

WESTERN AND EASTERN VIEWS ON SOCIAL NETWORKS

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Abstract: In the current economic environment social networks have a strategic importance for organizational competitive advantage. However, the dynamics of these networks is not the same in the West and in Confucian societies. Therefore executives need to understand the rules of game in each region. The aim of this article is threefold. First, we summarize relevant literature addressing the dynamics of social networks (such as customer, relational and social capital as well as *guanxi*) and analyze positive and negative elements associated with them. We approach these issues from a Western and Confucian perspective respectively. Second, the article presents the results of our case study among world pioneering firms from Asia and Europe in measuring and reporting these social connections from a Western perspective. It is examined the basic indicators firms use to measure these networks and the major issues managers should consider when measuring and reporting these knowledge-based resources. Finally, it concludes with a discussion of why managers should make an effort to understand social connections and its dynamics when doing business in Western countries and Confucian societies, like China and Japan.

Keywords: case study, *guanxi*, knowledge-based resources, relational capital, social capital, social networks.

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1. The future challenge

A key question in strategy research is why firms differ in their profitability and competitive advantage. In answering this question, we should address our attention to the fact that firms are embedded in networks of social relationships with other economic actors, including relations across industries and countries. In today's economic environment, social networks represent a source of competitive advantage. Thus firms need to create, nurture and maintain these networks. By adopting not an atomistic approach but a relational one, we can deepen our understanding of social networks as source of sustained competitive advantage in different contexts.

At this point, several questions arise. Do executives from the West and Confucian societies (like China, Japan, Korea and Taiwan) have the same understanding of social networks? Are there differences between their origin, meaning, dynamics and outcomes (benefits and risks)? What problems do Westerns often find when doing business in Confucian societies and viceversa?.

Some executives believe social networks belong to individuals, that is to say, they are person-specific assets. If so, can these resources be transformed into organizational resources? And how? Is the literature on organizational learning and knowledge management useful to explain the transformation of individual knowledge-based resources into organizational resources?

On the other hand, social networks are intangible resources. As such type of resources, its measurement is not easy. However, firms must measure and report their social connections. So, what are pioneering firms in measuring and reporting social connections doing today? What are the major benefits of these measurements? What indicators are representative of social connections? In sum, what lessons can be learnt from "first movers"?

Basically these are the main topics we will discuss in this article.

2. Western approach to social networks: Relational and social capital

2.1 Introduction

In this section, we will examine the role of networking in the West. During the last decade, the interest in measuring and reporting on intangible resources, such as social connections, have grown exponentially. In particular, many European firms such as Bankinter and Unión Fenosa (Spain), Coloplast and Systematic (Denmark) and Skandia (Sweden), among others, started to measure and report these knowledge-based resources, like customer capital, relational capital and social capital. Let's discuss each category of knowledge-based resources.

2.2. Customer capital

The term customer capital represents the knowledge embedded in the marketing channels and customer relationships that an organization develops through the course of conducting business. The Swedish insurance company Skandia states that to visualize customer capital, it can be broken down in the following major components: customer capital, customer base, customer relationships and customer potential. Customer capital represents the present value of firm's set of customer relationships. Customer base refers to the size and structure of the customers of the firm. In this sense, Skandia (1996) says:

Today customer relationships can be visualized using various indicators, which together form a pattern. These indicators measure the number of relationships, the nature of them and their duration, their role in the value-creating process, customer support systems and value appreciation (p. 5).

The last component of customer capital is customer potential. Regarding this element, Skandia declares that "to build a network of partners, firms need to develop relationships. To do this, extensive information and training efforts are being undertaken, including services via Internet" (Skandia, 1996:17). The successful interaction between the firm and its customers is influenced by the developments in information technology tools. In today's economic

environment, this situation leads to new types of relationships, often in networks and with customers from all over the world. So customer potential is “capital in waiting”.

Many firms perform customer satisfaction surveys. These surveys analyze different items. Among them, executives highlight the following items: quality of products and services, understanding of customer’s environment, professionalism, employee’s skills and knowledge, and cooperation in general. Additionally, it is important to benchmark the customer satisfaction survey with a national customer index for the current year and compare with similar measurements of other companies. On the other hand, literature and executives alike recognize the positive link between customer satisfaction and financial performance through the customer loyalty variable.

2.3. Relational capital

Nowadays many firms prefer to use the term relational capital instead of customer capital. Relational capital extends the definition of customer capital by including both sides of the value chain. It is a broader term that encompasses not only the value of customer relationships but also the value of relationships with shareholders, governments, partners of strategic alliances and so (Bontis, 1998; Bontis and Choo, 2002). Thus relational capital comprises external partner relationships: customer, supplier and competitor relationships, alliance partners, research institutes, knowledge of market channels, an understanding of the impact of governmental or industry associations and other external networks linked into the organizational value chain.

Some firms even perform supplier satisfaction surveys. This type of survey covers all suppliers from whom the firm buys products/services worth more than a particular amount of money. For example, the Danish company Dieu (Danish International Continuing Education) is performing this survey among its international lecturers, Danish lecturers and conference centers, among others (Dieu, 2001).

2.4. Social capital

2.4.1. Concept

A step further in the study of social networks drives us to the term social capital, which some firms are using instead of customer capital or relational capital. Since its introduction, this concept has become increasingly popular in a wide range of social science disciplines (Coleman, 1988) and recently, many papers in the strategic management literature have analyzed the topic of social capital (Adler and Kwon, 2002; Bouty, 2000; DeFillippi and Arthur, 1998; Koka and Prescott, 2002; Tsai, 2000; Tsai and Goshal, 1998). These studies point out the fact that social capital is positively related to firm's competitive advantage. Thus understanding this concept is important because it enables us to explain competitiveness differences among firms.

