



Business networking in the Chinese context

Business
networking

Its role in the formation of *guanxi*, social capital and ethical foundations

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Abstract

Purpose – Business ethics has become a controversial topic as China integrates more closely into the world economy and there are signs of convergence within global professions. The purpose of this paper, therefore, is to study *guanxi* and business ethics in China within the context of social capital development, with a view to creating a more balanced interpretation that provides insights for Westerners wishing to conduct business in China.

Design/methodology/approach – In terms of methodology, the work is based on the results of a recent survey conducted among Chinese executives in southern China.

Findings – The major findings suggest that the processes of developing social capital and the nurturing of company-to-company relationships need to be planned carefully. Thus, no one individual should be responsible for the China connection, although the appointment of a team leader is essential, otherwise the Chinese side would become confused. Negotiations always are to be conducted on a team basis and always approved at the highest levels in the corporate structure.

Research limitations/implications – The limitations of this paper include the difficulties of obtaining any research sample in China. Thus, we refer to the work of Weiss, (*Learning From Strangers*, Free Press, New York.) and use a snowball sample.

Originality/value – The practical implications of the paper are that *guanxi* (a type of social capital), can be managed and that corruption does not have to result from the use of *guanxi*-based relationships. Thus, the originality arises out of the practical implications, in that for the first time, Western concepts of social capital and Asian concepts of *guanxi* have been compared, leading to practical recommendations for Western managers.

Keywords Social capital, Social networks, Business ethics, Asia

Paper type Research paper

Introduction

Business ethics has become a controversial topic as China integrates more closely into the world economy (Wright *et al.*, 2002). Given the reality that entering the China market means entering into complex, interwoven *guanxi* networks, it is not unusual for foreign investors to flounder, as their social capital differs from the Chinese norm. These Chinese influences are part of the soft side of business operations in China, i.e. dynamics surrounding *guanxi*, business ethics and the formation of social capital.

This paper reports on a study of *guanxi* and business ethics in China within the context of social capital development, with a view to creating a more balanced interpretation that provides insights for Westerners wishing to conduct business in China. Based on the results of a recent survey conducted among Chinese executives in southern China, the paper paints a broad picture of how business networking in China can be applied within the context of strategic development. In addition, the related concepts of corporate governance and social responsibility in the Chinese economy also are discussed.



Defining *guanxi*, business ethics and social capital

Wong and Chan (1999) described *guanxi* as a special type of relationship characterised by favour, trust and interdependence, which often leads to insider-based decision making in business dealings. Wilpert and Scharpf (1990) suggested that such a relationship could be developed into highly-complex social networks, formal or informal, governed by the unwritten norms of reciprocity. For insiders then, *guanxi* can be an effective tool for business performance, or for other interests (Buttery and Wong, 1999).

In that *guanxi* is based on reciprocal obligations among insider parties that are impossible to define, many Western researchers have connected *guanxi* with unethical acts, like corruption (Snell, 1999). From their own cultural perspective, however, many Chinese perceive *guanxi* as the only efficient means to conduct business in countries where business infrastructures are not yet fully functional (Wong and Chan, 1999).

In general, the term ethics refers to the rules and principles governing perceptions of right or wrong, including what goals individuals should pursue and what actions they should take (Buchholz and Rosenthal, 1998). Business ethics, as a subset of the study of ethics, in turn refers to commonly accepted principles and standards guiding behaviour in business dealings. Whether a particular business act is right or wrong, ethical or unethical, is determined by stakeholders: shareholders, employees, suppliers, customers, competitors, government and other interest groups. The impact of *guanxi* on these individuals or groups can be either positive or negative, which affects the judgements of stakeholder, leading to community acceptance or rejection of a given business activity.

A third variable affecting business behaviour is social capital. Putnam (2000, 2004) refers to social capital as being the “collective value of all ‘social networks’ and the inclinations that arise from these networks to do things for each other”. In addition, he suggests that “the concept of social capital in a Chinese social context has been closely linked with the concept of *guanxi*”.

