Guanxi Management in Lean Production System—An Empirical Study of Taiwan-Japanese Firms

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ABSTRACT.   While the emphasis in the West is on "what you know" refers to technological expertise, including the price and quality of tendered product or service, the emphasis in Confucian societies is on "who you know," which refers to personal connections with the appropriate authorities or individuals. These connections are known in Chinese as *guanxi*, on which as the basis Chinese exchange a lifetime of favors, resources, and business leverage. This study seeks to study *guanxi mechanism*, the unique Chinese social-cultural element and its impact on the managerial effectiveness of Taiwanese firms with lean implementation in practice, and an empirical study is constructed to verify our proposal. Results suggest that *guanxi* and its networks function as the lubrication that eases interpersonal conflicts and as the buffer in solving problems, which in turn upgrades the cooperative efficiency both inter- and intragroups. This article provides an inner view of cultural value, which offers insights that should prove helpful to academics in management and related disciplines as well as to practitioners engaged in Chinese production management.

I

Introduction

DURING THE PAST decade it has become recognized that corporate culture has a significant impact on overall organizational performance. Successful technological innovations require that either the

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technology be designed to fit the organization's current structure and culture or that the organizational structure and culture be reshaped to fit the demands of the new technology (Cabrera et al. 2001). Lean production is not just a technological system but also a concept implemented throughout the whole company, which especially requires consensus on corporate culture.

In general, organizational culture is defined as the common experience and background shared by the members, containing with value point, ideal, expectation, tradition, etc. Thus, it includes 1) practices, such as rules, procedures, and organizational institutions (Martin and Meyerson 1988), 2) artifacts, such as ceremony (Wilkins and Ouchi 1983) and symbols (Schein 1992), and 3) content theme, referred to as shared basic belief, assumption, and value point by the organizational members (Deal and Kennedy 1982; Schein 1992, 1999). These shared assumptions, beliefs, and values are implicit, yet they can make the difference (functional or dysfunctional) between a company that wins and loses (Goffee and Jones 2003), and are strongly related to national culture.

National culture plays an important role in constructing the corporate culture (Adler 1986; Doktor 1990; Hofstede 1994; O'Connor 1995), where its impact is reflected to the limit of the external environment onto the organization and presented on the human resource management with respect to the employees' psychological level and preference. In cross-national business or cooperation, the inconsistence of national culture increases the difference of the organizational cultures (Oudenhoven 2001), which indirectly hinders the transfer of managerial modes or production systems (Yoshiaki et al. 2000).

While most of the research stresses that competitiveness of lean production comes from physical savings (less material, fewer parts, shorter production operation, less unproductive time needed for set-ups, etc.) on the technical side, our focus is on the "psychological efficiency" (commit, cognition, empowerment, communication, and autonomous, etc.), the peripheral of the organizational mechanism. In China, *guanxi* interaction has been a way of life from time immemorial. Thus the personal investment required to develop and maintain good social relations is accepted as an unavoidable fact of life. And for each specific relationship (*guanxi*), Chinese "reconcile"

through interpersonal accommodation and negotiation (Imrie et al. 2002). Although lots of previous research has proved that *guanxi* is laden with powerful implications and seems to be the lifeblood of the Chinese business community and extends into politics and society (Davies et al. 2003), the context of *guanxi* mechanism and how it works to have such significant impact on Chinese has never been revealed.

From a social aspect, we take a further step and look into how Chinese construct their social network where *guanxi* is embedded and developed, within which we propose the theory of ISOLINK that develops *guanxi* mechanism. Thus the purpose of this research is to testify to the effect of *guanxi* mechanism, the socioeconomic link for Chinese society, and its impact on cross-cultural production management with lean implementation. This article is structured as follows. First, it reviews the concept of organizational performance and the power of culture, and cultural effect in lean production. Second, the meaning and context of *guanxi* and its mechanism with respect to Chinese culture, *wulune* of Confucianism is introduced. Third, the theory of ISOLINK derived from *guanxi* mechanism is introduced and the propositions of its application in lean production management are developed and followed by questionnaires with our empirical study. Finally, the article ends with a conclusion and directions for future research.

II

Organizational Performance and Culture

Figure 1 shows an approach to organization design according to which every organization consists of two complex and inter-coupled systems: the technical and the social system, a manifestation of the so-called social technical systems perspective originally raised by Pasmore in 1988, elaborated that organizational effectiveness is considered to be a function of how well the social and technical systems are designed with respect to one another and with respect to the demands of the outside market. This later was expanded on by the distinction of establishing three different levels of analysis of

Figure 1

A multi-system framework of organizational performance
(Cabrera et al. 2001)
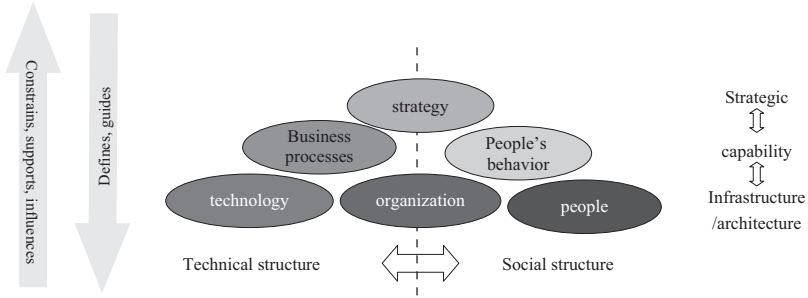
organizational performance: the strategic level, the capability level, and the infrastructure (or architecture) level by Cabrera et al. (2001).

