

ROLE OF GUANXI IN CHINESE-HUNGARIAN BUSINESS NETWORKS A QUALITATIVE APPROACH

Abstract

This research focuses on Hungarian firms' understanding of GUANXI, the term referring to Chinese-style relationship marketing. Relationships are a prerequisite for successful industrial marketing bonds. Researchers agree that it is essential to use personal bonding in Chinese business networks. China is one of the fastest growing economies in the world, with a huge market potential. Multinational organizations are establishing businesses in China using guanxi as an important tool to achieve success. There are some similarities and differences between guanxi and Western-style relationship marketing. This study utilizes a qualitative approach to examine how Hungarian companies with Chinese business partners understand the term "guanxi," and how they use this tool in their business networks. The research was undertaken in Hungary. Participants were Hungarian executives and top managers who had experience in communicating with their Chinese business partners. Many Hungarian companies do not achieve the success they expected in the Chinese market. Success stories were collected to illustrate how guanxi supported business in Chinese-Hungarian business networks. The results of the interviews were compared with past research findings of the marketing and business network literature, highlighting the similarities and differences.

Keywords

business network, China, guanxi, relationship marketing.

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Introduction:

China emerges dynamically in the world economy, the presence of Chinese companies in international networks is significant. The Industrial Marketing and Purchasing Group (IMP) has been increasingly researching this phenomenon. Interest in research of Chinese Guanxi – translated as relationship or connection – is growing. Terrence H. Witkowski and Eric J. Thibodeau (1999) carried out a research on the developmental processes of personal bonding from the point of view of international marketing. They found that in international marketing, personal acquaintance plays an important role in the buyer-seller relationships. They researched the prerequisites for the formation of personal relations, the interactions facilitating the relationship-building and the meaning of and changes in these personal relations. They drew special attention to the cultural differences, among them to the fact that in the Far Eastern countries establishing a personal bond takes a rather long time and it is a prerequisite to the formation of business networks, as getting to know one's business partner precedes signing the contract. A review of IMP China literature (J. Wilson, R. Brennan, 2010) identified three broad themes which are researched: (1) Chinese cultural values, (2) China within the wider context of Asia, (3) Doing business in China. Based on their findings, the IMP researches focus on the third theme. The cultural values play an important role of conducting business in China, but values like trust, reciprocity of friendship received little attention in IMP research. One of them is a paper of J. Wilson and R. Brennan (2008), which analysed the cultural context and guanxi in UK-Chinese Joint Venture Relationship. China's growing economical role requires further examination of this question. More and more companies develop business networks with China, however, Chinese traditions and culture fundamentally differ from that of the USA and the countries of Europe which makes the establishment of business relations rather difficult. Based on the agreement concluded between the Hungarian prime minister and Chinese premier in July 2011, the biggest Chinese eastern European logistical hub, with complex services will be established in Hungary (web page of Hungarian government). Chinese investments will be promoted and several significant business agreements have been signed. The main partners will be big size, multinational or state-owned Hungarian companies (e.g. BorsodChem a chemical company, Malév the Hungarian national airline) and advisory firms will be involved. The Chinese premier in his speech said: "in order to do business successfully the two countries should first of all be friends" (web page of Hungarian government). This sentence emphasises the importance of understanding the cultural factors and dimensions of guanxi

like friendship. This agreement underlines the importance of understanding what is known by Hungarian managers about Chinese guanxi and its dimensions. We examine the notion of networking focusing on the value creating processes on the business-to-business market, with special attention to a Chinese trait, guanxi, which means a network of relations.

We would like to acknowledge, that our failure to gain access to state owned and big size multinational companies having Chinese business partners is a limitation of our research. The consulting firms are overrepresented in the sample.

The content of guanxi will be presented based on literature research, and by using qualitative interviews we will examine the experience of Hungarian ventures and companies related to guanxi. In the first part of the paper, the circumstances that justify the necessity of such a research will be outlined, then the effect of cultural differences on business relations will be presented. Afterwards we will specify research methodology, and the results of the qualitative interviews will be compared to the literary summaries. At the end of the paper we will analyze those components of guanxi which were frequently mentioned and emphasized by the interviewees. We conclude our investigation with the limitations and ideas for further research.