Perspectives on social capital are diverse but they agree on a social capital metaphor. Social capital is a metaphor about advantage. Society can be viewed as a market where individuals exchange diverse ideas and goods in pursuit of interest. The interest of some is better served than the interests of others (some get higher incomes, better projects, and so). The social capital metaphor is that people who do better are somehow better connected. Thus holding a position in the structure of these exchanges can be an asset in its own right. This asset is social capital, which refers to a kind of capital that can create for certain individuals or groups a competitive advantage in pursuing their ends (Burt, 2001).

Social researchers have offered a number of definitions of social capital. Although broadly similar, these differences express some significant nuances. First, the definitions vary depending on whether they focus on the sources of social capital or the effects of social capital. Second, they vary depending whether their focus is primarily on the structure of relations among actors within a collectivity, the relations an actor maintains with other actors, or both types of links. A focus on internal ties within collectivities foregrounds "bounding" forms of social capital whereas a focus on external relations foregrounds "bridging" forms of

social capital. *Bounding* perspective focus on collective actors' internal characteristics and *bridging* perspective sees social capital as a resource that inheres in the social network tying an actor with other actors. It is interesting to provide some definitions that highlight this. From an external perspective, Pierre Bourdieu define social capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition” (Bourdieu, 1985: 243). From an internal perspective, social capital is seen as “features of social organization such as networks, norms, and social trust that facilitates coordination and cooperation for mutual benefit” (Putnam, 1995: 67). Also it is defined as “the ability of people to work together for common purposes in groups and organizations” (Fukuyama, 1995:10). A third group of definitions is worded so as to be neutral on this internal/external dimension. Thus social capital is seen as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network (Nahapiet and Goshal, 1998).

On the other hand, now leading social capital theorists see the issue as not social networks per se, but the structure of those networks (Burt, 2001; Podolny and Baron, 1997). Social capital refers to “the structure of individual's contact networks –the pattern of interconnection among various people with whom each person is tied” (Raider and Burt, 1996). The concept of social capital can be formalized by using a structural hole theory, which describes how certain network structures offer a competitive advantage by providing access to more opportunities, and the ability to act on those opportunities (Burt, 1992). The term *structural hole* indicates the absence of connections among those in the network. The presence of structural holes enable access to diverse sets of information, control of the flow of information between disjointed parties, and the determination of the form of projects that bring

together disconnected others. Information benefits include propitious timing in getting information, access to dissimilar information, and referrals, on one's behalf, by direct contacts to distant third parties. The control benefits derive from the entrepreneurial opportunities of brokering relations between disconnected others. In this sense, the entrepreneur is akin to *tertius gaudens*, literally "the third who benefits"), a person who benefits from brokering the connection between others. The ideal type is the *tertius gaudens* (literally, "the third who benefits"), a person who benefits from brokering the connection between others. Structural holes are the setting for tertious strategies (Raider and Burt, 1996).

2.4.2. Social capital versus other organizational resources

Unlike economic capital that resides in people's bank accounts and human capital that is inside their heads, social capital is found in the nature of personal relationships. To possess social capital, a person must be related to others, and it is these others, not he or she, who is the actual source of his or her advantage (Portes, 1998).

Social capital has an emergent nature and thus can have positive and negative effects on organizational performance. As it is the result of day-to-day interactions among people, this result can not be anticipated at the initial point of a R+D+i activity. Another feature of social capital is that it arises from relationships and does not live inside the individual or organizational context.

2.4.3. Dimensions of social capital construct

Social capital is a multidimensional construct integrated by three interrelated subconstructs: cognitive, relational and structural social capital (Nahapiet and Goshal, 1998). Cognitive social capital refers to the "shared meanings that are created through stories and continuous discussions within a specific, often clearly defined group. These shared meanings are self-reinforcing in that participation in the community is contingent upon an a priori understanding of the context coupled with continual contribution to these on-going dialogues" (Edelman et al., 2002:3).

Relational social capital refers to the underlying normative dimensions that guide exchange relationship behaviors. Norms exist when the socially defined right to control an action is held by others, not by the individual person. Norms are related to the concept of consensus and therefore the value of this construct of social capital depends on the quality and duration of the consensus. Social capital researchers are especially focused on certain norms of control and cooperation like reciprocity and trust. In the literature there is some confusion as to the relationship between trust and social capital. Some scholars see trust as a source of social capital, some equate trust with social capital, some see it as a form of social capital and some consider it as a collective assets resulting from social capital construed as a relational asset (Coleman, 1988; Fukuyama, 1987, 1995; Nahapiet and Ghoshal, 1998; Podziba, 2003; Putnam, 1995, 2000; Wu and Laws, 2003).

In contrast, structural social capital “refers to the ways which motivated recipients gain access to actors with desired sets of knowledge or intellectual capital” (Edelman et al., 2002:4). This concept is principally analyzed using a network approach.

2.4.4. Benefits and risks of social capital

Although some researchers state that social capital is an organizational resource with only positive outcomes, others increasingly consider both positive and negative outcomes. Sometimes social capital has risks that can outweigh its positive outcomes (Hansen, Podolny and Pfeffer, 1999). Researchers have only begun to characterize the conditions that determine the relative importance of positive and negative effects. In this section we frame a discussion of benefits and risks of social capital.

