Enabling *Guanxi* Management in China: A Hierarchical Stakeholder Model of Effective *Guanxi*

Chenting Su[1]
Associate Professor of Marketing
City University of Hong Kong

Ronald K Mitchell
Professor of Management
Texas Tech University

M. Joseph Sirgy
Professor of Marketing
Virginia Tech University

(The three authors contributed equally to this paper)

As accepted June 2006
for publication in:

Journal of Business Ethics

[1] Contact information: Chenting Su, Department of Marketing, Faculty of Business, City University of Hong Kong, Kowloon, Hong Kong. Tel.: (852) 2784 4951; Email: mkctsu@cityu.edu.hk

Enabling *Guanxi* Management in China: A Hierarchical Stakeholder Model of *Guanxi*

ABSTRACT

Guanxi (literally interpersonal connections) is in essence a network of resource coalition-based stakeholders sharing resources for survival, and it plays a key role in achieving business success in China. However the salience of *guanxi* stakeholders varies: not all *guanxi* relationships are necessary, and among the necessary *guanxi* participants, not all are equally important. A hierarchical stakeholder model of *guanxi* is developed drawing upon Mitchell et al.'s (1997) stakeholder salience theory and Anderson's (1982) constituency theory. As an application of instrumental stakeholder theory, the model dimensionalizes the notion of stakeholder salience, and distinguishes between and among internal and external *guanxi*, core, major, and peripheral *guanxi*, and primary and secondary *guanxi* stakeholders. *Guanxi* management principles are developed based on a hierarchy of *guanxi* priorities and management specializations. The goal of this application of instrumental stakeholder theory is to construct, for Western business firms in China, a means to reliably identify *guanxi* partners by employing the principles of effective *guanxi*. These principles are described in the form of testable propositions that advance social scientific research in this area of international business ethics.

Key Words: China, Guanxi, Guanxi Management, Stakeholder Salience

INTRODUCTION

This article adopts a constructive view of *guanxi* to advance a notion of *guanxi* management for organizations doing business in China. In doing so, we build upon a steadily accumulating stream of literature in this journal, which, beginning a little under a decade ago, has systematically assembled the foundation concepts that are now available to support development of a conceptual and research framework that (1) better enables *guanxi* management in China, and (2) suggests a model for effective *guanxi*. In addressing these objectives, we aim to tackle two questions that have not been examined in *guanxi* research: What *guanxi* is *necessary* for enhancing business performance in China? And among the necessary *guanxi* relationships, which are more *important*? Some researchers believe that an effective *guanxi* relationship can reduce the transaction costs of information search, relationship monitoring, and contract enforcement (cf. Wong and Leung, 2001). However, *guanxi* as perceived by Westerners appears costly to work with because *guanxi* is predicated on reciprocity, which involves 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." Furthermore, some researchers argue that such *guanxi* relationships may also provoke ethical concerns about bribery or corruption in a transitional China market (Fan, 2002).

We argue in this article that effective *guanxi* works as a relationship-based cultural mechanism that draws on Chinese cultural *ethics* of cooperation (e.g., mutual assistance), gathers necessary resources for business performance and better enables the survival of firms. Thus, *guanxi* management is predicated on identifying and cultivating a network of "right people" who help do business in China. We aim to develop a hierarchical stakeholder model of *guanxi* to propose that not all *guanxi* is necessary for doing business in China; and among the necessary *guanxi* relationships, not all are equally important. The constructive view of *guanxi* suggested by our model flows from our review of the literature, which also suggests that *guanxi* and bribery are not equivalent.

This model of *guanxi* is built on stakeholder salience theory (Mitchell, Agle, and Wood, 1997) and constituency theory (Anderson, 1982) to identify "Who and What Really Counts" (Freeman, 1994)—and among those who count, who counts more. Mitchell et al. (1997) suggest that the stakeholder attributes: power, legitimacy and urgency, will both identify stakeholders and facilitate assessments of their salience. Similarly, Anderson (1982) distinguishes between internal and external coalitions of a firm and suggests that firm survival is predicated on the negotiation of resources from various external coalitions through the efforts of the firm's internal coalitions. In this article, we draw upon these two theories to identify and organize hierarchically the *guanxi* partners that, in providing resources for firm survival (thereby possessing power, legitimacy and urgency), become the most salient or definitive stakeholders.

The development of our conceptual model seems to us to be the natural "next step" in *guanxi*-related research in the *Journal of Business Ethics*, because it flows from its "conceptual genealogy." In the late 1990s the phenomenon of *guanxi* attracted the attention of business ethics researchers due to the emergence of the global marketplace, and China's place therein.

- In1998 the point of departure was from cross-cultural research, and there was a suggestion made of guidelines for ethical business conduct across cultures (Smeltzer and Jennings, 1998).
- By 1999 analysis had begun to focus on the ethical pragmatics (given prevalent corruption in China) of choosing local partners, and of negotiating with same (Steidlmeier, 1999);

- *JBE* publication in the year 2001 saw the beginnings of distinction-drawing between favor seeking and rent seeking *guanxi* (Su and Littlefield, 2001) to organize somewhat the many forms of *guanxi* only some of which are related to corruption and bribery (Dunfee and Warren, 2001).
- Then in 2002, the literature began assessing consequences (highlighting the likelihood that costs of *guanxi* exceed benefits, and calling for the study of *guanxi* within the context of all stakeholders) (Fan, 2002) and identifying within three groups (unethical profit seekers [UPS], anti-governance *guanxi* cultivators, and apathetic executives) those most likely to be UPS: young executive working in privately-held firms (Chan, Cheng and Szeto, 2002).
- In 2003 one troubling alternative explanation (*guanxi* is not as much cultural as it is related to cognitive moral development) was removed (Su, Sirgy, and Littlefield, 2003).
- And a study in 2004 explored context as a *guanxi* mediator, finding both plusses and minuses, depending upon context (Warren, Dunfee, and Li, 2004).
- Then, in 2005, the illicit payment/ gift-giving link was confirmed and published in *JBE*, resurfacing the need to distinguish bribery from *guanxi*, and especially to identify a theoretical structure to conceptualize effective *guanxi* (Milllington, Eberhardt, and Wilkinson, 2005).

Hence, there is now a need for a constructive framework to enable *guanxi* management in China—especially to suggest a model for effective *guanxi*. This paper is written in support of this ongoing investigation, and to provide such a framework with testable propositions.

In the following section, we therefore first define effective *guanxi*, arguing that in Chinese business communities, *guanxi* is in essence a coalitional relationship based on the resource exchanges that are at the core of stakeholder salience. Second, guided by constituency theory (Anderson, 1982), we develop a hierarchical stakeholder model of *guanxi* to identify necessary *guanxi* partners and distinguish between and among important *guanxi* and less important *guanxi* participants, and we introduce eight propositions that flow from the analysis. We conclude: with a brief summary, with some implications of our framework for instrumental stakeholder theory research, and with three key implications for *guanxi* management in practice.

GUANXI: A NETWORK OF COALITIONS

What is really meant by *guanxi* in Chinese business communities? Are all *guanxi* relationships necessary for doing business in China?

Among a wealth of studies of *guanxi*, there appear two major misconceptions of *guanxi* and its development. First, *guanxi* is perceived as temporary due to the transitional nature of Chinese markets in which coherent business laws and strong governmental control over limited resources have been lacking (Nee, 1992; Xin and Pearce, 1996). *Guanxi* is therefore conceived as a substitute to formal institutional support in organizing business transactions. Consequently, some argue that as the Chinese legal environment evolves (e.g., after China's access to WTO) *guanxi* will become less important or lose its legitimacy (Guthrie, 1998). This conception of *guanxi* poses an important question about the way of doing business in China: With the development of the legal and regulatory institutions in China will doing business in China become *impersonal*?

