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# **Networks or Nepotism?**

## **How business organizations may 'legitimately' benefit from *guanxi* relationships by demarcating a possible threshold**

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### *Abstract*

This paper aims to examine the ethical dimension of using gifts to establish social networks – an obvious example is the predominantly Chinese concept of '*guanxi*' - a practice which may lead to personal and/or corporate gain. I start this paper defining *guanxi* as a network of personal and social relations. I perceive it as characterized by specific ethical and instrumental dimensions, embedded in social and moral norms, and founded on traditional Confucian philosophy. Subsequently, I interpret these *guanxi* networks as 'social capital' wherein symbolic, social or economic gain is sought. The main question here is to what extent such gain or profit can be considered as 'ethical'; the answer lies in the agent-principal theory and as well in the 'non-harmful' principle. Finally, I will argue that social networks (among which are *guanxi*, but also other types) could transgress as they take the form of nepotism wherein emotional and moral obligations in interpersonal relations are ignored in favor of pure instrumental [calculating] exploitation of networks for personal [i.e. an agent's] gain. When the cultural ritual of *guanxi*, based on strong Confucian moral values, degenerates into a rent-seeking *guanxi*, an appropriate network loses its ethical edge, begins to be corrupted and soon turns into inappropriate behaviour.

## I. *Dimensions of Social Networks – ‘guanxi’*

The establishment of corporate operations on a neo-classical capitalist basis within socialist or ‘guided’ nations has posed a wide range of problems, obstacles and challenges which must be overcome in striving to maximize value of such corporations. Especially a number of rapidly-developing countries such as Vietnam, China but also Indonesia and Thailand face serious challenges since they are all tainted by high levels of corruption. A strategy employed by many ‘overseas’ Chinese, and more recently by indigenous (*pribumi* in Indonesia and Malaysia) businessmen and entrepreneurs, is to utilize or construct social ties with individuals who can facilitate the process of investment or even help secure favorable contracts. Such strategies can dramatically speed up a process and may increase the odds of getting contracts, but will do so at the cost of relying primarily on social guarantees and relationships rather than on traditionally negotiated legal guarantees or judicial boundaries. It has been argued that such ‘bamboo networks’ -- strategies have in fact led to amazingly quick economic growth in these countries, while also proving to sow the seeds of their downfall (as the financial crisis<sup>1</sup> afflicting most ASEAN countries has demonstrated). To a certain level China and Vietnam escaped this crisis, thanks to a large extent to their exchange rate policy, rather than because of any macro-economic efficiency or superior level of effectiveness. Because of the ambivalence of networking, I intend to examine the subtle differences in order to draw a fine line where *network* turns into *nepotism*, or why any network might carry the seeds of some type of ‘nepotism’.

*Networking* and *bonding* refer to a natural tendency of humans to relate to one another. Hence, giving gifts, as a form of establishing alliances, bonds and networks, is a prevalent practice in most traditional cultures<sup>2</sup>. Likewise, the pulling and pushing for an advantageous position in social relationships and networks are the predominant ways for Asians to survive in their communities<sup>3</sup> and as well to gain a competitive advantage in business<sup>4</sup>. Lately, no issue incites such heated debates as nepotism, collusion and bribery<sup>5</sup> in the Asian media and business courses. Many

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<sup>1</sup> I also like to refer to the interesting and revealing article of Pye on the ambivalence of networks in Asian business, whereby the driving engine for the Asian miracle became its downfall, leading inexorably to the Asian crisis in 1997: PYE, Lucian W., “Asian Values: from Dynamos to Dominoes?”, in HARRISON Lawrence & Samuel HUNTINGTON (Ed), *Culture Matters. How values shape human progress*, NY, Basic Books, 2000, p244-255.

<sup>2</sup> MAUSS, Marcel, *The Gift. The form and Reason for Exchange in Archaic Societies*, NY, WW Norton, 1990 (1954), 163p

<sup>3</sup> VERHEZEN, Peter, “Gift and Alliances in Java”, *Ethical Perspectives*, Leuven, 2002, 1, p56-65

<sup>4</sup> Interesting is the distinction Fukuyama makes between Hobbes’ Liberal tradition and Chinese Confucian thinking with respect to duties and rights. FUKUYAMA, Francis, *Trust. The Social Virtues and the Creation of Prosperity*, London, Hamish Hamilton, 1995, p284: An Asian ethical system such as that of Confucianism sets forth its moral imperatives as duties rather than rights. This view perceives an individual to be born in a world with a series of obligations to other people: parents, brothers, government officials, the Emperor. His gift of life has to be rendered. For Hobbes, for example – within the Western liberal tradition – man is born not burdened with duties but imbued solely with rights, the most important of which is the right to preserve his own life. Duties, for Hobbes, are derivative of rights and are undertaken only to secure individual rights. Thus, one has an obligation not to do violence to another human being only because to do so would return one to the state of nature, in which one’s own rights to life would be jeopardized. Confucianism emphasizes duties because its basic image of man is one in which individuals are embedded in a web of existing social relationships.

<sup>5</sup> NOONAN, John T., Jr, *Bribes. The intellectual history of a normal idea*, Berkeley; Los Angeles, University of California Press, 1984, pXI. Noonan describes a bribe as “an inducement improperly influencing the performance of a public function meant to be gratuitously exercised.” Furthermore, he says that “Bribery is a legal concept, hence the law determines what counts as bribery in a particular society.”

seem to suggest that gifts, networks and their less benevolent expressions, are indeed cultural phenomena and are therefore acceptable. My stand, on the contrary, emphasizes that despite some cultural specific gifts and networks can certainly be found in most cultures where they are clearly distinguished from practices such as bribery<sup>7</sup> and nepotism<sup>8</sup> respectively. Gifts may not necessarily be considered bribes if they are understood as non secret and integral to the relationship, rather than a means to attain immediate instrumental goals. Bribery connotes a wrongful transfer of resources between parties<sup>9</sup>, as nepotism implies a misuse of relationships between parties. The core of this analysis focuses on the struggle to distinguish socially and morally acceptable networks from unethical but prevalent nepotism in the realm of Asian business, though an inherent ambiguity will continuously shift meaning and moral relevance. By analyzing the different interpretations of '*guanxi*', I hope to shed some light on this ambiguity and hopefully to draw a fine line defining the appropriate network from improper use of nepotism or clientelistic relations<sup>10</sup>..

Gift giving, while *interested*, must appear not to be so if it is to have the intended effect. Gifts complying with unwritten rules of reciprocity can be perceived as an expression of acknowledgment of membership in a network of personal relationships, known in Chinese as '*guanxi*'. That the use of gifts could and would lead to personal (or corporate) advantages is well understood, and accepted as long as the use of gifts is contained within (social and ethical) boundaries. Gifts as expressions of recognition and even (sought-after) gratitude reflect a dynamic form of 'social contract dynamic'. Such gift practices usually take the form of expression of respect of another person, bound by specific public rituals ('*li*<sup>11</sup>'), forms of courtesy and rules of moral legitimacy, while strengthening their relationship<sup>12</sup>.

