

9 *Guanxi* and the Dynamics of Overseas Chinese Entrepreneurial Behaviour in Southeast Asia

John E. Butler,¹ Brad Brown
and Wai Chamornmarn

This chapter focuses on the degree to which *guanxi* linkages and networks that are built using *guanxi* are important to the entrepreneurship and commercial success of many overseas Chinese in Southeast Asia. A model of various factors' influences on their use of *guanxi* is developed. Research proposals concern the sources of overseas Chinese entrepreneurs' business ideas and business information, and the extent to which *guanxi* explains their high rates of business start-ups and the performance of their firms.

China has played an important historical role in Southeast Asian commerce. The extent of these tangible trade links is often viewed as a measure of China's influence in the region (e.g., Villibhotama, 1991; Reid, 1993). The dominance by the overseas Chinese of private-sector commerce in the region has also been seen as a measure of China's influence (Campbell, 1923; Shepherd, 1941; Purcell, 1951; Skinner, 1957; Wickberg, 1965; Lim, 1981). The factors underlying the success of the overseas Chinese and the nature of their immigrant experience have been extensively researched (e.g., Bonacich, 1973; Waldinger, Aldrich, and Ward, 1990; Sender, 1991; Reid, 1997). However, Hamilton and Waters (1997) pointed out that much of the existing research fails to recognize that entrepreneurial success is path dependent. Most Chinese in Southeast Asia are not entrepreneurs and are not wealthy (Hirschman, 1988; Heidhues, 1996). However, as a group, they have achieved higher levels of success in commerce than has the indigenous population, and this makes the paths and management practices they use to achieve these higher rates of success important.

Interest in Chinese management techniques increased with the opening of the Chinese economy and its recent high rate of growth (Lockett, 1988; Child, 1994; Boisot and Child, 1996). The Southeast Asian overseas Chinese have been using many of these techniques since they began commercial activities in the region, although practices have changed and have been adapted to local circumstances. Thus, contrasting the management practices of overseas Chinese and Chinese business people to identify common and unique elements that are related to entrepreneurial and commercial success would be extremely valuable.

Research on Chinese management suggests that networks, relationships and *guanxi* are essential elements of business success in China. However, relationships and connections are valued by managers everywhere, and they have been important to the entrepreneurial and commercial success of the overseas Chinese (Kraar, 1994; Chen, 1995; Suryadinata, 1995). The difference is that *guanxi*, China's special version of relationship building, extends far beyond business relationships (Ruan, 1993; Kipnis, 1997). *Guanxi* facilitates trust and imposes implicit standards of business behaviour (Hamilton, 1996; Farh, Earley and Lin, 1997; Kipnis, 1997; Tsui and Farh, 1997), which facilitates business and network operations (Zhao and Aram, 1995; Kiong, 1996; Kuo, 1996; G. Wong, 1996). At the national level, *guanxi* relationships have also been linked to economic growth and business success (Kao, 1993; G. Wong, 1996; Luo and Chen, 1997). This observation has led to an increased interest in how the Southeast Asian overseas Chinese operate their businesses and the degree to which they benefit from *guanxi*.

This chapter focuses on the degree to which *guanxi* and its variations are important to the level of entrepreneurship and commercial success of overseas Chinese individuals in Southeast Asia. Existing network analyses of the overseas Chinese have examined interlocking directorships, but management factors that underlie the formation of these networks have received less attention (e.g., Ingram, 1971; Akira, 1989). *Guanxi* might facilitate direct and important interactions that contribute to the network-building activity of the overseas Chinese. However, different national, cultural and political contexts have affected the evolution and development of their business methods. They have had to function in an entrepreneurial context that required them to adapt Chinese cultural and business practices to the prevailing norms of the host country.

The chapter begins with a general discussion of the impact that networks have on entrepreneurial behaviour and success. *Guanxi* is introduced and discussed in terms of its impact on and relationships to social and business networks. The issue here is the degree to which *guanxi* is important and the degree to which it has been adapted to suit local conditions. Particular attention is focused on how *guanxi*-type behaviour fits into the Southeast Asian entrepreneurial context.

A model of how these various factors may have influenced the prevailing business practices of the overseas Chinese is then developed. Research proposals are presented that are related to the sources of entrepreneurs' business ideas, business information and the extent to which *guanxi* and networks are important to the performance of their firms. We conclude with a discussion of issues for future research.

NETWORKS AND ENTREPRENEURSHIP

Social network research was initiated because trait research failed to provide satisfactory explanations of why some people became entrepreneurs and others with similar traits continued working for non-entrepreneurial organizations. Social networks have been shown to play an important role in business start-up and success (Birley, 1985; Jarillo, 1989; Reynolds, 1991). Entrepreneurs use their social networks to find out about opportunities, test ideas, gain access to specialized expertise and obtain financial resources (Aldrich and Zimmer, 1986; Aldrich and Waldinger, 1990b). Individuals with broad non-reinforcing networks, which contain numerous weak ties, are more likely to be exposed to new ways of thinking and numerous business ideas (Granovetter, 1973). In other cases, such as immigrant groups, networks provide information about which types of businesses offer the best prospect of success and advice on how to enter these businesses (Aldrich and Waldinger, 1990b; Hansen, 1995). For instance, Korean immigrants in the USA are heavily involved in the grocery business (e.g., Light, 1972; Bonacich and Light, 1988; Aldrich and Waldinger, 1990a, 1990b), and the Chinese in Thailand were heavily involved in rice milling (Butler and Chamornmarn, 1995).

The composition of social networks also has an impact. Individuals with social networks composed of people with technical and business knowledge are able to call on those networks for specialized infor-

mation. This opportunity increases a start-up firm's probability of success and reduces the likelihood that the entrepreneurs will make technical errors. The process can work both formally and informally, although such technical networks usually develop from personal social networks.

During the early operational phases of a business, networks tend to change. Social networks can still be useful, but networking with other firms also becomes important. The efficiency with which entrepreneurs construct these new interbusiness networks is important. They need to know whom to include and when to include them because these networks provide industry-specific information that impacts directly on the performance of their growing firms. In countries with longer industrial histories, many of these relationships have been institutionalized, so that one joins clubs rather than building networks. However, in Southeast Asian countries network-building activity is common and *guanxi* may help to facilitate the process.

