# DO US ALL A FAVOR: EXAMINING THE THEORETICAL ESSENTIALS OF EFFECTIVE *GUANXI* IN CHINA

Ronald K. Mitchell
Jointly Appointed Assoc. Professor,
Winspear Chair in Public Policy
Faculty of Business
The University of Victoria<sup>1</sup>, and
Strategy and Public Policy Dept.
Guanghua School of Management
Peking University, Beijing, PRC

M. Joseph Sirgy
Professor of Marketing
Virginia Tech
2025 Pamplin
Blacksburg, VA 24061
Tel.: 540-231-5110
Email: sirgy@vt.edu

Chenting Su
Assistant Professor
Faculty of Business
The University of Victoria
Victoria, BC V8W 2Y2
Tel.: 250-721-6407
E-mail: csu@business.uvic.ca

Victoria, BC V8W 2Y2 Tel.: 250-721-6403 E-mail: mitch@business.uvic.ca

Keywords: Guanxi management, stakeholder identification, resources in China

## **Abstract**

Guanxi (literally interpersonal connections) in essence is a network of resource coalitions staked on shared resources for survival. The goal of this paper is to better enable Western business firms in China to identify the right guanxi partners. In this paper we examine the theoretical essentials of effective guanxi in China: What guanxi is necessary, and what guanxi is salient? These principles are described in terms several testable propositions that can guide future research, and the development of managerial thinking on this topic.

#### Introduction

In China, favor seeking that results in effective interpersonal connections is known as *guanxi*. Unfortunately, rent-seeking for this same purpose has given *guanxi* a bad name, relating it to corruption (Su and Littlefield, 2001). Our task in this paper is to adopt a constructive view of *guanxi*, this complex social phenomenon that controls so much of access to resources in China, in an effort to connect this fundamental phenomenon—the building of effective networks in Chinese society—to organization science, and to thereby enable Western business firms in China to identify right *guanxi* partners. We seek to identify the theoretical essentials of effective *guanxi*, and use stakeholder and organization theory to propose theoretical relationships that can aid scholars and practitioners to better manage it.

An old Chinese saying concerning business success emphasizes "*Tian-shi*, *Di-li*, *Ren-he*" (literally, right timing, right place, and right people). In a collectivistic culture, "right people" rests in the core of this three-dimensional sentiment of commerce, as reflected in another old Chinese saying, "who you know is more important than what you know." *Guanxi* or "who you know" is a network of "right people" who exchange "favors" to ensure success for every party involved. In this sense, many believe that *guanxi* is very important in China (cf. Davies et al., 1995; Fox, 1987; Chu and Ju, 1993, Pye, 1992). As McLnnes (1992) states, *guanxi* is the

<sup>&</sup>lt;sup>1</sup> Francis G. Winspear Chair in Public Policy and Business

lifeblood of the Chinese business community, extending into politics and society: with *guanxi*, anything is possible.

However, *guanxi* as perceived by Westerners appears difficult to work with because identifying a network of "right people" is culturally difficult for foreigners, especially Westerners (Yeung and Tung, 1996). Also, *guanxi* is costly to maintain because *guanxi* is predicated on reciprocity, involving some unavoidable obligations (Chen, 1994). As Ambler (1994) notes, "(t)he obligations of *guanxi* are very real: in the wrong place, at an inappropriate time, with unsuitable people, the obligations can become a trap which is hard to escape." Thus, given the *guanxi* imperative in doing business in China, two important questions are how to identify the *right guanxi* and how to manage a network of right *guanxi*.

The model of *guanxi* developed in this paper is built on Mitchell et al.'s (1997) stakeholder theory, and Anderson's (1982) constituency theory of the firm to identify "Who and What Really Counts" (Freeman, 1994), and to help to make qualitative managerial distinctions among those who do count. Drawing upon resource dependence theory, Anderson (1982) advances the constituency theory of the firm to identify external coalitions that provide resources for firm survival. *Guanxi* in Chinese business communities is in essence a coalitional relationship based on resource exchange.

