firm, viz. recruitment are explored. We then deal with external guanxi issues occurring between the firm and outside agents, such as guanxi with local government officials.

2.4.1. Guanxi and Recruitment

In the CFB context, guanxi appears to play a pivotal role with reference to recruitment. According to Whitley (1992: 60), ‘[m]any, if not most, workers in Taiwan and Hong Kong obtain their jobs through relatives and friends rather than through formal channels, and employers prefer to rely on personal recommendations for hiring people…Final educational qualifications do not seem to play as crucial a role in selection decisions as in Japan and Korea’. He makes the point that guanxi is vital for making recruitment decisions in the CFB context. This additionally implies the notion of ‘who you know is more important than what you know’ (see Yeung and Tung, 1996). Farh’s (1995) research on employee staffing in Taiwan also supports Whitley’s argument. Farh’s findings indicate that more than 58 per cent of employees find their jobs through guanxi (i.e. guanxi of their relatives or friends). However, Yu and Wang’s (2000) research on the recruitment system in small and medium-sized Taiwanese businesses reveals a different finding. They allege that the formal recruitment procedure is gaining importance. Companies in Taiwan nowadays prefer to use advertisements to recruit staff rather than relying solely on guanxi. Does guanxi still play a pivotal role in staff recruitment in large Taiwanese multinational CFBS?

2.4.2. Guanxi with Government Officials

Wade (2004) claims that having guanxi with officials is crucial to successful business dealings in Taiwan. This is due to the fact that ‘guanxi not only brings business and regulation-oriented resources (see Sheng et al., 2011) to the firm, but is also able to eliminate uncertainty as well as certain unnecessary problems. Indeed, a number of researchers (e.g. Park and Luo, 2001; Lu et al., 2021) also point out that corporate-political linkage is vital to firms in the emerging markets. However, Guthrie (1999) argues that the importance of guanxi in the PRC has shown signs of decline based mainly on research conducted in a Chinese city, namely Shanghai, in 1995. Guthrie’s chief argument centres on the issue of the major institutional change in the PRC which was triggered by the economic reform launched by the Chinese government. This major institutional change has led to formal rational law being established which, in turn, has replaced guanxi. Moreover, Keister (2002: 93) also suggests
that ‘[in PRC] managers did not manufacture social relations for the purpose of economic gain, nor did they use their social ties to avoid complying with laws and regulations’.

The importance of guanxi and its association with social and economic activity in Chinese societies has been depicted in a large section of the literature (e.g. Yeung and Tung, 1996; Park and Luo, 2001; Burt et al., 2018; Lee et al., 2018). Some researchers (e.g. Redding, 1996, 1993) insist that guanxi is still of vital significance based on the logic that formal institutions such as law are relatively weak in Chinese societies, which leads to a situation in which Chinese people rely more on guanxi than on formal institutions. Is the importance of guanxi with government officials declining in terms of doing business in Taiwan and the PRC?

3. Methodology

This research, which is a part of an ongoing study of Taiwanese-owned CFBs launched in 2000, is based on an in-depth qualitative case-study of four large Taiwanese-owned multinational CFBs located in two different settings. Two CFBs belong to a relatively hi-tech industry and the other two CFBs belong to a relatively low-tech industry. This provided the researcher with the opportunity to implement a certain degree of comparative study between the two industries.

Semi-structured in-depth face-to-face interviews served as the main vehicle for data collection in this research. The fieldwork of this research was conducted in three Asian countries (i.e. China, Japan and Taiwan) and two European countries (i.e. the Netherlands and the UK). Ninety-eight respondents were interviewed. Each interview lasted forty-five minutes on average. All tape-recorded interviews were transcribed verbatim into written text. The respondents were selected from staff in managerial positions (e.g. executives, senior and middle managers) including both family members and non-family members and both home-country staff and hostcountry staff in the overseas affiliate context. By this means, more balanced data were ensured. Additionally, observations and documents (e.g. company profiles, annual reports, books, and journal and newspaper articles) were also included in the data collection. The data were analysed by applying Miles and Huberman’s (1994) operational framework, coding and Eisenhardt’s (1989) ‘within-case analysis’ and ‘searching for cross-case patterns’. A number of tactics were adopted in different phases such as a data-collection phase and a data-analysis phase in order to ensure reliability and validity of the results of the research.