GUANXI

We use the definition of *guanxi* that was developed by Tsui and Farh (1997), with an extension that applies to the commercial activities of the overseas Chinese community. They defined *guanxi* as referring 'to the existence of direct particularistic ties between two or more individuals' (Tsui and Farh, 1997: 60). They noted that 'ties through intermediaries' should not be included because inclusion would infringe on the conceptual domain of networks. We dealt with networks more directly and with ways *guanxi* facilitates the building of effective networks. *Guanxi* plays a role in developing new direct ties and helps maintain established ones. Direct links also increase the number of potential indirect links. Both types of links directly affect the size of an individual's social network, which is an essential factor in using networks for entrepreneurial advantage.

In some respects, the role that *guanxi* plays in the overseas Chinese community is similar to its role in Chinese society (Chen, 1994). In China, *guanxi* acts informally: people use unofficial relationships 'to get things done, from simple tasks to major life choices' (Ruan, 1993: 19). This is possible because of 'the Chinese emphasis on a hierarchy or ordered relationship and on harmony among those relationships' (Hamilton, 1996: 47). For instance, the Ming dynasty benefited from *guanxi* by prescribing norms of behaviour in areas where it

could not afford to maintain a presence (Farmer, 1990; Furth, 1990; Woodside, 1990).

Direct relationships probably always had some commercial value in China, but the introduction of economic reforms in post-Mao China encouraged use of *guanxi* in ways that fostered commerce (e.g., Tsang, 1994; Zhao and Aram, 1995; Wing and Yiu, 1996). *Guanxi* was already being used by the overseas Chinese for commercial purposes. They even developed ways to communicate the concept. For instance, the overseas Chinese in Thailand use the phrase *nee bhun khun* as the vernacular translation for *guanxi*. In addition, market systems and legal codes did not emerge at the same speed as economic growth did in China or in the Southeast Asian countries. This lag helps explain why *guanxi* has become a useful management tool in this new environment (Xin and Pearce, 1996).

The Chinese have also been able to use *guanxi* to pursue personal interests. The intricate web of relationships provides a wide array of social communities to serve as *guanxi* (e.g., Ruan, 1993; Bian, 1994). In contrast to Western groups, where membership is usually defined, Chinese groups tend to be tied together with 'social relationships that are without formal boundaries; sometimes a home town, sometimes a home district, sometimes a home province, and other times an entire region serve as the definition regionally' (Hamilton, 1991: 53). This ability to change boundaries to fit the situation has advantages in a commercial setting, especially when one is establishing new business ties.

Economists have attributed great significance to legal codes and market mechanisms in explaining the economic growth of countries (North and Thomas, 1973; North, 1990). Hamilton (1996), in a detailed historical analysis, showed how in the East kinship assumed the role that markets played in the West, and collegiality acted in much the same way that commercial laws did in the West (e.g., Baker, 1979; Hamilton, 1990). In this role, *guanxi* may provide some operational efficiencies that help account for its importance in commercial relationships (Mann, 1987).

As a commercial mechanism, *guanxi* exists strictly as a mutually beneficial entity, although this relationship reflects what occurs in Chinese society. Commercial relationships are typically organized around delayed reciprocity and operate by 'drawing on connections or networks to secure favors' (Luo and Chen, 1997: 1). However, social and friendship relationships are built around the notion that favours and reciprocity are linked. The Chinese use the word *renqing* to

describe this expectation and see cultivating *renqing* as a 'prerequisite to establishing relationships' (Tsui and Farh, 1997: 62). This obligation to provide mutual 'insurance' to others with whom you are connected acts to thwart opportunistic behaviour. The consequences of violating these unspoken, unwritten social norms can be isolation and societal censure (Luo and Chen, 1997). Especially in commercial transactions, the Chinese must consider the costs of reciprocity when requesting assistance. Thus, to effectively use *guanxi* to build a network of supporting actors, a person has to have a level of prestige capable of sustaining a large number of reciprocal obligations (Redding and Ng, 1982). This reciprocity also acts to maintain relationships because one party or the other is likely to always have some type of 'credit balance,' which provides a strong incentive to maintain existing relationships.

Business-to-business networks are also important for successful firm operation and represent the organizational institutionalization of personal social relationships. They enhance new firms' prospects for success by providing information, advice and access to informal alliances that can lead to higher levels of performance (Butler and Hansen, 1991; Brown and Butler, 1993, 1995). For instance, business-level linkages helped the overseas Chinese in many countries to gain business knowledge. Doing this required stepping beyond direct *guanxi* linkages, because links with Chinese they did not know and with non-Chinese were required for commercial success. These intermediate links often resulted from introduction to others by persons with whom they were directly linked. This process also depicts a critical link between *guanxi* and networks.

How *guanxi* assists in network formation is a central theme of this chapter, although business culture has seldom been cast as an explanatory variable in network construction and maintenance. This is because most cultures do not have an established cultural linchpin such as *guanxi* that can link personal relationships to an effective social network capable of facilitating commercial success. In addition, social network research has tended to focus on the size, diversity, density and strength of links within networks (Granovetter, 1973, 1985; Burt, 1992; Borch and Arthur, 1995), rather than factors that facilitate. Thus, although entrepreneurship research has provided support for the impact of networks on entrepreneurial success, little research has addressed the factors that facilitate the development of these networks.

GUANXI AND THE OVERSEAS CHINESE

About 20 million ethnic Chinese currently live in Southeast Asia (K.S. Wong, 1995), representing 5 per cent of the region's population. Activities associated with colonial administrations and recent economic development have resulted in ethnic Chinese communities being associated with commercial activities. Their degree of commercial success has not been uniform throughout the region, but there are similarities in their business practices. These include developing and maintaining links to politicians, other businesses, potential benefactors and sources of financing.

Much previous discussion of Southeast Asian overseas Chinese has focused on Indonesia, Malaysia, Thailand, Singapore and the Philippines (e.g., Lim and Gosling, 1997). It is in these five countries that the overseas Chinese have enjoyed their greatest commercial success (Owen, 1971; Brown, 1997).

Myanmar, Vietnam, Laos and Cambodia also have overseas Chinese communities that are more closely associated with commerce than is the local population. The overseas Chinese were a major presence in Vietnam (Wang, 1937), and they are beginning to re-establish their commercial presence. Some of the overseas Chinese are returning to Cambodia and opening businesses. Chinese names are also beginning to reappear on businesses, which suggests that business owners see some value in advertising their Chinese identity. In Myanmar, the overseas Chinese have been subject to some governmental restrictions in recent years, but they have assimilated to a greater degree than other immigrant groups by learning the language, marrying Burmese and building links to local government and military leaders. For instance, Myanmar's former military leader, General Ne Win, is partially Chinese (Alexander, 1974). The ability to exploit ethnic links and build links to important politicians may explain why overseas Chinese individuals from Singapore, Malaysia and Thailand have been able to engage in JVs in Myanmar.