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<sup>7</sup> Because of the ambiguity of the gift, aiming at sharing and/or superiority, and either/or characterized by an element of disinterest and self-interest, gifts can transgress into bribery, here defined as "the result or the misuse of a monopolistic position of a certain agent, without clear accountability for his/her actions and under the banner of discretion/secret, where the agent does benefit from his position to illegally and personally gain at the expense of the principal".

<sup>8</sup> Nepotism is defined as the practice among people with power or influence of favouring their own relatives and extended family members, especially by giving them jobs; achieve promotion through nepotism. Clientelism is slightly broader interpreted and include non family members in the network of loyal members who are bound by valuable gifts and job opportunities in return for complete loyalty.

<sup>9</sup> Wrongful because the gift giver and receiver apparently strike a deal, which puts their own interests above other parties or the principal, who have legitimate prior claims in the transaction on whose behalf the agents are acting. Such acts not only corrode trust between people and their agents but also undermine the legitimacy of social institutions or principals.

<sup>10</sup> JOHNSTON, Michael, "The Political Consequences of Corruption: a Reassessment", in HEIDENHEIMER, Arnold J.; JOHNSTON, Michael & LEVINE, Victor T. (eds) *Political Corruption: a Handbook*, New Brunswick, Transaction Publishers, 1989, p984-1005. Johnston distinguishes some varieties of corruption as defined by types of stakes and number of suppliers and mentions four generic types: market corruption with many suppliers and routine stakes; patronage networks with a few suppliers and routine stakes; cronyism and nepotism with a few suppliers and extraordinary stakes; and crisis corruption with many suppliers and extraordinary stakes. For our purpose here, it is interesting to mention that "cronyism and nepotism are small group affairs, at least compared to market corruption and patronage organizations. Cronyism and nepotism are to a limited degree internally integrative, drawing participants into relationships of obligation and reward and fostering collective interests in maintaining secrecy and in excluding outsiders. Internal integration is weakened, however, by the fact that cronyism and nepotism are somewhat unstable.

<sup>11</sup> STEIDLMEIER, P., "Gift giving, bribery and corruption: ethical management of business relationships in China", *Journal of Business Ethics*, June 1999. In this interesting article, Steidlmeier, states that '*li*' rests upon a broad normative ethic of 'right relations' which express the heart of ethical concern and respect in the Confucian tradition. Indeed, both relationship networks, i.e. *guanxi*, and the social stature of face –as well as respect for others, expressed through the 'face' that is paramount in Asian culture – are enshrouded in public rituals (*li*) which express status within the group, respect and bonding in formal terms.

Social connections and personal relationships – or *guanxi*<sup>13</sup> as they are known within the Chinese community – are established and enhanced by gift exchanges, conforming to what can be observed in the logic of the gift<sup>14</sup>. *Guanxi* involves relationships between or among individuals, deeply rooted in the Confucian Chinese tradition, creating obligations for continued momentum of exchange, established trust and credibility. Revealing is the fact that quite a number of scholars agree that *guanxi* cannot be founded merely through the one-time payment of a coarse bribe<sup>15</sup>.

Although gifts in traditional *guanxi* indeed reflect the relative wealth of the parties involved, gift exchanges are one of the ways of nurturing relationships and of strengthening the trust, commitment and reciprocity between the parties involved. In a situation where there is a pervasive distrust of the legal and political system, the consolidation of social interaction and relationships built on gift exchanges serve to provide a “substitute form of trust that can improve the profitability of investment and reduces the risk of arbitrary bureaucratic interferences that is not in the interest of the investors.”<sup>16</sup>

*Guanxi* is built through the exchange of gifts, favors and banquets, and the art of *guanxi* lies in the skilful mobilization of moral and cultural imperatives such as obligation and reciprocity in pursuit of both diffuse social ends and calculated instrumental ends<sup>17</sup>. Sometimes one clearly distinguishes “expressive ties” from “instrumental ties”, where the former is related to families and kinship and the latter to business *guanxi*<sup>18</sup>. Although a relationship may be cultivated with some instrumental goals in mind, some culturally specified forms must be conformed to if these goals are to be achieved<sup>19</sup>. It is predominant that the relationship is presented as primary and that the

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<sup>12</sup> While respect and the principle of reciprocity are not only typically Asian, the more individualistic Western businessman may lose sight and understanding of the specific rituals of gift giving as a technique to enshrine one’s hierarchy within the group.

<sup>13</sup> STEIDLMEIER, P., *op.c.*, in which Mayfair Yang is quoted as defining *guanxi* as ‘relationships of social connections built on pre-existing relationships of classmates, people from the same native-place, relatives, superior and subordinate in the same workplace, and so forth.’

<sup>14</sup> MAUSS, Marcel, *The Gift. The form and Reason for Exchange in Archaic Societies*, NY, WW Norton, 1990 (1954), 163p. Based on this seminal work, I here would distinguish instrumental gifts from expressive gifts. The former implies that the gift is a means by which one tries to obtain utilitarian ends, involving the manipulation of interpersonal relations in the short term. An expressive gift, however, is an end in itself that reflects the relationship.

<sup>15</sup> DUNFEE, Thomas & Danielle WARREN, “Is Guanxi Ethical? A normative analysis of doing business in China”, *Journal of Business Ethics*, 32, Kluwer, 2001, p192. Many scholars familiar with the subject agree that *guanxi* may serve as a means of signaling trust and integrity in a system that lacks strong background institutions. It may also constitute an informal network allowing individuals to bypass the inefficiencies inherent in a state bureaucracy.

<sup>16</sup> SMART, A., “Gifts, bribes, and Guanxi: a reconsideration of Bourdieu’s social capital”, *Cultural Anthropology*, 1993, 8 (3): p398

<sup>17</sup> YANG, Mayfair Mei-Hui, *Gifts, Favours and Banquets: the Art of Social Relationships in China*, Ithaca, Cornell University Press, 1994, p167-173

<sup>18</sup> FAN, Ying, “Guanxi’s Consequences: Personal Gains at Social Cost”, *Journal of Business Ethics*, 38, Kluwer, 2002, p372. Fan believes that family *guanxi* is rooted in Confucian values: emotionally driven where affection is exchanged, and a phenomenon in which (implicit) reciprocity is not always necessary. By contrast, business *guanxi* is the product of current political and socio-economic systems, utility-driven, a deal of money and power. In terms of quality, family is stronger, more stable and requires long term commitment. Business *guanxi*, on the other hand, is characterised as tactical, opportunistic and unstable. There is little trust and commitment in business *guanxi* relationships.

<sup>19</sup> *Guanxi* – and any kind or expression of network for that matter – is dependent on strict rituals and rules, which in my opinion regulate and aim at some form of impartiality. It is, however, clear that gift giving can be used to establish networks of particularistic ties and has resulted in the presence of a gift economy parallel to the state redistribution system, especially within transition economies.

exchanges, useful though they may be, are treated as only secondary. If, instead, it becomes apparent that the relationship involves only material interest and is characterized by direct and immediate payment, the exchange is classified as one of bribery<sup>20</sup>, or possibly a pure commercial exchange. Manipulative and exploitative use of gift exchange is made possible only by the existence of genuine gift exchanges that attach priority to the social or personal relationship, as opposed to the immediate instrumental objectives of the corrupted gift.