## Guanxi: Access to Resources and Survival

What is really meant by *guanxi* in China? Is *guanxi* advantageous or disadvantageous? And, are all *guanxi* relationships necessary in doing business in China? Among a wealth of studies of *guanxi*, there appear two major misconceptions of *guanxi* and its development. First, *guanxi* is necessary due to the lack of coherent business laws and strong governmental control over limited resources (Nee, 1992; Xin and Pearce, 1996). Therefore, *guanxi* is conceived as a substitute to formal institutional support. This conception of *guanxi* implies that as the Chinese legal environment evolves *guanxi* will become less important and doing business in China will become impersonal. However, the impersonal nature of laws and regulations cannot glue together the interpersonal aspects involved in markets and marketing—those aspects that facilitate the development of friendship which is the foundation for trust and commitment and therefore relationship marketing (Abramson and Ai, 2000).

Our experience and earlier work within the literature suggests that *guanxi* is culturally rooted, not merely a reflection of an immature stage of business and economic development. *Guanxi* is grounded in Chinese people's behavioral patterns, their code of ethical conduct, and business activities (Hwang, 1987). Thus, in a collectivistic society such as China, business activities are likely to remain interpersonal and cooperative. Further, the development of the legal and regulatory institutions in China is likely to enhance the legitimacy of *guanxi*, rather than diminish its significance (Yeung and Tung, 1996). Thus, it is likely that as a stable phenomenon in China:

Proposition 1: Access to resources and firm survival are associated with the level of effective guanxi.

The foregoing proposition as it applies to this paper is illustrated in Figure 1.

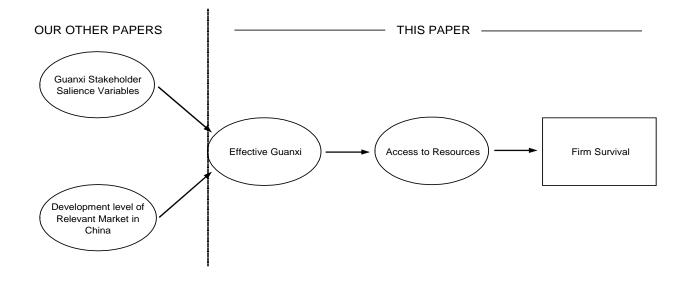


Figure 1: A Model

# Guanxi and Bribery

Some business scholars have equated *guanxi* with gift-giving, corruption and bribery (Koo and Obst, 1995; Lovett et al., 1999; Smeltzer and Jennings, 1998; Steidlmeier, 1999; Yao, 1999). Therefore, *guanxi* is problematic from an ethical point of view. For example, Steidlmeier (1999) stated that "from an ethical perspective, it is very difficult to know when it is proper to give or receive a gift, what sort of gift is appropriate, or what social obligations gift giving imposes" (p.121). This is perhaps a misconception of *guanxi* because these authors have failed to understand the cultural norm of reciprocity in a Chinese society. Interpersonal association in China is prescribed by two sets of ethical codes of conduct: code of brotherhood (*yi*) and code of reciprocity (*bao*). As Confucius (551-478 B.C.) teaches, "All people from our country are brothers." Chinese people deem it a moral act to help others with no strings attached. However, people receiving assistance must consciously reciprocate to avoid feeling guilty and losing face. Therefore, gift-giving in China allows people to express their appreciation for the assistance received. To the party who provides assistance, the gift signifies appreciation; to the party who receives the assistance, the gift is an expression of reciprocity. Therefore, the gift-giving is a typical way of culturally developing *guanxi*, that is, respect, friendship, and trust.

Su and Littlefield (2001) distinguished between two types of *guanxi* to address the ethical issue of *guanxi*: favor-seeking *guanxi* versus rent-seeking *guanxi*. Favor-seeking *guanxi* is culturally rooted signifying social contacts and interpersonal exchange of resources in a collectivistic society. Therefore, gift-giving is viewed as conducive to starting a *guanxi* relationship, and reciprocity plays a key role in maintaining *guanxi* (Brunner et al., 1989; Smart, 1993; Tsang, 1998). In contrast, rent-seeking *guanxi* reflects on institutional norms signifying social collusion based on power exchange in a hybrid Chinese socialist market economy. This type of *guanxi* began to flourish along with China's economic reform and open-door policy in the late 1970s (Gold, 1985; Seligman, 1999; Snell and Tseng, 2001) when resources were first allowed to flow through markets. Officials who controlled the state-owned resources exchanged these public resources for personal benefits (rents). Su and Littlefield maintained that the rent-seeking *guanxi* is unethical because it rests on collusion in which the rent-seekers are tied up by bribery to share

the rent (Boisot and Child, 1996). In today's China, rent-seeking *guanxi* has grown rampant and overshadowed favor-seeking *guanxi*. Fortunately, the Chinese themselves are well aware of the ethical impropriety of rent-seeking *guanxi* (Steidlmeier, 1999). Favor-seeking *guanxi* represents a long-standing Chinese tradition of cooperation in social life and business activities (Song et al., 1991). Specifically, traditional *guanxi* is viewed as an accepted way of securing the basic means of living, and in business, the basic resources for organizational survival.

