

Is *Guanxi* still working, while Chinese MNCs go global? The case of Taiwanese MNCs in the UK

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Abstract. *Guanxi* has been well studied in Chinese management as a vital factor associated with business strategy and HRM in Chinese communities. However, *Guanxi* may not be crucial anymore, because Chinese MNCs are rapidly becoming global players since they have started to merge with and acquire Western MNCs, but not through the *guanxi* related to international strategy. Recently, “a Chinese company bought IBM Personal Computers lock, stock and barrel. Chinese corporations have bought Thomson and RCA televisions, Dirt Devil etc.” (James Dyson, 2005). This paper investigates Taiwanese MNCs pursuing an internationalisation strategy, and discusses implications for the way third world MNCs manages their international employees. Interview data from twenty four Taiwanese-owned companies are used to identify how the Chinese cultural value of *guanxi*, underpins their management style in the British context. The paper finds that there are sectoral differences between the IT and financial service industries in terms of the way *guanxi* affects recruitment and company location decisions. It is concluded that national culture is still an important factor to influence the international strategy and HRM practice in MNCs of third world origin.

Keywords: Taiwanese/Chinese management, *Guanxi*, internationalisation strategy and international human resource management



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1. Introduction

According to the United Nations Conference on Training and Development (UNCTAD) [31], outward foreign direct investment (FDI) has grown faster over the past 15 years from developing countries than from developed countries. Developing countries such as Hong Kong and Taiwan rank higher than developed countries such as the US and Japan in terms of FDI out-

Table 1

FDI outflows as a percentage of gross fixed capital formation in selected

Economy	Value
Developing countries	
Singapore	36.3
Hong Kong, China	28.2
Taiwan Province of China	10.05
Chile	7.4
Malaysia	5.3
India	1.0
China	0.8
Developed countries	
Sweden	27.4
France	22.0
United Kingdom	19.0
United States	6.6
Germany	4.1
Japan	3.2
Greece	1.8

Source: UNCTAD [31].

flow, which is seen as the gross fixed capital formation, as shown in the Table 1.

Despite this rapid growth very little research has been conducted on multinational companies from developing countries [31]. This study therefore focuses on multinational companies (MNCs) originating from Taiwan, because it is one of the top investors, and in particular on how *guanxi* acts as a source of business strategy in the implementation of internationalisation strategies. The existing literature has demonstrated that while much research has been conducted and published on issues associated with *guanxi* in the Chinese context such as Taiwan, Singapore and China [2], there is little research conducted on Chinese internationalisation in Europe. Since Chinese MNCs are rapidly moving into Western countries through acquisitions and mergers, it is useful to take the case of Taiwanese MNCs within the UK to provide insights into how far their managements use *guanxi* in the process of internationalisation and HRM.

This paper starts with a literature review on the nature of *guanxi* and its influence on the internationalizing strategies and human resource management of MNCs. We then describe the research methodology and the insights obtained from qualitative data gathered from 24 Taiwanese companies operating in the UK within the IT and financial service industries.

2. Theoretical background

2.1. Guanxi

The Chinese social system is classified as a relation-based system, which focuses on the special relations between individuals [4], and is based on reciprocity [6] in order to achieve harmony. Good relationships are based on co-operative behaviour among members of the community [37]. In Chinese societies, *guanxi* can be defined as “a friendship with unlimited exchange of favours”, which means if two people share a *guanxi* relationship they feel fully committed to each other [22,23]. To make *guanxi* work a Chinese businessman/woman must complete his or her obligations, try to be loyal to friends, do favours and maintain a reputation for fairness. (S)he will try hard to maintain the image of a person who can be fully relied on and will always reciprocate [4].

As shown in Fig. 1, Hwang [13] categorizes *guanxi* into three levels of social connection: expressive ties, mixed ties and instrumental ties. The closest ties in *guanxi* are expressive ties, while the most fragile ones are instrumental ties. *Expressive* ties apply to family members and close relatives, who are expected under the rule to fulfill the needs of the family and other family members. *Mixed* ties refer to the relationship among neighbours and friends, and include both expressive and instrumental components, with a strong expectation of temporal continuance. While the term is typically translated into English as ‘connections’, this is an incomplete understanding of the concept. The social rule that governs these social and business interactions is known as *renqing*, which means that an individual emotionally responds to the various situations he/she faces in daily life. Second, *renqing* means a resource that an individual can introduce to another person in the course of social exchange. Finally, *renqing* means a set of social norms which one has to tolerate in order to get along well with other people in Chinese society, for example, one should keep in touch with the contacts in one’s societal network and when a member of one’s network gets into trouble and encounters a difficult situation, one should sympathize, offer help, and do a “*renqing*” (being kind, benevolent, righteous, or give regard to the feelings of other people) for that person. Face follows from the *renqing* rule, since this allows the preservation of social harmony, and together they provide an effective social mechanism to prevent interpersonal conflicts [16].