*Guanxixue*, the practice of building such networks, is morally neutral but in everyday life, it implies both high moral principles and petty calculations<sup>21</sup> with ethics and tactics coexisting in tension and in harmony - a coexistence expressed in the choreography of *guanxi* etiquette<sup>22</sup>. *Guanxixue* connotes 'human sentiments' – *renqing*<sup>23</sup> – referring to friendships and long-lasting personal relationships. It customarily has the image of people helping one another. Indeed, *guanxi* (networks) and *renqing* (ethics) are characterized by moral obligations and emotional attachments in interpersonal relations, and by a stable mutuality of cooperation between people within these networks. Hence the power of *renqing* or the pressure of its moral force is such that it is very difficult for a community member to decline a request for help or to fail to repay a debt of *renqing*. The discourse of *guanxi* and *renqing* obligations may be situated in the cultural unconsciousness, the *habitus*<sup>24</sup> of a community through which norms and values are expressed. But, other less benevolent forces may be at play behind the accepted cultural expressed features of *guanxi* and *renqing*.

Networks as in Chinese '*guanxi*' – or a comparable notion such as '*arisan*' among the indigenous *pribumi* in Indonesia<sup>25</sup> - serve as a means to signal trust and credibility in societies with weak formal rules of accountability and where social and economic exchanges are barely embedded in strong institutions. The informal network of *guanxi* may be seen as a substitute for the rule of law, which was its initial *raison d'être*, or it became an effective alternative in environments where the rules of law are rarely implemented or enforced. Even Lee Kuan Yew, the founding father of Singapore, would have admitted that the Chinese use of *guanxi* is "to make up for the lack of the rule of law and transparency in rules and regulations"<sup>26</sup>. Guanxi is still relevant in the context of

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<sup>20</sup> SMART, A., *o.c.*, p399.

<sup>21</sup> YANG, Mayfair Mei-Hui, *o.c.*, p63

<sup>22</sup> *Ibidem*, p70

<sup>23</sup> *Ibidem*, p63. *Renqing* can be found in ancient Confucian discourse, such as in Han dynasty (206 BCE – 220 CE) text of *The Book of Rites*, where *renqing* refers to the natural human feelings and emotions found in father – son relationships, and as well within family and kin relationships and friendships. The following three main features are cited: 1) human nature is defined, not as an individual quality, but in terms of social relationships and interaction; 2) there is a proper way of conducting oneself in social relationships; and 3) any bond is characterized by reciprocity.

<sup>24</sup> BOURDIEU, Pierre, *Esquisse d'une théorie de la pratique*, Paris, Editions de Seuil, (1972) 2000, 429p & BOURDIEU, Pierre, *Raisons Pratiques. Sur la théorie de l'action*, Paris, Editions de Seuil, 1994, 245p; '*Habitus*' – living in - is a Latin concept introduced by Bourdieu to emphasize and indicate the values and norms, often unconsciously, practiced in certain contextual environments.

<sup>25</sup> The Indonesian '*arisan*' is a typical cultural expression of social bonding through the formation of extended family membership credits. Those trusted members participate in a revolving and rotating credit system, informally but nevertheless very strictly-ruled, according to specified procedures where social exclusion is the ultimate sanction.

<sup>26</sup> Quoted in DUNFEE, Thomas & Danielle WARREN, "Is Guanxi Ethical?", *o.c.*, p197

Chinese business because it mitigates external political and socio-economic risk, it navigates opaque bureaucracies, it copes with the absence of a rule of law, it accesses reliable information, resources and infrastructure, and it recruits trustworthy, i.e. well connected, employees<sup>27</sup>.

Actors, relying on a *guanxi*-based approach know each other through those ritualized gift practices<sup>28</sup> to provide them with a competitive advantage vis-à-vis foreigners in the absence of well-developed financial markets and unknown markets (where one could scarcely count on the support of any other reliable institution)<sup>29</sup>. However, while networks may provide a certain degree of access, they also may pose a peril of non-merit and consequently of inefficiency in terms of micro-economic analysis. *Guanxi* could easily become inconsistent with the idea of efficiency or performance merit: many people are hired for jobs, not on the basis of their individual merit, but rather on the basis of their lineage or connections.

Although the fine line between gift and bribery often becomes blurred, I have argued elsewhere that specific criteria can nonetheless be applied in almost any cultural context<sup>30</sup> which clearly distinguishes a gift from a bribe. In a similar fashion it is logical (despite the notion's inherent ambiguity) to distinguish networks from nepotism although in reality one only can guess after the real intentions of the actors, making this judgment more difficult.

A simple acid test to judge whether *guanxi* is in fact ethical is to determine if there are victims resulting from *guanxi* relations. In other words, a *guanxi* practice is ethical only if it causes no harm to a third party or to society as a whole. Examples of victims would include competitors or customers, or even undetermined stakeholders. If a *guanxi* action adversely affects a third party while the *guanxi* transaction produces gains for individual agents (or even firms-principals) while inflicting loss on society as a whole by overriding the fairness of competitive rules<sup>31</sup>, one cannot ethically justify such a *guanxi* transaction. According to Confucius, still playing a major role on the daily social interaction among Chinese, one should put moral concerns before the pursuit of

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<sup>27</sup> ARVIS, J-F. & R. E. BERENBEIM, Fighting Corruption in East Asia. Solutions for the Private Sector, Washington, The World Bank Division, 2003, p139-141

<sup>28</sup> As a rule, gift exchanges in Chinese culture are based on 1) reciprocity; 2) the principle that gifts should not break the existing hierarchical system of social status in either kinship or social terms; 3) that gifts in China are usually based on previous interactions, which are influenced by the hierarchical position of the donors; and 4) that there is a time interval between the initial and returning gift.

<sup>29</sup> PYE, L., "Asian Values: from dynamoes to Dominoes?" in HARRISON, L. & HUNGTINGTON, S., Culture Matters, New York, Basic Books, 2000.

<sup>30</sup> VERHEZEN, Peter, "From a culture of gift exchange to a culture of exchanging gifts", Jurnal Antropologi, University of Indonesia – Jakarta, November 2003, p101-115 In this paper I argue that some key distinctions can be made between gift and bribery. The major differences indicating that we deal with a bribe rather than a gift lie in the absence of a time gap between the gift and counter-gift, the secrecy of the disguised gift, non-accountability on behalf of the agent receiving the gift, explicit instead of implicit claims of reciprocity, and the misuse of some kind of monopolistic power by the agent at the expense of the principal. The briber uses the banner of the gift to disguise, to hide its illegal and actual nature of this exchange.