The ability to build political links is extremely important to business success in most Southeast Asian countries. Initially, the Chinese had to become adept at this because they were restricted from directly seeking elected office in several countries. The overseas Chinese in Thailand were the first community to master this type of link building because of Thailand's status as an independent country. It would be nice to think that hard work and perseverance explain the progress

of the overseas Chinese from being miners and rubber plantation workers to being successful entrepreneurs. However, making this type of move was extremely difficult and required access to resources. Political connections provided one way to obtain these resources (Akira, 1989). Many overseas Chinese made their initial political links by serving as tax or revenue farmers for the king; later, they could use their links to government leaders to facilitate their own or their offspring's business success.

Tax farming required individuals to bid on the right to collect taxes on certain items such as gambling, birds' nests, opium and sugar cane. The overseas Chinese were disproportionately represented in the ranks of the tax farmers. Akira (1989: 70) noted that the Thai word to describe this profession, *chae sua*, is a 'transliteration from the Hokkien dialect word *cho-sua*', which means a wealthy Chinese merchant. *Guanxi* benefited Chinese people bidding to become tax collectors. They could afford to make higher bids because the reciprocal nature of *guanxi* meant that fellow overseas Chinese would be more likely to come forward with tax payments. Tax farmers could keep anything collected over the bid amount. Many of the most prominent families in Thailand can trace their success back to an earlier generation that obtained a tax-farming concession, as can be read in, for instance, the 1973 *Cremation Book of Jambol Phin Chunhawan* or the 1980 *Cremation Book of Jang Lwong Posyajinka*.²

Political links could also be exploited in other ways. Success as a tax farmer often led to royal honours or appointments. Links were further strengthened through marriages: for instance, Phra Apaiwanich was an overseas Chinese who obtained the tax collector concessions for birds' nest (1980 *nangsue ngan sop*, identified above). He used the profits to buy land, mostly in central Bangkok, some of which his family still owns. As the wealth of the family increased, they were able to develop political links that could be further exploited. Since land had to be acquired from the king, establishing political links was an essential first step.

Another birds' nest tax collector was Yieng Saehao, an overseas Chinese who was so successful as a tax collector that the king appointed him governor of Songhla province in 1875. Eight of his descendents would subsequently serve in this position, in addition to receiving other governmental concessions (1973 *nangsue ngan sop*, above). As the governors influenced regional concession awards, this appointment as provincial governor was extremely important.

Using royal marriages as a way to maintain political connections is best illustrated by the case of Chamroen Krukrit, who was able to arrange royal marriages for two of his offspring. In addition, one of these marriages produced two children who served as prime ministers of Thailand. In this rare case, royal links built in the period of absolute monarchy had tremendous impact during the subsequent period of elected governments, according to the 1975 *Cremation Book of Jamren Krukrit*.

Building links to elected and non-elected political leaders became extremely important as the nature of regional governments changed. Democracy replaced the absolute monarchy in Thailand in 1932, and this happened elsewhere when colonial rule began to disappear after the Second World War. In Thailand, the overseas Chinese made a practice of providing powerful politicians with minority equity positions in their firms and seats as directors (Akira, 1989). These grants often helped the firms get government contracts or concessions. These were extremely important because SOEs dominated the economy. The overseas Chinese broadened their political networks by serving on the boards of friends' businesses, thus gaining access to the political leaders on those boards. This is one reason why board appointments tended to be reciprocal arrangements.

The Thai-Hua group, which was founded by U Chu Liang, an overseas Teochiu Chinese, provides a good example of how this arrangement worked. U Chu Liang formed a number of firms, always with overseas Chinese. His most famous company sold Tiger Balm, which was supposed to cure a variety of diseases when spread on one's forehead. He was also so active in the overseas Chinese community that the Japanese imprisoned him during the Second World War (1976 *Cremation Book of U Chu Liang*). In 1950, U Chu Liang diversified his business interests by founding the Bangkok Metropolitan Bank with six other Teochiu Chinese. Almost all of the capital was raised from the Teochiu Chinese community in Bangkok. Bangkok had a sufficiently large number of Teochiu Chinese to allow overseas Chinese from Fukien province to maintain a regional association. However, a way had to be found to link the new bank to those who could be useful, and Phraya Thongwanit Montri was selected as chairman of the board because of his political position (Akira, 1989).

Today, the need for political links is changing, but they are still seen as useful. In Thailand and the Philippines, ethnic Chinese are now active politically in various parties. They have also enjoyed some

success, with several ethnic Chinese recently serving as Thai prime ministers and many occupying senior government and military positions. In the Philippines, an ethnic Chinese has served as president, and Sino-Filipinos have achieved other high-level positions (Palanca, 1995), although there is a divide between the older established *mestizo* Chinese and the more commercially active overseas Chinese who arrived after 1850 (Wickberg, 1965, 1997). This means that overseas Chinese had direct *guanxi* links with elected politicians who were also overseas Chinese. In Indonesia and Malaysia, overseas Chinese have economic power, but they still tend to be focused on establishing links to non-Chinese politicians rather than on direct political participation.

Although the nature of political links is changing, and their importance has perhaps diminished somewhat in Southeast Asia, business connections are still very important. The Chinese originally came to Southeast Asia because there was a local labour shortage. However, they soon began starting small businesses. For those unable to develop political links, another option was to build connections to foreign firms. The most effective way of doing this was to serve as a comprador for a European firm. Compradors' business connections and profits were often the basis for founding their own businesses (Norman, 1907; Wong, 1965; Ding, 1970). Compradors were a commercial link between non-Thai-speaking foreigners and local Thais. They relied on their networks of associates to bring customers or clients to European firms and received commissions for their services. Many of the prominent business leaders of today can trace their families' economic prominence back to an ancestor who served as a comprador.

In addition, many of these Thai compradors had *guanxi* links to each other and other Chinese. A large number of them attended Assumption School, which was largely populated by overseas Chinese studying commerce. A typical case is that of Kosit Vejjajiva, who studied at this school and then joined the East Asiatic Company as a dock worker. He later rose to the posts of both import and export comprador. When the various regional Chinese associations decided to merge, he became chairman of the Chinese Associations of Bangkok. Although he spent his entire career with the East Asiatic Company, his descendants gained prominence in both the business and political arena (1966 *Cremation Book of Kosit Vejjajiva*).