Overall the model underlines the importance of aligning the different subsystems of the organization along two complementary dimensions. On the one hand, there needs to be a coherent connection among strategy, capabilities, and infrastructure, so-called vertical fit, and on the other, following the indications of the sociotechnical systems perspective, the model emphasizes the importance of aligning the social and technical components of the organizations, this is so-called horizontal fit. We notice that in this model, vertically or horizontally, people as human resources are in fact the essential component, together with technology they define the firm's performance and, without which the organizational strategy cannot be achieved although following the right kinds of processes.

Economics and culture do not develop divergently as two parallel lines. They interact and affect each other reciprocally. Following the steps of globalization and information technology, not just people interact borderless; cultures also permeate and exchange internationally. Besides the power of traditional culture, the context of cultural power includes intellectual factors (such as technology, education, etc.), spiritual factors (such as ideal, belief, ethic, value, etc.), and the social-cultural network also have great impact on our daily life (Gia

1998). Intercultural differences exist when differences among national cultures exceed differences of cultural groups with the respective national cultures (England and Negandhi 1979; Helfrich 1999; Hofstede 1992; Muller and Gelbrich 2001). Although globalization has been radically taking place all over the world, each national culture still owns its uniqueness for its particular core value. When cross-national operation takes place, the dramatic, internal pushing effect caused by culture, no matter in enterprise or regional economic development, is even fiercer for the multicultural blend. Intercultural difference and its hybrid seem more complex and become one of the obstacles that seriously affect the international business efficiency, among other factors.

While it is required to understand cultural differentiation in cross-national business operation, culture is too complex for us to have it specifically defined. Instead of putting effort in searching for the cultural definition, we suggest to focus more onto the outcome by the influence of the cultural power and the characteristics that are associated with the corporate operation. Therefore in our study, *guanxi* considered as the unique Chinese construct (*The Economist*, 8/4/2000) and a product of Confucian values and the contemporary political and socioeconomic systems for Chinese (Fan, 2002), is taken into account for the organizational performance while the lean production is implemented.

III

Culture and Lean

THE BOOK *THE MACHINE THAT CHANGED THE WORLD*, with its advocacy of "lean production" has dominated much of the theory and practice of production systems design (Womack, Jones, and Roos 1990). Also with which, Japanese industry was able to maintain its competitiveness with the continuous cycle of increasing market share by reducing costs, and thereby prices, as well as providing a greater variety of products with more features during the "bubble" economy in 1980s. This has made it fashionable ever since. Many learn and adopt lean to catch up with the production efficiency, such as the SDWT (Self Directed Work Team) in North America, is seen as the adaptive system

accordingly to increase the production efficiency (Wilson and Grey-Taylor 1995; Janz 1999; Rafferty and Tapsell 2001). SDWT works in organizations so as to bring out the advantage by strengthening collective power and avoiding disadvantage of individualism. Working in teams provides a convenient mechanism for job rotation or enrichment and for increases in job characteristics such variety, involvement, significance, and feedback. Teams parallel new production methods and imperatives (e.g., involvement, responsibility), and are less vulnerable to the uncertainty possible with individual-based jobs and isolated workstations and processes (Wilson and Grey-Taylor 1995).

However, team work is not the only concern for lean. It is more than production; it is lean conceptualization throughout the whole organization from top to bottom, which has lots to do with organizational culture. Lean production system has been one of the competitive advantages for Japanese enterprises, and the cultural element behind it (Recht and Wilderom 1998) has been well-known by academy and practice, which may not exist in other countries or enterprises. Therefore, in order to have organizational systems and strategies effectively and accurately managed, it is necessary to take the influence of national culture into consideration.

In Liker's book (2004), he has lean production system divided into four segments and sorted into 14 managerial principles. For the purpose of our research, we have our focus limited to seven principles relevant to cultural characteristics on the production level, which are flow shop production, pull system, level out the workload (*Heilinka*), stress on quality, continuous improvement, visual control, use only reliable and thoroughly tested technology. Among them, flow shop production, stress on quality, and use only reliable and thoroughly tested technology manifest the cultural characteristic of collectivism. Continuous improvement expresses the cultural characteristic of masculinity. While empowerment shows the obvious power distance in the organization; in order to eliminate the uncertainty on site and solve problems in time, visual control, use only reliable and thoroughly tested technology, and level out the workload (*Heilinka*) are applied, which indicates the cultural characteristic is highly uncertainty avoidant. As to characteristics contained in lean production, such as determined will, shame, and thrift; go for future long-term

vision with tradition; and being obedient to achieve final goals, are basic value points and attitudes in supporting lean production, which fully represent the positive side of Confucianism.