Different benefits arise from social capital. In general, literature and empirical evidences identify three major benefits of social capital: 1) it smoothes the access to broader sources of information, 2) it provides control and influence, and 3) it provides solidarity benefits of closure and trust (Leana and Van Buren, 1999). Social capital yields three different

information benefits in the form of information volume, information diversity and information richness (Koka and Prescott, 2002). On the other hand, it has also beneficial effects in the creation and renewal of intellectual capital as well as in product innovation (Nahapiet and Goshal, 1996).

However, associated to these sources of social capital benefits, firms may also get risks. First, the development and nurture of social capital demands considerable investments. In particular situations, these investments may not be cost efficient. Second, control and power benefits may trade-off against information benefits. Finally, solidarity benefits may result in overembeddedness, and subsequently leading to inertia.

In sum, the above section presents a conceptual framework for the analysis of social connections in the West.

3. Eastern approach to social networks: *Guanxi* dynamics and network building

3.1. Introduction

Now it is interesting to present another approach to social networks. With this aim, we will bring together several works which contributed to the scholarship and debate over what *guanxi* or social connections means in Chinese society, discuss its origin and meanings, and analyze its major benefits, risks, ethics and implications for management [1]. However views vary on these topics and a critical approach is needed. In this sense, an exciting recent book by Thomas Gold, Dough Guthrie and David Wank entitled *Social Connections in China. Institutions, Culture and the Changing Nature of Guanxi* (Gold et al., 2002) staked out a variety of positions within these debates.

3.2. Origin and meaning

We will begin by laying out the basic lexicon of *guanxi* and after that, we examine some of the literature that has been put forward on this topic.

Far East countries, such as China, Japan, Korea, Singapore, Taiwan and overseas Chinese communities, share a heritage of Confucianism. According to it, five major *wu-lun* or

relationships dictate all relationships: emperor-subject, father-son, husband-wife, elder-younger brothers and friend-friend. To ensure social harmony, order and stability, appropriate behaviors are needed. The practice of *guanxi* or social connections is not just prevalent in China but also in other Asian countries like Korea (here known as “Kwankye”) and Japan (here called “Kankei or Toyama no Kusuri”).

Before further discussion of this research, it is necessary to introduce a clear definition of the term *guanxi*. The word *guanxi* (pronounced as “gwan-shee”) is a combination of two Chinese characters: guan and xi. “Guan” means door or gate. “Xi” means tie up. It generally refers to relationships or social connections based on mutual interests and benefits (Bian, 1994; Gold et al., 2002; Yang, 1994). The term “*guanxi*” carries several different connotations. In the most general sense, *guanxi* simply means relationships. The second usage refers to a subset of relationships that work according to norms of reciprocity. A third usage exhibits a pejorative connotation. It refers to “the usage of someone’s authority to obtain political or economic benefits by unethical person(s)” (Xinci Xinyu Cidan, 1989). *Guanxi* or *guanxixue* represents a way to bypass regulations, laws (“fa”), or norms through personal connections with people who control limited resources (Gold, 1985).

In this paper, we will focus primarily on the second usage of the term *guanxi*. Thus here the term refers to a special type of relationship that bonds the partners through reciprocal exchange of favors as well as mutual obligations (Alston, 1989; Luo, 1997).

3.3. Dimensions of *guanxi* construct

Literature suggests that *guanxi* is a multidimensional concept formed by three analytical dimensions or ties: affective, normative and instrumental (Hwang, 1987). Each component is discussed.

The affective dimension of *guanxi* refers to the development of close relationships with another person solely due to the existence of affective bonds between them. Usually, these affective ties are gender specific. The normative dimension indicates that *guanxi* often

develops because two particular individuals are tied to each other through some kind of prescriptive relationship categorized as being friends or relatives. Finally, the instrumental dimension stands in opposition to the affective tie. When a person tries to develop an affective tie with another person, then this tie is the goal itself. However, when the person attempts to establish an instrumental tie, then “the relationship serves only as a means or an instrument to attain other goals. Thus, this relationship is basically unstable and temporary” (Hwang, 1987: 950).

However, this three-dimension view of *guanxi* is only useful for analytical distinctions. In fact, when we analyze a particular *guanxi*, we find a mix of the three dimensions. The combination of these dimensions determines the nature, strength and stability of a particular *guanxi*. The instrumental, affective and normative dimensions do not necessarily run in the same direction. Nevertheless, as Chung and Hamilton state “inconsistency among the three dimensions does not prevent the development of a *guanxi* relationship. It is the case, however, that a *guanxi* with dimensions going in different directions will be weaker than if there are aligned. On the other hand, a relationship purely instrumental is generally short-term and unstable. If the firm desires to transform an instrumental relationship into *guanxi*, then it needs to strengthen either the affective or normative dimension or both.

3.4. Disentangling *guanxi*

A set of specialized terms has arisen in China related to *guanxi*. Some examples are: “la *guanxi*”, “gua *guanxi*”, “meiyou *guanxi*”, “*guanxi* gao jiang”, “lisun *guanxi*”, “you *guanxi*”, “youde shi *guanxi*”, “*guanxi* wang”, and “*guanxi* hu”. Table 1 shows the translation of these terms and their meanings (McInnes, 1992).

Insert Table 1 about here

There is one typology of *guanxi* based on the closeness of the parties involved in the relation. Thus, the term *jiaren* represents the extended family, *shuren* (*non-family members*) implies connections with people from the same town, former classmates and so. Finally, the term *shengren* refers to strangers. On the other hand, other scholars propose the following categories of *guanxi*: urban/rural *guanxi*, husband/wife *guanxi*, mother-in-law/daughter-in-law *guanxi*, all-female *guanxi*, classmate *guanxi* and owner/tenant *guanxi*. Each relation carries its own connotations (Sun, 1996; Yang, 1995).

