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

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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
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.
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

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<tr>
<th>Legitimate guanxi as a trust-commitment relationship:</th>
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<td>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.”</td>
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<tr>
<td>Yeung and Tung, 1996: 63—“five fundamental dimensions of guanxi: instrumentalism, personal relationships, trust, reciprocity, and longevity.”</td>
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<tr>
<td>Luo, 1997: 53—“people who share a guanxi relationship are committed to one another by an unspoken code of reciprocity and equity.”</td>
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<tr>
<td>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.”</td>
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<tr>
<td>Pearce II and Robinson Jr., 2000: 35—“guanxi is the basis on which they exchange a lifetime of favors, resources, and business leverage.”</td>
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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 [57th out of 91 rated countries] on www.transparency.org’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 4th]) in its capacity to produce ever-higher 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


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