Horsley and Buckley (1990) describe the Confucian "work ethic," introduced to feudal Japan through Chinese and Korean models, as a comprehensive social code governing relationships, respect for authority, and conformity to the rule of law. People of these countries thus regard work not as a hardship but as a positive life-asserting activity. They all are diligent, and value group harmony in general, yet there is difference in their behavioral modes in terms of long-term /short-term perspectives. It seems this long-term versus short-term orientation lies underneath the motives and is the main cause that makes the difference between Japanese and Taiwanese behavioral modes.

For decades, many researchers give credit to the common cultural background of Confucianism for the economic growth of East Asia and Southeast Asia (Hofstede and Bond 1988; Davies et al. 1995; Ruttan 1995; Yeung and Tung 1996; Fang 2001). Based upon the historical background of Taiwan-Japan relationship, Western researchers usually conclude the Eastern culture as one with minor difference in degree. However, as time passes by, Confucianism thoughts have been gradually developing out their own behavioral modes and becoming part of social constraint for each region. While having a hybrid with the *bushido* spirit, Japanese develop their own Confucianism philosophy in a more accurate and strict way; Chinese adopt themselves into a more drifting way to compromise with chaos caused by wars, within which Chinese unique social-cultural element— *guanxi* network—was nurtured and fully developed so as to help each other out from difficulties and hardships.

IV

Guanxi **Mechanism and Confucianism**

WITH RESPECT TO SOCIAL CONTEXT, Chinese culture provides a tightly knitted social framework in which individuals are protective of one another and organizations safeguard their members' interests. It projects a preference for cooperation, group decision making, and relationships. Thus, the importance of networks lies in their emphasis

on collectivism and group harmony. Social status is determined largely by the *guanxi* system to which one belongs—a determination often preordained by the composite membership of one's extended family. The Chinese strive to keep relationships among *guanxi* members stable and harmonious since *guanxi* is the basis on which they exchange a lifetime of favors, resources, and business leverage (Pearce and Robinson 2000).

Social norms, though somewhat different around the world, mostly are attached to the social status, which is the position where people stand in a social system. And the regulation integrated for a certain status is the "role" (Linton 1972; Chang 1986). *Wulune* (the five lunes), the basic norms of *guanxi* that defines Chinese interpersonal relationships and sets the rules for each role-playing, is the main thought of the ideal type of manhood and patriarchy and filial piety and the spirit of trust and justice in regulating different levels of *guanxi* and setting them in hierarchical order with priorities in Chinese societies. It consists of five levels: the monarch and his subjects, the father and his son, brothers, friends, and the husband and his wife. In this *guanxi* system, while the three basic *guanxi* of the father and his son, brothers, and the husband and his wife are inside of the family, the political *guanxi* of monarch and his subjects is at the national level, and *guanxi* of friends contains the rest of those who are outside of the families. From the perspective of Chinese societal progress, the "family—nation—world" is the structure from inside out where the family ethic is the basis of Confucius' human relations, where each one ought to be committed, responsible, and content to his given role. For someone who takes his/her role properly and plays it accordingly receives high praise for being qualified for his social status. As long as every member in the group follows the rules, the whole society stays in harmony.

Guanxi is characterized into categories in accordance with its bases (Hwang 1987; Nuang 1992). In practice there are certain rules for each role played among parties in accordance with *wulune*. And rules are often borrowed as metaphors and applied when *guanxi* cannot be clearly defined. For example, a business relationship built between strangers is seen as most distant unless credentials and a mutual sense of identities are established in terms of insiders, such as the *zijiaren*

(one of the family members), then their *guanxi* can be altercated as brothers or friends (Yeung and Tung 1996), and the nonwritten rules, *hsin* (trust) for brothers or *yi* (justice) for friends from *wulune* is borrowed as metaphors and applied for business relationship. In markets, people see one invisible hand-price, while in Chinese society, another, hand-*guanxi*, is seen as a potential solution for business entering and operating in China. While *guanxi* plays the role as the "protocol," setting the rules governing the communication and the transfer of affection between individuals in Chinese societies, the teaching of Confucianism deeply rooted in effect constructs the norms of *guanxi* for its establishment and maintenance (Wong 2009).

China, the great family of nationalities, in particular, is a society built based upon Confucianism where people are tied closely and clustered into varieties of *guanxi*, whose networks bind millions of Chinese firms into social and business webs, largely dictating their success (Pearce and Robinson 2000; Gibb and Li 2003). As Hwang (1987) characterized *guanxi* bases, the strongest ones are referred to as the affective or "expressive" ties found among family members and close friends. In contrast, more distant others, such as salesmen and customers, connected by temporary "instrumental" ties that are enacted regularly in the pursuit of material goals unless there is a "metaphor" relationship built in (as discussed in above section). In between the two extremes are found "mixed" ties, which are governed by norms of equality (a function of *renqing*—favor and *mianzi*—face/pride) and thus describe the most active domain for *guanxi* networking.