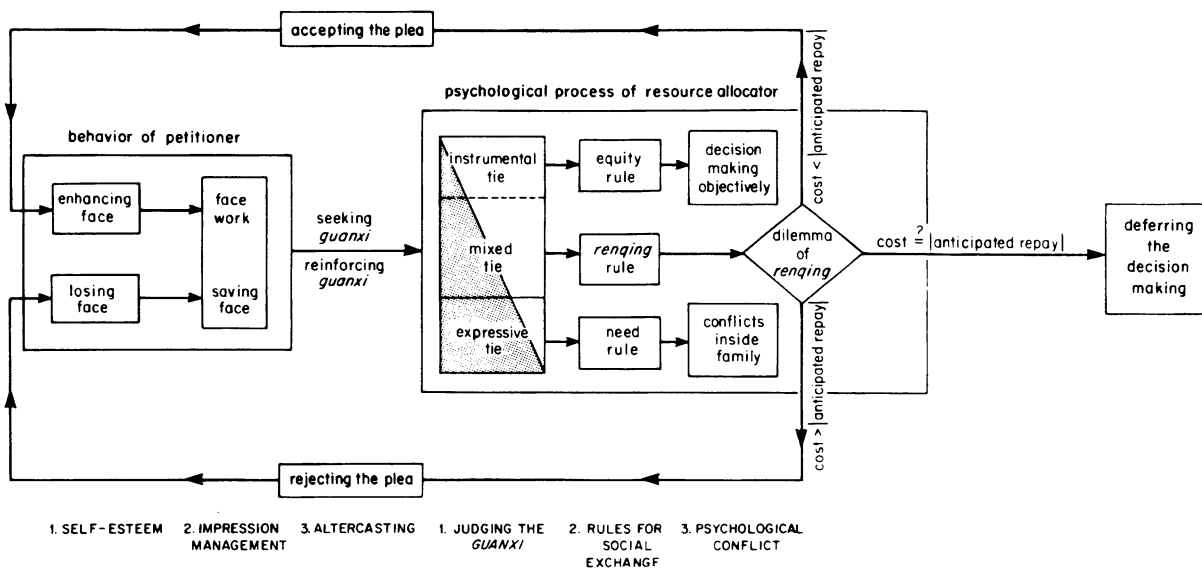


Fig. 1. A theoretical model of face and favour in Chinese society (source: Hwang [13]).

Hwang's model [13] indicates the importance of avoiding conflict inside and outside the family through using *guanxi* to achieve the goal of harmony, which is influenced by Confucianism. Shaw et al. [27] explain that Confucianism stresses the value of harmony, urging individuals to adapt to the collective to control their emotions, to avoid conflict and to maintain inner harmony. Social relations should be conducted in such a way that everybody's "face" is maintained and face is a key component in the dynamics of *guanxi* [4]. From Fig. 1, the relationship between *guanxi* and face is intertwined and complicated. Face has two dimensions, *lian* and *mianzi*. If one doesn't follow the rule of *guanxi* carefully, one loses in both dimensions; if one follows the rule of *guanxi* carefully, one gains in these dimensions [4]. In terms of establishing *guanxi*, the connection network seems to have a more direct relationship with *mianzi*. The more *mianzi* one has, the easier it will be to establish and develop one's relationships [4]. For example, A has *guanxi* with B and B is a friend of C, then B can introduce or recommend A to C. Otherwise, it is impossible to bridge the relationship between A and C. For this reason, formal business correspondence is unlikely to receive a reply until direct personal contact has been established. The success of transferability depends on how satisfactory B feels about his *guanxi* with A and C, respectively [16].

Harmony is a central theme embedded in Taiwanese organizations, which encourages co-operative spirit and group rewards. It is therefore possible that although the Taiwanese MNCs would regard harmony as

an important factor in their UK subsidiary, the British employees would not respond appropriately due to the traditional emphasis on individualism in British working practices.

