

The Role of Guanxi on Chinese Leadership Innovation

—The Pilot Study on the Electric Motor Sector

X. Yan¹, G. Mulholland¹, J. Turner², E. Simpson¹

¹Dundee Business School, Abertay University, Dundee, UK

²Business School, Malaysia University, Kuala Lumpur, Malaysia

Email: xy.jason@hotmail.com, g.mulholland@abertay.ac.uk, JasonJames.Turner@taylors.edu.my, e.simpson@abertay.ac.uk

How to cite this paper: Yan, X., Mulholland, G., Turner, J. and Simpson, E. (2018) The Role of Guanxi on Chinese Leadership Innovation. *Open Journal of Social Sciences*, 6, 309-319.

<https://doi.org/10.4236/jss.2018.63023>

Received: January 22, 2018

Accepted: April 9, 2018

Published: April 12, 2018

Abstract

This research aims to examine the existence and nature of complex business-social relationships in the Chinese context (Guanxi) and evaluate how these relationships influence the behaviors of managers in State-owned Chinese engineering firms. Research on Guanxi is comprehensive though little work investigates internal influences and how internal relationships may mirror or replicate external Guanxi. This study uses a snowball sample of 66 senior managers across the key functional disciplines in typical large Chinese firms and explores how often strategic level problems in the firm are solved through relationships outside, inside or between the companies. Do Guanxi networks penetrate the organization itself and are there relationships that are unique to internal networks? The research finds that problem solving at strategic levels are often through internal and external networks, rather than internal management structures, but also that different problems complexities typically demonstrate unique problem-solving networks. The research identifies three different forms that these relationships take: Internal, inter-firm and hybrid relationship modes. Implications for this work suggest problem solving in Chinese firms is enhanced through cooperation and mutual respect, and likely to be inhibited by traditional Western approaches to management.

Keywords

Leadership, Guanxi, Face

1. Introduction

This research explores the nature of Guanxi inside Chinese enterprises and considers the implications for leadership at a time when Western leadership models

are growing in dominance, and Eastern cultural norms are still in existence. The literature on Guanxi is extensive, but the lack of its application inside organizations, and, in this case, in the leadership function is sparse.

The research questions include whether Guanxi is applied internally to the organization and, if it is, how does this influence leadership behaviour? This study adopts a pragmatist, social constructivist position, and uses a pilot study method approach to investigate the interaction between leadership behavior and Guanxi: the internal Guanxi. Leadership approaches that ignore the role of Guanxi limit the potential of the firm, which impacts on innovation, the recruitment, and retention of staff. Foreign and state-owned firms are less likely to resolve problems through relationships and typically apply more formal structures.

This pilot study investigates the existence of Guanxi (literally “relationships” but also the network of relationships among various parties that co-operate together and support one another) employed in Chinese enterprises to affect leadership behaviour and to develop a conceptual model for improving leadership performance. This research investigates what the most influential factors on Chinese leadership behaviour are; what Western leaders can learn from Chinese leadership when they operate businesses in the Chinese context; what the implications of Guanxi are on the leadership performance; and, specifically, how Guanxi has been employed internally in organizational management.

2. Literature View

Numerous scholars have identified the effect of Guanxi in an external business context. However, as already mentioned, few studies have extended the role of Guanxi to the work context to discover the influence of Guanxi on intra-organisational performance, such as employees’ loyalty, job incumbency, the justness of the leader and the effectiveness of teamwork. Guanxi inside organisations has been regarded as a consequential source; reserve capital for formal system support for organisational leadership; and processing desirable business outcomes [1] [2] [3]. Researchers have shown that developing personal Guanxi is the backbone of effective leadership [4], even when leaders and followers in the leader-member relationship come from different cultural backgrounds [5].

With the integration of informal interpersonal relationships (*i.e.*, Guanxi) into formal organisational systems, the current researcher endorses Chou *et al.*’s stance and believes that Chinese enterprises are able to improve organisational effectiveness by reducing personnel turnover, increasing subordinates’ morale, enhancing subordinates’ commitment, facilitating subordinates’ collaboration and so on [6].

