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Guanxi and the Leader-Member Exchange in the Chinese Supervisor and Subordinate Relationship

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Abstract:

The purpose of the study was to investigate the effect of Confucianism and the Organisational Ethical Climate on the Leader-Member Exchange using *Guanxi* as the mediation variable. This study was motivated by an interest in the phenomenon of the working relationship between Chinese supervisors/managers and Chinese employees in various companies in Indonesia. This study was conducted from September to December 2016 in Jakarta and the respondents were Chinese employees with at least one-year work experience who had Chinese supervisors/managers. This study used Partial Least Square-Structural Equation Model (PLS-SEM) techniques. The results of this study showed that Confucianism and the Organisational Ethical Climate positively and significantly influenced *Guanxi*, and *Guanxi* positively and significantly influenced the Leader-Member Exchange. Confucianism and the Organisational Ethical Climate also had a positive and significant indirect effect on the Leader-Member Exchange.

Keywords Chinese ethnic; confucianism; organisational ethical climate; *Guanxi*; Leader-Member Exchange (LMX).

JEL Classification: M12

Introduction

People with similar perceptual styles are drawn to each other, understand each other better, work more efficiently together, and are more satisfied with working together than those who have different views or perceptions of the world. Thus, it is no wonder that a world with culturally diverse teams may be problematic. Even though people are often drawn to people who are similar to them, like in individuals with similar values, or similarities in age, race, gender and nationality (Salk and Brennan 2000, Tiina 2015), the communication styles may still be different or complementary. For example, more talkative people may prefer more a quiet partner (Tiina 2015).

The Chinese's good business skills often become a source of conflict in some countries, especially in Southeast Asia (Thee 2006). This occurs because of a lack of understanding about the different cultural contexts of each nation. In an organisation, a problem that occurs frequently is changes in the context of a team and the orientation of team members in a new place (Salk and Brannen 2000). However, the Chinese people have many different ways to face this cultural context problem. Chinese people are taught to control themselves, where they must understand that they themselves as individuals are not important, but their role as individuals in a group are more important. This is especially true within the family (O'Keefe and O'Keefe 1997).

With a background of trade experiences, to avoid natural disasters and political instability, Chinese people have migrated to various countries as immigrants, also referred to as *huaqiao*. Many of the *huaqiao* chose Southeast Asia as their new quarters, and succeeded in dominating the domestic businesses, although originally being underappreciated. Table 1 shows the success of Chinese ethnics in dominating businesses in Southeast Asian countries.

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From Table 1, it can be seen that more than 50 percent of the country's capital is owned by the Chinese people. Among the many countries in the world that are inhabited by the Chinese people, Indonesia has a Chinese population that was already rooted in the country prior to the increase of Chinese immigration. Indonesian Chinese people who have ancestors from China are also called the Chinese-Indonesian ethnicity. Chinese-Indonesian ancestors immigrated in waves hundreds of years ago through trading activities. After Indonesia gained independence, Chinese people who had already gained Indonesian citizenship were listed as one of the tribes in Indonesia's national scope, in accordance with Law No. 12 of 2006 Chapter 2 about the Citizenship of the Republic of Indonesia. It cannot be denied that in the Jakarta city history, Chinese people have settled for hundreds of years in the city. There is a place is now called Chinatown and currently accommodates the thousands of Chinese people who came to Jakarta in the part two centuries.

Table 1. Indications of Huaqiao's economic power

Country	Population (million)	Huaqiao's Percentage	Huaqiao's Percentage in private capital, corporate, & domestic
Indonesia	201	3,5	70
Malaysia	20	29	60
Philippine	73	2	55
Singapore	3,5	77	70
Thailand	60	10	75

Source: Backman 2000, 193

A phenomenon of this study is that one of the Chinese people's habits that are often used in business is developing a business network that contains people who have certain relations (e.g. family member, close friends) because of their mutual trust in one another. Through the business network, these Chinese people are helping each other in getting profit. This is an important element in building a business network that is not commonly used in western culture. This phenomenon is called people *guanxi*.

Guanxi is a unique phenomenon in the business activities of a Chinese society. Although *guanxi* is also used by many people outside the Chinese ethnicity, it is generally kept separate from the business world. The West's business model largely suppresses and eliminates business practices that are based on specific relationships, such as *guanxi*. However, Chinese society in various places is still using *guanxi* for their business activities with profitable results (Setyawan 2005). The phenomenon of "*guanxi*" can be defined as the personal ties that connect a person with another closely.