Trust is a key mechanism of *guanxi*, because Chinese society is regarded with mistrust by Taiwanese [26], because of national political factors: Taiwan directly continues to be threatened from China [24], and to fight for its political identity. A big issue for many Taiwanese is the tension of either merger with Mainland China or complete independence. China continues to declare its willingness to use military force to solve the problem, if Taiwan declares independence. With the continuous threat from the outside, the country cannot totally control its future. Therefore, it has been suggested that Taiwanese people tend to develop certain characteristics such as anxiety, insecurity, flexibility, a short-term orientation and greater sensitivity [8]. Therefore, people need certain strategies such as *guanxi* to ease the insecurity and to build trust. In Taiwan, personal trust is the first principle, and the fundamental mechanism, which makes personal relationships work. New employees and business contacts must be either personally known by the boss or he/she must be introduced by a person whom the boss trusts [23]. However, there is no guarantee that people will be automatically trusted; it depends on whether they can demonstrate their achievements in order to gain trust. This type of trust is certainly particularistic: it is not only based upon ascribed relationships, but also on achieved relationships. Certainly, people with ascribed

relationships have certain advantages in obtaining 'personal trust', because they have more opportunities to develop a trusting relationship. 'Personal trust' is a fundamental mechanism, which makes *guanxi* work [14].

The application of *guanxi* can be presented through two perspectives: the horizontal relationship and vertical business relationships [9]. In the horizontal relationship, *guanxi* is considered as a source of competitiveness because it provides entrepreneurs with information, business opportunities and resources in term of social capital, knowledge and the attitudes and decisions currently favoured by the government [19,38]. Organizational *guanxi* is established as people are recruited and continues to build upon personal relationships while they work there; when they leave, the organization loses that *guanxi*. It is also interesting to note that *guanxi* is essentially utilitarian, for those who are no longer considered profitable to know, *guanxi* is easily broken [16].

2.2. *Guanxi and Chinese internationalisation*

The competitive advantages of a Taiwanese firm are based not only on its 'internal assets' but also on the resources between firms and its degree of internationalisation. The network approach has extended a firm's boundaries to include co-operative modes such as long-term co-operative agreements, and inter-firm relationships. Such a co-operative form is quite different from purely market-based relationships; it is developed around trust [38]. The organisational dynamics are very similar in all family-based networks in Taiwan, whether firms are large or small. All firm owners must contend with intra family organizational controls (vertical control) and extra family connections (horizontal control) [9]. This part will concentrate on patterns of horizontal control, and will discuss if *guanxi* affects, ownership, the purpose of entry as well as the location chosen.

Guanxi forms the organizational backbone of the manufacturing sectors of the economy. Hamilton [9] found that horizontal *guanxi* networks were implemented in production, market and distribution; they also provide small and medium-size businesses with the resources by which to organize export-oriented commodity chains. It is analytically useful to make a distinction between how entrepreneurs use *guanxi* ties to establish horizontally integrated commodity chains and how they use such ties to diversify their assets, for example, when a firm or enterprise group seeks a part-

nership with other people or business, the same principle applies. Usually, there will be co-operation with intimate *guanxi*. If they want to make a linkage, it is necessary to find the right person first. The cooperative inter-business relationship is primarily based upon the personal trust between the two major bosses [14]. Furthermore, Woo and Prudhomme [34] state that it is essential to be aware of the Chinese *guanxi* network connections to understand the ins and outs of a deal. *Guanxi* also implies reciprocity; its impact on business negotiation is that it requires assistance or favors to be yielded whenever and wherever it is requested by a connection.

Taiwanese horizontal control is only based on personal trust. Production in Taiwan is often organized through what is called a "satellite assembly system". Satellite assembly systems vary in terms of the relative size of the firms directly involved. In general, a group of small, medium and some times large independently owned firms join together to produce a product that has been ordered by an overseas buyer. Each firm will produce a part, or one set of parts, of the final product. All the parts of the productions are then delivered to an assembly firm, which assembles, paints, packages and ships the final product [9]. Japanese intra firm network is systemized and formal with contracts; however, the extra-firm network in Taiwan is based on two bosses' relationship and the ultimate exchange of trust and obligation.

Most Chinese business firms tend to specialize in niche markets within particular sectors and industries; they are unable to produce sophisticated products with a strong brand name. Most Chinese business firms prefer to operate in the interstices of the trading and subcontract world. In addition, the Taiwanese government has been highly involved in the economic development of the country and has encouraged internationalisation and outward foreign direct investment among Taiwanese MNCs by relaxing foreign exchange and investment regulations [18]. Many of the enterprises in Taiwan specialise in parts of the production chains and international subcontracting networks which are essentially controlled by giant global corporations such as US or Japanese MNCs [36]. For example, firms like Seagate pull along numerous OEMs and ODMs into global supply chains, companies such as MITAC, like many Taiwanese IT firms, sell a large proportion of their output to international brand-name vendors [1]. Because of technology integration, a firm might need a subsidiary to establish its supply chain in different locations in the World in order to provide lower costs

and good service. Such technology change may affect the strategy of the firm's internationalisation.