In dynamic, *guanxi* networks are defined as the amount of people gathered together for having something in common (or similarity, such as blood-ties or locality, etc.), and this "similarity" is often recognized by public as the meaning for certain social interaction where *guanxi* can be taken place more easily. *Guanxi* networks are social assemblies that can be organized into a large entity without geographical restrictions of the outer environment (Wong 2009). And *chaxugeju of guanxi* (Fei [1947]1992) classifies the closeness of relationship between oneself and others, and decides each individual's position and his relative role in the g*uanxi chuen* (see Figure 2). The closer to the core one is positioned (inner), the stronger his links are to the cluster. For those who are positioned outer thus have relatively

Figure 2

Chaxugeju

差序格局
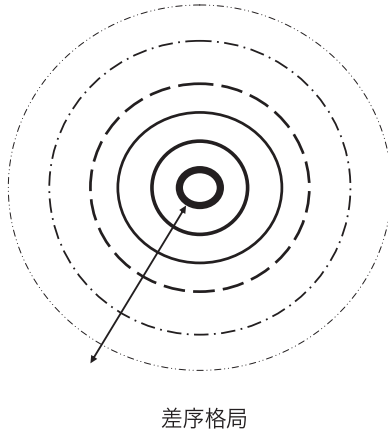
weaker links. However, through those weak links (*guanxi*), individuals are able to hook up with other small worlds (*guanxi* networks) and have interconnections among networks in forming collected small worlds (Watts and Strogatz 1998).

In the Chinese *guanxi* network system, the particular cultural value, *wulune*, and its referred *guanxi* is commonly recognized by all Chinese, which not only distinguishes the hierarchical structure in an organization, but also regulates the interactive social norms between individuals, which in turn stabilizes the system (Wong 2009). Utilizing resources including information (Yang 2002), g*uanxi* under this circumstance helps individuals to turn one's dilemma into favors. Having the accumulated positive feedback, *guanxi chuen* thus interconnects with one another and expands, and eventually turn into a well knitted social network.
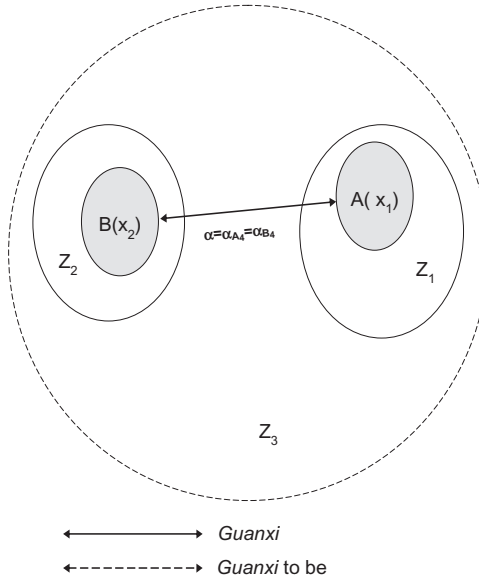
V

Theory of ISOLINK

CHINESE ARE BORN with *guanxi* and socially linked with their *guanxi chuen* (network). *Guanxi* defines one's place in the social structure

Figure 3

The ISOLINK network development

and provides security, trust and a prescribed role reciprocally; and refers to the delicate art of building and nurturing such ties, which is a hybrid of affection and benefit in business. Management of people in Chinese firms is basically the issue in dealing with *guanxi*. To verify *guanxi* mechanism, a framework is provided with the significant factors in view of Chinese culture with respect to *wulune*. The framework organizes culture elements according to their visibility or accessibility and the theory of ISOLINK is introduced. By ISOLINK, *guanxi* is linked up and the social network is constructed (see Figure 3).

To best illustrate the *guanxi* mechanism, we have the context of *guanxi* deconstructed with significant factors for both *guanxi chuen* and *guanxi link*. The significant factors of Chinese *guanxi chuen* can be listed down as:

Invisible *Guanxi chuen* is a unique social network of interpersonal relationship that links individuals with *guanxi*. It is invisible but

powerful not just merely for the purpose of physical connecting, but also for the psychological solidarity (Yang 1989; Nuang 1992; Yeung and Tung 1996; Lee and Ellis 2000; Fan 2002; Yang 2002; Zhou 2002; Gibb and Li 2003; Hwang 2003).

Reliable People inside of the *guanxi chuen* are connected to one another. They are either ties of blood or interrelated with *guanxi* based upon the similarity, which is reliable and trustworthy (Linton 1972; Chang 1986; Hwang 1987; Nuang 1992; Yan 1996; Imrie et al. 2002; Bell 2003; Buderi and Huang 2006).

Reciprocal In the *guanxi* chuen, there is a common knowledge on reciprocity, either with material, monetary, or favor in return. Most of all, it is the *qin* (affection) that matters. The reciprocity is like a balance sheet that never balances. One should always pay back more than he has received to assure their *guanxi* is sustainable and stable (Linton 1972; Chang 1986; Hwang 1987; Nuang 1992;Yang 1989, 1994; Davies et al. 1995; Yeung and Tung 1996; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Kipnis 1997; Tsang 1998; Pearce and Robinson 2000; Standifird and Marshall 2000; Lo and Everett 2001; Imrie et al. 2002; Chung and Hamilton 2002; Zhou 2002).