Research on business practices in China (e.g., Jacobs, 1980; S.L. Wong, 1985, 1996; Blau, Ruan and Ardel, 1991), Hong Kong (e.g.,

S.L. Wong, 1988, 1996) and Taiwan (e.g., Hamilton and Kao, 1990; Cheng-Shu, 1996; Namazaki, 1996) has supported the ongoing importance of *guanxi* and networks. Business research on the overseas Chinese in Singapore has shown that family connections and network building are important aspects of business success (e.g., Chan and Chiang, 1994; Kiong, 1996). The Chinese business communities in Thailand have also been found to rely heavily on personal networks of friends, business associates, classmates, and family (Kao, 1993; Butler and Chamornmarn, 1995).

Business success strongly motivated the overseas Chinese to build and maintain *guanxi* relationships. However, this early success also resulted in some resentment, which may have affected the degree to which they relied on *guanxi*. For instance, a series of anti-Chinese newspaper articles appeared in Thailand in which the Chinese were characterized as the 'Jews of the East' (Landon, 1941: 38-43). These articles were published as a pamphlet (*Muang Thai Theun Geud*) in 1914 under the name Asavabahu, the pen name of King Vajiravudh. Later, when Indonesia and Malaysia gained independence, there were similar incidents of anti-Chinese behaviour (Alexander, 1974). This precarious condition of belonging and yet not belonging has resulted in these overseas Chinese communities' developing specialized business practices, which include relying on *guanxi* and building useful networks. This may explain why *guanxi* continues to be valued by the overseas Chinese community.

The need to rely on *guanxi* is not as compelling as it once was because information is now available and reliable, commercial and government financing is accessible, and business practices have changed. As a sometimes resented minority in some countries, the overseas Chinese may still feel more comfortable resorting to *guanxi* links. However, Thailand and the Philippines are quite accepting of the Chinese and their commercial and political success. If overseas Chinese in those locations still benefit from *guanxi* practices, it would suggest that *guanxi*'s commercial value goes beyond being a mechanism that is ethnically based. Thus, an essential issue is the extent to which *guanxi* relationships are valuable beyond the historical and institutional contexts that resulted in their emergence and use in China. Overseas Chinese would have naturally resorted to *guanxi* when they first arrived in their new countries, but its continued use would suggest that *guanxi* and associated networks provide tangible business benefits.

MODEL AND RESEARCH PROPOSITIONS

The previous discussion suggests that *guanxi* brings value to an entrepreneur in a variety of ways. The model depicted in Figure 9.1 attempts to capture some of the links mentioned in the previous discussion as they apply to the Southeast Asian Chinese. The Southeast Asian context is especially important because different countries have treated and assimilated the overseas Chinese in different ways, which means that *guanxi* may be valued for different reasons in different countries.

Importance of *Guanxi* Business Start-ups

Guanxi is depicted as playing two entrepreneurial roles. In the first instance, *guanxi* facilitates the formation of social networks that increase the probability of business start-ups. This happens because the overseas Chinese place a strong emphasis on trust built through

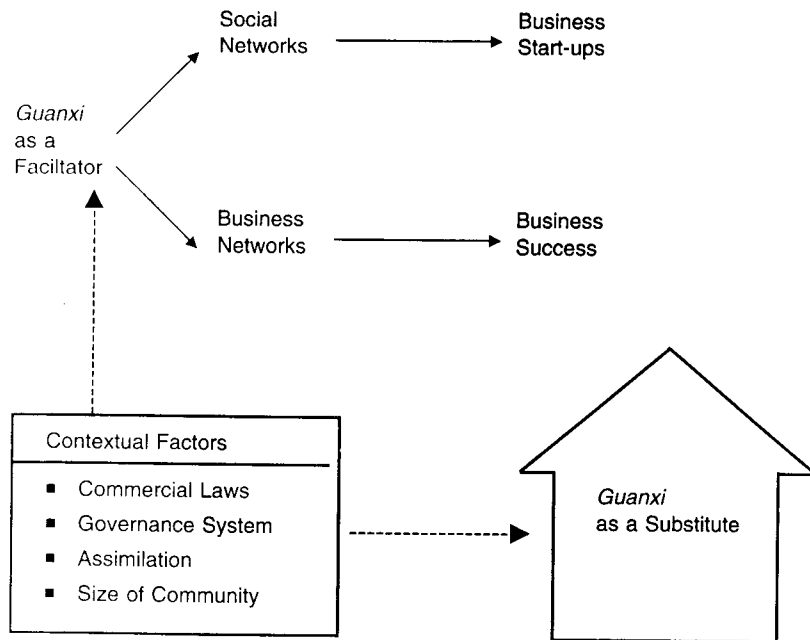


Figure 9.1 Model of *guanxi* as a factor in entrepreneurial success

family and kinship networks and so have many direct *guanxi*-created social contacts. These can be exploited to establish intermediary contacts that result in larger social networks. As discussed earlier, indirect links have been found to be extremely important, which makes the role of *guanxi* in facilitating larger social networks important. Members of other ethnic groups, who may have fewer direct contacts or contacts without reciprocity expectations, will have a harder time building extensive social networks.

Not all individuals with extensive social networks will decide to start businesses, but when a large social network is in place, it can be intentionally or unintentionally exploited. Those without these networks must expend time and energy to build them or start businesses without the tangible and intangible forms of support that they provide. The Chinese who came to Southeast Asia during the nineteenth century would have relied on the same type of *guanxi* relationships as existed in China. As discussed earlier, these proved extremely important to the overseas Chinese compradors. However, the link between *guanxi* and contemporary business success is more complex and requires that *guanxi* be used to build social networks that embody useful business connections or provide useful business information.

This link between social networks and business success is extremely important, as is the degree to which *guanxi*-linked relationships facilitate network construction. These networks can provide information or financial support for a business start-up. Even overseas Chinese not actively searching to start businesses may hear about lucrative opportunities and decide to exploit them. In fact, the reciprocity involved in *guanxi* links implies that the provider of information about a new business opportunity may benefit by encouraging others to act. Thus, the overseas Chinese should have higher rates of business start-ups and of success than other ethnic groups. Even within the overseas Chinese community, those with more sources of *guanxi* should be more likely to found businesses.