Other researchers have challenged this transitional view and argued that *guanxi* is a cultural imperative in doing business in China (e.g., Ambler, 1994; Hwang, 1987; Lovett, Simmons, and Kali, 1999; Pearce and Robinson, 2000; Tseng, 1998; Yeung and Tung, 1996). Su and Littlefield (2001) distinguished between two types of *guanxi* relationships 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 dependence in a collectivistic society. People pool and exchange their resources (favors) to enhance the probability of survival. In contrast, rent-seeking *guanxi* reflects on institutional norms signifying social collusion based on power exchange in a hybrid Chinese socialist market economy. Rent-seeking *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 state-owned resources exchanged these public resources for personal benefits (rents). Su and Littlefield (2001) maintain that Westerners have to distinguish between these two different types of *guanxi* when doing business in China.

Second, *guanxi* development has been equated with corruption and bribery (Koo and Obst, 1995; Smeltzer and Jennings, 1998; Steidlmeier, 1999; Yao, 1999). *Guanxi* is therefore considered 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: the code of brotherhood (*yi*) and the code of reciprocity (*bao*). Confucius (551-478 B.C.) taught, "All people from our country are brothers." Accordingly, 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. Gift giving is therefore a typical way of culturally developing *guanxi*, that is, respect, friendship, and trust.

Su, Sirgy, and Littlefield (2003) investigate the relationship between *guanxi* orientation and cognitive moral development based on a classification of four types of Chinese enterprises. They find that the level of *guanxi* orientation of Chinese business people has little to do with their ethical reasoning. The authors suggest that it is the confusion of favor-seeking *guanxi* and rent-seeking *guanxi* that leads to the belief that *guanxi* is ripe with ethical abuse in business. *Guanxi* is inherent in Chinese business people's work ethic and can be conceived as a Chinese way of doing business. The purpose of *guanxi* in Chinese business communities is to share scarce resources, which are otherwise not available, through exchange and cooperation (Su et al., 2003).

We therefore conclude that because *guanxi* is rooted in a collectivistic Chinese society it will not lose its *legitimacy* in organizing business resources in China markets. As such, the effect of *guanxi* in Chinese business communities is to invoke coalitions of resources in which business parties pool their resources to enhance business performance. Specifically, *guanxi* coalitions in Chinese business communities have three defining characteristics: long term, networked, and hierarchical.

First, a *guanxi* coalition 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, 2000; 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 (Pearce and Robinson, 2000).

The second characteristic of *guanxi* as a coalition of resources is its composition as 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* coalitions and which *guanxi* coalitions to enter. Su and Littlefield (2001) suggest entering a *guanxi* coalition not through bribery but 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 friends. 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 in its nature as 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 the social resources and thus can provide most assistance to those in need (Davies et al., 1995; Luo, 1997; Pearce and Robinson, 2000). 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.

In summary, effective *guanxi* in Chinese business communities 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 attend to the common stakes. Thus, we introduce the notion that effective *guanxi* is inexorably tied to the resources that ensure firm survival. As summarized in Table 1, effective *guanxi* is defined to be: *a trust-commitment/ power-dependence relationship among firm stakeholders that is dynamic (cumulative, utilitarian, and long-term), yields socioeconomic benefits (positive work morale, group harmony, and enhanced effectiveness), and is substantively distinct from bribery*. Effective *guanxi* produces resource coalitions that can negotiate the external resources necessary for competitive advantage-based survival.

{Insert Table 1 about here}

In the following section, we develop a hierarchical stakeholder model of *guanxi* to permit the analysis of *guanxi* coalitions of varying importance. That is, to answer the question: what *guanxi* relationships are necessary, and among those necessary *guanxi* relationships, which are more important to ensure business success in China?

A HIERARCHICAL STAKEHOLDER MODEL OF *GUANXI*

A key issue in stakeholder theory is to identify the salient 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; Clarkson, 1995; Donaldson and Preston, 1995). In contrast, the broad view of stakeholders attempts to include all the groups and/or individuals "who can affect or are affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). Given the networking and hierarchical nature of *guanxi*, we adopt the broad view of stakeholders in our model to identify *necessary guanxi* coalitions in Chinese business communities. In addition to Mitchell et al.'s (1997) stakeholder salience theory, our model uses aspects of Anderson's (1982) constituency theory, because constituency theory describes how resource coalitions are formed and managed in relation to the firm's goal hierarchy. We will briefly describe these two theoretical models to establish the conceptual foundations for our model of *guanxi*.

Stakeholder Salience Theory

As noted by many, the broad view of stakeholders poses a bewildering complexity for managers who are trying 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 in stakeholder salience theory (Mitchell et al., 1997) is considered (in a sociological v. strictly normative light) to be " . . . 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" (Suchman, 1995: 574). Consequently, legitimacy also reflects the level of importance of a given stakeholder group. Urgency refers to the degree to which stakeholder claims matter 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 stakeholders and assess their level of salience.

Anderson's Constituency Theory

Anderson (1982) suggests a constituency theory of firm survival 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 obtaining the needed resources from the external coalitions through the efforts of the internal coalitions (Table 1). In stakeholder salience parlance, internal coalitions are responsible for the identification of salient stakeholder coalitions—where both internal and external assessments of salience consist of evaluating the power, legitimacy and urgency of such stakeholders relative to firm survival. Here, because the survival of the firm is the ultimate goal, the salience of stakeholders is evaluated as to whether the firm can secure the resources potentially available through the relationship. According to resource-dependence and behavioral theory logics (respectively) the firm is therefore viewed to consist of "structures of coordinated behaviors" (Pfeffer and Slancik, 1978, p. 32) negotiating among multi-salience stakeholders for the resources deemed to be important based on the "aspirations" of coalition-participant stakeholders (Cyert and March, 1963: 27-28).

Such negotiation requires specialization of its internal coalitions represented by the various functional areas of the firm. Internal coalitions are thought to form because functional specialization, (for example, industrial relations and personnel—as functionally invoked internal coalitions—specialize in securing resources from labor coalitions; finance and accounting specialize in negotiating with stockholders and creditor stakeholders; material management and purchasing specialize in supplier group exchanges; marketing specialize in negotiating customer stakeholders) creates common goals, aspirations, and behaviors (Cyert and March, 1963). 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). We shall suggest as the paper proceeds, that the salience of these internal coalitions provides an opportunity for utilizing the notion of specialization to guide and shape the effectiveness of a firm's *guanxi* relationships.

However, the firm does not equally value resource contributions from various external coalitions because salience levels vary. External coalitions that provide resources more needed or desired by the firm come to have more influence. Similarly, internal coalitions, i.e., departments, functional areas, etc., of the firm, which are more able to negotiate critical resources from external coalitions are likely to exert more influence in firm's strategic decision making, thus having a higher level of salience. In other words, constituency theory implies a hierarchical model of a firm's coalitions: both external and internal.

Given that *guanxi* in Chinese business communities is a resource coalition among various *guanxi* partners and *guanxi* partners are mutually dependent on each other for survival, we find constituency theory to be useful in developing a hierarchical stakeholder model of *guanxi* to identify which *guanxi* is necessary and which *guanxi* is more important. We therefore employ constituency theory to define an importance hierarchy of the firm's stakeholders. According to recent concepts

advanced in the development of stakeholder theory this importance hierarchy—while grounded in the idea of stakeholder salience—can nevertheless be further dimensionalized. Such dimensionalization is useful because it integrates the more traditionally utilized concepts of internal/ external or core/ major/ peripheral (Carroll, 1979, 1993), and primary/ secondary (Clarkson, 1995) stakeholders with the salience notions of Mitchell et al. (1997). The logic of constituency theory suggests that such a dimensionalizing analysis should begin with the idea of stakeholder salience as follows: According to their salience to firm survival, stakeholders of the firm can—as argued in the preceding paragraphs—be classified: (1) into internal stakeholders and external stakeholders, (2) into core, major, and peripheral stakeholders, and into (3) primary and secondary stakeholders (see Table 2).