Personal relationships and trust relationships were the basis for the overseas Chinese business network. *Guanxi* is a connection concept of using personal relationships to collaborate with other individuals directly. This relationship is built by the existence of kinship, tribe, and the use of the same languages among fellow Chinese people. This is seen as an important characteristic of Chinese society (Purwanto 2014).

Use of the family name as a unifying form is a basic form of *guanxi* that was common among Chinese traders. Chinese people who have the same family name usual form a business network and the interaction of *guanxi* can occur. Generally, the Chinese people have a strong sense of brotherhood.

The family name could strengthen the unity and open up opportunities for cooperation among individuals or groups. Thus, it is not surprising that the majority of Chinese people only entrust their business to their own people or their own family. Regardless of this, *guanxi* can be accepted by Non-Chinese people. *Guanxi* was proven within the Chinese society and could help make China superior in the global economy. It was proven by many Chinese people that *guanxi* was a key to the success of their business. In addition, *guanxi* was successfully in building a strong and wide business network globally.

The research of Lin (2011) showed the perspective of respondents in Taiwan and Mainland China who had at least one-year of work experience. Lin (2011) examined the influence of Confucianism and the organisational ethical climate and found that the Chinese people of Taiwan, who preserves more Confucian culture than the Chinese of Mainland China, tended to put much emphasis on *guanxi*, especially with respect to *mianzi*. Lin (2011)

suggested the amplification of the research scope in other Asian countries. Thus, this study was conducted in Indonesia.

Guanxi is one of the most important elements in the Chinese business network. The advantages and disadvantages of applying *guanxi* in the business world is being debated frequently. But, in fact, the Chinese society who has implemented *guanxi* in various countries, especially in Southeast Asia, shows a high level of success and prosperity. However, there are some people who regard *guanxi* as an act of exclusivism too. For example, the advantage of *guanxi* only spread to those who are in the same business network. There are many indigenous people who think that *guanxi* spreads the advantage only to those who are from the Chinese ethnicity too. This is why the understanding of *guanxi* in Chinese business networks need to be considered and studied to obtain further insight into how it actually works.

In companies, Chinese people often use *guanxi* to determine the next leader. There are very few Chinese people who cannot be open minded and accept the assimilation. Although it is more personal than the other ethnic groups, *guanxi* is important for the Chinese in the business world. On the contrary, relationships in the Western culture are built on business objectives first, then improving the relationship network. Chinese people believe that a relationship network is the first step in forming a business trust. Therefore, they are more oriented to building the long-term business trust. This study noticed that the Chinese employees who have Chinese supervisor/managers are utilizing *guanxi* in their relationship. Nie and Lamsa (2015) showed similarities and differences between *Guanxi* and the Western LMX (Leader-Member Exchange) theory. Ahmed *et al.* (2014) examined and found that *Guanxi* positively predicts LMX relations.

Based on the above background, this study was conducted to examine the following:

- the effect of Confucianism on *guanxi*;
- the effect of the organisational ethical climate on *guanxi*;
- the effect of *guanxi* on the Leader-Member Exchange.

1. Literature review

1.1. Confucianism

According to Lam *et al.* (1994, Liao and Sohmen 2001, Weber 1964, Wang 2012), Confucianism as the cultural cornerstone of all Chinese communities worldwide, is fundamentally hostile to entrepreneurship, mainly because Confucianism traditionally disparages merchants, and stresses rote learning and learning for careers in government bureaucracies. Confucianism is also described as long-term orientation, which refers to "the acceptance of the legitimacy of hierarchy and the valuing of perseverance and thrift, all without undue emphasis on tradition and social obligations that could impede business initiative" (Franke *et al.* 1991, Lin 2011). Influenced by Confucianism, people in East Asian societies are used to a hierarchical ranking of authority in the family, as well as in educational and sociopolitical institutions (Ho 1996, Wang 2012).

1.2. Organisational ethical climate

Sinclair (1993 Lin 2011) thought that the organisational ethical climate in firms is one of the most important factors that influences ethical behaviors of employees. Thus, if one can understand the relationships between the business ethical climate and ethical behaviors, one will know how to manage them. Direct managers are important in the organisational study due to the linkage role they play. Serving as linkages between the top managers they report to and the subordinates that they supervise, employees look to these managers as a role model (Lam *et al.* 2010, Yang 2014).