<sup>31</sup> Because *guanxi*, by its very nature, discriminates against people outside the *guanxi* network, one could argue that it contravenes the principle of fairness. However, in business, one would argue, one strives to gain competitive advantages, as long as the law and the 'rules of the game' are respected.

business interests<sup>32</sup>. If the Confucian emphasis on 'wah', or social harmony, disintegrates, some individuals will be able to take advantage of all and benefit at the cost of social balance. When *guanxi* becomes a pure exchange<sup>33</sup>, a degradation process of displacement and a process of commodification enter the relationship. This is why business *guanxi* has gained such a notoriously bad reputation, inside China and abroad.

When *guanxi* commoditizes into a shadow of money exchange only, the network degenerates into its corrupted form of nepotism and clientelism. Through a process of displacement, the direct payment of money trivialises the practice of *guanxixue* in certain contexts, as it is degraded to monetary compensation<sup>34</sup>. When the 'exchange value' of *guanxi* and its gifts overrides the 'use value', a process of commodification<sup>35</sup> starts to undermine the underlying social and moral norms of *guanxi* networks, departing from the old Confucian non-monetary objectives for cultivating *guanxi*<sup>36</sup>.

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<sup>32</sup> FAN, Ying, "Guanxi's consequences", *o.c.*, p376.

<sup>33</sup> Aside from this obvious reference to Marx' terminology, it remains important to note as well that the forces of the *guanxi* network, and those of social relational ethics (as described by *guanxixue*) are complementary to the pure market economy of China.

<sup>34</sup> YANG, Mayfair Mei-Hui, *Gifts, Favours and Banquets: the Art of Social Relationships in China*, Ithaca, Cornell University Press, 1994, p167-170

<sup>35</sup> *Ibidem*, p171

<sup>36</sup> The same object, the same phenomenon, changes sense and meaning depending on the force which appropriates it.

## II. Networks or 'guanxi' as Social Capital

If the notion of 'Social Capital'<sup>37</sup> is indeed a form of capital – a set of actually usable resources and power – then it may be equated with a form of power that can either be used to influence others' behavior, or to aid in achieving desired goals. The late French social thinker Pierre Bourdieu defines Social Capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition, [functioning as] a credential which entitles them to credit, in the various senses of the word.<sup>38</sup>” Social Capital is almost always a potentiality: once cashed in, it becomes something else, e.g. economic capital or profit. I have defined 'social capital' as referring to a network of individuals – as in '*guanxi*' - that may result in certain forms of capital and profit<sup>39</sup>. Social capital, then, includes obligations of reciprocity (though not in its legal or even economically enforceable sense), including the advantages of connections or social position, and presuming trust. These obligations and connections in business are the result of investment strategies by businessmen and entrepreneurs, who consciously or unconsciously aim at establishing or reproducing social relationships that are directly usable in the short or long term<sup>40</sup>.

*Guanxi* – by its own definition a form of 'social capital' – aims to amass symbolic capital, a phenomenon which takes the form of 'face' in China (and for that matter throughout most of the Asian world). Someone who has a reputation for having a great deal of face and thus force in networks – i.e. social and symbolic capital often resulting in economic capital – can be used to accomplish a great deal. The more social, symbolic or economic capital is at his disposition, the more socio-economic powerful that person has. Interesting is the fact that emphasizing the instrumental ends of a relationship rather than the cultivation of a relationship itself does not support or increase either social or symbolic capital. Indeed, manipulation of proper relationships and networks can cause “loss of face”, and thus, decreased symbolic capital<sup>41</sup>. One should bear in mind that a 'gift' when translated in Chinese Mandarin is '*liwu*', where *wu* refers to the ritual gift object and *li* equals reciprocity in social intercourse. The Chinese term indicates that a gift is more than a material present; it carries cultural rules and properties and involving some strict rituals<sup>42</sup>. So, a *wu* without *li* is just a thing, not a gift. A gift object passed that fails to enhance a

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<sup>37</sup> Particularly the groundwork on social capital as expositied by social scientists Robert Putnam, Pierre Bourdieu, James Coleman and Francis Fukuyama are of great relevance to understand the notion of 'social capital' more accurately. For a good overview on the current debate on 'social capital' I refer to HOOOGHE, Marc & Dietlind STOLLE, “Conflicting approaches to the Study of Social Capital. Competing explanations for Causes and Effects of Social Capital”, Ethical Perspectives, Leuven, 10, 2003, p21-44 & PORTES, A., “Social Capital: its origins and applications in modern sociology”, Annual Review of Sociology, 1998, Vol 24, p1-24.

<sup>38</sup> BOURDIEU, Pierre, “The forms of Capital”, in RICHARDSON, J. (Ed), Handbook of Theory and Research for the Sociology of Education, New York, Greenwood Press, 1986, p249

<sup>39</sup> VERHEZEN, P., “Disguised gifts. Trust, Social Capital and the Limits of Reciprocity”, Draft PhD thesis, KULeuven, Chapter 5: the ambivalence of social capital.

<sup>40</sup> BOURDIEU, P., “Forms of Capital”, o.c., p249.

<sup>41</sup> YAN, Yunxiang, o.c., p402

<sup>42</sup> Ibidem, p44.

relationship of reciprocity is degraded, becoming a pure instrumental bribery exchange, and does not function as part of the *guanxi* rituals *in se*.

However, an emphasis on the instrumental ends rather than the cultivation of relationships does not support the increase of either social or symbolic capital. Businessmen should subordinate immediate interests to the cultivation of a relationship to create a source that can be repeatedly utilized over the long term, without causing the donor to lose face through blatant manipulation. Although the gift – ambiguous as it is – attaches priority to the relationship, it can be easily manipulated or exploited, and turn into a bribe. Under Confucian rules, officials - assumed to be of good, i.e. virtuous, character - judged each case on its special merits, indicating a complete absence of a rational-legal framework. In traditional Confucian China, moral learning through role modeling was preferred to penal law<sup>43</sup>. Moreover, the notion of a civil society characterized by institutional checks, balances, and accountability remains underdeveloped.

The economist Vito Tanzi claims that the net social capital of individuals is likely quite unevenly distributed. Social Capital plays a large role in determining the distribution of income within countries. Hence the evidence of social capital is likely to interfere with arm's-length relationships (or professional behavior complying with transparent codes of conduct) and, in particular circumstances leading to corruption<sup>44</sup>. In societies where family or other kind of relationships are very strong, and especially where existing moral or social codes require that one helps family and friends, the "Weberian type of ideal bureaucracy"<sup>45</sup> will prove very difficult to install. That does not contradict Confucian insistence on honesty by the public tax collectors and government officials to preserve the functioning of the (quite hierarchical) system. The successful conduct of government work and maintenance of order relied on the moral sense of the majority of the officials and the people<sup>46</sup>.