Guanxi in business is therefore viewed as a coalitional relationship based on resource exchange among various Chinese partners. This coalition of resources has three salient characteristics. The first characteristic is a long-term cooperative business relationship. Guanxi implies interdependence based on common interests or stakes. The Chinese people believe that everything has two sides (yin/yang), that is, life alternates between advantageous and disadvantageous situations. Thus, social interdependence is like a "stock" that can be put away in times of abundance and plenty and used in times of need and necessity (Yeung and Tung, 1996).

Many empirical studies have shown that *guanxi* is a key factor in long-term business success in China (Lee et al., 2001; Luo, 1997; Pearce and Robinson, 2001; Yeung and Tung, 1996). A pivotal issue in doing business in China is to secure scarce resources such as markets, information, land, raw materials, electricity, and trained labor (Davies et al., 1995). Western multinational companies (MNCs) have no competitive advantages over these production factors. *Guanxi* with local partners is an effective way to share these scarce resources. Thus, developing and maintaining a long-term resource coalition requires building long-term friendships and trust (Perarce and Robinson, 2001).

The second characteristic of *guanxi* as a coalition of resources is a network of cooperative business relationships. *Guanxi* is an extensive web of personal connections (Kao, 1993). This web is dynamic with permeable borders where *guanxi* can be established or discontinued. This networking nature of *guanxi* is based on an old Chinese saying that when everybody adds fuel flames rise high. Given the scarcity of resources and uncertainty in life, Chinese people believe that the security of resources for survival should be consolidated by means of a large web of *renqing* (exchange of favors) and *mianzi* (saved face for help when in need).

To successfully enter China's markets amounts to entering a huge network of *guanxi*. This raises an issue as to how to enter *guanxi* and which *guanxi* to enter. Su and Littlefield (2001) suggest entering *guanxi* by way of friendship through native Chinese intermediaries. Given that most Westerners are strangers to potential Chinese customers or partners by blood or local association (Yeung and Tung, 1996), the first step for them to enter *guanxi* is to make a friend. This may require not only the exchange of resources such as contributing capital and technologies, but also the demonstration of affection to "personalize" commitment of resources. That is, an impression of empathy and altruism to potential Chinese customers or partners is likely to be an effective strategy to enter *guanxi* (Su and Littlefield, 2001).

The third characteristic of *guanxi* as a coalition of resources is a hierarchy of cooperative business relationships. Chinese society itself represents a hierarchy of social relationships: ruler-subject, father-son, husband-wife, brother-brother, and friend-friend. The rules that guide successful *guanxi* are that the humble cannot assail the noble, the distant cannot overrun the closer, and the individual cannot override the group (Yueng and Tung, 1996). Different *guanxi* 

partners can contribute varying amounts of resources, and they become more or less important as a direct function of the resources they contribute. Not all *guanxi* relationships are necessary and not all necessary *guanxi* relationships are equally important. In today's China, those in power and authority possess most of social recourses and thus can provide most assistance to those in need (Davies et al., 1995; Luo, 1997; Pearce and Robinson, 2001). For those *guanxi* partners who are distant or less familiar, they may be less affectionately attached to the *guanxi* relationship and thus are less motivated to contribute their resources in a timely fashion. Finally, given a network of *guanxi* relationships, individual *guanxi* partners contribute fewer resources than the *guanxi* group as a whole. Thus, it is unwise to sacrifice the whole *guanxi* web for a single *guanxi* partner, even though it is important.

Thus,

Proposition 2a: The quality of guanxi as evidenced by the level of long-term mutual benefits, friendships, and trust is positively associated with long-term access to resources and organizational survival.

Proposition 2b: The quality of guanxi as evidenced by the level of bribery is positively associated with short-term access to resources and organizational survival.