Intra-organisational Guanxi has been regarded as a type of employee-employee relationship that is crucial for coordinating work [7] [8]. Yen and Wang [9] describe intra-organisational Guanxi as follows:

Coordination pertains to managing task interdependence and is fundamentally a relational process. Establishing Guanxi occurs through frequent, high-quality

communication reinforced by shared goals, shared knowledge, and mutual respect and enables organisational members to more effectively achieve desired outcomes [10].

Law [11] also developed a Guanxi-oriented model to suggest its value and function are a paradoxical, interdependent, flexible, holistic, reciprocal and dynamic effect on HRM. However, according to the current literature review of relationships (Guanxi) inside organisations, most researchers basically focus on two mainstreams of Guanxi: i) supervisor-subordinate Guanxi and leader-member exchange.

2.1. Supervisor-Subordinate Guanxi

Employees are embedded in relationship networks and rely on these networks to accomplish missions. The most crucial connections are those between an employee and his or her supervisor [12] [13].

2.2. Leader-Member Exchange

The relationship between a leader and a subordinate is considered to be critical in determining performance at work [14] [12], the higher the quality of the relationship between the leader and his or her subordinates, the more positive the outcome on work will be [15] [16].

2.3. Difference between LMX and Guanxi

The leader-member exchange relationship stimulates followers to increase work performance and Walumbwa *et al.* [17] also argued that LMX increased employee self-efficacy and organisational identification. Chen and Luo (2015, p.1027) stated that although LMX theory and Guanxi theory suggest that supervisors distinguish their in-group members from outsiders, and treat them differently, there is a difference in the theoretical bases of both theories. LMX theory is based on role-making system [18] [19] as well as social exchange theories, and focuses on the social exchanges in formal working relations between leaders and employees. By contrast, Guanxi circle theory is built from categorization theory in psychology [20], as well as network analysis in sociology, and places emphasis on network structural outcomes derived from differential modes of association in the Chinese workplace. LMX theory gives us only an approximate picture of the entire network structure of an organization (e.g., there is an ego-centred intimate network around the supervisor and most others are outsiders to this clique), whereas Guanxi theory gives us a richer picture of network structure than LMX theory by incorporating power and vertical social exchanges between leaders and their subordinates.

Zeng [21] summaries the significance of all interpersonal relationships as being to create a relaxed, harmonious, civilised and healthy working atmosphere between colleagues, subordinates and leaders in order to mobilize the enthusiasm of people, to make people felt happy and honour to work harder, which resulting in a strong group cohesion and solidarity for achieving the expected goals.

Furthermore, as far as the present research is concerned, the internal Guanxi of organisations indicates that it is an interpersonal process of implementing the relationship networks to cross the formal regulatory system in order to influence the expected goals or make changes inside organisations. Leadership has been interpreted as “an interpersonal influence, exercised in situations and directed, through the communication process, toward the attainment of a specified goal or goals” [22]. Because Confucianism has a great influence on Chinese leadership, Chinese leaders tend to build and maintain harmony and conformity within working processes; they show strong organisational commitment and group goals through effective internal Guanxi (relationship) approaches between leaders and subordinates (Earley 1994; Yang 2012).

3. Problems and Background

It is evident from the body of literature that has examined the impact of Guanxi on business management in Asia and in China specifically [23] [24] [25] that it has been applied in exploring and maintaining external business relationships in order to achieve goals. However, few studies have looked at the role of Guanxi in internal organisational performance and its influence on leadership behaviour. The present research investigates the role and implications of internal Guanxi in the Chinese business context. Therefore, this study could be useful for those Western leaders who do business in China; it could help understand how they perceive Guanxi, especially how it has been applied internally in organisations, which could generate many benefits leading to improved and more effective operational management of their company's. For Chinese leaders, it would help them fully recognise the roles of internal Guanxi in leadership behaviour which could lead to positive influences on organisational performance.