1.3. *Guanxi*

Guanxi is the concept that is often mentioned in inter-organisational cooperation and it can be viewed as a kind of friendship, which continues to exchange help (Pye 1992, Lin 2011). There is a consensus among researchers who have discussed different types of *guanxi* that *guanxi* is based on blood ties (family or in-laws) and is inherently different from *guanxi* based on non kin ties. The most important distinction between kin and non kin *guanxi* is that favors to family members do not need to be repaid, whereas favors from nonfamily members must be (Bond 1999,

Bedford 2011, Tsang 1997, Lin 2011) further pointed out that *guanxi* is an important resource for competitive advantages. In fact, the establishment of *guanxi* is a point worthy of note for both Western and Eastern business managers. The basic concept is to view the *guanxi* network as a positive method of management, where running a business involves an idea similar to "partnership" and "network" through the establishment and maintenance of *guanxi* networks.

Guanxi is a relationship that refers to an individual's informal personal relationship with another individual who brings hope and obligation to facilitate the exchange (Davies *et al.* 1995, Leung *et al.* 2005). In the Chinese context, special emphasis was placed on the exploitation of the *guanxi* network, which may offer the opportunity to access the information that is reliable and accurate, quickly and efficiently (Park and Luo 2001, Millington *et al.* 2006). *Guanxi* in business relationships is a commitment to do the best for one another with the social norms of reciprocity and social obligations. That is, if you get help based on human obligations, you are obliged to pay them back in the future (Octari and Purwanto 2017).

Guanxi is a system of personal relationships that bring long-term social obligations and has an important role in the relationships within and between Chinese organisations (Park and Luo 2001, Millington *et al.* 2006). In China, many people will help their relatives or friends to be seen as an important person of the government. For example, one may say "My uncle has made this and that. You can help if you want" (Millington *et al.* 2006). Zolkiewski and Feng (2012) found that *guanxi* acts as an initiator, while the trust relationship determines how successful the relationship will be. With good *guanxi*, it will increase the mutual trust between individuals (Octari and Purwanto 2017).

Guanxi emphasises personal relationships, which is quite different to the Western culture. *Guanxi* is one of the most important issues related to the Chinese people nowadays (Lee and Dawes 2005, Zolkiewski and Feng 2012). *Guanxi* is an intricate and pervasive relational network consisting of mutual obligations, assurances, and understandings (Park and Luo 2001, Zhang and Zhang 2006). *Guanxi* is regarded as an important way of binding people to live in a harmonious relationship together, while those who do not share these bonds are considered as outsiders.

1.4. Leader-Member Exchange

The LMX theory is based on the principle that each leader–follower relationship within a work group is unique and varying in quality (Anand *et al.* 2011, Nie and Lamsa 2015). Low LMX relationships are characterised by economic exchange based mainly on formal and tangible assets, such as employment contracts and payment (Blau 1964, Dulebohn *et al.* 2011, Nie and Lamsa 2015). People in high-quality relationships will get far more than those in low relationships, not only in terms of economic exchange, but also in terms of social exchange. More specifically, values, such as mutual trust, obligation, respect, loyalty, and reciprocity, will become the dominant features in the relationship (Liden and Maslyn 1998, Nie and Lamsa 2015). LMX describes how leaders develop different exchange relationships over time with their various subordinates as they influence each other (Farouk 2002, Ishak and Alam 2009).

LMX research shows that subordinates that report a high-quality LMX not only assume greater job responsibilities, but also state that they contribute to other units (Liden and Graen 1980, Ishak and Alam 2009). Liden and Maslyn (1998, Ishak and Alam 2009) found a four-dimensional LMX model comprising of contribution, loyalty, affect, and professional respect. Based on the LMX theory, when high-quality relationships exist between the subordinates and superiors, subordinates will be awarded greater resources and freedom in making decisions (Pelz and Andrews 1966, Cotgrove and Box 1970, June and Kheng 2014). Wang *et al.* (2005), Jyoti and Bhau (2015) reviewed several studies on LMX and found that those studies have focused on the social exchange quality. This phenomenon helps to establish qualitative leader–follower relationships known as LMX (Gerstner and Day 1997, Jyoti and Bhau 2015).

