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Abstract

Guanxi has been discussed as an especially Chinese phenomenon, and analysed in terms of its economic functions. Recently, a number of accounts have examined its ethical implications, which are sometimes thought to include acceptance of corruption and nepotism. It has different forms, but it is widely accepted as involving cultivation of long-term relationships rather than fee-for-service bribery. Ethical accounts which focus on its economic effects are at odds with the developing strand of Western thought which accepts personal relationships as sources of moral obligation. There are complexities to deciding what obligations arise from personal relationships in business life, but there is room to evaluate economic arrangements by how well they facilitate personal relationships, as well as the other way round.

Over the past few years, a number of articles have appeared discussing aspects of the Chinese concept of *guanxi*, sometimes translated as 'relation', sometimes as 'backdoor connections' (DeFrancis, 1997: 211). One major reason for interest is undoubtedly the growing importance of China to western business people (see e.g. Yeung and Tung, 1996; Yi and Ellis, 2000). Some discussions have analysed *guanxi* and related ideas from an anthropological perspective (e.g. Bell, 2000). Others have analysed *guanxi* from an economic point of view, with special emphasis on two interrelated factors: one, the extent to which *guanxi* overcomes failures of law and accepted institutions to support business activity, and, two, the extent to which *guanxi*-based business activity is economically rational and efficient from a transaction cost point of view (see e.g. Xin and Pearce, 1996; Lui, 1998; Standifird and Marshall, 2000).

More recently, a number of discussions have begun to consider the ethics of *guanxi* (e.g. Leung and Wong, 2001; Dunfee and Warren, 2001; Tan and Snell, 2002). There are certainly some strong views that it is unethical: 'To some "guanxi" is a Chinese word synonymous with corruption' (Dunfee and Warren, 2001: 198). There are various related sorts of ethical concerns that may arise about *guanxi*-based business practices. One is that they may involve nepotism or cronyism in appointments of individuals to positions. Another is that they may amount to bribery in awarding of contracts of one sort or another, from contracts to supply goods to agreements about investment in certain regions or industries. Another is that they facilitate insider trading.

In western business ethics it is widely accepted that such behaviours are ethically problematic. On nepotism, for example, Shaw writes

> *Nepotism* is the practice of showing favoritism to relatives and close friends. Suppose a manager promoted a relative strictly because of the relationship between them. Such an action would raise a number of moral concerns, chief among them disregard of managerial responsibilities to the organization and of fairness to other employees. (1999: 216, italics in original)

On bribery, Boatright notes that 'bribery is universally condemned, and no government in the world legally permits bribery of its own officials' (2003: 427). It need not involve government officials, though: corporate personnel who have responsibility for purchasing, investment, or any other allocation of resources, might

be liable to bribery, sometimes in the form of 'kickbacks' (see e.g. Shaw, 1999: 289). Insider trading attracts similar condemnation (e.g. Velasquez, 2002: 453ff; Boatright, 2003: 350ff).

In what follows we consider two questions. One is to what extent *guanxi* necessarily does involve such behaviours. The other is whether the occurrence of such behaviours in the context of *guanxi* may lead us to reconsider our ethical appraisal of such behaviours themselves.

Forms of guanxi

The idea of *guanxi* is a vague one, with a variety of meanings and concrete forms. That has been noted by a number of authors (in particular, see Yi and Ellis, 2000; and Bell, 2000). One distinction is between *guanxi* which embodies kinship connections or connections based on regional background, on the one hand, and *guanxi* which is developed by acquaintance, successful interaction and reciprocal exchange, on the other hand. Another distinction is between *guanxi* which consists of long-term personal relationships involving some element of interpersonal commitment and affect, on the one hand, and *guanxi* made up of connections which are essentially instrumental, involving reciprocation of favours and services, on the other hand.

There seems to be reasonable agreement that while *guanxi* may have origins in regional and kinship connections, and that such connections can be the basis for *guanxi* networks, nevertheless it is possible for *guanxi* to be developed amongst people who are not originally linked by kinship or regional origins. At the same time, there seems to be agreement also that *guanxi* at least goes beyond simple reciprocal exchange of favours: 'the emphasis in China is on the relationship being built – *guanxi* is not a "fee-for-service" bribe, as in other countries in which import licenses or construction contracts have well known "prices"' (Xin and Pearce, 1994: 164). Yeung and Tung draw on Yang to characterise *guanxi* as 'the transformation process whereby two discrete individuals construct a basis of familiarity to enable the subsequent development of relationships' (Yeung and Tung, 1996: 61; citing Yang, 1994).

Guanxi is not everywhere the same. Yi and Ellis identify significant differences between mainland Chinese businesspeople and Hong Kong businesspeople:

> The Hong Kong executives placed a higher priority on social activities and entertainment, perhaps reflecting the greater economic opportunities to engage in such behavior, whereas their Mainland counterparts emphasized the value of commitment, trust, and mutual cooperation (2000: 28).