Three simple questions were asked to confirm the existence of Guanxi internally and the rationale for its use. One specific question was designed to determine if internal and external Guanxi were the same or treated differently:

- 1) Can you give an example of a particular/typical challenge, task or problem you have successfully sorted out recently?
- 2) How often does your business problem get sorted out through your internal personal connections?
- 3) Can you give an example? and “Can you think of any examples in which you contact your external personal connections to sort out internal organisational problems?”

Details of this and the findings are discussed as below, initial analysis of the 66 responses provided weight to the existence of these internal or external forms of Guanxi, and their implicit role and implications for leadership.

4. Pilot Study

4.1. The Process of Conducting the Pilot Study

The study was conducted among three different types of enterprise that operate

in five business functions in the electric motor industry via email survey and personal distribution. For example, when the researcher conducted the email survey, he asked someone who had private Guanxi with him in an enterprise, and forwarded the three research questions to survey people. These respondents sent completed questions directly to his mailbox in order to protect their personal privacy. As regards personal distribution, it may be difficult to reach targeted respondents. In this case the researcher was introduced by someone whom he knew in an enterprise, he briefly explained the purpose of this pilot study to respondents and left the questions with the respondents for half hour. The researcher then collected the answers by himself. If some respondents were busy at that time, normally the researcher went to collect them the next day. The researcher believes this method of distributing and collecting the pilot study validated the data and made them reliable.

4.2. Question 1

The data collected from 60 respondents' answers to Question 1, "Can you give an example of a particular/typical challenge task or problem you have successfully sorted out recently?", were classified according to their challenges into three categories, respectively 1) department, 2) type of problem and 3) position. All respondents' work problems have been classified into three types, respectively 1) operational, 2) management and 3) strategic problems (**Figure 1**). For example, operational problems have been defined as a process or series of routine work that involves major planning and discharging functions that have been disrupted or caused poor performance, such as insufficient productivity, quality defect and delay in delivery. Management problems refer to an activity that has been influenced by some unpredictable issues and leads to the inability to coordinate the efforts of people to accomplish desired goals and objectives using available resources efficiently and effectively, such as unco-operative behaviour, inefficient work and loss of human resource. Strategic problems, in turn, may be related to those pressures that exert a decisive influence on an organisation's

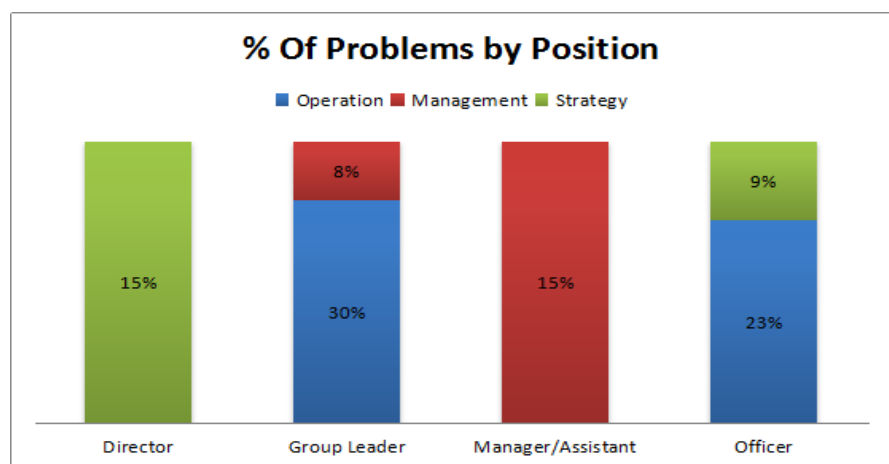


Figure 1. Different types of problems by the position.

likelihood of future success. These problems are not only driven externally by an organisation's future competitive position, but may also face internal strategic challenges, such as the organisation's capability and human capital resources.