# The Power Dependence Relationship

Guanxi in China represents a long-term coalitional relationship among guanxi partners to deal with resource scarcity and environmental uncertainty. Guanxi relationships are developed and maintained because all guanxi partners share a common goal to which they are willing to contribute resources. In other words, guanxi partners are stakeholders (Tsang, 1998) influencing the consumption of scarce resources for business success. Resource exchange through a coalition serves to achieve the common stakes. Accordingly, we expect:

Proposition 3: The level of effective guanxi will be associated with the level of commonality of purpose among guanxi stakeholders.

In the following section, we develop a stakeholder model of *guanxi* to identify the elements that contribute to an effective network of *guanxi*. That is, what *guanxi* relationships are necessary and among those necessary *guanxi* relationships, which are more important to ensure business success in China.

## A Stakeholder Model of Guanxi

A key issue in stakeholder theory is to identify the right stakeholders, that is, "Who and What Really Counts" (Freeman, 1994). In general, there have been two perspectives for identifying stakeholders: narrow view of stakeholders and broad view of stakeholders (Mitchell et al., 1997). The narrow view of stakeholders tends to identify those groups that can *directly* affect or be affected by the achievements of the firm's objectives (cf. Bowie, 1988; Donaldson and Preston, 1995). In contrast, the broad view of stakeholders attempts to include all the groups and/or individuals "who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p.46). Given the networking and hierarchical nature of *guanxi* and its development, we adopt the broad view of stakeholders in our model to identify necessary *guanxi* 

coalitions in China. In addition to Mitchell et al.'s (1997) stakeholder theory, our model uses aspects of Anderson's (1982) constituency theory of the firm. This is because the theory describes how resource coalitions are formed and managed in relation to the firm's goal hierarchy. We will briefly describe these two models to help readers better understand our model of *guanxi*.

# Mitchell et al.'s Stakeholder Theory

As noted by many, the broad view of stakeholders poses a bewildering complexity for managers to sort out the various stakeholders in terms of their varying importance for the firm's continued survival. Mitchell et al. (1997) drawing upon the various theories of the firm have developed a theoretical framework of stakeholder identification and salience. This framework is based on three relationship attributes of stakeholders: power, legitimacy, and urgency. Power refers to the ability of stakeholders to influence the firm's survival based on their possession of resources. A stakeholder can exert power using three types of resources: (1) physical resources of force, violence, or restraints, (2) material or financial resources, and (3) symbolic resources (Etzioni, 1964). Therefore, power may reflect the level of importance of a given stakeholder group. Legitimacy is a desirable social good, perceived and accepted by various environmental entities (Suchman, 1995). Urgency refers to the degree to which stakeholder claims matter (are critical) and need immediate attention (Mitchell et al., 1997). Urgency exists when a relationship or claim is time-sensitive and important to the stakeholder.

Mitchell, et al. argue that power, legitimacy, and urgency should be combined to identify a salient stakeholder-manager relationship. Discussion of our model begins with the power and urgency dimensions. This is because *guanxi* in China in essence is a resource coalition among various *guanxi* partners in which power is exerted through the use of physical, material, and symbolic resources on a case-by-case basis as members of the *guanxi* coalition confront urgent problems. Anderson's (1982) behavioral and resource dependence theory-based constituency theory of the firm is thus useful in the conceptualization of the power and urgency dimensions of *guanxi* management in China.

## **Anderson's Constituency Theory of the Firm**

Anderson (1982) puts forth a constituency theory of the firm by drawing upon the behavioral model of the firm (Cyert and March, 1963; Simon, 1964) and the resource dependence model of the firm (Pfeffer and Salancik, 1978). The gist of this theory is that a business firm is viewed as a coalition of resources or interests, internal and external alike, and that the firm's survival is dependent on the security of the needed resources from the external coalitions through the efforts of the internal coalitions. Here, the survival of the firm is the ultimate goal and the performance of the firm is evaluated as to whether the firm can survive by securing the environmental resources on a timely basis. The firm is viewed as "structures of coordinated behaviors" (Pfeffer and Slancik, 1978, p.32) negotiating resources from external coalitions. This requires specialization of its internal coalitions such as the various functional areas of the firm. For example, industrial relations and personnel specialize in securing resources as needed from labor coalitions; finance and accounting specialize in negotiating with stockholders and creditor groups; material management and purchasing specialize in supplier group exchanges; marketing specialize in negotiating customer groups. In addition, public relations, legal, tax and accounting

specialize in negotiating the continued supports and sanction of both government and public coalitions (Anderson, 1982, p.21).