The reciprocal social obligation created by a gift must be implicit; although it no longer follows the forms of the gift by becoming something else, such as drifting towards a bribe or resulting in a failed gift performance, when it is made explicit<sup>47</sup>. The social researcher, Yan, believes that it is

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<sup>43</sup> SNELL, Robin S. & Choo-sin TSENG, "Ethical Dilemmas of Relationship Building in China", Thunderbird International Business Review, Vol 43(2), March – April 2001, p175

<sup>44</sup> TANZI, Vito, Policies, Institutions and the Dark Side of Economics, Northampton, Edward Elgar Publ, 2000, p93-94: "Corruption comes in many shapes and forms. It is very difficult to define and at times it is even more difficult to identify. Several definitions have appeared in the literature, but none seems to be fully satisfactory. Here we shall simply define it as the intentional non-compliance with an arm's-length relationship, aimed at deriving some advantage, for oneself or for related individuals, from this behavior. [...] The term corruption comes from the Latin verb to break, *rumpere*. It thus implies that something is broken. This something might be a moral or social code of conduct or, more often, an administrative rule. If it is the latter, a requirement must be that the rule that is broken is precise and transparent."

<sup>45</sup> Ibidem, p96.

<sup>46</sup> FERNANDEZ, Juan Antonio, "The Gentleman's Code of Confucius. Leadership by Values", Organizational Dynamics, Vol 33, no 1, 2004, p24. The health of a nation is not measured by the possession of material goods but by her sense of justice. A society with no lawsuits, no need for punishments, is a society ruled by virtue.

<sup>47</sup> What is important to note is the fact that explicit claims in social capital are usually excluded from the gift practice itself for example, so that this informal power over the actions of others is radically distinct from exercises of power utilizing the discourse and apparatus of formal command.

the redistributive nature of the socialist economy that has encouraged the unilateral, upward process of gift giving from villagers to cadres, that leads to the latter's control over the former's life chances<sup>48</sup>. This has led to the instrumentalization of gift giving, whereby villagers present gifts in exchange for favors or protection. I would argue that the political introduction of an institutionalized monopoly has been a contributing factor to induce gift exchanges to become predominantly instrumental.

Similarly, networks or positive social capital can usually be distinguished from nepotism or negative social capital structures, by focusing on their results or outcome. Networks of *guanxi* are usually characterized by 'general' or 'positive' reciprocity, whereas nepotism could well be characterized by inappropriate pure mutuality or instrumental reciprocity, or even by 'negative' reciprocity<sup>49</sup>.

A notorious example of negative social capital is the inclusive network of the mafia where the instrumental rather than the social value of relationships are made obvious. The mafia network started within an environment that lacks credible and effective systems of justice and law enforcement and ended up with building trust through giving favors to individuals – *le pouvoir de la faveur*. The violent side of the Mafioso is a logical consequence of the effort “to enforce the monopoly of otherwise legal goods.”<sup>50</sup>

If *guanxi* now is permeated by instrumentality, self-seeking opportunism, and dishonorable attitudes and behaviour rather than by trust relationships based on mutual warmth, loyalty and respect, an ethically justifiable *guanxi* network easily transgresses in a corrupted nepotistic *guanxi*. Given the lack of strong effective legal institutions and civic traditions, and the

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<sup>48</sup> YAN, Yunxiang, o.c., p236. He sees reciprocity as fundamental in *guanxi* relationships. Moreover, reciprocity has been the core of gift exchanges in rural life for ages. He believes it is the redistributive nature of the socialist economy that has encouraged the unilateral, upward process of gift giving from villagers to cadres, become of the latter's control over the former's life chances. This has led to the instrumentalization of gift giving, whereby villagers present gifts in exchange for favors or protection. I would argue that the political introduction of a monopoly has induced gift exchanges to become predominantly instrumental.

<sup>49</sup> SAHLINS, Marshall, Stone Age Economics, Chicago, Aldine de Gruyter, 1972. I borrow the terminology from the anthropologist Marshall Sahlins, a scholar who defines general(ized) reciprocity as giving more than is expected back, usually among family members or close friends; positive reciprocity can be considered as a typical gift where over time a counter-gift is expected back, usually found among acquaintances or business relations; calculated or pure instrumental reciprocity looks almost like a pure commercial exchange. Freeriding or dealing with adversaries refers to negative reciprocity where some free service or destruction is aimed at.

<sup>50</sup> GAMBETTA, Diego, “Mafia: the Price of Distrust”, in GAMBETTA, Diego (Ed), Trust. Making and Breaking Cooperative Relations, Oxford, Basil Blackwell, 1988, p163-166: “The mafia at any time one time can thus be seen as a successful cluster or collation of clusters. It is successful not just in coping defensively with lack of trust – as in the case of weaker and non-violent forms of association such as clienteles and patron-client relations – but at turning distrust into a profitable business by a relentless, and if necessary violent, search for exclusivity. Its single most important activity is the enforcement of monopolies over the largest possible number of resources in any given territory. .it stresses inclusion, and inclusion can only subsist by simultaneously postulating exclusion. The long-lasting specificity of the mafia is that it tolerates no competition.” And at page 172 Gambetta explains how and why trust is sold under monopolistic – shall I say under specific bonds and exclusive networks – threats: “One reasons the Mafioso might prefer to offer trust in conjunction with discouraging competition is that if trust were too public he would then be unable to enforce collection of his fee from all sellers, who would find free-riding particularly easy....A further reason why his intervention as guarantor must always be identifiable – linked, that is, to specific transactions – is to make sure that the buyer knows that if he gets a good deal this is due to the Mafioso's protection and not to the independent honesty of the seller, which could foster the growth of trust directly between buyer and seller and put the Mafioso out of business.”

overwhelmingly networked nature of Chinese society, “relative deprivation appears to have found expression in egoistic, acquisitive forms, rather than, as Party ideologues would urge, altruistic rallying to improve both material and spiritual civilization among mainland compatriots.<sup>51</sup>”

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<sup>51</sup> SNELL, Robin S. & Choo-sin TSENG, “Ethical Dilemmas of Relationship Building in China”, o.c. p196

### **III. The Transgression of Networks in Nepotism**

As mentioned above, *guanxi* involves not only instrumentality and rational calculation, but also sociability, morality, intentionality and personal affections<sup>52</sup>. In other words, ambiguity and subtlety are the very essence of *guanxi* relationships, making it sometimes difficult to distinguish the differences. However, when the instrumental value becomes predominant, and rituals aiming at social and personal relationships are no longer strictly applied, one falls back into the pure instrumentality of a relationship. At that point in time a network assumes the character of a nepotistic relationship, and is corrupted from its initial intentions of preserving harmonious reciprocity and social structure within a community.

How could networks and alliances be 'negatively' (from a certain normative point of view) used and be turned into clientelism and nepotism? The question is not whether one is allowed to instrumentally use personal or social relationships, *guanxi*, for personal gain, but when *guanxi* becomes purely instrumental, thus resulting in nepotism.