The Relevance of Hungarian Researches About Guanxi

The role of China in the world economy and its international influence is dynamically growing. Considering GDP, China was no. 3 in the world in 2009, beating Germany and coming closely after Japan (The World Bank, 2010), see Table 1.

Gross Domestic Product 2009		
Ranking	Economy	Million USD
1	United States	14,119
2	Japan	5,069
3	China	4,985

Table 1. Source: The World Bank, 2010

China beat Japan in 2010 (CIA, World Factbook, 2011), see Table 2.

Gross Domestic Product 2010		
Ranking	Economy	Million USD
1	United States	14,620
2	China	5,745
2	Japan	5,391

Table 2. Source: own, 2011

The growth rate of GDP slowed somewhat down in China in 2009 (Trading Economics, 2010), but it still reached 9.6%. This index was 2% in the United States, 0.9% in Japan. A growth rate exceeding 6% and almost reaching 10% has been maintained by China throughout last three decades (Trading Economics, 2010). The World Bank predicts an 8.7%

growth rate for 2011 (Bloomberg, 13.01.2010). China wishes to become a key factor in the process of globalization, in all fields of life. In the past two decades expenditure on research and development was increased at a rate twice the speed of GDP growth (Inotai, Juhász ed. 2009). The number of Chinese firms entering international business networks is also growing. In Hungary Chinese companies are present as investors, exporters and importers. According to data from the Hungarian Central Statistical Office pertaining to 2010, export trade amounted to EUR 899.5 million (KSH, 2010) while import (the vast majority of which left the country upon processing) was EUR 3229.6 million. Among all the non-EU countries, China is the fourth largest commercial partner of Hungary. Hungarian entrepreneurs and companies have shares in Chinese business chains. The success of business transactions is greatly influenced by the understanding of Chinese culture and as a part of this, that of *guanxi*. In our qualitative research we will unfold the interpretations, attitudes and methods of application of Hungarians entrepreneurs towards *guanxi*.

The Effect of Cultural Differences on Business Relations

The basic difference in ways of thinking makes networking difficult between China and the Western world. The United States is among the countries which are referred to as some of the most individualistic ones whereas Chinese society is characterized by collectivism (Hofstede, 1980). In individualistic societies, self-realization and self-fulfilment hold great value. The competition between individuals comes natural, during which each thrives to reach his or her own goals. In collectivist societies like the Chinese, people prefer to work in groups and joint action maximizes the profit achievable by the individual, who, by this also reaches his or her personal goals. Information sharing in China is indirect and discussions begin with explanations before the actual discussion of the issues, whereas Americans prefer a direct and to-the-point style of negotiation (Graham John L., N Marketing Lam, 2003). As opposed to the American, Chinese negotiating parties are not usually authorized to make decisions. During negotiations Chinese parties prefer to ask questions and tend to perceive the negotiating style of the Western party as aggressive. Those travelling to China for business trips receive advice such as *“have lots of business cards at hand”*, *“arrange for your own interpreter”*, *“use short sentences”*, *“dress conservatively”* (Graham L. John, Lam Marketing N., 2003). These are enough to enter into negotiations but not for the long-term success of the business. Parties tend to leave the meeting rooms unsatisfied, because Americans perceive the meetings as too long and inefficient, the administration as poor and the management as incompetent. The reason behind these lies in cultural difference. In China, group interest precedes individual interest, or even more so, for the realization of one’s own interest it is a prerequisite to take into account the interest of the group. Individualism is one of the five dimensions of Hofstede (Hofstede Geert web page, 2011). Hungary lies between China and the United States (see Table 3).

Country	Power Distance	Individualism	Masculinity	Uncertainty Avoidance Index	Long-Term Orientation
China	80	20	66	30	118
Hungary	46	80	88	82	50
USA	40	91	62	46	29

Table 3. Source: http://www.geert-hofstede.com/hofstede_dimensions.php?culture1=40&culture2=18

Hungarians lie closer to the Chinese in three dimensions (power distance, individualism, long-term orientation), but in the remaining two they are farther from the Chinese than the Americans (masculinity, uncertainty avoidance). The nature of the distances between the dimensions may affect the interpretations of guanxi which might differ from the outcomes of a research carried out in the United States. Thus, this can serve as a starting point for further investigation. For successful business negotiations, it is necessary to be knowledgeable about the roots of Chinese culture, history and about the war-lords. China's past pervades its present. Its more than 5000 years of history has left its mark on all fields of life. The teachings of Confucius have affected education more than 2000 ago and the principles of public administration and the morals in business relations are based on these teachings. The roots of guanxi (the Chinese network of relationships) are to be found in the basis of the philosophy of Confucianism (Hong Liu, 2009). Confucianism identifies five basic relations and their related moral values (Liang-Hung Lin, 2011), see Table 4.