According to their power/capability to influence the firm performance within the demands of urgency, stakeholders of the firm can—as argued by Mitchell, et al, 1997—be classified as "dormant," "dangerous," or "demanding." Clearly the addition of legitimacy to the model of *guanxi* will help us to identify which *guanxi* is necessary and which *guanxi* is relatively more important/ salient.

## A Stakeholder Model of Guanxi

The goal of our model of *guanxi* is similar to the identification and salience objectives addressed by Mitchell, et al. (1997): to identify all the necessary *guanxi* relationships for doing business in China and distinguish among these urgent, power-based *guanxi* relationships in terms of their other attribute: legitimacy. In our analysis, legitimacy is the pivotal variable in the *guanxi* case because, as noted in the prior propositions, effective *guanxi* is thought to depend upon the quality of the human relationship. Table 1 summarizes the literature which suggests that effective *guanxi* is legitimized through a trust-commitment relationship. Thus, legitimacy in the *guanxi* case might be conceptualized as a special, narrower case than Suchman's (1995) definition of legitimacy used by Mitchell et. al., 1997: "... a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (1995: 574), that we might describe as reciprocity-based legitimacy.

# TABLE 1 Legitimate *guanxi* as a trust-commitment relationship:

Davies et al., 1995:210—guanxi exchanges "need to be handled with sensitivity as Western businessmen are in danger of overemphasizing the gift-giving and wining-and dining components of a guanxi relationship, thereby coming dangerously close to crass bribery or to being perceived as 'meat and wine friends,' which is a Chinese metaphor for mistrust."

Yeung and Tung, 1996: 63—"five fundamental dimensions of *guanxi*: instrumentalism, personal relationships, trust, reciprocity, and longevity."

Luo, 1997: 53—"people who share a *guanxi* relationship are committed to one another by an unspoken code of reciprocity and equity."

Ang and Leong, 2000: 4—"a *guanxi* has overtones of unlimited exchange of resources, where both parties are committed to each other on a long-term basis by an unspoken code of reciprocity."

Pearce II and Robinson Jr., 2000: 35—"guanxi is the basis on which they exchange a lifetime of favors, resources, and business leverage."

We glean from the research summarized within the table, the idea that legitimacy within the *guanxi* domain is personal-relationship based. Thus, an application of the MAW (1997) stakeholder identification model would suggest two very specific implications of a stakeholder model of *guanxi*. First, that without a commitment to personal relationships—that are often more of an "optional" element in the less personal Western business setting—that "definitive" stakeholder salience within *guanxi* relationships is likely to remain elusive. This suggests that

corporate attempts to effect *guanxi*-based policies must be prepared to invest within their own human resource management policies the flexibility necessary for long-term personal relationships to persist despite, for example, transfers and corporate reorganizations. Accordingly, it is expected that:

Proposition 4: Access to resources and firm survival are associated with the level of long-term personal investment by a member of the guanxi network.

Second, that "definitive" stakeholder status, may consist of a much more long-term form of stakeholder salience than originally conceptualized by Mitchell, et al, (1997). In their discussion of the dynamic nature of their model, it appears to have been assumed that while legitimacy itself would have longevity, that this longevity would be socially constructed (Suchman, 1995) and therefore be subject to the vagaries of ever-changing levels of desirability, propriety, or appropriateness of a stakeholder claim. In this respect, the *guanxi* relationship assumes constants v. variables: (1) that the "constituency" will always be power-dependent, and urgent at a moment's notice, and (2) that legitimate participants within the *guanxi* network will **permanently** commit to respond when called upon, otherwise legitimacy—reciprocity based—would fail, thus relegating the affected member of the *guanxi* network to dismissive status: "dormant," "dangerous," or "demanding," in short, unworthy of further inclusion within the network. We thus suggest:

Proposition 5: Access to resources and firm survival are associated with the level of long-term reciprocity by a member of the guanxi network.

## Conclusion

"China is a land of *guanxi*...Nothing can be done without *guanxi*" (Tsang, 1998, p.5). Developing and maintaining a good *guanxi* relationship with local Chinese partners is a key factor to achieve business success in China. However, *guanxi* cultivation is costly and risky (Su and Littlefield, 2001). Not all *guanxi* relationships are necessary and among the necessary *guanxi* relationships, not all are equally important to achieve the firm's objectives. This poses the research question that we have addressed in this paper: what *guanxi* is necessary and what *guanxi* is salient in doing business in China?