4. Findings

4-1 Guanxi Management

This section concentrates on findings concerning the nature of guanxi in order to analyse the way guanxi is transferred from one person to another and the way guanxi is maintained in a reciprocal manner.

4-1-1. Guanxi Transfer

In the four cases studied in this research, the majority of the interviewees perceive that guanxi is built on the foundation of two individuals rather than on the foundation between an individual and an organisation. Evidence selected from interviewees is as follows:

‘I think guanxi is built on people and not between a person and a company. This is why our senior managers have to visit our suppliers from time to time. They always go to visit the same people such as senior managers in those companies. Sometimes, they also spend weekends together playing golf. They spend time building and maintaining guanxi’ (T1CFB014).

‘I think [you build guanxi with] people. How can a person build guanxi with an object? I don’t know but I think people build guanxi with people…personal trust and reciprocity are important elements in building guanxi’ (T2CFB019).

‘…guanxi is established between people…’ (H2CFB026).

We Chinese people value renqing a lot. People say jian mian san fen qing 見面三分情(10)...if you want to foster your guanxi, for example with customers, you have to visit them frequently. This is because people tend to lower their psychological barriers after you have met them several times. When the barriers disappear, they are more willing to talk to you about many things. Your guanxi is gradually built up over time. It is very important to realise that it is impossible to establish guanxi with others merely over the telephone or via e-mail without ever actually meeting them. This is because establishing personal trust is also crucial [in the establishing of guanxi]’ (H2CFB008).

The above statements indeed reveal that guanxi is a resource belonging solely to the individual. The individual has to cultivate his own guanxi and the organisation does not seem to be involved in it. Additionally, these statements indicate that renqing, personal trust and reciprocity are crucial factors in the cultivation of guanxi. Personal trust, reciprocity and renqing are also embedded in relationships between two individuals and cannot be easily transferred to a third party. This further confirms that guanxi is an individual’s own personal resource.

Since guanxi is considered as an individual’s own personal resource, it is inevitable that people will act in the role of go-between or medium in the process of guanxi transfer. In the cases studied in this research, it has been noticed that owners proactively transmit their guanxi to their offspring, in particular the successors. In H1CFB, H2CFB, T1CFB and T2CFB, the owners take their children to
business banquets and meetings to introduce their business partners to them. This forms a platform for the parents’ guanxi to be transmitted to their children. As several interviewees remark,

‘Yes, it is the way they pass their [the owners’] guanxi to their children’ (H1CFB009)

‘It is fairly normal in our company…Both letting him [the son] attend our meetings and taking him out for meals to meet his parents’ business friends give him opportunities to receive his father’s guanxi…’(H2CFB001).

‘It is part of the succession process. The owners have to pass their guanxi to the new successors when there is a chance. This is not limited to meetings and banquets. Otherwise, we will lose the guanxi’ (T1CFB002).

‘That’s important. They have to inherit their father’s guanxi. Their father has spent so many years establishing so much guanxi. It is more convenient for them to inherit it [guanxi] than build their own from the very beginning’ (T2CFB016).

Another method of transferring guanxi is observed in T2CFB. In T2CFB, the owner’s children used to work in their father’s company during their school holidays to earn some pocket money when they were young. The children became acquainted with some of the staff and their father’s business customers when they were working in the firm. Their guanxi accumulation started unconsciously at that time.

‘One reason I let my children work in my company during their school holidays was to let them get to know the people involved in my business…In the past I had to deliver our products to our customers. If there was a chance to do so, I would take one of them with me because I wanted my children to establish guanxi with my customers. These customers are their customers too’ (founder’s autobiography).

4-1-2. Guanxi Maintenance

In the cases studied in this research, in addition to the owners and their family members, each firm has a number of “inner circle” senior managers whose responsibility is to maintain the company’s guanxi with people in other companies (i.e. customers, suppliers and subcontractors) as well as with the government. The chief reasons for selecting either family members or “inner circle” senior managers to handle the issue of maintaining guanxi are given in the following extracts from interviews:

‘We want staff who are loyal to our company to handle the task of guanxi maintenance because we want them to stay in the company for a long time…This is because when a person who is responsible for maintaining guanxi, say with a specific customer or government official leaves the company, we have to assign another person to replace him in order to re-start the guanxi. It is a nightmare for both parties because both parties have to start building guanxi again. It is likely to take ages for the previous guanxi to be regained. In the worst case, it won’t be possible to regain the previous guanxi…Guanxi is very personal’ (H2CFB026).