The weakness of overseas Chinese MNCs is that they lack experience in the worlds of brand-name goods, mass marketing and high technology [32]. Hence most overseas Chinese MNCs have decided not to adopt similar strategies to the well-known American and Japanese MNCs. Tsai and Cheng [30] studied 105 Taiwanese manufacturing firms in the US and found a strong preference for adopting a full-ownership control mode. Similarly, small firms in Taiwan take independent actions when making FDI (foreign direct investment), but they rely very much on resources from networks to support their cross-border operations at least initially, compared with big firms [5]. The empirical studies in South East Asia found that Taiwanese MNCs utilize individual foreign direct investment while expanding their foreign operation and then search and build local networks [38].

The role of the Taiwanese financial services industries which invest in the US, for example the Taiwanese banks established in Los Angeles, is to provide services for Chinese immigrants. Because the Chinese have low incomes in Chinatown, they have problems in applying for loans from US banks, and therefore Taiwanese banks set up subsidiaries to serve them [39]. However, the IT industry, which includes computer distributors and wholesalers, is different from the financial service industry. The Taiwanese immigrants' firms in LA are heavily involved in marketing products from Taiwan by cloning products at half of the market price of the named brands [39]. Since the Taiwanese firms in Taiwan are small, they need to have sufficient trust from the overseas firms to grant credit. Taiwanese manufacturers in Taiwan resorted to social relationships to ensure responsible and reasonable behaviour, first with family ties, then with close relatives or friends. The social ties provide them with negotiating ground so they can have longer credit or better prices [39]. When the overseas Chinese invest in South East Asia, they implement the same strategy as in parent country. The extra-firm level utilizes co-operative strategies, which are underpinned by personal relationships between Chinese businessmen and top politicians in the host countries. The process of politicizing business through extra-firm networks and political-economic alliances is particularly important in many South East Asian countries where there is a lack of well-defined legal systems and institutional structures [37].

The location decisions of MNCs may not simply be about access to cheap labour, raw materials and

markets [20]. Makino et al. [17] found that Taiwanese FDI tended to flow into developed countries such as the USA when they had strategic asset-seeking and market-seeking motivation. The main driver for Taiwanese multinationals investing in developed countries is where they lacked some component of technology that is available in the developed countries, and which is necessary to compete in the developed country's market [36].

However, companies that used to rely on ethnic entrepreneurial networks and on labour-intensive technology face many difficulties in reaching their targets when they expand into the highly structured markets in Western countries [38]. Network resources are less important for entering a mature market such as the United States where institutions exist that can facilitate internationalisation. Taiwanese investors in the US utilize their own capabilities to build strategic linkages and business alliances, and FDI is seen as an attempt to acquire know-how that reinforces the strengths of the investors [5]. Since the UK and the US are both mature markets, this suggests that Taiwanese MNCs in the UK may adopt similar entry strategies and purposes when they set up in the UK.

2.3. *Guanxi and HRM*

Zhu and Warner [40] explain that 'employment relations' translates into Chinese as '*laouzi guanxi*', which again reflects the importance of *guanxi* in Chinese society. The vertical *guanxi* represents the *guanxi* related to human resource management, which tends to be decentralised, because management stresses the importance of personal relationships between the manager and the employees. Personal relationships through *guanxi* build the socio-economic network to which one resorts for most business needs such as recruitment of employees [9]. For example, friends and relatives are commonly targeted in recruitment especially in the recruitment of entry-level employees in Taiwan, and hence the employer-employee relationship starts to overlap with more personal bonds [10,12].

It is worth stressing that the *guanxi* of employment relations is not based on reciprocity but rather on obedience, with the subordinate in the hierarchical relationship necessarily obligated to obey the superior [9]. Whilst subordinates should seek to protect and give face to the superior, the superior should also take care not to damage the face of subordinates [33]. Face, as '*an image of self delineated in terms of approved social attributes*' [27] is a universal phenomenon, but it

may be argued that it has particular importance for the Chinese.

Cin et al. [7] argue against Hamilton, suggesting that reciprocity has an influence on reward in Taiwanese firms in Taiwan, where the reward system of major Taiwanese enterprises has adopted a conventional year-end bonus system. The bonus system dates back to pre-modern agricultural society in Taiwan, which emphasized gift exchange between the owner/manager and the employees of the firm at the end of each year. This tradition has been broadly accepted and has continued into the industrialized era. Therefore, it is worthwhile conducting research to see whether the case in the UK conforms to the views of Hamilton or Cin et al.