Yi and Ellis suggest that this may be explained by the stronger framework of law and institutions to be found in Hong Kong, which may lead Mainland businesspeople to rely more strongly on individual relationships. That explanation is consistent with the study by Xin and Pearce which found different degrees of dependence on *guanxi* amongst groups of businesspeople in different sectors of the Chinese economy (Xin and Pearce, 1994; 1996).

Nevertheless, in each of those cases there still does seem to be some emphasis on *guanxi* as an arrangement of dyadic relationships. To that extent, it is not necessarily associated with some form of group identity. It is possible to see how a *guanxi* network might be associated with self-perceptions of common group

membership, and summon up ingroup-outgroup dynamics (Yeung and Tung, 1996: 58, 61), but that may just be because shared group experience facilitates the development of dyadic relationships (Yeung and Tung, 1996: 61), not because it necessarily establishes some group or clan (cf. Standifird and Marshall, 2000: 30). That is important, because the fact that '*guanxi* is embedded in dyadic relationships between two people, not organizational entities' (Yeung and Tung, 1996: 61) may have significant ethical implications, to which we shall return.

Ethical approaches

The fact that *guanxi* revolves around continuing relationships between individuals means that some of the ethical concerns alluded to at the outset are less likely than others. As noted, for example, *guanxi* does not generally seem to be associated with 'fee-for-service' bribery:

> [I]t is important to make a distinction between guanxi and bribery. The central difference is that guanxi means relationship building, while bribery is simply an illicit transaction. (Lovett et al., 1999: 234)

However, the same facts may make some of the other concerns more salient: 'In practice, *guanxi* appears to resemble nepotism in the West' (Yeung and Tung, 1996: 57). The concern for another with whom one has a relationship may manifest itself through favours of various sorts, from the protection or promotion of another individual in an organisation, to the provision of information that allows insider trading.

Dunfee and Warren argue for a 'particularistic' account of *guanxi* which sees ethical justification for *guanxi* where it may 'facilitate efficient exchange' (2001: 199), but sees it as problematic in other cases where, for example, it reduces societal wealth, benefits a few at the expense of the many, or results in the violation of important fiduciary duties (2001: 200–201).

To the extent that this account revolves around considerations of efficiency it reflects earlier discussions about the possible justifications of *guanxi*-based behaviour on the basis of transaction cost analysis (e.g. Lui, 1998; Lovett et al., 1999; Standifird and Marshall, 2000). Lui notes a number of discussions that analyse economic benefits of trust in business, and their application to Chinese business behaviour. Lovett, Simmons and Kali develop related themes and contend that

> Asia has undergone great changes, but the emphasis in modern Chinese societies is still on relationships. Loyalties and obligations to individuals make the system work. (1999: 235)

Standifird and Marshall argue more strongly that 'from a transaction cost perspective, *guanxi*-based business practices offer certain advantages over existing structural alternatives' (2000: 40).

On that sort of approach, questions about ethicality of *guanxi*-based behaviour may be approached through utilitarian calculation, and it could be ruled out as unethical just where it leads to diminished wealth. Dunfee and Warren's account explicitly approaches the issue in this way to the extent that it advocates balancing the facilitation of efficient exchange against possibilities of reducing societal wealth, for example perhaps because 'the overall impact of the practice is to distort and disrupt the operation of capital markets' (2001: 200).

However, some of the other sorts of considerations adduced by Dunfee and Warren go beyond utilitarian calculation. The contention that because most people in China have limited *guanxi* that they can bring to bear on business, practices of *guanxi*-based behaviour benefit a minority at the expense of the majority, seems to revolve around considerations of fairness and distributive justice. The concern that 'guanxi may result in the violation of important fiduciary duties' (Dunfee and Warren, 2001: 200) goes a further step again beyond that. What is more, it starts to raise important questions about the basis upon which we are endeavouring to come to our ethical conclusion. For we are no longer merely calculating welfare and social utility. We are now introducing different sorts of non-consequentialist duties into the balance. Dunfee and Warren give examples where *guanxi*-based actions seem to be wrong, because they are outweighed by conflicting duties: a bureaucrat whose decision about award of a licence is based on *guanxi*, and a private sector manager whose *guanxi*-based action disadvantages shareholders.

Relationships and duties

We may agree that *guanxi*-based behaviour can be wrong because it conflicts with some duties which ought to be heeded in the circumstances, but it does not yet follow how widespread such cases are. Equally important, we may need to consider carefully just why such *guanxi*-based behaviour is wrong, when it is.