{Insert Table 2 about here}

As developed in the following paragraphs, the relationships set forth in Table 2 can be further conceptualized in a set of research relationships in a theoretical model.

A Hierarchical Stakeholder Model of *Guanxi*

The first 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 *guanxi* relationships in terms of their legitimacy and urgency (importance and criticality). Specifically, this model should first be able to identify as many of the *guanxi* stakeholders as necessary and distinguish between external *guanxi* and internal *guanxi*. Management ought to meet not only the demands of external stakeholders, but also the demands of internal stakeholders. That is, the resource demands of internal departments must also be rank-ordered and satisfied according to some notion of legitimacy. The activities of the various functional areas within the firm could thus be coordinated to secure maximum resources from external coalitions.

A second goal of our model is to make two clear distinctions among all the necessary *guanxi* relationships: (1) a distinction among core, major, and peripheral *guanxi* relationships, and (2) a distinction between primary and secondary ones. The reality of organizational life dictates that management cannot treat all stakeholders as equally time critical/ important and attempt to satisfy the demands of all urgent stakeholders in the same manner. For example, Anderson (1982) and Greenley and Foxall (1996) have argued that satisfying and meeting the demands of customers is a first priority that takes precedence over and beyond satisfying other stakeholders.

A third goal of our model is to articulate how each functional department within the organization may effectively respond to signaling from different *guanxi* stakeholders. We believe that our model does successfully address the three aforementioned goals and therefore is highly instrumental in identifying and developing effective *guanxi* in a Chinese business context: effective *guanxi* that leads to resource access and firm survival. However, for the model to be sufficiently explanatory we must also introduce the effects of economic development level into the theoretical calculus. Accordingly, in the remainder of this section we develop propositions that relate the necessary independent and dependent constructs/ variables as shown in Figure 1, beginning with the more obvious relationships and progressing to the more counter-intuitive.

{Insert Figure 1 about here}

Internal and External *Guanxi* Relationships. What *guanxi* relationships are necessary for a typical business firm in China? A direct implication of stakeholder theory suggests that any *guanxi*

relationship that can affect or is affected by the achievement of the firm's objectives is necessary (Freeman, 1984). Previously we have defined an effective *guanxi* relationship to be: *a trust-commitment/ power-dependence relationship among firm stakeholders that is dynamic (cumulative, utilitarian, and long-term), yields socioeconomic benefits (positive work morale, group harmony, and enhanced effectiveness), and is substantively distinct from bribery*. According to constituency theory, these *guanxi* relationships can be grouped into two categories: internal *guanxi* and external *guanxi*. Internal *guanxi* includes the various functional departments and all the internal coalitions within the firm, such as CEO, finance, marketing, accounting, R&D engineering, production, public relations, legal, risk management, human resource management, and employees.

According to resource dependence theory (Pfeffer and Salanick, 1978), internal management represents a process of specialization where the various departments and functional areas are structured and organized to enhance the efficiency and effectiveness in negotiating resources from external coalitions. The primary objective of each department is to ensure a stable flow of resources secured from the appropriate external coalition. However, each functional department may set up its own goals at different aspiration levels, leading to conflicting levels of urgency: demands of the firm's resources (Mitchell, et al., 1997; Cyert and March, 1963). Therefore, business performance of the firm is predicated on the coordination of the conflicting departmental objectives (Anderson, 1982).

How is goal conflict among internal *guanxi* coalitions resolved to ensure business performance? We believe that informal group processes for managing goal conflict in a Chinese corporate environment is effective in creating group harmony and maintaining group hierarchy (Abramson and Ai, 1999). Such *guanxi*-oriented internal management (i.e. fostering good interpersonal relationship (*guanxi*) among departmental managers) can facilitate information flow, leading to a higher level of mutual understanding and trust (Morgan and Hunt, 1994). Also, a good *guanxi* between managers and employees can enhance loyalty and help maintain positive work morale (Pearce and Robinson, 2000). This group harmony and hierarchy within the firm can help resolve the goal conflict arising from independent goal setting with the various functional areas and thus enhance the effectiveness of negotiating external resources for firm performance (Anderson, 1982; Shenkar and Ronen, 1993). Thus, we define *guanxi*-oriented internal management to be: *the informal group practices that foster information flows, mutual understanding and trust*; and accordingly suggest:

Proposition 1: *Guanxi-oriented internal management is positively associated with effective guanxi.*

External *guanxi* includes focus on all the external stakeholder groups such as boards of directors, stockholders, customers, product industry, suppliers, auditors and creditors, insurance companies, work unions, government and courts, and mass media. Because these stakeholder groups will affect the achievement of the firm's objectives to a greater or lesser extent, *guanxi* relationships with these stakeholders are necessary. A wealth of studies have emphasized the importance of *guanxi* where external *guanxi* partners are chosen for their effectiveness in ensuring a long-term success in China (cf. Davies et al., 1995; Lee et al., 2001; Luo, 1997; Pearce and Robinson, 2001; Tsang, 1998). The importance of external *guanxi* in Chinese business communities is encouraged by Chinese culture and resource availability in China (Tai, 1988). Doing business in China is interpersonal and cooperative. Two key factors of business success, trust and commitment

(Morgan and Hunt, 1994), are predicated on friendship that is developed through *guanxi* rather than *contracts*. Moreover, resource allocation in China to a great extent has been carried out by people in power or authority rather than by markets (Tsang, 1998; Yueng and Tung, 1996). Therefore, an extensive network with various external *guanxi* coalitions that fit the firm's long-term needs, serves as an indispensable asset of the firm. We therefore define the term "effective external-coalition *guanxi*" to be: *a trust-commitment/ power-dependence relationship between a firm and external coalitions that is dynamic (cumulative, utilitarian, and long-term) and yields socioeconomic benefits (positive work morale, group harmony, and enhanced effectiveness.*

Davies et al. (1995) have suggested a relationship between effective external coalition *guanxi*, and access to resources. Effective external coalition *guanxi* had been identified with: (1) access to information resources, such as market trends, government policies, import regulations, and business opportunities; (2) access to enabling resources, such as import license applications, approval of advertisements, approval of applications to the provincial and central governments, recruitment of labor, and securing land, electricity, and raw materials for joint ventures; and (3) access to transaction-smoothing resources, such as building up company's image, smooth transportation arrangements, and smooth collection of payments. Since these resources are unique in ensuring business success in China; and since the security of these resources is, to a large extent, still dependent on having effective *guanxi* with well-matched external *guanxi* coalitions, we therefore expect:

Proposition 2: *Firms with effective external-coalition guanxi are likely to be more successful in negotiating access to resources than firms without such guanxi.*

Core, Major, and Peripheral Guanxi Relationships. What *guanxi* is more important among all the necessary *guanxi* relationships, whether internal or external? For the answer to the question we again appeal to Anderson's (1982) constituency theory. According to this theory, coalitions of the firm, internal and external alike contribute different kinds of resources to the firm. External coalitions controlling more or vital resources will have greater power in controlling and influencing the firm's activities. Similarly, internal coalitions that negotiate more or vital resource will come to have more control and influence over the firm's strategic decision making (Anderson, 1982). Thus, a hierarchy of coalitions, both external and internal, in terms of their power over the firm can be identified to develop a hierarchy of *guanxi* relationships. Coalitions having more power over the firm are more important than those that have less power.