3.5. Renqing or favor

To fully understand *guanxi* and its managerial implications, it is also necessary to analyze the concept of *renqing* or favor.

Renqing is a set of social norms “by which one has to abide in order to get along well with other people in Chinese society”(Hwang, 1987:954). This term emphasizes “the value of maintaining personal harmony and social order among persons situated in a hierarchically structured relationships. Otherwise stated, the principle of *renqing* implies not only a normative standard for regulating social exchange but also a social mechanism that an individual can use to strive for desirable resources within a stable and structured social fabric” (Hwang, 1987:946). The basic logic of *guanxi* is reciprocity. However, the logic of reciprocity is distant from being predetermined.

3.6. Guanxi, renqing and xinyong

The Chinese word *xinyong* literally means the use or usefulness of trust. At a general level, *xinyong* “refers to integrity, credibility, trustworthiness, or the reputation and character of a person. In business circles, *xinyong* refers to a person’s credit rating” (Yang, 1994:84). There is a link between *guanxi* and *xinyong*. Good *guanxi* fosters the development of reliable *xinyong*. Why?. In China “the actions of government are more unpredictable and the outcomes of any legal action uncertain. The arbitrary nature of formal law and government

leads to the development of informal rules” (Yang, 1994:70). Thus, the importance of personal trust emerged as a result of the lack of confidence in the legal system.

On the other hand, trust or *xinyong* is not a static concept. After the establishment of trust, its development and maintenance is dependent on the performance and the continuous perseverance. The time taken to build trust depends on the quality of the *guanxi* already developed.

3.7. A resource-based analysis of *guanxi*

After the analysis and implications of *guanxi* and related terms, it is interesting to examine the concept of *guanxi* under the light of the Resource-based Theory of the Firm. This theory of the firm examines, among other issues, how resources are applied and combined and what conditions sustain a competitive advantage. Its main features are the following: 1) non marketable, internally developed and accumulated, 2) strong tacit nature and social complexity, 3) developed from skills and learning, 4) non mobile and 5) its development is path dependent, that is to say, they are contingent upon learning, resource stock and previously developed activity levels. *Guanxi* clearly satisfy all conditions proposed to be a strategic resource. In this sense, empirical evidence supports this statement. The findings of a study on 19 companies suggest there is a correlation between “the possession of right and strong *guanxi* and a firm’s financial performance” (Yeung and Tung, 1996:63).

On the other hand, now the question is the following: is *guanxi* a personal asset or an organizational asset? As in other aspect related to *guanxi*, there is also controversy in this. Some researchers suggest that *guanxi* is embedded in dyadic relationships between two individuals and thus it is not an organizational resource. Others say that although *guanxi* between corporate entities usually benefits all or most of its members, actual *guanxi* transactions are carried out on personal rather than a formal unit-to-unit basis. In matter of *guanxi* exchanges, units do favor for each other mainly as a result of personal ties between the

staff members or representatives. That is to say, it is through face-to-face dyadic relationships that much of corporate business is transacted.

What do executives say? A survey among European firms doing business in China found that 63% of respondents considered *guanxi* to be a personal asset while 20% stated that it belonged to the firm (Kao, 1993; Tung and Worm, 1997, 2001). However, *guanxi* as well as other intangible resources like human capital, may be elevated from an individual to an organizational level. How is this possible? Literature on organizational learning and knowledge management proposes that it is possible to transform individual knowledge into organizational knowledge through four *knowledge metaprocesses*: intuition, interpretation, integration and institutionalization. In addition, four *knowledge conversion modes* play a key role: socialization, internalization, externalization and combination. Thus, social connections at individual level can be transformed into social connections at organizational level. When this knowledge is embedded in organizational structures, then the firm minimizes the risks in case an employee decides to leave the firm (Bontis and Choo, 2001; Bontis et al., 2002). *Guanxi* is so important for business competitive advantage that some even recommend the need of *guanxi* audits (Tsang, 1998).

3.8. Guanxi base

Guanxi begins with a *guanxi base*. It is defined as “a base which two or more persons have a commonality of shared identification” (Jacobs, 1979: 243). Three elements are key for the building of these bases: kinship, friendship and other personal relations. On the other hand, there are two basic ways to build this base: group identification and altercasting. First, the creation of a *guanxi* base generally demands the existence of some common identity, entailing either a blood relationship or same social interconnection. The first type of connections represents “ascribed” or inherited *guanxi*. Kinship and locality are the two most common forms of ascribed *guanxi* bases. The second type of connections refers to “achieved” or “cultivated” *guanxi* (Tsang, 1998).

Another way to develop *guanxi* is through altercasting. This term refers to “the building of *guanxi* between individuals who have no ascribed commonalty” (Yeung and Tung, 1996:61-62). Thus, to attain this goal, individuals use an intermediary. Generally, this person is a mutual friend of both individuals who vouch for the behavior and sincerity of these individuals.

Research has revealed six major *guanxi* bases: locality/dialects, fictive kinship, kinship, work place, trade associations/social clubs, and friendship. These bases have varying significance over time. On the other hand, a conceptual framework proposes eight stages to transform a relationship from an outsider to an insider: availability, association, acceptance, affective, affordable, affirmation, assurance and actualization (Wong and Leung, 1992).

