

# Forethought

## IDEA

### When Good *Guanxi* Turns Bad

In China, relationships come first. That's a problem if your front line gets too cozy with competitors.

by Wilfried R. Vanhonacker

It would be naive to think – as many Western executives do – that the more *guanxi* you have on the front lines in China, the better. *Guanxi*, or personal connection, is powerful stuff, and it can divide the loyalties of the sales and procurement people your company depends on. When relationships come first, as they always do in China, you'd better know who's friends with whom.

In the pharmaceutical industry, for example, it's not unusual for a Chinese sales rep to sell drugs on the side from local companies that compete with his foreign employer. That's because the rep regards his *guanxi* not as a company asset but as a personal one that must be developed, protected, and leveraged – and needn't be fully revealed to the employer. Selling competitors' products to local hospital buyers is a way to pay back favors, fortify *guanxi*, and bring in extra cash, all at the employer's expense. Similarly, Chinese sales reps often seek favorable credit terms for clients, even when doing so conflicts with company interests, because it enhances the reps' connections.

*Guanxi* relationships are defined by a strict ethic of reciprocity and obligation. Your employees in procurement and sales will always return favors from *guanxi* relations, whether the people they're paying back are within your company or at competing firms, and they'll do it according to their own timetables. In the same way, a vendor will serve both you and your competitors with complete equanimity because *guanxi* permits conflicting relationships as long as debts (monetary or otherwise) are eventually settled.

#### Dangerous Liaisons

Because *guanxi* is so pervasive and powerful, it's crucial to understand and manage frontline employees' personal networks before they turn into liabilities. Companies must bring transparency to existing relationships, prevent conflicts of interest from developing, and align employees' interests with their own. Here's how some companies are doing it. They:

**Create competition.** Ever since the consolidation of its operations in China, multinational telecommunications provider Alcatel has worked to restructure its supplier network. Some of its suppliers were owned by Alcatel shareholders or partly owned by Alcatel employees; the opportunities for conflict of interest were clear, so Alcatel introduced a competitive bidding process for all procurements. Without discouraging employees from cultivating *guanxi*, Alcatel reduced the chance that their personal connections would be used against the company.

**Rotate the front line.** One way to shift the emphasis of business from relationships to transactions is to periodically (and cautiously) reconfigure the sales or procurement staff's client assignments. This disrupts unduly powerful *guanxi* connections that can lead employees astray. Such rotations must be managed gingerly—they can backfire if they are too frequent or seem arbitrary or punitive. For the U.S. pharmaceutical company Allergan, a postmerger integration provided an opportunity to rotate client assignments without provoking a backlash. If your company plans to restructure or consolidate its China operations, consider reconfiguring frontline relationships at the same time.



**Increase points of contact.** Another way to temper *guanxi*'s pull on individual employees is to depersonalize the sales and procurement processes by instituting a team-based approach or creating multiple contact points in the organization. Many local and foreign companies have moved to team-based selling in China to avoid having customer contacts revolve around a single individual. New Pioneer, a leading antibiotic manufacturer based in Shanghai, has separate teams focusing on hospitals, local governments, and distributors. BBK, a leading local consumer electronics manufacturer based in Dongguan, uses the multiple-contact-point approach with its 20 first-tier distributors: Besides having sales reps meet with distributors almost daily, BBK has product managers and senior managers meet with people from those 20 firms up to five times a year. Krohne, a German industrial machine manufacturer, has organized its sales force in China around products, not territories as is typically done in the West. For the company's larger, more important accounts, this setup creates multiple contact points. It also forces salespeople handling different product lines to exchange information on key accounts, which in itself enhances transparency.

**Build company loyalty.** Powerful as *guanxi* is, in China only family relationships and close, family-like bonds warrant true loyalty (*guanxi*,

remember, is driven by reciprocity and obligation). Thus, companies should capitalize on the unique loyalty-building quality of kinship-type relationships by fostering them among and between senior managers and frontline people. When Jerry Norskog was running Xian-Janssen Pharmaceutical, the highly successful Johnson & Johnson joint venture, he insisted on jogging with his top people every morning to cement these personal relationships. S.C. Liu, the founder and managing director of Pearl River-Hang Cheong, a successful real estate developer that's based in Hong Kong and operates in Guangzhou, builds kinship-like ties by making sure staff members regularly bring their families to visit the company. And at BBK, the procurement and sales staffs are managed by close friends of the founder.

Like any asset, *guanxi* must be carefully managed or it can become a liability. But by remaining alert to *guanxi*'s potential to cause mischief, you can head off relationships that could work against you.

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