Specifically (Table 2), we suggest that *guanxi* relationships of the firm can be grouped into three categories: core, major, and peripheral *guanxi* relationships, and within each category, that they can be further classified into primary *guanxi* relationships and secondary *guanxi* relationships, as a direct function of their importance to the survival and growth of the firm (Anderson, 1982; Clarkson, 1995). Using a concentric conceptualization firm structure, core *guanxi* relationships are identified in terms of manager roles such as, for example, the CEO, CFO, VP-marketing, VP-R&D/engineering, VP-production/operations, VP-human resources, public relations director, accounting/MIS manager, sales manager, the firm's attorney, risk manager, and possibly an ethics committee. Core *guanxi* relationships are essentially constituencies or coalitions within the firm making key decisions that affect the survival and growth of the firm.

Core internal *guanxi* stakeholders serve the needs and cater to the demands of major external *guanxi* relationships. Major external *guanxi* relationships include stakeholders such as, for example, boards of directors, shareholders, customers, industry, suppliers, employees, mass media, auditors/creditors, distributors, legal groups, insurance firms, and the community. These *guanxi* groups exert pressure on core internal stakeholders. Major *guanxi* stakeholders are mainly organized bodies of external constituencies that exert positive and/ or negative influence on the organization. Different major *guanxi* stakeholders tend to exert different types and level of influence on different core *guanxi* stakeholders. Major *guanxi* stakeholders exert influence on core *guanxi* stakeholders through the provision of resources (e.g., money, information, raw materials and other forms of supply) or through action that can hurt the firm (e.g., bad publicity, legal suits, labor strikes).

Major *guanxi* relationships, in turn, are influenced by peripheral external *guanxi* stakeholders. Peripheral *guanxi* relationships include, for example, business executive circles, financial brokers, purchasing groups, industry leaders, supplier groups, labor groups, environmental groups, consumer groups, financial institutions, government, higher education, and social critics. These influence major external *guanxi* stakeholders. Peripheral stakeholders are considered as *guanxi* stakeholders whose actions or resources may affect the long-term survival of the firm, but the effect may not be felt immediately.

The above three categories of *guanxi* relationships weave a network of *guanxi* coalitions within and about the firm. Each type of *guanxi* coalitions is serving or being served by its *guanxi* partners, depending on its resource characteristics and functions. These *guanxi* relationships are necessary but they differ in their importance to the firm's survival. The assertion that stakeholders' effect on the survival of the firm is a means whereby stakeholder priority may be gauged (Anderson, 1982; Clarkson, 1995), suggests:

Proposition 3: *Firms with access to resources from strategically formulated guanxi relationships between the firm's internal core stakeholders and the firm's external major stakeholders are more likely to survive than firms with guanxi relationships that do not connect the firm's core and major constituencies.*

Primary versus Secondary *Guanxi* Relationships The distinction between primary and secondary stakeholders has further implications for our model. This distinction is based on the notion that some core *guanxi* stakeholders, and those *guanxi* stakeholders that exert influence on them, impact both the short-term and long-term goals of the firm *more* than others. Therefore, we refer to primary stakeholders as those having the greatest power over the firm in the sense articulated by Clarkson (1995) who suggested primary stakeholders to be those without whose continuing participation the firm could not continue as a going concern; whereas other (non-going-concern-implicated) *guanxi* groups are treated as secondary stakeholders.

As illustrated in Table 2, core *guanxi* relationships may then be distinguished in terms of primary and secondary *guanxi* stakeholders. This distinction is based on the hierarchical structure within the firm. Again, examples of primary core *guanxi* stakeholders include the CEO, CFO, VP-marketing, VP-R&D/engineering, VP-production /operations, and VP-human resources. Examples of secondary core guanxi stakeholders are public relations director, accounting/MIS manager, sales

manager, the firm's attorney, risk manager, and an ethics committee. By definition (Clarkson, 1995) primary core *guanxi* stakeholders make key decisions that affect the survival and growth of the firm. Secondary core stakeholders provide a supportive function for primary core stakeholders.

As previously stated, core *guanxi* stakeholders serve the needs and cater to the demands of major external *guanxi* stakeholders. Major *guanxi* relationships are further grouped in two categories-primary and secondary. Examples of primary major *guanxi* stakeholders would include boards of directors, shareholders, customers, industry, suppliers, and employees. Secondary major *guanxi* stakeholder examples would include mass media, auditors/creditors, distributors, legal groups, insurance firms, and the community. Primary major *guanxi* stakeholders exert direct pressure on primary core *guanxi* stakeholders, whereas secondary major stakeholders exert direct pressure on secondary core *guanxi* stakeholders.

Like core and major *guanxi* relationships, peripheral *guanxi* stakeholders are further grouped in two categories: primary and secondary. Primary peripheral *guanxi* stakeholders include business executive circles, financial brokers, purchasing groups, industry leaders, supplier groups, and labor groups, whereas secondary peripheral *guanxi* groups include groups such as environmental groups, consumer groups, financial institutions, government, higher education, and social critics. Primary peripheral *guanxi* stakeholders mainly influence primary major *guanxi* stakeholders, whereas secondary peripheral *guanxi* stakeholders influence secondary major *guanxi* stakeholders.

Given the complicated hierarchies of *guanxi* relationships and groups, *guanxi* management needs to identify the most important *guanxi* partners (Tsang, 1998; Yueng and Tung, 1996). As previously discussed, *guanxi* is a dynamic with changeable borders and salience. The importance of *guanxi* is determined by the firm's resource requirements and the availability of *guanxi*. Therefore, the compelling demands of *urgency* as proposed by Mitchell et al. (1997) dictate distinctions among various *guanxi* relationships. Urgency emphasizes the timing and criticality of *guanxi* to the firm. The *guanxi* that is critical to the firm's survival is more salient and must be given the higher priority. Urgency motivates management to identify a dynamic hierarchy of *guanxi* relationships. Within the primary core *guanxi* stakeholders, which group is most important and must be given the highest priority in resource allocation? The answer may depend on the market environment of the firm and upon the capabilities of the firm to bridge the internal-external continuum from the firm's core to its periphery (Pfeffer and Salancik, 1978). We define the *guanxi* relationships which accomplish the resource-dependence-based bridging function to be *effective external bridging guanxi*.

In China's coastal areas and southeastern provinces where the economy is more developed and market-oriented, the role of *marketing* department is likely to be most salient and therefore given priority in firm's strategic decision making (Luo, 1997). Correspondingly, customers in the primary major *guanxi* stakeholders are viewed as highly important, because they provide the firm with resources needed for sustainable development. Thus, according to salience-based bridging logic, the CEO of the firm has to pay more attention to developing a good *guanxi* with the VP-marketing than with other internal stakeholders.

Empirical studies indicate that economic development and market maturity are uneven in China, which has many regional economies, each of which is at a different stage of development (Cui and Liu, 2000; Keng, 2000). For the most inland provinces and vast northwestern areas, both the economy and the society are less developed, with consumers having low income and little-to-no brand awareness (China Statistical Year Book, 2000). Therefore inland, the role of marketing may not be as effective in the firm's survival and growth as in the developed areas in China. In this

instance, the *production* department is likely to play a more important role in designing and manufacturing products fitting the local markets with the minimum costs. Hence in such circumstances, good *guanxi* between the CEO and the VP-R&D/engineering and VP-production/operations would be expected to facilitate information flow and resource inputs between these core functional stakeholders to ensure an appropriate production scale and product distribution. Accordingly, we expect that:

Proposition 4: *Firms operating in economically more developed markets in China are more likely to have effective external bridging guanxi if they give higher priority to marketing than other internal stakeholders in internal guanxi management.*

and,

Proposition 5: *Firms operating in economically less developed markets in China are more likely to have effective external guanxi if they give higher priority to production than other internal stakeholders in internal guanxi management.*

Among the various major *guanxi* relationships that are external to the firm, then, what *guanxi* is more important and must be given a higher priority? This is determined by the availability of *guanxi* and the firm's resource demands. In today's China especially in less-developed areas, valuable resources such as information, land, raw materials, electricity, trained labor, and license approval are to a great extent controlled by several powerful groups or authorities (e.g., Davies et al., 1995; Tsang, 1998; Yueng and Tung, 1996). These authorities are usually governmental departments responsible for enacting industrial policies and controlling raw material supplies. Therefore, the cultivation of *guanxi* with these departments is very important. Effective bridging *guanxi* relationships with these power groups should provide the firm with a unique competitive advantage in securing scarce resources for firm survival (Pearce and Robinson, 2000).