Adjustable Although *guanxi* is specifically defined in a certain *guanxi chuen*, it is adjustable to be either stronger or weaker. And it all depends on how far one stands to the core of the *chuen* as needed conditionally (Imrie et al. 2002; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Bell 2003; Schramm and Taube 2001).

Solidarity Members of a *guanxi* chuen are united in one and cohesive to the core. No one is apart to seek for individual benefit. Instead more opportunities are granted from the *chuen* as long as one sustains his position right and plays his role well (Linton 1972; Chang 1986; Hwang 1987; Nuang 1992; Pearce and Robinson 2000; Bell 2003; Zhou 2002).

Transferable The sixth *Lune* states the rules extended from *Wulune* and followed by nonrelated people, such as classmates or businessmen. For example, A and B both belong to the same *guanxi chuen*, while B also belong to another *chuen* with C. When C needs to be connected to A, he would ask B to link him up with A for a

favor. Thus a similar *guanxi* between what A and B have can be passed down to A and C. And C receives similar treatment from A as what B does (Nuang 1992; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Watts and Strogatz 1998; Pearce and Robinson 2000; Bell 2003; Imrie et al. 2002; Zhou 2002; Hammond and Glenn 2004).

Altercasting As time pass by, some *guanxi* weaken, especially those that were built based upon benefit. People do not keep in close touch when the mission is over. However, *guanxi* can still be altercasted when the "key man" (the one who is able to link up *guanxi chuens)* appears. And when the old *guanxi* recalls, a cooperative *guanxi* is reconstructed and further reinforced in a new type (Imrie et al. 2002; Chang 1986; Hwang 1987; Nuang 1992; Bell 2003; Yeung and Tung 1996; Zhou 2002).

Permanent *Guanxi* in between is either forever lasting or terminated once for all. People as *zijiaren* (being seen as family members) have permanent *guanxi* and become strangers when their *guanxi* is terminated. Situations like this happen only when one of the parties carelessly or intentionally ignores maintaining their *guanxi* (Linton 1972; Redding and Ng 1982; Chang 1986; Hwang 1987; Yeung and Tung 1996; Pearce and Robinson 2000; Fan 2002).

A *guanxi* link (key man) is essentially required in connecting *guanxi chuens*, and the significant factors of *guanxi* links are:

Key man The link to a *guanxi chuen* is the key man, one who holds the key to the entrance of the *chuen*. He/she is able to unlock the *chuens* and bring in outsiders or connect his *chuen* to other *chuens* (Linton 1972; Hwang 1987; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Bell 2003; Imrie et al. 2002; Leung et al. 2003; Buderi and Huang 2006).

Insightful Links have to be sensitive about not just people, but also about situations, such as atmosphere, or information, and so on, so as to make links with certain people at the right timing (Linton 1972; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Lovett et al. 1999; Pearce and Robinson 2000; Bell 2003; Imrie et al. 2002; Buderi and Huang 2006).

Capable One way of gaining respect is to be capable, with which one can be helpful to others (Yeung and Tung 1996; Peng and Heath

1996; Xin and Pearce 1996; Yeung and Tung 1996; Pearce and Robinson 2000; Bell 2003).

Influential The link to a *chuen* is usually the most influential person among all since he/she is the most popular or capable one. He/she usually earns his/her respect by being helpful to others. Thus it is easier to have the favor back (reciprocity) as it's needed. It is indirectly proved that one who is warm-hearted and enthusiastic can also be influential since he/she is more welcome (Hwang 1987; Yeung and Tung 1996; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Pearce and Robinson 2000; Bell 2003; Buderi and Huang 2006).

Flexible Since the one who links up the *chuen* needs to be popular, he/she certainly has to be flexible enough in every way to have group conflict or negotiation smoothly settled (Yeung and Tung 1996; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Pearce and Robinson 2000; Bell 2003; Imrie et al. 2002; Zhou 2002).

Bearable Links that are sensitive and flexible certainly are also bearable with sympathy, particularly for arbitrage and complaint settlement, and they usually play the role as mediators and reconcilers (Linton 1972; Hwang 1987; Brunner et al. 1989; Callaghan, McPhail, and Yau 1993; Peng and Heath 1996; Xin and Pearce 1996; Yeung and Tung 1996; Bell 2003; Imrie et al. 2002; Buderi and Huang 2006).

Reconciler Links with lots *guanxi* usually take their roles as the reconciler for disputes with respect from both sides, since most likely they both owe him favors in the past (Linton 1972; Hwang 1987; Yang 1994; Yeung and Tung 1996; Peng and Heath 1996; Xin and Pearce 1996; Imrie et al. 2002; Zhou 2002; Bell 2003; Leung et al. 2003).