On the other hand, the maintenance of *guanxi* requires continual social interaction. One way to ensure these continual social interactions is to add more bases to the *guanxi*. Thus multiple *guanxi* relations increase not only the opportunity for interaction but also the feelings of commonality between parties and make it easier for *ganqing* (and *xinyong*) to develop. Bringing multilateral interactions into the picture of dyadic exchange is a major step. However it is necessary to address “*third-party effects*”, which often come from those who are not commonly connected to the two sides of a social exchange (Lin, 2002; Wong and Leung, 1992:63).

In this sense, a study concludes that there are four basic strategies for maintaining *guanxi*: tendering favors, nurturing long-term mutual benefits, cultivating personal connections and cultivating trust. This study highlighted that 85% of the 19 firms indicated that trust was a basic condition for building and sustaining *guanxi*. These strategies are not mutually exclusive but complementary. Thus six of the 19 firms stated they adopted an integrated approach to *guanxi*, using the four strategies (Gold et al., 2002).

Additionally, firms need to remember that it is more effective to develop multiplex connections rather than single stranded ones. So “multiplex relationships cultivate more commonalties –more *guanxi* bases- between two parties, so that the ties become stronger, more permanent, and more irreplaceable” (Wong and Leung, 1992:65).

In the art of *guanxi*, three things are exchanged: gift, banquets and favors. In the art of *guanxi*-giving three elements need to be taken into account: kinds of gifts given, occasion and form of gift-giving, and discreetness in the occasion and the means of presenting the gift. Thus elements like the following are important: timeliness of the gift, rarity of the gift, the status of the person giving the gift, the intensity of the relationship between giver and recipient, and the extent of the recipient indebtedness to the donor (Yang, 1994:126).

Finally, the value of *ganqing* and *guanxi* is not static but changes over time. Both hinge upon the continued social interaction and mutual help.

3.9. Benefits, risks and ethics of *guanxi*

Recently, several empirical studies have examined the outcomes of *guanxi*. Most studies focus only on positive outcomes of developing *guanxi*. For example, a study suggests three major benefits that arise from the establishment of *guanxi*: key sources of information, sources of resources and other areas (smoothing transport arrangements, smoothing collection of payments and building up the firm’s reputation and image) (Fan and Ambler, 1998; Davies, Leung, Luk and Wong, 1995; Xin and Pearce, 1996). Other studies analyze both positive and negative aspects of *guanxi*. For example, recently, three researchers developed and tested a model to analyze factors that positively affect *guanxi* as well as the impact of *guanxi* on organizational performance. They state that once *guanxi* is established, it has positive effects on organizational performance. In particular, it offers “good means of facilitating transaction by allowing access to limited resource/information, preferential treatment in business dealings, and protection from external threats [...] On the other hand, negative aspects of

guanxi include the associated corrupt behaviors (e.g. favoritism, nepotism) (Pae, Wong and Lee, 2001:52).

What factors influence *guanxi*? According to the findings of a study, *guanxi* is positively affected by a firm's decision-making uncertainty and perceived similarity (like mutual understanding, common interests and shared values and experiences), while negatively affected by opportunism, job mobility and monitoring industrial companies (Guthrie, 1998).

On the other hand, controversy surrounds the ethical status of *guanxi*. There is a close association between certain types of *guanxi* and bribery. In this sense, some researchers and managers state that this term is synonymous with corruption. It may benefit a few at the expense of the many and reduce societal wealth. Others suggest that *guanxi* may or may not be ethically problematic depending on the intentions of its use.

3.10. The fate of *guanxi* in China's reform era

Finally we would like to highlight two quite lively and unresolved debates over *guanxi*. First, there is disagreement over the extent to which *guanxi* is something unique to China or if it is a response to specific and historical conditions that happen to develop in China. However a continued debate of the "Chineseness" of *guanxi* is not going to advance research on the social structure of Chinese society. Second there is considerable disagreement over the fate of *guanxi* in the period of economic reforms in the People's Republic of China (PCR). Some scholars think that, "as the state has loosened its grip on the economy, the role of *guanxi* has expanded in Chinese society. They argue that its role will continue to expand, leading to an economic system that is substantially different from the rational-legal system that define Western market economies. Others believe that the role of *guanxi* is declining in the era of economic reforms, and that eventually formal rational law will supplant the norms of the personal economy" (Gold et al., 2002:3-4). In the *Conclusions and Implications for Management* Section this question will be addressed again.

4. Measuring and reporting social connections: Lessons from “first movers”

4.1. Data collection

Once we have established a conceptual framework to analyze social networks from a Western and Confucian perspective respectively, we now show the results of the case study of this research.

The aim of our case study was to analyze how pioneer firms measure and report social relationships from a Western approach (customer capital, relational capital and social capital). Thus we collected intellectual capital reports from a group of Danish, Indian, Spanish and Swedish firms (See Table 2).

Insert Table 2 about here

In total, 12 firms participated in this research. They constitute what could be termed as “world’s leading group of firms” in measuring and reporting intangible resources such as social connections. We collected 29 intellectual capital reports published by the firms between 1994 and 2002.

In addition, in some cases field interviews with senior managers involved in the measurement of social connections and/or with working experience in Confucian societies were conducted. The interviews followed a semistructured format based on an interview guide. There were both an open-ended sequence of questions and a focused set of questions designed to evaluate specific social ties (See Figure 1).