‘We don’t allow people we don’t trust to handle crucial guanxi issues. If they leave us, we lose the guanxi we have. It tends to cause trouble when important guanxi is suddenly lost’ (H1CFB015).

‘Once guanxi is lost, it is so difficult to rebuild it…building guanxi needs skills and different people tend to use different skills to build guanxi…We normally don’t ask staff who are not loyal to the company to handle guanxi for the company. We are scared they may take the guanxi to our rival company. We still suffer from a loss of guanxi even if they just quit and do not go to our rivals because we have to rebuild it’ (T1CFB006).

There are many substantial ways to maintain guanxi in the business context. ‘[R]eciprocity is the rule of thumb’ (T1CFB010) in terms of guanxi maintenance. The same interviewee continues:

‘If you borrow some money, you have to return it. Or you won’t be able to borrow money from the same person again and you will lose their trust. The same applies to guanxi, although the difference is that you can’t actually see and measure guanxi. It is difficult to say precisely how much you owe. We call this kind of debt renqingzhai(11) 人情債…My experience tells me the best way to maintain guanxi is to keep the renqingzhai at its lowest level. If someone does a favour for you, try to return him a favour as soon as you have the chance. In the business world, I see this kind of thing [borrowing and returning] going on nearly every day’ (T1CFB010).

Banquets, golf games, business reciprocity and gift-giving are the most common methods adopted in the business context for guanxi maintenance which was observed in the cases examined in this research. As several interviewees reveal:

‘If we want to return our business partners a favour, we have several ways of doing it. For example, when we play golf together, we pay their green fees. When we go for a meal, we pay the bill’ (H2CFB017).

‘People from the East are better at PR [public relations]. For instance, it is very rare for Americans to take a gift when visiting companies. However, we Taiwanese are different. When we visit American companies, we always
take a small gift for our contacts there. Japanese people do the same’ (H1CFB009).

Giving cash to maintain guanxi is rare in the cases studied in this research as this method tends to cause serious problems, particularly when the government is striving to stop corruption. A number of interviewees observed that, in the PRC, in order to inhibit rampant corruption between businessmen and local government officials based on guanxi, the PRC government has started to rotate local authority personnel every few years to eliminate the guanxi which has been established between local government officials and businessmen. However, such rotation of local authority personnel does not seem to work efficiently in the long term as the instinct to establish guanxi is strongly embedded in Chinese culture and, therefore, soon reappears. As one interviewee points out, ‘I knew this strategy wouldn’t work well because such practice is deeply rooted in Chinese society. It’s hard to change it’ (T1CFB006). ‘Recently, the PRC government launched a policy to severely punish individuals involved in bribery in order to reduce corruption’ (H2CFB0017). Due to the fact that bribery is severely prohibited by the Chinese government and occasional crackdowns can result in draconian punishment (life imprisonment or death in serious cases), giving the officials money and expensive gifts is not the best way to establish guanxi. One interviewee states that:

‘…they (the PRC government) take this (using money to establish guanxi) very seriously,…and we don’t do it…Of course, there is no problem with us treating the (local government officials) to some nice meals…”(12).

The findings from this research therefore suggest that there is a tendency to use not cash but materials or services, which cannot be traced and used as evidence of bribery, as the main way of maintaining established guanxi in Chinese societies.

4-2. Function of guanxi in the CFB Context

In this section, the utilisation of guanxi will be investigated in detail in order to illustrate its function in the CFB context. Guanxi issues have been into two broad categories (i.e. internal guanxi and external guanxi). First of all, the internal guanxi issues which concern activities occurring within the firm such as recruitment are examined. Then external guanxi issues occurring between the firm and outside agents such as guanxi with local government officials are dealt with.

4-2-1 Guanxi and Recruitment

The findings from this research reveal the fact that guanxi still plays a role in the recruitment decision-making process in H1CFB, H2CFB, T1CFB and T2CFB. However, a significant change has occurred over the years. Guanxi does not seem to be the most powerful factor dominating the whole of the recruitment decision-making process as it used to be. The findings indicate that the nature or characteristic of the job determines the degree of the impact of guanxi on the recruitment decision-making process. If no skills or relatively low skills are required to do the job, guanxi is fairly influential in the recruitment decision-making process. For instance:

‘If we are going to recruit a cleaning lady and there is a friend of the owner who is interested in the job, she will definitely get it. This is because everyone can do that job so why don’t we offer it to someone we know?’ (T1CFB017).