*Proposition 1: Overseas Chinese will place a higher value on business-related information received from their *guanxi*-based links than on information from network links without *guanxi*.*

*Proposition 2: Overseas Chinese with more *guanxi*-based relationships will have higher rates of business start-ups than those with fewer or no such relationships.*

Importance of *Guanxi* for Business Success

Guanxi is also important to ongoing business success because it builds business-level networks. A new business requires an entrepreneur to access new sources of information and resources, because the individual's social network is unlikely to contain all the links needed to run a business effectively. In Southeast Asia, business education was rather limited in scope until quite recently. Knowledge about basic accounting, machine operation, sources of supply and managerial skills had to be acquired informally. Some *guanxi* relationships are useful for business purposes because the individuals have business experience or *guanxi* links of their own capable of providing useful information. Thus a business-level network emerges that consists of people with whom the entrepreneur has either direct or indirect links. In the early days of Southeast Asian commerce, *guanxi* would be especially useful because the likelihood of reciprocation was high, and few other sources of information existed. Today, business schools, published supplier directories and government offices responsible for developing and assisting commerce reduce but do not eliminate the business role of *guanxi* in Thailand and the Philippines. In other countries, such as Indonesia and Malaysia, the overseas Chinese prefer to use *guanxi* because sources of support such as government programmes often assist only indigenous ethnic groups.

Proposition 3: Overseas Chinese entrepreneurs will have business-level networks with more guanxi-based connections than other entrepreneurs.

Proposition 4: Overseas Chinese entrepreneurs with more guanxi-based connections in their business networks will be more successful than other entrepreneurs.

Guanxi as a Network Substitute

As depicted in Figure 9.1, *guanxi* also can directly substitute for social and business networks. Some individuals cannot build networks because time, status or some other factor limits their ability to expand beyond their direct links. For instance, many early overseas Chinese entrepreneurs entered business as itinerant merchants. Moving from place to place, they could not construct large networks. Today, when

overseas Chinese start businesses in Laos, Myanmar, and even China, they cannot build networks fast enough to meet the needs of their new businesses. These modern-day mobile entrepreneurs use *guanxi*-based relationships as substitutes for networks. In these cases, *guanxi* can be employed directly to access information or support services, which might not be possible for members of ethnic groups from other countries.

In these developing economies, there are numerous business opportunities. Foreigners doing business in these countries need the same types of support that they would need in more economically developed countries or regions. However, they are less likely to be positioned to turn direct links into a social network or to be able to develop and maintain a business-level network. Language, culture, income, status and the small amount of time they spend in a foreign country limit their ability to build effective networks. Overseas Chinese have the option of using *guanxi*-based relationships to help minimize the disadvantages of trying to start and operate businesses in a developing economy.

Proposition 5: Overseas Chinese operating in less-developed economies will use guanxi more extensively than overseas Chinese in well-developed economies.

Guanxi as a Substitute for Institutional Codes

The model also contains a series of contextual factors that relate to Southeast Asia. The lack of commercial laws and regulations has encouraged overseas Chinese to use *guanxi*. The situation in the region has been improving, and it is now possible to rely on commercial codes in Malaysia and the Philippines. Several other countries, such as Laos and Vietnam, have adopted elaborate commercial codes, and there is an ongoing effort to develop a more comprehensive commercial code in Thailand. The region is interesting because economies and commercial codes have not developed in parallel. Some of the least economically developed countries have recently adopted rather sophisticated commercial codes, which means it is possible to isolate the degree to which *guanxi* may substitute for legal codes.

However, resorting to legal action is slow and expensive in most of these countries, and it is not considered a good way to resolve disputes. The varying nature and ease of use of these commercial codes

should affect the degree to which overseas Chinese rely on *guanxi*. Thus, *guanxi* is essential in some countries but is also often a preferred option in countries where it is not essential.

Proposition 6: Overseas Chinese operating in countries with less-developed legal codes will use guanxi more extensively than overseas Chinese in countries with well-developed commercial codes.

Guanxi and Governance Systems

The governance systems used by firms in this region also affect the degree to which *guanxi* is useful and used. Many overseas Chinese firms have grown to be very large and have diffused stock ownership. However, overseas Chinese firms still have extremely concentrated ownership structures when compared to Western firms. Their managers are also their owners, which means many of the agency issues that relate to managers pursuing interests opposed to those of owners do not arise. Governance in Western firms takes the form of rules and regulations and compensation schemes designed to ensure that managers work in the interest of owners. In overseas Chinese firms, the role of the family is more important to central governance than such mechanisms.

Since family relationships are considered the most important and permanent in Chinese society, they reduce governance issues in a firm. 'Loyalty (and related favoritism) to a family is an obligation, and is rendered without an anticipation of reciprocity' (Tsui and Farh, 1997: 61). However, this also means that family-member managers understand that the financial success of the firm and the general welfare of the family are connected.

Managers in many overseas Chinese firms are either family members or *guanxi*-linked to the owners. Thus loyalty is less affected by compensation-based motivation than by family obligations or the reciprocity of expectations associated with other types of *guanxi* links. Some of the research discussed previously has suggested that firms' *guanxi*-based governance systems have actually limited growth, but they may have had positive impacts on other aspects of performance (e.g., Tsang, 1994; Hamilton, 1996). In addition, the growth relationship may operate in the opposite direction: the managerial growth needs of larger firms may have forced them to hire managers with whom the owners had no *guanxi* links (Cheocharnpipat, Butler and Lee, 1997).

Proposition 7: Overseas Chinese firms with family governance systems will resort to guanxi more than Chinese firms with corporate governance systems.

Assimilation, Minority Status and Guanxi

The overseas Chinese have not always found themselves welcomed in Southeast Asia. The recent riots in Indonesia are current manifestations of this resentment. Countries in the region vary in their treatment of the ethnic Chinese, and to a degree this is related to the degree to which the latter have been able to assimilate. *Guanxi* served as a useful tool in all countries, but as the Chinese became fully assimilated in some countries they were able to tap non-*guanxi*-based avenues for support. Since the overseas Chinese are well assimilated in the Philippines and Thailand, they have full access to such avenues of support as government programmes. This is less true in Malaysia and Indonesia, where *guanxi* and networks may be the only option for the overseas Chinese because government programmes often intentionally exclude them.

In Thailand and the Philippines, overseas Chinese entrepreneurs have the option of using *guanxi*. Business people in Thailand, where many ethnic groups comprise the country's population, tend not to rely on ethnicity, claiming to be Thai rather than Siamese, Chinese, Laotian or Indian, for example. Government aid programmes may be targeted towards particular groups in these countries, but the groups are defined by age, income or regional needs rather than ethnicity. In Indonesia or Malaysia, however, Chinese people find assimilation quite difficult, and in these countries *guanxi* links are probably the only option available.

Proposition 8: There will be fewer guanxi-based connections in the networks of overseas Chinese in countries where they are welcomed and assimilated than there will be in other countries.