As above discussion, with ISOLINK people are effectively connected interpersonally and by intergroups. When there is no *guanxi* in reality, the metaphor of it can be "borrowed" for relationships such as teacher-pupil or monarch-subjects, which can be turned into the father-son relationship, and the rules for role-playing underneath are borrowed for both sides to follow. This is the so-called sixth *lune*, which is derived and applied as the social norm of conduct, which is the extension of *wulune* in *guanxi*. *Guanxi* mechanism with significant factors is applied to management for daily practice in Chinese

firms. For the purpose of our research, in this study we only examine the *guanxi* mechanism on reconciliation and alignment allocation for management. Our propositions are as follows:

> *P. 1 Guanxi works as a buffer that eases interpersonal conflicts and solves problems.*
> *P. 2 Guanxi networks help extricate oneself from difficulty for both intra- and intergroups.*

VI

An Empirical Study

A SURVEY WAS administered to individuals employed in both of our studied cases. Having listed securities, they are globally well-known leading manufactories of Taiwanese optical and bicycles, the Asia Optical and the Merida Bicycles, who are actively promoting and implementing lean production system (see Appendix 1 for firms' introduction). Using Likert scale of five levels from highly agreed to highly disagreed, the questionnaires contained 20 questions (see Appendix 3) concerned with the effects of *guanxi* in production management, designed in accordance with the interviews with their senior managers (see Appendix 2 for interview record) and filled up by their employees at the operation level. A total of 2,034 question-naires were collected, and consisted of 1,146 from Asia Optical and the rest from Merida Bicycles.

VII

Results and Discussions

IT IS ARGUED that for any country to establish its own modern mana-gerial system, the key is to absorb the following five scientific prin-ciples into its culture: precision, quantification, an analytical approach, logic, and norms. Chinese managers very often find it hard to adjust to the foreign managerial approaches. For decades, many researchers give credit to the common cultural background of Confucianism for the economic growth of East Asia and Southeast Asia (Hofstede and Bond 1988; Davies et al. 1995; Ruttan 1995; Yeung and Tung 1996; Fang 2001). Based upon the historical background of Taiwan-Japan

relationship, Western researchers usually conclude the Eastern culture as one with minor difference in degree. However, as time passes by, Confucianism thoughts have been gradually developing out their own behavioral modes and becoming part of social constraint for each region.

In this research, we study *guanxi mechanism*, the unique Chinese social-cultural element, and its impact on the managerial effectiveness of Taiwanese firms with lean implementation in practice. With our sample of 1,427 effective questionnaires collected and analyzed, under Likert scale, the results show that in this survey, more than 85 percent of the respondents give the "agreed" answers for all questions; therefore, both of our propositions are supported (see Tables 1 and 2). With ISOLNK, *guanxi* and its mechanism do not just play the role in linking Chinese social networks; with the embedded *wulune* value, Chinese coagulate into a mass social network (*guanxi* web/*chuens*) and unite as one. Nevertheless we ought to notice that *guanxi* also has the negative effect, which may cause corruption, such as questions 10 and 12, and in turn depresses the performance.

In addition to that, there is room for discussion with the congruence since a CHITEST (see Table 3) shows that some of the values of χ^2 are smaller than 0.05, which indicates that responses may differ with respect to the respondents' background, such as their different levels of salary and position. For example, employees with higher positions utilize less *guanxi* for reconciliation, which also supports our viewpoint on the role context phenomenon. In other words, rules are set by higher level management and followed by the lower level employees no matter how unwillingly. It's not because of the authority the higher level has. Employees are obedient to avoid being criticized as disloyal, which violates the social norm—*guanxi* and its rules of the monarch and his subjects. And this discredit "tags" him as a "rule-breaker" and makes him unwelcome by any other *chuens* for as long as he stays in the Chinese community.

Having our propositions verified, we conclude that in Chinese society where obligation is attached to specific roles assigned under *wulune* system, *guanxi* is not just the lubrication and buffer in easing interpersonal conflict and solving problems; *guanxi* networks that

Table 1

Respondents' Basic Information

Gender	Number of people	Percentage
Male	971	68%
Female	456	32%
AGE		
Below 20 years old	14	1%
Between 21–25 years old	129	9%
Between 26–30 years old	257	18%
Between 31–35 years old	200	14%
Between 36–40 years old	214	15%
Between 41–50 years old	471	33%
Above 51 years old	157	11%
EDUCATION		
Elementary school	14	1%
Junior high school	43	3%
High school	628	44%
Community college	43	3%
Technological college	343	24%
University	314	22%
Masters and above	43	3%
WORKING EXPERIENCE		
Less than 1 year	71	5%
Between 1–3 years	171	12%
Between 3–5 years	257	18%
Others	914	64%
YEARS INSURED		
Less than 1 year	86	6%
Between 1–3 years	171	12%
Between 3–5 years	257	18%
Others	914	64%
CURRENT POSITION		
Sales agent	457	32%
Middle manager	129	9%
CEO	71	5%
R&D	54	3%
Operators	717	50%
CURRENT SALARY LEVEL		
Below NT$20,000	47	3.29%
Between NT$20,000–30,000	201	14.08%
Between NT$30,000–40,000	194	13.62%
Between NT$40,000–50,000	221	15.49%
Above NT$50,000	764	53.52%

