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**The Contemporary role of guanxi**  
**in Chinese entrepreneurship**

**Yiu Chung Edward Lee**

# **The Contemporary role of guanxi in Chinese entrepreneurship**

**Yiu Chung Edward Lee**

A thesis submitted in partial fulfilment of the  
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# **The Contemporary Role of Guanxi**

## **in Chinese Entrepreneurship**

### **Abstract**

This thesis explores the contemporary role of guanxi in Chinese entrepreneurship. Although previous research has considered the subject of guanxi and Chinese entrepreneurship, this study aims at providing a deeper and richer understanding of its roles and nature. The study focuses on the relationship between guanxi and Chinese entrepreneurs and specifically deals with the question, “Has the importance of guanxi been diminishing in Chinese entrepreneurship?” In order to deepen the understanding of guanxi, its nature, characteristics, benefits, advantages, disadvantages, process and applications are explored. Furthermore, as there are many commonalities between networking and guanxi, the study also distinguishes the differences between the two subject matters.

In many aspects, it is important to understand the attitude and behaviour of Chinese entrepreneurs. As Chinese entrepreneurs are affected by traditional Chinese heritage, the study also uses different approaches to explain the difference between western and

eastern entrepreneurship. The specific qualitative and quantitative technique used for data generation is the adoption of case studies, surveys and telephone interviews. A total of two in-depth case studies, two surveys and thirty telephone interviews have been conducted. From these findings, respondents and interviewees expressed their view points on how guanxi related to their businesses. The findings are used to identify the relationship between guanxi and modern Chinese entrepreneurs, the changing nature of guanxi, and in turn how the changing business environment affects guanxi.

The findings from this study conclude that although guanxi is important in China, it is only a tool to implement business strategies but never a substitution, and its importance has been diminishing in Chinese entrepreneurship.

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# Chapter 1

## Introduction

### 1.1 Introduction

This study explores the contemporary role of guanxi in Chinese entrepreneurship. Networking in the entrepreneurial process has been discussed quite extensively in previous literature. However, networking in the entrepreneurial process in the contemporary Chinese context has not been studied in depth. This research therefore aims at giving a thorough understanding of how ‘guanxi’, the Chinese counterpart term of “networking”, operates in modern Chinese enterprises. Adopting literature research, and quantitative and qualitative methods, it explores the role of guanxi and its changing importance in China’s dynamic business arena.

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By focusing on empirical and practical research methodology, and making reference to the fast-changing Chinese entrepreneur scene, this research provides updated and contextual contribution to the broad topic of networking in enterprises, and in particular the role of guanxi in China's enterprises. The understanding of the role of guanxi at work is especially important in considering the appearance of China as a strong economic power. Inevitably, the dynamics of guanxi is related to the rapid changes taking places in China's society and economy. At the same time, understanding guanxi would give value to the need for further study on whether the importance of guanxi would subsequently submerge in the rapidly evolving socio-economic scene in China.

This introductory chapter provides a full explanation and justification of the need for this study. The research problem and how it is arrived at is explained, highlighting its contribution in relation to existing knowledge of guanxi. The methodology framework is presented and an outline of subsequent chapters is given.

## **1.2 Research Motivation**

The purpose of this study is to investigate whether the importance of guanxi has been diminishing in Chinese entrepreneurship. It is concerned with exploring and generating an

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in-depth understanding of the role and nature of guanxi. The research focuses on the contemporary role and practices of guanxi in Chinese entrepreneurship and specifically deals with the question, “Has the importance of guanxi been diminishing in Chinese entrepreneurship?”

Although China is emerging as a political and economic power, it also has a long heritage and specific and unique culture. Business, and indeed most social interactions, have and continue to be, based on these traditions. Nonetheless, a significant thread in the modernisation of the Chinese economy has been the role of entrepreneurship, to the extent that traditional practices have been superimposed on and intermingled with modern practices. One evident and interesting example of these practices is “Guanxi” (in Chinese, 「關係」). Guanxi can be considered as a relationship of achieving status and moving from being an outsider to an insider (Buttery & Wong, 1999) or, in other words, a relationship of social interactions (Yang, 1994). Within this conceptual framework, the objective of this study is to establish whether the importance of guanxi persists in Chinese enterprises in the current era, if so, in what forms; and whether its role is diminishing in the tides of modernity.

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### **1.3 Research Problem**

Guanxi is a unique Chinese cultural artifact. It is a network of personal relationships with their origins coming from the roots of Chinese culture, conventions, social organisation and economic behaviour. China, as a closed society for over 5,000 years, has allowed these personal networks to emerge as a fixed element of culture and society (Wong & Tam, 2000); the more so with tightened governance. Amongst the literature, different authors have provided explanations of guanxi (Don & Dawes, 2005; Krug & Laszlo, 2000; Fukuyama, 1995; Redding, 1990; Tsang, 1998; Yeung & Tung, 1996; Wong & Tam, 2000; Li & Wright, 2000; Standifird & Marshall, 2002; Seligman, 1999; Pak et al, 2001; Tung & Worm, 2001; Gold et al, 2002; Barabasi, 2002; Castlls, 1996). Whilst these explanations have played an important role in enhancing understanding of the contrasting views of guanxi, they have been criticized for treating guanxi as detached and, not discoursing sufficiently on guanxi as an element interweaving with the changing Chinese culture and her economic environment.

In some cases, guanxi has been just too simply explained. For example, some scholars (Hwang, 1987; Yongqiang & Zhilong, 2006; Fan, 2002; Yang, 1994) identify guanxi as merely a relationship. The socio-economic context has not been addressed sufficiently. Pye (1968) has initially attempted to describe guanxi as an interpersonal relationship

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which is a powerful web that holds a person in place and gives him a basic orientation in life; but he later probes deeper and presents guanxi as a tie. According to Pye (1992a), a tie can be described as a special relationship individuals have with each other in which each can make unlimited demands on the other through exchange of valued materials or sentiments. Along this line, the aspect of utilitarianism and benefit, a major element in interactions in the socio-economic world, is brought up. Yang (1994) considers that such a tie is implicitly based on mutual interests and benefits; literally, guanxi implies certain social connection and is a synonym for special favours and obligations that emerge within the guanxi circle. Park and Luo (2001) later argue that it is an instrumental tool with the exchange of favours as an end, rather than an emotional attachment. While early literature has somehow neglected the socio-economic context, there is an increasing trend for contemporary literature to adopt the view that to understand guanxi thoroughly, academic interests need to focus more on the networking aspect and towards examining its dynamic interaction with the socio-economic environment.

Guanxi is unique. Since the word guanxi has its deep Chinese cultural roots and implications, it is difficult to find an equivalent English word to accurately express its meaning (Hackley & Don, 2001). In fact there is, so far, no single equivalent, or generally accepted definition of guanxi that could be found in the English language (Parnell, 2005).



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Although “relationship” has been in recent years increasingly accepted as an appropriate concept for analysis, it remains relatively unexplored. The complexities surrounding guanxi indicate that there is a range of factors and components involved; to the extent that guanxi can be constructed as an art that includes ethics, tactics and etiquettes (Yang, 1994). In studying guanxi and therefore these widely interwoven factors, often stretching through different academic spheres, difficulties can be anticipated in arriving at a complete and full understanding of guanxi.

Likewise, in the sphere of economy, although guanxi plays an important role in Chinese entrepreneurship, guanxi as a concept and important element in Chinese entrepreneurship is relatively unexplored or under-discoursed academically. Entrepreneurship, as a long-existing business practice, has started to receive increasing attention as an academic subject since three decades ago. Fan (2002) highlights that it was only in the 1980s that western academics started to pay attention to the role of guanxi and its relationship with Chinese entrepreneurship. However, such literature adopts mainly a western approach. They recognise the role and importance of networks but also acknowledge that networking in China is different. How entrepreneurship operates in the specific context of China is relatively insufficiently discoursed about. This, coupled with the lack in discourse about guanxi, has resulted in insufficient academic research into the role of guanxi in Chinese

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entrepreneurship. Moreover, guanxi and connections are generally portrayed as a particular type of network, reflecting the particularities of China, but studies concerning the difference between networking and guanxi are relatively meagre.

With the economic development and growth in China, and set against a background of relative uncertainty in the political future, there emerges many new entrepreneurs, with their success probably attributed to the “Chinese-ness” in their nature. Since the 1980s, the Chinese business environment has changed rapidly and the market is increasingly mature and structuralized. By 1999, there were more than 10 million SMEs registered in China representing some 90 percent of all firms (Anderson et al, 2002). According to the Chinese Economic and Trade Committee, these firms provided 60 percent of GNP, 40 percent of profits and taxes and some 68 percent of exports (Yang Shing Wan Bao, 2010). The rapid growth of small business entities contributes significantly to national income and employment, at a time of relative decline in the contribution of larger entities especially the state owned enterprises. Remarkable as these epoch changing entrepreneurial events are, Krug and Laszlo (2000), Fukuyama, (1995), and Redding (1990) all suggest that the successes can be explained by culture. The cultural explanation proposes that it is the “Chinese-ness” of the Chinese that allows them to become so entrepreneurial. The nature of the ‘Chinese-ness’ giving rise to the ‘entrepreneurial’

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phenomenon remains a topic worth probing into academically. Guanxi, with its unique Chinese root, is deemed as an important element in the nature of this ‘Chinese-ness’ and therefore has a distinct role in modern Chinese entrepreneurship.

## **1.4 Research Context**

To deepen understanding within the field of guanxi, Chinese culture and the changes in China’s economic environment are used as the basis to give an account of the relationship between Chinese entrepreneurs and guanxi. China, as the world’s second largest economy, is recognised as a nation of development and massive potential. Doing business with Chinese entrepreneurs and understanding Chinese culture and practices has become a popular trend. Therefore, the study of Chinese entrepreneurship and entrepreneurial behaviour, both in as an academic pursuit and pragmatic business topic, is important.

Guanxi is an important element in Chinese culture and has become entrenched in business traditions. Hence Chinese entrepreneurs who want to be successful may have to follow a proper, in terms of traditional and cultural norms, code of business behaviours and practices. In Chinese entrepreneurship, guanxi is well established as part of the entrepreneurial process. Several authors have pointed out that guanxi is more than just

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connections. It is seen as friendship with implications of continued exchange of favours (Tsang, 1998). Guanxi provides “information, resources, social support, and help to find clients, suppliers and investors who are socially bound” (Bat Batjargal, 2002). Guanxi thus can be defined as:

*”connections and is identified as being crucial in business dealings in China” (Swanz, 1995, p. 42)*

Guanxi has increasingly been viewed as a core attribute of Chinese entrepreneurship, without which Chinese entrepreneurship cannot even take place, not to say, succeed and excel.

This thesis considers the role and application of guanxi in Chinese entrepreneurship. The study addresses the following fundamental question of Chinese entrepreneurship: What is the role of guanxi in Chinese entrepreneurship? What is its definition? What are its advantages and disadvantages? What is its difference from networking? What are the views and perceptions of Chinese entrepreneurs on guanxi? How do Chinese entrepreneurs manipulate guanxi? Furthermore, the study also tries to establish the extent of change in guanxi. Although guanxi is well established in China, it is also likely to have come under considerable pressure to change in the new context of China’s ‘open door’ era, and moving closer to be in association with westernised business practices. Hence there

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would be questions including the following: How effective is guanxi in contemporary Chinese business arena? Is there any change of Chinese traditions and values which will affect the importance of guanxi? Has the impact of guanxi been diminishing? Finally, based on the research findings, with the understanding of Chinese culture and customs, and ways of living, the thesis considers if there are any patterns of how Chinese entrepreneurs manipulate guanxi and deploy it efficiently, in order to succeed in their enterprises; and the attributes and skills that they pursue.

## **1.5 Approaches to the Literature**

To develop a strong and rigorous understanding of the topic under investigation, this thesis is underpinned by an extensive review of four areas of broad but diverse literatures: networking, Chinese culture, China's economic development and Chinese entrepreneurs. This allows the extent and depth of academic interest in each of these areas to be acknowledged but also provides a mechanism for generating pre-understanding, and a strong and rigorous conceptualisation of the relationship between guanxi and entrepreneurship. This is achieved by deconstructing the literature, through examining the rationale behind and exposing key elements and their critical arguments. Such approach

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also allows important issues to be identified for empirical investigation, permitting the aim of the thesis to be achieved.

## **1.6 Methodological Approach**

The researcher is a Chinese, born and grew up in Hong Kong, educated in Hong Kong, Taiwan and the United States and is now living in the United States, with frequent business travels to Mainland China. His career of more than thirty years has been related to China trade and entrepreneurs. This allows him, on a first-hand basis and with a cross-cultural perspective, to observe and understand the way Chinese entrepreneurs behave in the above regions, and how they interact and collaborate through guanxi, to facilitate their business.

The study uses quantitative method to examine the willingness and frequency that guanxi is deployed, as well as the sources of guanxi. As guanxi involves social processes, qualitative method is utilised as an approach to probe beyond the surface and phenomena. This helps to explain the type of relationship and contacts, generating an understanding about how guanxi affects the Chinese entrepreneurs, and the reasoning as well as psyche behind the development of guanxi.

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Two case studies were conducted to find out the relationship between guanxi and entrepreneurship. Thirty entrepreneurs were interviewed through telephone conversations. Two surveys reaching 152 individuals were also used to explore the extent of guanxi use. These case studies, telephone interviews and surveys were used to analyse how Chinese entrepreneurs view Chinese guanxi, and how they manipulate guanxi in starting and facilitating their business in China.

## **1.7 Structure of Thesis**

Having provided the methodological orientations and presented the research objectives in this Chapter 1, the following provides the reader with an outline of the structure of the rest of this thesis.

Chapter 2 lays out the conceptual setting of the research. It is addressed through a critical review of the literature to get an understanding of western networking and Chinese guanxi, and on their nature, elements and issues related. The various approaches and explanations of networking and guanxi are examined and compared, so that the relationship between the two concepts, and the characteristics of guanxi, could be highlighted.

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Chapter 3 highlights the literature which offers a variety of approaches to explain the differences between western and eastern entrepreneurship. A range of approaches are compared and critically examined. With the focus on Chinese entrepreneurship and Chinese entrepreneurs, the various views offered in the literature are deconstructed to explore key elements and critical arguments on the emergence of modern Chinese entrepreneurs and their characteristics. Furthermore, this chapter also discusses some of the issues associated with context and argues that the effectiveness of guanxi has been changing in China. The discussion illustrates how the various components and relationships are linked and brought together that impact guanxi.

Chapter 4 presents the research methodology which is a combination of case studies, telephone interviews, and survey questionnaires. It explains the research design, and how the methodology was chosen and why it is suitable for exploring the issues under investigation.

Chapter 5 presents the data analysis and the findings from the research. The discussion identifies descriptive categories, patterns and themes of the data. This involves looking for patterns of commonality in the data, explanations for the issues being investigated and developing an informed understanding of actual situations of respondents. The data and viewpoints offered are used to identify the relationship between guanxi and modern



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Chinese entrepreneurs, the changing nature of guanxi, and how the changing business environment, both internal and external, affects guanxi. The analysis of the data, together with the issues raised from the critical review of literature, is essentially about whether the importance of guanxi has been diminishing in Chinese entrepreneurship.

Finally, Chapter 6 summaries the conclusions arising from this research. It provides an account of the implications for theory, methodology and practice. It also considers the limitations of this study and provides an indication of areas for further research.

Included in the appendices are the survey questionnaires, and transcriptions of telephone interview records.

## **1.8 Chapter Summary**

Chapter 1 introduces the research topic and has laid the foundations of the thesis. It has provided an account of how the research problem developed and illustrated where this study fits in relation to existing knowledge. This is followed by a consideration of the research context and methodology used to carry out the fieldwork, and an outline of the thesis.

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# Chapter 2

## Chinese Guanxi

### 2.1 Introduction

It is widely recognized that interpersonal relationships have a crucial role to play in the success of individuals (Coleman, 1988; Putnam et al, 1994). According to Luo and Yadong, (1997), interaction, or interpersonal relationship, can be described as networking or guanxi. They also suggest that both guanxi and networking are kinds of social connection, linking two individuals so that social interaction and exchange could take place. Shaw and Costanzo (1982) remark that guanxi and western social networking are both regarded as an exchange of material or non-material resources among engaging parties. Though they are usually mentioned together and even used interchangeably, there are substantial differences between western networking and Chinese guanxi.

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To arrive at an informed understanding of the relationship and difference between networking and guanxi, the starting point for this study is to use the literature to generate a strong and rigorous understanding of guanxi and western networking. This chapter will first explore the literature to gain an understanding of what networking is about, and then presents an extended review of existing studies in the areas of guanxi. The literature introduces various approaches of networking and guanxi, and offers definitions and descriptions that compare and contrast, which can serve to distinguish western networking and Chinese guanxi. It is revealed that guanxi is a complex concept with its intricacy that warrants a deeper probe. The literature reviewed will be used to explore key elements and critical arguments, and highlight the areas that are being investigated. The review of the literature also illustrates that a considerable amount of academic attention has been directed to trying to explain and understand the operation of guanxi.

This Chapter will firstly discuss networking and then guanxi, examining the conceptual frameworks and core elements involved. It will be concluded with a discussion of whether the importance of guanxi is diminishing in the rapidly changing entrepreneurial scene in China.

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## 2.2 Networking

Thorelli (1986), Kay (1993) and Buttery and Wong (1999) suggest that in studying business relations, the business network is the key element to be explored. Such claims show the use and popularity of the network concept has intensified as the relevance of formal and informal relations, either business or socially focused, becomes increasingly recognised (Easton and Araujo 1991, Nohria and Eccles 1992, Harland 1996). As Kelley (1988) describes, networking has become a central metaphor around which our thinking and our economy is organised, and also an investment in human being for future use or in reciprocating support received earlier.

### 2.2.1 Definition of Network

Knoke and Kuklinski (1982) suggest that a network is a group of people that are linked up by a certain kind of relationship. According to Chell and Baines (2000), a network is a dynamic and functional relationship, complex to understand fully except as a “snapshot” (Monsted 1995). Johnson and Mattson (1985) consider network as an aggregation of relationship of different types and amounts of different degrees of dependency in various relationships. Kelly (1988) suggests that network is a number of connected nodes, which

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link different groups of people and individuals. These “nodes” (or “positions”) and “links” manifested by interaction between the positions (Tan, 2002) are features of a network. In this way, networks can be broadly understood as the connections between actors or players in the network.

A number of studies have focused on informal networks including family, friends and community residents (Birley, 1985; Carroll & Teo, 1996; Dodd, 1997; Donckels & Lambrecht, 1997; Ostgaard & Birley, 1996; Ramachandran & Ramnarayan, 1993). In the context of an enterprise, networks may include family, friends and acquaintances with whom the entrepreneur relates at a social level. Suppliers, customers, trade associations, local business and government organisations, and friendship and kin groups may also be part of the social networks of small retailers (Aldrich & Zimmer, 1986; Nelson, 1989). Some network studies on business firms define networks in the context of inter-organisational networking such as the networks of suppliers-buyers (Golden & Dollinger, 1993; Iohannisson & Monsted, 1997; Larson, 1991; Provan, 1993), competitors (Brown & Butler, 1995; Human & Provan, 1997), professional advisors (Curran, Jarvis, Blackburn & Black 1993), stakeholders (Rowley, 1997), trade associations and wholesaler-sponsored groups (Reijnders & Verhallen, 1996). Although networks appear pervasive in both the social and business spheres, there remain aspects which are difficult to define. For

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example, Johannisson (1986) notes that “network linkages are elusive”, and the network entity has “fuzzy” boundaries (Anderson, 2002). Nonetheless, network involves formal and informal relationships. In the entrepreneurial world, the concept of relationships is integrated into the exchange equation, which includes the set of relevant exchange relationships between actors (Johannison, 1986).

#### 2.2.2. Networking as a concept

In studying entrepreneurship, networking, both from the individual and organizational perspective, is a concept receiving constant attention. Networking is an innate element in entrepreneurship. Larson (1991) describes networking as a process involving different stages in which two firms relates closely with each other trustfully; bringing specific advantages, such as access to avenues, exchange of information, coordination and innovation (Larson, 1991). Other scholars have emphasised the aspect of advantages brought forth by networking. Zhao and Aram (1995) argue that entrepreneurs adopt strategic entrepreneurial networking purposely to gain competitive advantage for their organisations. In this way, networking is a mechanism that is capable of producing resources essential for the growth of an enterprise. Anderson, Jack and Dodd (2008) gives highlights on the dynamic and building nature of networking. Networks are considered as

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living organisms, changing, growing and developing over time. Networking contributes to entrepreneurship not merely by extending the individual entrepreneurial asset base of human, social, market financial and technical capacity but also constructing the entrepreneurial environment socially. Networking as a concept with its many characteristics can be further explored.

### 2.2.3. Network structure

A network can be analysed from a structural perspective by focusing on mapping the social structure about the actual relationships of the members. Kilduff and Krackhardt (1994) suggest that the structural method can be enhanced by focusing on “cognitive maps” of perceived relationships within a network circle. Individual perceptions of network structure have been found to be effective in predicting attitudes and opinions of focal network members (Marsden, 1990). Individuals use these maps to operate in their social environment. These cognitive maps thus reflect the perceptions of structure in the minds of network members. However, this cognitive and subjective perspective in understanding the network structure may be difficult to measure. Therefore, analysis of the network from the structural perspective is limited.

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Some alternative views of network structure may provide more manageable understanding on its key features and dimensions. Perri (2006) considers network is structured by the degree of density, centralization, and the strength of ties. Trust is also mentioned by a number of scholars as an important ingredient of network (Arrow, 1974; Johannisson & Peterson, 1984; Granovetter, 1985; Johannisson, 1987; Bhide & Stevenson, 1990; Hart, Stevenson & Dail, 1995). In the following sections, the key features and dimensions of network structure, such as density, centrality, ties and trust will be discussed.

a) Density

Density is a key feature of a network. According to Perri (2006), density in a network means the number of ties linking members of a network together, compared to the total possible ties in the network. As a network develops and the number of ties within it accumulates, density increases, typically entailing spatial proximity of kinship. When every member in the network knows every other member, that network would be one with high density (Marsden, 1993). In closely connected networks, the values and norms among players are flowing naturally, generating implicit behaviours and expectations (Oliver, 1991). Members in these close-knit networks are more willing to share information with each other (Greve, 1995). Therefore, as density increases, communication within the network becomes more efficient (Rowley, 1997; Uzzi, 1996).



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A close-knit network with high density displays homogeneity in norms, which leads to less ambiguity about expectations in the group, and allows social attitudes to flow freely and quickly (Bienenstock, Bonacich & Oliver, 1990; Rowley, 1997). Density in a group indicates cohesiveness, which enables the building up of trust (Axelrod, 1984; Greve, 1995). In this way, density of a network indicates actor-to-actor-influence and has its function in building social capital by facilitating the diffusion of innovation (Rogers, 1983) and norms through the establishment of behavioural expectations (Rowley, 1997).

*b) Intensity*

Perri (2006) considers intensity as one of the structural elements of a network. In defining intensity, some scholars suggest that intensity of networking points to the level and scope of resources committed by the stakeholder organisations to the relationship, as seen from the frequency of contact and amount of resources exchanged (Marrett, 1971; Rogers, 1974; Shulman, 1976; Van de Ven & Ferry, 1980). According to research conducted by Zhao and Aram (1995), if networking relationships are wide and strong enough, the development of a new venture may speed up. Their study also suggests that networking helps firms at the starter phase access resources which are otherwise not within their reachable arena. The likelihood that an enterprise could obtain the necessary resources is depended on how far the entrepreneur casts a net for these resources among relevant

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external organisations, and the level of intensity in relationship maintained with the key organisations (Zhao & Aram, 1995).

c) Centrality

Centrality is another structural element of a network (Perri, 2006). According to Perri, centrality refers to where one is located in the flow of information relative to others in a network, and could affect one's influence or rank. Being centrally located in a network usually implies having an advantageous status in the hierarchy, thus easier access and control of resources (Perri, 2006). This status may be obtained formally, through an elected or appointed office, or informally, based upon one's reputation and expertise (Ibarra, 1993). Rogers (1983) proposes that entrepreneurs may find themselves in a central position in the network hierarchy by virtue of their socio-economic status or personality characteristics. Furthermore, opinion leaders are also centralised in the flow of information in their networks (Rogers, 1983). The degree of centrality measures an actor's ability to access independently all other players in a network. According to Rowley (1997), the actors at the central positions have the shortest aggregate distance to all other actors. Ibarra (1993) further comments that such advantageous position in a group brings upon the capacity to control or interrupt the flow of communication.

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Understandably, centrality in organisational networks is associated with access to power and essential information, and the adoption of innovations (Burkhardt & Brass 1990; Ibarra and Andrews 1993; Krackhardt, 1990; Rogers & Kincaid, 1981). Yamaguchi finds that centrality in a network enables an individual to access information easily at a low cost; on the other hand, inequality in centrality negatively impacts the flow of information; meaning that those who are not in a central position may have less access to information flows (Yamaguchi, 1994). Centrality provides many alternative sources of information (Rowley, 1997). In a communication network, centrality is also correlated with influence on outcomes (Leavitt, 1951). High levels of centrality form a “tight” network structure, where an actor has easy access to all of the information in a network. Centrality can bring about administrative innovation in an organization (Ibarra, 1992). For example, Podolny, Stuart and Hannan (1996) find that organisational centrality is related to organisational growth in technological based industries. Small enterprises that are more central in business networks experience higher growth, and within organizations, higher centrality leads to more boundary spanning behaviour (Donckels & Lambrecht, 1997).

Centrality in a network therefore has an effect on the access of information and innovation, and influence the tightness of a network. Hansen (1999) acknowledges that this can be an advantage when changes arise too rapidly to be codified. However, there may at the same

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time be adverse effects. Hansen (1999) points out that a tight network can be a disadvantage when one is seeking to innovate. Looser structures where network members are weakly connected to other networks provide access to the ideas not available in one's immediate circle of friends and acquaintances (Hansen, 1999). In this way, centrality is not a constantly contributing element in guanxi.

d) Ties

Ties are the last structural element of network that Perri (2006) suggests. In defining ties, Marsden (1990) differentiates ties into interpersonal and perceived ties. According to Marsden (1990), interpersonal ties are defined as “information-carrying connections between people”, and perceived ties are useful in measuring social influence, attitudes and opinions. Kilduff and Krackhardt (1994) find that within an organisation, comparatively, perceived relationships are shown to be more predictive of reputation than interpersonal ties. This approach allows comparison of the individual networks of entrepreneurs to gain insight into optimal structures for obtaining information that yields higher returns of information. Despite so, interpersonal ties are by no means less important in network.

Granovetter (1973, 1982) suggests that interpersonal ties come in three varieties: strong, weak, or absent; and that the strength of an interpersonal tie depends on the amount of time, the emotional intensity, the intimacy (or mutual confiding), and the reciprocal

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services which characterise each tie. At the same time, it is also remarked that one person's general friends (weak ties) and close friends (strong ties) are usually not acquaintances of each other, but groups of close friends are generally all friends with each other. Both the presence of ties and the strength of the ties between network members are considered to be important dimensions for researchers to consider when studying networks (Bloodgood et al, 1995).

i) Strong ties

Strong ties exist where network members maintain frequent contact with close friends, and are characterised by frequent contact and close relationships, fostering intra-group flow of information (Granovetter, 1973). Weimann (1993) suggests that strong ties facilitate the flow of information within a close-knit group, such as among family, friends and neighbours. High frequency of interaction, along with the intimacy and emotional intensity found in close relationships, facilitates information to flow quickly among network members. The individuals who make up strong ties usually know each other and are more likely to share the same opinions, providing limited access to new or unusual information (Maguire, 1983; Ibarra, 1993). The cultivation of strong ties with tacit knowledge, however, requires an environment of trust, respect and commitment (Durrance, 1998).

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ii) Weak ties

Weak ties are relationships featured by less frequent contact and less intimate, more intentional communication (Ashman, Brown & Zwick, 1998). Burt (1992) mentions that weak ties are critical elements of social structure; they enable information to flow into other social clusters and the broader society. Granovetter (2005) echoes and describes them as basic building units in the embeddedness and structure of social networks in society, serving to transmit information. It is through weak ties rather than strong ones that more novel information flows to individuals. Weak ties act as bridges, permitting information to travel from one network to another (Brown & Reingen, 1987; Weimann, 1983). Weak ties are also indicators of non-redundant information (Hansen, 1999). Granovetter (1985) has earlier suggested that successful entrepreneurs seem to have large networks of weak ties, which can offer the right information at the right time. To Granovetter, weak ties are important in the aspect that they bridge up closely knit groups of friends, and in this way, build up social cohesiveness. Zhao and Aram (1995) demonstrates with empirical support in the literature that the functions of weak ties in a social system include the facilitation of the speedy spread of new ideas, advancement of scientific endeavours, and greater integration of social subgroups and achievement of a consensual arrangement. Hence, weak ties should not be perceived to be related to the

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weakness of the relationship. Their values and strengths lie in their possibility of connections to other social systems (Ibarra, 1993). With national and international networks, weak ties are associated with growth for entrepreneurs in medium sized manufacturing firms (Donckels & Lambrecht, 1995).

iii) Absent ties

Granovetter (1982) describes absent ties are those relationships without substantial significance, such as nodding relationships between people living in the neighbourhood or the tie to a vendor one makes frequent purchases from. Even if there is frequent interaction, substantial relationship does not exist.

e) Trust

Although Perri (2006) does not include trust as a structural element of network, different scholars generally consent that network incorporates trust (Arrow, 1974; Johannisson & Peterson, 1984; Granovetter, 1985; Johannisson, 1987; Bhide & Stevenson, 1990; Hart, Stevenson & Dail, 1995; Monsted, 1995); and more specifically, that trust in others and building trust relationships are embedded in networks. One important aspect of trust, in terms of networking, is that it leads to co-operation (Szarka, 1990). Through mutual trust,

*“doing the party a favour is considered a privilege” (Johannisson, 1987, p.113)*

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Stiglitz also suggests that trust can be produced as

*“based on reputation acquired through consistent behaviour over time and is the product of human actions” (Stiglitz, 2000, p.65)*

Trust is an important element of networks. Granovetter (1985) and Monsted (1995) have highlighted the importance of trust in producing co-operation. Krishna (2000) considers that trust and co-operation form the core of social capital; and although the scope of trust may be narrow, people know the importance of trust and would seek to build up and maintain trust. Anderson et al. (2013) further suggests that trust is seen as required for successful collaborative innovation, which functions through providing a platform of confidence that nurtures flows of information and the exchange of tacit information.