High quality LMX indicates there is a high level of information exchange, interaction, trust, respect, support, mutual influence, and rewards, while low-quality LMX points to a low level of interaction, trust, formal relations, one-directional influence (manager to employee), limited support, and few rewards (Bauer and Green 1996, Chernyak-Hai and Tziner 2014). A central tenet of the LMX theory is its focus on the working relationship

between a leader and the various members of a work unit or organisation. The LMX theory considers leaders and workers as active actors in a developing process of a transaction (Hollander 1980, Portoghese *et al.* 2011). LMX should always be measured from both leader and member perspectives (Scandura and Schriesheim 1994, Portoghese *et al.* 2011).

The LMX theory is rooted in two main theories: the role theory (Graen 1976, Dienesch and Liden 1986, Graen and Scandura 1987, Sparrowe and Liden 1997, Nie and Lamsa 2015) and the social exchange theory (Wayne and Green 1993, Erdogan *et al.* 2002, Nie and Lamsa 2015). In the LMX theory, there are three elements: the leader, the follower, and the exchange relationship (Graen and Uhl-Bien 1991, Nie and Lamsa 2015). Although leaders are dominant in determining the quality of LMX relationships, followers also exert a remarkable influence on the relationship. Through various effective activities during working time, participants are supposed to meet certain objectives, fulfilling expectations, and creating reciprocal relationships (Nie and Lamsa 2015).

1.5. Confucianism and Guanxi

It is possible to trace some of the ancient Chinese philosophy of Confucianism, as *guanxi* has a very evident heritage associated with the principles of Confucianism (Lytras and de Pablos 2008, Huang *et al.* 2013). *Guanxi* is one of the most important elements of Confucianism, highlighting the significance of groups for individuals. Traditional and contemporary Chinese people are wellknown for their strong reliance on interpersonal relations as the basis for defining their social status (Yang 1993, Nie and Lamsa 2015).

The concept of *Guanxi* is rooted in Confucianism because it links two people who are of unequal stature in such a manner that the weaker of the two in the relationship can request or ask for favors, without having to reciprocate in an equal manner (Alston 1989). The ethics of Confucianism also teach individuals to provide respect to patriarchs and elders and thus, the same level of respect is also provided to an authority of all kinds (Alston 1989). Evidently, *Guanxi* is highly influenced by this tenet of Confucianism.

H1: Confucianism positively and significantly influences Guanxi.

1.6. Organisational Ethical Climate and Guanxi

Tsui and Farh (1997), Lin (2011) were of the opinion that *guanxi* indicates the objectively common background or common experience between individuals. It also implies a differential treatment in interpersonal interactions. Among members in a group with different intensities and depths in interaction, *guanxi* bases and the centrality of interactive networks should have a positive relation. Victor and Cullen (1988), Lin (2011) were, thus, of the opinion that, although there exists a major climate type in an organisation, it is impossible to have only a single type. If a firm has rules on ethical climate, the rules and operating procedures are norms that should be emphasised. In firms with the last two ethical climates, employees tend to de-emphasise and weaken their *guanxi*.

H2: The Organisational Ethical Climate positively and significantly influences Guanxi.

1.7. Guanxi and Leader-Member Exchange

Guanxi highlights the importance of the particular relationship between two parties (Chen and Chen 2004, Chen and Tjosvold 2007, Huang and Wang 2011, Nie and Lamsa 2015), such as the leader-member relationship between a manager and a subordinate, and shares many things in common with the LMX theory. LMX and *guanxi* are fundamentally embedded in the interpersonal relationships of two individuals (Dansereau *et al.* 1975, Hui *et al.* 1999, Fan 2002, Nie and Lamsa 2015), such as leader-member relationships. When the LMX theory was first introduced, one of the main reasons why it was so innovative was that it describes how effective leadership relationships develop between dyadic 'partners' in and between organisations (Graen and Uhl-Bien 1995, Nie and Lamsa 2015). Many studies on LMX are still working on this level.

Employees tend to respond favourably to managers who are willing to offer them inspiration and support (Judge and Piccolo 2004, Nie and Lamsa 2015). In response, employees will exert themselves to perform the roles assigned to them and they, in turn, will try to form a high LMX with their managers (Maslyn and Uhl-Bien 2001, Dulebohn *et al.* 2011, Nie and Lamsa 2015). A high-quality relationship, including the dimensions of trust, obligation,

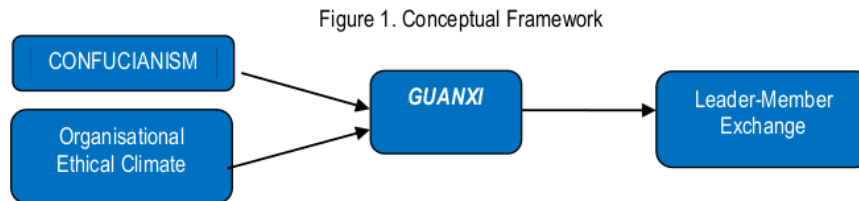
and respect, is valued in both the LMX theory and *guanxi*. Managers must follow the basic principles of ethical and moral conduct at all times and in all places.