Insert Figure 1 about here

4.2. A new type of corporate report on social connections: the intellectual capital report

Briefly this is the history of the intellectual capital report as a mean to report social connections in firms. In 1994, Skandia became world’s first firm to measure its knowledge-based resources and publish an intellectual capital report. Since then, other companies decided

to measure and report on their intangible resources. However, even today the number of firms that publishes intellectual capital reports is still small (Mouritsen, 1998; Ordóñez de Pablos, 2002).

Prior to present the results of our case study, the concept of intellectual capital report should be addressed. What is an Intellectual Capital Statement or Report? The Danish Agency for Trade and Industry states that “the object of an intellectual capital statement is to give a picture of the corporate effort to build up, develop and streamline its resources and competencies in relation to its employees, customers, technology, and processes. The intellectual capital statement underpins the development of the future value of the company, and consequently its competitiveness in the knowledge economy” (Danish Agency for Trade and Industry, 2000:4). This Agency considers that “it forms an integral part of working with knowledge management within a company. It reports on the company’s efforts to obtain, develop, share and anchor the knowledge resources required to ensure future results. The intellectual capital can contribute to creating value for the company by improving the basis for growth, flexibility and innovation. (Danish Agency for Trade and Industry, 2001:13).

Roughly speaking, this report has two clearly differentiated sections. The first section collects information about strategies and actions developed in the company in order to enhance and deploy each element of intellectual capital, that is, human, relational, social, and structural capital, respectively. The second section gives information about the present intellectual capital in the company adding tables with indicators which were developed for each of the intellectual capital elements.

4.3. Why do executives measure and report their social connections?

As empirical evidence suggests, knowledge-based resources such as social connections are the cornerstone of a sustained competitive advantage. In this sense, according to some executives, the most mentioned organizational values derived from these resources are strategic positioning (market share, leadership, standard setting, name recognition), profit

generation (income products or services, income from social connections themselves), customer loyalty, improved productivity, acquiring the innovation of other companies, and cost reductions.

4.4. Categories of indicators on social indicators

What kind of social connection indicators do pioneer companies use? According to the results of our case study with 12 pioneer firms, we can classify indicators into 4 categories:

- 1. *Customer description*: it gives a portrait of firm’s type of customer: private, public and so.
- 2. *Customer portfolio*: it measures strategic customer base, customer base renewal, customer satisfaction and loyalty, commercial network penetration and brand capital.
- 3. *Stakeholders capital*: it reflects the interest of investors, analysts, governments and other agents on the firm.
- 4. *Networking*: it measures the opportunities to networking in different environments (business, social and academic context).

4.5. Indicators of social connections

What specific indicators are used to measure each category? The following table shows the results of our case study among pioneer firms in measuring and reporting their social connections. In total, we found 29 indicators of customer capital, relational capital and social capital in the sample of firms.

Insert Table 3 about here

As also shown in the Table 3, generally firms compare the values of indicators for current year with the values in previous years. They also state goals for indicators both in the short and long run.

Finally, it is also important that managers realize of the value of different social ties and how this importance varies according to the business sector in which the firm operates.

Then a good idea is to classify these indicators into core, ancillary, compulsory and idiosyncrasic indicators of social relations. *Core social connection* indicators represent social ties that are highly valuable and unique. *Ancillary social connection* indicators represent knowledge embedded in relations that are neither particularly useful for creating value nor they are specific to the firm. *Compulsory social connection* indicators show social ties that may be valuable but there are not firm-specific or unique. Finally, *idiosyncratic social connection* indicators refer to social ties with strong uniqueness but not particularly useful for creating organizational value.

4.6. Manager's perceptions about *guanxi* and social ties

Apart from the information derived from the analysis of these intellectual capital reports, we also received interesting feedback from managers on social capital, relational capital and *guanxi*. Below we discuss some significant comments we received through personal communications.

Most managers recognize that the first *guanxi* and social capital's direct benefit is information. At individual level, they perceive that having a network of social ties clearly influence their career success in terms of earlier promotions and compensation. At aggregate level, they recognize that social connections play a key role in the hiring process in the firm. Social connections may convey information about candidate's performance on past jobs and context-specific opinions about candidate's potential performance if hired by the firm. Managers report that this job-relevant information that emerges from social connections is especially important for hiring higher-status positions. Hiring through social ties is also important when skills and performance are difficult to observe.

In relation with social connection measurements, a manager declared her intention to include a new indicator on social ties in firm's coming intellectual capital report. This

indicator is “number of unsolicited applications for a job”. This manager firmly believes that this indicator reflects that through social connections an individual receives particular information about the firm, in this case, a vacancy.

Managers also stress the importance of bridging disconnected groups for achieving success. This fact -in academic language- translate as that managers with networks rich in “structural holes” are able to build bridges between disconnected parties and achieve a competitive advantage.

On the other hand, it is interesting to highlight the case of two European executives with working experience in Shanghai (China) and Taipei (Taiwan) during the 1990’s. They reported the importance that *guanxi* or social ties play in the allocation of urban jobs in China. They believe that managers with *guanxi* not only find jobs easily but also shift jobs easier than other managers without these connections. They also believe that foreign firms operating in China away from the central power structure clearly have a greater need to develop social ties than other firms that are situated within the central power structure (Guthrie, 2002). Another manager who worked in Beijing during the late 1980’s and 1990’s perceived that *guanxi* played a special role in the development of trade relations in the business groups during the economic reform in China.