#### 2.2.4 Role of personal network for entrepreneurs

Networking plays an important role in entrepreneurship. Through networking, linkages can be structured and mapped between individuals with loosely defined boundaries (Jarillo, 1988). As a process of interactions, networking is a coordinating power (Clark et al., 1986). Entrepreneurship can be understood in terms of different types of situations encountered and the social groups to which individual relates (Gibb & Ritchie, 1982). As



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Bruderl and Preisendorfer (1998) remark, the personal network perspective is based on the principle that entrepreneurship is a social role, and one's networks and position in the structure can be a source of competitive advantage for entrepreneurs (Burt, 1992). Granovetter (1985) further points out that one's personal network are the totality of all persons connected by a certain type of relationship.

Johannisson (1987) demonstrates the dual function of an entrepreneur's personal contacts in being a safety net and a tool for resources. Social supports through personal contacts enable the entrepreneurs to deviate from social norms when they need to take risks. Personal contacts also facilitate the entrepreneurs to obtain external resources, and to realise any organizational mission. Johannisson further suggests that the personal network allows entrepreneurs to be both "anarchists and organizers".

*"In contrast to the formal organization, the network favours 'adhocracy' rather than bureaucracy, process and flexibility rather than structure and stability. Additional unique organisational properties of the network are voluntariness, openness, and multi-functionality." (Johannisson 1987, p. 53)*

Ostgaard and Birley (1994) state the following in their study of personal networks and competitive strategy for entrepreneurial firms:

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*“...the personal network of the owner-managers is the most important resource upon which he or she can draw in the early days of the firm’s development.”*  
*(Ostgarrad & Birley, 1994, p. 281)*

Personal networks therefore can play a strategic role in entrepreneurial firms, and helps to deliver functions that bring upon essential business advantages.

#### 2.2.5. Functions of networking

The important role of network for an enterprise hinges strongly with the utilitarian functions that it carries. Networks function in bringing upon advantages that can be essential for the growth and maintenance of an enterprise. Advantages that entrepreneurial networking bring upon include the increase of innovation certainty (Dees & Starr, 1992), legitimacy (Starr and MacMillan, 1990), and the speeding up in the transfer of know-how and technology (Jarillo, 1988; Powell, 1990). A similar notion pointing to the aspect of advantages is “asset parsimony” and is widely echoed by different scholars. According to a study conducted by Ostgaard and Birley (1994), whether a young firm may survive and grow well depends on the capability of the entrepreneur to identify external resources and capture them. Ansoff (1979), Hambrick &

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MacMillan (1984), and Stevenson & Gumpert (1985) unanimously consider the strategic advantage of acquiring business goals and necessary resources with the minimum investment. In this regard, networking as a mechanism to produce this asset parsimony is especially important at the stages of inception and early development of a firm, when more intense and broad business relationships are essential. It could therefore naturally be expected that policies at the initial stage set for obtaining external resources would pose an influential pattern for a business venture (Zhao & Aram, 1995) to shape its success. Specifically speaking, the advantages include information and opportunities, contacts, resources and cost reduction.

a) *Information and Opportunities*

Information and identification of opportunities are important to entrepreneurship. Carsrud and Johnson (1989) remark that entrepreneurs depend very much upon the information and opportunities provided by social networks. In certain circumstances, information, as an important resource exchanged between a firm and its environment, may represent and offer numerous opportunities. Through networks, entrepreneurs find, acquire and learn about information and opportunities (Hills, Lumpkin & Singh, 1997; Johannisson, 2000). As Szarka (1990) remarks, through accessing information, networks allow entrepreneurs to realise opportunities and achieve entrepreneurial outcomes.

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Aldrich and Zimmer (1986) also suggest successful business people can gain access to business information. For example, those who are closest to the source can obtain information more cheaply than other (Hansen 1999). Bruderl and Preisendorfer (1998) remark that access to functionally dependable, exclusive, and less redundant information is provided through social networks. Through networks, according to Greve (1995), knowledge is diffused which makes it easier to start a business. Katrishen, Sandberg and Logan (1993) demonstrate that access to new technology can be gained, capital located, current market data gathered and competition appraised through networks.

Furthermore, the level of trust and goal congruence between individuals in a network can determine the “thickness” of information and influence when information is received (Borch & Arthur, 1995; Uzzi, 1996). Therefore, networks provide specific benefits for entrepreneurship, providing a mechanism to identify and exchange opportunities, resources and information. Networking illustrates the influence of social embeddedness and the associated dynamics of economic exchange (Portes & Sensenbrenner, 1993).

*b) Contacts*

A network represents the contacts between individuals. Several scholars have attempted to explain the functions of networking from the perspective that an entrepreneur has links to others and that these impact upon their activities (Aldrich & Zimmer, 1986; Bruderl &

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Preisendorfer, 1998; Harland 1995). A proportion of information gathering activity involves contact and exchange with networks of individuals who are linked by some common purpose or interests (Starr & MacMillan, 1990). Through network connections, related people are able to take advantage of opportunities before others are aware of them (Uzzi, 1996). Although resource theory points out that people interact and associate with others because they depend on them for resources (Birley, 1985), information flows between points in the structure at different rates and volumes depends on the nature of the relationships in network (Borch & Arthur, 1995; Foa, Converse, Tornblom & Foa, 1993; Leifer & Delbecq, 1978).

From the findings of a study on networking conducted in 1992, Kay (1993) concludes that the most important objectives of commercial relationships are co-operation (joint activity towards a shared goal), co-ordination (the need for mutually consistent responses), and differentiation (the avoidance of mutually incompatible activities). Kay (1993) thus sees a network as a group of firms that makes relational contacts with each other. The way in which entrepreneurs develop relationships, according to Birley (1985), results in the effect and influence of these relationships on entrepreneurial outcomes. Berg and Clarke (1986) further note that close relationships facilitate the exchange of a greater variety and higher quality of resources than those in casual relationships.

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c) Resources

Burt (1992) attributes the success of entrepreneurs to their ability to identify opportunities and access valuable resources from their environments to start and build businesses (for example money, social support, product ideas, markets, and information). Burt (1992) further suggests that resources are obtained through exchange relationships between the entrepreneur and his/her social networks (for example, relatives loan money to one another; husbands or wives grant each other permission to use family resources; colleagues or business contacts become partners or customers; and acquaintances give advice about lawyers, accountants and bankers). Ostgaard and Birley (1994) suggest that personal network provides avenues to resources that are not available internally. A network provides a mechanism for acting upon the external environment (Weick 1969; Johannisson 1988) and the means for generating and using social capital (Baker, 1990; Burt, 1992; Anderson & Jack, 2002). Such network functions may offer an option, perhaps even a better alternative, to the restrictions imposed by the limited supply of internal resources for the new or growing venture (Anderson & Jack, 2002). The success of an enterprise may rely on the ability of its entrepreneurs in getting resources that are beyond their sphere of control (Zhao & Aram, 1995).

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According to Aldrich et al (1989), networks with more resources should be more helpful than those with less; and entrepreneurs with diverse social networks should have more success because the entrepreneurial process requires a diversity of resources. It shows that entrepreneurship is embedded in a social context (Aldrich & Zimmer, 1986; Carsrud and Johnson, 1989). Birley (1985) highlights that entrepreneurs, by seeking resources, subconsciously seek reassurance about decisions and the viability of the business. According to his research, MacMillan (1983) finds that networking serves to lower the risk of a new venture by showing its credibility. Birley (1985) demonstrates that through community ties, an entrepreneur can acquire advice, financing, and clients. Therefore social networks can act as a resource base that enables entrepreneurial activity to take place. This resource base may also be crucial to starting and developing a business, improving the chances and likelihood of success (Johannisson, 1987; Johannisson & Nilsson, 1989; Ostgaard & Birley, 1994; Bruderl & Preisendörfer, 1998) and supplementing the entrepreneur's own business resources (Johannisson and Peterson, 1984; Johannisson, 1988).

d) Cost reduction

Gulati (2007) remarks that network can reduce search costs by allowing firms to discover new opportunities. Smeltzer and Fann (1989) and Von Hippel (1976) also suggest that

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personal contacts with knowledgeable individuals external to the organization can save the expenses for costly hired consultancy, and allow useful product ideas to be developed. Networks also provide access to customers and suppliers (Malecki and Tootle, 1996; Brüderl & Preisendörfer, 1998). Through capitalising on social relationship, entrepreneurs can acquire a positive image and access resources at favourable prices, which are usually below the market ones (Starr & MacMillan, 1990). In this way, the business cost will be reduced.

#### 2.2.6. Network interaction

The type of interaction in a network structure can have an effect on access to information and other advantages. Both Granovetter and Marsden suggest that frequency, emotional intensity, intimacy, and perceptual homophily shared between network members can affect the flow of resources (Granovetter, 1985; Marsden, 1990). Furthermore, besides being a key feature and dimension of network structure, trust also plays an important role in network interaction. According to Hardwick, Anderson and Cruickashank (2013), trust is found to be a requirement for successful collaborative innovation. These elements in network interactions will be discussed as follows.



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a) Frequency

Frequency measures the number of occurrences a resource, for example, a piece of information, flows between two network members. Increasing contact occasions enables increasing number of opportunities to establish a close relationship, thus allowing the exchange of information among network members (Foa, Converse, Tornblom & Foa, 1993). Frequency of contact is especially important for information that is complex and changing (Alange, Jacobsson & Jarnehammer, 1998), as updated information would pass on more easily. Aldrich, Rosen and Woodward (1997) find that for new entrepreneurial ventures, the frequency of contact with network members has a positive effect on their performance.

b) Emotional Intensity

Emotional intensity measures the closeness of a relationship and can be equated with friendship (Marsden & Campbell, 1984). Indicators of emotional intensity include the mutual assessment of the level of friendship in a relationship, and the degree to which the focal individuals spend time together socially (Granovetter, 1973; Marsden & Campbell, 1984; Schaefer & Olson, 1981). Friendship quality is based in part on the willingness of both parties to spend free time together (Winstead, Derleger, Montgomery & Pilkington, 1995), and closeness infers “self-disclosure, help and support, shared interest, expression,

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trust and acceptance“(Parks & Floyd, 1996). Emotional intensity is the best indicator of unobserved tie strength (Marsden & Campbell, 1984).

c) *Intimacy*

Intimacy exists when a person shares experiences in different areas with another person, usually at a deeper level, verbally or non-verbally, and with an expectation that such sharing would continue over time (Olson, 1975). Similar to trust, in which doing the other party a favour is considered a privilege (Johannisson, 1987); intimacy measures “the perceived level of mutual confiding present in a relationship” (Olson, 1975). Intimacy implies commitment and acceptance, and involves a high level of self-disclosure (Gilbert, 1976). When relationships are intimate, usually more personal matters like family issues and opinions on political topics would be discussed (Marsden & Campbell, 1984). It is also more likely that among common friends, similar ideas and interests would be shared (Olson, 1975).

d) *Perceptual Homophily*

Perceptual homophily affects the flow of resources shared between network members. People tend to associate with others who are like themselves (Blau, 1964). Guy et al. (2010) refer to this as perceptual homophily, or the degree to which network members

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share values and experiences. According to Guy et al. (2010), shared and similar values and norms can facilitate the flow of information in a network and provide better access to information. Tsai and Ghoshal (1998) demonstrate that shared vision and ideas contribute to the creation of trust among network members, which in turn increases the flow of resources between business units in a firm.

e) Trust

Trust is increasingly recognised as multidimensional and exists at the individual, organisational and inter-organisational levels (Lewicki and Bunker, 1996). Anderson, Hardwick and Cruickshank (2013) find that the development of trust is crucial for collaboration, and trust also helps overcome the tension between knowledge sharing and protection (Bogers, 2011). In the virtual networking environment, according to Anderson et al. (2013), the evolvement of trust determines the extent of tacit knowledge to be exchanged, which in turn shapes the success of collaborative innovation.

### 2.2.7 Network applications

Scholars (Storey, 2002, Johannisson, 1987; Cook & Emerson, 1984; Johnson & Mattson, 1985; Rogers & Whetten, 1982; Ostgaard & Birley, 1994; Granovetter, 1985; Shaw &

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Conway, 2000) have tried to categorise networks in a boarder perspective to illustrate the different applications, which include personal network, organisational network, and entrepreneurial network.

a) Personal network

The study of personal network and enterprises' competitive strategy conducted by Ostgaard and Birley (1994) mentions that

*“... the personal network of the owner-managers is the most important resource upon which he or she can draw in the early days of the firm's development”*  
(Ostgaard and Birley 1994, p.281).

According to Storey (2002), a personal network consists of friends and relatives who build up strong and indispensable ties. Whether an entrepreneur will be able to start a business or not, networks play a supportive role. Granovetter (1985) considers personal network as strong ties, and relationship between suppliers and customers as weak ties.

b) Organisational network

Storey (2002) sees a network as a natural development of organisational structures and forms in our new entrepreneurial society. It shows that companies have moved towards

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externalisation of relationship and towards diversified activities, performance-based control and the open-market mode of regulation. Organisational networks can be viewed as “relatively stable structures of power and commitment” (Cook and Emerson, 1984). Features of these networks include the existence of a division of labour (Johnson & Mattson, 1987) with effective coordination and action plans (Rogers & Whetten, 1982).

c) *Entrepreneurial network*

There may be a paradox in that although entrepreneurs are sometimes seen as “notoriously independent, self-reliant individuals with a high internal locus of control” (Longenecker, McKinney, & Moore, 1988), many are also actively engaged in networking (Jack, Drakopoulou Dodd and Anderson, 2008; Drakopoulou Dodd and Anderson, 2007). It is argued that networking is a strategic tool (Anderson and Atkins, 2001) to locate entrepreneurs in their social and economic context (Anderson, Drakopoulou Dodd and Jack, 2012). Thus this conceptualising of the individualised entrepreneur neglects the importance of networking (Cooper, Woo, & Dunkelberg, 1988), Shaw (2004) suggests that most entrepreneurs rely heavily on networks which provide functional ties that are either or both social (affective ties) and commercial (instrumental or calculative ties).

An entrepreneur's network can provide a significant and useful source of social capital,

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which, in turn, may increase a new venture's likelihood of success (Smith et al, 2008). According to Drakopoulou Dodd et al, networks are important because they provide entrepreneurs with an abundance of diverse information and access to a large pool of resources (Drakopoulou-Dodd et al., 2006) and that entrepreneurs must engage in networks (Huggins, 2000); and use these “powerful” assets (Elfring and Hulsink, 2002). Evidently, the interactions that can take place particularly within the personal contact network of the entrepreneur - for instance, with business colleagues, family, friends, customers, suppliers and competitors. (Johannisson,1987; Reese and Aldrich, 1995; Szarka, 1990) can bring many benefits.

Shaw and Conway (2000) indicate five broad categories of networks to which entrepreneurs can be connected.

- i. Scientific and technical networks,
- ii. Professional networks, such as in the fields of medicine or education, which are bound by professional ethics of co-operation,
- iii. User networks developed with the end-user of a firm's products, (Anderson and McAuley, 1999)
- iv. Friendship networks, the personal networks based mainly on friendship,
- v. Recreational networks, friendship networks whose cohesion arises from the

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mutual feeling of attachment to some recreational activity, such as sailing, mountaineering or rugby, where the feelings of challenge, achievement and comradeship, through participation, create and maintain personal bonds.

- vi. Different network positioning has important impacts on resource flows. As Shaw remarks, entrepreneurs, at an early stage of enterprise development, depend heavily on an informal network of friends, family members and social contacts from the local neighbourhood to gather relevant data (Shaw, 2004). Entrepreneurs treat network, especially the deployment of ties to family, friends and existing business contacts, as an expansion of the operative space for a new business venture (Shaw, 2004) that provides the essential resources to start the venture. It is therefore understandable why entrepreneurs spend much time and effort in establishing new contacts and maintaining existing contacts. Hence, for entrepreneurial outcomes, an entrepreneurial network is a support structure for business start-up and exists among owners/entrepreneurs in small firms for development and growth (Shaw & Conway, 2000).

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### 2.2.8 Summary on networking

The above literature presents the importance of networking: networking allows the entrepreneurs to draw resources to their venture, provides the mechanism through which the entrepreneurs enact the environment and understand the social context, and allows entrepreneurs to develop social capital, facilitating the flow and exchange of information and resources (Anderson & Jack, 2002). It is generally agreed that the key feature of social networks is that they are formed on the basis of relationship with others, and such relationship links the different network aspects (Bjerke, 2007; Monsted, 1995; Birley, 1985). Hakansson and Johanson (2001) also remark that each network is embedded in a set of connected relationships forming a network structure.

However, relationships are fragile. Rees and Aldrich (1995) suggest that personal network involve direct, concrete, specific relationships which an individual has with others. Individuals have their own special history with others and their own expectations, which are reflected in their willingness to engage in mutual commitments (Dubini & Aldrich, 1991, Johannisson 2000). Relations with others involve emotions which can become uncontrollable and irrational; they can potentially damage or be creative within social structures (Johannisson, 1987). Moreover, a network consists of both informal relationships (strong ties) and formal relationships (weak ties) (Bjerke, 2007; Monsted,



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1995; Birley, 1985). Johannisson (2000) argues that formal relationship is more likely to be bureaucratic, and thus an informal relationship is preferred because it is more potent. Mutual interests and benefits, and exchange of favours within network have not been fully reflected from the network theories. Such aspect in the nature of these relationships adds complexity and difficulty to the study of networks.

Networking is a very complicated subject. It is impossible to integrate these diverse applications into a single all-encompassing web (Barabasi, 2002). According to Castlls, networks can be only considered as a new socio-morphology of society and an influential factor that affects functions and results of production, process, experiences, power and culture (Castlls, 1998).

One of the aspects that the concept of network does not encompass is the exchange of favours and the cultivation of relationship; and the involved implications. Guanxi, however, not only helps to explain relationships, but also states how members reciprocally participate in the continual and repetitive games that involve the exchange of favours, the assessment of trust, and the sharing of benefits. In the following sections, the study explains what guanxi is, its nature and characteristics, and explores the differences between network and guanxi.

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## 2.3 Nature of Guanxi

“Guan-xi” is the English word translated directly according to the pronunciation of a Chinese term (in Chinese characters, it is 關係), consisting of two Chinese characters “Guan” and “Xi”. The character “guan” means a gate or a hurdle, and “xi” refers to a tie, a relationship, or a connection. Although guanxi literally means passing the gate and getting connected (Lee & Dawes, 2004), with the emphasis on the second syllable, it literally means "relationships". However, the meaning of Chinese guanxi is much more than simply a relationship or networks. Indeed, Hackly and Don (2001) suggest the term guanxi is so unique and with such significant implications that it is difficult to find an equivalent English word to accurately express what guanxi really means. Therefore, there is, so far, no single and generally acceptable definition of guanxi in the English language (Parnell, 2005).

Different scholars attribute different definitions to the term guanxi. Pye (1968) defines guanxi as an interpersonal relationship. Buttery and Wong (1999) believe it is a relationship for “achieving status and moving from being an outsider to an insider”. Yang (1994), Bian and Ang (1997) and Davies (1995) agree that guanxi is social interactions wherein members reciprocally engage in the infinitely repeated games that include exchange of favours, the evaluation of trust, and the sharing of benefit with a set of people

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that they know in the network. Exchange of favours is thus the basic foundation of guanxi (Park & Luo, 2001).

The existing literature suggests that guanxi connections are underpinned by strong Chinese culture (Bian & Ang, 1997; Cheng & Rosett, 1991; Fei, 1992; Fried, 1953). Luo and Park also suggest that guanxi is a system of social ties in China (Luo, 1997; Park & Luo, 2001). Yeung and Tung (1996) review the concept of guanxi in the context of Chinese culture and define it as a connection which allows transactions or exchanges aiming at mutual benefits. Individuals may have some choice as to the numbers of groups and/or networks to which they belong and to their degree of personal involvement, but an all-embracing networking “system” appears to be inescapable and a very immediate social reality for all Chinese people. In China, personal relationships exist in every aspect of Chinese society, and interpersonal relationship is the core concept of guanxi (Yang, 1994). As guanxi is a relationship between and among people, such system may include different levels of people which is referred to as a network or guanxi “wang” (Simmons et al, 1996) or a network or web (Wong & Tam, 2000). In Chinese, “wang” means network or web. Thus, when Chinese use the term “guanxi wang”, they mean an interconnected web of relationship (Simmons et al, 1996).

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Exchange, or reciprocity, is crucial in fostering and sustaining guanxi (Redding & Ng, 1982). Hwang (1987) points out that guanxi involves exchange of social obligations. Once guanxi is established between two persons, each can ask a favour of the other with the expectation that the debt of obligations incurred will be repaid sometime in the future. Although guanxi can deal honourably and fairly with those who reciprocate (Li & Wright, 2000), such reciprocal exchange of favours may not be regarded as necessarily equivalent to commercial intents that may be requested or returned in the future (Redding & Ng, 1982). Consequently, such relationship based exchanges can be described as communal and instrumental relationships (Winstead, Derlega, Montgomery & Pilkington, 1995). Easton and Araujo (1994) further suggest that the expectation of future exchanges reduces the likelihood of malfeasance and opportunism. Therefore, guanxi can be seen as a powerful force to generate dense circles of relationships and to invest and maintain social capital.

Li and Wright (2000) argue that such exchange relations, and the relationship between two people can be understood as an expectation that, more or less, they will give as well as take. Yang (1994) similarly agrees that mutual interests and benefits, or special favours and obligations form the basis for guanxi. Bian and Ang (1997) highlight that guanxi's key characteristic is this trustworthiness embedded in exchange. In summary, the nature

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of guanxi is this special relationship. Specifically, it is a special form of social capital, with some sense of mutuality, and is also facilitated by the acknowledgement of the trust that will ensure that favours will eventually be returned.

Luo (1997) identifies five characteristics of guanxi as follows.

- a) Guanxi is transferable. If A has guanxi with B and B is a friend of C, then B can refer A to C or vice versa. Otherwise establishing interaction between A and C is difficult. The success of transferability depends on how satisfactory B feels about his guanxi with A and C, respectively. As a result, formal business correspondence is usually likely to be ignored and a reply is only possible when direct personal contact has been established.
- b) Guanxi is reciprocal. A person who does not follow a rule of equity and refuses to return favour for favour will lose his face (“mianzi”) and thus become regarded as untrustworthy. However, exchanges often favour the weaker partner. At the individual level, guanxi links two individuals, often of unequal ranks, in such a way that the weaker partner can call for special favours for which he does not have to equally reciprocate.
- c) Guanxi is intangible. It is built up with overtones of unlimited exchanges

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of favours and maintained over time by tacit commitment to others in the guanxi web. Individuals who are in a guanxi relationship have obligations for one another through an informal, invisible and subtle rule of reciprocity and equity. Not paying enough attention to this informal obligation can harm a person's social reputation, causing humiliation and loss of prestige or face.

- d) Guanxi is essentially utilitarian rather than emotional. Guanxi bonds two persons through the exchange of favours rather than through sentiments. This relationship does not have to involve friends, though that is preferred. Guanxi relations that are no longer profitable or based on mutual exchanges are easily broken.
  
- e) Guanxi is virtually personal. Guanxi between organizations is initially built up on personal relationship which continues to be maintained by the involved individuals. Upon the person's departure, the organization loses that guanxi as well. That means that guanxi is personal and associated with a person instead of a group or an official rank. Since the "iron rice bowl" (a stable lifelong job) career situation has been broken and that there is the rise of township and village enterprises and privately owned business in the early 1980s in China,

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guanxi becomes operational more on the organisational level. State-owned firms deploy the “contractual liability lever” in their management and reward systems. Employees have become keener on rewards like commission or personal advancement, and would strive to obtain these rewards in order to survive. Personal guanxi comes into play in facilitating the process.

In summary, Chinese guanxi is transferable, reciprocal, intangible, utilitarian and personal.

## **2.4 Origins of Guanxi in Chinese culture**

Guanxi, though present in some form in every human culture, is ubiquitous and plays a crucial role in daily life in China.

*“In China, guanxi is not something that can be restricted to only certain groups of people ... these relationships are built into hierarchical social structures” ( Tung & Worm, 2001, p. 182).*

Hwang (1987) mentions that China is a land of guanxi, and nothing can be done without guanxi. Gold et al. (2002) considers guanxi is present in almost every realm of life, from politics to business and from officialdom to street life. Guanxi, with long heritage, are

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delicate fibers woven so much into every Chinese individual's social life (Fan, 2002) and many aspects of Chinese society (Luo, 1997), to an extent that guanxi has already become "a fixed element of culture and society" (Wong and Tam, 2000).

In the west, relationships grow out of deals. In China, deals grow out of relationships (Farh et al, 1998). Guanxi, occupying such centrality in Chinese life, is the prerequisite for obtaining approval for, and access to, "just about everything in China" (Tsang, 1998). Guanxi is considered the most important mechanism and guiding principal in economic and social interaction and organization in China (Yang, 1994; Fan et al, 1997).

#### 2.4.1 Guanxi and Confucianism

Hwang (1987) attributes the importance and ubiquity of guanxi to the fundamentals of Chinese culture, traditions and social organisation; specifically the cultural philosophy of Confucianism (Yang, 1994). Yongqiang & Zhilong (2006); Hutchings and Murray (2002); Bian and Ang (1997); and Cheng and Rosett (1991) consider that China has a unique business culture based on family networks or guanxi connections underpinned by strong Confucian ethics. Confucian tradition defines individuals in relational terms (Yang 1994) and relates individuals to their significant others (Bian & Ang, 1997) in a huge network of



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society with individuals playing specific roles. Confucianism emphasises harmony and requires the ordering of relationships.

Thus guanxi functions as a way, a mechanism or even a process for operating the relationship to maintain the Confucian harmony and balance, through one or more of the four kinds of basis social relations: employer-subject, father-son, husband-wife, friend-friend. Historically and up to the modern era, many Chinese have lived in encapsulated communities that are hierarchically organised, with major economic and other resources controlled and allocated according to Confucian hierarchy by a few power figures (Cheng & Rosett, 1991). This tightly knit social framework (Pearce and Robinson, 2000) with relational obligations provides mutual protection, safeguard members' interests, and provides access to resources (Yang 1994) and meanings of human relationships. Carlisle and Flynn (2005) remark that in this modern Confucian construct, harmony is achieved through guanxi in life and business.

#### 2.4.2 Guanxi and Chinese culture

Guanxi, as described by Farh et al. (1998), consists of personal connections that are defined by mutual obligation and reciprocity supported by a sense of goodwill. Although

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in many societies it is not uncommon to depend on “relationships” to provide the members of a group with the measure of trust necessary to underpin business transactions (such as the Japanese “wa” and the English “old boy network”), Chinese guanxi places a specific emphasis on family ties, mutual trust, and shared experiences (Hwang, 2000). When a Chinese individual encounters a problem, personal or organisational, naturally he or she will resort to his or her guanxi “wang” for assistance, and may further tap into the networks of those with whom he or she has guanxi. In China, guanxi is not something that can be restricted to only certain groups of people. Its networks form is generally at three levels of relationship: family members, friends (including schoolmates, business partners or colleagues) and strangers (Don & Dawes, 2005).

This guanxi network, or guanxi wang, remains an informal, almost “invisible” group and intangible. It can be very influential but remains unrecorded and undocumented (Tsang, 1998). Don and Dawes (2005) agree that Chinese society has been seen to be organised by concentric guanxi circles, extending outwards from the family (the core) to relatives and friends. The web of these obligations can be seen as the fabric of Chinese society. Furthermore, an individual will fall into a natural guanxi-web in his/her socialisation process after he/she is born. As Chinese live in a relationship society, a web of social ties connects them. An individual frequently sees himself or herself as member of a web or

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social tie. There are direct ties bonding an individual with his peer groups and indirect ties connecting him with members from other groups, which are embedded in the same network of his group (Merrilees & Miller, 1999).

Fan (1997) agrees with Tsang and remarks that Chinese society has long been known for its emphasis on guanxi as a guiding principle of economic and social organisation (Fan et al, 1997). According to Yang (1994), the manufacturing of obligation and indebtedness is the primary and binding power of personal relationships in contemporary China and guanxi provides the lubricant for Chinese to get through life (Yang, 1994). Therefore, guanxi would appear to be not merely as a cultural artifact, it is a major social institution within China.