In contrast, in China's more-developed areas such as the coastal provinces, the economy has been increasingly market-driven and government plays a diminished role in these markets. Economic resources are allocated by markets, not by central planning. Consumerism is building momentum because market information has become increasingly transparent due to the development of mass media and telecommunication (Guthrie, 1998). Consequently, relationship marketing (good *guanxi* with customers) and good *guanxi* relationships with boards of directors and shareholders should ensure successful negotiation of adequate resources for firm survival in competitive markets as follows:

Proposition 6: *Firms operating in economically less-developed markets in China are more likely to have effective external bridging guanxi if they give higher priority to cultivating guanxi with governmental authorities and industrial suppliers than other external stakeholders.*

and,

Proposition 7: *Firms operating in economically more-developed markets in China are more likely to have effective external guanxi if they give higher priority to cultivating external bridging guanxi with customers, business partners, the board of directors, and shareholders than other external stakeholders.*

Specialization in *Guanxi* Management

So far we have identified a network of necessary *guanxi* relationships and several hierarchies of *guanxi* stakeholders based on an identification of internal and external coalitions. To secure maximum resources at minimum costs, we now wish to make more explicit the manner in which *guanxi* management can further benefit from a type of specialization, wherein various internal stakeholders take responsibility for enacting effective *guanxi* with functionally-connected external stakeholders. That is, we suggest a type of *guanxi*-efficiency-creating organization, where various internal departments and functional area stakeholders specialize to effectively cultivate a specific *guanxi* relationship with a particular functionally similar external *guanxi* coalition as characterized in Figure 2.

{Insert Figure 2 about Here}

As shown in the example relationships diagrammed in Figure 2, the *guanxi* responsibility of the primary core stakeholders would be to cultivate primary major stakeholders, since primary core stakeholders serve primary major stakeholders. For example, since (respectively) the board of directors exerts influence on the CEO, the shareholders on the finance manager, customers on the marketing/sales manager, the product industry (through product standards) on the R&D/engineering manager, suppliers on the production/operations manager, and employees on the human resources manager (see Figure 2), these core stakeholders would be the ones in a privileged position to secure maximum resources at minimum costs.

This specialization in catering to and cultivating *guanxi* with a specific *guanxi* group is equally applicable to other secondary *guanxi* stakeholders as represented in Figure 3.

{Insert Figure 3 about Here}

For example, the public relations department focuses on mass media to enhance the firm's image; the accounting manager focuses on auditors and creditors to ensure the firm's financial data meet the auditors and creditors' specification; the legal department focuses on governments and the courts to prevent legal suits against the firm; the risk assessment manager focuses on insurance companies to insure the firm in case of severe financial loss. In conclusion, specialization of the various functional departments in *guanxi* management is expected to enhance the efficiency and effectiveness of the firm in its exchange with external *guanxi* coalitions, thus leading to resource access and survival, and accordingly:

Proposition 8: *Firms with internal stakeholders specializing in cultivating functionally-connected external stakeholder guanxi are more likely to negotiate access to critical resources than firms without such specialization.*

DISCUSSION AND CONCLUSION

Some argue that "China is a land of *guanxi* . . . Nothing can be done without *guanxi*" (Tsang, 1998, p. 5). And although there are large MNCs such as Wal-Mart which downplay *guanxi* based on their resources advantages; on balance, developing and maintaining an effective *guanxi* relationship with local Chinese partners appears to us to be a key factor for most small to medium sized foreign companies to achieve business success in China. Of course, even effective *guanxi* is not monolithically pervasive in its costs or in its benefits. For example, *guanxi* cultivation is costly and ethically risky (Su and Littlefield, 2001). And while *guanxi* is important in China, there are certainly successful companies that do not exert much effort on developing *guanxi*. Furthermore, it is also important to acknowledge that while it is helpful to identify types, scope and hierarchical relationships surrounding the *guanxi* phenomenon, identification of the processes needed to improve *guanxi* quality are also important. Thus in this final section of the article we wish to summarize our arguments, present some of the research implications, and then turn specifically to three key recommendations that we have identified that can be helpful in improving *guanxi* quality.

Our argument: that not all *guanxi* relationships are necessary, and among the necessary *guanxi* relationships, not all are equally important to achieve the firm's objectives, has generated the research questions that we have addressed in this article: what *guanxi* is necessary, and what *guanxi* is more important in doing business in China? Our task in this article has therefore been to adopt a constructive view of *guanxi* in an effort to connect this fundamental phenomenon in Chinese society to organization science, and to further elaborate the phenomenon of *guanxi* in the business ethics literature. Within the foregoing paragraphs we have identified several theoretical essentials for effective *guanxi*, and have used stakeholder and constituency theory to propose theoretical relationships that can aid scholars in instrumental *guanxi*-based stakeholder research, and can help practitioners to better manage it.

Implications for Research

In this article we have developed a hierarchical stakeholder model of *guanxi* to further explore the question of "Who and What really counts" (Freeman, 1994) in developing possible *guanxi* coalitions in the Chinese business community. *Guanxi* (literally interpersonal connections) refers to a resource coalition among *guanxi* partners, predicated on sharing of common goals. *Guanxi* relationships represent a hierarchy of salient stakeholders (Mitchell, et al., 1997) having different types and amounts of resources—which affect the firm's survival and growth—and thereby suggest an analysis to further dimensionalize the hierarchy of stakeholder salience. Anderson's (1982) constituency theory has helped us make distinctions between and among internal and external *guanxi* coalitions, and develop *guanxi* management principles based on this distinction.

Specifically we are able to suggest guidelines for effective internal coalitions, and that external coalitions possessing resources desired by the firm are necessary *guanxi* stakeholders because they can influence the firm directly or indirectly, that external coalitions that can contribute more resources to the firm survival have greater salience and therefore greater influence, and that these coalitions are more important *guanxi* coalitions of the firm than coalitions that contribute fewer resources. These assertions are based upon the following instrumental stakeholder theory logic: Making improvements in the management of both internal and external stakeholder resource coalitions in China, through better understanding hierarchically-based *guanxi* relationships, is expected to lead to better firm survival prospects, in the same manner that instrumental stakeholder

theory suggests that the development of mutual trust and cooperation between firms and stakeholders is expected to lead to competitive advantage (Jones, 1995, p. 422). Propositions 1, 2, and 3 suggest expected relationships (Figure 1) among specific constructs that we have identified and suggest will be useful in generating testable hypotheses to examine this logic.