Westernisation continues to shape the management style in Taiwanese HQs, and there are questions about how much of Chinese management values remain. The current business environment will influence Taiwanese internationalisation in the global market, for example through the increasing demand for service in different areas of the world. Chinese management faces technological and economic challenges from both Western and Japanese MNCs. Firstly, the challenge of Western influences: in order to advance high technology and provide services in the global market, they require leverage and the capability for research and design, which may change traditional Chinese management [32,35]. Second, economic influences: as Taiwan faced the economic downturn between 2000 and 2003, Western management practices such as HRM were brought into Taiwan, therefore the Chinese management may have been altered toward Western style [35].

Third, industrial influences: unlike the traditional industry emphasis on recruitment and *guanxi* as mentioned above, a rejection of *guanxi* in recruitment can be found in high-tech organizations [10]. Finally, management fashion influences: as the ideas of HRM and business strategy integration spread from the USA, organizations in Taiwan started to introduce HR methods, and hence the way of managing employees (*laouzi guanxi*) may have been challenged [35]. Thus the second main focus of the present paper is about whether Taiwanese managers sent to the UK, adopt the principles of the 'new' Western-style management, or whether they operate on the basis of traditional Chinese management values.

3. Research methods

This research utilised qualitative research methods and data were collected between February and Decem-

ber 2003. A list of Taiwanese MNCs was provided by the Taipei Trade centre in London. The research questions were aimed at informants: Taiwanese managers in the UK. Taiwanese managers responded from 24 out of 102 Taiwanese companies in UK, and 16 companies a response was also obtained from IT sector and 8 from financial service sector in UK.

Questions were designed to discover the influence of the unique Chinese value of *guanxi*. Other cultural questions borrowed from cultural theorists [11, 15,29] were used to test whether Taiwanese values fitted their theories, because some researchers suggest that Taiwanese employers' values are changing toward a more Western style [13,21,28]. The outcome of cultural questions contributes to clarify the debate of convergence or divergence in management in international organisations. The other questions also discover the extent to which the managers' attitudes were reflected in the companies' HRM practices. General company information was requested to give a picture of Taiwanese MNCs in the UK, such as the number of expatriates, composition of employees in respect to gender, full/part-time, location, and history (5 items), was asked for a framework of Taiwanese/Chinese MNCs in the UK. The British and Taiwanese managers' perceptions were measured by decision-making, training (4 items), socialization (2 items), managing disagreement (2 items) and job security (2 items). The appraisal matters were obtained by 8 items such as default responsibility, MBO, individual appraisal, promotion and training needs and time orientation (4 items). In addition, the reward questions were acquired by asking bonus, pay, seniority, part/full-time and group vs. individual (8 items) and the recruitment concerns were attained by the question of *guanxi*, recruitment criteria (7 items), training issues such as commitment, organizational performance and professional improvement (4 items), and organizational issues such as rule, order, job instruction (3 items).

The qualitative data were analysed by Nvivo. The categories were developed based on Chinese cultural value, harmony, *guanxi*, trust related to international strategy and HRM practices such as recruitment, training, appraisal, reward and communication. In addition, characteristics of Taiwanese MNCs will be discussed including the strategy to invest in the UK.

4. Findings

4.1. Guanxi and Chinese internationalisation in UK

Taiwanese MNCs have varying reasons for investing in the UK, depending on the industry involved. The

Table 2
The purpose of penetrating to UK

	IT industry	Service industry
Market orientation	Customers here	Information collector
Research & Design	In Taiwan	In Britain
Location chosen	Near customer	London is world financial and banking centre
Action	Independent investment	Independent investment
Guanxi with business partners	Form in Taiwan/UK	Form in UK

cases in the IT industry in this research do not confirm the findings of Makino et al. [17] relating to the desire to gain access to advanced technology by investing in developed countries, although it can be found that this is the case in the financial service industry (please see Table 2). The entry strategy is generated from the qualitative research method. The interview data show that Taiwanese MNCs in the UK do not seek advanced technology because Taiwan has a national competitive advantage in IT industry in terms of research and design.

As Table 2 shows, Taiwanese MNCs in the IT industry came to the UK because of their customers. The location chosen for Taiwanese MNCs in the UK, rather than the rest of country in Europe, is based on their networking orientation and markets. The interview data indicate that Taiwanese MNCs seek markets near customers. Fourteen out of 16 firms in the IT industry chose their location to be near major customers.

For business, there are three big markets in the world, America, Europe and Asia. Customers like IBM and HP like their business partner to work in the front line in order to shorten the time. If the products come from Asia, the supplier chain is very long (Water Co., Interview with Managing Director, 24 July, 2003).

Taiwan is a network society, thus, a location near to customers is a very important factor not only for market or economic reasons but also because its links to Taiwanese management culture and provides better *guanxi*.