As the influence of China becomes ever more present within the global transacting community the management implications of *guanxi* grow in their importance. Yet, there is much misunderstanding of the phenomenon of *guanxi*, and to properly address our topic, it has been necessary to situate our argument within a context that is not burdened by these misunderstandings. In this article we have therefore developed a stakeholder model of *guanxi* to identify a practical approach to researching the question of "Who and What really counts" (Freeman, 1994) in developing possible *guanxi* networks in the Chinese business community.

Guanxi (literally interpersonal connections) refers to a resource coalition among guanxi partners, predicated on the fact that they share common goals. Thus, a network of guanxi relationships represents a network of stakeholders having different types and amounts of resources, and differing levels of criticality and time constraint, thus affecting the firm's survival and growth. Anderson's (1982) constituency theory of the firm has helped us to develop guanxi management principles based on this distinction. Specifically, external coalitions that possess resources

desired by the firm are necessary *guanxi* groups because they can influence the firm directly or indirectly. External coalitions that can contribute more resources to the firm survival have greater power in controlling and influencing the firm's strategic decision making. These coalitions are more important *guanxi* coalitions of the firm than coalitions that contribute fewer resources.

The addition of stakeholder identification and salience theory (Mitchell, et. al., 1997) has helped us to further dimensionalize the analysis. Specifically, the role of reciprocity-based legitimacy has suggested a specialized use of the general MAW '97 model: A stakeholder-based theory of *guanxi*.

This model of *guanxi* helps management enhance its business performance in China. *Guanxi* is legitimate because the reciprocity expectations are culture-rooted, representing a Chinese way of living and doing business in a collectivistic society. *Guanxi* reflects long-term cooperative business relationships, drawing upon a network of resource coalitions while still operating within a hierarchical structure. Therefore, identifying a web of necessary *guanxi* coalitions and developing a method for evaluating the salience of *guanxi* priorities serve as the cornerstone for building effective relationship business strategies in China.

Some implications guiding *guanxi* management are in order. First, Western multinational companies (MNCs) doing business in China should build a *guanxi* salience analysis by drawing upon a resource map. That is, who possess resources that are necessary for firm survival and who possess vital resources that are more important for firm survival in China. This is the foundation for identifying a network of right *guanxi* relationships and distinguishing between important and less important *guanxi* coalitions.

Second, *guanxi* management entails a process of *guanxi* audits (Tsang, 1998). Given a network of *guanxi* relationships that is potentially hierarchical, it is imperative to ensure that the more "definitive" *guanxi* groups are given higher priorities and that the right internal functional departments are attending to them. Further, *guanxi* may become stale and need rejuvenation. It is thus imperative to re-audit those *guanxi* partners' power, urgency, and legitimacy and to understand them at their right level of *guanxi* hierarchy given: (1) power-dependence relationships, (2) reciprocity-performance based legitimacy, and (3) time sensitivity/ criticality-based urgency.

Third, *guanxi* strategies should be dynamic, changing along with business timing and location. When developing a strategy for cultivating *guanxi*, our stakeholder-based approach to *guanxi* suggests that it is imperative to know when, where, and with whom you are doing business. People in need of cooperation are more willing to contribute their resources when they feel the Western capital and technology can result in high efficiency. So the first-movers are more likely to capture Chinese partners goodwill for cooperation (Tsang, 1998). People in less developed markets such as in-land provinces or in collective or privately owned enterprises are more reliant on *guanxi* to do business (Nee, 1992; Xin and Pearce, 1996). Therefore, the firm's business strategies when operating in less developed areas and dealing with collective or privately owned enterprises should be even more *guanxi*-oriented.

Fourth, we stress that in our analysis we have focused on legitimacy as it applies to differentiating between more and less legitimate approaches to the acquisition of *guanxi*. We

have not addressed the normative question of whether or not *guanxi* once acquired, is used in a manner that might be broadly viewed to be legitimate within the global business community v. only within a local normative community such as China itself (Donaldson & Dunfee, 1999). Hence, irrespective of how legitimately *guanxi* is acquired, the legitimate **application** of *guanxi* power bears heavily on how China is perceived internationally (e.g. its rating of only 3.3 out of 10 [57<sup>th</sup> out of 91 rated countries] on <a href="www.transparency.org">www.transparency.org</a> 's Corruptions Perception Index: 1 corrupt, 10 transparent), and ultimately may bear heavily on the limits of the Chinese economy to rival less corrupt economies (e.g. Singapore 9.2 [tied for 4<sup>th</sup>]) in its capacity to produce everhigher GDP per capita.