‘In general, personally, I think there is nothing wrong with offering people you know a job. However, the most important thing I have to find out is whether they are qualified to do the job. I don’t want other people to say that I’ve wasted the company’s resources because the person I recruited is useless. I don’t want to damage my reputation…basically, nowadays, I reckon that guanxi is more useful to get a job which involves no skills or is a low-skilled job’ (H2CFB005).

On the other hand, if relatively high skills and expertise are required to fulfil the job criteria, guanxi is less influential in the recruitment decision-making process. As interviewees comment:

‘If we are going to recruit an accountant or financier we would look at the person’s qualifications and experiences. Guanxi is not that important in this case (T1CFB017).

‘Basically, we consider guanxi to be less important when we are hiring someone for a post which requires specific skills’ (T2CFB014).

In this case, the expertise and capability of the individual are of primary concern to the firm. Formal qualifications (i.e. educational, vocational and linguistic qualifications) are taken into account when making a judgement as to an applicant’s suitability. Formal qualifications are required as basic criteria for anyone applying for certain positions in the cases studied in this research. Detailed information concerning the criteria for all positions is well documented and is stored in the HR department of each company studied in this research. Each company also provided the researcher with a copy of the document for his reference. Additionally, one interviewee states:

‘We have clear criteria concerning formal educational qualifications for each position when we do our recruitment. The criteria will be listed in the job advertisement. For example, people who want to apply for a job at the junior managerial level need at least an undergraduate degree’ (T2CFB008).
Hsu and Chang

Furthermore, in the documents it was also discovered that all the cases in this research clearly specify which subjects applicants for certain posts have to major in. Additionally, as one interviewee comments:

‘…we are engineers. We are required to have an undergraduate degree in engineering as the minimum condition to apply for the job’ (H2CFB007).

It is evident that formal educational qualifications play a vital role in the recruitment process. Besides, the findings from this research suggest that the more knowledge or skills that are required for carrying out the job, the less influential the guanxi is in the recruitment decision-making process. Candidates who have guanxi either with the owners or any key personnel within the CFB will not get the job if they do not meet the criteria laid down by the firm in the first place. As a number of interviewees point out:

‘Frankly, we always select employees according to their professional knowledge and skills. We can’t hire someone we can’t use. We do take guanxi into account but only to a certain extent’ (T1CFB012).

‘We value both guanxi and the individual’s ability…even if we hired a person because of guanxi, we would still dismiss him if we found out that he couldn’t do the job properly…He shouldn’t think that because he has guanxi with us he is safe forever. That’s wrong’ (T2CFB014).

Now there follows an examination of findings which illustrate why guanxi is not totally neglected and still plays a role in the recruitment decision-making process in CFBs. In all the CFBs studied in this research, the companies strongly recommend that current staff encourage family members and friends to apply for jobs in the company.

‘…our owners care about us [employees] very much. They always encourage us to register with the company details such as the educational background and work experience of our children and relatives. If the company need to hire staff, they will prioritise the people on the company’s files…However, they have to attend job interviews and to pass examinations to see if they are qualified’ (T1CFB012).

‘There is no problem with us recommending our children to [H1CFB]. However, they still need to go through the formal recruitment process and pass the required examinations’ (H1CFB010).

‘Yes, we do…I am an example of this myself. I am a relative of the owner. I was recommended by my father to the company. They didn’t appoint me straightaway. I had to go through the formal recruitment process just as the others did’ (H2CFB021).

‘Yes, we are encouraged to recommend our relatives or friends to the company but whether they can be recruited or not depends on their ability...In the recruitment process, there are many managers conducting evaluation. Equality has to be maintained in the whole process. We can recommend people but we can’t force them to hire the people we recommend’ (T2CFB005).