5 basic relations	Moral values of relations
father – son	affection
sovereign – minister	righteousness
husband – wife	attention to their separate functions
old – young	proper order
friend – friend	Fidelity

Table 4. Source: own

The rights and responsibilities of individuals in China are not universal. They differ according to the network of relationships of each person. The Chinese culture accepts inequality in relationships (J. Zolkiewski, J Murphy, A. Khan, 2008). The science of the establishment and management of these relationships, the guanxi, is the root of China's social and economical system.

Research Methodology

There has not been any comprehensive study in Hungary in the field of industrial marketing which would have examined the interpretations of guanxi by Hungarian companies, so we used an exploratory, qualitative method in the first phase of our research. The in-depth interviews have been made in February, March and April 2011 and lasted between 60 to 90 minutes. Interviews were based on the recommended qualitative research methodology of Denzin NK and Lincoln YS, (1993). The interviews were carried out in Hungarian language using a recorder, and transcripts were made for easier analysis. The interviews took place in the offices of the interviewees in all cases. The objective was to uncover the interpretations of guanxi by Hungarian companies and to discover the related attitudes, so the interviews were informal and were carried out with open-ended questions as suggested by Malhotra Naresh K. (2009). Thanks to this the interviewees were able to tell their own experience in the manner of telling stories. The selection process was aided by the Hungarian-Chinese department of the Hungarian Chamber of Commerce and Industry. The interviewees all had Budapest-based private owned companies. We did seven in-depth interviews altogether. In order to keep to the exploratory nature of the research and to take many aspects and viewpoints into account there were five interviews done with directors of consulting companies which specialize in Chinese-Hungarians relations, one interview with a self-employed entrepreneur and one with the director of a shopping mall. All the interviewees were of Hungarian ethnicity. The dominant number of consulting companies in the sample was justified by their vast

knowledge about the histories of many Hungarian companies, which stand as examples for the successful and unsuccessful utilizations of guanxi. It was a restrictive criterion that all interviewees needed to have at least 5 years of experience in the field of Chinese relations. During the interviews we used a shortened version of the interview outline we developed on the basis of relevant literature (Hongzi Gao et al, 2008), the elements of which are:

Rules and constraints in business interactions
Open or closed networks
Gift giving
Dinner
Mianzi (face)
Status
Identity
Renqing (exchange of favour and reciprocal obligations)
Ganqing (emotion)
Flexibility
Adaptation
Trust/trustworthiness
Interdependence
Guanxi (special personal relationship)”

During the interview and at its end the interviewees had an opportunity to digress from the contents of the interview outline and talk about their own experience related to guanxi, about those aspects of it, which in their opinion are closely and directly related to its practice. Instead of a rigid question-and-answer framework we aimed for the method recommended by Mark Easterby-Smith et.al. (2002) which enhances the establishment of trust, informal tone and friendly atmosphere between the parties, facilitating the exploration of attitudes and emotions. The interviews were conducted in Hungarian language and all of them were face to face. Six interviews were recorded and transcribed, and the analysis was conducted on the transcribed data. One interviewee denied voice recording – in this case written notes were made. The secondary data was collected additionally to the interviews. The purpose of the study was to investigate the understanding of guanxi and its dimensions by interviewees.

Overview of the Literature on Guanxi Research and its Comparison to the Findings of the In-depth Interviews

Guanxi – the relation(ship)

The Chinese carefully manage their personal relationships which intertwine Chinese society and also international trade (the latter through those Chinese people and companies which entered into international business chains). This network of relations is called guanxi in Chinese.