Moreover managers clearly differentiate between the social relations (*guanxi*) and the cultivation of social relations for strategic purposes (*guanxi* practice). They perceived that when doing business in China relying on *guanxi* just to get things done was considered something quite dishonest and these *guanxi* practices were quite uncommon there. Some even say that *guanxi* practice is one of the roots of rampant corruption in the People’s Republic of China. A manager with working experience both in China (Beijing, Guangzhou and Shenzhen) and Taiwan (Taipei, Kaohsiung and Taichung) reported that in these Taiwanese cities *guanxi* has less negative connotations than Chinese cities.

Furthermore, managers who worked both in Europe and China say they also remember the mix of instrumentalism and sentiment they experience in China regarding *guanxi*. However they clearly recognize the difference between *guanxi* and corruption even if sometimes this difference is very narrow.

Finally most managers firmly believe that information and control benefits to individuals as a result of social connections aggregate to the management team on which they serve.

5. Conclusions and implications for management

The review of literature and the findings of the case study point to several conclusions about social connections in Confucian societies and the West. Let me close, not by repeating what has already been said, but by recounting major implications for management.

First, clearly social networks impact the organizational capability to generate new knowledge, integrate existing knowledge, facilitate the transfer of this knowledge both intra and interorganizationally and store it. In addition, they constitute the key element to transform individual resources into organizational resources. Organizational learning and knowledge management literature explains how four *knowledge metaprocesses* (intuition, interpretation, integration and institutionalization) and four *knowledge conversion modes* (externalization, internalization, combination and socialization) allow converting individual knowledge into organizational knowledge, thus minimizing risks in case an employee with right and strong *guanxi* or connections decides to leave the firm.

Second, the following examples provide wise advice to Western executives doing business in China. First, the Chinese sentence “Shang chang ru zhan chang” can be translated, as “the marketplace is a battle field”. On the other hand, one of the greatest Chinese philosophers Sun Tzu stated that “know your enemy, know yourself, and you can fight a honored battle with no danger of defeat”. Therefore, a Western firm looking for opportunities

in China needs to understand the logic of *guanxi* or social connections and its associated elements, like *renqing* or favor, *ganqing* or emotional feeling, *xinyong* or trust and *gao* or reciprocity. Foreigners are outsiders and do not belong to the network. However, once a person is accepted within this network, then he/she enjoys its benefits and this person has to be ready to oblige insiders. Therefore, the challenge is to get inside the network (Ordóñez de Pablos, 2005).

On the other hand, due to economic reforms, fundamental changes has occurred on the structure, rules and norms of the economy in China, and as the institutional structure of Chinese society has change, so have the rules and practices of the market. This situation provides Douglas Guthrie with a natural test of the *guanxi* importance: As institutional and economic structure change, what is the fate of *guanxi* in the midst of these changes? Some works point out that even in the face of major institutional changes, *guanxi* remains a key element of economic and social action and matters in very significant ways. Others, like Guthrie say “the extent to which *guanxi* matters in China’s tranforming economy depends on crucial ways on the institutions that define economic and social action, and these institutions are changing dramatically. At least with respect to the urban industrial economy, a declining significance of *guanxi* is a clear result. He also presents evidence on the importance of *guanxi* depends heavily on “the structural position of the research subjects [...] thus individual embedded in the center of power structures are likely to do little work to exert social influence (and thus report *guanxi* plays little if any role in the reform era); yet their social positions themselves are significant assets in China’s emerging markets. Individuals excluded from central power structures are likely to perceive the need to develop ties to individuals within those power structures (and thus report that *guanxi* plays a significant role in the reform era” (Guthrie, 2002:38).

In this article, we have laid some ground to understand the dynamics of *guanxi* or social connections in Confucian societies. We realized that all contemporary issues on *guanxi* could not be discussed here in depth for reasons of limited restrictions and a balance with the framework on Western views on social connections presented in this paper. As indicated before the recent book *Social connections in China. Institutions, Culture and the Changing Dynamics of Guanxi* by Thomas Gold, Doug Guthrie and Davie Wank covers from a critical view most issues on social connections in China and its links with institutions, culture and the dynamics of *guanxi* (Gold et al., 2002).

Additionally, Western executives should bear in mind that non-Asians often overlook the sometimes major differences among specific Asian countries, like China, Japan and Korea. Thus, the understanding of intra-Asia differences is key to achieve success when doing business there. For example, *guanxi*, *wa* (“harmony” in Japanese) and *inhwa* (“harmony”, in Korean) are respectively the basic managerial principles in these countries. These terms emphasize social connections, but *wa* focuses on the group element while *inhwa* stresses the harmony between individuals. Unlike *wa*, *guanxi* has no group connotation and the relationship is completely personal.

Third, Chinese firms looking for opportunities in the West need to understand the logic of social connections in these regions. In these countries, firm’s web of interpersonal connections is ruled by different elements than in Confucian societies, such as reasons of engaging (self-interest versus smooth functioning of society), time orientation (short term versus long-term perspective) and nature of power (institutional laws versus personal power). In the West, most business social connections are understood from a transactional point of view.

On the other hand, there is an increasing importance of measuring and reporting on these intangible resources in the West. Some examples show it. Different projects on

knowledge-based resources are being carried out in Europe in collaboration with both academics and practicing business managers. There is a project entitled “A European Arena on Intangibles” -also known as E*KNOW-NET- whose aim is to create a virtual network of research centers on intangible resources and the potential users of these results. In Denmark, the Danish Agency of Trade and Industry is working in collaboration with academic researchers on a project to advice and help a group of national firms to build the intellectual capital report. In addition in Spain, for example, the Knowledge Society Research Center in the Scientific Park of Madrid, through periodical workshops, works towards the development of a holistic model to measure knowledge-based resources as well as guidelines to report on them.