When the behaviour, words, and deeds of managers at all organisational levels are in line with common organisational values and norms, managers are perceived as honest and as credible models by their Chinese employees. This further promotes the development of high-quality leader-member relationships (Cogliser *et al.* 2009, Nie and Lamsa 2015). The LMX theory is similar to *guanxi* in that both approaches stress that leader-member relationships develop gradually through interactions following the principle of reciprocity. In fact, work relationships are characterised by continuous and mutual interconnections between the parties (Ferris *et al.* 2009, Nie and Lamsa 2015). Emphasizing both a long-term relationship (*guanxi*) and competence (LMX) is important and represents an endorsement of a third culture derived from the two constituent cultures (Leung and White 2004).

Nie and Lamsa (2015) also showed differences between LMX and *Guanxi*. *Guanxi* in the Chinese context refers to personal ties or relationship based on human feelings, affection, and a sense of mutual obligation. So, the relationship is formed by the degree of emotional attachment and the willingness to take care of each other. This is in contrast to the Western LMX approach. The LMX relationship can only legitimately become an equity-matching relationship, where contribution and competence, not feelings, serve as the key components. Ahmed *et al.* (2014) examined and found that *Guanxi* positively predicted LMX relations.

H3: *Guanxi* positively and significantly influences the Leader-Member Exchange.

1.8. Conceptual Framework



2. Methodology

2.1. Sample and data collection

Table 2. Profile of respondents

Category		Company			Frequency	Percentage
		X	Y	Z		
Gender	Male	9	13	17	39	37,5%
	Female	17	27	21	65	62,5%
Age	≤25	7	11	14	32	30,77%
	26-35	17	23	16	56	53,84%
	36-45	1	6	5	12	11,54%
	≥46	1	0	3	4	3,85%
Education	High School	0	1	0	1	0,96%
	Diploma	0	4	0	4	3,85%
	Bachelor	22	33	35	90	86,54%
	Master	4	2	3	9	8,65%
Work Experience in years	PhD	0	0	0	0	0%
	<1	0	0	0	0	0%
	1-5	18	21	17	56	53,85%
	6-10	5	13	13	31	29,81%
	11-15	3	4	3	10	9,61%
	16-20	0	2	3	5	4,81%
>20	0	0	2	2	1,92%	

This empirical study examined the influences of Confucianism and the Organisational Ethical Climate on Leader-Member Exchange (LMX), with *guanxi* as the mediating factor. Data was collected from questionnaires of Chinese employees who have Chinese Supervisors/Managers with at least one-year of work experience in Jakarta. It is difficult to know the real numbers of the population, thus, the study used the Non-Probability Convenience Sampling technique, where the researcher determined their own process of sampling by selecting nearby people only, or by meeting the members of population that were willing to participate. The size of the sample was about 5 times the number of manifest variables (indicator) from the entire latent variables (Solimun 2002, Jauw and Purwanto 2017). The number of the whole indicator in this research was 20. Thus, the minimum sample size of the study is 100. This research was conducted from September to December 2016.

There were 150 questionnaires that were distributed to the respondents in three different companies (X Company: 30 respondents, Y Company: 60 respondents, Z Company: 60 respondents). Only 124 questionnaires were returned (X Company: 29 respondents, Y Company: 52 respondents, Z Company: 43 respondents). 26 questionnaires were not returned due to the busyness of the respondents. There were 20 returned questionnaires that could not be used because the respondents did not fill it out completely (X Company: 3 respondents, Y Company: 12 respondents, Z Company: 5 respondents). Thus, the total number of questionnaires that were used in this study was 104 questionnaires (X Company: 26 respondents, Y Company: 40 respondents, Z Company: 38 respondents). Table 2 shows the profile of the respondents for the three different companies in Jakarta.