Chinese immigrants living in foreign countries differ from other immigrant minorities (Wolfgang Hirn, 2006). While others aim for assimilation, the Chinese adapt to the host country only to a certain extent. They cherish their traditions and they form separate communities. They maintain their relations to the mother country, their family and friends

and whoever can, makes investments in China. Seemingly through loose agreements, without contract or in a loosely documented way they establish serious business relations. These oral arrangements are very strong, just like a written contract. The phenomenon which keeps the system going and which urges a person to keep to his or her word is the guanxi.

The Meaning of Guanxi

The Chinese word guanxi is made up of two symbols, the first, “guan” means “gate” and “xi” stands for “relationship”. Guanxi means a relationship between people in a society who have “entered this gate” (Lee D. Y., Dawes P.L., 2005). These relationships serve as the roots of Chinese society. They pervade private life, politics and business. Guanxi includes family relations, but also transcends these and makes various communities of people: of the members of the same clan, of people with the same last name, of people coming from the same village, of people belonging to the same religion, of people who studied at the same school, of anyone who share and are connected by a common experience. Those who are part of this group share the “*one of us*” experience (Hongzi et al, 2008), and those who are not, feel excluded, left out and alien. The guanxi circles or communities are exclusive. For outsiders it is very difficult to get into one, may it be of a business or a social dimension. Yin Fan (2002) identified three different types of guanxi: Family guanxi, helper guanxi and business guanxi. From IMP point of view we were interested in researching the understanding of business guanxi.

The Meaning of Guanxi According to Interviewees

The definition of guanxi was not given to the interviewees, we asked them to describe or define it:

„Personal relationship”

„Relationship, connection”

„Human element”

„Personal relation, but not a friendship, more business-based”

The interviewees emphasized the importance of the guanxi when entering the Chinese market. Based on their opinion it is most important to have guanxi when the business just starts. The findings of Chen Shu (2004) are identical. In the sample were five consulting companies, and all of them highlighted, that guanxi is one of the most important resources of their companies. Guanxi has a special value for them, similar to the business relationship value as described by Simon J and Mandják T (2004) “The value of business relationship expresses usefulness and motivation recognized in, or assigned to a business relationship”

“Without guanxi it is very difficult or even impossible to start a business in China”

It is important to note that four interviewees highlighted that guanxi

„is a natural thing”, „human relationships are the basis everywhere, it is the same for us”, „this is not such a unique thing at all”, „... it works the same way for us”.

Apart from trying to explain the characteristics of guanxi which are unique to China, many of the them felt a resemblance between guanxi and the personal relationship networks of Hungarian people. Many of those interviewees who have been present on this market for a

longer period said that they felt a decline in the significance of guanxi in the past 10 years. They assign this change to the (i) growing number of multinational companies in China which use and require written contracts (ii) slow but constant adjustment of the legal system to the international standards, (iii) changes in attitude of the generation of those 30-to-40 years of age (iv) spreading of the Internet. This “new generation” is the group of managers working in big cities who have studied abroad but have returned to China and to whom the ‘losing face’ is less of a personal matter and who grew accustomed to the negotiating style and emotional reactions of the Europeans. The Internet is an important tool to gather information about business partners and to try to map their relations and network (social networks). They did add however, that these changes only apply to bigger cities.

„In the countryside, not even the export manager speaks any English.”

The Structure of Guanxi

Whereas in relationship marketing we talk about a network of relations, the Chinese guanxi is more similar to structures based on concentric circles. Hwang (1987) described guanxi as three concentric circles: many coming researches applied this approach. Table 5.

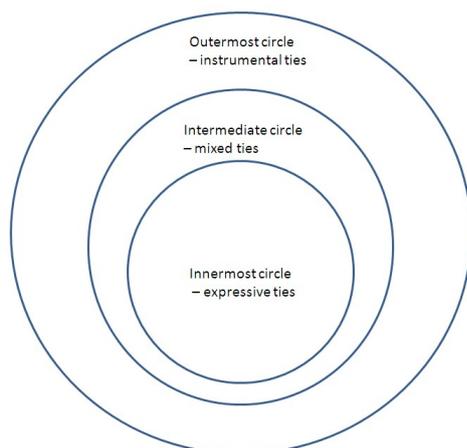


Table 5. Guanxi circles, Source: Adapted from Hwang, K.K. (1987)