## **2.5 Guanxi Elements**

While trust is commonly agreed as an essential element for guanxi effectiveness, there are several other Chinese social values that would characterise, structuralise and determine the effectiveness of guanxi. They are face, affection, gifts, and reciprocity. Each of them will be discussed below. In an interpersonal relationship context, Hwang's (1987) resource allocation model has integrated these concepts that are embedded in Chinese guanxi. He

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proposes that the probability of a resources allocator accepting a petition for resource allocation is a function of the closeness of guanxi between the allocator and the petitioner, which in turn is a function of the level of their affectionate relationships, the probability of receiving a reciprocal favour, and the need for giving “face” to the petitioner. Lovett, Simmons, and Kali (1999) and Park and Luo (2001) also suggest that reciprocity of favour, face preservation, and affection are the necessary components of guanxi.

### 2.5.1 Trust

Trust is an important ingredient of guanxi. Chen and Chen (2004) highlight that trust is essential guanxi closeness, and higher level of trust indicates a closer relationship. In fact, according to Pye (1982), trust sometimes plays a more prominent role than legal contracts among Chinese businessmen. Trust can be transferred from “proof sources” to another entity with which the truster has little or no direct interaction (Milliman & Fugate 1988). The trust proof source can be an institution or a person, that means, if an individual is trusted by another person, his reputation, as being trustable, can be transferred. Thus it is a reputational good. According to Ganesan and Shankar (1994), trust is a necessary prerequisite for long-term orientation because it shifts the focus to future condition. Long-term orientation encapsulates the intention of the parties towards a long-term relationship,

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which encompass expectations of continuity of a relationship (Noordewier et al., 1990). Anderson and Weitz (1989) remark that trust is the key to maintain continuity in relationships in the conventional channel.

Status acts as a base for trust; as trust can be based on someone's expertise which focuses on the expectancy that the person's word or written statement is reliable (Lindskold 1978). In general, the higher the position, the more the reliability of providing outcomes that match what he or she says or promises. Although trust is necessary to build up reliable guanxi (Redding 1990), Hamilton (1991), Kao (1991) and Redding (1990) argue that it is trust at the personal level, not at the organisational level, that continues to serve as the primary basis for business transactions.

### 2.5.2 Face

Guanxi involves a hierarchically structured network of relationships embedded with mutual obligations through a self-conscious manipulation of "face", "renqing" (favour) and related symbols (Yang, 1986). Face, or in Chinese "mianzi", refers to a person's claimed sense of positive image in a relational context, and it is gained by performing one or more specific social roles that are well recognised by others (Jacobs, 1979). Face

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describes a person's proper relationship with his or her social environment, and its importance lies in the consequence of living in a society that is conscious of social contexts (Hofstede, 1993). Goffman defines face as the

*“positive social value a person effectively claims for himself by the line others assume he has taken during a particular contact. Face is an image of self-delineation in terms of approved social attributes.” (Goffman 1955, p. 213)*

Furthermore, Goffman (1955) also proposes that the concept of face is universal and has special importance in China.

Redding (1990) points out that

*“The larger one's guanxi network is – and the more powerful the people connected with it are – the more face one has.” (Reading 1990, pp. 141)*

Hu (1994) also suggests that

*“Face stands for the kind of prestige that is emphasised in this country [the United States]: a reputation achieved through getting on in life, through success and ostentation.” (Hu 1944, p.45)*

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Though highly abstract, the concept of face is regarded by Chinese as something that is quantifiable and measurable. Chinese expresses it verbally in terms of quantity given and received and as if it is a commodity or object subject to gain or lose. One's guanxi network would affect the face one can have. On the other hand, a person needs to have a certain amount of face to foster a viable guanxi network. As Jacobs (1979) remarks,

*“Face is an individual’s public image, gained by performing one or more specific social roles that are well recognized by others.” (Jacobs 1979, pp. 237-273)*

The Chinese idiom “would rather make sacrifices than lose face” illustrates the importance of face. Because it is so important in the personal life of Chinese people, members of in-groups protect the other members’ face (Bond & Michael, 1991). Face is important not only for Chinese people’s personal lives but also for their business lives. Redding and Ng (1982) claim that face is a consistently important consideration in their professional interactions and that fear of losing face forms the basis for the informal system of contracts and agreements that are common in Chinese business. They also find that for middle-level business executives, face has a significant effect in business negotiations. To give face to someone during a business negotiation is respectable, whereas to jeopardize or challenge the other’s face is disapproved.

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Although face is important, people may lose face when, either through their actions or the actions of those closely related to them, they fail to meet important expectations placed on them by virtue of their social positions (Ho & Dye, 1976). A loss of face brings shame to people and their family, and causing others to lose face is denounced as aggressive by those whose face has been discredited (Tung & Yeung, 1996). In acquiring face, people are indebted themselves to various acquaintances who have helped them (Bond & Michael, 1991). Therefore, how to manoeuvre face is an important skill in both the personal and business circles.

### 2.5.3 Affection

Wall (1990) suggests that regardless of blood or social ties and the degree of closeness, guanxi is determined by affection. According to Yang (1994), affection, or in Chinese “ganqing”, refers to the subtle human feelings and emotions committed in long-term and intimate social bonds, such as those among parents and their children, close friends, and teachers and students (Yang, 1994). As an important element of guanxi, affection measures the emotional commitment of the parties involved.



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Affection is so critical that Chinese people tend to mix the word *guanxi* with affection and friendship, often using the words interchangeably. Notably, the word friendship in China is different from the western meaning of friendship. Chinese people tend to differentiate between two types of friendship. One is based on deep mutual affection and a willingness to sacrifice materially for a friend, and the other consists of affection and is established for the purpose of enabling mutually beneficial material exchanges (Wall, 1990). However, even when two friends desire only a mutually beneficial exchange, they still find that it is necessary to have affection. In both types of friendship, affection and mutual indebtedness go together (Kipnis, 1997). The concept of affection is also universal because it is related to human feelings, though the presentations of affection maybe different across cultures.

Affection, as a measure of emotional commitment, is built up through sharing and interaction through daily lives and work or study living. Specifically, it can be nurtured and lubricated by gift giving as an indication of goodwill and respect (Jacobs, 1980). *Guanxi* can exist without affection, but affection needs *guanxi* as a base. For instance, the *guanxi* base may have arisen purely because both parties are alumni of the same university. But if one has already graduated before the other entered the university, the *guanxi* between the two would be very distant for any affection to develop (Wall, 1990).

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In short, to strengthen the guanxi, people have to invest time to cultivate affection. If two persons are not on good terms because of a clash of personalities or other reasons, their affection base is weak. It also follows that their guanxi is weak. Affection is a manifestation of Chinese personal relationship, closer guanxi between two persons helps their relationship move toward in-group-like relationship (Fukyuama, 1995).

#### 2.5.4 Gifts

In building guanxi, gift-giving continues over time. As guanxi ties need to be continuously reinforced (Alston, 1989), presenting a gift to enhance guanxi in Chinese society are not unusual. Gift-giving can be viewed as investments in relationship and they are not fee-for-service bribes (Gupta, 1992). There is a general understanding that, in China, gift-giving will cultivate connections. Chinese people invest a lot in building the quality of their guanxi through gift-giving. This also brings forth its blurring boundary with bribery.

In China, two of the most frequently used tactics to enhance guanxi are presenting a gift to and treating a banquet for the other party (Hwang, 1987). Banquet inevitably consists of wine-and-dine. Gift-giving and wine-and-dine are some of the common means of

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initiating and maintaining guanxi, but given the rampant corruption in China, it is understandable that these guanxi-enhancing actions are frowned on or disapproved as dirty and quick way (Shaw & Meier, 1994). However, outright bribery may be useful to get a business transaction done on a one-off basis, but it cannot buy affection, which is an essential element of guanxi. The risk of over-reliance on the gift-giving and wine-and-dine components of guanxi (Huang, 1987) would mean the crossing of the boundary into the bribery arena, leaving guanxi tainted with ill intent and scornful shade. It is not easy to walk the fine line.

With the blurred boundaries of bribery and gift-giving to enhance guanxi, enlightened management would expect executives of private companies to avoid unnecessary risks and unfavourable image, and to invest more in building the quality of their guanxi to protect themselves from the risk inherent in China's uncertain legal environment. Their expectations will be reflected in their gift-giving patterns (Huang, 1987). All in all, there is a fine line between gift-giving for building up guanxi and bribery.

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### 2.5.5 Reciprocity

The element of reciprocity in guanxi bonds the exchange parties through reciprocal exchange of favours and mutual obligations (Lee et al, 2001). A personal relationship partner, after obtaining a help favour from another partner, is obliged to return the favour once opportunity arises (Hwang, 1987), in order to sustain the guanxi. Farh (1988) suggests that guanxi consists of personal connections that are defined by mutual obligation and reciprocity supported by a sense of goodwill and personal affection (Farh et al, 1998). According to Alstron (1989), unlimited exchange of favours as adopted by the Chinese executive strengthens the bonds between the two parties. Reciprocal favour has several implications for the individual in Chinese culture (Hwang, 1987). First, it indicates the emotional or affective responses of a person who is confronting various life situations and demands. Second, it is a resource that a person can present to another as a gift in the course of social interaction. Third, it connotes the social norms by which a person must abide by to get along well with others. Reciprocal favour, with its rules and implications, facilitates the survival of each person in the group and thus the survival of the group (Hwang, 1987).

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## 2.6 Guanxi Applications

Guanxi exists and is nurtured in different spheres, including the immediate family members, the larger relative circles, public and government organizations and private business firms. Among Chinese people, close friends address each other as family members like brothers or sisters. Close neighbours refer to each other as uncles or aunts, and relations between masters and apprentices and between teachers and students are considered father-son relations. These are not merely names people call each other; they set up a high moral standard that ties people together in a close relationship (Studwell, 2002). Persons in these dyadic relationships are expected to help each other as if they are fulfilling obligations to their family members. As with blood relations, these dyadic ties are expected to last for a long period of time (Coleman, 1994).

Guanxi, as featured heavily with reciprocal obligations, is not limited to family and kinship. It can be extended to non-kin ties. For example, offspring, relatives and confidants of senior politicians and public officials offer their guanxi as services for a favour, or even for a fee, for making “back-door” connections with important public decision-makers whose decisions could crucially affect the functioning of one’s business or daily life (Studwell, 2002). Such favours, which are also considered as guanxi cost or guanxi-based exchange, specifically lies in the way guanxi deals with either governance or

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non-governance problems associated with bounded rationality and opportunism (Standifird & Marshall, 2002).

Guanxi represents a powerful force to reproduce dense regions of relationships and to maintain and accumulate the value of inherited social capital (Studwell, 2002). In China, transactions often follow successful guanxi. Chinese firms use guanxi to mobilize complementary benefits by arbitraging different networks and even potentially negotiating between competing networks (Chiao, 1982). As Burt (1992) suggests, given the uncertainty and confusion in China's transition economy, firms develop guanxi to broker structural holes and alter the existing network structure (Burt, 1992).

## **2.7 Guanxi Development and Maintenance**

Guanxi is social capital because it involves exchange of social obligations and determines one's face in society (Hwang, 1987). Its viability depends on the members' commitment to the guanxi and to one another, and how it develops and maintains over time. Building guanxi networks requires strategic thinking. A successful business strategy that would help to establish guanxi should include short- and long-term guanxi targets and needs, and take into consideration the way to deal with the indebtedness created by guanxi.

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According to Li and Wright (2000), coping strategies can involve deniability, neutralization, complementariness, and face. As Li and Wright describe, deniability hinges on the ability to conceal or to put distance in a relationship through, for example, the use of trusted intermediaries. Neutralization refers to the ability to balance debts and obligations. Complementariness engages multiple parallel relations to reach the instrumental objective. The concept of face becomes important in building a network as care should be taken not to create liabilities for the guanxi target (unless that is the explicit objective) and to offer a way out. Needless to say, this requires an insider with a network of informers to keep one abreast of developments (Li & Wright, 2000). In developing guanxi, the higher the social status, the greater the commitment of the parties involved. Higher social status creates greater “face” for the intermediary, which in turn leads to greater social obligations for the parties to develop and maintain their guanxi (Li & Wright, 2000).

Once guanxi has been built, the maintenance of guanxi relationships involves expectations and continuity. Tsang (1998) suggests that there are certain expectations from the guanxi target. An individual would be expected to have moral integrity, not exposing the target or creating any vulnerability, not abusing the target or the target’s network, and watching out for the target. The target will also presume that the relationship will be maintained

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continually (Tsang, 1998). Foreign managers in China may be mistaken to think that it is sufficient to establish a relationship and to call on the target if necessary without maintenance of the guanxi. Yang (1986) cautions that guanxi should not be considered as an emergency brake, as activation of it in an emergency would not be as effective as the provision of support in building roadblocks to prevent trouble.

Guanxi needs to be disassociated. Any instrumental objective achieved should be separated from the relationship to disassociate the benefit obtained from the target (Tsang, 1998). It is common that any benefit gained through a guanxi established with a political figure may become a liability if and when that figure's political attribute fades. And in China's constantly shifting political landscape, this is a significant risk to be aware of. In this regard, the frequent rotation of Western expatriates in China may disturb the continuity and obligations built up by past guanxi. Managing the carryover of guanxi relationships is important. Perhaps it can be facilitated by introducing the new arrival into the network built by his or her predecessor, achieving at least a common ground; but in some sense, indebtedness, having its intangible nature, is difficult to be carried over. It should be noted that frequent rotation of expatriates in China disturbs continuity so fundamental to the guanxi game.



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The high cost of building guanxi networks makes it necessary for Chinese merchants to make efforts to maintain personal networks through in-group favouritism, loyalty and mutual obligations. This also means that they have to follow the tacit governing rule of the network: to honour one's words and guanxi role so that people who trust you will not lose "face" (Huang, 1987).

## **2.8 Reciprocity as an obligation**

Reciprocity, as an essential element of guanxi, establishes a connection between two independent individuals to enable a bilateral flow of personal or social transactions (Coleman, 1994) and the acquisition of resources (Tsang, 1992). Guanxi is cultivated through reciprocity, involving mutual exchanges of favours and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence and creating a sense of obligation and indebtedness (Standifird & Marshall, 2002). Whether a guanxi is feasible or viable depends on the members' commitment to the guanxi and to one another, and mutual responses to requests for assistance. Both parties must derive benefits from the transactions to ensure the continuation of such a guanxi. Guanxi encompasses reciprocal obligations and, in that sense, is definitely not a free lunch.

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Chen (1995) suggests that guanxi may be seen as a double-entry system, a continued exchange of favours between the two parties involved. In an instrumental and formal relationship, involved parties may negotiate an agreement for the exact date of reciprocation, and this may be recorded through some means, for example, a contract. In the more subtle guanxi relationship, reciprocal obligation is usually the unwritten but strong and social norm guiding an individual to get along with others and even has emotional and moral binding implications for Chinese people. The norm of reciprocal favour requires that all members of a group perform favours to help those in need and that all favours be repaid (Lee, 2003a). As Yang describes,

*“The manufacturing of obligation and indebtedness” is “the primary and binding power of personal relationships.” (Yang, 1994, p. 6)*

Such reciprocity encompasses a personal and ethical aspect. Reciprocity in Chinese is called “*bo*” or “*huibuo*” (meaning ‘return’); those who do not return favours are regarded as having “no credibility,” “no conscience,” and being “mean”, losing their face, reputation, and ultimately personal relationships and their peers’ trust. In China, “using” a guanxi creates an obligation to do something at a later date. One has to eventually fulfill that obligation, in order to be ethical. Related is the notion of “*renqing*”, the term implying a resource allocated to another person as a gift. There is a common Chinese

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saying “Repaying a renqing is more urgent than repaying a debt”, which means there is an utmost obligation to repay favour received. Favour seems like an item on an accounting sheet, when it is obtained by means of guanxi, an entry is made on the liability side at the same time when it is put on the asset side. A person will be considered untrustworthy if s/he does not follow the rule of reciprocity to return a favour (Alston, 1989). Failure to respect the commitment substantially damages one’s reputation, leading to a humiliating loss of prestige or face. The reciprocation is therefore related to the elements of trust and credibility, attributes more related to personal and ethical values.

The reciprocal exchange of favours, which is not necessarily convertible to commercial intents and may be called upon in the future, is essential to cultivate and sustain guanxi (Redding, 1982). On the socio-economic level, such reciprocity establishes a structural constraint that restrains self-seeking opportunism and preserves social capital within the existing network structure (Coleman, 1994). Chinese merchants, with their rich cultural traditional values, have long possessed this innate attribute of reciprocal obligation to develop circles of guanxi to minimize risks in terms of partners’ opportunistic behavior, which helps to bring about advantages like the enhancement of efficiency and reduction of various transaction, search and labour costs.

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## 2.9 Guangxi Advantages

Guanxi is an asset. Guanxi is pervasive, encompassing all aspects of societal functioning (Tung and Worm, 2001). Gold (2002) and Fan (1997) considers that guanxi lies at the heart of China's social order, economic structure, and changing institutional landscape (Gold et al, 2002), and acts as a guiding principle of economic and social organization in Chinese society (Fan, 1997). Wong and Tam (2000) claims that guanxi sits "at the core of Chinese culture and business". Tai (1988) suggests that guanxi provides the lubricant for the Chinese to get through life and that it heavily influences Chinese social behaviour and business conduct. In the economic arena, guanxi is equally ubiquitous. According to Chen (1994), since China began her economic reform and opened the door to the outside world in 1979, guanxi has become even more important and its utilization has become increasingly pervasive and intensive at the firm level. Therefore, it is not surprising that guanxi becomes an asset at the organisational level as even personal relationships are dedicated to and used by the organization (Yang, 1994). The pervasiveness and ubiquity of guanxi can be attributed to the many advantages associated with guanxi, in terms of connections, transaction cost and competitiveness.

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### 2.9.1 Connections

Some management consultants describe guanxi as “the informal connections so essential to gaining approval for or access to just about everything in China” (Cheng, Lucie, & Rosett; 1991). Although on a personal or micro-level, guanxi refers to the status and intensity of an ongoing relationship between two parties, it is regarded as equivalent to the network of social and business connections necessary in doing business in China (Arias & Gomez, 1998). Separating one’s economic activities from the ongoing social networks is a difficult, if not impossible, task (Granovetter, 1985). Guanxi in the contemporary Chinese business context, according to Davies (1995), is a device used by individuals with or without “expressive ties” (such as family ties) to build up “instrumental ties” with reciprocal obligation, for personal gain in the communist system. Yang also states that in China, a network of multiple relationships is necessary because of China’s constantly shifting political landscape, fragmented sources of authority, and the business person’s resulting need to be an insider at all levels of this hierarchical society (Yang, 1994).

The insiders/outside concept can help to distinguish highly effective guanxi networks from those that are less effective. Being an insider, an individual or organization would enjoy some reciprocal privileges within the guanxi network and obtain particular benefits in performing business activities (Chen, 1994). Wong and Chan (1999) indicate that

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insiders would provide the same kind of trust that could only be found in a network of family ties and that the trust would become instrumental within business circles, especially under an inequitable legal system. Specifically, Studwell (2002) finds that the necessity for effective business guanxi in relation to China's public bureaucracy is the emergence in recent years of small "consultancies" which offer their services for a fee, that is, making "back-door" lobbying similar to but close to informal bribery, to build up connections with important public decision-makers whose decisions could crucially affect the functioning of one's company (Studwell, 2002).

According to Boisot and Child (1996), a company's strengths and weaknesses depends on its resources, of which human relationships are the most important category. In such, a viable organisational-level guanxi requires strong relationships among key managers in the organization. In China, the importance of human relationships extends beyond the organisational level into the socio-economic scene. Thus developing, cultivating, and expanding one's guanxi became a common preoccupation (Fan, 1997). Building guanxi networks helps business people to gain access to and expand their local markets (Tai, 1988). Tung and Worm (2001) echo that guanxi, or proper connections, surpasses the price and quality of the product/service in importance and attention when doing business in China.

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### 2.9.2 Transaction cost benefits

Guanxi facilitates the realisation of the potential to make business transactions efficient. As a special type of relationship, guanxi ensures some types of trust among the members of a guanxi network which tends to minimise the risk of uncertainty and to minimize the inflexibility of asset specificity (David, 1995). Possessing guanxi may allow a manager to increase business sales, avoid fines or taxes, receive business permits or receive information on proprietary technology (Pearce & Robinson, 2000; Xin & Pearce, 1996). A study conducted by Standifird and Marshall (2002) finds that if the guanxi is well developed, the transaction-cost advantages of reduced environmental and behavioural uncertainties and opportunistic behaviour are enough to warrant the integration of guanxi- and market-based exchange. According to Standifird and Marshall's (2002) findings, the guanxi-based transactional arrangement appears to have significant latent strength by allowing for the reconstruction of transactions to meet new opportunities and changing circumstances. Moreover, the transaction cost advantages of guanxi-based exchange specifically lies in the way guanxi deals with governance problems associated with bounded rationality and opportunism. It would thus appear that the highly culture-specific phenomenon of guanxi is compatible with the standard western theory of transaction-cost analysis (Standifird & Marshall, 2000).

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According to Davies (1995), there are three important roles for guanxi in the Chinese business context. First, guanxi compensates for systematic inefficiency and institutional weaknesses. Second, as the communist institutional set-up does not motivate people through incentives, guanxi provides motivations and behavioural norms for relationships between members of society which distribute benefits and govern business opportunities. Third, in the context of the principle of “obligational contract” in traditional transaction economics, Davies suggests that guanxi acts as a substitute for spending time and money on lawyers and legal contracts. Without the presence of guanxi or the legal system, the range of transactions would be restricted.

### 2.9.3 Competitiveness

Guanxi is an important resource and necessary asset for business. Tai (1998) claims that since business activities are the breeding ground where guanxi can play a role, the ultimate realisation of the potential of guanxi depends upon the application and operation of different business interactions in which guanxi is involved. Davies (1995)’s survey findings among Hong Kong Chinese executives agrees with Tai’s suggestion. It is concluded that businessmen believe that once good guanxi has been established, a number of benefits would follow. These benefits include:



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*“the smooth running of routine business operations, information about government policies, and receipt of administrative approvals.” (Davies, 1995, p. 81)*

Another survey by Leung & Yeung (1995) also concludes that guanxi is important to the success of business negotiations in China, as the Chinese businessmen surveyed agree that business relationships start from personal guanxi.

Business organisations can create and maintain a competitive advantage through aggressively initiating a guanxi network, such as enjoying some privileges within the guanxi network, and obtain particular benefits in performing business activities. Managers can be encouraged to make hiring decisions based upon a job candidate's guanxi, develop strategic plans that include ways to grow guanxi, and conduct guanxi audits (Pearce & Robinson, 2000; Tsang, 1998).

Through building up their guanxi network, business people can use it to help them gain access to and expand their local markets (Chen, 1994). Luo and Chen (1997) thus describe guanxi as a lubricant to increase the efficiency and effectiveness of firms operating in the Chinese business system. According to Tai (1988) and Luo (1997), guanxi improves business performance through the enhanced relationship quality perceived, which in turn will increase future business potential, marketing efficiencies and

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marketing effectiveness. It produces cooperation and lubricates relationships, and is also a valuable entrepreneurial means to bridge gaps in information and resource flows between organisations, and also between organisations and important outside stakeholders who are originally unrelated (Davies, 1995). In this way, guanxi becomes a firm's core competency and distinctive competitive advantage which are essential for high performance.

## **2.10 Guanxi Disadvantages**

As a complex phenomenon, guanxi, notwithstanding its many benefits, understandably, entails disadvantages. Offsetting the benefits of guanxi is a number of disadvantages and hidden costs (Lee & Eills, 2000). For example, Li and Wright (2000) illustrates that guanxi, on one hand, may mean dealing honourably and fairly with those who reciprocate, but on the other hand, at its worst, it can slide into over-cozy favour swapping. The disadvantages and limitation of guanxi in the aspects of conflict and liability, negative images, reduced social responsibility and being a burden in business performance would be discussed.

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### 2.10.1 Conflict and liability

Guanxi may create conflict. Since guanxi is reciprocal and supported by a sense of goodwill and personal affection (Tsui, 1998), the open nature in its architecture and the lack of loyalty and formality in guanxi relationship may give rise to conflicting relationships. For example, conflict between the giver and recipient may arise when the other party does not reciprocate as expected, or the reciprocal level does not match the benefits originally received. As Luo (1997) explains, there is no first-mover advantage in establishing guanxi with a particular person unless the relationship is very close and of a kinship-type where loyalty and duty become essential keys, which renders conflicting relationship impossible. There is no guaranteed reciprocity for the initiating party, and the absence of reciprocal responses will bring about negative affections, erosion of goodwill, and even a conflict in relationship.

By the same token, while the economic value of guanxi is emphasised, its liability aspect is often overlooked. Adopting the previous analogy of an accounting sheet, an asset obtained through guanxi incurs a simultaneous entry on the liability side. Liability is produced when guanxi is obtained. A successful relationship in China brings efficiency and autonomy, in political or institutional sense, but at the same time it also brings personal dependence. Having somebody who is able to avoid or diminish interference for

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one's business or facilitate the approval process entails personal indebtedness. According to Wong & Chan (1999), such indebtedness can be a heavy liability instead of asset, as there is a need to focus on obligation and reciprocity after the original goal has been reached (Wong & Chan, 2000), and usually such obligation to reciprocate should not be unduly delayed. One example of liability of guanxi is that the party, for example, government officials, with which a company maintains guanxi, may make certain unreasonable demands. The company may feel obliged to fulfill the demands in order to maintain good guanxi with the officials (Lee & Eills, 2000) so that the relationship would not be spoilt and that further assistance would still be available. When the advantages brought by guanxi are received, liability and potential of conflict are incurred. Inappropriate or absence of reciprocal behaviours, which may be inevitable due to subjective or circumstantial limitations, will damage the original guanxi.

#### 2.10.2 Negative Image

Guanxi is associated with corruption and bribery in business transactions (Koo, 1995; Smeltzer and Jennings, 1998; Steidlmeier, 1999). It connotes a negative image and deviance from the moral norms. As Yang (1994) states, guanxi is considered as the synonym for corruption and other improper practices such as nepotism, bribery and fraud.

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According to Lee and Eillis (2000), favouritism is inherent in the practice of guanxi and may or may not be judged as nepotism. When there is an abuse of position and power, often associated with guanxi, the abuse may become unrestrained due to inefficient and bureaucratic administration and the absence of an effective monitoring mechanism. In this way, guanxi can give rise to corruption opportunities (Lee & Eills, 2000). Some people consider guanxi as simply an emotional desire for the pursuit of personal interest, or as an “under-table” type of corruptive behaviour.

Although some researchers (Lee & Eills, 2000; Dunfee & Warren, 2001, Chen, 1995, Tsang, 1994) attributes the causes of corruptive behaviour in guanxi networks to sociological causes like uneven income distribution, imperfect legal systems and social change, it is undeniable that guanxi provides a convenient platform to nurture corruptive behaviour. When guanxi is heavily depended on and resorted to for facilitating transactions and gaining advantages, the proper institutional system and rules are ignored or evaded. Benefits are often obtained at the expense of other individuals or firms, as business guanxi dealings create significant disadvantages to the parties outside the network, thus stifling equal competition and causing detrimental effect to the whole society (Yang, 1994).

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### 2.10.3 Social responsibility

Guanxi may infringe on social responsibility by bringing in unfair competition in an open market economy. It has an intrinsic nature of discriminating against people outside the guanxi network. An individual or firm is privileged by the advantages enjoyed by guanxi members but this will also mean competitive disadvantages to other firms (Tsang, 1994). When competing firms are disadvantaged, consumers and the society will be sacrificed (Chen, 2002). The discrimination against people outside the guanxi networks is against the Principle of Fairness (Transparency.org: the TI Source Book). The main problem, according to Lee and Eills (2000), is the severe handicap imposed on outsiders who lack guanxi and who must invest energy and resources to overcome this significant barrier to entry. Tanzi (1995) also remarks that business guanxi also violates the so-called “arm’s length principle” which states that no personal or family relationship should play any role in economic decision-making (Tanzi, 1995).

In this way, the use of guanxi is an ethical issue and such use may create social inequalities. Dunfee and Warren (2001) identify six potential problematic dimensions of guanxi:

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- a) guanxi may reduce societal wealth because an ad hoc consequential approach requires that each specific instance of guanxi be judged on its own merits;
  - b) guanxi benefits a few at the expense of the many because the majority are those disadvantaged by practice and lack opportunities to benefit from its use;
  - c) guanxi may violate important fiduciary duties accepted in local social norms;
  - d) guanxi may deviate from the historical authentic norms of relevant communities;
  - e) guanxi may override government regulations designed to protect public and human rights; and
  - f) guanxi may corrupt background institutions when special favours from government officials are directly inconsistent with the existence of a just legal system.

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#### 2.10.4 Guanxi is fragile and a burden

Guanxi can become such an unbearable burden that some companies may try hard to get rid of it (Chen, 1995). Chen (1995) even suggests that some companies perform “Guanxi Evacuation”. According to Chen (1995), when a firm relies heavily on guanxi and consumes much of its financial and managerial resources to cultivate and maintain guanxi, the expense and risks involved may outweigh any potential benefits such guanxi could generate, even hindering the realisation of the original business goals

It is very common that nowadays, when the new generation of Chinese entrepreneurs manipulates their guanxi networks, they will consider whether it is worthwhile to invest the resource and whether such investment would enable him/her to carry out actions that lead to financial benefits (Fock & Woo, 1998). Although guanxi is considered as resources (Tsui & Farh, 1997, Ashforth & Mael, 1989), useful resources must be valuable, rare, imperfectly imitable and not substitutable (Barney, 1991). It requires much time and cost in developing and maintaining guanxi and such may be perceived as a major disadvantage (Fock & Woo, 1998; Yi & Ellis, 2000). The Chinese saying, “renqing is as thin as a piece of paper only (renqing bi zi biao)” reflect the realistic fragility of guanxi. The first problem is that such endeavours may not achieve an appropriate guanxi. Secondly, guanxi could change overnight from asset into liability when officials in the guanxi network fall



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suddenly in disgrace (Fan, 2002). For example, the value of guanxi depends heavily on the status of the partner with whom the guanxi is maintained. Guanxi may become worthless or even turn into a liability once the partner loses power. Furthermore, there is little trust or commitment in guanxi relationship, especially in business to government relationship (Fock & Woo, 1998). Therefore, the intended benefit of guanxi transaction delivery may even never arrive (Fan, 2000).