The use of *guanxi* by the Chinese in a society where they are the majority differs from its use where the Chinese are a minority. In Southeast Asian countries other than Singapore, the Chinese have had to operate as minorities, and they have developed or retained techniques that help them do this effectively. To the degree that *guanxi* is an important source of social and business support, it should be most prominent where the overseas Chinese are a minority. In Indonesia,

the Chinese comprise a very small percentage of the population and are unassimilated. They are also unassimilated in Malaysia but comprise a large percentage of the total population. The Chinese in Thailand and the Philippines are between these extremes, although both countries have assimilated the overseas Chinese into their economic and political mainstreams.

When the Chinese are a majority population, or at least a large minority, *guanxi* operates much as it does in China: that is, people resort to *guanxi*, but in an unconscious fashion at times. Overseas Chinese will seek out *guanxi* connections more explicitly and conscientiously in settings where they are a minority. This active searching for *guanxi* links is a unique characteristic of minority status but is extremely important to the level of entrepreneurial behaviour the overseas Chinese engage in when they are a small minority, with other factors held constant.

Proposition 9: There will be more guanxi-based connections in the networks of overseas Chinese in locations where they are a minority than in locations where they are the majority.

Obviously, the logic of the model here is based on the commercial success of the overseas Chinese in Southeast Asia. These entrepreneurs, like all successful entrepreneurs, retain successful practices and discard those that bring no return. Thus, each proposition suggests that this community of entrepreneurs uses *guanxi* and builds networks because these practices are associated with high levels of performance.

CONCLUSIONS

This chapter began with a discussion of the direct role that China has played in the commercial development of Southeast Asia and then moved to a discussion of overseas Chinese entrepreneurial success in the region. *Guanxi* and the networks developed by the overseas Chinese have played a major role in the entrepreneurial success of this community. The movement from immigrant workers performing manual labour to successful entrepreneurs required that they exploit their *guanxi* links with other overseas Chinese while building new links to those with political power. Brief histories of several individuals showed how links to those with political power helped them achieve commercial success.

Building links to colonial administrations and local rulers provided commercial opportunities and profits that the overseas Chinese used to open their own businesses. Overseas Chinese entrepreneurs also developed strong political links that could be useful in obtaining government concessions or contracts. This ability to develop commercially useful political links continues to the present time, although it is more important in countries where the overseas Chinese have yet to gain access to elected office. Direct *guanxi* links are often used to establish political contacts, which can then be included in the social or business networks of an entrepreneur.

The overseas Chinese were also able to use *guanxi* links while serving as compradors for European firms. Their ability to expand direct *guanxi* links into large networks allowed them to bring business to those foreign firms. It also allowed many compradors to develop successful businesses of their own. The overseas Chinese continued to resort to *guanxi* once they started their own businesses as a way of obtaining information, supplies and customers.

These business practices continue today, and overseas Chinese businesspeople continue to use *guanxi*. In some cases they do this out of necessity, such as when conducting business in less economically developed regions. However, in many cases overseas Chinese prefer *guanxi*-based contacts, especially those that are family based, when it comes to filling senior-level management positions in their firms.

In the model presented in this research, both direct *guanxi* links and the larger networks developed from these links are theorized to play major roles in business foundations and commercial success. We also theorize that the use of *guanxi* by overseas Chinese individuals is affected by local conditions, especially those related to minority status, ability to assimilate, and the effectiveness of local commercial codes. In general, the model suggests that the overseas Chinese have enjoyed high levels of entrepreneurial success in Southeast Asia in part because of their ability to use and adapt *guanxi* to the commercial and political environment of the region.

The model was employed to develop a series of propositions that need empirical testing. In addition, we need more specific knowledge of how the overseas Chinese use *guanxi* and the degree to which it is copied by members of other ethnic groups. As changes occur in Southeast Asia, the degree to which *guanxi* is used or is effective may also change. Other moderators may become relevant, while those we have enumerated become less relevant.

It would also be useful to examine direct links among other Southeast Asian ethnic groups. The notions of family and reciprocal

obligations are present in most of the region's ethnic groups, although they have not been linked to commercial activities. Thus, it would be important to examine *guanxi* by contrasting it with these other forms of family and reciprocal obligation to try to further isolate the components that are most linked to entrepreneurial behaviour

Notes

1. John E. Butler conducted this research while a visiting associate professor at the Department of Management of Organizations, HKUST.
2. A Thai family assembles a cremation book (*nangsue ngan sop*) when a family member dies. The book contains, among other elements, a biography and a family history. The cremation book of prominent people may be published and distributed.

References

- Akira, S. 1989. *Capital Accumulation in Thailand: 1855-1985*. Tokyo: Centre for East Asian Studies.
- Aldrich, H. E. and Waldinger, R. 1990a. 'Ethnicity and entrepreneurship'. *Annual Review of Sociology*, vol. 16: 111-35. Palo Alto, CA: Annual Reviews.
- Aldrich, H. and Waldinger, R. 1990b. 'Trends in ethnic businesses in the United States' in R. Waldinger, H. Aldrich and R. Ward (eds), *Ethnic Entrepreneurs: Immigrant Businesses in Industrial Societies*: 49-78. Newbury Park, CA: Sage.
- Alexander, G. 1974. *The Invisible China: The Overseas Chinese and the Politics of Southeast Asia*. New York: Macmillan.
- Aldrich, H. E. and Zimmer, C. 1986. 'Entrepreneurship through social networks', in D. Sexton and R. Smilor (eds), *The Art and Science of Entrepreneurship*: 3-24. Cambridge, MA: Ballinger.
- Baker, H. 1979. *Chinese Family and Kinship*. New York: Columbia University Press.
- Bian, Y. 1994. *Work and Inequality in Urban China*. Albany, NY: State University of New York Press.
- Birley, S. 1985. 'The role of networks in the entrepreneurial process', *Journal of Business Venturing*, 1: 107-17.
- Blau, P. M., Ruan, D. and Ardel, M. 1991. 'Interpersonal choice and networks in China', *Social Forces*, 69: 1037-62.
- Boisot, M. and Child, J. 1996. 'From fiefs to clans and network capitalism: Explaining China's emerging economic order', *Administrative Science Quarterly*, 41: 600-28.
- Bonacich, E. 1973. 'A theory of middleman minorities', *American Sociological Review*, 38: 583-94.

