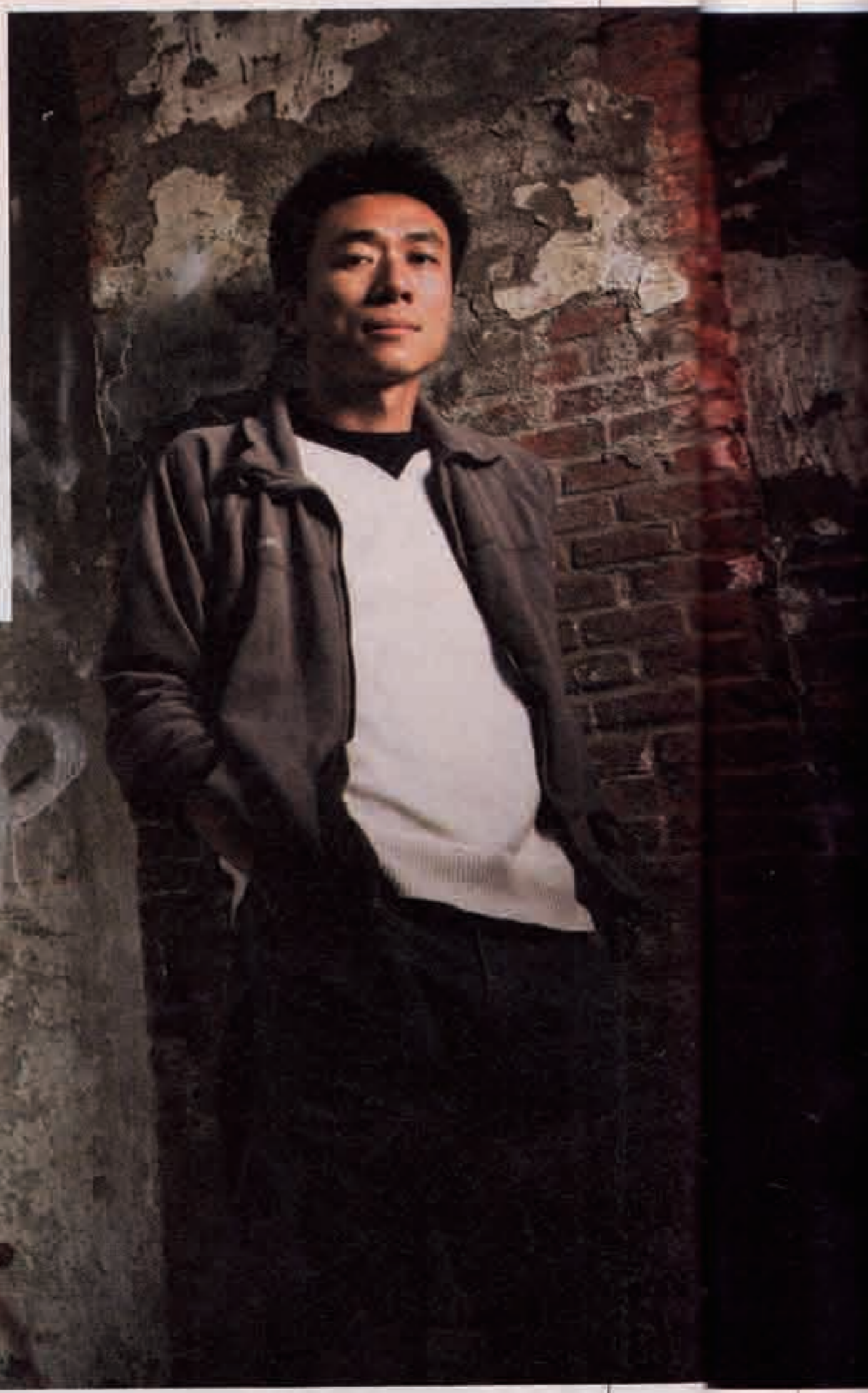


You Say *Guanxi*, I Say Schmoozing

How East is meeting West and building a lingua franca of business connections



By Frederik Balfour

Guanxi. It's the first word any businessperson learns upon arriving in China. Loosely translated, *guanxi* means "connections" and, as any China veteran will tell you, it is the key to everything: securing a business license, landing a distribution deal, even finding that coveted colonial villa in Shanghai. Fortunes have been made and lost based on whether the seeker has good or bad *guanxi*, and in most cases a positive outcome has meant knowing the right government official, a relationship nurtured over epic banquets and gallons of XO brandy.

Now, like so many things in China, the old notion of *guanxi* is starting to make room for the new. Businesspeople—local and foreign—are tapping into emerging networks that revolve around shared work experiences or taking business classes together. Net-

working that once happened in private rooms at chichi restaurants now goes on in plain view—at wine-tastings for the nouveau riche, say, or at Davos-style confabs such as the annual China Entrepreneurs Forum held annually at China's Yabuli ski resort. By tapping into these informal groups, Western companies can theoretically improve their understanding of the marketplace, hire the best talent, and find potential business partners.