2.1. Data analysis

This study used the Partial Least Squares-Structural Equation Modeling (PLS-SEM) technique. Structural Equation Modeling (SEM) is a second generation method to analyze the multivariate data that is often used because it could test and support the linear and additive causal models theoretically (Kwong and Wong 2013). Partial Least Squares (PLS) is a modelling software that approaches Structural Equation Modeling (SEM) with the assumptions of data distribution (Wong 2013). Meanwhile, according to Wiyono (2011), PLS is one of the SEM techniques that are capable of analyzing the latent variables, indicators, and measurement of the error directly.

Critical *t-value* is used as a cut off, where a *t-value* > critical value of t_{table} indicates a significant relationship between the hypotheses. Critical value of t_{table} for a two-tailed test are 1.65 (significance level = 10%), 1.96 (significance level = 5%), and 2.58 (significance level = 1%) (Hair *et al.* 2011, Purwanto 2016, Jauw and Purwanto 2017). This study used a critical value of t_{table} 1.96 or a 95% significance level as a cutoff.

2.2. Measurement scales

The endogenous variable in this study was *Guanxi* and the Leader-Member Exchange (LMX). *Guanxi* in this study was divided into three dimensions: *mianzi*, affect, and reciprocal favor. The questionnaire of *guanxi* was designed based on Lee and Dawes's (2005, Lin 2011) questionnaire, with a 5-point Likert-type scale to obtain information on how employees care about *mianzi*, how employees enhance affect with business partners, and how employees regard their business partners (Lee and Dawes 2005, Lin 2011). The statements of the questionnaire were as follows: "The more respect we receive from others, the more *mianzi* we have"; "My business partners will sometimes give me gifts or souvenirs (not expensive)"; and "I genuinely regard my business partners as good friends."

The measurement scale of the Leader-Member Exchange was adapted from Liden and Maslyn (1998, June and Kheng 2014). The LMX questionnaire comprised of nine 5-point Likert-type scale items, as follows: "My supervisor/manager defends my work actions to a superior, even without complete knowledge of the issue in question"; "My supervisor/manager is a lot of fun to work with"; "My supervisor/manager would defend me to others in the organisation if I made an honest mistake"; "I am willing to apply extra efforts, beyond those normally required, to further the interests of my work group"; "I have enough confidence in my supervisor/manager that I would defend and justify his/her decision if he/she were not present to do so"; "My supervisor(s) encourages me to share knowledge"; "I admire my supervisor/manager's professional skills"; "My supervisor/manager is the kind of person one would like to have as a friend" and "I like my supervisor/manager very much as a person."

The exogenous variable in this study is Confucianism and the Organisational Ethical Climate. The Confucianism measurement scale was adapted from the Dynamic Confucianism scale (Hofstede 1980, Lin 2011).

The Confucianism questionnaire comprised of four 5-point Likert-type scale items, such as the following: "I am always careful not to do anything inappropriate"; "I never forget my goals even in the face of adversity"; "I avoid offending others" and "I respect elders." This study used a modification of the Ethical Climate Questionnaire (ECQ) by Victor and Cullen (1988, Lin 2011) in measuring the organisational ethical climate. Seven 5-point Likert-type scale items were used, as follows: "The good of all the individuals in the firm should be the main priority"; "Efforts should be made to maximise the benefit of others"; "Individuals should do whatever is necessary to further firm interests, regardless of the consequences"; "Individuals should protect their own interests above all else"; "Firm employees should decide for themselves what is right and wrong" and "Firm employees should follow their own personal and moral beliefs."

3. Result and discussion

3.1. Result

This study is based on three tests: the validity test, reliability test, and inner model test. The validity test looks at the results of the outer loadings and Average Variance Extracted (AVE). The reliability test looks at the results of the Composite Reliability and Cronbach's Alpha (Table 3). The Inner Model test looks at the results of the T-statistic (Table 4).

The aim of validity testing is to measure the validity of the questionnaire used. Table 3 shows that all variables fulfilled the validity test, where outer loadings and Average Variance Extracted of variables was higher than 0.50. Reliability is the degree to which a test consistently measures what it is meant to measure. According to Sekaran (2006, Jauw and Purwanto 2017), Cronbach's alpha value in the range of 0.70 is acceptable, while a value above 0.80 is considered good. Table 3 shows that all variables fulfilled the reliability test, where the value of the Composite Reliability and Cronbach's Alpha from each variable was higher than 0.70.