*Guanxi* has several characteristics that differentiate it from nepotistic or patronage corruption, and thus allows to demarcate a threshold between inappropriate nepotism *sensu stricto* and appropriate network. Based on my understanding of the logic of the gift<sup>53</sup> and inspired by a World Bank report<sup>54</sup>, I have attempted to put forward a indicative demarcation threshold which is not exhaustive nor fixed. I mainly distinguish five major demarcation variables differentiating 'legitimate' networks from 'inappropriate' nepotistic corruption: the presence of moral and social norms, the time horizon, the 'cultural' interpretation of legitimacy of a gift, the nature of the transaction and relationship – i.e. the use of Social Capital – and the transferability of *guanxi* relationships.

I have argued that a certain level of embeddedness in a network of community strings will enhance trust between persons<sup>55</sup>. It is precisely a notion of reciprocity within this community network which adds a flavor of impartiality (beyond pure personal rationality or interest) to particularized trust<sup>56</sup>. When the impartiality of networks in which common norms and values are shared transform into a specific alliance with particular (self-) interests detrimental to the public

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<sup>52</sup> YAN, Yunxiang, The flow of Gifts: Reciprocity and Social Networks in a Chinese Village, California: Stanford University Press, 1996, p. 87

<sup>53</sup> VERHEZEN, Peter, "From a Culture of Gift to a Culture of Exchange", o.c.

<sup>54</sup> ARVIS, J-F. & R. E. BERENBEIM, Fighting Corruption in East Asia. Solutions for the Private Sector, o.c., p141 and following.

<sup>55</sup> VERHEZEN, Peter, "Omkoop of gift? Vertrouwen en vrijgevigheid", in VANDEVELDE, Toon (ed), Over vertrouwen en bedrijf, Leuven, Acco, 2000, p133-142

<sup>56</sup> USLANER, Eric, The Moral Foundations of trust, Cambridge, the Press Syndicate of the University of Cambridge, 2002, p21-24. This form of particularized trust restricts the size of our moral community to people we know like ourselves. Similarly, *strategic trust* reflects our expectations about how people will behave, and is instrumental in lowering

interest – the “General Will” or Common Good, distinguished from the “Will of All” which is the product of every individual’s particular will<sup>57</sup> - then the network becomes a nepotistic alliance. It is well understood that power, influence and self-interest is at work within networks, yet emphasizing the impartiality of these common nature, norms and values. Nepotism shows the opposite tendency to de-institutionalize ‘impartial systems’. Therefore, an impartial and fair system of justice aims at the exactly the opposite of what nepotism would try to achieve.

If I translate this conceptual analysis in business terms, I would argue that networks are part of an organization’s capital, leading toward easier access to information and knowledge, or to a better understanding of influences or ascertaining power. When one starts using these social or personal relationships beyond legitimate, official ‘rules of the game’ (thus turning them in pure instrumental and often manipulative illegal exchanges of resources), a network has transgressed into a condition of nepotism. Contracts or favours obtained are not gained through competitive merit or superior quality of products or services - the basis of neo-classical capitalism - but purely through Machiavellistic exploitation of networks and connections, and of denying competitive fairness to other players in the market.

Empirical cases suggest that while less blatant than bribery, *guanxi* on the Chinese Mainland can apparently lead well-meaning and presumably ethical business people and their apparently innocent partners seductively to the edges of broad gray areas, and beyond<sup>58</sup>.

In a more negative perspective, *guanxi* could be considered as a special type of relationship combining trust, dependence and favors, that often leads to insider-based decision making, which runs counter to transparency and openness. Hence, this lack of transparency and openness of *guanxi* leads to its unethical or unacceptable reputation. Because *guanxi* is based on trust and implicit reciprocity, one hardly can refuse any *guanxi* ‘gift’. Obviously, if networks or ‘*guanxi*’ transgress into nepotism, one faces an ethical dilemma: either one engages in long-term business relationships with a certain minimum level of ‘common good’ in mind, or one colludes in bribery (usually shorter term) which usually is associated with close relationship with bureaucratic power<sup>59</sup>.

Nepotism is usually based on transaction-based exchange, whereas genuine *guanxi* refers to long-term relationship. Admittedly, the time horizon between nepotism and network is sometimes very vague and non-deterministic. Hence why other variables such as legality, transferability and

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transaction costs in social interaction. Sometimes, in Rational-Choice Theories, this form of trust may be referred to as ‘instrumental’.

<sup>57</sup> This distinction between “General Will” and “Will of all” has been eloquently made by the 18<sup>th</sup> century French philosopher Rousseau: ROUSSEAU, Jean-Jacques, *Du contrat social*, Paris, GF Flammarion, (1762) 2001, 256p.

<sup>58</sup> SNELL, Robin S. & Choo-sin TSENG, “Ethical Dilemmas of Relationship Building in China”, *Thunderbird International Business Review*, Vol 43(2), March – April 2001, p195-96

the nature of transaction need to be regarded as an additional yardstick to distinguish nepotism and patronage from genuine *guanxi* relations.

When the cultural ritual of *guanxi* turns into a rent-seeking *guanxi*<sup>60</sup>, the network may become a form of instrumental nepotism. In the former, obligations (*renqing*<sup>61</sup>), reciprocity (*bao*<sup>62</sup>) and some favor seeking – all quite predominant in Chinese rural areas among villagers and among kinfolk – are obvious and respected, whereas in the latter, the rent seeker or recipient is usually a powerful bureaucrat - reflecting an authoritarian state's organizational hierarchy - with some monopolistic powers. In the place of social and personal relationships, power becomes the driving engine in nepotism, undermining the moral value of *renqing*. This form of negative social capital then turns into symbolic or economic profit, based on a position of power, no longer driven by social rites and rules of courtesy. The social relationship has turned into an instrument to enrich the agent instead of the principal. In other words, *guanxi* is legal and admired in Chinese community whereas pure nepotistic patronage or clietelism is widely condemned, though not necessarily contradicting the widespread implementation of those phenomena.

*Guanxi* involves an exchange of favors in a certain accepted manner where *renqing* or genuine feelings play a role. *Guanxi* is not a pure monetary exchange, and is inherently a social transaction whereby the cost of noncompliance is a loss of face. Nepotism and patronage refers to an economic transaction between known – or even kin and friends – parties, which has often legal consequences.

Long-term *guanxi* ties and obligations can be transferred to other members of the network, whereas corruptive nepotism is generally a transaction-based covert relationship between two (often known) parties. A nepotistic relationship is usually 'blood'-related and can hardly be transferred unless by or to other close family members.

The role of *guanxi* in Chinese business culture provides a dramatic example of an entrenched cultural norm that has come under pressure from international business trends. We could question whether the globalization and the "Westernization" of rules of law<sup>63</sup> in China and Asia in general could partially explain this pressure to abandon *guanxi*.

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<sup>59</sup> SU, Chenting & James LITTLEFIELD, "Entering Guanxi: a business ethical dilemma in Mainland China", *Journal of Business Ethics*, 33, Kluwer, 2001, p199.

<sup>60</sup> *Ibidem*, p202-203

<sup>61</sup> *Renqing* expresses its true meaning when it focuses on sympathy, friendship, understanding, and interdependence. People associate with each other by intimate interactions and by exchanging gift objects and favours in a heartfelt manner.