## **2.11 Guanxi Ethics**

Ethics is also a consideration in performing guanxi. Conducting business ethically is a socially accepted norm and standard. However, according to its reciprocity nature, guanxi may lead to less than ethical conduct in a variety of spheres. Lovett et al (1999) states that though westerners often view guanxi simply as corruption, some may argue that guanxi is based on eastern principles, and can be as ethical as any western system. As China is emerging to become a world business giant, the claim to follow eastern principles become less defensible and requirements to adhere to more globalised standards of ethics are becoming obligatory and inevitable. However change behaviour is a complex process, especially when dealing with deeply-ingrained precepts in the morality and/or ethical

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realms. As Chang (1998) finds in her investigation of accounting and ethics in China, traditional training only touches upon a light awareness about corporate policies and regulations. Thus, a much more intentional, intrusive and intense intervention is necessary, one that strives to inculcate value by broadening the intellectual assets of the organisation, through building a conducive climate that encourages professionals to continue along a prescribed development path (Morris, 1992). It is only through awareness and long-term education and change in system that a higher ethical standard can emerge.

## **2.12 Myths of Guanxi**

Guanxi, with its root in Chinese culture and tradition, is pervasive and seems an integral part of the Chinese's social and economic life. It is said that there are people who live entirely on their guanxi (Tai, 1988). Building up one's guanxi can be considered as a form of social investments. As a form of social investment, developing, cultivating, and expanding one's guanxi becomes a common preoccupation (Hwang, 1987). As a result, the Chinese have turned the art of personal relations into a carefully calculated science (Hsiao, 2003). Although guanxi is subtle and usually not formalised, it receives a lot of attention and plays a high role in the Chinese's daily life and well-being; in spite of the

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advent of Communism and its changing façade in recent decades. It is not infrequent that guanxi is resorted to as the first handy tool and remedy when daily issues and difficulties in work and business operations are encountered, to the extent that there is an over-reliance on the power of guanxi.

Such belief of guanxi as bringing essential advantages has developed into a myth, beyond rational and practical considerations. Although guanxi is often considered to be the source of sustained competitive advantage for doing business in China, there is little theoretical basis for this view (Tsang, 1998). The guanxi phenomenon has seldom been discussed publicly by the participants, nor did its necessity receive sufficient attention by scholars or stakeholders. People frequently exaggerate its benefits, overestimate its necessity, wrongly calculate its cost and over-depend on its importance as a resource.

#### 2.12.1. Exaggerated benefits

The role and benefits of guanxi may have been grossly exaggerated and cannot be well substantiated (Fan 2002). Although many examples illustrate the many benefits generated because of guanxi, according to Fan's (2002) findings, there is no convincing direct evidence to show how and to what extent guanxi alone is beneficial to business

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performance. Luo (1997), Amber, Styles and Wang (1999) also find that the empirical evidences of the benefits generated are weak and even conflicting. For other elements in business management, like accountability, operational effectiveness and efficiency, profitability and human resources management, they can be studied, planned formally, measured, evaluated and recorded as company directive and archive. Guanxi is much more subtle and in fact, should not be discussed formally, not to say, planned publicly. Its informal role in business sometimes warrants silence, evasion and even secrecy. Therefore, any benefits that guanxi has brought to a business transaction could not be objectively measured and assessed, or documented for later reference and re-application. In this sense, the benefits may only be perceived ones, mistakenly associated with guanxi, or exaggerated.

#### 2.12.2 Over-estimated necessity

Guanxi has been considered as necessary in a country like China because of the lack of coherent business laws and strong governmental control over limited resources. Guanxi is therefore seen as a substitute to formal institutions (Chan, 1999; Coleman, 1994; Nee, 1992; Xin & Pearce, 1996). In the contemporary Chinese business environment, guanxi may be an effective option or even the only way to make things work, but it is by no

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means an efficient or cheaper option in the long term (Fan 2000). Guanxi is necessary but not sufficient for achieving business success. As Vanhonacker (2004) suggests, it would be naive to think – as many western executives do – that the more guanxi you have on the front lines in China, the better. Good guanxi is not a substitute for a sound business strategy; it is merely a tool to facilitate the implementation of a business strategy more effectively (Luo, 1997). In order for a business operation to function effectively, it is necessary to have other business elements sound in place, which include business strategy, human resources policy, and operational guidelines. In fact, for a business to succeed, attention on these business elements will be more, if not equally necessary, than that on guanxi.

### 2.12.3 Costing

The perspective of possible benefit of reducing transaction costs by using guanxi suggested by Davies (1995) and Lovett et al (1999) has been challenged by many scholars. According to Fan (2002), Fock and Woo (1998), as well as Yi and Ellis (2000), developing and maintaining guanxi consumes time and efforts, which may turn out to be a major disadvantage and cost. Statistics conducted by the Hong Kong Independent Commission Against Corruption also reveal that guanxi accounted for up to 5% of total

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costs in doing business in China (ICAC, 1993). Furthermore, the efficiency of helping credit collection by using guanxi has also been doubted. The Far East Economic Review (June 7, 2000) reports that most companies in China found themselves in the predicament of bad debts and triangular debts. As guanxi takes place as informal and complicated multiple processes that often involve more than two parties, the intended benefit of guanxi transaction delivery may never arrive (Fan, 2000). The more parties involved, the higher are the transaction costs (Fan, 2000). It is largely a future transaction with unspecified delivery time; also there is no guarantee in terms of the value or quality of the benefit. The result and responses are neither predictable nor guaranteed, so a certain risk is involved. According to Lee and Ellis (2000), after good guanxi has been established, there are no guarantees that decisions will not be biased in favour of better placed insiders (Lee & Eills, 2000). Any cost spent on developing and maintaining guanxi may turn out to be irrecoverable or over-invested.

#### 2.12.4 Negative resource

Guanxi may turn out not to be a resource as expected. There are many factors affecting its delivery as a useful or reliable resource. Guanxi is very personal and strongly rely on passion, which require long time to cultivate (Yi & Ellis, 2000). According to Tsang,

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even if a certain advantage is gained, it can be difficult to sustain, because guanxi can be disrupted by something as simple as staff mobility (Tsang, 1998). Fock and Woo (1998) suggests that there is little trust or commitment in guanxi relationship, especially in business to government relationship. Fan (2000) suggests that a guanxi asset may become worthless or even turn into a liability if one party (typically, a government official) loses power or is implicated in corruption. Although Tsang (1998) suggests that, as a resource, interpersonal guanxi can be converted into inter-organisational guanxi to reduce the mobility, Fan (2002) argues that since guanxi can happen only at a personal level which is mobile and volatile; it is difficult to convert interpersonal guanxi into inter-organisational guanxi. The majority of guanxi relationship is not exclusive and can be copied (Fan, 2002).

*“An outside newcomer can develop new guanxi or penetrate the rival’s network by using intermediaries and financial incentives, though it may take more time, money and efforts.” (Fan, 2002, p.555)*

In this way, the resource function of guanxi is over-exaggerated. It may turn out to be a liability.

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## 2.13 Eroding the Structural Foundation of Guanxi

Despite the deep-rooted nature and pervasiveness of guanxi in China, different scholars (Dunfee & Warren, 2001; Hutchings & Murray, 2002; Gold et al, 2002; Arias, 1996) have given a variety of reasons to support the notion that guanxi will not provide the same advantages as in the past in modern China. Arias (1996) even questions if guanxi would be important any more for Chinese business people in the future. The phenomenon of guanxi has been changing, its foundation eroded in the modern tides China is facing. There are a few socio-economic elements having an eroding effect on guanxi. Moreover, traditional Chinese culture that guanxi is embedded in is fading.

### 2.13.1 Elements that erode guanxi

Arias (1996) suggests that there are seven elements that have been eroding the structural foundation of guanxi, providing external and internal dynamics.

*a) Change of Chinese business environment*

There has been a radical transformation in China's economy since the opening of the China market in 1978. Central planning, which predominates in the public ownership



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framework, is now relaxed and gradually evolves to a system subject to market forces, fluctuating prices and values of management responsibility and accountability. With exposure to the outside world through trade and investment links, the domestic economic structure also undergoes evolution. The mentality in business transactions changes from one that is passive to one that rewards efforts and ability. It is believed that instead of planned production figures, increased output and efficiency can be stimulated through material incentives (Zapalska & Edwards, 2001).

The values and attitudes that emerge and feature the new economic culture reflect an acknowledgement of new market forces at work, which include: an acceptance of job insecurity, privatisation of education, profits and losses in private sectors, the fading away of an egalitarian distribution of income, hardening budget constraints, incorporation of capitalist practices, and competition by both public and private ownership, from domestic and overseas (Child & Lu, 1990).

These market forces are gradually modifying the role of guanxi in business practices. While traditionally, Chinese business people may use their guanxi circle as a way to extend their business (Hsiao, 2003), guanxi is now more motivated by mutual interests and benefits (Park and Luo, 2001), and takes on a more pragmatic role as a means in conducting business. Hence, this changing mentality is reflected in the popular saying in

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recent years, “mei you guanxi, mei you sheng yi”, meaning that if there is no business; there will not be any guanxi.”

When China is increasing internationalised, there are impacts on how guanxi functions. The multinational corporate influence may subtly but ultimately transcend national, institutional and cultural traditions (Hutchings & Murray, 2002). Therefore, with the changing of China’s economic environment which becomes more open and catches up with international business standard, the guanxi network effect in business must be re-examined.

*b) The economic liberalization of China*

The early Chinese Communist planned economy is gradually transformed into a market-oriented one in recent decades. There is much more flexibility in the systems in distribution, production, labour, and capital market than before (Tsang, 1994; Murphy, Shleifer & Vishny 1990; Child & Lu, 1990). As China moves towards a market economy, the level of government intervention and the importance in GDP terms of large state-owned companies is expected to further decrease, while the importance of collective and other form of companies will keep growing (Davies, 1995). Thus, there will be a reduced need of connections within the party-government industry system to gain access to licenses and approvals, and resources such as supplies and energy, since more and more

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operations will be subject to market (or quasi-market) mechanisms (Deng & Dart, 1995). In this process, there will be the expected liberalisation of the market for information, one of the basic commodities flowing through guanxi network.

As Fock and Woo (1998) suggest, when China was still a semi-closed market and not familiar with the western ways of doing business, such as the importance of corporate governance, international financial audit systems, guanxi network does constitute core competency and distinctive competitive advantage that are essential to bring forth high performance. However, evolution of the Chinese market will gradually erode the importance of guanxi network, when new marketing approach is necessary to serve more sophisticated consumers who demand better products and services (Vanhonacker, 2004).

*c) Changes in the Civil Services*

Since 1993, there are changes under way in the Chinese Civil Service with three basic goals in respect of civil servants: scientific management; excellence, by means of an objective merit-based system; and honesty (Aufrecht, & Bun 1995). One of the examples of the changes include specific provisions to prohibit government officials from serving concurrently as directors or general managers, from taking bribes or accepting illegal incomes and to preclude directors and managers from entering contracts with the company except in limited circumstances (Nohria & Eccles, 1992).

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Although the new system will mature only after a long period, and it is foreseen that there may be confusion in the developing phase, the reform implies a stricter separation of political and administrative power, and therefore reduces the possibility of discretionary decisions, and the influence of guanxi. At least, there will be formal rules and regulations in dealings with the civil service to be adhered to, which allows less space for guanxi to manoeuvre.

*d) The rule of law and improvement in legal systems*

Partly due to the pressures of western countries and international institutions like the World Trade Organization, and also because of the requirements of a growing, dynamic and increasingly open and sophisticated economy, China is developing a western style of commercial law and independent judiciary (Arias, 1996). Guthrie (1998) remarks that while guanxi is still an important institutional system, its importance is diminishing due to both increasing competition and legalism, with a better legal framework and infrastructure when some structural conditions for a relation-based society disappear (Guthrie, 1998).

Although still in a primeval stage, background regulatory organizations are being formed and commentators such as Eakeley (1997) claim that

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*“China is showing an interest in the rule of law by virtually transforming its legal system.” (Eakeley, 1997, p. 23)*

The development and implementation of a corporate legal system in the last twenty years reflect the intention of the state in introducing a legal framework for business. In April 1994, a new Company Law was enacted to govern the organisation and operation of private stock companies (Fay, 2001). Legal practitioners emerge as important professionals again after being just outlawed in 1979 (Eakeley, 1997). There are now more than 100,000 lawyers licensed to practise in China. This demonstrates the remarkable changes in the legal system as an important platform for business transactions.

Guthrie (1998) believes that shifts in the economy have made it necessary for China to redesign the legal system which places value in efficiency and discourages guanxi-based transactions. Specifically, Guthrie (1998) also states that increases in the monitoring of industrial organisations will decrease the degree of reliance on guanxi. Nevertheless Garten (1998) at the same time admits that for decades to come, due to the ubiquitous and heavy reliance on guanxi in the past, the structure of China’s government will be far less important to businesses than the officials who are in charge. In this way, guanxi as a social construct can be expected to last, but the economic and structural conditions that make it particularly relevant to doing business in China are changing. As Vanhonacker

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(2004) states, legal changes are making it more difficult, not to say illegal, to “pull guanxi” to obtain access to certain controlled resources as more and more of them are becoming subject to market forces (Vanhonacker, 2004).

e) *Emergence of private enterprises*

Over the last two decades when the central planned economy transforms into a market economy, a large number of semi-private and private non-agricultural enterprises in the urban and rural areas have sprung up. They are prominent in light industries which includes manufacturing, service, and trading. When the shortage economy with scarce resources experienced in the previous several decades (Kraus, 1991) has now evolved into a market economy with new resources unavailable in the past, there emerge also demands for new types of services like management consulting, technical, legal, and accounting services. These services are now offered from the free market, available from research institutes, universities, accounting and law firms, and even government-owned plants (Zhao & Aram, 1995). Private enterprises, different from before, can now access the market at large more easily and legitimately for inputs like supplies of raw materials or manufactured goods, labour and managerial staff, and even capital (Tsang, 1994; Murphy, Shleifer & Vishny, 1998), as well as information and professional services.

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Understandably, the private sector is driven by the profit motive to provide quality products and services demanded by the growing number of affluent consumers (Chow & Tsang, 1994). Enterprises, whether they are state, collective or privately-owned, under the changing economy, have to operate according to the rule of economic efficiency (Tsang, 1994) and respond to market demands speedily and appropriately, in order to be profitable and survive successfully. Therefore, a superior guanxi network may not be able or useful to legitimize business practices that are perceived to be otherwise. In this, the old reliance on a good guanxi network, even considered desirable and necessary, is now deemed not sufficient for business success in China (Arias, 1996).

*f) Emergence of modern management*

With the entry into a rapidly developing market economy and social scene with more intense competition, the traditional concepts and value judgments in business dealings are being challenged (Zapalska & Edwards, 2001). The new Chinese management model would be one founded by traditional Chinese values but built up by western practices that encourage flexibility and innovation (Vanhonacker, 2004). Guthrie (1998) suggests that Chinese managers are increasingly finding themselves driven by market forces and the institutionalization of a legal infrastructure to be accountable and distance themselves from the crooked ways of guanxi practice, such as bribery and corruption. The emergence

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of western-style managers with MBAs, increased job hopping, and more discretionary spending limit the extension and depth of their social networks within the company (Ambler, 1995).

Furthermore, the relative position of a firm in the industrial hierarchy of the former state economy affects managerial perception of guanxi's importance and how they deploy its use. Specifically in such hierarchy, managers in the higher institutions regard guanxi as less important than managers in institutions at lower positions. The difference is interpreted in term of the manager's ability to access high-level officials. Those managers in higher institutions already have access to the bureaucrats who facilitate business transactions and therefore do not need to rely on guanxi as much as those managers in lower institutions (Guthrie, 1998).

*g) The new approach of new generation of entrepreneurs*

With the modernization of China, the entrepreneurial spirit suppressed for three decades began to re-emerge and make a large coverage with entrepreneurship flourishing both in the private and other sectors of the economy (Siu & Martin, 1992; Williams, 1990). The new generation of entrepreneurs adopts a set of values different from earlier generations. The non-state entrepreneurs that emerge are likely to be very enlightened, dynamic and responsive to demands to changes with an innovative mentality (Chow & Tsang, 1994).



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Influenced by western values like creativity, innovation, leadership, transparency, confrontation and communication skills, professionalism, and assimilation of outsiders, they intend not only to survive, but also to self-actualise (Arias, 1996). They prefer more structuralised management structure than small size, family-oriented traditional Chinese business. They also uphold efficiency and quality economic performance as important values for their survival and entrepreneurial success (Zapalska & Edwards, 2001). In such, guanxi is less upheld as an element in business relationships.

Among the modern generation of entrepreneurs, there is a cohort of them who accumulate wealth speedily through channels like investment, which depend on investment wisdom and strategy instead of guanxi. According to the China Security Daily (Zhong Guo Jian Jun Bao, 2007), there are more than 140 small and medium entrepreneurs each owning more than USD 12.5 million assets. These entrepreneurs accumulate their wealth through their stocks publicly listed in China's different stock market exchanges. Many of them make their fortunes through strategic stock trading and investments. This indicates, due to the economic growth and gradual maturity of financial market in China, many entrepreneurs create their fortunes through formal business channels instead of relying on guanxi.

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### 2.13.2 Fading of Chinese culture

Besides Arias' suggestions, the fading of important elements in Chinese culture and guanxi should also be considered. Although scholars suggest that Chinese guanxi is rooted in Chinese history (Standifird & Marshall, 2000; Alston, 1989, Hwang, 1987), Yang claims that the traditional Chinese cultural heritage is diminishing (Yang, 1986). According to Hwang (1987), such tradition seems gradually losing its importance in China's rapid economic development, especially when the entire economic environment becomes more materialistic.

The many elements associated with guanxi are fading in importance in the face of new economic demands. With new regulatory mechanism in place in business relationships, traditional Chinese values intrinsically associated with a strong guanxi relationship are being pushed into the background, if not ignored. Loyalty is less emphasized, as pragmatic concerns like lower production cost and quality output take priority. Likewise, face as an important element in constructing the Chinese guanxi network, now gives way to realistic business concerns like operational effectiveness. There is a general Chinese saying, "I don't need face but real benefits; I accept anything but a disadvantage," which implies how practical and realistic the new Chinese generation have become. Affection, another important element of guanxi, has been also diminishing in significance in an

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economically developed society (Yang, 1986). Take Hong Kong and Taiwan as examples, where both areas are dominated by Chinese and enjoy economic development success, when people are involved in an instrumental relationship, both parties may negotiate an agreement for the exact date of reciprocation (Yang, 1986), which implies that reciprocity can no more be just dependent on affection, but need to be regulated formally. It seems that guanxi and its mere mutual trust are not reliable enough to protect business in modern business world. Instead, formal legal contracts and documentation, in black and white, seem more powerful than being the intangible dependence on traditional Chinese guanxi (Lee & Eills, 2000).

In this sense, Hwang's (1987) claim that China's guanxi, with its focus on personal relations and the exchange of favours and social obligations as social capital, is now facing challenges. Perhaps it is still right in the business practices of today's China, but this is limited to older generations of Chinese. Guanxi is fading in its role as social capital.

To summarize, as China emerges to become one of the international business players, and connects to the western world more closely, different elements are found in China that are eroding the structural foundation of guanxi. Chinese entrepreneurs, especially the new generations, doubt the effectiveness of guanxi (Tsang, 1994). The profit motive and market mindset, which are prevailing in the China business arena, makes Chinese business

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people more calculative in deploying guanxi. Such pragmatic behaviour will change the nature of traditional Chinese guanxi networks (Fan, 2002).

## **2.14 Guanxi – Lingering but Diminishing**

With her open door policy since 1978, China has been experiencing huge changes not only in the socio-economic environment, but also in the business mindset, value of thinking and the guanxi phenomenon. There is a great collection of academic studies on the importance of guanxi in contemporary China. While some scholars (Fan, 2002; Fock & Woo, 1998; Yi and Ellis, 2000; Lee & Eills, 2000; Luo, 1997; Vanhonacker, 2004; Amber, Styles & Wang, 1999; Dunfee & Warren, 2001; Chen, 2002; Yang, 1994; Koo, 1995; Smeltzer and Jennings, 1998; Steidlmeier, 1999) have suggested that guanxi might turn to be less important in China; others including Pan (2002), Zhao and Aram (1995), Tse (1998), Wong and Tam (2000), Kraus (1991), Chan (1999), Ching (1998), Colman (1993), Nee (1992), Xin and Pearce (1996) challenge the idea of the diminishing importance of guanxi in China and, on the contrary, advocate its necessity and pervasiveness.

Gold (2002) advocates that guanxi is still present and important in many aspects of Chinese social and business interaction. Although China becomes more industrialized and

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commercialized and has been adopting western business ways of doing business and business value, guanxi is an integral component of doing business in China and is required at all stages in company operations (Studwell, 2002). Guanxi still persists due to the scarcity of resources, the lack of coherent business laws and strong governmental control, and long-rooted cultural background.

#### 2.14.1 Guanxi as a response to scarce resources and legal system

One of the goals of guanxi is to share the scarce resources that otherwise are not available (Davies et al, 1995; Tsang, 1998; Yeung & Tung, 1996). Privately-owned enterprises and collective hybrids that have fewer resources rely heavily on guanxi to share these resources. When the shortage economy is evolving into a free market, every business is facing the inevitable challenge of obtaining factor inputs. Newly developed private entrepreneurs, in order to obtain resources themselves, have to be self-reliant and make more efforts than state-owned firms to build up their own guanxi (Kraus, 1991). As they do not have an established guanxi web, they can be said as at the mercy of the unfamiliar local government authority, and often in order to set up guanxi with the authority, bribery would be resorted to (Kraus, 1991). In these circumstances with a new scarcity of resources due to rapid development, guanxi-connected business network still functions to

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overcome a firm's problem of not having enough resources to accommodate growth, while substantial bureaucratic costs in internalising operations are avoided. There is no doubt that guanxi works in China (Fombrun & Pan, 2006).

Seligman (1999) remarks that an important reason for the pervasiveness of the guanxi system in China is the lack of a reliable legal system. In a nation that has traditionally depended little on laws, personal power has always been the key to getting things accomplished (Studwell, 2002). With modernisation and regularisation of business practices, there should be more transparency and predictable ways of handling transactions. However, understandably, the legal system in China, though being built up, would need many decades to be consolidated and mature. The huge government with complex rules and hierarchy and legalistic emphasis, will paradoxically become more inaccessible and mysterious to the individual. The structure of China's government will be a system not of laws and institutions but of people and relationships (Garten, 1998). This is more so as common citizens may have more chance to become involved in the business processes. Old ways of guanxi are resorted to, in order to approach the new and sometimes impenetrable system. Viewed from this perspective, guanxi may be even more important in international transactions because it provides a more effective means of conveying trust than formal legal contracts (Lovett et al, 1999).

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On the other hand, with increasing exposure to a widened and diversified market, increased information and resources network may at the same time be available. With the changing of China's economic environment which becomes more open and catching up with international business standard, the role of guanxi for a business entity in enhancing core competency and unique competitive advantage essential for high output (Fock and Woo, 1998) will be diminishing. The guanxi network effect in business should be re-examined.

#### 2.14.2 Guanxi as a cultural heritage

Some scholars argue that, with its long heritage, guanxi will not be uprooted or transformed speedily or easily. With its subtle and, implicit and informal nature, guanxi has never been and will not be treated institutionally or even discussed or dealt with formally. Zhou and Aram (1995) doubt that guanxi will become less important, as traditional Chinese social behaviour is still governed by the cultivation of interpersonal relationships and harmonious ties. The cultural values persist, despite the increasing exposure of Chinese businessmen to Western influences (Tse et al, 1988). Guanxi is still an important resource for individuals and enterprises in China to induce cooperation and govern relationship, and still sits at the core of Chinese culture business (Wong & Tam,

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2000). Regardless of the changes made in China, Vanhonacker (2004) states that the Chinese cultural heritage will remain, which implies guanxi is still present in many aspects of Chinese social and business interaction today (Gold et al, 2002). Indeed, with their unique code of ethics, guanxi will always be an ingredient of doing business in China (Vahnacker, 2004).

However, pragmatic and realistic approach of the modern generation of business stakeholders and entrepreneurs has eroded the elements and nature of traditional guanxi. The emphasis of face, “renqing” and loyalty as important elements in constructing a Chinese guanxi network is fading. Face, associated with higher social status, provided for the intermediary (Li & Wright, 2000) now gives way to more formal procedure for business dealings in a modern structuralised hierarchy. “Renqing” becomes fragile and unreliable when alternative contractual relationship can be formalised. Reciprocity can no longer depend on “renqing”. Although loyalty in a guanxi network inevitably becomes outdated in a modern materialistic economy, interpersonal favours and generosity are rendered with the anticipation that they will be reciprocated (Hwang, 1987) in a pragmatic way.

Chen (1995) suggests that guanxi can be thought of as a friendship with implications of a continual exchange of favours. Tsang (1992) states that the reciprocal exchange of



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favours was essential to cultivate and sustain guanxi. The new Chinese generation may not adopt the traditional elements of face, “renqing”, or loyalty when they perceive and utilize guanxi. The functions of reciprocity in a guanxi, due to sense of good will and personal affection, are being doubted (Chen, 1992). The new Chinese entrepreneurs’ expectation of reciprocity of guanxi entails exchanges of equivalent value. They are no more tied together through an invisible and unwritten code of reciprocity and equity (Yang, 1986). Nowadays, when new generation Chinese entrepreneurs manipulate their guanxi networks, they will consider whether the resource would be valuable, that is, whether they would enable him or her to do things that lead to financial benefits. In China, new generation entrepreneurs have become more and more practical, are outcome focused and perhaps less concerned with traditions (Hwang, 1987).

Utilizing guanxi to carry out tasks is tolerated if not carried to extremes and there is no evidence of its abatement in the PRC (Brunne, et al, 1989). While it is undeniable that guanxi is still an important resource for individuals and enterprises in China to induce cooperation and govern relationship, the form and role of its existence is gradually being transformed. The new generations of Chinese entrepreneurs, in the tides of China’s massive institutional and economic changes, will be the cohort that are enlightened to the change and will serve as catalytic agents for the transformation of the guanxi phenomenon.

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## **2.15 Chapter Summary**

Through literature review, this Chapter has provided an overview of the concept of networking and in more details, that of Chinese guanxi and their relationship. The origins, elements, development, advantages and disadvantages are discussed, highlighting that guanxi has its cultural, mythical and pragmatic aspects. Against the background of China emerging to become one of the major international players, the erosion and the changing dynamics of guanxi are highlighted.

Guanxi, as essentially a cultural construct with a particular value in doing business in China under its present structural, legal, institutional, political and economic conditions, is still present in many aspects of Chinese social and business interaction today (Studwell, 2002). Guanxi is still an important resource for individuals and enterprises in China to produce cooperation and govern relationship; as Wong and Tam (2000) remark, guanxi still sits at the core of Chinese culture business. However, its continued existence and relevancy may be transformed gradually in the midst of China's massive institutional change and the rise of a new generation of entrepreneurs upholding new values. It is with

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this discourse that the dynamics of guanxi— lingering but diminishing —continue to be explored in the following chapters.

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## **Chapter 3**

# **Guanxi As Seen Through An Entrepreneurial Lens**

In Chapter 2, a discussion of guanxi was presented and the relationship between networks and guanxi explained. Guanxi is an important ingredient in Chinese entrepreneurship. In this Chapter, the nature of Chinese entrepreneurship and entrepreneurs, as discoursed in different academic disciplines, will be explored. In order to identify the differences between western and Chinese entrepreneurship, a study on western entrepreneurship is also covered.

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## **3.1 Entrepreneurship Disciplines**

Entrepreneurship has been defined as the creation of new enterprise and that the purpose of entrepreneurship research should be to explain and facilitate the role of new enterprise in furthering economic progress (Low & MacMillan, 1998). Yet one important aspect, and problem in trying to define entrepreneurship, is that it is dynamic rather than static; it does not stand still but changes through time (Rae, 1999). Moreover, there is a lack of consensus on the definition of entrepreneurship and an agreement of the scope of entrepreneurship as a field of study (Gartner, 1990).

Entrepreneurship has been studied from a variety of disciplines (Wilken, 1979; Heron et al, 1991, MacMillan & Katz, 1992), including economics, psychology, sociology, and behavioral sciences. In the following sections, each of these approaches will be discussed separately.

### **3.1.1 Economic approach**

Economists, when they consider entrepreneurs, have generally viewed entrepreneurship as a dependent variable. They have focused upon adjustment between equilibrium states and desired to produce deterministic calculable economic modes capable of analysis with

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available mathematical techniques (O'Farre, 1986; Kirchhoff, 1991), explaining changes reported by organizations in terms of profits, prices, jobs, and efficiency. This view is typically expressed by Harland (1995) when he claims that economic approaches assume that:

*“Firms and people are atoms in a system, acting independently of their effect on others.” (Harland, 1995, p22)*

The origins of the study of the entrepreneur dates back at least to the 18th century, when economists began to provide explanations of the entrepreneur (Cantillon, 1755). However, within the field of economics, different scholars have focused on different themes in their attempts to understand the entrepreneur.