In that *guanxi* is regarded as a form of social capital, then, it is possible to regard “kinship networks as the formation of social capital relations that create trust within society” (Taylor, 2000). This concept is in line with points raised by Fukuyama (1996), who argued that social capital is necessary for a country’s economic success, generating economic value through institutional or individual networking where reciprocity and mutuality, are central to business activity. In relationships between two people, for example, “each can ask favour of the other with the expectation that the debt incurred will be repaid sometime in the future” (Yang, 1994). Thus, in China, “*guanxi* is essential to complete successfully any task in virtually any sphere of social life” (Gold *et al.*, 2002). Even in the peripheral Chinese societies of Hong Kong and Taiwan, among minority Chinese communities in Southeast Asia and elsewhere, *guanxi* performs this lubricating function (Gold *et al.*, 2002).

Opening up the Chinese economy

Even before China’s entry into the WTO in late 2001, the realities of massive business reforms had changed the Chinese economy (Chan *et al.*, 2002). Much of the foreign business world hoped to “exploit its vast potential” (Wright *et al.*, 2000). China’s trading partners, however, expressed continual concern about issues of intellectual property, business infrastructure and the rule of law. These dimensions have become an integral part of an ongoing debate. In response, the Chinese government has launched a series of internal business reforms, trying to improve external trade relations, particularly

with the USA. Inevitably these changes encompassed not only trade issues, but philosophical topics, e.g. ethics and the creation of social capital (Szeto *et al.*, 2003).

The need for convergence with global professions

With the Chinese economy becoming more and more integrated into the global environment, professionals in China need to converge with their counterparts in other parts of the world. In recent years, researchers have found that many young Chinese professionals have become critical of the ethical climate at different levels of business, though they lack mechanisms to nurture change (Wu, 1999). The accounting profession in China is a good example of a profession illustrating a possible clash between *guanxi* and business ethics. Being at the frontline in assessing business performance, the accountant requires faster convergence with global standards. In 1993, the Chinese Institute of Certified Public Accountants (CICPA) started to introduce a new accounting system containing many Western standards in terms of tighter professional appraisal for internal control systems, as well as the use of computer-assisted auditing techniques.

Emerging concerns about relationship marketing

An emerging concept, relationship marketing, is a framework for customer relationship management (CRM). Lovett *et al.* (1999) argued that Western concepts of relationship marketing have much in common with *guanxi*. Thus, issues such as business ethics and social capital formation likely will have a higher profile, as different types of industries move into the Chinese market, especially the domestic market.

The effect of guanxi and business operations

By nature a business is profit-seeking. The motive behind entering into a *guanxi* relationship could be the goal of super profits or other economic benefits. Cateora and Graham (1999) cited the reports from the Hong Kong Independent Commission Against Corruption, suggesting that (during the late 1990s) outright payments and gifts for establishing *guanxi* in China averaged 3-5 per cent of the operating costs, amounting to an annual figure of approximately US\$4 billion.

Obviously, there is a broad spectrum of possible gains from *guanxi*. Barnathan *et al.* (1996) stressed that *guanxi* might give private sources of information and make resources available to a select group (affiliated parties), ranging from merely allowing smooth transport, to faster collection of debts. Luo (1997) further suggested that entering the huge web of *guanxi* ensures access to the most effective marketing tool for conducting business in China.

Li and Wright (1999) also argue that *guanxi* exists at different levels of business operations. Personal *guanxi* exists along with corporate or organisation-to-organisation *guanxi*. While personal *guanxi* may, or may not be connected with corruption, they encourage the development of corporate *guanxi* within the legitimate business framework. Hence, we begin to differentiate between *guanxi* and social capital formation. This interpretation can be an effective management tool in China. It is important, therefore, that foreign investors emphasise CRM at the corporate level through the deliberate creation of social capital.

Guanxi within an ethical framework

There are marked differences in what is considered as ethical management in different economies (Carroll and Gamon, 1997; Snell, 1999). With China's integration into the world economy, however, it has been argued that some generally-accepted precepts of business ethics should be in place. Stewart (1995), for example, developed a three-level, ethical scale as a generic measure of ethics in developing countries:

- (1) immorality or corner cutting, where individuals may evade or break the law, as they think they can escape prosecution;
- (2) the amoral, strictly legal, but minimalist, where someone abides by written law, but not by the legal spirit behind the law;
- (3) the moral as well as forward thinking, where someone acts beyond the minimum requirements of laws, not only to the legal spirit, but also considering societal values.