It does not mean that those family members and friends who are recommended to the company do not need to go through the formal recruitment process. Nevertheless, this proves that guanxi still functions in recruitment. Two points drawn from the findings from this research illustrate the way guanxi functions in the recruitment process in CFBs. First of all, guanxi acts as a way of ‘helping the company to judge, to a certain extent, the moral standards of a candidate’ (H1CFB015). The moral standards of a candidate are of great importance in the selection processes of all the companies studied in this research. For instance, the senior manager of the HR department in one of the CFBs describes the situation as follows:

‘When recruiting staff, our company tends to pay more attention to a candidate’s moral standards than to his ability to accomplish the task. Our chairman frequently emphasises the fact that if the person has high moral standards and relatively low ability, we can hire him because his ability can be improved by training to enable him to reach the standard required by the company. Our chairman also stresses the fact that if the person is very capable but is of relatively low moral standards, we will find it hard to make good use of his talent. Low moral standards are likely to cause him to break the law. He might, for example, cooperate with outsiders to do something harmful to the company in order to gain some individual benefits. We try to avoid hiring this sort of person…Of course, if we can hire someone who is of high moral standards and is also capable, we are very lucky’ (T1CFB017).

The findings from this research also show that the companies tend to assess the candidate’s moral standards by examining the individual who has recommended him to the company. In many situations like this, there is direct guanxi between the referee and the company, for instance, if the referee is a member of staff. Accordingly, the company knows the referee well and can first assess the candidate’s moral standards. If the referee has high moral standards, the company assumes that the candidate whom he recommends will also have high moral standards. As one interviewee explains, ‘we trust the candidate because we trust the referee’ (T1CFB012). In other words, the referee becomes the ‘guarantor of the trustworthiness and uprightness of the person’ (Hamilton, 1996b: 290). Such a practice is considered to be more efficient than merely utilising a recruitment interview as a way of getting to know the individual. This is because, as a number of interviewees in
this study point out, it is difficult to judge a candidate’s personality and moral standards in a ten- or fifteen-minute formal recruitment interview. Furthermore, if the candidate does not perform as expected in the future, the company can always blame the referee. In other words, the referee will also keep an eye on the person he has introduced into the company.

‘I recommended my brother to this company. I hope he can work hard and behave himself. Or I will be in trouble. My boss will come directly to my place’ (T2CFB013).

‘…it will more or less become a burden [on the referee]. That’s not in doubt…If you recommend someone you know to the company and then he doesn’t behave in the way you expect him to…it becomes a difficult situation and the referee is going to face the consequences’ (T1CFB010).

This leads to a second reason discovered by the researcher why guanxi is not totally neglected, which will be demonstrated in the following paragraph.

From the perspective of the candidate, if he gets the job with a certain amount of help from his referee, he always endeavours to perform better in order to keep his referee’s lien (face\(^\text{13}\)). He understands that if things go wrong due to his performance in the firm, his referee will also suffer the consequences and lose lien.

‘My father works for [T2CFB] and because of his recommendation I have the chance to work in this company today…I always have to think before I act. I also have to work hard because I don’t want to make him lose lien’(T2CFB015).

‘I think there is pressure on both of us although my father has retired. He was my referee. I have to pay attention to my behaviour at work all the time. I can’t do things which are harmful to the company. I have to think about my father’s reputation’(H2CFB021).

This provides an informal control mechanism between the referee and the individual he has brought into the company. In other words, for the company, guanxi here becomes an instrument of control over the employee.

4.2.2 Guanxi with Government Officials

- In the Taiwanese Context

This research shows that the four CFBs all have guanxi with government officials in Taiwan to a greater or lesser extent. The chairman of T1CFB has been a government official since 1994. The chairmen of H1CFB and H2CFB once served as government officials for a few years. The founder of T2CFB married a former mayor’s daughter which offered him the chance to socialise with officials and to establish guanxi. Furthermore, it has been found that the owner of H1CFB, H2CFB and T1CFB were all elected to official positions after they started running their family businesses. In other words, they joined the government. They are not officials who have been assigned to run a business by the state government. The latter is particularly manifest in the present-day PRC. One of the chief reasons for those business elites to become officials is to utilise political resources to enable their business to grow.

Currently, apart from T1CFB, no one in the cases studied in this research is still directly involved in political circles. This seems to have been affected by the recent change of regime in Taiwan from KMT to DPP (Democratic Progressive Party). However, their reputation and influence in political circles cannot be ignored. They still maintain a certain degree of guanxi with officials. This was obvious when the firms were visited. Many pictures were observed hanging in various places (e.g. in the reception room, the chairman’s office, the lobby) showing current eminent politicians with the key people in the firm (e.g. the owners and their family members). Those photographs are evidence of their close guanxi with those officials. Moreover, from interviewees it was also learnt that informal interaction (e.g. tea parties, banquets, golf games) between key members of the firm’s staff and officials has frequently taken place.