The French Tradition, associated with the work of Cantillon (1755), suggests that entrepreneurs, living on uncertain incomes, react to profit opportunities and undertake activities with uncertainty. The entrepreneur is the pivotal figure who operates and continuously brings about a balance between supplies and demands in specific markets. Say (1820) regarded the entrepreneur as a more specialised individual whose success is due to personal qualities and skillful ability to deal with the marketplace. He describes the entrepreneur as:

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*“Rare phenomenon, able to co-ordinate and combine factors of production...judgment, perseverance and a knowledge of the works as a business. He is called upon to estimate, with tolerable accuracy, the importance of the specific product, the probable amount of the demand, and the means of its production at one time, he must employ a great number of hands; at another, buy or order the raw material, collect labourers, find consumers, and give at all times a rigid attention to order and economy; in a word, he must possess the art of superintendence and administration.” (Quoted in Binks and Vale, 1990, p.11)*

The German-Austrian Tradition, associated with the work of Schumpeter (1934, 1954), adopts the vision of the entrepreneur as an innovator having the ability to bring about extraordinary events and “creative destruction” which regulates growth and fluctuation in the economy. Entrepreneurs are considered a special type (in terms of conduct and person) and their behaviour an interesting phenomenon:

*“The motive power of a great number of significant and phenomena.”*  
*(Schumpeter, 1934, p. 82)*

*“The instrument of change, the agent who introduces innovations: new products, new ways of manufacturing, new sales techniques, new types of equipment. He/she envisions the future.” (Schumpeter, 1934, p.133)*

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The Modern Austrian Tradition, associated with the work of Kirzner (1973, 1982) suggests that an entrepreneur is alert to identify profitable opportunities for exchanges to occur. Whereas entrepreneurial activity is speculative, the pursuit of profit opportunities is a purposeful and deliberate one so that:

*“An entrepreneur is motivated by the lure of pure profits, attempts to pierce through these uncertainties and endeavours to see the truth that will permit profitable action on his part.”(Kirzner, 1982, p. 98)*

This tradition argues that information gaps exist. Kirzner (1982) believes that the entrepreneur moves an economy to an equilibrium position. It is concerned with economic development, instability and change rather than adjustments and equilibrium. The Chicago Tradition, associated with the work of Knight (1921) and later Casson (1982), tends to promote entrepreneurs as having their confidence, abilities and judgment and responsible for their own risk-taking actions, thus being prepared to take risks in an uncertain world. Casson (1982, 1990) goes further to identify other integrating functions in economic theory: profit as reward, market processes with competitive activities, at the same time acknowledging the role of entrepreneurs' motivations in perceiving and regulating the economic environment. This school of thought focuses on the entrepreneur



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as a motivated decision maker and the relationship between personal motivation and perception of the environment.

As a consequence of the various themes within economics which have been used to explain entrepreneurship, different views have been arrived at concerning what entrepreneurship actually is and what it is that entrepreneurs really do. To summarise, there are different emphasises on entrepreneurs' roles and reactions to the environment.

Although the economic approach has been useful in initiating discussions about the entrepreneur, the problem with research which adopts this approach is that it tends to focus on explaining economic outcomes, rather than how entrepreneurship comes about. Criticisms primarily stem from the way economics treats the entrepreneur as an independent rational economic actor, becoming self-employed when they have a clear vision of their own goals and the information required (Aldrich & Zimmer, 1986). In treating the entrepreneur as an independent economic actor, the danger is that other factors which influence the individual are ignored. By dealing with economic outcomes, however, a one dimensional view is presented which is concerned with the economic system rather than the actual people. Yet, entrepreneurship is about people. There is a lack of recognition given to the impact and influence of the social context and the embedded nature of economic behaviour (Granovetter, 1985; Aldrich & Zimmer, 1986). According

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to Aldrich and Zimmer (1986), two problems, therefore, arise with research which uses an economic approach. Firstly, empirical research has found that people do not behave in the way economic models indicate. Secondly, people do not make decisions in a vacuum, they would consult and are influenced by others in their environments. Therefore, approaches like psychology and sociology which acknowledge the importance of non-economic factors in influencing economic behaviour and focus on the individual would provide more useful insights.

### 3.1.2 Psychological approach

Psychologists have made a major contribution to the understanding of the behaviour of entrepreneurs. Studies have focused upon the behaviour and personality of entrepreneurs (McClelland, 1961; Rotter, 1966; Timmons, 1985). Most notably, the underpinning, but much criticized view of this approach, is that the personality of individuals explains their actions. The possession of a trait (or traits), such as a strong need for achievement, a high locus of control, a need for autonomy, determination, initiative, creativity and self-confidence, may predispose an individual towards enterprising behaviour. A long-standing debate has focused upon whether entrepreneurs are “born” or “made” (Gibb &

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Ritchie, 1982; Timmons, 1985). Shaver and Scott (1991) focus upon the key questions of motivational processes and perceived control.

Kets de Vries (1977) conducts a seminal study focusing upon the motivations of entrepreneurs. For Kets de Vries, frustrations and perceived deprivation experienced in the early stages of life can have impact on an individual's personality. Kets de Vries argues that the careers of many entrepreneurs are associated with a succession of business successes as well as failures because some entrepreneurs at an unconscious level fear success. The psychodynamic approach to the study of entrepreneurship has been criticized because of its subjective nature and because the approach fails to cover all situations. Social-psychological approach suggests that entrepreneurial behavior may be more likely in some contexts than other. The approach appreciates that critical incidents can influence individual behavior and different types of entrepreneur and business owner can exist (Chell et al, 1991).

Gartner (1990) prefers to focus on the behavioural aspects of the process on new venture creation. Gartner's critique primarily centers on Carland et al's reliance on the need to know the entrepreneur's intentions and their reliance on innovativeness and strategic management practices that would lead to ambiguity in determining the degree of difference between similar products. However, Sandberg (1992) points out that Gartner's

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criticisms may be somewhat overdrawn. Most notably, Sandberg suggests that it is possible to study intended strategies without presenting psychological profiles of owner-managers. The measure of differences between products is made in strategy research, and Gartner's preferred approach may itself be subject to ambiguity in identifying information on the various aspects of the entrepreneurial process.

However, Chell (1985) raises other concerns with this approach, arguing that:

- a) although entrepreneurial personality is considered, this approach fails to account for environmental circumstances;
- b) the characteristics of small businesses and their owners are more complicated than they might at first appear since they are also dependent on the definition of what constitutes an entrepreneur and a small business owner;
- c) the approach does not take account of factors which occur later in different life cycles and experiences and which may influence the decision for entrepreneurship;

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### 3.1.3 Sociological Approach

Sociologists interpret entrepreneurship as an element in a social context. Many sociologists have provided thoughtful insights and methodological contributions to the study of entrepreneurs and organizations (Heron et al, 1991). Sociology provides a perspective that can contribute to the understanding of entrepreneurship in two broad areas (Reynolds, 1991). First, at the societal level, recent developments from a sociological perspective have challenged the inevitable dominance of massive productive organizations through a focus on flexible specialization and the dual nature of advanced economies in which entrepreneurship plays a role. Secondly, a sociological perspective enables an understanding of the specific societal characteristics that affect entrepreneurship – such as modernization, the role of the state, the scope and nature of the informal economy, and the character of organizational populations and their ecological niche – as they affect formation of new business. According to Anderson and Sarah (2007), entrepreneurship is a purely individualistic practice. It may be that taking account of the dynamics of social conditioning, social interaction and the embedding process is simply too complex to be used as a heuristic, instead the convenient myth of the romantic of the heroic individual holds sway.

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Chell (1985) also states that, as a way to understand entrepreneurship, the sociological approach is limited in differentiating between successful and unsuccessful small business owners. Furthermore, people change throughout their life course and it depends upon what point in the life-cycle the individual makes the decision to become an entrepreneur, which is actually important.

#### 3.1.4 Behavioural Approach

Gartner (1985) suggests that entrepreneurship is about organization creation and that this is what differentiates entrepreneurs from non-entrepreneurs. Gartner (1988) further makes a remark that in order to make a better understanding of the entrepreneur, and the way in which organizations are created, a better approach would be to look beyond the individual entrepreneur and study what s/he actually does. That would mean observing the behaviours, in a variety of circumstances, during different times and studying the impact of inter-relating factors in the environment.

Bygrave and Hofer (1991) support Gartner's idea. Bygrave and Hofer agree that entrepreneurship is a complex process, of which the entrepreneur is actually a part and in which s/he is immersed. Carland (1988) challenges this approach and argues that

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researchers do not always appreciate why people behave in the way they do when using such approach. Carland also suggests that since the entrepreneur and his/her venture are inseparable, researchers need to know about individuals and their behaviour.

Schumpeter (1934) talks of entrepreneurs having

*“The capacity of seeing things in a way which afterwards proves to be true, even if it cannot be established at the moment.” (Schumpeter, 1934, p.85)*

Entrepreneurship is a process of creating and becoming (Johannisson, 2002), not a product fixed in time or space. It is a condition, and a state of economic creativeness. Behaviour may be the result of aspiration which has been originated in childhood, starting with a fleeting thought. It may also be the result of a long-term gathering of the physical, mental resources and courage. It is insufficient to just examine the behavioural phenomenon which may be taken only as a snapshot.

### 3.1.5 Summary of approaches

The discussions above are largely about academic approaches in a western model of entrepreneurial values. While they give the theoretical frameworks evolved over time in

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understanding the modern phenomenon of entrepreneurship, none of these approaches is fully relevant in explaining Chinese entrepreneurship. For example, the psychological approach looks at an individual from the western perspective. Personal values, traditional virtues, patterns of thoughts, and inter-relationship dynamics for the typical Chinese are very distinct from those for the westerner. To name a few, concepts like loyalty, filial piety, equality, privacy and humility to the Chinese would be diversely different from those regarded by the westerner. In the same way, the distinct historical development, social structure, and economic development all render a different social environment and experience to the Chinese; giving rise to a complexity of Chinese traditions, with guanxi and ties so interwoven that no single western perspective can fully explain. One example would be the concept of “face”. The Chinese emphasis on face, loyalty and knowing one’s proper position in the family and social structure may be at odds to and not fully understood by the westerners who uphold individualism, self-confidence and freedom. Likewise, China’s rapid changes of social and economic environment in recent decades also give rise to such an unprecedented phenomenon distinct from those experienced by the West that academics have yet to account for fully with an explanatory framework. The inevitable distinction warrants a deeper probe.



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### 3.1.6. Differences between Chinese and western entrepreneurship

Both western networking and Chinese guanxi are essential elements in entrepreneurship. Both are ways of connecting the entrepreneur to the social and economic context (Davis et al., 1995). Both are about building links and the ties that are built among different relationships are cherished and utilized. In both western networking and Chinese guanxi, there are social and economic aspects in these ties, which serve to facilitate the entrepreneurial process (Pistrui et al, 1999).

However, Chinese guanxi is unique in that it is “cultural”, reflecting the old hierarchies associated with Confucianism and therefore takes on a traditional aspect (Burt, 1992). As Confucian values permeate in the Chinese thinking and ways of life, Chinese guanxi is associated more strongly with social status and status obligations. Bond and Hofstede (1989) identify the Confucian values of an individual being part of the larger society and social relationship network affect the way the Chinese enterprises operate.

Therefore, traditional values associated with Chinese guanxi is more evident in the social and economic environment, thus achieving a heavier impact than western networking in the socio-economic context. Superficially western networking and Chinese guanxi may appear to be operating similarly, but guanxi is culturally and traditionally embedded in Chinese social organization (Byrd & Lin, 1990).

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The embeddedness of cultural values in Chinese guanxi, however, will gradually be eroded, with shifts towards a market economy and the opening up of the Chinese economy. This is in part because of gradual and partial reduction of the old social structure which permeates the state run enterprises and society more generally. The resulting phenomenon will be a convergence towards more instrumental networking.

As a result of the economic changes, in China, as the economic sphere is, to a large extent, part of the larger political and social arena, an entrepreneur has to manipulate institutional rules, frequently represented as contingent government regulations (Lau 2000). Traditional values upheld in the past in Chinese guanxi are facing challenges. Chinese entrepreneurs have to take more risks and avoid uncertainties generated from the changing institutional structures. These may require them to deviate from the norm of Confucian values when they make business decisions (Pearce & Robinson, 2000). They seek promising economic niches from outside current institutional boundaries, but at the same time they also have to acquire political and administrative protection from within previous and current institutional boundaries (Guthrie, 1998). In China, legitimacy of entrepreneurship means establishing ostensible consistency between rule-exploitation and state regulations, smoothing relationships with local authorities and bureaucrats, bettering connections with business partners, and improving management-employee relations within companies (Hu & Khan, 1997). Manoeuvring skilfully, Chinese entrepreneurs can take

advantage of the changeability and ambiguity of institutional rules to increase their chance of success. The instrumental and utilitarian aspects of Western networking will therefore surface more in the modern Chinese entrepreneurship. Table 3.1 below shows the commonalities and differences between western and Chinese entrepreneurship from the approach perspectives.

Table 3.1 Western and Chinese entrepreneurship under different approaches.

<b>Approaches</b>	<b>Western Entrepreneurship</b>	<b>Chinese Entrepreneurship</b>
<b>Economic Approach</b>	<ul style="list-style-type: none"> <li>• React to profit opportunities</li> </ul>	
	<ul style="list-style-type: none"> <li>• Entrepreneur as an independent economic actor.</li> <li>• Continuously serving to bring about balance between supplies and demands.</li> </ul>	<ul style="list-style-type: none"> <li>• More affiliated to spheres other than the economy, seeking political and administrative protection from within previous and current institutional boundaries.</li> <li>• An emergent market economy.</li> </ul>
<b>Psychological Approach</b>	<ul style="list-style-type: none"> <li>• Motivated strongly by values and personality</li> </ul>	
	<ul style="list-style-type: none"> <li>• Motivated strongly by individualistic values including initiative, creativity, innovation, self-reliance, need for achievement, high locus of control, autonomy, determination, self-confidence and risk-taking.</li> </ul>	<ul style="list-style-type: none"> <li>• Personal values strongly influenced by traditional Confucian ideology which emphasizes individual as part of a larger group.</li> <li>• Attitudes and thoughts more geared towards achieving harmonious relationships with family members, relatives, and friends.</li> </ul>

		<ul style="list-style-type: none"> <li>• More emphasis on face, loyalty and knowing one's proper position in the family and social structure.</li> </ul>
<b>Sociological Approach</b>	<ul style="list-style-type: none"> <li>• Not acquiring the elite status in social ranking in traditional society.</li> </ul>	
	<ul style="list-style-type: none"> <li>• Networking is a mechanism capable of producing resources essential for growth of enterprises.</li> <li>• Effect of social status, role specialization and specific societal characteristics.</li> <li>• Receive support from either government or commercial institutions.</li> <li>• More encouraging social atmosphere towards the development of entrepreneurship.</li> <li>• Heavier reliance on laws and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>• Guanxi is developed to break through broker structural holes and alter existing social and network structure to facilitate entrepreneurial success.</li> <li>• The changeability and ambiguity of institutional rules is utilized for entrepreneurial success.</li> <li>• Receive less institutional support.</li> <li>• Less encouragement and even hostility from society towards private enterprises.</li> <li>• Less protection from laws and regulations</li> </ul>
<b>Behavioural Approach</b>	<ul style="list-style-type: none"> <li>• Look beyond individual entrepreneur and study what s/he actually does.</li> </ul>	
	<ul style="list-style-type: none"> <li>• Featured by more risk-taking.</li> <li>• The entrepreneur is actually a part of the social structure in which s/he is immersed.</li> </ul>	<ul style="list-style-type: none"> <li>• Featured by more uncertainly avoidance.</li> <li>• Actions may be a response to external environment.</li> <li>• Entrepreneurs may stand outside the socio-legal structure or have an uneasy relationship with institutions.</li> </ul>

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## **3.2 Chinese Entrepreneurship**

### **3.2.1 The Emergency of Chinese Entrepreneurship**

Compared with the West, Mainland China has a less-developed economy with poor institutional support for entrepreneurs (Peng & Heath, 1996). Since the establishment of the nation, entrepreneurship has been severely limited and minimal for three decades (1949-78) (Chang & MacMillian, 1991) until recently. However, with the continuous changing of the Chinese business and economic environment, Chinese entrepreneurship is now developing rapidly.

The emergence of new and small businesses since the economic reforms from 1978 is widely recognised as having a significant impact on economic development (Reynolds, 1991; Jackson, Klich & Poznanska, 1999; Wright, Hoskisson, Filatotchey, & Buck, 1998; Chow & Fung, 1996; Lau, Ngo & Chow, 1999; Tsang, 1996). For the coming few decades, it is foreseen that entrepreneurship and the continued development of private enterprises will contribute to China's economic prosperity and stability. Different from before when there was a traditional hostility to private enterprises, different levels of government now tolerate and in some cases even encourage the development of entrepreneurship (Low & Tan, 1996). By the end of 1990s, it was estimated that more

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than 12 million private enterprises were operating in China (Quanyu, Leonard & Tong, 1997). The private sector is mainly led by the newly emerging micro-enterprises. In the 15<sup>th</sup> Communist Party Congress in 1997, Chinese political leaders including Prime Minister Zhu Rong-ji acknowledged the need to further reduce the state sector to foster sustained economic growth. This marked the start of a new phase in which tens of thousands of small-and medium-sized state enterprises (SME) began to be privatised (The Economist, 2000).

Further indication of the central government's commitment to entrepreneurship and SME development became evident early in 2000. On January 5, 2000, The China Daily reported that Zhou Yuanqing, vice-minister of education publicly called for China to produce more scientists, academics and entrepreneurs in order to compete internationally.

a) *An overview of the development of Chinese entrepreneurship*

Understanding the mindset of the entrepreneurs in a transitional economy moving away from a central planning mode may reveal their perspective on growth opportunities. Although entrepreneurial phenomena in many developing countries have been examined (Acs & Audretsch, 1993; Blawatt, 1995; Chen, 1995; Luo, 1997; Shane & Kolvereid, 1995; Zapalska, 1997; Zhao & Aram, 1995), there is insufficient study on entrepreneurs in transitional economies like China.

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Using the cross-cultural cognitive model proposed by Busenitz and Lau (1996), some illumination can be obtained on the interaction between the person and environment in new venture decisions, and specifically how cultural values, social context, and personal variables are at work in China to influence entrepreneurial cognition when they start a new venture and develop their business goals. The emergence of entrepreneurial activities and behaviours is affected by the social context and the business environment (Kim et al., 1989; Reynolds, 1991). Since the economic reform started at 1978 in China, private businesses has expanded in number rapidly. With the government's affirmation of the central role of private businesses in the Chinese economy (Chow, 1994), these new and smaller enterprises become a source of essential innovations useful for competing in a more competitive global environment. As China's economy gears towards the market-oriented model, there will be increasing complexities and dynamics in her business environment. Such globalisation and variations in government intervention would require small business owners to perceive and interpret, on a cognitive basis, the market conditions and the business prospect (Ahlstrom et al, 2000) uniquely.

*b) Characteristics of Chinese entrepreneurship*

Bond and Hofstede (1989) identify Chinese culture as characterized by high uncertainty.

Butterfield and Leung (1998) confirm that guanxi is an important factor in entrepreneurial

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success and the power of guanxi is such that it is often taken for granted by Chinese. Chinese cultural tradition, manifested in guanxi mechanisms, is a substantial factor in Chinese managerial progression. The findings in Chapter two confirmed that guanxi was an important factor in personal success, whether related to job progression, managing people or business development. Both opportunities and threats are being encountered by private small business owners in China's transitional economy (Tsang, 1998). Difficulties and conflicts arise when economic liberalization are not compatible or complementary with or supported by political and ideological reforms. For example, state-owned firms face constraints of state objectives and societal obligations (Lau 2000). The private sector may have more flexibility, more expansion potentials, higher productivity and fewer problems with shirking (Byrd & Lin, 1990). All in all, changes bring along inherent uncertainty as well as numerous opportunities.

To be a successful entrepreneur, one has to be capable of utilizing and manipulating institutional rules (Lau, 2000). An entrepreneur in China is someone who can handle the two missions of making profits and obtaining sociopolitical security in a way that the two can mutually benefit from rather than destroy each other. It is therefore simplistic to conceive of entrepreneurship in emergent market economies as primarily relying on "marketing mechanisms" in the blind pursuit of profits (Davis et al., 1995).



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Entrepreneurship is about taking advantage of the non-equivalently distributed resources produced by institutional rules and combining them into profitable projects (Hu & Khan, 1997). Economic organizations have to be efficient in the market, and efficiency (in the sense of being able to earn sufficient profits to survive and thrive) still plays a highly significant role in decision making and practices (Tan, 2002).

Besides resources, Batjargal (2002) expresses that entrepreneurs also need personal networks of relationship in doing business. According to Batjargal (2002), such network is an effective strategy for success because network members provide information, resources, social support, and help to find clients, suppliers and investors who are socially bound. Chua et al. (2009) also find that Chinese entrepreneurs are more likely to use guanxi in their professional relationships. Peng and Luo (2000) even suggest that in China, guanxi ties for business performance are more crucial for services than for manufacturing industries and for firms in low rather than high growth industries.

c) *Private Sector and Emergence of Modern Chinese Entrepreneurs*

With the opening of China since 1978, there has been phenomenal growth in China's economic sector. Recognising the advantages of mixing state and private enterprises, the China government adopted a unique approach toward entrepreneurship and private optioning to drive forward for a mixed "socialist market economy". Busenitz and Lau

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(2001) suggest that as China moves away from a centrally planned economy, there are growing business opportunities, featured by the emergence of new and small businesses which has a significant impact on economic development (Jackson, Klich & Poznanska 1999). The formation of rural enterprises and private business, together with liberalized foreign trade and investment, relaxed state control over some prices, investment in industrial production and the education of its work force, were fostered in an effort to stimulate economic growth (Hu & Khan, 1997).

During the latter half of the 1990s, the trend of starting new business ventures continued, and approximately 70 percent of the entrepreneurs surveyed actually started new enterprises during that period. This marked the start of a new phase in which tens of thousands of small-and medium-sized state enterprises were privatised (The Economist, 2000). By the end of 1990s, it was estimated that more than 12 million private enterprises were operating in China (Quanyu & Tong, 1997). This trend witnessing the central government's commitment to entrepreneurship and SME development continued into the early 2000. Pstrui et al (1999) explains that it is the official recognition of possible social and economic benefits associated with entrepreneurial led SME that is associated with the approved development of entrepreneurship, which becomes a growing, visible economic activity. This echoes Dana (1998) who claims that China allowed market forces and

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subsequently independent small business owners to become one of the major economic factors.

d) *Cultural influence on Chinese entrepreneurs*

Busenitz and Lau (2001) suggest that, despite this formal effort to grow the entrepreneurial economy, there remains the traditional hostility toward entrepreneurs. In the Chinese traditional hierarchy of careers, those who are engaged in business transactions occupy the last tier, after scholars, farmers and industrialists. Private entrepreneurs, who are without the social endorsement in many ways, at the very first beginning have suffered from a lack of legitimacy in the eyes of government officials and the public, and continue to encounter many hurdles, ranging from restricted access to certain raw materials and markets to more stringent inspection by taxation and regulatory authorities (Tan, 1996). The harsh environment puts the rise of private entrepreneurship in Mainland China in a more remarkable light.

The importance of cultural and environmental influence on Chinese entrepreneurship has received increasing attention. Fukuyama (1996), Hofstede and Bond (1988) suggest that Chinese culture and values are derived from Confucianism, which is the underlying source behind Chinese entrepreneurship. It is undeniable that traditional Confucian values have had an impact on personal values and identity, and have influenced the pattern of Chinese

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entrepreneurs. For example, Chinese still clings onto a culture that places value on collectivist instead of an individualist emphasis (McGrath et al, 1992), in which individuals are less important than they are in Western society (Redding, 1990). In order to maintain collectivism, relationship is to be balanced constantly, embracing values including the respect for seniors, the concern with maintaining harmonious relationships in the family clan and within their own communities and the importance of giving “face” to respectable people.

Locket (1988) and Child (1994) find that Chinese cultural traditions have long been underpinned by four significant values:

- i. The importance of face: giving respect and obligation to the one who possesses higher social status, giving and soliciting favours according to one’s importance and status in the family clan or society;
- ii. Respect for hierarchy: respect for seniority and age, which means that the older persons and those of higher social rank can and should receive more respect and favours;
- iii. The importance of collectivism: thinking and behaving within accepted social norms and avoiding hurting others within the same clanship or same

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social environment;

- iv. The importance of harmony: keeping good relationships with reciprocal obligations and duties between members of the same clan.

Bond and Hofstede (1989) indicate that Chinese culture is characterised by high uncertainty avoidance, and therefore a good relationship and mutual tolerance while favouring informal communication is important to such “high context” culture (Hall & Hall, 1990).

Furthermore, according to a research conducted by Pistrui, Huang, Oksoy, Zhao, and Weldch (1999), they also find that in China, the entrepreneurial orientation is fostered by the following:

- i. The “mixed socialist economy” which tries to blend state and private enterprise;
- ii. The motivation for personal achievement and the desire to make a direct contribution to the success of an enterprise;
- iii. The eagerness to utilize their training and skills, and to continue learning;
- iv. Confucianism, the major doctrine in China, which encourages continuous

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self-improvement, hard work and diligence;

- v. Chinese cultural orientations rooted in Confucianism;
- vi. The family plays an active role in enterprise formation and development.

According to Wong and Slater (2002), Chinese cultural traditions rooted in Confucian values attach considerable importance to hierarchical relationships, directly or indirectly providing moral guidelines and social norms for behaviours within family clans and other inner circles. Behaviour is therefore evaluated according to its conformity to those norms and to its obligations of relationships (Westwood, 1997). Redding (1990) agrees that there is a strong link between Confucian values and modern Chinese business enterprises, and Tan (2002) further suggests that the Chinese seem to exhibit conservatism coupled with high level of innovativeness and entrepreneurialism.

Nevertheless, the diversity of economic development of China since 1980s has been criticized for treating Chinese entrepreneurship as being separate and distinct from the traditional Chinese culture. The open door policy, the radical changes brought by social and economic reforms have allegedly together led to changes in modern Confucian and traditional values. Such values are not static but they change as economy, politics and society change. As Wong and Slater (2002) conclude, the legacy of traditional Chinese

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culture goes on through secularization. In this way, the traditional values evolve and take up a form that has much affiliation with the past but has in many ways adapted to the present.

Claims have been made that Chinese entrepreneurship is a cultural process, embedded in a social context (Redding 1990). There is a complex relationship between the Chinese entrepreneurs and Chinese traditional culture and values. However, with such unique culture and value, such as collectivism, high avoidance of uncertainty, and respect for hierarchy; Fukuyama (1995) suggests that there are limitations for the Chinese family business to become globalised. Chinese entrepreneurs are hindered from adoption of a truly structured and western professional management style by their being rooted in philosophical traditions.

Jia (1993) makes a comparison between Chinese and western personal relationships. Although Jia's study does not focus on western and Chinese entrepreneurship or the differences between western and Chinese entrepreneurs, his comparison still give readers an understanding of the differences between how westerners and Chinese perceive personal relationship.

Table 3.2 Differences between how westerners and Chinese perceive personal relationship

<b>Aspect</b>	<b>Chinese</b>  <b>Personal Relationship</b>	<b>Western</b>  <b>Personal Relationship</b>
<b>Background</b>	<ul style="list-style-type: none"> <li>● Chinese traditions, such as everything is determined by heaven</li> <li>● Family ties and background</li> <li>● Hierarchy</li> </ul>	<ul style="list-style-type: none"> <li>● Religion</li> <li>● Individualism</li> <li>● Equality</li> </ul>
<b>Characteristics</b>	<ul style="list-style-type: none"> <li>● Already decided before born</li> <li>● Determined by human affection and emotion</li> </ul>	<ul style="list-style-type: none"> <li>● Given by God</li> <li>● Determined by reasons</li> </ul>
<b>Method</b>	<ul style="list-style-type: none"> <li>● Bonded by family ties and seniority</li> <li>● Use affection, sentiment to feel it</li> </ul>	<ul style="list-style-type: none"> <li>● Bonded by social contract</li> <li>● Use reasons to prove it</li> </ul>

Source: Xue-Wei Jia, Characteristics of Chinese Personal Relationships, Social Studies, Volume 4, 1993



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### **3.3 Chapter Summary**

This Chapter began by understanding the entrepreneurship phenomenon through various western academic disciplines – economic, psychological, sociological and behavioural. It is followed by an examination of the emergence and unique features of Chinese entrepreneurs, against a background of economic transformation from central planned economy to a mixed ‘socialist market economy’. How the cultural values the Chinese entrepreneur inherits and the western market values they encounter shape the entrepreneurs’ mentality and orientation was discussed. It is hoped that the discussion paves as background to prepare for more empirical investigation of the Chinese entrepreneur.

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# Chapter 4

## Research Methodology

### 4.1 Introduction

Chapter 2 examined the role, nature, advantages and disadvantages of guanxi. The purpose of this Chapter is to explain the methodology adopted in addressing the research questions. Albesson and Skoldberg (2000) suggest that the choice of method should be related to the particular problem and research object. Similarly, Silveman (2000) also states that the choice of method should reflect an overall research strategy, as the methodology shapes which methods are used and how each method is used. The focus of this study is to explore the role and nature of guanxi in Chinese entrepreneurship. It is directed towards generating an in-depth understanding of guanxi and how components are brought together, instead of just giving account of the phenomena. Therefore, the

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methodological approach adopted needs to go beyond merely measuring and counting contacts which people say are important but further probe into details of their reality.