Table 2

Data of Responses

Responses ——————— Questions	Highly agreed	Agreed	Yes & no	Disagreed	Highly disagreed
Q.1	44%	47%	0%	8%	1%
Q.2	47%	39%	1%	12%	1%
Q.3	64%	32%	0%	4%	0%
Q.4	57%	35%	0%	8%	0%
Q.5	46%	47%	0%	7%	0%
Q.6	41%	48%	0%	9%	2%
Q.7	51%	39%	1%	8%	1%
Q.8	56%	37%	1%	6%	0%
Q.9	56%	37%	0%	7%	0%
Q.10	51%	42%	0%	6%	1%
Q.11	51%	43%	0%	6%	0%
Q.12	48%	46%	0%	5%	1%
Q.13	39%	43%	0%	15%	3%
Q.14	49%	41%	0%	9%	1%
Q.15	47%	39%	0%	11%	3%
Q.16	44%	47%	1%	8%	0%
Q.17	45%	48%	0%	7%	0%
Q.18	48%	45%	0%	7%	0%
Q.19	52%	44%	0%	4%	0%
Q.20	33%	42%	15%	6%	3%

construct interpersonal relationships further enhance the intergroup cooperation. Overall speaking, with Chinese cultural characteristics, *guanxi* mechanism with the social norm has the effect in extricating oneself from difficulty both inter- and intergroups and in turn improves the managerial effectiveness. This article provides an inner view of cultural value, which offers insights that should prove helpful to academics in management and related disciplines as well as to practitioners engaged in Chinese production management.

Table 3

CHITEST

Questions | Attributes	Gender	Age	Education	Working experience	Years insured	Current position	Current dept	Current salary
1	0.17	0.15	0.22	0.02	0.01	0.48	0.94	0.91
2	0.50	0.20	0.95	0.35	0.51	0.81	0.23	0.76
3	0.68	0.88	0	0.98	0.98	0.27	0.06	0.42
4	0.51	0.76	0	0.73	0.42	0.56	0.15	0.08
5	0.52	0.93	0.94	0.59	0.50	0.98	0.91	0.89
6	0.27	0.22	0.99	0.09	0.40	0.57	0.76	0.01
7	0.93	0.68	0.95	0.78	0.86	0.73	0.01	0.86
8	0.14	0.76	0	0.75	0.99	0	0.14	0.32
9	0.57	0.97	0.99	0.45	0.90	0	0.60	0.50
10	0.24	0.62	0.96	0.75	0.96	0.26	0.87	0.44
11	0.34	0.74	0	0.93	0.09	0	0	0.00
12	0.05	0.45	0.85	0.23	0.10	0	0	0.08
13	0.74	0.24	0.93	0.13	0.47	0	0.65	0.60
14	0.97	0.42	0.85	0.95	0.94	0	0.00	0.15
15	0.02	0.81	0.05	0.51	0.80	0.52	0.88	0.95
16	0.04	0.49	0.52	0.19	0.80	0.03	0.06	0.11
17	0.95	0.69	0.10	0.69	0.77	0.32	0.24	0.14
18	0.11	0.53	0.88	0.11	0.15	0	0.44	0.05
19	0.55	0.97	0.88	0.86	0.92	0	0.18	0.39
20	0.13	0.14	0.81	0.21	0.05	0.02	0.13	0.83

VIII

Directions for Future Research

ALTHOUGH THE PURPOSE of this article is to analyze *guanxi* effect on production management, taking lean production system as the case, we realize that there are likely to be other associations not specially examined in this article that warrant future attention. First, *wulune*, on the basis of Confucianism, in effect defines the social roles and classifies their hierarchical system in Chinese society; it is in fact the cornerstone for *guanxi* mechanism. Its context related to social structure changes in turn affects people's socioeconomic behavior, which requires more observation with deeper insight. The effect of the teaching of Confucianism is also dynamic and may vary with the generation gap. How *guanxi* mechanism works for Chinese in recognizing and leveraging with their *guanxi* networks deserve more attention and further studies. Second, since *guanxi* is the essential element in linking Chinese social networks, there seems to be a particular social structure in China with specific networks. In contrast to Western social networks, its forms and mechanism in response to business architectures, such as managerial strategy, are worth more research.

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Appendix 1. Brief Introduction to Studied Cases

ASIA OPTICAL CO., INC.

No. 22-3 South 2Nd Road, T.E.P.Z, Taichung 42754, Taiwan R.O.C.

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Asia Optical was established in 1981. With capital on stock of US$500 million and sales revenue of US$32 billion in 2008, it has over 30,000 employees around the world and 1,500 employees in Taiwan. At the beginning, Asia Optical worked with Japanese companies on lens polishing technology. Nowadays, Asia Optical has expanded its business scope to various high-tech photo electronic products. Asia Optical became public listed in October 2000 and now is the leading company for optical technology (i.e.: lens unit R&D, optical thin film components, laser photo electronic products) in the world.