- Bonacich, E. and Light, I. 1988. *Immigrant Entrepreneurs*. Berkeley, CA: University of California Press.
- Borch, J. and Arthur, M. B. 1995. 'Strategic networks among small firms: Implications for strategy research methodology', *Journal of Management Studies*, 32: 419-41.
- Brown, B. and Butler, J. E. 1993. 'Networks and entrepreneurial development: The shadow of borders', *Entrepreneurship and Regional Development*, 5: 101-16.
- Brown, B. and Butler, J. E. 1995. 'Competitors as allies: A Study of entrepreneurial networks in the U.S. wine industry', *Journal of Small Business Management*, 33(3): 57-66.
- Brown, I. 1997. *Economic Change in Southeast Asia, c. 1830-1980*. Kuala Lumpur: Oxford University Press.
- Burt, R. S. 1992. *Structural Holes: The Social Structure of Competition*. Cambridge, MA: Harvard University Press.
- Butler, J. E. and Chamornmarn, W. 1995. 'Entrepreneurial characteristics: reflections of a changing economy', *Chulalongkorn Journal of Economics*, 7: 89-110.
- Butler, J. E. and Hansen, G. S. 1991. 'Network evolution, entrepreneurial success, and regional development', *Entrepreneurship and Regional Development*, 3: 1-16.
- Campbell, P. C. 1923. *Chinese Coolie Emigration to Countries with the British Empire* (Series in Economics and Political Science). London: London School of Economics.
- Chan, K. B. and Chiang, C. S. N. 1994. *Stepping Out: The Making of Chinese Entrepreneurs*. Singapore: Prentice-Hall.
- Chen, M. 1994. 'Guanxi and the Chinese art of network building', *New Asia Review*, Summer: 40-3.
- Chen, M. 1995. 'Thailand and overseas Chinese family business: A case study', *East Asia Executive Reports*, 17(11): 8-27.
- Cheng-Shu, K. 1996. 'Personal trust in the large businesses in Taiwan: A traditional foundation for contemporary economic activities', in G. Hamilton (ed.), *Asian Business Networks*: 61-70. Berlin: de Gruyter.
- Cheocharnpipat, J., Butler, J. E. and Lee, T. W. 1997. 'The evolution of HRM practices in Thailand: A model of management learning', *Journal of Business Management*, 74 (March-April): 77-92.
- Child, J. 1994. *Management in China During the Age of Reform*. Cambridge: Cambridge University Press.
- Ding, C. H. 1970. 'Sino-British mercantile relations in Singapore's entrepreneurial trade 1870-1915', in J. Chen and N. Tarling (eds), *Studies in the Social History of China and South-East Asia*: 247-66. Cambridge: Cambridge University Press.
- Farh, J. L., Earley, P. C. and Lin, S. C. 1997. 'Impetus for action: A cultural analysis of justice and organizational citizenship behavior in Chinese society', *Administrative Science Quarterly*, 42: 421-44.
- Farmer, E. L. 1990. 'Social regulations of the first Ming emperor: Orthodoxy as a function of authority', in K. C. Liu (ed.), *Orthodoxy in Late Imperial China*: 103-25. Berkeley, CA: University of California Press.
- Furth, C. 1990. 'The patriarch's legacy: Household instructions and the trans-

- mission of orthodox values', in K. C. Liu (ed.), *Orthodoxy in Late Imperial China*: 187-211. Berkeley, CA: University of California Press.
- Granovetter, M. 1973. 'The strength of weak ties', *American Journal of Sociology*, 78: 1360-80.
- Granovetter, M. 1985. 'Economic action and social structure: A theory of embeddedness', *American Journal of Sociology*, 91: 481-510.
- Hamilton, G. G. 1990. 'Patriarchy, patrimonialism and filial piety: A comparison of China and Western Europe', *British Journal of Sociology*, 41: 77-104.
- Hamilton, G. 1991. *Business Networks and Economic Development in East and Southeast Asia*. Hong Kong: University of Hong Kong Press.
- Hamilton, G. G. 1996. 'The organizational foundations of Western and Chinese commerce: A historical and comparative analysis', in G. G. Hamilton (ed.), *Asian Business Networks*: 43-57. Berlin: de Gruyter.
- Hamilton, G. G. and Kao, C. K. 1990. 'The institutional foundations of Chinese business: The family firm in Taipei', *Comparative Social Research*, 12: 95-112.
- Hamilton, G. G. and Waters, T. 1997. 'Ethnicity and capitalist development: The changing role of the Chinese in Thailand', in D. Chirot and A. Reid (eds), *Essential Outsiders: Chinese and Jews in the Modern Transformation of Southeast Asia and Eastern Europe*: 258-84. Seattle: University of Washington Press.
- Hansen, E. L. W. 1995. 'Entrepreneurial networks and new organization growth', *Entrepreneurship Theory and Practice*, 19(4): 7-19.
- Heidhues, M. S. 1996. 'Chinese settlements in rural Southeast Asia: Unwritten histories', in A. Reid (ed.), *Sojourners and Settlers: Histories of Southeast Asia and the Chinese*: 164-82. Sydney: Allen and Unwin.
- Hirschman, C. 1988. 'Chinese identities in Southeast Asia: Alternative perspectives', in J. Cushman and G. Wang (eds), *Changing Identities of the Southeast Asian Chinese since World War II*: 23-31. Hong Kong: Hong Kong University Press.
- Ingram, J. C. 1971. *Economic Change in Thailand, 1850-1970*. Stanford, CA: Stanford University Press.
- Jacobs, J. B. 1980. 'The concept of *guanxi* and local politics in a rural Chinese cultural setting', in S. L. Greenblatt, R. W. Wilson and A. A. Wilson (eds), *Social Interaction in Chinese Society*: 209-36. New York: Praeger.
- Jarillo, J. C. 1989. 'Entrepreneurship and growth: The strategic use of external resources', *Journal of Business Venturing*, 4: 133-47.
- Kao, J. 1993. 'The worldwide web of Chinese business', *Harvard Business Review*, 71(2): 24-36.
- Kiong, T. C. 1996. 'Centripetal authority, differentiated networks: The social organization of Chinese firms in Singapore', in G. G. Hamilton (ed.), *Asian Business Networks*: 133-56. Berlin: de Gruyter.
- Kipnis, A. B. 1997. *Producing Guanxi: Sentiment, Self and Subculture in a North China Village*. Durham, NC: Duke University Press.
- Kraar, L. 1994. 'The overseas Chinese', *Fortune*, 130(9): 91-114.
- Kuo, E. C. Y. 1996. 'Ethnicity, polity, and economy: A case study of the Mandarin trade and the Chinese connection', in G. G. Hamilton (ed.), *Asian Business Networks*: 115-32. Berlin: de Gruyter.