## **4.2 Methodological Paradigms**

Bryman (1988), Denzin (1989) and Silveman (1993) agree that it is important to use appropriate methodological paradigms for social sciences studies as social sciences are concerned with understanding others (Fay, 1996). Easterby-Smith et al (1991) discusses the two main paradigms of positivism and phenomenology, which are explained below.

### **4.2.1 Positivism**

According to Easteby-Smith et al (1991), as the social world exists externally and that its properties should be measured through objective methods, rather than subjectively, positivism should be used as it places an emphasis on the empirical analysis of concrete relationship to general knowledge about the social world (Morgan & Smircich, 1980). Easteby-Smith el al (1991) lists the implications of adopting a positivist position for research:

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- i. Independence: the observer is independent of what is being observed;
  - ii. Value freedom: the choice of what to study, and how to study it, can be determined by objective criteria rather than by human beliefs and interests;
  - iii. Causality: the aim of social sciences should be to identify causal explanations and fundamental laws that explain regularities in human social behaviour;
  - iv. Hypothesis deductive: science proceeds through a process of hypothesising fundamental laws and then deducing what kinds of observations will demonstrate the truth or falsity of these hypotheses;
  - v. Operationalisation: concepts need to be operationalised in a way which enables facts to be measured quantitatively;
  - vi. Reductionism: problems as a whole are better understood if they are reduced into the simplest possible elements;
  - vii. Generalisation: in order to be able to generalise about regularities in human and social behaviour, it is necessary to select samples of sufficient size;

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- viii. Cross-sectional analysis: such regularities can most easily be identified by making comparisons of variation across samples.

Whilst positivism is common in research study, qualitative or interpretative approach which is a typical opposite of positivism, is another main approach. Phenomenology, as an interpretative approach, is explained as follows.

#### 4.2.2 Phenomenology

Easterby-Smith et al (1991) explain that, different from positivism, phenomenology is socially constructed, rather than objectively determined. Burrell and Morgan (1979) remark that with such approach, organisations and the social world can only be understood by obtaining first-hand knowledge of the subjects for studying. The task of the social scientist is not to gather facts and measure how often certain patterns occur, but to appreciate the different constructions and meanings that people place upon the experience (Easterby-Smith et al, 1991). Easterby-Smith et al (1991) further explain that this approach helps social scientists to understand why people have different experiences, rather than search for external causes and fundamental laws to explain their behaviour.

The strengths and weaknesses of these two diverse research approaches - positivism and phenomenology- are compared in Table 4.1.

Table 4.1 Strengths and weaknesses of positivist and phenomenological paradigms

	<b>Quantitative methods and the positivist paradigm</b>	<b>Qualitative methods and the phenomenological paradigm</b>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>● Can provide wide coverage of a range of situations</li> <li>● Can be fast and economical</li> <li>● May be of considerable relevance to policy decisions, particularly when statistics are aggregated from large samples</li> </ul>	<ul style="list-style-type: none"> <li>● Ability to look at change processes over time, to understand people's meanings, to adjust new issues and ideas as they emerge and to contribute to the evolution of new theories</li> <li>● Provide a means of gathering data which is seen as natural rather than artificial</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>● Methods are inflexible and artificial</li> <li>● Not very effective in understanding processes or the significance that people attach to actions</li> <li>● Not very helpful in generating theories</li> <li>● Focus on what is or what has been, making it hard for policy-makers to infer what changes and actions should take place in the future</li> </ul>	<ul style="list-style-type: none"> <li>● Data collection can take time and resources</li> <li>● Analysis and interpretation of data may be very difficult</li> <li>● Often feels untidy because it is harder to control progress, pace and end-points</li> <li>● Many, especially policy-makers, may give low credibility to studies based on this approach</li> </ul>

Source: Adapted from Easterby-Smith et al (1991)

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As two dichotomous orientations, the effectiveness as a research tool of positivism and phenomenology depends on the nature of the subject matters. Gill and Johnson (1997) suggest that there is no single method which generates scientific knowledge in all cases. Quantitative methods have been increasingly criticized and perceived as unsatisfactory. One of the reasons is that in studying social phenomena, human beings are not subject to universal laws in the same way as inanimate objects, or display consistent behaviour in response to the same stimuli. Burrell and Morgan (1979) argue that all approaches to social sciences are based on inter-related sets of assumptions regarding ontology, human nature and epistemology. Morgan and Smircich (1980) point out that as researchers pass from assumption to assumption along the subjective-objective continuum, the nature of what constitutes knowledge changes. They further suggest that each classification is mutually exclusive and that, in adopting a particular ontological position, assumptions are made concerning human nature, epistemological stance, metaphors and research methodology. An epistemological stance that emphasises the importance of studying the nature of relationship among the elements is therefore encouraged. This implies the need to understand and map out the social structure, giving rise to the epistemology of positivism, and emphasises empirical analysis of concrete relationships in an external world (Morgan and Smircich, 1980). It can be argued that the grounds for knowledge in

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each perspective are different because of the fundamental conceptions of reality (Morgan and Smircich, 1980).

This study is largely qualitative and adopts a phenomenological and interpretative paradigm. Although a positivist research paradigm, involving quantitative techniques, is perceived to be extremely useful when calculating the relationship between variables (Silverman, 2000), it has its limitation in conceptualising. The subject matter of guanxi would be more effectively explored and conceptualised with an epistemological orientation, with the support of some quantitative findings. Guanxi, in its very nature, exists not by its own self but among social beings, and has its subjective impact and involves individual complex motivations interacting with the social environment and components. A qualitative approach allows the researcher to understand and interpret the meanings that people attribute to, and use guanxi, as a social phenomenon.

#### 4.2.3 Research Design

a) *Quantitative method-two surveys through questionnaires*

Despite the limitation of the positivist or quantitative approach, quantitative techniques have been used in this study as an initial mechanism to assess the importance of guanxi in



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an array of environments. Attempts to measure guanxi activities, in terms of the frequency, density of guanxi contacts and, co-relationship are made at the beginning of the study, to generate indications of any extent that entrepreneurs use guanxi. These quantitative studies are useful for examining the extensiveness, activity levels, centrality and accessibility of networks (Blackburn et al, 1990). Two surveys have been conducted using quantitative techniques.

Two surveys have been conducted using two sets of questionnaires. As the researcher himself has been a Senior Advisor to China General Chamber of Commerce, a quasi-government organisation, and a member of the teaching staff at different universities in Hong Kong and China, the researcher took the advantages of using his contacts at the China General Chamber of Commerce through guanxi, and mobilised his students to conduct the two surveys.

Two different groups of respondents were selected as samples. In Survey A, all respondents were Chinese entrepreneurs. The survey aimed at knowing the meaning and use of guanxi from the perceptions of the targeted Chinese entrepreneurs. In Survey B, two different groups of respondents were selected: middle managers in Hong Kong and young middle class in Mainland China. The purpose of Survey B is to find out the

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different perceptions about guanxi between Hong Kong (returned to China's sovereignty in 1997), and Mainland young people.

i) Survey A-Chinese entrepreneurs

The purpose of this survey was to explore the underlying meanings and the applications that practitioners have and use about guanxi and their use of guanxi. The researcher intended to find out how guanxi affects entrepreneurs in their business and identify some themes that characterise the major issues and concerns that constitute the debate about guanxi as a field of study.

The specific objectives of this survey included the following:

- i. To explore the attitude of entrepreneurs towards using guanxi,
- ii. To examine the factors associated with the intention to employ guanxi, and
- iii. To investigate the general background about the use of guanxi.

To achieve these ends, this exploratory study collected data by surveying Chinese entrepreneurs. The development of the questionnaire allowed us to tap into the respondents' meanings about and the use of guanxi. The questionnaire was first designed in English, then after amendments and modifications, the final questionnaire was

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translated into Chinese. The questionnaire (Appendix A) consisted of 5 pages containing some 14 close-ended questions and 11 open-ended ones. Some questions were divided into multiple sections covering different areas of the same aspect and Likert scales (A 7-point scale was adopted with “1” representing “very important” and “7” representing “not at all important”) were frequently used to estimate the respondents’ allocation of the importance of the topic. The open-ended questions invited respondents to state their opinions, whilst the closed questions were more concerned with establishing frequency.

Collecting such data is inevitably difficult. The combination of a reluctance to provide information to strangers; reticence about personal data and general mistrust of putting opinions on paper, required the surveyor to use a variety of techniques to develop appropriate sample frames who were more likely to complete the questionnaire.

#### Survey A – first sample

One sample frame was chosen from the members of China General Chamber of Commerce. On the researcher’s behalf, the official from the China General Chamber of Commerce randomly selected 50 member companies from their computer database. According to the information provided by the China General Chamber of Commerce, 90% of the companies were either Beijing or Shanghai based and another 10% were based in Guangdong province. The majority 85% was in the service industry (insurance,

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investment, trading and logistics); the remaining 15% were in light industry, such as shoes and toys manufacturers. The questionnaires were distributed to those selected companies. All questionnaires were sent through China General Chamber of Commerce. The China General Chamber of Commerce provided a stamped return envelope to each respondent and respondents were requested to complete and return the answered questionnaires to China General Chamber of Commerce Beijing Office. After collecting the completed questionnaires the China General Chamber Beijing Office sent the un-opened mails to the researcher in Hong Kong for data analysis.

Figure 4.1 Mailed questionnaires to randomly selected companies in China General Chamber of Commerce database

Questionnaires distributed:	50
Number of returns:	2
Response rate:	4%

Consequently, the response rate was extremely low although all questionnaires were anonymous. This necessitates adopting an enlarged sample to solicit a higher response rate.

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Survey A- Second sample

In order to enlarge the sample size and make the data more reliable, the researcher decided to use another approach. 30 questionnaires were distributed by mail to entrepreneurs who conducted business in China through the researcher's personal contact and 10 questionnaires were completed by personal interviews. Among those 30 entrepreneurs who received mails, 20% percent were bankers or financial investors, 40% were manufacturers and logistics providers, and 30% were real estate developers. Those entrepreneurs were either friends or friends of friends of the researcher.

Figure 4.2 Mailed questionnaires to researcher's personal contacts

Questionnaires distributed:	30
Number of returns:	15
Response rate:	50%

The response rate of 50% is not sufficient high, especially in view of the relatively small number (15) of completed questionnaires. To augment findings, the researcher utilised his business network to contact ten more entrepreneurs, this time, through telephone interviews.

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### Survey A – Third sample

To provide more findings, the researcher connected with ten more entrepreneurs in his network and solicited their support in the research. For the 10 entrepreneurs interviewed, six interviews were conducted in Hong Kong when the Chinese entrepreneurs visited Hong Kong; two were conducted in Beijing and the final two in Shanghai when the interviewer travelled over there. These interviewees were acquaintances of the researcher. Out of the 10 interviewees, 4 were in the insurance industry, 2 were in the hotel industry, 3 were in the garment industry and 1 in real estate development. This represented a wide spread of the industry spectrum.

Figure 4.3 10 personal interviews on questionnaire with researcher's personal contacts

Questionnaires distributed:	10
Number of returns:	10
Response rate:	100%

The response rate of 100% from personal contacts through personal communication, which could be seemed as an indication of guanxi at force, is deemed very satisfactory,

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### Survey A Summary

The data from all questionnaires, either mailed or interviewed, was anonymous. A total of 90 questionnaires were distributed to the above mentioned target groups. A total of 27 valid returned questionnaires were processed, and the response rate was 30%. It is interesting to note the very poor response rate from randomly selected companies from the Chamber, where the researcher was not known to the respondents. In comparison, the excellent responses from established contacts are an early indicator of the importance of networking!

ii) Survey B-Hong Kong middle managers and Mainland young middle class

We employed a survey of two groups; middle managers in Hong Kong and young middle class in Mainland China. These two groups represent respectively the modern and westernised management of Hong Kong; and the rising affluent middle classes of China. We asked open ended questions about perceptions of understanding and use of guanxi.

Survey questionnaires were distributed to selected Mainland Chinese and Hong Kong respondents. Our sample consisted of 152 ethnic Chinese respondents; 44 and 108 in the Mainland and Hong Kong respectively. We had a 100% response rate because the survey

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was conducted face to face. The Mainland Chinese sample consisted of students, aged 20 to 22, studying at the Logistics Department at China Beijing Normal University, Zhuhai campus. China Beijing Normal University-Zhuhai is a private university charging fees of about USD 2,000 per year, thus most of the students come from China's middle or upper classes. Their parents are either entrepreneurs or senior executives in private enterprises, so we expect these students to have been exposed to modern attitudes. For the Hong Kong sample, 76 and 32 questionnaires were distributed to post-graduate marketing class students and MBA students respectively. The 76 marketing class students are part-time students studying for the UK Chartered Institution of Marketing (CIM) certificates. All were post-graduate and middle to senior management. The 32 MBA students studied at Hong Kong Baptist University on the part-time MBA program. All of them were either middle or senior business executives, aged from 28 to 48 years old, and employed in the private sector or in government organisations. The samples thus represent the modern face of China. In Hong Kong our respondents are engaged in international trade and part of a modern, thriving entrepreneurial economy. In China, our respondents represent the affluent up-and-coming generation, less experienced in the practicalities of business, but by dint of their position in society, well aware of the changing cultural norms.



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The questionnaire (Appendix B) was first developed in English and, after amendments for clarity and removal of ambiguities, the finalised questionnaire was translated into Chinese and distributed to the Mainland Chinese respondents. For the Hong Kong sample, as the respondents are studying in the English medium, the English version of the questionnaire was employed. The questionnaire was 7 pages long and contained 14 close-ended questions and 17 open-ended ones. Whenever practical, questions were posed seeking responses on a Likert scale to gauge the extent of the measure. The quantitative data collected were entered and processed using the computer, whilst qualitative data, comments and observations in the open ended responses were categorised by themes. Descriptive statistics including percentage distributions and average ratings for specific items being measured were reported.

Figure 4.4 152 questionnaires administered face to face to university students

(China: 44, Hong Kong: 102)

Questionnaires distributed:	152
Number of returns:	152
Response rate:	100%

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Again, response rate (100%) is very satisfactory, indicating that personal contact and direct communication, as a part of guanxi, does play an important role.

a) *Qualitative Method – through case studies and telephone interviews*

With the quantitative findings about guanxi initially available to facilitate the gauging of further information, as an alternative, qualitative studies are now embarked to investigate a more in-depth knowledge of the cultural and economic relationship within guanxi. Blackburn et al (1990) point out that qualitative approaches are best suited to exploring the processes and motivations to network. In this study, interpretative research method was more heavily depended on. Through personal, face to face and telephone interviews, the aim was not only to understand how people make sense of their worlds, but also to employ the researcher's appreciation of different constructions and meanings that people placed upon the experience (Easterby-Smith et al, 1991). By using such a method, it is believed that a deeper understanding of guanxi complexity can be obtained through interview information collected. Furthermore, a qualitative approach allows soft issues to be dealt with, for instance, meanings which lie behind actions (Hammersley, 1992). The use of a qualitative method can provide a richer and useful way to look at entrepreneurial guanxi and to understand the actors' appreciation of any implications for the relationships and for recording their behaviour.

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Two case studies and thirty telephone interviews were conducted in order to explore guanxi and entrepreneurship to gain a broader understanding of the area. The field work considers the research questions below, through the use of both quantitative and qualitative techniques.

Table 4.2      Questions asked in case studies

a)	What does guanxi mean?
b)	What are the forms and functions of guanxi?
c)	How important is guanxi in doing business in China?
d)	What are the benefits derived from guanxi?
e)	Does guanxi constrain or enable entrepreneurship?
f)	The relationship between guanxi and rules and regulations in China.
g)	Is guanxi diminishing in China nowadays?
h)	How does guanxi help?
i)	How to build up and cultivate guanxi?

For both the case studies and telephone interviews, a detailed account of the structure of the research and methods used to collect and analyse the data respectively is provided.

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i) Case studies

Two Chinese entrepreneurs were interviewed face to face. The interviews were conducted in China. During the interviews, in-depth and extensive discussions were conducted. Personal interviews are still not popular in China, having interviewees express their ideas are difficult due to traditional Chinese culture and the relatively conservative attitude. Furthermore, solicitation of personal opinions can be a sensitive issue and may sometimes be infringing on Chinese legislation if the interviews are not handled properly. Sometimes, such would cross the interviewee's subtle and psychological boundaries. Despite that, the interviews did enable the researcher to recognise areas which need to be examined to achieve the overall aims and objectives of this study. In the course of collecting and organizing the materials for analysis, it became evident that there was a range of interesting features discovered in the interviews. In order to protect the interviewees and their companies, the names mentioned have been changed.

The two interviewees are very successful Chinese and American Chinese entrepreneurs, who were born and grew up in China, and started their businesses from scratch. They have established their businesses in Mainland China and the United States and travel frequently between the two regions.

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ii) Telephone interviews

To supplement the findings and provide more information for analysis, a total of 30 telephone interviews were conducted. Of these 30 interviewees, most are the interviewer's personal friends or business counterparts, but seven were introduced by the interviewees (snowball sampling). The interviewees include Chinese from Hong Kong, Mainland China, and the United States. Their positions range from mid to low level government officials, senior business executives, entrepreneurs, to university professors and students. The 30 interviewees came from different industries, from service to manufacturing, state-owned enterprises to private sectors. Their ages range from 20+ to 60+. For those who were between 25 to 35 years old, most were university graduates. Most of those who were 35 years old and older had only finished high school. The regional coverage is less restricted and indeed more widespread since interviewees are located in different Chinese provinces, Hong Kong and the United States. The diverse samples may generate more representation and enhance validity of the findings. Transcribed records of the telephone interviews are included in Appendix C.

Telephone interviews, in which both parties do not see each other and no eye contact is involved, will let the interviewees feel more comfortable and willing to express their ideas. Prior to the interviews, the interviewer explained that the conversation would only be used

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for academic research only and all personal and company names were to remain anonymous. The interviewer tried to conduct the telephone conversation in a friendly, very casual and informal style, so that the interviewees could feel more relaxed. One of the advantages of using such approach is to give more room and space to interviewees to develop and elaborate on the contents of the conversation and responses.

Most of the telephone interviews lasted for 20 to 30 minutes. The interviewer tried to focus the conversation on the following and also invited the interviewees to express anything not included in the questions but related to guanxi.

Table 4.3 Questions asked in telephone interviews

a)	Do they use guanxi? If yes, how and how often?
b)	How important is guanxi in doing business in China?
c)	How do they build up and cultivate guanxi?
d)	What are the benefits derived from guanxi?
e)	Are there any disadvantages associated with guanxi?
f)	The relationship between guanxi and rules and regulations in China.
g)	Is guanxi diminishing in China nowadays?

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# Chapter 5

## Research Results and Analysis

### 5.1 Introduction

In Chapter 4, two surveys reaching 179 respondents, two case studies in the form of personal interviews, and thirty telephone interviews were presented and a preliminary background was provided. Through using both qualitative and quantitative methods, an in-depth knowledge of the cultural and economic relationship with guanxi was explored. This involved a process of reaching the old and new Chinese generations, from the areas of the Mainland and Hong Kong, and drawn from cohorts of native Chinese, Hong Kong Chinese, American Chinese and native Americans, reflecting the different concepts drawn on for entrepreneurship and the structure and mechanism of guanxi.

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The process of analysis involved looking for patterns of commonality in the data, explanations for the issues being considered and developing an understanding from the perspective of interviewees and survey respondents. This Chapter returns to the arguments developed from a critical review of the literature in Chapters 2 and 3 on Chinese guanxi and guanxi in Chinese enterprises. It addresses the research question, “What is the contemporary role of guanxi in Chinese entrepreneurship?” and seeks answers to this from the data, employing an examination of the arguments raised from the literature and considering this in light of the findings from the research.

Although the study has shown how guanxi constitutes an integral part of Chinese entrepreneurship, our findings are not without limitations and therefore need to be seen with caution. One of the restrictions is that our sample was small and may not represent the entrepreneurial population as a whole and the study may not reflect fully the overall scenario of the guanxi in Chinese entrepreneurs, given that the economic scene in China is so dynamic. Notwithstanding these limitations, it may give readers some insights, and to a certain extent, an indication of future development of guanxi in Chinese entrepreneurship.



## 5.2 Findings and Analysis

### 5.2.1 Surveys

Table 5.1 General information of survey respondents

	Survey A	Survey B
Total questionnaires administered	90	152
No. of respondents	27 (30%)	152 (100%)
Background of respondents	Chinese entrepreneurs	a) Middle to senior managers in Hong Kong (44) b) Young middle class in mainland China (108)
Age Range	30 – 60 years old	20-48 years old
Profession	Service and manufacturing industries	a) Full time students b) Service and manufacturing industries for part-time students

Table 5.2 Detail profile of survey A respondents

Source of Respondents	a) China General Chamber of Commerce b) Researcher's personal contacts
Industries	Insurance, Finance Investment, Trading, Logistics, Estate Developers, Garment, and Hotel.
Locations	Beijing, Shanghai, Guangzhou, Hong Kong.
Professionals	All are either company owners or entrepreneurs.
Age Range	Majorities are 40 years old or above. Only 1 or 2 below 40 years old.

Family Background	<p>a) None of them heritage his or her ascendant's fortune. All respondents create their own companies.</p> <p>b) All respondents have worked for either central or local government bureaus (mid-level staff), or Chinese enterprises before started up their own business.</p>
Age of business	From 3 years to 12 years
Nationality	All respondents are mainland Chinese

Table 5.3 Detail Profile of Survey B Respondents

Source of Respondents	<p>a) Full-time students of Logistics Department of Beijing Normal University, Zhuhai Campus.</p> <p>b) Part-time students at UK Chartered Institution of Marketing (CIM) certificate course.</p> <p>c) Part-time MBA students at Hong Kong Baptist University</p>
Locations	Zhuhai (Guangdong Province, PRC), Hong Kong
Professionals	All part-time students are middle to senior management staff. No one runs his or her own business.
Industries	All part-time students are either work for Hong Kong Government agents or private enterprises in Hong Kong. The industrial spectrum is very wide, from manufacturing to service industries. Few students work for mainland Chinese owned companies.
Age Range	<p>a) All full-times students are Junior students and age ranges from 20 to 22.</p> <p>b) All part-time students are mature students and age ranges from 28 to 48.</p>
Family Background	<p>a) All full-times students come from middle or upper families in China as the University is a private university with annual tuition around USD 2,000 per year.</p> <p>b) No exact family background information of the part-time students. Almost 100% of the part-time students support their studies themselves.</p>
Nationality	a) All full-time students are mainland Chinese, except very few of them are Hong Kong citizen.

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	b) Most part-time students are Hong Kong citizens, except very few of them are foreign passport holders (Australia, UK, Canada and USA).
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a) Survey A

In Survey A, a total of 27 questionnaires were responded to by Chinese entrepreneurs reached from a random sample of database, and personal contacts. A summary of their responses to key open-ended questions is given below.

When asked the question of ‘what does ‘Guanxi’” mean to you?’ A range of responses were given. Besides the role of guanxi, these responses also make reference to the importance of guanxi and the benefits associated with guanxi.

i) The meaning of guanxi benefits

- *help some to become successful;*
- *accumulate resources;*
- *mutual benefit;*
- *the source of future fortune;*
- *shorten the process and bring improvement;*
- *give you help in anything;*
- *the way to create resources;*

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- *bargaining, exchange.*
  - ii) *The importance and benefits of guanxi - it facilitates business and involves people*
  - *help others including friends, relatives, colleagues, employers and employees, etc.;*
  - *networking among people;*
  - *very important in human chemistry;*
  - *very important in our daily life;*
  - *guanxi decides everything and your future;*
  - *involve passion, interests, fortune, resources, culture, and kinship.*

In summary, the answers given indicate that guanxi is, in general terms, seen as a method of facilitating business. The respondents noted how it connects people, and also how it involves people. Moreover, guanxi is seen, in most cases, to be crucial to success. It is, however, as the comments suggest, a very personal thing.

From the quantifiable responses, it also echoes the importance of guanxi and the interpersonal element.

iii) *Importance of guanxi*

On the question of “Do you think ‘Guanxi’ is important, especially when you start your new business?” 51% considered it very important, 27 % quite important, whilst the remainder saw it as important. Nobody saw it as unimportant. These results confirm the importance of guanxi as proposed in the literature.

iv) Guanxi involves people with close ties

On the question of “Where do you receive your guanxi from?” The responses indicate the various types of people involved.

Figure 5.1 Where do they receive guanxi from

<i>Good friends</i>	<i>n=25 (18.80%)</i>
<i>Schoolmates</i>	<i>n=24 (18.05%)</i>
<i>Friends of friends</i>	<i>n=18 (13.53%)</i>
<i>Business partners</i>	<i>n=18 (13.53%)</i>
<i>Kinship</i>	<i>n=17 (12.78%)</i>
<i>Former colleague</i>	<i>n=13 (9.77%)</i>
<i>Other Relatives</i>	<i>n=9 (6.76%)</i>
<i>Former employer</i>	<i>n=8 (6.01%)</i>
<i>Others (former customer)</i>	<i>n=1 (0.80%)</i>
<b><i>Total (n=number of responses)</i></b>	<b><i>n=133 (100%)</i></b>

It is very clear that the principle source of guanxi is friendship ties. These are affective ties, characterised by close bonds and based upon knowing the other party. This leads us to

propose that entrepreneurial guanxi is not, as suggested in most of the literature, an outcome of structural relationships, but rather a linkage founded on close ties. Indeed when asked about who provides the most reliable guanxi, over 70% indicated that it was from the circles of friends, schoolmates, friends of friends, kinship, and other relatives. One respondent commented that it “*depends on how deep the relationship is* “. Again this comment, alongside the statistics, seems to emphasise the importance of ties.

To address the issue of the source of quality guanxi, the survey asked “Who provides the best guanxi?”

Figure 5.2 Who provides the best guanxi

<i>Schoolmates</i>	<i>n=15 (25.79%)</i>
<i>Good friends</i>	<i>n=14 (25.22%)</i>
<i>Business partners</i>	<i>n=7 (12.5%)</i>
<i>Kinship</i>	<i>n=8 (14.27%)</i>
<i>Former colleagues</i>	<i>n=3 (5.35%)</i>
<i>Friends of friends</i>	<i>n=4 (7.14%)</i>
<i>Other Relatives</i>	<i>n=3 (5.35%)</i>
<i>Former employer</i>	<i>n=1 (1.79%)</i>
<i>Others (customer)</i>	<i>n=1 (1.79%)</i>
<b><i>Total (n=number of responses)</i></b>	<b><i>n=51 (100%)</i></b>

The results here were very similar to the previous question about from where the respondents receive guanxi, thus suggesting that guanxi is “cultivated” to provide the best desired outcome. Again it seems significant that friendship ties (schoolmates, good friends, and friends of friends) dramatically (65%) outweighs any other forms of relationship. This seems to suggest that trust may be important and that trust, and the concomitant vulnerability, is based on knowing the other party.

v) Frequency of using guanxi

On the question of how often guanxi is used, the following is a summary of the responses.

Figure 5.3 If they used guanxi frequently

If yes (How often); Very often=1,2,3,4,5,6 (on a level of decreasing intensity),7=Not often

<i>No</i>		<i>n=3</i>	<i>11.11%</i>
<i>Yes</i>	<i>Rank 1</i>	<i>n=8</i>	<i>29.63%</i>
	<i>Rank 2</i>	<i>n=2</i>	<i>7.40%</i>
	<i>Rank 3</i>	<i>n=5</i>	<i>18.52%</i>
	<i>Rank 4</i>	<i>n=5</i>	<i>18.52%</i>
	<i>Rank 5</i>	<i>n=2</i>	<i>7.40%</i>
	<i>Rank 6</i>	<i>n=0</i>	<i>0.00%</i>
	<i>Rank 7</i>	<i>n=2</i>	<i>7.4%</i>
<b><i>Total (n=number of responses) n=27 (100%)</i></b>			

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It seems evident that the vast majority (rank 1-4, 74.07%) of our respondents used guanxi regularly, and only a small minority (Rank 7, 11.11%) not at all, and some 25% infrequently (Rank 5-7, 14.8%). This leads us to support the argument that guanxi is an important part of Chinese entrepreneurship.

vi) *Guanxi's outcome is diminishing*

When asked if guanxi achieved what was expected, some 18.5% indicated that it was not often achieved. In the open ended responses, the comments included, "*the market has changed, guanxi seemed not that important; better to control the information than using guanxi; use your own power*". This does seem to suggest that guanxi outcomes may be changing and that, at least for some; business is becoming less about personal relationships.

On the other hand, over 80% of the respondents felt that guanxi did deliver certain outcome, "*be sincere and you can seek help; tell someone frankly what you need; once you have used your guanxi, of course you can achieve something*". These comments, whilst confirming the importance and utility of guanxi, also hint at the importance of the depth of the relationship. Words like 'sincere', 'frank', 'help' are all indicative of the element of trust.



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Some respondents focused more on the practical implications by taking an advisory stance, through comments like the following, *“it is so common in Chinese daily life; kinship and relatives will really give you help; establish a reliable guanxi network; almost 90% can achieve what I expected; unless you think s/he can provide you the necessary guanxi, otherwise don’t use it; in China, with no guanxi, you can do nothing”*. The survey also noted how guanxi works, *“one normally will feel bad in rejecting someone’s requests” and acceding to others’ guanxi request “gives you more confidence”*. However one needs to *“find the appropriate person who can provide appropriate guanxi”*. It thus seems reasonable to argue that guanxi remains very important in the conduct of everyday business for most entrepreneurs but is also centers on the obligations that characterise guanxi. In themselves, these obligations are affective, in the sense that friendship carries similar social obligations.