‘His [the owner’s] political guanxi still exists. He is invited to parties given by politicians from time to time…They also play golf together from time to time’ (H2CFB026).

‘Our owner is old so he does not attend public parties as frequently as he did before. He still keeps in touch with some of his politician friends and they meet up a few times a year at his place’ (H1CFB006)

- In the PRC Context

The findings from this research show that guanxi with government officials is crucial to business dealings in the PRC. It was found that the main reason for the establishment of guanxi with officials is to obtain information and advice on law and regulations since the wording of laws and regulations in the PRC is vague and difficult for a layperson to fully comprehend. Besides, as one interviewee points out, ‘[l]aw and regulations in the PRC tend to change suddenly and rapidly…’(H2CFB026). The information and advice received from officials are of paramount importance. They can then be utilised to achieve economic benefits for the firm.

The following interview extracts illustrate how economic benefits can be achieved and certain costs can be reduced perfectly legally.

‘The customs and excise system in the PRC is a bit different from that in other countries. The system is relatively strict. Additionally, the law and regulations concerning import and export taxation are unpredictable, vast in number and of multiple variations. So, we have to spend a lot of time in discussions with customs officials
in order to work out how to save time and to avoid tax legally...Sometimes, new laws or regulations suddenly appear and we have to figure out how to cope with them’ (H2CFB025).

‘…We always consult the officials (i.e. customs officials) about what we can do and what we can’t do before actually taking any action...As for the customs and Excise system in the PRC, it is different from the one in Taiwan. We figure it out on our own as well as consulting customs officials’ (T1CFB016).

‘Dealing with customs and Excise matters [in the PRC] is like walking on the edge of the law. Sometimes you are allowed to do something this way, and sometimes you are not allowed to do something this way. Both situations are perfectly legal. It depends on whether you have guanxi or not...[Laws and regulations] can be rigidly defined but loosely implemented...’ (T1CFB017).

These extracts demonstrate the fact that Taiwanese businessmen know how the laws and regulations function in the PRC and also know how to utilize guanxi to obtain information and advice from government officials. The information and advice, in turn, help the company to avoid certain expenditure without breaking the law. It has to be borne in mind that the officials are not actually involved in financial transactions themselves. They merely play their proper role, which consists of offering information and advice.

Moreover, it has additionally been discovered that there is another reason for T1CFB and T2CFB to establish guanxi with officials. Unlike H1CFB and H2CFB, the goods produced by T1CFB and T2CFB are mainly consumed in the PRC and are not for export. Accordingly, T1CFB and T2CFB have to deal with additional guanxi issues concerning merchandising their products locally, which include how to make the company’s products competitive in the local market as well as how to counteract certain unnecessary problems such as ‘threats from local officials and mafia’ (T2CFB015). The establishment of guanxi with officials is found to have a positive impact on improving the competitiveness of the company’s products and on preventing the companies from threats.

‘In the PRC, we have very good guanxi with the officials. Our founder knows many key officials in both central and local government. It is very important for us to do business. For example, in the PRC, it usually takes ages to open a shop because we have to find a place and to go through many intricate procedures. If you have good guanxi with officials, especially local ones, with their help you can get a better location and open your shop more quickly. It saves you a lot of time and effort...Moreover, the local officials and mafia no longer threaten us because they know that we have their bosses to back us up...You know, sometimes these local officials just want us to give them some money but they don’t say it explicitly. Of course, they can’t. They make things difficult for us and we can sense what they are after. It’s nasty. However, we are here doing business and don’t have so much money to give...Now, they don’t dare to come to us because they know we know their bosses’ (T2CFB001).

‘...the PRC is a nation ruled by people and not the law...So, you have to work on guanxi...my cousin [the founder] has very good guanxi with top officials over there. He can even visit them when he wants to.’ (T2CFB002).

‘You can see that we have a photo of our founder and [Mr J][14] on this wall. The same photo is hung in all our tea shops in the PRC. To a certain degree it is a warning to the local officials, saying “Look we are friends of your boss. So, don’t come asking for trouble or picking quarrels”’ (T2CFB017).

‘Apart from big cities such as Shanghai, if you want to open a shop selling something it would be better to have some guanxi with the local officials. It prevents you from being troubled. You will have more time to run the business’ (T1CFB011).

This evidence from T1CFB and T2CFB also demonstrates the impact of guanxi on achieving economic benefits in a slightly distinctive fashion.