Many individuals, often those with tainted experiences of conducting business with Chinese enterprises, would rate business ethics in China barely at level 2. A more important question perhaps, is whether or not *guanxi* should be regarded as synonymous with immoral (unethical) acts such as bribery. In this regard, Su and Littlefield (2001) separated favour-seeking *guanxi* from rent-seeking *guanxi*. Favour-seeking *guanxi* is culturally embedded, denoting social networks and interpersonal exchange of resources in a collectivistic context. Rent-seeking *guanxi*, however, refers to social norms signifying collusion within the network based on power exchange in a hybrid socialist market economy (Su and Littlefield, 2001; Tullock, 1993). Su and Littlefield (2001) argued that rent-seeking *guanxi* instead of favour-seeking *guanxi* is the real source of corruption in China. Rent-seeking *guanxi*, therefore, should be avoided by foreign companies. Instead, there should be a strategy to develop long-term social capital, perhaps based on company-wide *guanxi*.

Guanxi and Western management thought

As mentioned above, CRM and *guanxi* share many common features with the Western concept of relationships. Tjosvold and Moy (1998), for example, have found that Chinese executives and managers who entered into open-minded discussion with employees on conflicting issues, had better industrial relations than their older counterparts, who adopted an authoritarian approach to decision-making. Ko (1998) further suggested that young Chinese executives are in fact, extremely keen to draw on Western management thought, which is regarded as more practical and open. Extending this theme, Wong and Tam (2000) echoed that it should be possible to link modern management concepts of relationship marketing with *guanxi*, as both ideas have to be cultivated on a continuous basis to maintain a network that could be described as social capital.

To blend Asian ethics with Western management from a wider perspective, Handy (1998), for instance, emphasised the need for a proper education and a proper selfishness, so that enterprises can aim beyond mere profit maximization. His ideas apparently agree with Confucianism, in that both suggest the existence of a social consciousness. The use of collective strength, then, is believed to create better results for all (Jacobs *et al.*, 1995).

The facilitation of social capital in China through business networking

Cohen and Prusak (2001) defined social capital as “a stock of active connections among people: the trust, mutual understanding, and shared values and behaviours that bind the members of human networks and communities to make cooperative actions possible”. They argued that social capital at a corporate level can be a focus for organisational maintenance and development. Unlike other forms of capital, social capital exists in relationships between individuals, rather than being possessed by individuals (Coleman, 1990). Thus, interpersonal associations are important within the Chinese context (Chen and Chen, 2004). For example, many Chinese firms seek institutional support in order to gain competitive advantage (Lau *et al.*, 2005). Similarly, managers of a Western firm entering the Chinese market might seek help from a chamber of commerce, or an embassy official. In fact, the core idea underpinning the enhancing-effects of social capital revolves around direct ties (e.g. prior professional relationships) and indirect ties (e.g. third party referrals) between entrepreneurs (Bygrave and Timmons, 1992; Timmons, 1994). We argue, therefore, that *guanxi* and the development of social capital might go hand-in-hand, provided that all relationships are built within a legal or ethical framework. But is it possible to conduct business this way in China?

Some supporting research

To explore empirically how Chinese executives perceive the influences of *guanxi* and ethics on their business operations, we draw on a survey ($n = 850$), conducted with the aid of participants in a management development program held in southern China (Chan *et al.*, 2002; Wright *et al.*, 2003). Each participant distributed ten questionnaires to their professional colleagues at their place of employment. This research instrument was designed to test two dimensions – the strength of the *guanxi* concept and the influences of *guanxi* and ethics on business operations.

Statements designed to measure perceptions of guanxi and ethics based behaviour.
Guanxi-based behaviour.