The data from this study confirms the work of Chen and Chen [5]. It is very important to be near the customer for Taiwanese MNCs in order to build up business relationships as shown in Table 2: *guanxi* is form-

ing in the UK in both industries. Taiwanese managers undertake certain activities that aim to increase their business by socialization with their customers in order to keep good business relationships. The activity of *guanxi* is based on face-to-face communication, and by doing so, the business relationship can be strengthened. However, to some extent, Taiwanese managers find it quite difficult to maintain this kind of *guanxi*, because British customers don't have such a business tradition.

I think customers are most important in *guanxi*. My company held a party in Ayr to play (bid) horse racing. They liked and appreciated it. Before Christmas, we will send them wine as gifts. I ask them what their favourite wine is and then buy it in Macro. I ask the salesmen to give gifts to our customers. We call them out to the parking lot and then give them to put in the car trunk. You know they can't bring the gifts to their office (Wood Co., interview with Managing Director, 10th June, 2003).

The entry strategy of Taiwanese MNCs into UK confirms the findings from the study of Chen and Chen [5]. This involves making an independent investment in the UK and then forming business networks once they are established. In addition, Taiwanese MNCs in the IT industry in the UK transfer information about any faults in the products back to headquarters. They are close to customers and whenever problems with products are identified, they are reported back to the research and design centre by e-mail.

I am giving a service here, because timing is important to our customer when they have a problem, we have to support them and at the same time, we have to find out what the problem is and then report to Taiwan, to the design centre. It becomes very important in business for our customer, IBM or HP, also reckon our companies have to have someone here to help them (Rat Co., interview Managing director, 20th April, 2003).

On the other hand, Table 2 shows that the locations chosen by the financial sector firms show a slight divergence from the IT industry, because of the national competitive advantage of the world financial centre in London. Taiwanese banks are mainly state-owned so they came to UK in the early 90s after martial law was abolished in 1988. Their businesses concentrate on wholesale information collection and new product development.

London is the world financial centre and has geographic advantages. For example, in the morning, it is afternoon in Asia and in the afternoon it is American east coast morning time. So, banks in London can send information back to Taiwan. Secondly, financial products are on trial in the UK (R&D centre). After we modify them, we can promote the new products in Taiwan (Daisy Co., interview General Manager, 1st Dec., 2003).

Companies that used to rely on ethnic entrepreneurial networks may face many difficulties in reaching their targets when they expand into highly structured markets such as those found in Western countries [38]. However, Chen and Chen [5] also found that Taiwanese firms are keen on forming external network linkages; Taiwanese investors in the US utilize their own capabilities to build strategic linkages to local resources. Strategic linkage refers to business alliances that enhance the competitiveness of firms and reinforces the strengths, or complements the weaknesses of the investors. Supporting evidence can be found in the data from this research.

Our business focuses on wholesale which is about 75% of our business, and it is huge amount of money. So, we cooperate with other banks to get the deal (Tiger Co., interview General, Manager, 29th April, 2003).

4.2. Guanxi and HRM in UK

Guanxi, which is embodied in the national character of Chinese management, can be seen in the approach to the process of recruitment, employment and business relationships. *Guanxi* is an action to achieve harmony, while face is seen as mechanism to achieve *guanxi*. However, Taiwanese managers see it as causing problems in certain circumstances. Paradoxically, Taiwanese firms reject *guanxi* in recruitment, particularly in high-tech organizations in Taiwan [10]. Taiwanese managers in the UK believe that *guanxi* related to recruitment is seen as a negative action, because a group of people, who are recruited from a *guanxi* network, occupy a strong resource position in the organization. In this highly competitive era, Taiwanese managers in the UK perceive it as a barrier to achieving organizational efficiency. It is interesting to note that over half of the Taiwanese managers in the UK agree that *guanxi* associated with recruitment is not related to individual commitment, while Taiwanese managers in Taiwan no longer take it into account.

I think *guanxi* is very troublesome. We don't like to use this kind of connection in recruitment. I don't like them to form a small group. It's not good for an organisation, especially in such a highly competitive era; there is nearly no profit in the IT industry (Horse Co., interview, 13th May, 2003).

Friends and relatives are commonly targeted in recruitment by this means and the employer-employee relationship overlaps with a more personal bond [9], especially in the recruitment of entry-level employees in Taiwan [12]. However, *guanxi* is rejected in relation to recruitment in IT sectoral Taiwanese MNCs in UK. On the other hand, in the financial service sector in London, the Taiwanese MNCs may have to recruit someone who is British Chinese. The employer then seeks to find the resource in the traditional way, by networking.