Table 3. Outer Loadings

Items	Outer Loadings	Convergent validity	Cronbach's Alpha	Composite Reliability
<i>Guanxi</i>		AVE= 0.701	0.789	0.875
GX1	0.821			
GX2	0.835			
GX3	0.855			
Leader-Member Exchange		AVE= 0.551	0.898	0.917
LMX1	0.706			
LMX2	0.817			
LMX3	0.702			
LMX4	0.722			
LMX5	0.723			
LMX6	0.717			
LMX7	0.766			
LMX8	0.766			
LMX9	0.754			
Confucianism		AVE= 0.605	0.781	0.859
CVS1	0.709			
CVS2	0.822			
CVS3	0.852			
CVS4	0.718			
Organisational Ethical Climate		AVE= 0.547	0.847	0.878
OEC1	0.704			
OEC2	0.715			
OEC3	0.723			
OEC4	0.777			
OEC5	0.741			
OEC6	0.773			

Hypothesis 1 concerns the impact of Confucianism on *Guanxi* and it is supported by the results in Table 4, showing that Confucianism has a significantly positive influence on *Guanxi* ($t = 4.316 > 1.96$; $p = 0.000 < 0.01$). Hypothesis 2 concerns the impact of the Organisational Ethical Climate on *Guanxi* and it is supported by the results in Table 4, showing that the Organisational Ethical Climate has a significantly positive influence on *Guanxi* ($t = 4.186 > 1.96$; $p = 0.000 < 0.01$). Hypothesis 3 concerns the impact of *Guanxi* on the Leader-Member Exchange and it is supported by the results in Table 4, showing that *Guanxi* has a significantly positive influence on the Leader-Member Exchange ($t = 6.302 > 1.96$; $p = 0.000 < 0.01$).

Table 4. T-Statistics

Hypotheses		t Values	p Values
Confucianism → <i>Guanxi</i>	H1	4.316	0.000
Organisational Ethical Climate → <i>Guanxi</i>	H2	4.186	0.000
<i>Guanxi</i> → Leader-Member Exchange	H3	6.302	0.000

3.2. Discussion

In this study, it was found that Confucianism had a significant effect on *guanxi*, where it taught us that humans should help each other as we cannot live alone. With this rooted advice, *guanxi* becomes a mindset of concept or habit for the Chinese community in order to continue cooperation. In accordance with previous studies, this study found that Confucianism has a significant as well as positive effect on *guanxi* (Alston 1989). Lin (2011) proved that Confucian principles strongly influence *guanxi*, where the ethics in Confucianism teaches humans to pay respect to parents as well as their ancestors.

According to Cheng (2011), *Guanxi* is a Chinese extract that becomes the foundation for relations, whether they are family, friends or an unknown, as well as the dependency between interacting people. According to Ahmed *et al.* (2014), business managers should partake in mutual trust and reciprocal behavior to enhance the value of *guanxi*. In the process of mutual adjustment, they should also turn their management thinking of personal logic into artistic management activities through reciprocally long-term exchanges of benefits. The basic concept is to view the *guanxi* network as a positive method of management for operating the business where it involves similar ideas of “network” and “partnership” by establishing and maintaining the *guanxi* network. On the other hand, the phenomenon of using networks of *guanxi* in Confucian society or any other areas as a means of competition is not confined and will not disappear as the management systems change in the business environment (Lin 2011).

According to Lin (2011), the company must have a long-term vision as well as establish a long-term partnership of trust and reciprocity with their business partners, where niches for surviving can be created in the highly competitive environment. However, a partnership is not established and developed immediately. There will be no ambiguity for the business development in the use of the *guanxi* system.

The study also discovered that the organisational ethical climate has a significant and positive effect on *guanxi*. *Guanxi* is classified into three types: instrumental ties, expressive ties, and mixed tie (Lin 2011). Instrumental ties refer to a relationship that is temporary and unstable as a result of equity norms and is based on contributions, such as the transaction between team members or partners. Expressive ties refer to a stable and permanent relationship on the basis of egalitarian norms, such as family members and relatives. Lastly, mixed tie *guanxi* is a mix of instrumental ties and expressive ties, such as fellows or friends. This means that mixed tie *guanxi* is operated by reciprocity of favors, such as mutual favors.

Interpersonal *guanxi* is a type of mutual reciprocity, where *mianzi* and favors are emphasised. Furthermore, it was found that the phenomenon of reciprocity and *mianzi* by Chinese companies are closely related to Confucian value and culture. It explains the reasons why *mianzi* and reciprocity are mainly important to the Chinese family business. This emphasises the importance of authority, morality, and benevolence (Lin 2011).