- (1) I would have little trouble borrowing money from business acquaintances.
- (2) I do favours for business colleagues whenever I am asked.
- (3) I would find it hard to refuse a request from a business colleague, even if it costs me money.
- (4) Most business is generated through connections.
- (5) Business people should be free to operate without interference from government.
- (6) Profits are more important than friendship.
- (7) Business relationships exist so business people can help each other against the rest of the world.
- (8) Most Chinese businessmen/women belong to a small group of people who try to help each other to succeed.

Ethics-based behaviour.

- (9) If a business colleague cheats on his taxes, I would lie to help him/her if the government found out.
- (10) My friends and I try to figure out ways to get around government regulations.

- (11) Members of most business groups would not do anything illegal, but they would bend regulations if it were to their advantage.
- (12) Many business groups engage in illegal activities to further their interests.
- (13) In business groups engage in illegal activities to earn profit.
- (14) It is all right to break the law as long as the individual or group prospers.
- (15) Business practice and ethics are not compatible.

Although the data collection method did not ensure randomness, given the difficulty of gathering data in China, the method (i.e. Snow Ball Method), was considered acceptable for exploratory studies (Weiss, 1994). The majority of the respondents were either managers (45 per cent) or corporate planners (31 per cent) of indigenous privately-owned companies (28 per cent), state-owned companies (37 per cent) or joint ventures (34 per cent), and had an average of eight-year experience in their current position (See Table I). Such a sample can provide valuable insights into how *guanxi* – and ethics-related considerations – might influence senior Chinese executives’ business decisions in the public and private sectors of the Chinese economy.

Participants responded to statements on a five-point Likert scale (ranging from Strongly disagree to Strongly agree). Statements 1 through 8 (See above list) were designed to measure practical dimensions of *guanxi*. Here, we explored various dimensions of friendship, a concept that also might be considered as social capital development. The exception was Statement 1, which tested a more pragmatic issue of whether or not *guanxi* was extended to the ability to borrow money.

Position				
Manager	45.1% (<i>n</i> = 374)			
Senior staff e.g. GM	31.4% (<i>n</i> = 260)			
Owner	0.8% (<i>n</i> = 7)			
Others, e.g. professionals	22.7% (<i>n</i> = 188)	Total: <i>n</i> = 829		
Years in position (<i>n</i> = 830)	Mean = 8.2069	Min = 0.25	Max = 35	Std ^a = 6.6548
Age (<i>n</i> = 839)	Mean = 36.9058	Min = 22	Max = 69	Std = 7.7775
Gender				
Male	75.4% (<i>n</i> = 636)			
Female	24.6% (<i>n</i> = 207)			
Company type				
Private	28.2% (<i>n</i> = 239)			
State owned	36.5% (<i>n</i> = 309)			
Joint venture	34.0% (<i>n</i> = 288)			
Others	1.3% (<i>n</i> = 11)			
Number of employees in company (<i>n</i> = 800)	Mean = 386.755			
Number of subordinates (<i>n</i> = 753)	Mean = 57.28			
Education level				
Secondary	6.3% (<i>n</i> = 52)			
Some post secondary	14.1% (<i>n</i> = 116)			
University degree	79.6% (<i>n</i> = 654)			
Work outside China				
Work for <u>?</u> year (<i>n</i> = 224)	Mean = 1.439	Min = 0.25	Max = 30	Std = 3.88
None	75.1% (<i>n</i> = 553)			

Table I.
Profile of the Chinese
participants

Note: ^aStandard deviation

Statements 9 through 15 outline situations related to ethics. Anecdotal evidence and work experience in China were drawn upon to develop a list of statements thought typical to what is happening in China today. No one person, of course, knows how widespread these activities are, but they were accepted during the pilot test by three Chinese scholars from Mainland China and two Chinese managers, without comment.

In terms of *guanxi*-related statements, there was a strong tendency to agree (Statements 2, 4, 5, 7, 8), or in the case of Statement 6, (profits are more important than friendship), to “disagree” (64.9 per cent) (see Table II). Thus, our respondents seem to indicate that friendship ties are very strong across all categories. The exceptions concerned borrowing money (Statements 1 and 3). Here, respondents were asked to scale specific questions:

- I would have little trouble borrowing money . . .
- I would find it hard to refuse a request . . . even if it costs me money.