4.3. Question 2

Regarding the respondents' answers to Question 2, "How often do you sort out your problems through your internal personal connections? Can you give an example?" after analysis, it was found that:

Table 1 indicates that the Workshop department is the major group who is the most concerned with utilising the internal Guanxi network to look for job solutions. They frequently use the internal network to solve operational and management problems, which 20% used more than 5 times a month and 11% said they used 3 times a month. For example, one report from a main leader in charge of the Japanese custom motors admitted that he used internal Guanxi network very often to keep up the productivity (4 times a week on average). The line Supervisor said: "When the production capacity of the Workshop is insufficient, I use my personal Guanxi to coordinate with several experienced supervisors to obtain my custom parts on order to insure my order can be completed on time. Normally twice a month."

Moreover, the Sales and Technology departments also constantly utilised internal Guanxi networks in operational management: 17% and 12% respectively used Guanxi. For example, a seller described the only way to complete orders earlier and satisfy clients was to use his internal network to coordinate the relevant departments to complete work effectively. Especially when a custom product has been ordered, he must consider many segments in the whole operation, such as convince the Technology colleague to test quickly, arrange with the Workshop colleague to take a sample on time and make sure the order can be slotted into the production schedule if the customer requires a large quantity. The internal Guanxi network could be a better way to influence people to do job rather than regulating them by formal policy. Of the respondents from the

Table 1. The frequency with which internal Guanxi is used to solve problems by department.

| Department | Logistics | Workshop | Human Resources | Research and Development | Administration | Quality Control | Technology | Sales |
|--|-------------------|----------|-----------------|--------------------------|----------------|-----------------|------------|-------|
| Yes 86% (apply internal Guanxi network) | 5+ Times/Month | 20 | | | 5 | 5 | 15 | |
| | 3 - 4 Times/Month | 5 | 11 | 5 | 3 | 2 | 7 | |
| | 1 - 2 Times/Month | | 3 | 10 | | 6 | 2 | |
| No 14% (never apply) | | | | | | | | |

technology group, 12% implement internal Guanxi in solving problems.

Figure 2 illustrates how internal Guanxi works in the organisational operations. In the organisational hierarchy system, a subordinate at the bottom who wants to reach the top leader and to look for the support will usually be obstructed by certain problems, which could be the hierarchical regulation (the big smile in the middle), could be the leader or other uncooperative effects. However, this subordinate could apply his or her internal Guanxi network to bypass the problems in connecting with the other person or contact the top leader and attain an effective solution for completing the work.

Table 2 indicates that the largest group is the Departmental Official; 50% of which described that they had applied internal Guanxi networks to deal with work twice a month at least, 15% of them even used them more, that is, 5 times a month. Not only ordinary officials perceive the effect of internal Guanxi, but also senior leaders (directors or board members) prefer to use it to raise the level of leadership performance. For example, one of the leaders said:

The most challenging job I did last week was that I had successfully convened a project appraisal by operating all my internal connections (personal Guanxi), to gather technical information from various relevant departments, to mobilise our engineers to work overtime, to encourage the experimenters repeated estimates, to arrange our public relations colleagues to coordinate the third-party experts' itinerary. Also, I sought special components from our supplier through

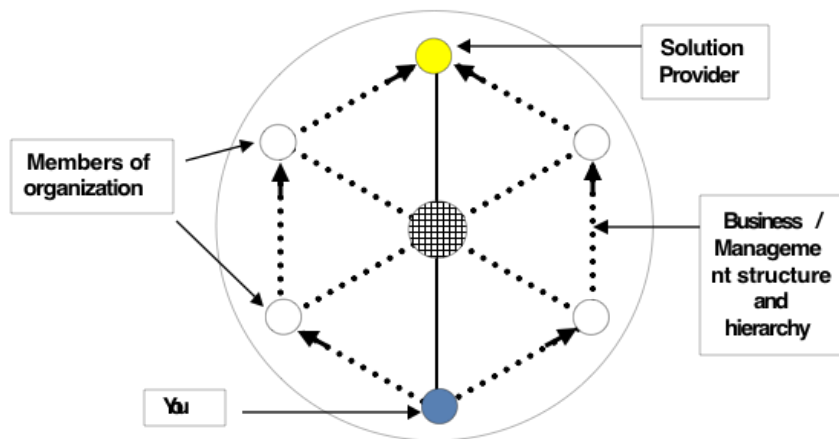


Figure 2. Simple internal-guanxi model.