5. DISCUSSION AND CONCLUSION
5.1. Guanxi Management

This research has confirmed that guanxi is embedded in the individual rather than in the organisation. It has been found that guanxi is considered as a personal resource. Hence, when an individual moves from one company to another, his guanxi goes with him. This leads to a situation where, when employees leave a CFB, the CFB is in a danger of losing both guanxi and knowledge. It seems that so far few researchers have paid attention to the negative impacts on CFBs concerning the loss of guanxi when employees leave the firm. Researchers (e.g. Whitley, 1994) appear to pay more attention to the issue of losing knowledge when employees leave the firm. It is argued that under such circumstances, knowledge cannot be accumulated in the firm, which in turn inhibits the growth of CFBs. The findings of this research, however, suggest that in the CFB context more attention needs to be paid to guanxi than to knowledge when analysing the issue of employees leaving the firm. Guanxi acts as a conduit not only for knowledge but also for resources to flow from one party to another. Individuals act as nodes at either end of the conduit. Turnover of employees equates to the removal of the node from the conduit at the firm’s end. Accordingly, the firm not only loses the knowledge which the employees possessed
inside the firm, but also loses access to the knowledge and resources which they used to have and will continue to have outside the firm. Losing guanxi can be regarded as blocking the conduit which, therefore, makes the flow of knowledge and resources from outside the firm into the firm impossible. Hence, the firm loses not only possessed knowledge, but also new knowledge and external resources when guanxi is lost. Furthermore, guanxi seems to be more difficult to maintain within the firm than knowledge. Unlike knowledge which can be preserved in the firm by codifying it or learning from error, guanxi can neither be codified nor learnt, at least not in the CFB context. Guanxi needs to be cultivated over a considerable period of time. Additionally, due to assorted methods individuals employed to establish guanxi, the quality of guanxi varies amongst individuals. In contrast to knowledge, guanxi seems to be more personalised to a certain extent. Moreover, the case studies examined in this research also indicate that CFBs assign trusted and loyal staff, viz. family members and members of the “inner circle” to handle guanxi tasks with external individuals (e.g. customers, suppliers, subcontractors and government officials) in order to curtail the risks of losing guanxi caused by employee turnover.

It has been discovered that the owners proactively transmit their guanxi to their offspring, in particular the successors. This is perceived as a part of the process of inheritance. This finding further strengthens the claim that the offspring inherit not only tangible patrimony, but also intangible patrimony. As for the vehicles of guanxi transmission in the cases studied in this research, the owners invite their offspring to meetings and banquets with them and, in T2CFB, allow their offspring to work in their company during school holidays.

As is revealed in the case studies, reciprocity and frequent interactions are two pivotal factors for guanxi maintenance. This is congruent with Alston’s (1989) argument. Guanxi is built on a foundation of reciprocity. Guanxi is prone to cease functioning when one side feels that the other side has not responded to a favour or has failed to fulfil an obligation. As for the method adopted in the business context for guanxi maintenance, it includes banquets, golf games, business reciprocity and giftgiving. This is consistent with many researchers (e.g. Chow and Ng, 2004; Leung and Chan, 2003; Su et al., 2003) who assert that “favour exchange” and “gift-giving” are utilised for guanxi maintenance. Additionally, the findings from this research show that cash is rarely adopted as a means in this aspect since it is prone to lead to serious problems.

5-2. Function of Guanxi in the CFB Context

In terms of the issue of guanxi and recruitment, the findings from this research support Yu and Wang’s (2000) finding and only partly bear out Whitley’s (1992) argument and Farh’s (1995) research finding. It has been discovered that guanxi no longer appears to be the most influential determinant of the recruitment decision-making process as it used to be. The nature or characteristic of the job determines the degree of the impact of guanxi on the recruitment decision-making process. In jobs which are associated with a lower level of expertise or skills, guanxi has greater influence on the recruitment decision-making process. On the other hand, in jobs which are associated with higher level of expertise of skills, guanxi has limited impacts on the recruitment decision-making process. In this case, the candidate’s credentials play a pivotal role. Consequently, it is inappropriate to make a general assertion that educational qualifications are less crucial in the recruitment decision-making process in the CFB context without considering the characteristics of the job.