The existence of the organisational ethics climate is necessary because *guanxi* usually tends to prefer one ethnic group over other. On the other hand, the function of *guanxi* could still continue as it should without discrimination. In accordance with a previous study conducted by Victor and Cullen (1987), the results of this study showed that there is significant and positive effect of the organisational ethical climate on *guanxi*. Furthermore,

Lin (2011) stated that there is a significant influence of the organisational ethical climate on *guanxi*. The organisational ethical climate refers to both perception, as well as acceptance, of people against the procedures and practices of the company. As a result of the ethics culture of the company, behaviours of individuals may change in order to achieve good performance.

This study found that *guanxi* has a positive and significant effect on the leader-member exchange. Another study by Cogliser *et al.* (2009) also discovered that *guanxi* has a significant and positive effect on the leader-member exchange. In the Chinese community, the best way to build an effective and sustainable relationship between the leader and local employees is dependent on the similarities of the two approaches. Basic principles of ethical and moral conduct must be followed by Chinese managers in all places and at all times. Managers are perceived as honest and credible models by their Chinese employees when the manager's behavior, deeds, and words at all organisational levels are in line with common organisational values and norms. As a result, it can promote the development of high quality leader-member exchange relationships (Nie and Lamsa 2015).

In *guanxi*, the emotional attachment between the manager and employees is regarded as morally and socially appropriate. Therefore, it is crucial for the manager to be willing and able to show personal care towards the employees. On the other hand, the communication style of the manager is a key factor to maintain face. Public image of the managers and employees in their mutual relationship is a very important moral norm in *guanxi* (Tsang 1998). This requires the manager and employees to be sensitive in order to understand the role of shame in the maintenance of a good image (Zhong 2007). If either the manager or employee loses face, there will be deterioration in the quality of the leader-member relationship (Nie and Lamsa 2015).

The role of communication style is neither taken seriously nor articulated very clearly in this theory, although effective information as well as communication between the employees and manager is stressed in the LMX theory. However, the need to consider the moral and social context of the communication behavior is not mentioned at all (Chen and Tjosvold 2007, Nie and Lamsa 2015). Furthermore, the role of emotions is not deeply conceptualised and embedded in the theory, although the LMX theory involves both the elements of transformational, as well as transactional, emotions (Ladkin 2010, Nie and Lamsa 2015).

As a result of *guanxi*, cooperation is based on mutual trust in the reciprocal relationship between Chinese subordinates and Chinese superiors. In cases of high *guanxi*, a relationship known as symbiotic mutualism develops. For example, the Chinese subordinates will give a positive response and make use of their abilities to perform their duties effectively. In addition, they will not hesitate to promote their manager or supervisor if they are a credible and fair person, and provide the right direction and support to their subordinates.

In accordance with a previous study done by Judge and Piccolo (2004), the results of this study showed that *guanxi* has a significant and positive affect to the leader-member exchange (LMX). The theory of LMX and *guanxi* highlights the importance of the relationship quality between the managers and subordinates. Ferris *et al.* (2009) stated that *guanxi* has a significant influence on the theory of LMX where reciprocal interactions can gradually have developed into a relationship between leaders and subordinates.

Conclusion and limitations

This study serves as an aid for non-Chinese managers in Southeast Asia and also helps to reflect on how to integrate the best known relational LMX theory into the Chinese context. *Guanxi* is a very important thing in a relationship between the Chinese supervisors/managers and Chinese employees. The Chinese supervisors/managers should keep *guanxi* with their employees, because a good relationship can be long-lasting, where the position of supervisors/managers is influenced by the support from their employees. On the contrary, not only is *guanxi* beneficial for the supervisors/managers, it is also a very important for Chinese employees in relationships with their Chinese supervisors/managers, because the employees' working situations are also influenced by the relationships with their supervisors/managers.

On the other hand, it is one of the most important factors for the relationship between the business ethical climate and family leadership. The ethics that are adopted by members of the company, especially among the same ethnicity, must be maintained, because it would affect the company's reputation. Therefore, the organisational

ethical climate needs to be applied by making the company's rules and procedures, which must be followed by all the members of the company, in accordance with the legal standards and without seeing the differences of ethnicity.

This research has some limitations. First of all, the respondents of this study were employees with at least one-year of working experience from companies located only in Jakarta. However, due to the limitations of manpower and time constraint, this study adopted a convenient sampling plan. Furthermore, other possible directions that could establish the concept of *guanxi* are suggested to be added as a comprehensive concept for the *guanxi* framework.

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