Table 2. The frequency of using guanxi internally by the position

| Frequency by Position | | Director | Manager/ Assistant | Department Officer | Group Leader |
|-----------------------|-------------------|----------|--------------------|--------------------|--------------|
| Yes 86% | 5+ Times/Month | | | 15 | 10 |
| | 3 - 4 Times/Month | | 15 | 28 | 6 |
| | 1 - 2 Times/Month | 10 | 4 | 7 | 5 |
| No 14% | | | | | |

my colleague’s assistance (we have a good personal relationship), because there is no a clear policy system that regulates other relevant departments concerning my work.

Generally, the more senior a leader, the less they used an internal Guanxi network. However, the more senior the leader, the more they used the network to solve strategic problems according to the pilot data.

4.4. Question 3

In terms of Question 3, “Can you think of any examples of where you contacted your external personal connections to sort out internal organisational problems?” the researcher found the following:

Table 3 shows that the Sales Department is the major group who uses an external Guanxi resource to solve internal organisational problems. There are 25% people in the Sales Department who responded that they applied external Guanxi networks frequently to do their work effectively and create interest in the company.

For example, a salesman described it as follows: “Our two factories delayed completing the order, the client asked for indemnity, but I used my personal connection to meet their purchase manager (this manager’s mother and my mum used to be college friends). Eventually, the client company agreed to revoke the charge through the close connection between the Purchasing Manager and me.” “Our customers have been owed a balance due for half a year. I use personal Guanxi to find the key person in their company and after removing the obstacles, I recovered the balance due. Another sale also mentioned.”

Table 4 indicates that the director and manager have been placed at 50% by

Table 3. External Guanxi used to solve type internal problems by department.

| | Finance | Purchasing | Quality Control | Administration | Research and Development | Sales | Human Resources | Workshop |
|-----------------|---------|------------|-----------------|----------------|--------------------------|-------|-----------------|----------|
| Operational 35% | | 7 | 3 | 5 | | 13 | | 7 |
| Management 25% | | | | 6 | 4 | | 12 | 3 |
| Strategic 40% | | | 12 | | 5 | 12 | | |
| No 22% (never) | | | | | | | | |

Table 4. The use of external Guanxi to solve internal problems by position.

| Problem | Director | Manager/Assistant | Officer | Group Leader |
|------------------|----------|-------------------|---------|--------------|
| Operational (30) | 5 | 10 | 30 | 7 |
| Management (25) | | | | |
| Strategic (45) | 20 | 10 | 10 | 3 |
| No 22% (never) | | | | |

all respondents who apply external network to deal with internal work problems, especially with strategic problems. For example, a board member said: There is an engineer in our Research and Development Department who was not very confident about our project and lacked understanding of the importance of our project. As the head of the Research and Development Department, I tried to convince him in private a couple of times, but he always thought I was the board member, reflecting the company's point of view and my suggestions were not objective enough. Thus, I decided to find a person outside the company to talk to him to convince him. I used my personal connection to find another engineer (this engineer often works with us) and let him intentionally make some positive comments in front of our engineer. Consequently, this engineer gradually realised how far-reaching our project was and fully focused on his job.