Paraphrased statements (see text)	Strongly agree	Agree	Disagree	Strongly disagree	Total (N)	Statement type
Would have little trouble borrowing	23 (2.7%)	177 (20.5%)	501 (58.0%)	163 (18.9%)	864 (100%)	<i>Guanxi</i>
Do favours whenever asked	218 (25.2%)	594 (68.8%)	45 (5.2%)	7 (0.8%)	864 (100%)	<i>Guanxi</i>
Hard to reject colleagues' request	52 (6.0%)	369 (42.8%)	395 (45.8%)	47 (5.4%)	863 (100%)	<i>Guanxi</i>
Most businesses depend on relationships	183 (21.2%)	443 (51.2%)	209 (24.2%)	30 (3.5%)	865 (100%)	<i>Guanxi</i>
Less interference in business	270 (31.3%)	338 (39.1%)	209 (24.2%)	47 (5.4%)	864 (100%)	<i>Guanxi</i>
Profit more important than friendship	49 (5.7%)	255 (29.5%)	473 (54.7%)	88 (10.2%)	865 (100%)	<i>Guanxi</i>
Help each other against the world	90 (10.4%)	505 (58.4%)	242 (28.0%)	27 (3.1%)	864 (100%)	<i>Guanxi</i>
Help members of inner circle	103 (11.9%)	477 (55.3%)	264 (30.6%)	19 (2.2%)	863 (100%)	<i>Guanxi</i>
Help colleague on tax evasion	30 (3.5%)	310 (36.1%)	398 (46.3%)	121 (14.1%)	859 (100%)	Ethics
Find loop holes in regulations	95 (11.0%)	417 (48.3%)	282 (32.6%)	70 (8.1%)	864 (100%)	Ethics
Would bend regulations	190 (22.0%)	571 (66.1%)	83 (9.6%)	20 (2.3%)	864 (100%)	Ethics
Many firms earn profit illegally	38 (4.4%)	239 (27.7%)	455 (52.7%)	131 (15.2%)	863 (100%)	Ethics
Business groups do illegal activities for benefit	24 (2.8%)	110 (12.8%)	504 (58.4%)	224 (26.0%)	862 (100%)	Ethics
Put profit above the law	12 (1.4%)	59 (6.8%)	500 (57.9%)	292 (33.8%)	863 (100%)	Ethics
Business practice and ethics are not compatible	32 (3.7%)	204 (23.6%)	521 (60.4%)	106 (12.3%)	863 (100%)	Ethics

Table II.
Responses of
participants to
statements

Both these requests were scaled negatively, but Statement 3 barely so, as only 51.2 per cent tended to disagree. As Li and Wright (1999) have found that *guanxi* exists at two levels – personal and organisational – it is not difficult to speculate that a personal request to borrow money might be refused, even though the overall business environment is *guanxi*-driven.

We can conclude, therefore, that *guanxi* is an important part of these respondents' lives. The extent to which this concept influences behaviour, however, may be limited, as (for example), it does not seem to include lending money. This discovery also fits well with previous research that suggests *guanxi* may be changing over time and that there are different types of *guanxi* (Li and Wright, 1999; Shi and Westwood, 2000).

What of the ethical ramifications that stem from these strong *guanxi* relationships? Almost 40 per cent of the population would lie to help a colleague evade taxes (Statement 9). Similarly, virtually 60 per cent actively try to find loopholes in regulations (Statement 10), while 88 per cent would "bend regulations to their advantage" (Statement 11). Perhaps more important, 32 per cent believe that business groups engage in illegal activities and more than a quarter (27.3 per cent) agree that "business practice and ethics are not compatible". Only when asked to scale the statement – it is all right to break the law as long as the individual or group prospers – is there strong disagreement (91.7 per cent).

Despite the overall strength of the *guanxi* relationship, however, we find consistently, that limits are placed on how far the concept is allowed to influence business practice. From the viewpoint of creating a business strategy, therefore, one is not faced with an impregnable, unalterable cultural construct, but rather with a dynamic set of precepts, implying that different ethical norms might not be rejected automatically if introduced appropriately.