When asked how and in what ways (with examples) guanxi helped the respondents achieve their goals, a range of the responses as follows were received.

- *cannot tell, it is so personal;*
- *know the key persons, approach them directly;*
- *can buy cheaper products;*
- *save time, energy and resource;*

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- *can know the bottom line or the competitor's price in biddings;*
  - *grasp customers from competitors;*
  - *guanxi is only the entrance, still it needs your own capability;*
  - *can receive important information anytime;*
  - *knowing the bottom line of competitors;*
  - *can grasp investment projects and pay less;*
  - *help develop customer relations and market;*
  - *strengthen personal social circle;*
  - *offer the lowest bid after knowing all the bidding prices;*
  - *use influence to achieve something;*
  - *get orders.*

In as much as the survey can generalise, it seems that guanxi operates as a way of producing useful, valuable and effective information. It may thus reduce costs and more importantly, uncertainty in transactions.

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When asked how our respondents managed or cultivated their guanxi, a range of responses were received. These seemed to fall into one of two categories, the mechanism of guanxi and the more generalised but softer issues.

*“frequently communicate; participate and involve in his or her hobbies; use all possible resources; use company resources to entertain officially, such as KTV karaoke, gift-giving, meals, etc.; invite to parties, and special events like KTV karaoke, meals, entertainments, etc.”*

Softer issues include: *“treat them sincerely; always think about his/her needs and be ready to help; always be ready to develop further in-depth relationship when opportunities arise; establish mutual trust; with sincerity and integrity; provide mutual help; no need to make it too seriously, just let it be;”*

The survey had not asked respondents to rank these aspects, but it appears that the mechanical aspects are as described by the related literature and seem to be about building a reservoir of obligations. More interestingly, for us, are the softer aspects, which seem to focus upon building the right sort of environment and psyche for guanxi to operate. Again this seems to emphasise the social aspect, rather than any sort of structural obligation. In this way, the findings here are quite different from what the literature discusses earlier about the structural properties of guanxi, for example, by Yongqiang and Zhilong (2006).

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Our findings are much closer to those of Yang (1994) and in particular Fan's (2002) who adopt a notion of acquired relationships.

In our continuing exploration of the operational parameters of guanxi, the survey asked our respondents why they expected their guanxi partners to offer their guanxi. The responses took two forms. The first was based on the trust of mutual obligation and the second on friendship. For the obligations of guanxi, the indications from respondents included "*trust; s/he owes you something; involve mutual interests and benefits; my social status, position, influence and social circle; responsibility*". For the friendship aspect, respondents said "*good will, just a will to help; like you; trust you and show friendship; treat you as his or her friend; reasonable to give you help*". More neutral responses, which emphasised the mutuality of guanxi, included "*win-win situation; s/he can get benefit from you; two-way benefits and expecting reciprocals; no conflict of interest; making use of you*".

Our analysis of these responses leads us to suggest that the social bonds of guanxi raise particular expectations of reciprocity. These bonds thus act to create a pool of social obligations, a requirement to respond to requests for help, which is enforced by the social norms of guanxi.

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The survey also asked our respondents about whether they would use different levels of guanxi in different situations. The responses showed quite clearly that the type of guanxi employed would be very context-dependent. For example, one of the responses was, “*yes, use higher level guanxi to solve more difficult problems*”. Another interesting response was “*depends on the needs*”, but two respondents pointed out that they “*will use guanxi carefully because it will hurt your guanxi if you use too much; use it very carefully*”. It seems then that guanxi is not universally or indiscriminately employed. Rather its application and use is shaped, perhaps even determined, by the context and the nature of the problem.

When asked about how they maintained their guanxi, the survey was provided with two types of responses; the first about the practical aspects and the second, as in our questions about managing guanxi, talked about the softer issues. Thus the practical maintenance was achieved by “*frequent communication; tying up both interests and benefits together; making use of each other when necessary; frequent visits, communications*”. The softer and personal issues were explained as “*treating them as real friends; trusting; being passionate; treating them sincerely and with respect.*” Thus maintenance of a long term guanxi relationship seems to operate in a very similar fashion to the way that guanxi is used. It reflected the practical aspect involved, it is essentially relying heavily on

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communication but is also founded on long term personal connections, where trust, integrity and sincerity prevail.

Both these dimensions also arose when asked about how they reciprocated the benefits accrued from a guanxi connection. Some indicated about specific returns including *“presenting gifts to them in their birthdays or special festivals; money; meals; providing relative and equal level of resources as a return”*. However most respondents alluded to returning guanxi in more subtle and invisible form, *“helping them solve their problems; sharing my guanxi with him or her; providing appropriate returns at appropriate time; using my influence to help him or her get more benefit; providing reciprocal help”*. Some alluded to the general context of guanxi relationships, and would *“treasure the friendship; treat him or her as good friends”* or *“keep it in mind and remember that I owe him something”*. With the overall responses being summarized, it is evident that guanxi is imbued with reciprocity. The nature of reciprocity is not entirely materialistic. Although some respondents had acknowledged guanxi as a material debt which they would return in material terms through the form of entertainment or even money, most saw the obligation that was due in similar forms of the service rendered. Thus the manifestation of the obligation is less materialistic and more about returning favours in a more subtle form.

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vii) Outcomes of guanxi – assisting business

Another major part of the questionnaire was concerned with the outcomes of guanxi. The survey asked how guanxi assisted in their business development. Responses pointed out how guanxi made certain processes possible. Their replies include the following, “*get the benefit that I could not get; enlarge my business scope; provide me valuable business information; make use of his guanxi which subsequently became mine*”. Others referred to how guanxi facilitates, “*refer customers to me; give me help when I face difficulties; every business comes from business; help me develop my business rapidly; my hard work together with guanxi help me get a big business.*” So guanxi facilitated business process but perhaps more importantly, it extended the capabilities, the contacts and the resources of the respondents’ business. In many ways, this aspect is very similar to the western notion of networking, where it has been frequently shown that networking extends the capabilities and resources of the networked entrepreneur. Perhaps the biggest difference between guanxi and networking is the respondents’ emphasis on the necessity of guanxi.

viii) The need to cultivate guanxi

The survey asked the respondents if they would actively cultivate guanxi and predictably, given the benefits described earlier, the majority, at 89%, gave affirmation. Indeed one third told us that they would do so very often. In contrast, when asked if they “liked” the

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guanxi game, some 50% didn't like it at all, and that "*I don't like it but have to do it because you cannot avoid it*". Only 22% felt that they enjoyed the game, "*I have no choice, and with everyone doing it, what should I do?*" Despite these profound reservations, 27% felt that guanxi was very important for their business, "*you cannot move a step forward if you don't have guanxi*", and the remainder saw it as important. None felt that it was not at all important. Whilst there are some reservations about employing guanxi, guanxi is seen as an essential element in business and probably unavoidable. The responses illustrate that playing the guanxi game is an inherent part of Chinese entrepreneurship, whether the entrepreneurs like it or not!

Most entrepreneurs being surveyed are young and well educated. They understand guanxi but are at the same time being cautious in their attitudes towards it, treating the use of guanxi as walking a fine line in the modern business practices. In many ways, guanxi as a social element has existed for thousands of year in Chinese culture. The traditional nature of guanxi may give advantages but at the same time carry certain outdated and even negative connotations in the modern and globalised era. Interestingly, their cautious responses seemed to reflect that as Chinese entrepreneurs, they want to display an idealistic stance with a strong sense of righteousness, or perhaps to give a politically correct image. Nonetheless we can conclude that guanxi remains at the core as an



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important means of doing business in China, especially when starting up new ventures. Yet this employment of guanxi as a traditional means seems to have been modified, adapted and shaped into the use of sincerity and integrity basing on true friendship to gain respect and guanxi from others. The aspect of guanxi in the form of materialistic reciprocity appears to be less important while its softer forms are more upheld and applied in modern entrepreneur practices and relationship.

*b) Survey B*

In Survey B, a total of 152 questionnaires were distributed and returned from 44 and 108 Mainland and Hong Kong Chinese respectively. In broad terms, guanxi is still perceived as an important element in Chinese business, but some quite remarkable differences are found in the attitudes and knowledge about guanxi from the Hong Kong respondents compared with the Mainland Chinese respondents. Interestingly, the Mainland Chinese saw guanxi more in terms of social relationships, albeit instrumentally maintained; in contrast to the Hong Kong counterparts who emphasised the mercenary aspects of gift giving. Although both groups expressed some distaste towards guanxi, the Mainland group was much better informed about guanxi and saw its application as a necessary evil. Both groups saw its role diminishing over time as structures and legislation improve in

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Mainland China and as the business environment becomes more exposed to western business practices.

i) Importance of guanxi

Many of the Hong Kong respondents, who are practising executives, did not express the meaning of guanxi very clearly, thus perhaps indicating a lack of complete understanding of the concept. It could be vaguely interpreted that guanxi may not be playing a very important role in their business dealings. Some cited it as the Chinese way of doing business, “*to reach effectiveness in relationships with Chinese*”. Others saw it as “*the same as a relationship with Chinese*”; or “*unofficial way to gain advantage*”. Clearly they were adopting somewhat disparaging assumptions about the “old” traditional ways. In contrast, the Mainland respondents were much more familiar with the concept and tended to be able to describe it more readily and fully. Descriptions included “*exchange of benefits*”, “*a relationship to be built in order to achieve something among people*”, “*enhanced relationship*”, “*co-operation*”. This we see a quite different focus on the relationship itself, rather than merely on the benefits. They seemed to be drawing attention to the human side of the relationships, and the social side with its emphasis on interactions between people.

This contrast in the views is possibly related to the relevance and use of guanxi. None of the Mainland respondents saw guanxi as unhelpful. Our Hong Kong respondents did not seem to have got much help through guanxi. Remarkably, 88% (95 respondents) said that it was not helpful. Of the remainder, only 10% saw it as in some measure helpful. We found this surprising, since the literature indicates that western networks are a major benefit in business, at the very least, in terms of improved access to information. Thus we expected to see some acknowledgement of the effectiveness of the more socialised aspects of business. Network trust is seen to play an important role in bonding ties, but interpersonal trust plays a part in guanxi too (Davies, 1995). Given that we were asking specifically about guanxi, we may have detected a distrust of the guanxi system. It may be that given the negative connotation of guanxi, Hong Kong respondents saw guanxi as different from the westernised notions of networking.

Figure 5.4 Whether guanxi is helpful or not (Mainland respondents)

Very Helpful	1	n= 2 (4.54%)
	2	n=0 (0%)
	3	n=20 (45.46%)
	4	n=16 (36.36%)
	5	n=3 (6.82%)
	6	n= 3 (6.82%)
Not helpful	7	n=0 (0%)
<b>Total (n=number of responses)</b>		<b>n=44 (100%)</b>

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When asked how helpful guanxi was, the most common response was that “*it helps save time and costs*”; many referred broadly to “*good relationships, and renqing*” and some indicated that “*one must follow the social trend*”.

ii) Maintenance of guanxi

Our next area of questions was about the maintenance of guanxi. Like western networking, guanxi is not static, but is recognised to require regular renewal. The Hong Kong respondents saw this maintenance in a similar light, but somewhat more cynically, and leaning closer to the western notions of networking, “*communicate frequently*”, “*say nice words*” or “*please them as necessary*”, “*treat them well*”. The Mainland respondents presented a very materialistic view, “*buy them gifts*”, “*give money to them*” or “*provide reciprocal treatment*”.

This instrumental view was rather at odds with the views presented earlier about the nature of the guanxi relationship. Guanxi has been looked at in terms of the relationship between people, but here the less pleasant or materialistic side that such relationships are dependent upon material exchanges is unveiled. It is also a somewhat different picture from western networking. In western networking, although influence, prestige and power play a role in social capital (Anderson and Jack 2002); the maintenance exchange is more likely to be social or informational, rather than overtly pointing to the mercenary aspects.

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This greater need to “buy” influence comes as no surprise in the rapidly developing economic environment in China, where traditional culture is now tainted with a utilitarian tone. This is more so in view of the rapid and drastic change from the collective economy to one that is more geared towards private ownership.

iii) Changing importance of guanxi

Although all respondents agreed that guanxi was important, its importance was perceived to be diminishing. When asked to compare the present with the situation when China first opened her markets in the early 1980s, the vast majority of responses, both the Hong Kong and Mainlanders saw the importance of guanxi diminishing. Some 91% of the Mainland respondents saw it as less important now, whilst 94% of the Hong Kong respondents agreed with this view. Typical explanations for the changes included “*more interaction with western countries*”; “*formation of rules and regulations*”; “*more western investments which demand fair competition*”; “*more competition generally, where product quality matters more than guanxi*”. It is evident that the perception of the use and importance of guanxi has diminished with the westernisation of markets and less personalisation in business transactions.

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iv) Guanxi only facilitates

Respondents were asked whether guanxi was useful if they had a good or unique product. This was to determine the relative importance of guanxi and conventional, transactional market relationships. There was little difference in perceptions, 82% (n=36) of Mainland respondents and 95% (n=102) Hong Kong respondents considered that in such case, guanxi would be less applied. Many indicated that guanxi could provide supplementary assistance, but the core advantage was the product itself. This seems to indicate that although guanxi may open doors, it does not guarantee entry and smooth transaction. When asked at what stage in the business guanxi was considered most important, most indicated that it was at the start of a new business, although some remarked that it was during the “building up”, and the development of the business. Market power is still determined by the laws of supply and demand rather than any privileged position and relationship.

v) Reliance on guanxi

Respondents were asked if they relied upon guanxi in their business dealings. Most (97%) Hong Kong respondents said they did not rely upon its use. In stark contrast, the perception of its role is reversed among the Mainland respondents, where 100% said they relied upon guanxi in their business.

Figure 5.5 Do they rely upon guanxi in their business dealings? (Mainland respondents)

Very important	1	n=3 (6.82%)
	2	n=8 (18.18%)
	3	n=16 (36.36%)
	4	n=12 (27.27%)
	5	n=5 (11.36%)
	6	n=0 (0%)
Not important	7	n=0 (0%)
<b>Total (n=number of responses)</b>		<b>n=44 (100%)</b>

It was clear that the Hong Kong respondents relied less than their mainland counterparts on guanxi. Interestingly, and perhaps contrary to expectations from the literature, the context of international business was seen as a significant forum for employing guanxi. However for the majority of Hong Kong entrepreneurs, guanxi was not deemed essential for doing business in the mainland. Most of the Hong Kong respondents did not answer, but 7 (6.49%) of them expressed comments like “*more money*”; “*higher levels of corruption*”; “*ask for bigger benefits*”. Such low rate of response from the Hong Kong group (6.49%, 7 of 108 respondents) as compared with the higher responses from the Mainland counterparts (95.45%, 42 of 44 respondents) to this specific question provides foot for further thought. Hong Kong, with its strong anti-corruption emphasis built up

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ever since the 1970s but facing interface with China emerging as a giant economy but notoriously corrupt, can be seen like at a crossroad impacted with conflicts in cultural values. The Hong Kong respondents have chosen to remain silent and thus politically correct on this somewhat taboo topic. It would be difficult to admit the harsh reality which is far from the ideal. At the same time, most of the Mainland respondents gave an enlightened tone on changes in the operation of guanxi; *“in the past, guanxi was associated with corruption, now it is only lubrication”*; *“more reasonable now, more focus on reciprocity, more human”*. These responses can be seen as playing down the taboo side of corruption, somehow not totally detached from guanxi. The impact of anti-corruption ethos, at least, as a socially accepted ideal, remains looming at the background and their minds. Here, where the old meets the new, the East meets the West, is at play. It is therefore not surprising to see both groups almost unanimously agreed (96%) that the importance of guanxi would diminish as China becomes even more open. Typical comments included *“impact of foreign culture”*; *“China will improve its regulation”*; *“more fair and equal competition, so quality will become more important”*. Both groups thought the current role played by guanxi was diminishing. When asked if they enjoyed the “guanxi game”, most of the respondents, 98% of the Hong Kong group and 91% of the Chinese, said not really. In view of the taboo nature of corruption and its strong



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relationship with guanxi, these “politically and ethically correct” responses were again unsurprising.

vi) *Summary of survey findings*

Although our study was limited in scope and not fully representative of either group, we believe that the purposeful sample was likely to be broadly representative of the views of future business leaders about changes in guanxi. Our deliberate sampling of cohorts with contrasts of the old and the new, the modern and the more traditional, provides us with some insights and indicators of how guanxi is perceived and how it is likely to be applied in the future.

We found that few respondents enjoyed guanxi but that most recognised its utility. It is clear that guanxi’s role, in the past, present and future is about opening doors, but that this function is seen as less important in the more westernised Hong Kong. The Hong Kong group appeared to see guanxi as more important within China itself, thus suggesting that the more traditional culture lingers in that business environment. This seems to be confirmed by the Mainlanders’ responses, in which many considered it as currently essential. The study highlighted quite different perceptions about the nature of guanxi. Hong Kong respondents associated it as broadly corrupt and emphasised the financial costs. Contrastingly, the Chinese emphasised the social aspects, drawing attention to the

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interpersonal links. Interestingly, they viewed the maintenance of guanxi in much more materialistic terms.

This difference might be explained by the more cultural embeddedness of the Chinese group. The Hong Kong group may use guanxi as an initiating technique, to begin trying to develop instrumental relationships. But if guanxi is more taken for granted and as an acknowledged structural element of society, as the literature indicates as in the case of China, personal ties rather than transactional elements, may be the focus. Although the Chinese respondents noted the “lubricating” effects of guanxi, they remained ambivalent about its utility in the face of competition based on “quality”. Our most significant finding was that all respondents saw a diminishing role for guanxi in the anticipation of increasing openness of the China market and a better regulatory environment.

### 5.2.2 Cases: In-depth personal interviews

#### a) Case 1: Mr. K.K. Huang – ABC Printing Ltd.

Mr. Huang is 38 and married with no children. Mr. Huang was born and grew up in the Guangdong Province, in the southern part of China, next to the border of Hong Kong. Mr. Huang received his primary, secondary and university education in Guangdong. He

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received his undergraduate degree and part-time Master's degree in Business Administration from Guangdong Sun Yat-Sen University, a very reputable university in Southern China. Right after his attainment of the Master's degree in 1997, with the help and financial support from his brother-in-law, Mr. Chen, an owner of a small grocery store in Guangzhou, the provincial capital of Guangdong province, Mr. Huang started his own printing company in Guangzhou. By the end of 2000, with the annual turnover of USD 150,000 and six staff, Mr. Huang's main business was helping small and medium size clients print name cards, letter heads and promotional pamphlets. In 2001, one of his friends introduced him to the owner of a big Chinese enterprise which manufactures household electronic appliances. Through such *guanxi*, Mr. Huang started doing business with this Chinese enterprise. Within a very short period of time, the Chinese enterprise contracted out all the company's printing jobs to Mr. Huang. The business was a stepping stone to Mr. Huang's success. Not only had the packaging printing increased Mr. Huang's annual turnover to USD 2.5 million, it had also built up the company's reputation which helped attract more businesses. Many other Chinese companies gave their printing business to Mr. Huang because they thought "*as even that big Chinese enterprise trusts Mr. Huang, Mr. Huang should be trustful*". In December 2008, Mr. Huang owned one printing factory in Dongguan and another one in Shengzhen, two major manufacturing cities in Guangdong province, each with about 1,000 workers on site. With the turnover

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of USD 14 million in 2007, Mr. Huang has established sales offices in Beijing, Shanghai, Guangzhou and Hong Kong, and started serving overseas clients.

*“I am so fortunate. Without the help of my brother-in-law, I wouldn’t have been so successful today.”*

In the case of Mr. Huang, it is family ties that provide the resources and network for starting a business. The guanxi between Mr. Huang’s brother-in-law, Mr. Chen, and Mr. Huang has enabled a loan and connections to be given, which directly financed and nurtured Mr. Huang’s business venture.

*“My brother-in-law introduced me to his friends, both business and non-business, so I could develop relationships with them. At that time, my brother-in-law always asked his friends in his circle to give me face and take care of me, his in-law.”*

Although Mr. Chen was only an owner of a small grocery store, as a native resident in Guangzhou, he had built his guanxi ‘wang’ (network) in the area when he was young. Not only had Mr. Chen introduced potential printing clients to Mr. Huang, he also provided business information to Mr. Huang for him to source his customers and suppliers.

*“At that time, since I was young and green and without any connections in the business world, no one would readily trust me or my experience, not to mention*

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*that they would give any business to me as a new player. My first business came from my brother-in-law's friend, who asked me to print some of his company's promotional pamphlets. Since the amount involved was very small, he really didn't care too much about my performance. I could tell that the only reason that he gave me the business was because of my brother-in-law's referral. It was like giving a favour to a friend, with good will and complete trust of his recommendation."*

Whilst his brother-in-law Mr. Chen helped Mr. Huang in starting the business, it was Mr. Chen's friends and the related guanxi that contributed to the further development of Mr. Huang's business. It showed that both family guanxi and social networks could provide short-term business resources and opportunities.

*"I experienced a difficult time when I started my business. I needed to work day and night. Frequently my brother-in-law took me out for drinks, dinner and karaoke, to develop guanxi with potential clients. You know, I was not that rich at that time but the meals and entertainment cost me a lot. Of course, I needed to pay all the bills. My brother-in-law was very considerate. He advised me who I should treat nicely and who I should just socialise with according to their background and their potentials and influence that they might bring to my business.*

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*Without his advice, I would end up wasting a lot of time, efforts and money figuring out the background of these persons and the opportunities that they might bring. ”*

Not only can people pass guanxi to someone else, he or she can also act as a mentor or supervisor to guide or coach someone on how to manipulate and maximize the usage and advantages of guanxi. Mr. Chen, with a senior status in Mr. Huang’s family, not only used his guanxi to help Mr. Huang, but also taught Mr. Huang the skills of guanxi because they were one family.

Furthermore, the social context helped Mr. Huang develop his business. Drinks, meals, karaoke are the tools facilitating the development of guanxi in China.

*“In China’s business circle, if you are just a small company, no one would be readily giving their respect to you. It is unlikely, if not impossible, that you can conclude any business easily in a client’s office because it is rare that big companies and their decision-making personnel would give you a chance to meet them just after a cold call. How can we approach them? It is through knowing their friends and joining their gatherings; paying the entertainment bills and gaining their trust. They may then give face to their friends and give you some business opportunities.”*

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Guanxi represents a powerful facilitating force for entrepreneurship. Extended network of personal and social ties can be developed through guanxi. Furthermore, such platforms or forums established through guanxi can also help business negotiations begin. This provided the frame of reference, especially about the initial stage that Mr. Huang's business was started, within which he could explore and experiment with his business ideas, test on appropriateness of price quotations, and receive customer feedback. The guanxi that Mr. Huang has that was obtained from a close family member a brother-in-law - has its origin from family kinship. In China and Chinese culture, family kinship is much more important than that in western culture as tangible and intangible resources.

*“How could I get that big contract from that company? It is a long story. In a karaoke occasion, during casual chatting, one of my friends told me that he was a good friend of that company's owner. My friend was involved in transportation business and helping the company to deliver her products to different wholesalers. I therefore asked him whether it is possible to arrange a social gathering and let me meet the owner. He did. One night, he invited about five persons, including the owner and myself, to attend a dinner gathering. We have karaoke afterwards. The dinner's bill was very costly. Who paid the bill? Of course it was I who paid. I considered it as an “overhead cost”, necessary for my business. I still*

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*remembered that the dinner alone cost me about USD 1,500, not including the karaoke that follows. You know, in China, you need to show respect to people of senior rank, especially those who you may seek favourites from, you need to give them face. One of the ways to show that you are giving them face is to treat them very expensive and better even, luxurious and sumptuous meals. It is one of the most effective ways to build up your guanxi.”*

Guanxi can be passed on by invitation through a decent dinner. In this case, Mr. Huang “received” the guanxi from his friend by inviting the company owner to dinner. Face is important in China. One of the ways to show that you are giving someone the face is to treat him or her with a sumptuous dinner. The dinner cost Mr. Huang USD 1,500. As a matter of fact, a USD 1,500 dinner for only five persons is considered very expensive in China. However, such a sumptuous dinner showed Mr. Huang’s sincerity and respect for the owner. Mr. Huang did not tell me whether he ordered wine or not during dinner or karaoke. However, it is a convention to show respect to your counterpart by opening expensive wine at dinner or karaoke. Guanxi can be built during wine drinking because Chinese perceive that people will tell each other truth after some wine drinking. Furthermore, ordering expensive wine for your counterparts also implies your high level of respect for them.



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However, treating someone with good meals or expensive wine does not guarantee that you will get the business. Guanxi needs to be built up over time, as it involves a long term process. However, good meals with causal social mingling are good starters.

*“Of course we didn’t talk about any serious business matters during dinner time or karaoke. In Chinese culture, the dinner and karaoke entertainment cost is the ‘entrance fee’ only – you get a chance to know those people and possibly develop further guanxi with them in the future. However, during the dinner, I found one thing very interesting and useful. I found out that the ancestors of both the company owner and mine lived in the same village many years ago. Although I haven’t been to my ‘home-town’ for so many years and don’t know anyone there, I called him ‘big brother’ since we have the same surname name and it can be said that we come from the same ancestors.”*

In the case of Mr. Huang, the principal purpose for social gathering was to develop guanxi. Although Mr. Huang had the opportunity to meet and talk to the owner before, he did not have a chance to talk about business because the guanxi between them had not been built up naturally. Entertainment, dining and karaoke are ways and opportunities to start the building up of initial guanxi only. Guanxi needs to be developed and cultivated in the

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long run. Furthermore, it is evident that kinship also plays an important role in developing guanxi, even though the kinship connection is distant and unsubstantial.

*“Later on, I made special efforts to deliberately build up guanxi with that owner. First, I tried to develop friendship with him. I occasionally invited him to lunches and dinners and introduced to him to some of my connections and associates. I invited him to tour my small factory and showed him its printing capability. I did hint to him that I would very much like to get some printing jobs from his company, and it was evident that he was clear about my intention. Almost three months passed and he didn’t say anything. We were just social friends. One day, according to my other friends, the owner asked them about how I performed in my printing output.”*

The power of guanxi network was demonstrated in Mr. Huang’s case. On one hand, one may build up his/her guanxi with another party, and at the same time, this other party may also utilize his/her guanxi to do a cross-check over the person. Trust can be built through long term observation and guanxi. How trust can be consolidated through guanxi is reflected in the following expression:

*“I know he is observing me. I know it. But what can I do? I have done all I could. I behaved humbly in front of him and tried to appear loyal to him. In China, it*

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*takes a long time to build up your credentials. It is not through credit history but through personal relationships and referrals. They will observe you, get information about you from their networks and evaluate you before they really trust you. You need to have good guanxi with your networks too; otherwise they would not say any good things about you when consulted. However, once you have received someone's trust, you could get business more easily."*

Mr. Huang purposely chose to develop guanxi with the company owner, but he knew he still needed to gain trust from him. He could do very little on that issue because giving trust to a person is very subjective and could not be manipulated. The following quote also represents that though guanxi is important, trust is a critical element in consolidating guanxi.

*"You know, for a big company like this, I am sure there are many different service suppliers, including printing companies, who would be approaching the owner with intentions and trying to build up guanxi with him. Why should he pick me? There are so many other qualified printing companies that could serve the owner's need. I think the reason why he finally gave me the business was that I have gained his trust."*

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The above quote demonstrated two important points. Firstly, guanxi is important to initiate a business deal. Building up guanxi enables entrepreneurs to recognize advantages and the potentials for the business opportunities. Nevertheless, this is only the “entrance” tool. Secondly, trust as the critical factor in sustaining a solid and long term guanxi. Trust is not built based purely on economic reasons. Instead, it is the result of personal feelings, and more effectively, the sense of kinship.

*“Then, the opportunity came. One day the owner called my cell phone and asked for my assistance. He told me that his imported products, for some reasons, were stuck at the customs. He had tried his best but still could not obtain them back. He knew I had good guanxi with customs officials and asked whether I could do something. Right after he hanged up, I called my contact in the customs authority and found out what happened. My friend told me that his company had filled in the inappropriate (not sure whether it was intended or by mistake) product category code which would be eligible for lower customs duties. The customs therefore considered the company intended to cheat and therefore held up the entire import lot. With the help of my friend and his colleagues in the department, we settled the problem. The customs accepted that the wrong product category filled in was not intentional, but a mistake made when the form was prepared. The*

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*owner subsequently paid the full tax accordingly and the case was concluded without further penalty and the imported products were returned in good order. Of course, after that, I had to treat my friend and his colleagues in the customs to a sumptuous meal to show my gratitude. The owner was very happy and grateful. One week later, he gave me some printing jobs. Although the business volume was very small at the very beginning, I was so happy because at least I have opened my door to this company.”*

Reciprocity is another critical element in building and sustaining guanxi. Exchanges of favours and sharing of benefits and information are frequent in guanxi interactions. When one party receives a favour from the other, it is expected that the former will reciprocate at some time in the future, and reciprocation is morally binding, though never spoken or expressed formally, and is related to the elements of trust and credibility.

*“After that, our guanxi improved a lot. I tried my very best to satisfy the owner’s business demands, as well as sometimes helped to facilitate customs concerns. Nine months later, the owner contracted me for all his printing services. Of course, after being stable as his contractor, I still need to maintain good guanxi with him even nowadays. Obviously, my connection and guanxi with the customs officials*

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*was well respected by the owner and was seen as providing him easy access to customs convenience in case of difficulties.”*

Reciprocity requires all participants to perform favours to help those in need and that all favours should be returned someday somehow. Besides, from time to time, greetings, visits, and exchanging gifts are ways to maintain reciprocal favours and guanxi in the long run.