The essence of the circles is that each circle stands for different rights and responsibilities. The nature of the relationships also differs. In the innermost circle it is strong and explicit, in the middle circle it is mixed and in the outer circle it is cooperative. The innermost circle is made up of family relations and very close friendships. The responsibilities towards one's family members, such as caring for the old belongs here; those unquestionable responsibilities and obligations which cannot be neglected on any account. The middle circle is made up of the distant relatives and looser friendships. The outermost circle contains the acquaintances. The distribution of the sources also differs. In the innermost circle the responsibility felt towards the family members overrides one's individual interest, here everyone receives the resources according to their own needs. In the middle circle emotions and mutual feelings also play a role. The outermost circle lacks emotions, it is governed by rationalism and by seeking mutually advantageous situations. This is the area of business relationships.

The Interviewees' Interpretation of Guanxi's Structure

The interviewees did not feel these circles of guanxi. Their activities are limited to business activities, so they move in the outermost circle. During the interviews, they shared their experience about the workings specific to this outer circle and “rationalism” as such was frequently mentioned. Whether they experienced transit between the circles was examined by questions related to the relationship between private life, family and work.

*„Private life and work are not intertwined, it has no relevance in business”
 „They only went as far as asking if I had a family and what they did for a living”
 „To get invited to someone’s home? No, that rarely happens.”
 „Once I invited over a business partner for a barbecue in my garden – since then he thinks we are friends and tells me every time we meet how much fun he had at the barbecue.”*

Dimensions of Guanxi

The dimensions of guanxi were defined by Don Y Lee et al. (2005), who carried out qualitative interviews with Chinese managers. In addition to the three dimensions (attempt, reciprocity, face) uncovered earlier by Kipnis (1997), Don Y Lee et al. (2005) identified two additional dimensions. These were trust and interactions, but they also regarded the initial three to be the dominant, prevailing ones. In the research of Fock K.Y. and Ka Shing Woo (2000) eight characteristics were identified, namely personal relationship, mutual co-operation, trust, exchange of favours, exchange of information, giving face, social activities and entertainment and commitment. I will further analyze those three dimensions which were present in all of these researches: attempt, reciprocity, face.

Attempt

Some researchers identified this dimension as empathy (Cheng Lu Wang, 2005), others as attempt (Don Y Lee et al., 2005). Its basis is that one party needs to be able to imagine himself in his partner’s place. The higher the level of empathy, the easier it is to create a bond. The Chinese, in order to avoid confrontation or rejection, do not explicitly word their needs, goals or expectations, so instead of what has been said it is more important to know what has been left unsaid. It is essential to be empathic and emotionally open if they want to get to know their partner’s goals. By the dimension of “attempt” we also mean the attempt of a human being trying to maintain long-term relationships out of emotional reasons. This is specific to family members and in China to the student-teacher relationship and also to close friendships. Chinese differentiate between two levels of friendship. In a close friendships the parties are comfortable with making financial sacrifices for one another, whereas in the loose friendship they try to achieve a mutually beneficial material balance.

The Interviewees’ Interpretation of Attempt

In their business relations, the interviewees could not interpret the dimension of attempt, they regarded these networks from a very rational point of view. However, good personal relations do provide some positive (even emotional) feel to a successful transaction, but this remains on a rational level. They referred to this as trust. When we replaced the word ‘emotion’ with ‘empathy,’ they were able to share some experience:

“They are very friendly and this can be deceiving to Hungarians.”

“They excel in being able to read one’s facial expressions and from this they can detect mental state, health conditions and I even dare to say financial status. And this can be very empowering for them in a meeting.”

“They are very good observers and they feel what we say.”

Positive Attitude Towards Hungarian Companies

The interviewees noted that they experienced a very positive attitude from the Chinese towards Hungarian companies. The word order of Hungarian and Chinese languages show some similarities and some historical findings even suggest possible common ancestors:

“They are convinced that we are a distant tribe to them.”

“There is a feeling of cultural kinship.”