Then, based on our constituency theory-based analysis, the firm's coalitions have further been classified into core, major, and peripheral *guanxi* coalitions, and primary and secondary *guanxi* coalitions. This dimensionalization better explains the hierarchical structure of the *guanxi* coalitions of the firm. Once again using the instrumental hierarchical *guanxi* stakeholder theory logic that relates salience to survival, we are able to describe and assert priority rules (see Donaldson and Dunfee, 1999) for better *guanxi* management: (1) that different *guanxi* coalitions possessing varying power must be given different priorities, as suggested by Propositions 4 through 7; (2) that different *guanxi* strategies must be designed when operating in different China markets, i.e., developed versus less developed markets, as also suggested by Propositions 4 through 7; and, (3) that different internal *guanxi* coalitions with varying functions must specialize in negotiating different resources, as suggested by Proposition 8. A general proposition emerging from this analysis is that firms with an effective *guanxi* management of coordinated *guanxi* coalitions and specialization are likely to do better in China than those that do not abide by the principles of *guanxi* management. Of principal interest to researchers, we hope, is the multiplicity of empirical investigations suggested by the foregoing dimensionalization of the antecedents and consequences of effective *guanxi* as described in this paragraph, and as illustrated by the propositions and in Figure 1. Because instrumental stakeholder theory purports to describe what will happen if managers or firms behave in certain ways (Jones, 1995, p. 406), such investigations should contribute to our more clearly understanding an oft-misunderstood but a doubtlessly material and essential cultural phenomenon: effective *guanxi* management in China. To this end, we introduce three practical recommendations that flow from our analysis.

Implications for Practice

In this article we have noted that *guanxi* is legitimate because it is culturally-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 and operating within a hierarchical structure. Therefore, identifying a web of necessary *guanxi* coalitions and developing a hierarchy of *guanxi* priorities serve as the cornerstone for building effective relationship business strategies in China. Hopefully this model of stakeholder *guanxi* salience helps management enhance business performance in China.

We have identified three *guanxi* management implications that stem from our analysis. First, because of the relationship between the accurate assessment of resources and the accurate assessment of hierarchical/ salience factors in *guanxi* management, Western multinational companies (MNCs) doing business in China should consider building their own *guanxi* hierarchy by drawing upon a resource map. That is, identifying 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 appropriate *guanxi* relationships and distinguishing between important and less important *guanxi* coalitions.

Second, *guanxi* management entails a process of *guanxi* audits (Tsang, 1998). Given the hierarchy of stakeholder *guanxi* relationships, it is imperative to ensure that the more salient *guanxi*

stakeholders are given higher priorities, and that the most appropriate internal functional departments are attending to relationships with them. *Guanxi* audits are also important because *guanxi* relationships may become stale and need rejuvenation. It is therefore important to regularly audit *guanxi* partners' resources to understand their current level within the *guanxi* hierarchy. We realize that this portion of the audit recommendation may appear to be somewhat unnatural to Western managers; but it should be remembered that the re-analysis of hierarchical placement is virtually second nature to Chinese managers (cultural priority rules exist in a normative sense (Donaldson and Dunfee, 1999), and because of this, will expose the Western manager to undue *guanxi* risk if improper or tardy hierarchical analysis results in stakeholder misplacement in the *guanxi* hierarchy due to changes in stakeholder salience.

The foregoing recommendation leads to our third suggestion: *guanxi* strategies should be dynamic, changing along with business timing and location. When developing a strategic hierarchy for cultivating *guanxi*, it is even more important in China than in the West to know when, where, and with whom you are doing business. People in China, in building cooperative relationships, are more willing to contribute their resources when they feel the Western capital and technology can result in high efficiency. So first-movers are more likely to capture Chinese partners' goodwill for cooperation (Tsang, 1998). People in less developed markets such as inland provinces or in collective or privately owned enterprises are more reliant on *guanxi* to do business (Nee, 1992; Xin and Pearce, 1996; Su et al., 2003). Therefore, the firm's business strategies when operating in less developed areas and dealing with collective or privately owned enterprises should be more *guanxi*-oriented and sensitive to the relationships suggested in Propositions 4 through7.

Conclusion

As the influence of China becomes ever more present within the global transacting community the management implications of *guanxi* grow in their importance. 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. 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. We are hopeful that our proposed 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 time, and in the right place, thus enhancing resource access and business survival. We are also hopeful that the propositions that encompass the core concepts in our analysis will be useful as a foundation for further research.

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, T: 1994, 'Marketing's Third Paradigm: *Guanxi*,' *Business Strategy Review* 5 (4), 69-81.

Anderson, P. F.: 1982, 'Marketing, Strategic Planning, and the Theory of the Firm,' *Journal of Marketing* 46 (Spring), 15-26.

Barney, J.B.: 1991, 'Firm Resources and Sustained competitiveness,' *Journal of Management* 17, 99-120.

Bowie, N.: 1988, 'The Moral Obligations of Multinational Corporations,' in S. Luper-Foy (ed.), *Problems of International Justice* (Westview Press, Boulder), pp. 97-113.

Carroll, A.B.: 1979, 'A three-dimensional model of corporate performance', *Academy of Management Review* 4: 497-505.

Castanias, R. P. and C.E.Helfat: 1991, 'Managerial Resources and Rents,' *Journal of Management*, 17 (1), 155-172.

Carroll, A.B.: 1993, *Business and Society: Ethics and Stakeholder Management*, (South-Western, Cincinnati).

Chan**,** R. Y. K**.,** L**.** T. W. Cheng**,** and R**.** W. F. Szeto**: '**The Dynamics of *Guanxi* and Ethics for Chinese Executives,' *Journal of Business Ethics* 41 (4), 327-336.

Chen, M.: 1994, '*Guanxi* and the Chinese Art of Network Building,' *New Asia Review* Summer, 40-43.

China Statistical Year Book, 2000, (China Statistical Press, Beijing).

Clarkson, M.B.E.: 1995, 'A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance', *Academy of Management Review* 20(1): 92-117.

Conner, K. R.: 1991, 'A Historical Comparison of Resource-Based Theory and Five Schools of Thought Within Industrial Organization Economics: Do We Have a New Theory of the Firm?' *Journal of Management* 17 (1), 121-158.

Cui, G. and Q. Liu: 2000, 'Regional Market Segments of China: Opportunities and Barriers in a Big Emerging Market," *Journal of Consumer Marketing* 17 (2), 55-72.

Cyert. R.M. and J.G. March: 1963, *A Behavioral Theory of the Firm*, (Printice –Hall, Englewood Cliffs, NJ).

Davies, H., T. K. P. Leung, S. T. K. Luk, and Yiu-hing Wong: 1995, 'The Benefits of *Guanxi*,' *Industrial Marketing Management* 24 (2), 207-214.

Donaldson, T. and L.E. Preston: 1995, 'The Stakeholder Theory of the Corporation:Concept, Evidence, and Implications,' *Academy of Management Review* 20 (1), 65-91.

Donaldson, T., and T. Dunfee: 1999, *Ties That Bind: A Social Contract Approach to Business Ethics*, (Harvard University Business School Press, Cambridge, MA).

Dunfee, T. and D.E. Warren: 2001, 'Is Guanxi Ethical? A Normative Analysis of Doing Business in China,' *Journal of Business Ethics* 32 (3), 191-204.

Etzioni, A.: 1964, *Modern Organizations*, (Prentice Hall, Englewood Cliffs, NJ).

Fan, Y.: 2002, '*Guanxi's* Consequences: Personal Gains at Social Cost,' *Journal of Business Ethics* 371-380.

Freeman, R. E.: 1994, 'The Politics of Stakeholder Theory: Some Future Directions,' *Business Ethics Quarterly* 4, 409-421.

Freeman, R. E.: 1984, *Strategic Management: A Stakeholder Approach*, (Pitman Publishers, Boston, MA).

Gold, T.B.: 1985, 'After Comradeship: Personal Relations in China since the Cultural Revolution,' *The China Quarterly* 104 (4), 657-675.

Greenley, G. E. and G. R. Foxall: 1996, 'Consumer and Nonconsumer Stakeholder Orientation in U.K. Companies,' *Journal of Business Research* 35 (Feb.), 105-116.

Guthrie, D.: 1998, 'The Declining Significance of *Guanxi* in China's Economic Transition,' *The China Quarterly* 154, 254-282.