Our task in this paper has been to adopt a constructive view of *guanxi* in an effort to connect this fundamental phenomenon in Chinese society to organization science. Within the foregoing paragraphs we have identified several theoretical essentials for effective *guanxi*, and have used stakeholder and parts of the research in organization theory to propose theoretical relationships that can aid scholars and practitioners to better manage it. As China's economy is increasingly integrated into the world economic as a new member of the WTO, Western MNCs may face more market opportunities and at the same time experience more cultural challenges in the Chinese market. We are hopeful that our proposed stakeholder model of *guanxi* provides a systematic perspective on *guanxi* management, providing whoever wants to do business in China guidance in the identification of a hierarchy of right people at the right timing and the right place, thus enhancing resource access and business survival/success.

## References

- Abramson, N.R. and J.X. Ai (1999), "Canadian Companies Doing Business in China: Key Success Factors," *Management International Review* 1, 7-35.
- Ambler, Tim (1994), "Marketing's Third Paradigm: *Guanxi*," *Business Strategy Review* 5 (4), 69-81.
- Anderson, Paul F. (1982), "Marketing, Strategic Planning, and the Theory of the Firm," *Journal of Marketing*, 46 (Spring), 15-26.
- Ang, Swee Hoon and Siew Meng Leong (2000), "Out of the Mouth of Babes: Business Ethics and Youths in Asia," *Journal of Business Ethics* 28 (2), 129-144.
- Boisot, M.H. and J. Child (1996), "From Fiefs to Clans and Network Capitalism: Explaining China's Emerging Economic Order," *Administrative Science Quarterly*, 41 (4), 600-628.
- Bowie, N. (1988), "The Moral Obligations of Multinational Corporations," in *Problems of International Justice*, Luper-Foy, S. (ed), Boulder: Westview Press, p. 97-113.
- Brunner, J.A., J. Chan, and N. Zhou (1989), "The Role of Guanxi in Negotiation in the Pacific Basin," *Journal of Global Marketing*, 3(2), 7-23.
- Chen, M. (1994), "Guanxi and the Chinese Art of Network Building," New Asia Review Summer, 40-43.
- China Statistical Year Book, 2000, Beijing: China Statistical Press.
- Chu, G.C and Y. Ju (1993), *The Great Wall in Ruins*, New York: State University of New York Press.

- Cyert. R. M. and J. G. March (1963), *A Behavioral Theory of the Firm*. Englewood Cliffs, NJ: Prentice -Hall.
- Donaldson, T., & Dunfee, T. (1999). <u>Ties that bind: A social contract approach to business ethics</u>. Cambridge, MA: Harvard University Business School Press, 1999.
- Donaldson, T. and L.E. Preston (1995), "The Stakeholder Theory of the Corporation: Concept, Evidence, and Implications," *Academy of Management Review*, 20, 65-91.
- Davies, H., T. K. P. Leung, S. T. K. Luk, and Yiu-hing Wong (1995), "The Benefits of 'Guanxi," *Industrial Marketing Management*, 24, 207-214.
- Etzioni, A. (1964), *Modern Organizations*, Englewood Cliffs, NJ: Prentice Hall.
- Fox, M. (1987), "Marketing/Advertising Research: In China, 'Guanxi' is Everything," *Advertising Age* 58 (47), 12-14.
- Freeman, R. E. (1994), "The Politics of Stakeholder Theory: Some Future Directions," *Business Ethics Quarterly*, 4, 409-421.
- ———— (1984), *Strategic Management: A Stakeholder Approach*. Boston, MA: Pitman Publishers.
- Gold, T.B. (1985), "After Comradeship: Personal Relations in China since the Cultural Revolution," *The China Quarterly* 104, 657-675.
- Hwang, Kwang-kuo (1987), "Face and Favor: The Chinese Power Game," *American Journal of Sociology* (92) 4, 944-74.
- Isobe, T., S. Makino, and D.B. Montgomery (2000), "Resource Commitment, Entry Timing, and market Performance of Foreign Direct Investments in Emerging Economies: The Case of Japanese International Joint Ventures in China," *Academy of Management Journal*, 43 (3), 468-484.
- Kao, J. (1993), "The Worldwide Web of Chinese Business," *Harvard Business Review*, March-April, 24-36.
- Koo, Y.C. and N.P. Obst (1995), "Dual-Track and Mandatory Quato in China's Price Reform," *Comparative Economic Studies* 37 (1), 1-7.
- Lee, Dong-Jin, J.H. Pae, and Y.H.Wong (2001), "A Model of Close Business Relationships in China (Guanxi)," *European Journal of Marketing*, 35, 51-69.
- Lovett, S., L.C. Simmons, and R. Kali (1999), "Guanxi versus the Market: Ethics and Efficiency," *Journal of International Business Studies* 30 (2), 231-248.
- Luo, Yadong (1997), "Guanxi and Performance of Foreign-Invested Enterprises in China: An Empirical Inquiry," Management International Review 37 (1), 51-70.
- McInnes, P. (1992), "Guanxi or Contract: A Way to Understand and Predict Conflict between Chinese and Western Senior Managers in China-Based Joint ventures," paper given at the *Symposium on Multinational Business Management*, sponsored by Nanjing University and Florida Atlantic University.
- Mitchell, R.K. B.R. Agle, and D.J. Wood (1997), "Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts," *The Academy of Management Review*, 22 (4), 853-886.