5. Conclusion

The pilot study was conducted involving 66 informants through short interviews, electronic mail (email) and telephone in order to test the role of Guanxi inside Chinese companies and construct a more valid research scope for interactions between internal Guanxi and Chinese leadership behaviour. The findings suggest that internal Guanxi is operating and that it extends beyond the boundaries of the company. However, globalisation and transformation in the Chinese market are changing the nature of the relationship between leadership and Guanxi and producing mixed results. Private sector businesses benefit from the leadership-Guanxi dynamic, while foreign and state firms are deriving fewer benefits. From this pilot study, initially the inferences were drawn that in Chinese enterprises people have greatly perceived the effect of Guanxi networks, whether it has been applied internally or externally to the organisation. In addition, most people have used their internal Guanxi networks very often to solve their work-related problems when the regulatory system was not operating well. In addition, people were willing to bring their social Guanxi resources to assist the company to operate well and create great interest in the company. The leaders are playing a significant role in applying their external Guanxi networks to achieve the company's strategic goals. Based on the data collected from the respondents, the researcher assumed this internal Guanxi may improve the efficiency in cooperation, to inspire people's dedication to their duty and to make the leadership performance more effective. The researcher then goes on to construct three internal Guanxi models in order to investigate further how internal Guanxi influenced leadership behaviour in Chinese enterprises.

References

- [1] Xin, K.R. and Pearce, J.L. (1996) Guanxi: Connections as Substitutes for Structural Support. *Academy of Management Journal*, **36**, 1641-1658.
<https://doi.org/10.2307/257072>
- [2] Tsang, E.W.K. (1998) Can Guanxi Be a Source of Sustained Competitive Advantage for Doing Business in China? *Academy of Management Executive*, **12**, 64-73.

- <https://doi.org/10.5465/AME.1998.650517>
- [3] Chen, N. and Tjosvold, D. (2007) Guanxi and Leader Member Relationships between American Managers and Chinese Employees: Open-Minded Dialogue as Mediator. *Asia Pacific Journal of Management*, **24**, 171-196.
<https://doi.org/10.1007/s10490-006-9029-9>
- [4] Hui, C. and Graen, G. (1997) Guanxi and Professional Leadership in Contemporary Sino-American Joints Ventures in Mainland China. *Leadership Quarterly*, **8**, 451-465. [https://doi.org/10.1016/S1048-9843\(97\)90024-2](https://doi.org/10.1016/S1048-9843(97)90024-2)
- [5] Chen, Y.F. and Tjosvold, D. (2006) Participative Leadership by Western Managers in China: The Role of Relationships. *Journal of Management Studies*, **43**, 1727-1752.
<https://doi.org/10.1111/j.1467-6486.2006.00657.x>
- [6] Chou, S.Y., Han, B. and Zhang, X.H. (2013) Effect of Guanxi on Chinese Subordinates' Work Behaviours: A Conceptual Framework. *Asia-Pacific Journal of Business Administration*, **6**, 18-35.
- [7] Adler, P., Kwon, S. and Heckscher, C. (2008) Perspective-Professional Work: The Emergence of Collaborative Community. *Organization Science*, **19**, 359-376.
<https://doi.org/10.1287/orsc.1070.0293>
- [8] Wang, H.K., Tseng, J.F. and Yen, Y.F. (2014) How Does Institutional Norms and Trust Influence Knowledge Sharing? An Institutional Theory. *Innovation: Management, Policy & Practice*, **16**, 374-391.
<https://doi.org/10.1080/14479338.2014.11081994>
- [9] Yen, Y.F., Wang, H.K. and Kao, W. (2015) High-Performance Work Practices and Organisational Performance in Small Firms: The Role of Guanxi. *Total Quality Management*, **27**, 628-646.
- [10] Cunliffe, A.L. (2002) Reflexive Dialogical Practical Authors: Reconstructing Our Understanding of Management Practice. *Journal of Management Studies*, **38**, 351-371.
- [11] Law, W-W. (2012) Educational Leadership and Culture in China: Dichotomies between Chinese and Anglo-American Leadership Traditions? *International Journal of Educational Development*, **32**, 273-282.
<https://doi.org/10.1016/j.ijedudev.2011.04.007>
- [12] Uhl-Bien, M. (2006) Relational Leadership Theory: Exploring the Social Processes of Leadership and Organizing. *The Leadership Quarterly*, **17**, 654-676.
<https://doi.org/10.1016/j.leaqua.2006.10.007>
- [13] Wayne, S.J., Shore, L.M. and Liden, R.C. (1997) Perceived Organizational Support and Leader-Member Exchange: A Social Exchange Perspective. *Academy of Management Journal*, **40**, 82-111. <https://doi.org/10.2307/257021>
- [14] Brown, M.E., Treviño, L.K. and Harrison, D.A. (2005) Ethical Leadership: A Social Learning Perspective for Construct Development and Testing. *Organizational Behaviour and Human Decision Processes*, **97**, 117-134.
<https://doi.org/10.1016/j.obhdp.2005.03.002>
- [15] Gerstner, C.R. and Day, D.V. (1997) Meta-Analytic Review of Leader-Member Exchange Theory: Correlates and Construct Issues. *Journal of Applied Psychology*, **82**, 827-844. <https://doi.org/10.1037/0021-9010.82.6.827>
- [16] Coglisier, C.C., Schriesheim, C.A., Scandura, T.A. and Gardner, W.L. (2009) Balance in Leader and Follower Perceptions of Leader-Member Exchange: Relationships with Performance and Work Attitudes. *Leadership Quarterly*, **20**, 452-465.
<https://doi.org/10.1016/j.leaqua.2009.03.010>