Finally, all these joint efforts from executives and academic researchers clearly show the importance of social connections and its link with organizational performance, and thus, with the achievement and sustaining of a competitive advantage for the firm.

Endnote

[1] The transliteration system used in this paper for Chinese terms as *guanxi* (social relationship or connection) and *renqing* (favor) is that of the *pin-yin* system. It follows the Peking pronunciation of standard Northern Chinese.

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APPENDIX

Table 1
Glossary of Specialized Terms Related to *Guanxi*

TERM	TRANSLATION	MEANING
"La guanxi"	"To pull" guanxi	It means to get on the good side of someone, to store political capital with them, and carries no negative overtones
"Gua guanxi"	"Work on" guanxi	It means roughly the same but with a more general, less intensive feeling and usually carries negative overtones.
"Meiyou guanxi"	"Without" guanxi	It has become an idiom meaning "it does not matter".
"Guanxi gao jiang"	Guanxi "made ruined"	It means the relationship has done badly, usually because of a lack of flexibility of those involved.
"Lisun guanxi"	"Straighten out" guanxi	It means to put a guanxi back into proper and normal order, often after a period of difficulty or awkwardness.
"You guanxi"	"To have" guanxi	It means to have access to needed influence.
"Youde shi guanxi"	"What one does have" or "the one thing one does have"	It is sometimes negative, meaning that one has all the guanxi one needs, but something else special is lacking.
"Guanxi wang"	Guanxi "net"	It means the whole network of guanxi through which influence is brokered
"Guanxi hu"	Guanxi "family"	It means a person, organization, and even government department, occupying a focal point in one's guanxi network.

Source: Adapted from McInnes (1992)

Table 2
Measuring Social Connections in Pioneering Firms

FIRM	SECTOR/ACTIVITY	CORPORATE REPORT	COUNTRY
Carl Bro	Consulting	1998-1999-2000-2001	Denmark
Cowi	Engineering and related services	1999-2000-2001	Denmark
Dieu	Course provider	1999/2000-2001/2002	Denmark
Systematic	Software development	1999-2000-2001-2002	Denmark
Reliance	Diverse (finance, telecom, oil & gas, etc)	1997	India
Shree Cement Limited	Cement manufacturer	2000-2001	India
Bankinter	Banking	2000-2001	Spain
BBVA	Banking	1999	Spain
BSCH	Banking	2000	Spain
Mekalki	Mechanized integral services	1998	Spain
Union Fenosa	Electricity	1999-2000-2001	Spain
Skandia	Insurance	1994-1995-1996-1997-1998	Sweden

Figure 1
Interview guide

1. Why does your company measure intangible resources such as social connections?
2. Why does the company build an intellectual capital report with the result of the measurements?
3. Your company measures social connection through specific indicators. Do all indicators have the same importance for the firm?
4. If your firm were in the industrial/service sector instead of the service/industrial sector, would this importance rating change?
5. Do you have working experience in China, Taiwan and/or Japan? If the answer is positive, please, do you think *guanxi* is important in Confucian societies? Please, indicate why *guanxi* or social connections are important.
6. Do you appreciate significant differences when doing business in China, Japan and Korea in relation with *guanxi* dynamics?
7. Do you think that the understanding of *guanxi* dynamics influences the success of businesses in Confucian societies?
8. What are the major benefits derived from *guanxi*?
9. Do you think the term *guanxi* has corruption connotations?

Table 3
List of Customer, Relational and Social Capital Indicators

CATEGORIES AND INDICATORS		Year _{t-1}	Year _t	Short term goal	Long term goal
A. CUSTOMER DESCRIPTION					
<ul style="list-style-type: none"> • No. of public clients • No. of semi-public clients • No. of private clients 					
B. CUSTOMER PORTFOLIO					
I STRATEGIC CUSTOMERS	<ul style="list-style-type: none"> • Duration of existing customer relationships (in months) • % of customers who would recommend our firm • Volume of sales of 5 largest customers during the year 				
II CUSTOMER BASE RENEWAL	<ul style="list-style-type: none"> • No. of first-time customers • No. of new strategic customers during the year 				
III CUSTOMER SATISFACTION AND LOYALTY	<ul style="list-style-type: none"> • Market share • Clients' impression of the firm (index) • Customer satisfaction index* • Customer loyalty index* • No. of customer complains 				

<p style="text-align: center;">IV</p> <p style="text-align: center;">COMMERCIAL NETWORK PENETRATION</p>	<ul style="list-style-type: none"> • No. of countries were the firm has implemented projects • No. of permanent offices in the own country • No. of permanent offices abroad • No. of contracts 				
<p style="text-align: center;">V</p> <p style="text-align: center;">BRAND CAPITAL</p>	<ul style="list-style-type: none"> • Exposure to the media • No. of news about the firm published in the media in the own country • Value perception (index) • Spontaneous notoriety index* 				
<p style="text-align: center;">C. STAKEHOLDERS CAPITAL</p>					
<ul style="list-style-type: none"> • No. of contacts with investors and analysts • No. of favorable recommendations from analysts • No. of solved consultations from shareholder's information office • No. of new stakeholders 					
<p style="text-align: center;">D. NETWORKING</p>					
<ul style="list-style-type: none"> • No. of conferences attended • No. at scientific conferences • No. of operations done via phone • No. of commercial alliances 					
<p style="text-align: center;">TOTAL NUMBER OF CATEGORIES</p> <p style="text-align: center;">TOTAL NUMBER OF INDICATORS</p>		<p>4</p> <p>29</p>			

Note: Index (1-100)