Guanxi goes back thousands of years and is based on traditional values of loyalty, accountability, and obligation—the notion that if somebody does you a favor, you will be expected to repay it one day. One of Asia's most successful businessmen, Hong Kong billionaire Li Ka-shing, has parlayed his *guanxi* particularly astutely over the years, in the process winning valuable licenses

and permission to build huge real estate developments. Playing the *guanxi* game is still imperative, and especially for foreign investors. Knowing that Party boss (or his children) remains not just a competitive advantage but an admission ticket.

As China increasingly meshes its economy with the rest of the world, its ascendant professional and entrepreneurial classes are beginning to see the value of networking among themselves. "More and more Chinese who studied or worked overseas understand how to build these networks," says Yang Yuanqing, chairman of Lenovo Group, the big Chinese computer manufacturer.

Many of China's networkers meet through an American or European MBA

Playing the *guanxi* game at Insead helped Wang start Tudou.com, a YouTube wannabe

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program. Gary Wang attended Insead, the famous French business school outside Paris. Today he runs a YouTube wannabe called Tudou that was built largely on connections made at B-school. His partner, Dutchman Marc van der Chijs, was married to one of Wang's classmates. A fellow alum who worked at Ogilvy & Mather Worldwide helped out with public relations. And another Insead grad, Helen Wong, a partner at Granite Global Ventures, helped Wang raise \$8.5 million after a friend heard him speak at the China Europe International Business School (CEIBS) in Shanghai. "Without knowing all these people through Insead," says Wang, "Tudou probably never would have happened."

Executive MBA programs, all the rage now in China, have become *Guanxi* Central. Targeted at senior executives and high-powered entrepreneurs, the programs are attracting some of China's most successful businesspeople. "It's important to have friends in different industries and meet people from different cities," says Zhou Junjun, who runs the Chinese operations of a South Korean systems integrator and did an Executive MBA at the Cheung Kong Graduate School of Business in Beijing.

The school recently began offering an ultra-exclusive CEO program that accepts 40 people. It has attracted a veritable who's who of Chinese business, including Jack Ma, founder of the online exchange Alibaba.com, which

raised \$1 billion in an IPO earlier this month. Ma and his 39 classmates have created an alumni association. It's a serious club: Members who miss one of the mandatory annual meetings must pay a \$10,000 fine (which is donated to charity). The alums also gather almost weekly for meals or rounds of golf (one member has his own 36-hole course), where they share ideas and business gossip. "*Guanxi* is an evolving thing," says Chang Sun, managing director of private equity firm Warburg Pincus Asia and a charter member. "It used to mean access; once you had it you could open doors. Now it's relationships that can inform and educate you."

Multinational companies, of course, provide rich opportunities for networking, too—and some are trying to goose the *guanxi*. Ogilvy Public Relations Worldwide holds an annual party for former employees, many of whom now work for O&M clients, including Lenovo, Johnson & Johnson, and solar-panel maker Suntek. McKinsey has plenty of alumni who have moved into senior posts at major companies and startups. "Obviously, they became a valuable network for us," says Andrew Grant, who runs the firm's China practice in Shanghai.

Procter & Gamble China "graduates" have their own Web site, where they post everything from new job prospects to potential tennis partners. Jerry Liu, who joined P&G along with 80 other college recruits in 1997, recalls an intense bonding experience. "When you join the company, it's like entering another college," says Liu, who subsequently did an MBA at the University of Michigan and used his P&G connections to land a job at Coca-Cola in Shanghai.

If one thing has remained the same for foreigners in China, it is this: Cracking the *guanxi* code still takes hard work and perseverance. Schmoozing at an alumni barbecue or wine tasting goes only so far when trying to build relationships of any lasting value. After the first 30 minutes

at these functions, say people who have attended, foreigners and locals almost invariably break off into separate groups.

What's more, Chinese businesspeople are more experienced and globally savvy than they were just a few years ago. They're looking for business connections who can help them expand outside China or get their company listed on a foreign exchange. "People want something more professional and strategic from their relationships," says Li Yifei, Viacom's chief representative in China. "They want to know how good your *guanxi* is back home." | **BW** |

PLAYBOOK

Here's how to start cracking today's *guanxi* code.

1 Be prepared still to carry thick stacks of business cards, but don't waste time trying to swap one with every person in the room. *Guanxi* is about building trust, not about building a personal data base.

2 Never pass up an invitation to play golf, badminton, or tennis with the locals, although crooning at the karaoke club is no longer *de rigueur*. Wine tastings and art auctions are good places to network.

3 When someone promises to open doors for you, or even get you in the back door, be suspicious. Although navigating the bureaucracy is still difficult, increased transparency means everybody has to jump through the same hoops.

4 Tap into your own alma mater's alumni associations in China. China sends more than 30,000 students abroad every year. Even consider enrolling in local Executive MBA programs.

5 In traditional *guanxi*, if someone does you a favor, one day you will have to repay it—remember *The Godfather*? In contemporary *guanxi*, people are more willing to give without expecting something in return.

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