- Landon, K. P. 1941. *The Chinese in Thailand*. London: Oxford University Press.
- Light, I. 1972. *Ethnic Enterprise in America*. Berkeley, CA: University of California Press.
- Lim, L. Y. C. and Gosling, L. A. P. 1997. 'Strengths and weaknesses of minority status for Southeast Asian Chinese at a time of economic growth and liberalization', in D. Chirot and A. Reid (eds), *Essential Outsiders: Chinese and Jews in the Modern Transformation of Southeast Asia and Central Europe*: 285-317. Seattle: University of Washington Press.
- Lim, M. H. 1981. *Ownership and Control of the One Hundred Largest Corporations in Malaysia*. Kuala Lumpur: Oxford University Press.
- Lockett, M. 1988. 'Culture and problems in Chinese management: A preliminary study', *American Sociological Review*: 28, 55-69.
- Luo, Y. and Chen, M. 1997. 'Does *guanxi* influence firm performance?'. *Asian Pacific Journal of Management*, 14: 1-16.
- Mann, S. 1987. *Local Merchants and the Chinese Bureaucracy, 1750-1950*. Stanford, CA: Stanford University Press.
- Namazaki, I. 1996. 'The role of personal networks in the making of Taiwan's *guanxiqiye* [related enterprises]', in G. G. Hamilton (ed.), *Asian Business Networks*: 71-85. Berlin: de Gruyter.
- Norman, H. 1907. *The Peoples and Politics of the Far East, Travels and Studies in the British, Spanish and Portuguese Colonies, Siberia, China, Japan, Korea, Siam and Malaya*. London: T. Fisher Unwin.
- North, D. C. 1990. *Institutions, Institutional Change, and Economic Performance*. Cambridge: Cambridge University Press.
- North, D. C. and Thomas, R. P. 1973. *The Rise of the Western World: A new Economic History*. Cambridge: Cambridge University Press.
- Owen, N. G. 1971. 'The rice industry of mainland Southeast Asia 1850-1914'. *Journal of the Siam Society*, 59(2): 75-143.
- Palanca, E. H. 1995. 'Chinese business families in the Philippines since the 1980s', in R. A. Brown (ed.), *Chinese Business Enterprise in Asia*: 197-213. London: Routledge.
- Purcell, V. 1951. *The Chinese in Southeast Asia*. London: Oxford University Press.
- Redding, S. G. and Ng, M. 1982. 'The role of face in the organizational perceptions of Chinese managers', *Organizational Studies*, 3: 204-9.
- Reid, A. 1993. *Southeast Asia in the Age of Commerce 1450-1680*. New Haven, CT: Yale University Press.
- Reid, A. 1997. 'Entrepreneurial minorities, nationalism, and the state', in D. Chirot and A. Reid (eds), *Essential Outsiders: Chinese and Jews in the Modern Transformation of Southeast Asia and Central Europe*: 33-71. Seattle: University of Washington Press.
- Reynolds, P. D. 1991. 'Sociology and entrepreneurship: Concepts and contributions', *Entrepreneurship Theory and Practice*, 16(4): 47-70.
- Ruan, D. 1993. 'Social Networks in urban China', unpublished doctoral dissertation, Columbia University, New York.
- Sender, H. 1991. 'Inside the overseas Chinese network', *Institutional Investor*, 25(10): 37-42.
- Shepherd, J. 1941. *Industry in Southeast Asia*. New York: Institute of Pacific Relations.

- Skinner, W. G. 1957. *Chinese Society in Thailand: An Analytical History*. Ithaca, NY: Cornell University Press.
- Suryadinata, L. 1995. 'The Southeast Asian Chinese and China: An introduction', In L. Suryadinata (ed.), *Southeast Asian Chinese and China: The Politico-Economic Dimensions*: 3-8. Singapore: Times Academic Press.
- Tsang, E. W. K. 1994. 'Threats and opportunities faced by private business in China', *Journal of Business Venturing*, 9: 451-68.
- Tsui, A. S. and Farh, J. L. 1997. 'Where *guanxi* matters: Relational demography and *guanxi* in the Chinese context', *Work and Occupations*, 24: 56-79.
- Villibhotama, S. 1991. *Siam: Thailand's Historical Background from Prehistoric Times to Ayuthya*. Bangkok: Mathechon.
- Waldinger, R., Aldrich, H. and Ward, R. 1990. *Ethnic Entrepreneurs: Immigrant Businesses in Industrialized Societies*. Newbury Park, CA: Sage.
- Wang, W. Y. 1937. *Les relations entre l'Indochine française et la Chine*. Paris: Bossuet.
- Wickberg, E. 1965. *The Chinese in Philippine Life, 1850-1898*. New Haven, CT: Yale University Press.
- Wickberg, E. 1997. 'Anti-Sinicism and Chinese identity options in the Philippines', in D. Chirot and A. Reid (eds), *Essential Outsiders: Chinese and Jews in the Modern Transformation of Southeast Asia and Eastern Europe*: 153-81. Seattle: University of Washington Press.
- Wing, C. C. K. and Yiu, M. F. F. 1996. 'Firm dynamics and industrialization in the Chinese economy in transition: Implications for small business policy', *Journal of Business Venturing*, 11: 489-505.
- Wong, G. 1996. 'Business groups in a dynamic environment: Hong Kong 1976-198', in G. G. Hamilton (ed.), *Asian Business Networks*: 87-113. Berlin: de Gruyter.
- Wong, K. S. 1995. 'The ethnic Chinese in Southeast Asia and China', in L. Suryadinata (ed.), *Southeast Asian Chinese and China: The Politico-Economic Dimension*: 9-11. Singapore: Times Academic Press.
- Wong, L. K. 1965. *The Malayan Tin Industry to 1914: With Special Reference to the States of Perak, Selangor, Negri Sembilan and Pahang*. Tucson, AZ: University of Arizona Press.
- Wong, S. L. 1985. 'The Chinese family firm: A model', *British Journal of Sociology*, 36: 58-72.
- Wong, S. L. 1988. *Emigrant Entrepreneurs: Shanghai Industrialists in Hong Kong*. Hong Kong: Oxford University Press.
- Wong, S. L. 1996. 'Chinese entrepreneurs and business trust', in G. G. Hamilton (ed.), *Asian Business Networks*, 13-26. Berlin: de Gruyter.
- Woodside, A. 1990. 'State scholars, and orthodoxy: The Ch'ing academics, 1736-839', in K. C. Liu (ed.), *Orthodoxy in Late Imperial China*: 158-84. Berkeley, CA: University of California Press.
- Xin, K. and Pearce, J. L. 1996. '*Guanxi*: Connections as substitutes for formal institutional support', *Academy of Management Journal*, 36: 1641-58.
- Zhao, L. and Aram, J. E. 1995. 'Networking and growth of your technology-intensive ventures in China', *Journal of Business Venturing*, 10: 349-70.