Hwang, Kwang-kuo: 1987, 'Face and Favor: The Chinese Power Game,' *American Journal of Sociology* 92(4), 944-974.

Jones, T. M.: 1995, 'Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics,' *Academy of Management Review* 20(2): 404-437.

Kao, J.: 1993, 'The Worldwide Web of Chinese Business,' *Harvard Business Review* (March-April), 24-36.

Keng, K.: 2000, *China's Regional Economic Development: Strategy, Status, Trends and Outlook*, (Linking, Taipei, Taiwan).

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 (1), 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.

March, J. G. and H. A. Simon: 1958, *Organizations*, (John Wiley & Sons, New York, NY).

Millington, A., M. Eberhardt, and B. Wilkinson: 2005, 'Gift Giving, *Guanxi* and Illicit Payments in Buyer–Supplier Relations in China: Analysing the Experience of UK Companies,' *Journal of Business Ethics* 57 (3), 255-268.

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.

Morgan, R. M. and S. D. Hunt: 1994, 'The Commitment-Trust Theory of Relationship Marketing,' *Journal of Marketing* 22 (July) 20-38.

Nee, V.: 1992, 'Organizational Dynamics of Market Transition: Hybrid Firms, Property Rights, and Mixed Economy in China,' *Administrative Science Quarterly* 31 (1), 1-27.

Pearce, J.A. II, and R.B. Robinson, Jr:. 2000, 'Cultivating Guanxi as a Foreign Investor Strategy,' *Business Horizons* 43 (1), 31-39.

Penrose, E.T.: 1958, *The Theory of the Growth of the Firm*, (Wiley, New York, NY).

Pfeffer, J. and G. R. Salancik: 1978, *The External Control of Organizations: A Resource Dependence Perspective*, (Harper and Row, New York, NY).

Shenkar, O. and S. Ronen: 1993, 'The Cultural Context of Negotiations: The Implications of Chinese Interpersonal Norms,' in L. Kelley and O. Shenkar (eds.) *International Business in China*, (Routledge, London), pp. 109-136.

Simon, H. A.: 1964, 'On the Concept of Organizational Goals,' *Administrative Science Quarterly* 9 (June), 1-22.

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.

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), 1-12.

Su, Chenting, M.J. Sirgy, and J.E. Littlefield: 2003, 'Is *Guanxi* Orientation Bad, Ethically Speaking? A Study of Chinese Enterprises,' *Journal of Business Ethics* 44 (4), 303-312.

Suchman, M.C.: 1995, 'Managing Legitimacy: Strategic and Institutional Approaches,' *Academy of Management Review* 20 (3), 571-610.

Tai, L.S.T: 1988, 'Doing Business in the people's Republic of China: Some keys to Success,' *Management International Review* 28 (1), 5-9.

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.

Warren, D.E., T.W. Dunfee, and Naihe Li: 2004, 'Social Exchange in China: The Double-Edged Sword of Guanxi,' *Journal of Business Ethics* 55 (4), 353-368.

Wong, Y.H., and T.P. Leung: 2001, *Guanxi: Relationship marketing in a Chinese Context*, (International Business Press, New York, NY).

Wong, Y.H. and R.Yee-kwong Chan: 1999, 'Relationship Marketing in China: Guanxi, Favouritism and Adaptation,' *Journal of Business Ethics* 22 (2),107-119.

Xin, K.R. and J.L. Pearce: 1996, '*Guanxi*: Connections as Substitutes for Formal Institutional Support,' *Academy of Management Journal* 39 (6), 1641-1658.

Yang, M.: 1994, *Gifts, Favors, and Banquets: The Art of Social Relationships in China*, (Cornell University Press, New York, NY).

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.

TABLE 1
***Guanxi*, Resources, and Firm Survival**

Effective *Guanxi*

Effective *guanxi* is 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."

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

Effective *guanxi* is a power-dependence relationship:

Hwang, 1987: 947—*guanxi* is a social hierarchy where individuals employ power to obtain desired social resources controlled by others.

Yang, 1994: 64—*guanxi* refers to relationships or social connections based on mutual interests and benefits.

Xin and Pearce, 1996:39—"one reason executives seek out connections and cultivate close personal relationships is to obtain resources or protection not otherwise available."

Yeung and Tung, 1996: 56—"emphasis on personal power promotes the practice of *guanxi* in a hierarchical Chinese society of interdependence."

Tsang, 1998: 4—*guanxi* can be developed and sustained only when personal resources are valuable, rare, and imperfectly imitable.

Wong and Chan, 1999: 9—*guanxi* is to "consolidate each party's resources to optimize the pooling of expertise and experience."

Effective *guanxi* is dynamic:

Yang, 1994: 123—*guanxi* has a cumulative effect, having a propensity for escalation.

Chen, 1995: 61—*guanxi* should be avoided when costs of *guanxi* exceed its benefits**.**

Yeung and Tung, 1996: 55, 61—"*guanxi* is maintained and reinforced through continuous long-term association and interaction" "in order to attain business success in China, it is important for the company to maintain a strong and right *guanxi* network."

Tsang, 1998: 5, 8—"*guanxi* may become worthless or even turn into a liability once the partner loses power" The company must do *guanxi* audits to identify which *guanxi* becomes stale and needs rejuvenation, which *guanxi* is crucial to the survival of the company and has to be

handled well, and whether important stakeholders are paid more attention to strengthen *guanxi* with them.

Effective *guanxi* is not equal to bribery:

Tsang, 1998: 4—"outright bribery may be good enough to get a business transaction done on a one-off basis, but it cannot buy *ganqing*, an essential element of *guanxi.*"

Lovett et al., 1999: 4—"the central difference is that *guanxi* means relationship building, while bribery is simply an illicit transaction."

Pearce II and Robinson Jr., 2000: 31—"developing *guanxi* and maintaining *guanxi* goes beyond gift-giving and favor exchanges; it requires building long-term mutual benefits, friendships, and trust" Su and Littlefield, 2001: 210—" *guanxi* is not a political maze but a web of human relationships."

Su et al., 2003: 309-310—"guanxi orientation has very little to do with ethical reasoning" "the confusion of the two types of guanxi relationships (favor-seeking guanxi vs. rent-seeking guanxi) leads to the belief that *guanxi* is ripe with ethical abuse."

Effective *Guanxi* and Resources

Effective *guanxi* is a resource coalition in Chinese business communities

Tai, 1988: 8—"the right connections can bring cheap and reliable material supplies, tax concessions, approval to sell goods domestically or for export, and provision of assistance when problems arise."

Davies et al., 1995: 213—"*guanxi* smoothes transactions, provides information and resources."

Luo, 1997: 54—"whenever scarce resources exist, they are mainly allocated by *guanxi* rather than bureaucratic rules."

Wong and Chan, 1999: 4—"this relational association indicates a coalition of organizations cooperating together interfunctionally in various areas."

Pearce II and Robinson Jr., 2000: 31-32—"*guanxi* is a form of social investment that enriches the executive's current resources and future potential" "networking is now believed to enhance a firm's competitive advantage by providing access to the resources of other network members."

Resources and Firm Survival

The firm's competitive advantage is based on the firm's resources

Penrose, 1959: 216—"the maximum possible expansion for all firms taken together is determined by the availability of resources."

Pfeffer and Salancik, 1978: 46—"an organization's vulnerability is determined by the magnitude and criticality of resources exchanged from other organizations."

Barney, 1991: 101—"firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by the firm that enable the firm to achieve sustained competitive advantage."

Conner, 1991: 144—"performance differentials between firms depend to significant measure on possession of unique inputs and capabilities."

Castanias and Helfat, 1991: 155—"rare and difficult to imitate internal firm resources are key to the firm's acquisition and maintenance of sustainable, competitive advantage."