They cited examples from literature and also that many people in their sixties in China did their studies in Hungary and all of them have fond memories. These things have an indirect, but very positive emotional effect on the establishment of guanxi. The interviewees listed many examples of similarities between the Hungarian and Chinese language, music, culture:

“In both languages the family name is in the first place, and the given name is the second. In all European countries and in USA the order of family and given name is opposite. Our Chinese partners know that. If not, we usually tell them”

One of the interviewees said:

“There is a Hungarian proverb: “you recognize the birds by its feathers, you know who a person is by the friends he has” – it is Hungarian guanxi, isn’t it?”

Another participant mentioned:

“Many Hungarian people can not digest milk. A digestive enzyme of our body is missing, like it is missing from the organism of Chinese people.”

The arguments are not proved scientifically, but the interviewees believe in them and use the arguments successfully to strengthen interpersonal relationships with their Chinese partners.

Reciprocity

A personal relationship during which one party does a favour to the other and expects reciprocity (compensation) in the future. The party which was given the favour feels an obligation to return it as soon as he has a chance. This reciprocity is not time-bound and not immediate (Wong H.Y. et al, 2007). The notion of reciprocity is also present in Western societies but there it is more short-term and entails a symmetry or balance so it cannot be out of proportion. In China this reciprocity is long-term, it can take years until someone returns a favour. Both parties remember this favour exchange, and reciprocity is a very strong social norm. In Chinese society it is unthinkable not to comply with it. Those who do not comply become immediately expelled from a circle and they bring shame on themselves, their families and all of those in the same guanxi. All members of this latent group do and accept favours and demand that they are reciprocal. There are rules of behaviour linked to this dimension. These relationships should be maintained which means regular visits, occasional gifts and the celebration of anniversaries. It is a requirement for the group to help fellow

group members in need. According to Henry K.Y. Fock and Ka Shing Woo (2000), from the *guanxi*'s aspect reciprocity is not always balanced, the weaker party may expect more help and support. Favour exchange allows them to regard these relations as resources because they optimize the relationship of the group members towards one another. This reciprocity is a means of survival for the group and for the individual in harsh circumstances.

Interpretations of Reciprocity by Hungarian Companies

Reciprocal favour exchange received a lot of attention during the interviews, and the interviewees often use these in their business relationships within the ethical and legal boundaries. So for how long do the Chinese partners remember these favours? Here are the answers of the Hungarians:

“Forever”, “For eternity”, “They remember for a long time and they keep a record of it”, “They are trained from childhood to keep these things in their memories”, “Every Chinese person has a computer in his or her brain which manages the favour exchanges”

The interviewees regarded this favour exchange both as an advantage and as a disadvantage. When used to speed up processes which *“would have been happening anyway”*, then it is an advantage, like getting permits, but it is disadvantageous that you have to keep a record of these favours. One interviewee said that if they gave a discount to a provincial government employee, then

“the governmental employee of the same rank in the other province will know this before us in the office and also demands this before we are even notified by our representative in China”

They listed the giving of gifts as a reciprocal favour exchange, which is another means to tend one's relationships and maintain them on a long-term basis. For two interviewees giving a gift raised the question of corruption because in Chinese culture giving money as a gift is a tradition – but this usually results in embarrassing explanations and rejection by the Hungarians referring to company policy. One interviewee said that rejecting a small sum may lead to the deterioration of the business relation.

“For them, giving money in an envelope is OK. This is not bribe, not a bonus, just a gift to the other person.”

Expensive gifts or a large sum of money do pose the question of corruption, but small gifts are inevitable if you intend to maintain the relationship. The most popular ones are the personal, or seemingly personal gifts which are of folksy character and are typical to the nation or a region. At those large Chinese companies however, which have entered the multinational and corporate world, the significance of giving gifts is declining. According to the experience of one interviewee, the procurer at their Chinese multinational partner company is not permitted to accept any gifts.

“Once I gave a gift to the middle manager in the presence of his colleague. It was a bottle of 25-year-old Scotch whiskey and he immediately dropped it onto the ground saying that it was company policy not to accept any gifts and he kicked it underneath

the table. He later thanked me in writing and said that the whiskey was very delicious. In front of his colleagues, and in front of me he had to hold his face.”