I don't like *guanxi* related to recruitment. If the employee has no good ability, it is really bad for our company. However, we need someone who can speak Mandarin and English, so recruiting overseas Chinese is the best alternative. However, I don't know so many people, thus, normally we hire someone through *guanxi* (Bluebell Co., interview Managing director, 2nd Dec., 2003).

The relationship between *guanxi* and face is intertwined and complicated. The data validate the study from Westwood [33], Taiwanese manager gives face to the supervisor, he expects that the supervisor will obey the rules (obligation) and follow his orders (obedience). By using *guanxi*, Taiwanese managers think that harmony can be achieved. The manager gives face (*mianzi*) to his subordinates by saying, "you have already done very well and I appreciate it". *Mianzi* entails providing empathy with others and avoiding speech or actions that cause embarrassment to others. Where face is saved, emotional feelings of attachment are developed.

My management style is winning my subordinates' hearts. For example, sometimes, they are late or absent. My way is that 'you have already done very well and I appreciate it. I just want you to do one more thing. You have to keep your time right. If you keep your time right, you keep me right' (Rabbit Co., interview Production manager, 2nd May, 2003).

In Taiwan, the reward system is influenced by the principle of reciprocity, as demonstrated in the traditional year-end bonus system [7]. Although Taiwanese MNCs operate in UK affiliates; three-quarters of the

Taiwanese MNCs have a bonus scheme, which is based on individual and company performance and the appraisal is mainly done every year before Christmas.

My company gives employees a Christmas bonus based on their wage. It means that the employer shows his appreciation to employees and hopes employees will work hard in the following year (Earth Co., interview financial coordinator, 18th Nov., 2003).

In Taiwan, personal trust was the first principle and the fundamental mechanism, which made personal relationships work [23]. There is no guarantee that people will be automatically trusted; it depends if they can demonstrate their achievements in order to gain trust [14]. The data confirm the importance of the trust.

I think managing people is not so difficult, just trusting them. Just trust each other. How do you let them trust you? You have to think whether you can manage it before promising your employees (Wood Co., interview Managing director, 10th June, 2003).

The data demonstrates that Taiwanese managers put their trust in their (British) HR managers, since they do not have enough knowledge about British industrial relations. But these British managers still have to demonstrate their ability to gain the trust of their Taiwanese superiors.

We trust our HR professional. The work system was designed by our HR manager. Only they know their work systems so we have to trust their decision for the company's own good (Water Co., interview Managing director, 24 July, 2003).

Owing to insecurity in an organization, personal relationship bonds are seen to enhance trust [25]. Taiwanese managers believe in socializing outside work in order to build up trust, however, this does not fit with the British work culture.

In order to achieve a good company performance, people need sentiment and chemistry. If you have a boss who understands you, you definitely feel happier to work for him. I think trust, understanding and forgiving each other are very important. If the Manager has done something wrong; subordinates can't say anything about it. However, when subordinates do something wrong, the boss blamed them. It's not right (Rose Co., interview Managing director, 2nd Dec., 2003).

In addition, Taiwanese managers prefer a stable career so that work can be done efficiently as a result of the good *guanxi* (relationship with employees) in an organization.

With my character it is not easy to change my job, so I think my company is a not bad company to work for. I think people have to feel satisfied. . . . In Taiwan, you can't really change jobs easily; you have to think about your relationships. Even though you may have excellent abilities, without good personal connections (organizational affiliation), it seems very difficult (Dog Co., interview Managing director, 4th March, 2003).

5. Discussion

5.1. *Guanxi and internationalisation*

Unlike Taiwanese investors in the US, acquiring know-how to reinforce the strengths of the investors [5], Taiwanese MNCs which make FDI (foreign direct investment) from Taiwan to UK do not seek advanced technology because Taiwan has a national competitive advantage in IT industry in terms of research and design. However Makino et al. [17] note that the desire to gain access to advanced technology by investing in developed countries does apply in the case of Taiwanese MNCs in the UK financial service industry.

Companies that used to rely on ethnic entrepreneurial networks and on labour-intensive technology face many difficulties in reaching their targets when they expand into the highly structured markets in Western countries [38]. Nevertheless, Taiwanese MNCs in the IT industry came to the UK because of their customers. The location chosen for Taiwanese MNCs in the UK, rather than the rest of country in Europe, is based on their networking orientation and markets, which is similar with Taiwanese MNCs in the IT industry in the US and South East Asia [39].

Like Taiwanese MNCs in US and South East Asian [5,38], Taiwanese MNCs in both IT and financial service industry build local networks after penetrating into the UK market (see Table 3).

