3. Guanxi
A personal connection between two people in which one is able to prevail upon another to perform a favor or service, or be prevailed upon (Wikipedia).
Guanxi (Fan, 2002)

- Guanxi is based on relationships, but relationships do not guarantee the development of guanxi.
- Guanxi is an active connection.
- Guanxi is a long-term social obligation.
- Guanxi is reciprocal exchange.
- Guanxi is a form of social capital.
- Guanxi is a dynamic process.

A → B → C
Levels of Guanxi

- Jia-ren
- Shou-ren
- Sheng-ren
Business Guanxi (Fan, 2002)

- Business Guanxi
  - Guanxi is a personal asset
  - Guanxi may not be transferable
  - A guanxi process consists of informal social interactions.

- B2B
  - Buyer-supplier

- B2G
  - Business-government officials
  - Obtain information
  - Improve efficiency by reducing the transaction costs.
  - A way to bypass laws and regulations and obtain special treatment or scarce resources.
Types of Guanxi (Su and Littlefield, 2001)

- Favor-seeking vs. Rent-seeking
  - Favor-seeking
    - It is selective and limits to certain carefully chosen circles.
    - Rooted in Chinese traditional ethics and possesses a moral power
Benefits of Good Guanxi  (Fan, 2002)

Right guanxi could bring a wide range of benefits: securing rare resources, bypassing or short-cutting the bureaucratic maze, obtaining information and privilege, reduce transaction costs, selling otherwise unsellable goods, provide insurance against uncertainty and assistance when problems arose.

- Guanxi is not a competitive advantage.
- Guanxi is necessary but not sufficient for achieving business success.
Rent-seeking

- Quanli guanxi (power-dependence relationships emphasizing rent-seeking)
- Quanli guanxi is equated to bureaucratic corruption and is often synonymous with nepotism, bribery, favoritism, unfair competition, and fraud
- Guanxi and Corruption
  \[
  \text{Money} \leftarrow \text{Guanxi} \rightarrow \text{power} \\
  \text{Corruption}
  \]
Enter Guanxi (Su and Littlefield, 2001)

- Making friends or becoming shu-ren or insiders.
  - Take the lead in making commitments
  - Always be helpful
  - Always be empathetic
  - Use intermediaries
- Develop guanxi cost time, energy and money.
- Avoid quali guanxi and illegal transactions
How to control “bad” Guanxi?:

- Create competition
- Rotate the front line
- Increase points of contact
- Build company loyalty
Will Guanxi Remain So Important?

- A better legal system will make it less necessary as transaction support
- A market economy and administrative reform will make it less profitable