Face

The holding or preserving of the face can only be understood when put in a social context. It means the image of a person in the eyes of others which developed through interactions (Bond, 1991). In Western interpretations, face is a simple notion (Ho, 1976), (Hu, 1944), it is not directly connected to business communication (Li, 1996), but in China it is an essential element of it. Although it is present in most societies, its meaning differs in Western and Eastern (Chinese) culture. Whereas in Western culture face stands for one's identity on an individual level, in China it means a positive social asset which one acquires through social interactions with others (Liang-Hung Lin, 2011). Face also stands for one's image and status within society. Its social significance is vast, not only because preserving it is important to the individual, but also because it matters to one's business partners and family, as its loss affects everyone. The loss of face brings shame on the family and on everyone he shares the same guanxi with. We find a significant difference between the Western and Chinese interpretation in the measurement of the face (Graham J. L., Lam M. N., 2003). While in the US you either have or do not have a face, in China its extent, scale and value are determinable, just like that of money. It can be earned, given, lost or taken away. Cardon W. P. and Scott J. C. (2003) identified five strategies to preserve the face. The first one is indirectness, which manifests in avoiding conflict. If such is inevitable, they revert to an indirect way of communicating, such as: “there are some difficulties.” The second strategy is the use of mediators in case of conflict, who possess a strong face, and who have prestige in society. The third one is the appraisal of the partner's status, competence and position, which should be carried out in other people's presence. The fourth one is an open question asking for a favour which is a sign of a strong bond between partners. If the other party rejects this, than the person who asked for the favour might feel that he is not given enough respect. The strategy of humiliation is used if someone violates the behavioural norms related to the face. Loss of face happens when someone generates an open conflict, demonstrates his anger in front of others, behaves arrogantly or aggressively, openly and directly criticizes others or does not respect one's status (Hwang, 1987). Preserving your image makes it possible that everyone in the group appears favourably. It minimizes intra-group conflict and strengthens harmony, stability and group cohesion (Don Y Lee et al, 2005).

The Interpretation of the Face by Hungarian Companies

The importance of the preservation of the face was emphasized by all interviewees. They defined it as:

“Its basis is preserving self-esteem and one's dignity, and to be treated according to one's place in the social hierarchy”

“The permanent preservation of one's positive judgment by society.”

One of the interviewees drew a direct comparison between guanxi and money which is close to the interpretation of Graham J. L., Lam M. N.(2003) In his opinion if someone is wealthy or has a large guanxi then his face will be equally strong. Another interviewee pointed out that for business reasons it is very important to always present themselves with the same faces on the Chinese market and that their colleagues represent the company for years. His

interpretation was a mixture of the Western and Chinese concept about the face, and while from the aspect of the guanxi the importance of long-term relationships are unquestionable, this is not relevant for the interpretation of the Chinese face. When analyzing the reasons behind losing face, breaking a promise came up in every interview, which was however not listed as a possible cause for the loss of face by Hwang, (1987):

“There will be a loss of face if someone cannot accomplish something he agreed to or he withdraws from it.”

“If he cannot keep to what he promised”

“If he lies and this is revealed”

One interviewee went even further and said that such was also a loss of face:

“It is enough if he knows that we know that he lied. We do not have to tell him this openly, he will still lose from his face.”

If face stands for the image of a person in the eyes of others, than the loss of face is limited to that person who knows about the lie. One person regarded it as a loss of face if certain things are revealed about one’s private life: extramarital relationships of men or any story told or action done on a drunken night that are socially unacceptable. All interviewees referred to the impatience of Hungarians and their aggressive, to-the-point negotiating technique as an obstacle. In meeting rooms, openly displayed rage, frustration or aggression result in the loss of face, so should therefore be avoided. Two interviewees summarized their experience in the following way:

“There can be absolutely no emotion detected on the face of a Chinese business partner, it should be an advanced sinologist who detects such a thing.

“The Hungarian party reacted very aggressively, and they instantly knew that we lost our mental peace which in their opinion meant that they won.”

Modesty

During the interviews about the face, the notion of modesty came up. Three of the interviewees pointed this out without ever hearing a question about it during the course of the interview.

“We should never be modest. We should not brag, but our assets need to be visible.”

“Go to the meeting in a luxury car. If you do not own one, rent one.”

“The Chinese value modesty, but this has its tactics. We had a shooting practice contest and our business partner said he was very bad at it, despite the fact that he was basically a master.

“He said he did not speak the language very well but then he started to speak perfect English.”