5.2. *Guanxi and HRM in UK*

This research also confirms Hwang's [13] model, that the relationship between *guanxi* and face is intertwined and complicated, and can be applied by Taiwanese MNCs in the UK while managing employees.

Table 3

The comparison of Taiwanese MNCs' entry strategy among UK, South East Asian and US

	UK		US		SEA
	IT	service	IT	service	
Location-market	✓		✓	✓	
FDI	✓	✓	✓	✓	✓
Guanxi forming in affiliates	✓	✓	✓	✓	✓
Guanxi forming in HQ	✓				

Face has two dimensions, *lian* and *mianzi*. If one follows the rule of *guanxi* carefully, one gains in these dimensions [4]. If a Taiwanese manager gives face (*giving lian*) to the British supervisor, he expects that the supervisor will obey the rules and follow his orders (*gaining mianzi*). By using mixed ties of *guanxi*, Taiwanese managers think that harmony can be achieved.

The Chinese social system is classified as a relation-based system, which focuses on the special relations between individuals [4], and is based on reciprocity [6] in order to achieve harmony. The traditional year-end bonus system in Taiwan is a very common reward practice and it is influenced by the principle of reciprocity [7]. Although Taiwanese MNCs operate in British context; three-quarters of the Taiwanese MNCs have a bonus scheme.

Renqing is kind of a resource in Chinese society, which means that an individual can introduce someone to another person in the course of social exchange [16]. In HR practice, friends and relatives are commonly targeted in recruitment by this means and the employer-employee relationship overlaps with a more personal bond [9], especially in the recruitment of entry-level employees in Taiwan [12]. Taiwanese MNCs seek to find the resource in the traditional way, by networking in the financial service sector in London, because of the shortage of Chinese speaking people in Britain. Taiwanese MNCs have to recruit someone who is British Chinese from *guanxi*. However, *guanxi* is rejected in relation to recruitment in IT sector in Taiwanese MNCs in UK, for Taiwanese managers in the UK believe that *guanxi* related to recruitment is seen that a group of people, who are recruited from a *guanxi* network, occupy some certain strong resources in the organization. The case from Taiwanese in IT industry confirms that Taiwanese firms reject *guanxi* in recruitment, particularly in high-tech organizations in Taiwan [10].

In Taiwan, personal trust was the first principle and the fundamental mechanism, which made personal relationships work [23], which makes *guanxi* work [14]. There is no guarantee that people will be auto-

matically trusted; it depends if they can demonstrate their achievements in order to gain trust [14]. Despite of British context, Taiwanese managers in Taiwanese MNCs in UK put their trust in their (British) HR managers, because British managers have demonstrated their ability to gain the trust.

6. Limitations and future study

There are some limitations in this research. In particular, the institutional and cultural perspectives should be integrated to conduct research in international management. This research has lifted the veil from the understanding of Taiwanese/Chinese MNCs in Europe. For future research, since the rate of mergers and acquisitions between Chinese firms and Western MNCs such as IBM is rapidly increasing, it would be valuable to compare entry modes with this research, focusing on foreign direct investment.

Second, although this research paid attention only to small MNCs, due to the scale of recent Chinese MNCs merger and acquisition with Western MNCs, company size should be a variable to be considered while conducting further research. Thirdly, while this research contributes to the understanding of Taiwanese/Chinese management style in the UK, responses were mainly obtained at management level; for further research, the non-management levels should be included.

7. Conclusion

Guanxi is the crucial factor in the internationalization of Taiwanese MNCs as well as IHRM practices. There are sectoral differences between Taiwanese MNCs in the IT and the financial service industry in the location chosen. The horizontal *guanxi* can be found in the Taiwanese MNCs in the UK IT industry, and they choose to locate near to their business partners in UK. On the other hand, the forming of *guanxi* in business relations occurs after Taiwanese MNCs in the financial service industry have made their entry to the UK. However, there is no *guanxi* associated with the investments of Taiwanese MNCs when implementing internationalization strategies; foreign direct investment is the common method.

The vertical *guanxi* can be found in Taiwanese MNCs in the British context as well. Taiwanese managers believe that personal relationships with employees (*laouzi guanxi*) are very important in managing hu-

man resources in an international organization in respect of trust, *renqing*, face and reciprocity. Sectoral differences were apparent within the Taiwanese companies regarding their degree of preference for *guanxi* related to recruitment. In Taiwan the conflicts in the office can be resolved through socializing; but this does not fit with British culture.

In conclusion, although MNCs of third world origins are growing rapidly, little research has been conducted on this field; hence it is urgent to conduct much more work in this area. It is suggested that *guanxi* is still crucial to Taiwanese MNCs when internationalising themselves and managing employees in host countries.

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