In considering the example of the bureaucrat 'who awards a license to do business in response to an obligation based in guanxi', Dunfee and Warren suggest that 'if the bureaucrat receives personal benefits in return for his/her official action, then the exchange may be viewed as one of public assets for personal benefit' (2001: 201). To some extent, however, this description is at odds with various writers observe that *guanxi* involves maintenance of long-term relationships; not straightforward exchange of benefits.

That is important because there is now a strand of thinking in Western philosophical thought which accepts the possibility that actions based in personal loyalties may be matters of obligation rather than attainment of personal advantage (see in particular Blum, 1980; and Fletcher, 1993). Fletcher notes that this development runs counter both to Kantian and to utilitarian moral views. While Kant's ethical views are often seen at the opposite end of the theoretical spectrum from the utilitarianism of Bentham and his successors, nevertheless they both associate a moral approach to issues with an attitude of impersonality and detachment.

The same general exhortation to impartiality and detachment is implicit in economic views which have their roots in the work of Adam Smith, given currency around the same time as the work of Kant and Bentham. Whatever Smith's own views, it does at least seem as though during the two hundred years since he wrote there has been a widespread acceptance that productive and efficient economic arrangements depend on participation in markets by separate and independent agents, with minimal consideration of traditional social ties (for discussion of Smith's actual views, see Werhane, 1991).

The contrary view to that 'universalism', which has been gaining some acceptance recently, is that personal relationships can give rise to specific obligations. If actions based in personal loyalties may be matters of obligation rather than attainment of personal advantage, then it is by no means clear that all *guanxi*-based

actions are wrong when they conflict with other duties. Then, what seems to determine the ethical issue is the detail of the duties involved.

Although the issue is brought to the fore by *guanxi*, it may not be a point that is any way specific to Chinese culture. E.M. Forster wrote famously that 'if I had to choose between betraying my country and betraying my friend, I hope I should have the guts to betray my country' (Forster, 1965: 76). He is putting a position about a conflict of loyalties, a position perhaps associated with the idea that friendship-based interpersonal loyalties at least on occasion outweigh loyalties to abstract institutions or organisations. The context of Forster's expression of hope that he would betray his country rather than his friend is his comment that 'I believe in personal relationships', and the point that personal relationships are not based on contract: 'that is the main difference between the world of personal relationships and the world of business relationships', he says (1965: 76). But in a community where *guanxi* is important, the difference between personal relationships and business relationships may be blurred.

Certainly, there have been challenges to the idea that such interpersonal relations as friendship can give rise to obligations. For example, Cocking and Kennett (2000) argue that friendship can lead us into 'moral danger' to the extent that demands of friendship may conflict with those of morality. However, they nevertheless acknowledge that friendship can be valuable and important to the extent that its demands may sometimes override those of morality (2000: 296). So far as the result is that we need to balance the demands of friendship against those of morality, the practical effect seems the same as if we regard the demands of friendship as moral demands which need to be balanced against other moral demands.

The practical implication is that we need to balance demands of friendship against other demands, and that sometimes the balancing act will be difficult. However, that it is reasonable to construe *guanxi* as giving rise to these sorts of demands on us is suggested by Lui's comments about the complexity of managing such demands:

> The mismanagement of trust and personal connections will significantly restrict the room of maneuver and, more importantly, introduce particularistic and personal concerns to business strategizing. The Chinese businessmen are wary of the exploitation of trust and personal connections in business transaction … There is a certain limit in the use of *guanxi* and the related trust-based exchange in the operation of business. A businessman with a reputation of overdrawing personal connections or being too lenient towards the exploitation of such connections by his/her business partners (i.e. the practice of favouritism) will not be well received by others in the same business community. (Lui, 1998: 351; also referring to DeGlopper, 1972).

The picture is one that can be explained as individuals managing conflicting obligations: trying not to assume obligations they cannot meet, and avoiding the instrumental exploitation of relations like friendship or kinship. It is consistent with the comments by Standifird and Marshall that 'contrary to common perception, *guanxi* is more than the exchanging of gifts in order to procure favorable business exchange' (2000: 22), and that '*guanxi* is first and foremost about the cultivation of long-term personal relationships'.

Guanxi, *ethics and economics*

While it seems clear that *guanxi* can play an important part in business relationships and dealings, and there are arguments for and against the overall economic benefit that *guanxi* can play in such dealings, it is less clear that their role in such dealings is their primary purpose. Nor is it clear that *guanxi* is a uniquely Chinese phenomenon. Recent work on the idea of 'social capital' reminds us of the benefits that individuals and communities may achieve from social networks and relationships, but Portes notes that while the terminology is new, the idea is well established in sociology (Portes, 1998: 2). Standifird and Marshall comment that '*guanxi* does not appear to be unique, and in fact it exists to some extent in every human society' (2000: 22). While we may expect that Chinese history, tradition and religion will have given it some characteristics that distinguish it in detail from such relationship networks in other societies, it may also be that the ethical issues it poses are similar in general terms to ethical issues that arise for us in Western societies when we are involved in personal relationships that may place demands on us that conflict with other morally important considerations.