Using modesty in this sense strengthens the constituents of the face, which are wealth, intelligence, attractiveness, skills, position and a good guanxi (Graham J. L., Lam M. N. , 2003).

Trust - Oral vs. Written Agreement

The duality of written contracts and oral agreements was unanimously regarded as a significant problem. In case of a good *guanxi*, oral agreements should function well, the written contract is only a framework. To Hungarian partners, these oral promises and their compliance, and making the Chinese partner keep to the written contract pose the biggest obstacle.

“No matter what we wrote in a contract if he thought otherwise. If he had a different idea, he was only interested in that, and not in what we have written down.”

“One day we signed the contract and the Hungarian partner was satisfied that it was over. We did not understand why the Chinese partner wanted to start negotiations all over again the next day.”

“A contract is not always a marker beacon. A good relationship is worth more than any written contract. And no matter how good the contract is, if the relationship deteriorates, they will never keep to the contract.”

“The contract is merely the written symbol of trust, it is not for the declaration of the deal terms. It is only a framework which is constantly changing according to the shift of individual interest between the parties.”

“What is put down in writing is only part of the oral agreement. If there is mutual trust then oral agreements will also work.”

One of the interviewees had an uneasy experience once when their business partner regarded the promises made over the dinner table as agreements that override the terms in the written contract. This caused a lot of problems later, as for the Hungarian company the prevailing agreement was the written one. The role of dinners as the place for agreements and establishing the *guanxi* was emphasized greatly during the interviews. Although many of the interviewees added that with the spreading of globalization and multinational companies, the significance of written agreements is increasing.

Herewith we would like to refer to the paper of Anton Kriz and Tony Fang (2003). They highlighted, that *“guanxi opens the door”* but success in China is built on interpersonal trust, called *xinren*. The interviewees also emphasized the importance of trust, which is with the time deepened. Based on their experience trust is crucial for long-term successful business connections.

Summary and managerial implications

Firms extending business to Chinese markets have to understand *guanxi*, a different business network approach and practice. Our research focused on exploring how Hungarian companies understand this concept. Based on our findings there is no significant difference between Hungarian companies interpretation of *guanxi* and the results of literature examination in this paper.

However, it is important to point out the feeling of Chinese-Hungarian cultural kinship which has never appeared in other researches. Many of the interviewees felt a resemblance between *guanxi* and the personal relationship networks of Hungarian people. They explained, that friendship and closeness plays as important role in Hungarian business connections as in China. The relationship prevails over task in Hungary, like in China, and in a Hungarian society people might be judged based on who are their friends – which is similar to role of *guanxi*. From management point of view we found, that consulting companies emphasise the

assumed common roots of Hungarian and Chinese nations in order to strengthen guanxi. This is a strategic tool used mainly during informal dinners. The arguments are not confirmed scientifically but in practice are efficient in building guanxi. We suggest, that knowing Chinese history and culture is essential to build guanxi. Cultural similarities, proverbs or analogies found in the history of two nations can help to develop friendly discussions during informal meetings.

Guanxi was mostly regarded as a facilitator in the development of a business, but its inhibitory aspect was also mentioned. We did not find discrepancy between our results and literature. Dealing with reciprocity, with the giving of gifts and with the priority of oral agreements also raise problems for Hungarian companies. The change in the notion of guanxi was also extensively discussed which is probably facilitated by the many Chinese students studying abroad and by the spreading of the Internet.

Suggestions for Further Research and Limitations

The results of our research cannot be generalized due to the qualitative approach. Another limitation is that the consulting companies were overrepresented in the sample and all of them were based in Budapest. All the interviewees were of Hungarian ethnicity and there was not possible to undertake multiple interviews.

Based on our research we suggest two further research directions. Many researches are focusing on understanding the differences between guanxi and western type relationship management. We suggest to investigate further the phenomenon of guanxi on national levels in order to understand if the cultural background influences the perception of guanxi dimensions. The results could be compared by a multicultural team on integrated IMP level.

Another research area could be a follow-up qualitative research by narrowing down the spectrum of questions and by linking the traditional notion of guanxi to the effects of today's online social networking systems. Due to the evolution of online information networks, the social networks of people become available. As these sites specialize, professional networks are starting to appear, bound to enter the scene of inter-company relations.

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