Indeed, it is suggested that a significant minority of Chinese professionals are pulled between opposing moralities. On the one hand, Confucian ideology infers that order and harmony should prevail; on the other hand, the reality of money worship, combined with the felt need to thwart a suffocating bureaucracy, exerts a significant influence (Chen, 1995). Thus, a method must be found to create social capital within a legal framework. As elsewhere in the world, this necessity presents a considerable challenge (Matten and Moon, 2004), one that must be faced when developing both present and future Chinese managers.

These findings seem to suggest that in both business and personal contexts, *guanxi* is of a pragmatic consideration. In other words, it seems that Chinese executives would hesitate to further enhance relationships with their friends if that enhancement was considered seriously detrimental to their interests. Despite this somewhat pragmatic consideration for applying *guanxi*, however, Chinese executives' traditional reliance on giving favours and conducting business within their own social network seems to have remained intact.

Social networking as a strategy for conducting business operations in China

Gomez (2005) cited the example of Singapore's Lee Kuan Yew (former Prime Minister and now the Minister Mentor of Singapore's Cabinet) that Mr. Lee has been a strong advocate of business networking among the Chinese. Gomez's (2005) study indicated that Mr. Lee recognised ethnic networking as an effective way to move into potentially lucrative markets in China, to compete more effectively with multinational corporations and to transform the handicap they may feel as ethnic minorities, into an

advantage. Even if there are no prior relationships, potential business partners may consciously establish or seek to manufacture *guanxi*, either by relying on intermediaries or by establishing a relationship directly (Gold *et al.*, 2002). In general, meals or gifts are common and effective methods to cement personal relationships or to cultivate *guanxi* (see Yang 1994 for sociological study of the flow of gifts in urban China and Yan, 1996 for a similar study of gifts and reciprocity in rural China). These are not illegal activities but are social networking activities that lead to the formation of social capital.

In terms of creating social capital within an ethical context, corporate governance structure serves an important purpose, as governance can pre-supervise business acts (United Nations Development Programme Office, 2003). Also, good corporate governance has been considered as the best remedy against corruption. Schramm and Taube (2002), for example, stressed the importance of establishing an institutional framework at the corporate level in China that “offers legal security at a supra-individual level beyond social relationships”. The key to ethical networking (or social capital development) in China, therefore, lies in corporate governance structure, e.g. corporate decision-making processes, board structure and proceedings, as well as in corporate audit mechanisms. An important issue, then, is whether or not present corporate governance systems in China uphold ethical precepts.

Stressing the need for wider disclosure of corporate information in China, the United Nations Development Programme Reports on China (2003) highlighted the present problems in the Chinese corporate structure:

- (1) There is a lack of reasonable criteria for “true, accurate, complete and prompt” corporate information.
- (2) There is a tendency not to disclose complete information.
- (3) Minority investors’ interests are harmed because transactions arising from *guanxi* are not disclosed.
- (4) There are shortcomings in the system of civil liabilities for non-compliance of disclosure requirements. There is a need to improve the legal procedures in judging claims from victims.

It would be up to the Western counterparts, therefore, to ensure that social capital (at a corporate level) is created in an ethical manner.

While corporate governance is regarded as the hardware and business ethics the software in business operations, corporate social responsibility (CSR) should be the peripheral linking them together. Following Belcourt *et al.* (2000), a conceptual presentation of these relationships in a model of the ethical behaviour of Chinese executives is depicted in Figure 1.

In the modern sense, CSR does not mean only corporate philanthropy (Matten and Moon, 2004). It requires a company to reflect social interests, as well as social rights, in corporate decision-making. The decision outcome must be reasonably accountable to social expectations, extending the core values of business ethics the company upholds. Although CSR is still a new business concept for Chinese enterprises, Chan *et al.* (2002) stressed that the possibility exists over time, for a Chinese sense of CSR to be blended with a Western sense of socially responsible organisations.