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Merida produces a range of bikes that covers everything from entry level to high end road, MTB, hybrid, and even electric bikes. In the bike world Merida is a leader of bike technology. With capital on stock of US$ 70 million, 1,600 employees, and yearly revenue of US$250 million in 2008, Merida is one of the biggest manufacturers of quality bikes in the world.

Appendix 2. Cultural Characteristics Analysis

Having several deep interviews with the senior managers of both corporations, the following cultural characteristic analysis is collected during the lean implementation practice.

1) Follow but disobey

In order to change the employees' philosophy from "small me" to "big us," Merida asks them for full participation in two ways. One is the evaluation with multi-capable sign board (*kanban*) and performance reward to motivate employees. Another one is that besides

promotion, positions are opened for volunteers who have ambition on actively participating and caring for public affairs.

As for Asia Optical, they emphasize on focalization and give more room for employees' creativity through close interaction with supervisors and other employees (building *guanxi*). And employees are encouraged to care for each other like a big family, which in turn motivates employees to perform actively.

2) Think highly of interpersonal relationship—*guanxi*

Chinese think highly of interpersonal relationship. Self-improvement may depress others who are not as good. Merida's view of seeing the firm as a "big family" by emphasizing warmth and harmony provides their employees the sense of security, induces them to care for one another, and encourages them to cooperate for improvement.

Solution for improvement in Asia Optical is to cultivate the atmosphere by having benign competition, which makes each employee works actively for self-growth and be adaptive. Therefore, the organization as a whole can eventually turn into a learning organization that continuously learns and improves.

3) Passive and procrastinate

During lean production implementation, Merida makes institutional adjustments to solve the problem of being passive. Long-term cultivation is held in two ways in practice. In the organization, the atmosphere is fermented and conducted by the leader to give the employees a "family" feelings where everyone should be supportive for one another.

"Successors" is the idea applied and instilled in Asia Optical by encouraging the employees to solve problems initiatively. Through project proposals, revolution forums are held periodically without traditional hierarchy. In addition to that, creative proposals are encouraged to stimulate employees' effort and thoughts in making improvement.

4) Tolerance and tenacity

Chinese are uncertainty averse. When there is lack of solidarity, people patiently wait for their "fusion" into a big family. Tolerance and

tenacity are derived from the concept of being in a family, which in turn promotes better cooperation in Merida.

In Asia Optical, there is a department of general affairs in promoting business. Within this department, there are region offices in charge of revolution activities and periodical competition to prevent employees from procrastinating their duties. Trainings of the revolution activities for goals are often held, such as saving human resource and space, lower stock, and so on. And in the promotion groups, middle managers are supporters instead of traditional supervisors to assist the employees in making improvement.

5) Face-saving

"Face" is basically the ideas of "form." In dealing with its external improvement, Merida applies the A-Team operational mechanism by proposing improvement suggestions every three and six months. All manufactories try their best in achieving their goals for face-saving. For the internal improvement, on-site contests are held and rewards are given to inspire employees in making improvement actively.

The way Asia Optical manages "face" is to hire Japanese experts as their professional consultants. The real reason behind this is that Chinese care a lot for "face," and they are afraid of criticism from insiders which may disgrace them in the family. The "election for model units" is also another application for face-saving to motivate employees in making progress.

As the above information shows, it is obvious to see that in the lean production implementation, both of our studied firms have culturally adaptability derived from *guanxi* mechanism to achieve more efficiency.

Appendix 3. Questionnaire

1. Chinese organizations emphasize the "big family" concept, thus *guanxi* and its mechanism apply and fit well.
2. Harmony is important and required in an organization, and good *guanxi* helps.
3. In the organization, *guanxi* matters to teamwork and its efficiency.

4. Having good *guanxi* in the group is having support from others.
5. Having good guanxi with others is helpful in improving your job performance.
6. *Guanxi* helps in increasing inter group cooperation efficiency.
7. Better and more personal care and support are offered from those with *guanxi.*
8. In a better *guanxi* group, stronger motivation and activeness are input onto the job.
9. Employees are more devoted working in an organization with better *guanxi.*
10. Since *guanxi* is highly valued in the organization, individual should not have outstanding performance to avoid hurting others pride.
11. Teams with good *guanxi* have better performance.
12. Good *guanxi* with supervisors gives you better opportunities of promotion.
13. Better and more *guanxi* one has, less selfish one can be.
14. *Guanxi* helps in solving problems, either for personal or business.
15. The concept of "successors" applied is from the idea of being a "big family", which helps the employees to foster their initiatives in solving problems actively to receive the honor.
16. With *guanxi*, project proposals and periodical revolution forums are held more easily without traditional hierarchy.
17. Under harmony *guanxi*, creative proposals are encouraged; employees' effort and thoughts in making improvement are stimulated.
18. Harmony *guanxi* is helpful for constructing organizational culture.
19. Good *guanxi* helps in reconciliation interpersonal and inter group conflict.
20. *Guanxi* helps employees derive their tolerance and tenacity which in turn promotes better cooperation.