- Nee, V. (1992), "Organizational Dynamics of Market Transition: Hybrid Firms, Property Rights, and Mixed Economy in China," *Administrative Science Quarterly*, 31,1-27.
- Pearce, J.A. and R.B. Robinson (2000), "Cultivating *Guanxi* as a Foreign Investor Strategy," *Business Horizons*, January-February, 31-18.
- Pfeffer, J. and G. R. Salancik (1978), *The External Control of the Organizations*, New York: Harper and Row.
- Pye, L.W. (1992), Chinese Negotiating Style, New York: Quorum Books.
- Simon, H. A. (1964), "On the Concept of Organizational Goals," *Administrative Science Quarterly*, 9 (June) 1-22.
- Smart, A. (1993), "Gifts, Bribes, and Guanxi: A Reconsideration of Bourdieu's Social Capital," *Cultural Anthropology*, 8 (3), 388-408.
- Smeltzer, L.R. and M.M. Jennings (1998), "Why an International Code of Business Ethics Would Be Good for Business," *Journal of Business Ethics* 17 (1), 57-66.
- Snell, R.S. and Choo-Sin Tseng (2001), Ethical Dilemmas of Relationship Building in China," *Thunderbird International Business Review*, 43 (2), 171-200.
- Song, Z.F., J.Z. Zhao, and D.Y. Pei (1991), *Confucianism in Modern China*, Zheng Zhou: Zheng Zhou Ancient Books Press (in Chinese).
- Steidlmeier, P. (1999), "Gift-Giving, Bribery, and Corruption: Ethical Management of Business Relationships in China," *Journal of Business Ethics* (20) 2, 121-132.
- Su, Chenting and J.E. Littlefield (2001), "Entering Guanxi: A Business Ethical Dilemma in Mainland China?" *Journal of Business Ethics*, 32, 1-12.
- Suchman, M.C. (1995), "Managing Legitimacy: Strategic and Institutional Approaches," *Academy of Management Review*, 20, 571-610.
- Tsang, E. (1998), "Can Guanxi Be a Source of Sustained Competitive Advantage for Doing Business in China?" *Academy of Management Executive* 12 (2), 64-73.
- Xin, K.R. and J.L. Pearce (1996), "Guanxi: Connections as Substitutes for Formal Institutional Support," *Academy of Management Journal*, 39 (6), 1641-1658.
- Yao, S. (1999), "Economic Growth, Income Inequality and Poverty in China under Economic Reform," *The Journal of Development Studies* (35) 6, 104-130.
- Yeung, I.Y.M. and R.L. Tung (1996), "Achieving Business Success in Confucian Societies: The Importance of *Guanxi* (Connections)," *Organizational Dynamics*, (25) 2, 54-65.

# Acknowledgements

We wish to thank the reviewers and those who attended the presentation session, for their helpful comments on this paper. We would also like to thank our families and colleagues for their inspiration and support. We further acknowledge the research support of Fritz Faulhaber, The Francis G. Winspear Endowment, and Charmaine Stack of the International Centre for Venture Expertise at the University of Victoria.