Furthermore, in the cases studied in this research, the CFBs encourage their staff to introduce their family members and relatives to apply for jobs in the company. This proves that guanxi still functions in recruitment. Yet, these candidates introduced by the staff are not privileged and they have to go through the same formal recruitment procedures as other candidates. The findings suggest that the CFBs utilise guanxi in this manner to achieve two aims. First at all, guanxi is utilised as a filter. Guanxi helps the company to assess certain qualities in a candidate, such as his moral standards, which cannot be precisely identified in a short interview. The companies tend to assess the candidate’s moral standards by examining the individual who has recommended him to the company. The referee becomes the ‘guarantor of trustworthiness and uprightness of the person’ (Hamilton, 1996b: 290). Although this might appear to be irrational from a Western perspective, since one might argue that it is impossible to judge one individual based on another one, it is a common practice in Chinese societies. In Chinese societies, people tend to judge children based on their parents as the Chinese proverb (you qi fu bi you qi zi) shows. Generally speaking, Chinese people perceive people from the same family share certain characteristics. Next, guanxi forms an informal control mechanism. From the referees’ perspective, they hope the people they have recommended conduct themselves at work properly and are committed to the company. Therefore, the referees are somewhat likely to play a supervisory role. From the referrals’ perspective, they are careful not to cause any trouble to their referees. For the CFBs, guanxi here becomes an instrument of control over the employee. It seems to be more efficient than other control mechanisms as the pressure is both endogenous and exogenous. Guanxi as an informal control mechanism also helps CFBs to reduce considerably the cost of staff surveillance.

Now the discussion switches to the findings concerning guanxi and government officials. In line with Wade (2004), the findings reveal that having guanxi with officials is vital to successful business dealings in Taiwan. The findings additionally show that apart from the owner of T2CFB, all the owners of the CFBs studied in this research joined the government after they started their family business in an attempt to utilise political resources. At the
time of writing, all the owners of CFBs in this study still have either direct or indirect links with government officials. The findings concerning *guanxi* with government officials in the PRC context are in sharp contrast with the findings of Guthrie (2002, 1999, 1998) and Keister (2002) and strongly support the argument of Dahles (2002) and Wank (2002). It has been discovered that establishing good *guanxi* with the officials enables the CFBs to save certain costs, to bring in business and to circumvent unnecessary problems. Based on research on *guanxi* both in Taiwan and the PRC, it is suggested that it is impossible for *guanxi* to be completely eliminated from Chinese societies. *Guanxi* may only alter superficially if any change does happen.

NOTES

1. ‘Corresponding author yuhsuhsu@meiji.ac.jp’
2. Hamilton and Kao (1990: 147) point out that the definition of the “family” in much literature concerning family businesses has been restricted by ‘…including only close blood and marriage relationships’. They believe that such a definition of “family” is too narrow and tends to lead to misinterpretation. They assert that ‘[w]hat is emphasized in the family-centered enterprise group is not simply blood and marriage ties per se, but particular kinds of social relationships and the willingness to conform to the norms governing those relationships’.
3. Kankei, tsunagari, kone and enko are all used in Japanese society to deal with relationships with others although there is a certain degree of difference between them. For instance, kone has negative connotations. It tends to be used in recruitment situations to describe someone who enters a company not because of his ability but because he has connections with someone in the company.
4. According to Whitley (1992: 20), background social institutions ‘…include those dealing with trust relations, those organizing collective loyalties and ensuring cooperation between individuals and families and those governing relations of subordination and obedience’.
5. According to Yang (1957: 292), renqing is defined as “human feelings”, which ‘covers not only sentiment but also its social expressions such as the offering of congratulations or condolences and the making of gifts on appropriate occasions’. See also Chen and Chen (2004) for more detail.
6. The basic concept of *guanxi* is rooted in wu-lun in Confucian philosophy (Tsui and Farh, 1997).
7. See Fei (1992) for more information on the dyadic perspective of *xi*.
8. The recruitment procedure refers to candidates having to meet certain criteria, pass examinations and attend an interview to get a job.
9. For detailed accounts of the methodology used in Guthrie’s research, please refer to Guthrie (1999).
10. This Chinese saying means “face-to-face meetings deepen human feelings”.
11. Reningzhai refers to debts caused by human feelings. It may be translated in to English as emotional debts.
12. In order to protect the interviewee and the CFB, the code for this quotation has been omitted.
13. According to Hu (1944), the concept of face in the Chinese context consists of two chief elements: mien-tzu 面子 and lien 臉.
14. This person’s real name cannot be revealed in this research.
15. It can be translated into English as “like father, like son”.

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