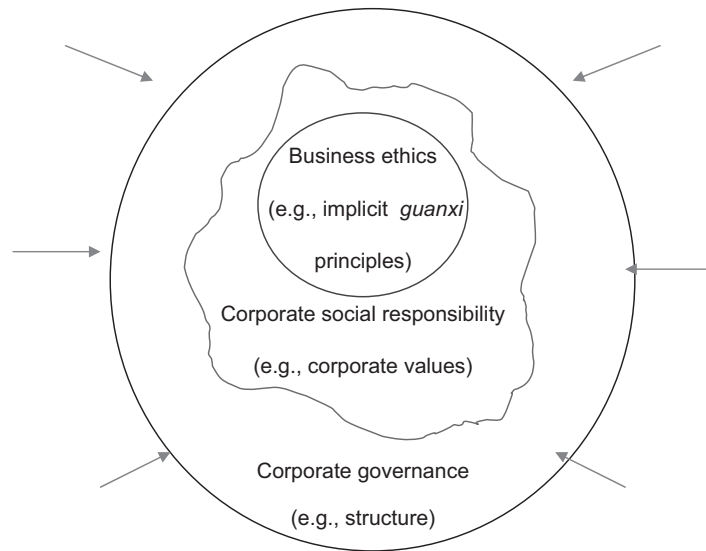


Figure 1.
General atmosphere of
business operations

Implications for foreign firms investing in China

Changing behaviour is a complex and a lengthy process, especially when dealing with ethical precepts rooted deeply level in the human psyche. Thus, the process of developing social capital, as opposed to individual *guanxi*, needs to be planned carefully, as the objective is to create company-to-company relationships that benefit both parties. Keeping previous remarks concerning corporate governance and auditing in mind, it is suggested that a team approach be used by foreign firms investing in China. In this context, no one individual should be responsible for the China connection, although the appointment of a team leader is essential, otherwise the Chinese side would become confused. Thus, negotiations always should be conducted on a team basis and always approved at the highest levels in the corporate structure.

Second, gift giving should take place within a designated framework. One recalls an edict issued in the 1960s by a major American corporation, to purchasing managers: "If you can't eat it, smoke it, or drink it in one day, then refuse". By today's standards, this policy may seem excessive. Nevertheless, those working in purchasing units of that company had a clear idea about how to behave. Any activity falling outside the policy, needed higher approval and gifts were subject to audit.

In terms of China, issues such as banquets and souvenir giving are routine expenses, but even these should be monitored and charged through a team expense account. Other expenditures need to be integrated into a strategic plan to create social capital. Acts of philanthropy, for example, are always appreciated, but should not be wasted. They need to be targeted toward current needs (e.g. China is about to construct several new art museums and activities in this realm are likely to be well received). The repatriation of a Chinese painting or other artefact would also fit in with government policy rather well. Five years ago, however, such a gift would not have had much impact. And, of course, do not expect instant results; philanthropy is a long-term

process. The idea is, to keep the relationship at a company-to-company or organisation-to-organisation level wherever possible.

Another major point is that the investing company should never rely on only one person for access to Chinese government officials. Should that individual begin to make unreasonable demands, the (very human), tendency will be to buy off the person, thus beginning a cycle that invariably leads to corruption. As well, influence can be lost (for a variety of reasons), as well as gained. It behaves an investing company to create several channels of communication at different levels. Should one individual or group cease to be trusted, then work can continue through another intermediary.

Senior Executives and Managers at Headquarters too have a role to play. Nevertheless, this group must remain patient. Anecdotal evidence clearly indicates that pressure for results from the home corporation, forces those “on the ground” in China to press too hard and to make deals that benefit insiders. Thus, a long-term strategy that stresses the creation of long-lasting social capital, rather than current profitability, is more likely to lead to ethical decision making.

Concluding remarks

The spread of globalisation coupled with China’s entry into WTO has had a far-reaching impact on the Chinese economy. While international norms for the conduct of business have not yet taken root in China, it is essential that scandals in the Barings and Enron mode be avoided, as they destroy stakeholders’ confidence in the global business community, as well as in underlying regulatory mechanisms. There can never be a good excuse for compromising on ethical standards, even if corruption is institutionalised in the host country. Despite the potential, China is no exception.

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