<sup>62</sup> The Confucian stress on affective interpersonal relations and ethics (*'junli'*), and the notion of ritual propriety (*'li'*) in conducting relationships in terms of graded degrees of kinship distance and lack of obligation, have found popular expression in the conduct of *renqing* principles. In Confucian ethics, *renqing* principles were not merely sentiments but also concrete social expressions such as the offering of congratulations or condolences, the giving of gifts on appropriate occasions, and the fulfilment of obligations.

<sup>63</sup> When I refer to the "Westernization" and globalization, then I basically refer to the understanding that economic progress in Asia is valued with neo-classical economic tools such as increased privatisation of business firms, a

*Guanxi* – though emphasizing good faith, respecting another’s face, and expressed through the means of gift practices and favors - inherently contains the ambiguous criteria of passing the threshold of proper courtesy and *renqing* and turning the cultural ritual of competitive advantage into a useful instrument for an agent’s illegitimate personal gain. Although *guanxi* is firmly entrenched in some cultural rituals<sup>64</sup>, it does not excuse it from being turned to ends far from its original ethical and social objectives. Entering a certain personal or social relationship always carry a certain ethical dilemma within itself, when at a particular point in time this relationship will have an instrumental and useful value for the corporation or the executive.

Perhaps *guanxi* could be seen as an entry barrier since a lack of *guanxi* constitutes a comparative disadvantage. In that sense, *guanxi* can be compared with the Western concept of relationship marketing which is related on trust and involves taking actions to create tightly linked connections between business parties towards an enduring long-term business relationship<sup>65</sup>. These relationships are based on the idea that humans are social creatures and that social bonding underpins many other forms of social and personal interactions. The difficulty arises when *guanxi* determines at random as the final outcome that results in personal gain for the agent and executives as individual beneficiaries of the nepotistic relationship instead of superior services or products that could have been obtained for the principal; at that moment *guanxi* is seen as problematic from an efficiency, effectiveness and merit point of view<sup>66</sup>. Another problem comparing *guanxi* with the Western concept of network marketing is the fact that the former is basically social capital owned by individuals who could use these private contacts for either personal gain or for the organization's benefit, whereas the latter concept is organizationally related. Because of the subtlety, discreteness and ambiguity of networks of *guanxi*, one can hardly figure out if those *guanxi* connections are used for personal or for organizational gain.

Arguing that *guanxi* may be a more effective option under current Chinese market conditions does not mean that *guanxi* as such would be more efficient than a Westernized institutional system of contracts and legal enforcement. One should not forget that the cost of establishing and maintaining *guanxi* can be quite costly, up to 5-15% of the total cost in doing business in

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movement towards emphasis on the rule of law, changes in forms of business operation and corporate governance, increasing competition among business firms and increased foreign investment.

<sup>64</sup> SU, Chenting & James LITTLEFIELD, “Entering Guanxi”, o.c., p208. The question remains whether *guanxi* as such can be completely cleared from any temptation for collusion. Likely as not, the fact that personal and social relationships rather than legalistic contractual agreements form the basis of exchange, makes a network-based economy always prone to some form of collusion or nepotism. This may constitute the “largest system shock” to Western businesspeople who are struggling to enter this enticing vast market.

<sup>65</sup> DUNFEE, Th & D. WARREN., “Is Guanxi ethical?”, o.c., p198-199.

<sup>66</sup> Ibidem, p200-202. The authors provide an interesting overview of reasons why the use of *guanxi* in business may be quite problematic: 1) as a social practice, *guanxi* may reduce social wealth; 2) as a social practice, *guanxi* benefits a few at the expense of the many; 3) *guanxi* may result in the violation of important fiduciary duties; 4) *guanxi* may not be supported by the authentic norms of relevant communities; 5) certain uses of *guanxi* may violate “hypernorms” (basic universal values-norms-rights); 6) *guanxi* may corrupt background institutions in contrast to an impartial, efficient and fair legal system which can be considered an essential foundation for a just society.

China<sup>67</sup>; nor does it necessarily decrease uncertainty since there is a non-specified time gap between the initial and the counter gift. A survey indicated that most business people in China (either foreign or local ones) named branding, quality and distribution channels rather than *guanxi* as the most important factors in achieving marketing or financial goals<sup>68</sup>.

Moreover, whereas highly personalized social relations and exchanges may increase personal or 'particularized' trust between *guanxi* parties, it runs the risk of lowering the procedural justice of perceived impartial neutrality and can therefore negatively affect 'generalized' trust and trust at the institutional level<sup>69</sup>.

The competitiveness of an operating environment is correlated with executives' attitudes towards *guanxi* and toward its ethical grounding. Ethics may not immediately pay off, but it definitely wields influence in any relationship. With growing globalization and intertwined international economies that accompany the entry of China into the WTO, the (international) "rules of the game" will likely converge in the respective business environments, at least to a certain extent. Meanwhile the availability of information flows and knowledge through the use of the Internet, and the rapidly escalating worldwide condemnation of corruption as a powerful disease for any institution or nation will definitely influence the nature and decrease the business usefulness of *guanxi*. However, despite the internationalization of the Chinese economy, a majority of Chinese business executives still rely on *guanxi* networks, i.e. preferring to do business within the *guanxi* network, exploiting legal loopholes or smoothing out favorable business decisions from government officials<sup>70</sup>. That also explains Chinese executives' high resistance to official governance and supervision<sup>71</sup>, which is understandable given that they could not rely on an impartial legal system to guarantee fairness and neutrality in applying the law.

How will *guanxi* evolve in the future? Will it decline or does it remain entrenched in Chinese Confucian culture?

The outcome of the globalization trend on *guanxi* in China and the Chinese network is unclear. There are basically two schools of thought with respect of the future evolution of *guanxi* in China's fast-paced business environment. Some believe – as I do to a certain extent – that the role of *guanxi* may decline in the face of market forces and expect that business in and beyond Chinese borders will compete on a level playing field based on arm's length-transactions. The other school of thought maintains that despite economic advances *guanxi* will remain entrenched and deeply

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<sup>67</sup> FAN, Ying, "Guanxi's consequences", o.c., p375.

<sup>68</sup> *Ibidem*, p379

<sup>69</sup> CHEN, Chao C.; CHEN Ya-Pu & Katherine XIN, "Guanxi Practices and Trust in Management: a Procedural Justice Perspective", *Organization Science*, Vol 15, No 2, March-April 2004, pp207

<sup>70</sup> CHAN, R.Y.K.; CHENG, L.T.W. & R.W.F. SZETO, « The Dynamics of Guanxi and Ethics for Chinese Executives », *Journal of Business Ethics*, 41, Kluwer, 2002, p330-331

<sup>71</sup> *Ibidem*, p333

embedded in the Chinese Confucian culture and will, and will likely continue to influence business conduct in the future<sup>72</sup>.