- [17] Walumbwa, F.O., Mayer, D.M., Wang, P., Wang, H., Workman, K. and Christensen, A.L. (2011) Linking Ethical Leadership to Employee Performance: The Roles of Leader-Member Exchange, Self-Efficacy, and Organizational Identification. *Organizational Behaviour and Human Decision Processes*, **115**, 204-213. <https://doi.org/10.1016/j.obhdp.2010.11.002>
- [18] Graen, G.B. (1976) Role-Making Processes within Complex Organizations. In: Dunnette, M.D., Ed., *Handbook of Industrial and Organizational Psychology*, Rand McNally, Chicago, IL, 201-245.
- [19] Graen, G.B. and Cashman, J.F. (1975) A Role-Making Model of Leadership in Formal Organizations: A Developmental Approach. In: Hunt, J.G. and Larson, L.L., Eds., *Leadership Frontiers*, Kent State University Press, Kent, OH, 143-166.
- [20] Hwang, K.K. (1987) Face and Favor: Chinese Power Game. *American Journal of Sociology*, **92**, 944-974. <https://doi.org/10.1086/228588>
- [21] Zeng, S.Q. (2010) *Win in Chinese Management*. Guangdong Provincial Publishing Group, Guangzhou.
- [22] Tannenbaum, R., Weschler, I.R. and Massarik, F. (1961) *Leadership Organization: A Behavioural Approach*. McGraw-Hill, New York.
- [23] Hofstede, G. and Bond, M.H. (1988) The Confucius Connection: From Cultural Roots to Economic Growth. *Organizational Dynamics*, **16**, 4-22. [https://doi.org/10.1016/0090-2616\(88\)90009-5](https://doi.org/10.1016/0090-2616(88)90009-5)
- [24] Yeh, R.S. and Lawrence, J.J. (1995) Individualism and Confucian Dynamism: A Note on Hofstede's Cultural Root to Economic Growth. *Journal of International Business Studies*, **26**, 655-699. <https://doi.org/10.1057/palgrave.jibs.8490191>
- [25] Ornatowski, G.K. (1996) Confucian Ethics and Economic Development: A Study of the Adaptation of Confucian Values to Modern Japanese Economic Ideology and Institutions. *Journal of Socio-Economics*, **25**, 571-590. [https://doi.org/10.1016/S1053-5357\(96\)90018-9](https://doi.org/10.1016/S1053-5357(96)90018-9)