The firm's task is to negotiate external resources for survival

Pfeffer and Salancik, 1978: 2—on "the key to organizational survival is the ability to acquire and maintain resources."

Anderson, 1982: 19—"in attempting to maintain the support of its external coalitions, the organization must negotiate exchanges that ensure the continued supply of critical resources."

Table 2:

Example Dimensions of the Hierarchical Stakeholder Model

	Internal Stakeholders	**External Stakeholders**	
	Core Stakeholders	**Major Stakeholders**	**Peripheral Stakeholders**
Primary Stakeholders	CEO	BoD	Business executive circles
	CFO	Shareholders	Financial brokers
	VP-Marketing	Customers	Retail purchasing groups
	VP-Sales	Distributors	Wholesale purchasing groups
	VP-R&D/Engineering	Product Industry	Industry leaders
	VP-Operations	Suppliers	Supplier groups & government
	Human Resources Director	Employees	Labor groups
Secondary Stakeholders	Public Relations Director	Mass Media	Consumer/Environmental groups
	Accounting/MIS Manager	Auditors/Creditors	Financial institutions
	The firm's attorney	Legal groups	Government
	Risk Management team	Insurance firms	Insurance groups
	Ethics Committee	Stakeholder communities	Consumer/ Environmental/ Labor groups and other social critics

Figure 1: A Research Model of Effective *Guanxi*

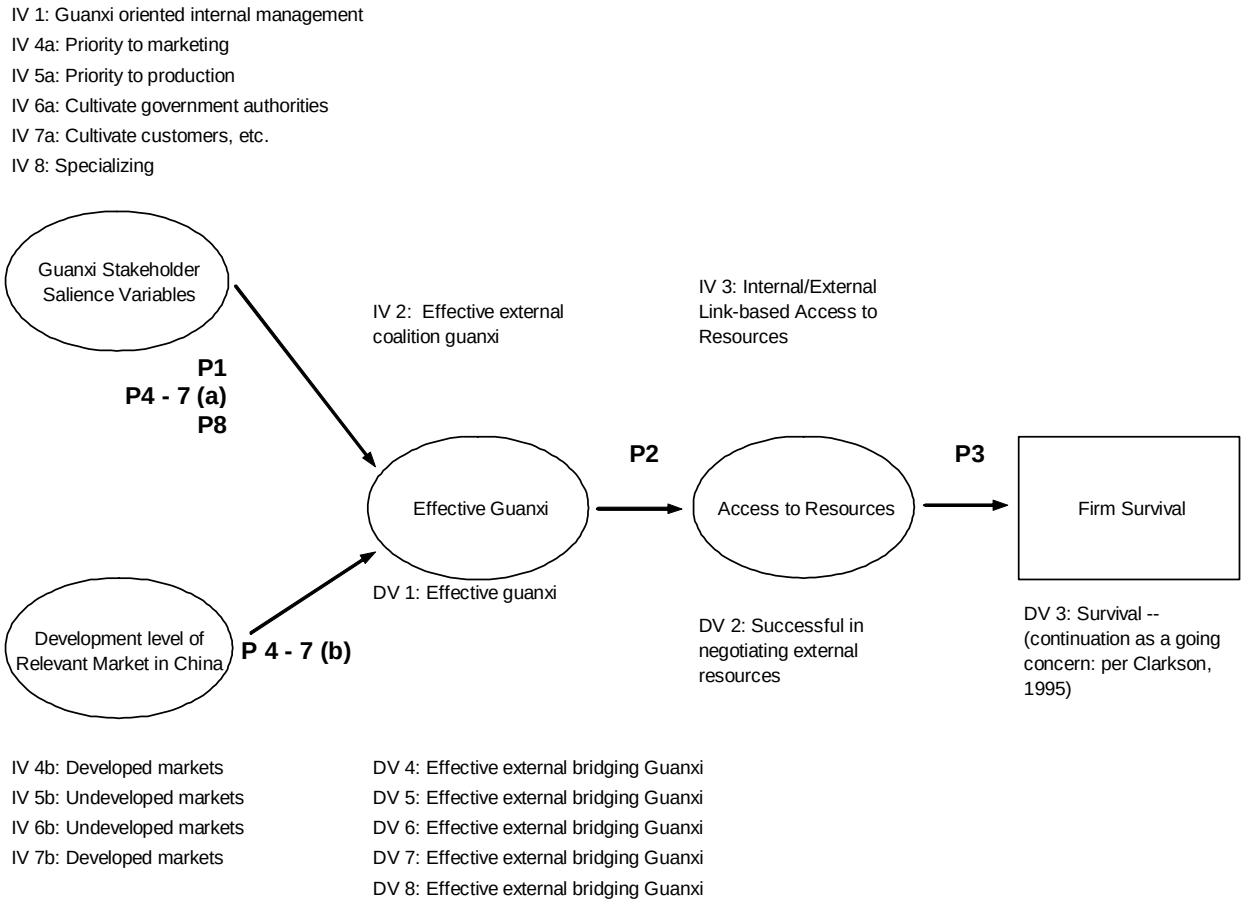

Figure 2: Examples of Specialization Responsibilities for Cultivating Primary *Guanxi*

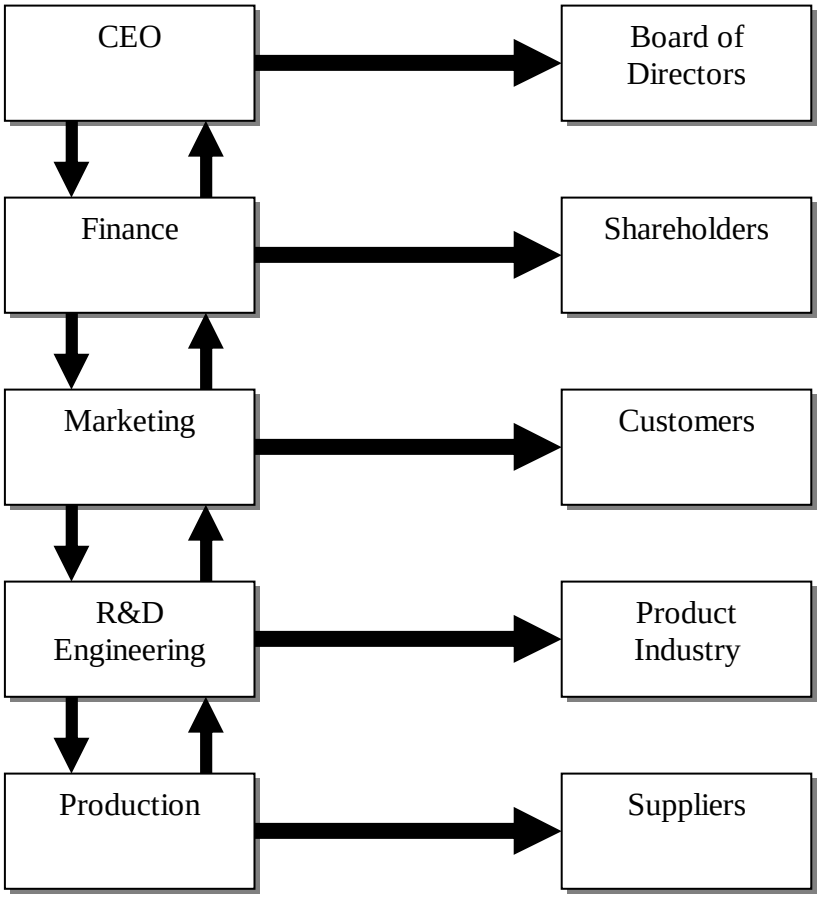

Figure 3: Examples of Specialization Responsibilities for Cultivating Secondary *Guanxi*