The sorts of differences that we may observe between *guanxi* and many Western friendship networks include the fact that there are more explicit social sanctions for failure to heed *guanxi*-based obligations (Standifird and Marshall, 2000: 23; Tan and Snell, 2002: 363): failure to heed such obligations leads to loss of face and damage to reputation, with other consequent loss. However, the difference may still be one of degree. The idea of face can be given application in the West as well as in the East, as Goffman showed (e.g. Goffman, 1955). It seems likely not that *guanxi* involves arrangements that are qualitatively different from any social arrangements in the West, but that those of the East are better articulated and more self-aware than the corresponding ones in the West.

If that is true, it may be that rather than evaluating *guanxi* in Western terms, we may be well advised to evaluate Western arrangements by the more sophisticated analytical apparatus of the East.

In particular, for example, we may wish to consider more carefully the differences amongst forms of interpersonal relationships that can be found between people in business organisations. Solomon has already addressed this point to some extent, drawing on Aristotle's categorisation of friendship into useful friendship, pleasant friendship, and ideal friendship (Solomon, 1994: 467). Certainly, there seem to be genuine and substantial ethical issues that can be addressed about such questions as what the moral status is of relationships which are established just because they are expected to be mutually beneficial. The analysis will require care, because businesspeople may establish relationships which mingle personal respect and affection with expectations of advantage: it may be that their mutual regard will stem in part from their appreciation of one another's skills and talents and their mutual appreciation of the work they do and the details of the social and institutional world in which they do it. On the other hand, however, we may be morally suspicious of efforts to establish friendships for instrumental purposes, and there is evidence that Chinese culture embodies such suspicion. Distinguishing *guanxi*-based behaviour from 'fee-for-service' bribery, Xin and Pearce comment that:

> This is not to say that straightforward bribery does not occur in China. It does, and participants in such an act may call it *guanxi*, but Chinese society widely

> scorns such *guanxi* (Xin and Pearce, 1996: 1646; referring also to Yang, 1994).

Bell says that

> [W]hile 'connections' are common to every culture, they are burdened by a negative valuation in Confucian thought, where individuals are encouraged to develop relationships of respect and responsibility and not use others as instruments toward objects of desire (Bell, 2000: 133).

There are problems about relationships that are established for instrumental purposes, but the best approach to such problems does not seem to be to say that relationships and obligations that arise out of them are inherently problematic, but rather to consider more carefully what distinctions may be made amongst relationships, to recognise the mixed motives that we all may have for things we do, and consider their ethical implications.

The need for such care and the importance of such distinctions has been recognised by Western writers about obligations that arise out of friendship. In his general defence of the idea that friendship and personal attachments may give rise to genuine obligations, Blum noted that

> Certainly attachments to particular persons can lead us to violate impartiality, and thus to be unfair to others. Someone in an official position to dispense jobs can use his position to get jobs for his friends and relatives, independent of their qualification for the jobs. (Blum, 1980: 46)

This case is reminiscent of the example given by Dunfee and Warren, of the bureaucrat who awards a license to do business in response to an obligation based in *guanxi*. We may demur from their characterisation of the case as one where the bureaucrat receives personal benefits, but still consider it ethically problematic. Even if we construe the case as one where the bureaucrat is meeting an obligation – derived from *guanxi* – in awarding the licence, rather than deriving 'personal benefits', nevertheless we may believe that there is moral error, at least because the obligation of impartiality ought to be acknowledged as having greater weight than the *guanxi*-based obligation.

However, it will not always be straightforward to say when obligations based on personal relationships are outweighed by others. Solomon notes that mentor relationships are now widely accepted as important and proper in Western organisations (1994: 463), but that friendships more widely can have morally significant weight in organisational life. The result can be cases of hard decision:

> The role of friendship in the good life, like the role of friendship in business life, is complex and interconnected with a great many other concerns and responsibilities. These complications become most obvious when friendship in a personal sense enters into a professional relationship. (1994: 465)

He notes that 'competition may be the theoretical basis of the marketplace, but friendship is a far more substantial foundation for much of what goes on in business life' (1994: 468). If we accept that, then it may be that we have in front of us the need to re-evaluate some of our Western economic arrangements. It has been argued elsewhere that it is an error to evaluate trust-based relationships only in terms of their instrumental value, ant that they ought to be recognised as having value in their own right (Provis, 2001). It may similarly be that in at least some of its forms *guanxi*

ought to be recognised as having worth in its own right, and not evaluated only in terms of the ulterior economic benefits it facilitates or inhibits.

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