I personally believe that expanding a minimum of procedural neutrality in terms of unbiased procedures and some policies to impartiality will help to increase 'generalized' trust in management and benefit merit based efficiency in companies. In sum, *guanxi* practices are more likely to be viewed as problematic if they occur in public domains of life when there is a high potential for conflicts of interest and if they are examined through justice lenses, partially those of procedural justice. But then again, changing the underlying values of 'particularity' towards a more 'impartial' market system may take time. Moreover, such a fast transition may be questioned from a moral perspective.

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<sup>72</sup> ARVIS, J-F. & R. E. BERENBEIM, Fighting Corruption in East Asia. Solutions for the Private Sector, o.c, p145

## Conclusion

Positive Social Capital differs from Negative Social Capital, both are based on the principle of reciprocity although the emphasis differs to a great extent. *Guanxi* can be both, depending on the precise meaning and interpretation of the relationship in place. I have attempted to provide some useful critical factors which could demarcate the threshold between 'legitimate' networks and 'inappropriate' nepotism, patronage or clientelism. Especially the nature of the relationship of *guanxi* determines towards one leans more to.

One can observe a trend that China and other nations such as Indonesia, Philippines and Thailand are slowly moving from a person-based to a rule-based society where the importance of relational and procedural neutrality in managerial decisions is acknowledged<sup>73</sup>. "While reciprocating favors is a virtuous interpersonal quality, there is a higher standard for the manager – fair treatment of all subordinates, regardless of their *guanxi* affiliations<sup>74</sup>." I also like to note that *guanxi ceteribus paribus* use personal trusted relations as legitimate considerations to improve management decisions when merit and procedural justice are not fully conclusive.

One could possibly argue that the personal use of *guanxi* may be elevated to an organizational level<sup>75</sup>, which I am inclined to interpret as part of the social and customer capital of the organization. Even though particularism – i.e. giving priority to particular relationships over general standards – may be stronger in China than in many Western societies, its legitimacy and applicability in modern Chinese enterprises have been severely challenged by the ascending value of the rule of laws, merit-based reward, and global competitiveness. In addition, in a growing "capitalistic" oriented economy based on merit and competition, accountability, transparency and formal rules, the influence of *guanxi* as an instrument to gain personal advantage may decrease over time while its social – in this particular case Confucian - meaning may remain entrenched in cultural life. Empirically though, Chinese who are more keenly competitive and thus more-profit oriented tend to be more concerned with *guanxi* and its instrumental use than with ethics<sup>76</sup>. Hence, completely avoiding the less socially benevolent or even pure instrumental and negative side of *guanxi* will prove to be extremely difficult and even naive. Blindly accepting *guanxi* as a cultural Chinese practice without questioning its intentions, the reasons behind it and its possible consequences for a company would also be a grave mistake. One better studies its pitfalls yet allows *guanxi* to play its social role in these Asian

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<sup>73</sup> CHEN, Chao C.; CHEN Ya-Pu & Katherine XIN, "Guanxi Practices and Trust in Management: a Procedural Justice Perspective", *Organization*, o.c., p208

<sup>74</sup> LI, Shaomin; PARK, Seung Ho & Shuhe LI, "The great leap forward: The transition from Relation-based Governance to Rule-Based Governance," *Organizational Dynamics*, Vol 33, No1, 2004, pp63-78

<sup>75</sup> DUNFEE, Th & D. WARREN., "Is Guanxi ethical?", o.c., p196

<sup>76</sup> CHAN, R.Y.K ; CHENG, L.T.W. & R.W.F. SZETO, o.c., p334

societies, advocating appropriate networks without failing to acknowledge its intrinsic ambiguities and temptations.

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May 6, 2004

Version 03.02

**Appendix:** 3 different forms of guanxi can be distinguished:

| <b>Characteristics</b>                                    | <b><i>Family guanxi</i></b>  | <b><i>Helper guanxi</i></b>  | <b><i>Business guanxi</i></b>   |
|---|--|--|---|
| <u><b>Social Capital</b></u><br><u><b>Reciprocity</b></u> | <input type="checkbox"/> Implicitly Reciprocal<br><br><input type="checkbox"/> The gift can be very ambiguous in this perspective<br><br><input type="checkbox"/> Not explicit <i>quid pro quo</i><br><input type="checkbox"/> Positive Social Capital   | <input type="checkbox"/> Explicitly Reciprocal by nature.<br><input type="checkbox"/> Gift by helper to gain protection and counter-gift by superior to obtain loyalty.<br><br><input type="checkbox"/> <i>Quid pro quo</i><br><input type="checkbox"/> Positive (protection and superior's commitment) though occasionally negative Social Capital (manipulation and dependence)  | <input type="checkbox"/> Purposefully reciprocal<br><input type="checkbox"/> Gifts to obtain something and often disguised gifts, thus bribes<br><br><input type="checkbox"/> <i>Quid pro quo</i><br><input type="checkbox"/> Positive (relationships – networks, based on merit) and negative Social Capital (Nepotism, based on pure connection)  |
| <u><b>Nature of Relationship</b></u>                      | <input type="checkbox"/> Social Alliances seeking social acknowledgement.<br><br><input type="checkbox"/> Usually generalized trust<br><br><input type="checkbox"/> Horizontal expressive, Vertical expressive<br><input type="checkbox"/> Moral and social obligations<br><input type="checkbox"/> Insider<br><br><input type="checkbox"/> Emotional and sometimes instrumental | <input type="checkbox"/> Patronage and often nepotism where the bonds are instrumental to achieve these goals.<br><input type="checkbox"/> Very particularized trust between helper and superior<br><br><input type="checkbox"/> Vertical instrumental<br><br><input type="checkbox"/> Hierarchical dependence<br><br><input type="checkbox"/> 'outsider' though sometimes the helper can become an insider<br><input type="checkbox"/> Instrumental / utilitarian | <input type="checkbox"/> Patronage, Clientelism, Possible Nepotistic Sometimes corruption<br><input type="checkbox"/> Usually particularized trust if trust at all<br><br><input type="checkbox"/> Horizontal and vertical instrumental<br><input type="checkbox"/> Patronage or Clientelistic relationship with social norms<br><input type="checkbox"/> Outsider<br><br><input type="checkbox"/> Purely utilitarian |
| <u><b>Time Horizon</b></u>                                | <input type="checkbox"/> Long term or permanent  | <input type="checkbox"/> Temporary or long term  | <input type="checkbox"/> Varies   |
| <u><b>Cultural roots - Legitimateness</b></u>             | <input type="checkbox"/> Chinese cultural values<br><br><input type="checkbox"/> Affection, empathy, moral and social obligations  | <input type="checkbox"/> Contemporary socio-economic factors<br><br><input type="checkbox"/> Renqing, face, credibility  | <input type="checkbox"/> Current political – economic structures e.g. weak legal structures<br><input type="checkbox"/> Renqing, face, power, influence, often instrumental   |
| <u><b>Morality</b></u>                                    | <input type="checkbox"/> Socially and morally acceptable   | <input type="checkbox"/> depends   | <input type="checkbox"/> possible deadweight social loss<br>Often leading to corruption   |