Mr. Huang also talked about indirect benefit of guanxi besides creating an atmosphere where negotiations could occur.

*“That’s the way to do business in China. No guanxi, no business. Not only should you entertain the business people, but also the government officials. You should think in this way: you may not get any tangible benefits in entertaining the government officials, but at least, and most likely, through your relationship with them, they may not give you hard time if you have troubles with the government or procedural issues. Furthermore, you can know more important people through their guanxi networks. They have very good guanxi networks. This is the rule of the game in China.”*

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Building good guanxi with Chinese government officials may not bring you any tangible benefits. However, good guanxi may prevent Chinese government officials from giving you a hard time. As many Chinese would like to build guanxi with Chinese government officials, the officials themselves have a very good and wide guanxi wang. Building good guanxi with Chinese government officials may share their guanxi or they may pass their guanxi to you through different occasions, such as dinner or karaoke. The extensive resources available may provide a pull factor to extend someone's guanxi network.

Mr. Huang's words demonstrate that guanxi plays an influential and critical role on entrepreneurship, especially when starting up one's own business. Mr. Huang was able to utilize the guanxi referred by his brother-in-law during the initial stage of entrepreneurial activity, and as time goes by, succeeded in developing it effectively.

#### Case 1 Summary

In this case of Mr. Huang's experience, the initial setting up of entrepreneurship can be attributed to guanxi. This was reflected in three ways. Firstly, kinship and family ties influence guanxi. Without the help of his brother-in-law, Mr. Huang might not have successfully developed his business. The reason why Mr. Chen, Mr. Huang's brother-in-law, offered such help to Mr. Huang was due neither to reciprocity or trust, but to kinship. Mr. Huang also mentioned that being of the same ancestor, though distant, was an

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advantage to him in successfully constructing the guanxi between him and the company owner. Secondly, guanxi is viewed as a facilitator which helps entrepreneurs develop their business, especially at the initial stage. Through guanxi, trust can be built up. Trust comes as a foremost factor, before rational economic considerations are taken. The extent of its importance is demonstrated in the case in which Mr. Huang was perceived by the owner through trust in his help and resources he had linkage to. Thirdly, aspects of reciprocal relationship influence the types and processes of guanxi. Mr. Huang had gained the trust from the owner, but it seemed to have something missing. The owner somehow trusted Mr. Huang but still had not given him any business yet at the beginning. The customs issue and how Mr. Huang came to help had influenced the owner's decision and perception later on. The reciprocal obligation made the owner decide to return a favour to Mr. Huang. The nature of relationship has turned from one-sided to one that requires mutual obligation. This case shows how kinship, trust and reciprocity contribute to the importance of building, maintaining and sustaining guanxi.

*b) Case 2: Mr. Guo - 123 Company*

Mr. Guo, a 52 year old Chinese-American businessman who migrated to the Bay Area, California, USA in 1985, is the President and Chairman of 123 company. Mr. Guo was born and grew up in Shengyeng City, Liaoning Province, Mainland China. Before he



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migrated to the US, Mr. Guo was a manager of a foreign-owned trading company located at Shengyang City, after he graduated from college. In 1990, Mr. Guo established his own trading company in San Jose, California. Mr. Guo's business mainly involves trading garment and sundry items between Mainland China, mainly north-eastern part of China, and the US. Mr. Guo has established two offices; one is in Shengyang City and the other in San Jose. Mr. Guo is married to an American and is the father of a boy and a girl.

*“I travel between PRC and the US frequently so I am aware of the changing Chinese business environment. From my personal opinion, I felt there were a lot of changes in PRC, socially, economically and politically. Doing business in China is much more ‘civilized’ and easier, compared with what it was in the old days – before China opened her door to the west.”*

*“Talking about guanxi, I felt guanxi has become less important nowadays – however, I must state clearly that it doesn't mean that guanxi is not important. I still remember when I was a trading manager in Shengyang; I always received complaints from many foreign suppliers complaining about why we didn't select their products even though their prices and qualities were better than their competitors. I couldn't explain to them that it was because they didn't have a good guanxi with my bosses.”*

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According to Mr. Guo, guanxi is still important in China, regardless of the good quality and price of your products. You can only sell your products to Chinese counterparts when you have good guanxi with the vendors. Therefore, guanxi is applicable, and can be used for specific purposes and requirements. At this point, it shows that even skills, knowledge, information and support are not totally reliable.

*“When I started my own business in the US, all of the clients in China were my old contacts in Shengyang. It was due to our guanxi. However, guanxi by itself cannot sustain your business relations if your products cannot satisfy your customers. Now the Chinese have become clever and practical. They need the ‘real substantial benefits’ instead of a vague guanxi relationship - good product guarantees that they can make profits. Guanxi only lubricates business deals.”*

According to Mr. Guo’s experience, good guanxi cannot be a substitute for good products or services. Even though the Chinese place great emphasis on guanxi, Mr. Guo’s case showed that the Chinese also considered product qualities. The Chinese also relied on Mr. Guo to supply a range of good quality products.

*“Of course I need to maintain good guanxi with my contacts. But it depends on how you would interpret the word ‘guanxi’. For example, I never give very expensive gifts to my clients; I would neither deliberately treat them very expensive*

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*meals nor any entertainment like karaoke and nightclub activities. To me, business is business. I provide you with your expected products to your satisfaction and you pay me the required amount. I need not please you deliberately merely because I want your business. To me, to maintain a good guanxi means good relationship, or friendship. You or I can walk away anytime if either side is not satisfied with the deal.”*

Guangxi has had little influence in this case, especially over time. Instead, it was products and substantial benefits that are considered more important. Mr. Guo’s case is indicative of the extent to which good products are preferable to guanxi in business deals. Obviously, market competition and consumer satisfaction has led the Chinese to focus more on product qualities.

However, it does not mean guanxi is not important. As Mr. Guo described, “*it depends on how you would interpret the word ‘guanxi’*”. Mr. Guo admitted that guanxi was still important but less so than before. Perhaps it is related to Mr. Guo’s working background in the American culture.

*“Without spending extra money and effort to build up guanxi, I am still doing well in China. I still maintain good relationship with my Chinese clients. We always communicate in e-mails and I will pay them a visit when I am in China even*

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*though I may not be having business with them at that time. I would say we are in a friendly relationship, rather than 'guanxi relationship'.*

Perhaps Mr. Guo's Chinese counterparts had already treated him as a "foreigner" who might not be familiar with Chinese guanxi. It also implies that Mr. Guo's counterparts accept Mr. Guo's western way of relationship which is different from a traditional guanxi relationship.

Although the importance of guanxi is evident in the Chinese tradition and culture, Mr. Guo's case also demonstrates that there is an expectation that good product quality and service are delivered. This process, however, has developed over time only when knowledge and experience of those involved is available. If one does not have full knowledge of what product choices are available, one may tend to rely on guanxi to make the decisions. An interesting pattern emerging is that these practical concerns (requiring good product quality and services) represent strong ties. Simple friendship, rather than a guanxi relationship, can also enhance business relationships.

*"I think guanxi is important in China, but not as important as in the old days. Now the Chinese are more practical and rational. The Chinese understand that if they want to compete in the world market, they need to provide good products and services. I think guanxi is just an entrance tool. Even if you have successfully*

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*entered into the business, relying on good guanxi alone cannot sustain the business relationship. It would be too fragile if it is not supported by the desired quality products or services.”*

The relationship was built on practical concerns, which would substantially benefit both business parties. This relationship was developed through a process which allowed Mr. Guo and his clients to acquire knowledge of each other. Such a relationship, however, is based on different criteria. Good guanxi at the very beginning is essential. In Mr. Guo's case, this involved relationship was established at the beginning – that good products were being supplied. The major concern of Mr. Guo's clients was that good products and services were provided; and they knew they could rely on and appreciate the products and services of Mr. Guo to support their business. In this case, guanxi plays a less important role.

*“I agree with you that guanxi can sometimes bring in profits or advantages, but I think they are rather short-term. If you don't have substantial businesses that can benefit both sides, no one is willing to continue the business even if you have very good guanxi with somebody else. Take me as an example; if I cannot provide my Chinese clients good products, will they continuously do business with me? I don't think so. In actual fact, there was other information that I provide which they are*

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*interested in and would treasure - valuable market information such as the trend of products, outlook on world and Chinese economic development.”*

A pattern which emerges from this example is that the Chinese drew on Mr. Guo as resources within their networks, resources that had a reputation for providing good products. This link is the network which becomes a valuable resource and provides a range of benefits and support for business. Guanxi cannot be built up without substantial advantages that benefit both parties. Mr. Guo did not just provide good products and services which allowed the business to function and operate, but also he provided the opportunity to gather business information, allowed his clients to extend their knowledge and information about industries and the world.

*“I won’t say that guanxi is not important. But I would say, at the very beginning, no guanxi, no business; but after all, no business, no guanxi. Guanxi is the lubricant only.”*

Mr. Guo recognised the importance of guanxi. However, he also valued the importance of providing good products in building up guanxi. According to Mr. Guo, he considered guanxi as only a lubricant. Substantial and long term benefits generated from the business through providing good product quality and useful knowledge can sustain guanxi. It demonstrates an alternative way to build up guanxi – instead of giving personal benefits to

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the other party, which is the traditional Chinese way of building up guanxi; providing good product and service qualities can also build up and sustain guanxi. As Mr. Guo pointed out, guanxi can be both a “mean” (to develop a new business) and an “end” (to sustain the business continuously). Or, it may be a different form of guanxi, based on trust and reliability, rather than on gifts.

*“I won’t say I am indispensable. I think one of the reasons why my Chinese clients are still doing business with me for a long time is because they feel that I am honest, can be trusted, and provide good products and valuable information to them. Among us, these are the elements to build up and sustain our guanxi.”*

An interesting feature in the case is that the Chinese clients did not seem to expect Mr. Guo’s loyalty to be connected with the benefit of the business. Traditionally, loyalty is one of the key elements in constructing guanxi in China. The Chinese clients did receive with good will the business information and market judgment given by Mr. Guo. Practical information and good products are, therefore, important at two levels:

- a) Through Mr. Guo’s good products and valuable information, the needs of the Chinese clients in making a business profit would be satisfied.

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- b) Mr. Guo used his resources, both good products and market information, to build and sustain the guanxi between him and the Chinese clients. Such practical resources represent a strong tie by capitalising on the client/seller relationship. Mr. Guo was able to consolidate them into the guanxi with the clients. This allowed Mr. Guo to make effective use of the tie for entrepreneurship.

### Case 2 Summary

This case provides an example to demonstrate the importance of real or substantial benefits and how such could be capitalised in the relationship with business clients. Good products have proved beneficial to both Mr. Guo and his clients. Through providing good products, Mr. Guo was able to generate further guanxi. Knowledge about market and product trends, information about the economy of the world and China has allowed Mr. Guo to consolidate guanxi with clients to benefit his business.

However, since Mr. Guo has been living in the western world since 1985, his value and ways of thinking may have been affected by the western culture. There is a possibility that Mr. Guo's "foreigner" status (or having come from the West) has affected the expectation from the Chinese clients. They might have already expected a different way of doing business, in which the role of guanxi has already diminished.



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The discussion of the case demonstrates that guanxi is important, but its traditional core concept has been changing. Traditional Chinese guanxi elements, such as face (minzi), affection (ganqing), and gifts do not play vital parts in building up and maintaining guanxi in Mr. Guo's case. Ties, whether family or social, are not an instrument in sustaining guanxi. Instead, practical and long term profits such as good product quality and valuable knowledge and information, which benefit both involved parties, have become substitutions. These are reflected in the extent to which the Chinese clients rely on Mr. Guo with whom they are familiar with when starting and operating the business. Concrete and long term benefits represent a strong tie which is developed on the basis of trust and expectation. The guanxi is formed based on mutual benefits which lead to long term business relationship.

In contrast to one of the guanxi's critical characteristics, reciprocity seems less relevant. In Mr. Guo's case, no reciprocity had been conducted, save offering market information. Providing extra knowledge and updated trends on product and economic trends could not be considered as a reciprocal, since the Chinese clients have not given any extra favours to Mr. Guo in return.

Another feature of this case is that the benefits given by the product together with business knowledge enable both Mr. Guo and his clients to recognize the type of guanxi which

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could be established without gift-giving or reciprocity. While good guanxi provides a rationale for the establishment of business; good product, knowledge and information do sustain long-term business relationship.

Mr. Guo's guanxi structure is useful for understanding and appreciating how guanxi works. The structure could provide advantages for entrepreneurship, especially those who are not familiar with traditional Chinese culture and norms. However, it might also restrict development of business activities because not every Chinese businessman is looking for good products and market information. The structure somewhat contradicts the traditional Chinese guanxi theory, taking the form of a practical, realistic and pure business approach.

Therefore, the case suggests that to establish and operate guanxi with Chinese business people, entrepreneurs have to be, or become, aware of how the system works. Traditional ways of building and sustaining guanxi may not be the only solution. Knowledge about practical business benefits and how it could be utilized for entrepreneurship is generated through being valued in guanxi relationship. Such long-term benefits are related to having links and ties to guanxi. At the same time, such advantages would sustain guanxi when long-term benefits for business are to be expected.

### 5.2.3 30 telephone interviews

30 telephone interviews were conducted from a mixed cohort from various regions with different business backgrounds. Profile of the respondents is given in Table 5.6.

Table 5.4 Information on respondents on importance of guanxi

<b>Origin</b>	<b>Number</b>	<b>Age</b>	<b>Education Level</b>	<b>Professions</b>	<b>Guangxi is important</b>	<b>Guanxi is not important</b>
Mainland Chinese	20	19-60	Elementary to Ph.D.	University students, Business executives, Teaching staff, Government officials	7	13
Hong Kong Chinese	6	30-50	University Degree	Business executives, Government officials	1	5
Taiwan Chinese	1	60	University Degree	Business executive	0	1
American Chinese	2	30	University Degree	Business executive, Lawyer	1	1
Foreigner (American)	1	40	University Degree	Business executive	1	0
<b>Total</b>	<b>30</b>				<b>10</b>	<b>20</b>

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Figure 5.6 Origins of respondents asserting that guanxi is diminishing in China

Mainland Chinese	7
Hong Kong Chinese	1
Taiwan Chinese	0
American Chinese	0
Foreigner (American)	0
<b>Total</b>	<b>8</b>

Among the findings, here are some interesting observations:

- a) 4 Hong Kong Chinese, out of 6 interviewed, are afraid that Chinese guanxi will erode Hong Kong's existing cultural value in future.
- b) Most Hong Kong Chinese do not have a clear concept of what Chinese guanxi means.
- c) Most western educated professionals do not like guanxi.
- d) Guanxi is a burden because of its reciprocal nature.
- e) Guanxi can be passed from generation to generation.

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- f) For those who do not believe guanxi will diminish in China, they believe that some sort of changes in the importance of guanxi will take place due to China's open economy to the world.
  - g) Those who are older than 40 years old believe that guanxi is important. The majority of interviewees who are under 35 years old tend to believe that guanxi is not important.

Records of all 30 telephone interviews were put under Appendix C. Highlights of the feedback are summarized below, with the number in brackets denoting the order number of the specific telephone interview.

#### 5.2.4 Summary findings on guanxi issues

In the following section, a summary of the findings of the two in-depth case studies, the surveys and telephone interviews is given. The following guanxi issues are addressed.

- a) Understanding of guanxi.
- b) Do Chinese new generations like guanxi?
- c) Is guanxi still helpful?

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- d) Functions and benefits of guanxi.
  - e) Ways to maintain guanxi.
  - f) Is Guanxi still important in China?
  - g) Is guanxi diminishing?
  - h) Reasons for guanxi being diminishing.
  - i) Are Chinese new generations becoming more practical?
  - j) Is loyalty still important?
  - k) How do Chinese new generations view reciprocity?
  - l) The new Chinese generation can make their own success without guanxi.
- a) Understanding of guanxi

In survey B, Hong Kong executives / entrepreneurs and Mainland Chinese university students answered the questionnaire. The survey showed that most Hong Kong respondents did not express clearly the meaning of guanxi, which indicated that they did not have complete understanding of the concept of guanxi. Furthermore, Hong Kong respondents also claimed that guanxi might not be important in their business dealings.

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According to the open ended questions in Survey B describing guanxi, Hong Kong respondents claimed the following:

- *“to reach effectiveness in relationships with Chinese”;*
- *“the same as a relationship with Chinese”;*
- *“unofficial way to gain advantage”.*

In telephone interview (22), Mr. Ho who is from Hong Kong claimed that:

- *“Chinese guanxi means meals, corruption and gifts.”*

The Hong Kong respondents were drawing somewhat disparaging and vague assumptions about the “old” traditional ways associated with guanxi. In contrast, the Mainland respondents in survey B were much more familiar with the concept and tended to be able to describe it more fully. Descriptions included,

- *“exchange of benefits”;*
- *“a relationship to be built in order to achieve something among people”;*
- *“enhanced relationship”;*
- *“co-operation”.*

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Western people also may not have a complete understanding of Chinese guanxi. In the telephone interview of Mr. Smith (4), he claimed:

*“I don’t trust Chinese guanxi although I have it. It is too vague. How can you prove you have a good guanxi with someone else? How can you quantify it?”*

*“The reason why I feel I have good guanxi with my clients is we are good friends... Is there any difference between guanxi and relationship? I think they are the same.”*

The difference that exists among the Hong Kong respondents, Mainland Chinese and American respondents may be explained by cultural differences. Although Mr. Smith has been working in China for several years, he mixes up the concept between western networking and Chinese guanxi. Mr. Smith is right. Guanxi cannot be proved and quantified. As an element embedded in an ancient and traditional Chinese culture, guanxi is difficult for non-Chinese to understand.

Although Hong Kong is a part of China, it is to some extent surprising that Hong Kong respondents do not understand fully the concept of guanxi. As a matter of fact, although 98% of Hong Kong people are Chinese, Hong Kong has been ruled under the British for more than 150 years until she returned to Chinese sovereignty in 1997. During the 150 years, Hong Kong was influenced by western values. Hong Kong people have been living



with western cultural, social and political values. Therefore, it is not surprising that Hong Kong people do not understand the concept of guanxi.

b) *Do Chinese new generations like guanxi?*

When asked if they liked guanxi or not, 50% of survey A respondents said “*did not like it at all*”, and 98% and 91% of Hong Kong and Mainland Chinese respondents respectively in survey B said “not really”. Furthermore, out of the 30 telephone interviewees, 17 said they did not like guanxi.

Table 5.5 Reasons on why respondents (telephone interviews) did not like guanxi could be traced from their responses:

<b>Reasons</b>	<b>Interview</b>
<i>“I think guanxi is a bit ugly?”</i>	(22)
<i>“I doubt its (guanxi) usefulness”</i>	(20)
<i>“I think guanxi is an element which creates unfairness and injustices...”</i>	(6)
<i>“Guanxi is bad heritage in China.”</i>	(6)
<i>“We should be more westernized and modern, and only focus on results.”</i>	(6)
<i>“Guanxi, to me, is really annoying... I don’t want to involve in any guanxi.”</i>	(21)
<i>“I know it (guanxi) is a bad thing.”</i>	(13)
<i>“We are the new generation. We should not inherit bad and outdated “Chinese culture.”</i>	(26)
<i>“Guanxi cannot be promoted anymore in China. Guanxi is not righteous.”</i>	(30)
<i>“I don’t like guanxi. If your products are competitive enough, I still will buy from you even if we don’t have guanxi”</i>	(10)

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Having said that, as an element in traditional Chinese culture and heritage, guanxi still plays a critical role in China's business and social environment nowadays. Although the younger generations of Chinese may not like guanxi, it seems that they do not have any choice.

*"I don't like it but have to do it because you cannot avoid it." (Survey A)*

*"I have no choice; everyone does it, what should I do?" (Survey A)*

Therefore it seems that whilst there are serious reservations about employing guanxi, it is seen as an essential element in business and probably unavoidable. Taken together, the responses seem to show how playing the guanxi game is an inherent part of Chinese entrepreneurship, whether the entrepreneurs like it or not.

c) *Is guanxi still helpful?*

According to the cases studies, surveys and telephone interviews, nowadays when Chinese entrepreneurs of the new generation manipulate their guanxi networks, they will consider whether the resources would be valuable, that is, whether they enable them to do things that produce financial benefits. In short, they take a very narrow and instrumental view of guanxi.

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When we asked if guanxi achieved what was expected, in survey A, some 18.5% told us “*not often*”, and over 80% of the respondents felt that guanxi did deliver. In sharp contrast, in survey B, it seems that Hong Kong respondents did not get much help through guanxi. Remarkably, 88% said that it was not helpful, and 97% said that they did not rely upon its use. In the same survey, none of the Mainland Chinese respondents saw guanxi as unhelpful. However a range of views about the extent of its utility was evident. In a range of scales ranked from 1 (very helpful) through 7 (Not helpful), only 4.54% was located at scale 1 (very helpful), 45.46% at scale 3 and the rest (50%) from scale 4 to 6. In other words, half of the Mainland respondents considered guanxi as of medium importance. More than 90% of them did not indicate guanxi as of great help. The distribution indicated that although Mainland Chinese found guanxi helpful, they thought that the help was not that substantial.

d) *Functions and benefits of guanxi*

In survey B, in asking about benefits that associated with guanxi, the following responses were received:

*“help some to become successful; accumulate resources”;*

*“mutual benefit”;*

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*“the source of future fortune”;*

*“shorten the process and bring improvement”;*

*“give you help in anything”;*

*“the way to create resources”;*

*“bargaining, exchange”.*

*“help others including friends, relatives, colleagues, employer and employees”;*

*“networking among people”;*

*“very important in human chemistry”;*

*“very important in our daily life”;*

*“guanxi decides everything and your future”;*

*“Involve passionate, interests, fortune, resources, culture, and kinship”;*

*“can buy cheaper products”;*

*“save time, energy and resource”;*

*“can know the bottom line or the competitor’s price in biddings”;*

*“grasp customers from competitors”;*

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*“can receive important information anytime”;*

*“knowing the bottom line of competitors”;*

*“can grasp investment projects and pay less”;*

*“help develop customer relations and market”;*

*“strengthen personal social circle”;*

*“offer the lowest bid after knowing all the bidding prices”;*

*“use influence to achieve something”;*

*“get orders”;*

*“get the benefit that I could not get”;*

*“enlarge my business scope”;*

According to the material benefits and function of guanxi described, it is not surprising that guanxi generally gives people a bad impression, and is associated with corruption and bribery.

In the telephone interviews, the researcher found that out of 6 Hong Kong people interviewed, 2 of them openly declared that they were afraid that guanxi would erode Hong Kong's future development, and 4 of them implied that they had the same worries.

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*“This is what I always worry about. We Hong Kong people do not want the Chinese bad behaviour, such as Chinese guanxi, to affect Hong Kong. You know Hong Kong used to be ruled under the British and we used to have a clean Government. Business transactions are very open and people do business legally.”(Telephone Interview 22)*

*“Yes, this is what I worry about. I am afraid that this kind of guanxi culture will become popular in Hong Kong. We Hong Kong people don’t like this kind of culture.” (Telephone Interview 25)*

As mentioned previously, it is not surprising that Hong Kong people do not accept guanxi in their daily life as they had been ruled under western influence and values for more than 150 years. The phenomenon that some Hong Kong people tried to raise the old Hong Kong colonial flag in the public to protest against the Hong Kong government in recent years indicates that there exists a nostalgic feeling preferring the British sovereignty and way of life.

In contrast with Hong Kong respondents who expressed worries, Mr. Wang (Telephone Interview 11) had quite some different views. He said:

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*“What I will say is that it (guanxi) is just not popular in Hong Kong. However, I have the confidence that since Hong Kong has returned to China’s sovereignty in 1997, Hong Kong will ultimately cope with Chinese traditions and accept our culture.”(Telephone Interview, 11)*

e) Ways to maintain guanxi

It was found that the ways of the respondents to maintain their guanxi includes meals, gifts, rebates, free rooms, or supporting others’ kids in studying overseas.

*“You only can build up guanxi through meals and karaoke.” (Telephone Interview 11)*

*“frequent communication; participate and encounter his or her hobbies; use all possible resources; use company resources, such as KTV, gifts, meals; and invitations to parties, KTV, meals, entertainments..” (Case 1)*

*“treat them sincerely; always think about his/her needs and be ready to help; always be ready to develop further more in-depth relationship when opportunities arise; establish mutual trust; sincerity and integrity; mutual help; no need to make it too seriously, just let it be” (Case 1)*

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*“Presenting gifts to them on their birthdays or special festivals; money; meals; providing for relative and equal resources as a return”. (Case 1)*

f) *Is Guanxi still important in China?*

No respondents, in the surveys, case studies and telephone interviews had indicated that guanxi was not important. In other words, all respondents unanimously admitted that guanxi was important, though in different degrees. In survey A, 51% of respondents considered guanxi as very important. In survey B, in a 7-point scale, only 6.82% agreed that guanxi was very important (point 1), 18.18% at point 2, 36.36% at point 3, 27.27% at scale 4 and the rest 11.36% at scale 5. However, some 91% of the Mainland Chinese saw it as less important now, whilst 94% of the Hong Kong respondents agreed with this view. In the telephone interviews, 11 out of 30 said guanxi was important.

i) *Guanxi becoming less important*

*“the market has changed; guanxi seemed not that important; controlling the information is even better than using guanxi; use your own power.” (Survey A)*

*“I felt guanxi has become less important nowadays – however, I must state clearly that it doesn’t mean that guanxi is not important.” (Case 2)*



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*“I think guanxi is just an entrance tool. Even if you have successfully entered into the business, relying on good guanxi alone cannot sustain the business relationship. It would be too fragile if it is not supported by the desired quality products or services.”(Case 2)*

*“I won’t say that guanxi is not important. But I would say, at the very beginning, no guanxi, no business; but after all, no business, no guanxi. Guanxi is the lubricant only.” (Case 2)*

*“I felt there were lots of changes in PRC, socially, economically and politically. Doing business in China is much more “civilized” and easier, compared with what it was in the old days – before China opened her door to the west.” (Case 2)*

*“Talking about guanxi. I felt guanxi has become less important nowadays.”  
(Case 2)*

*“I think guanxi is important in China, but not as important as in the old days.”  
(Case 2).*

*“Business is business. I provide you with your expected products to your satisfaction and you pay me the required amount. I need not please you deliberately merely because I want your business. To me, to maintain a good*

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*guanxi means good relationship, or friendship. You or I can walk away anytime if either side is not satisfied with the deal.” (Case 2)*

*“Without spending extra money and effort to build up guanxi, I am still doing well in China.” (Case 2)*

*“I think guanxi is becoming less important nowadays. It was once very important but it is now diminishing.” (Telephone Interview 28)*

*“I don’t think guanxi has given me any help in my business. People place more emphasis on product quality nowadays. Even if you have good guanxi but no good product quality, you still cannot conclude the business.” (Telephone Interview 20)*

*“You can feel the changes here in China. Although my parents still insist on the importance of guanxi and introduce their friends or guanxi to me, I doubt its usefulness. I consider it as more a courtesy and respect rather than so-called guanxi relationship.” (Telephone Interview 20)*

*“In order to succeed, I need to find more new and better products for the China market. China is changing which makes the business environment more and more competitive. I really enjoy the old days using guanxi to do business. It is much easier. Once you have developed good guanxi with someone, you can sell*

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*anything to them. Such investment (meals and gifts) are worthwhile. I could make at least double on what I had paid.” (Telephone Interview 3)*

ii) *Guanxi is still important in China*

*“My parents have told me guanxi is very important in China.” (Telephone Interview 5)*

*“It is hard to compete in China if you don’t have good guanxi. Let me ask you, why should I hire you if I don’t know you? Can I reject to hire someone if he or she is recommended by someone with influence? The answer is very clear. Take a look at those who are rich. Either they have good dads or know somebody with influence.” (Telephone Interview 5)*

*Guanxi is extremely important in my business.” (Telephone Interview 2)*

*“In China, no guanxi, no business.” (Telephone Interview 1)*

*“No guanxi, no business.” (Telephone Interview 8)*

*“Guanxi is of course important to our business.” (Telephone Interview 14)*

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*“It is very difficult to do business in China. In order to be successful, it depends on who you know and who you are. Unlike western world, guanxi dominates everywhere in China.” (Telephone Interview 8)*

*“I could tell that the only reason that he gave me the business was because of my brother-in-law’s referral. It was like giving a favour to a friend, with good will and complete trust of his recommendation.” (Case 1)*

*“That’s the way to do business in China. No guanxi, no business...This is the rule of the game in China.” (Case 1)*

*“Once you have used your guanxi, it is of course you can achieve something.” (Survey A)*

*“It is so common in Chinese daily life; kinship and relatives will really give you help; established a reliable guanxi network; almost 90% can achieve what I expected.” (Survey A)*

*“you cannot move a step forward if you don’t have guanxi” (Survey A)*

*“That’s the way to do business in China. No guanxi, no business. Not only should you entertain the business people, but also the government officials.” (Case 1)*

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*“They need the ‘real substantial benefits’ instead of a vague guanxi relationship - good product guarantees that they can make profits. Guanxi only lubricates business deals.”(Case 2)*

In both survey A and B, when asked if guanxi is important in starting your new business, all the respondents said yes. It is interesting to find that, according to the surveys and telephone interviews, the majority of those who support guanxi as still important in China are either over 40 years old, or without any college degree. On the contrary, those who find guanxi less important or not important are young generation or with college degree, or have studied overseas.

g) *Is guanxi use diminishing?*

In survey B, 96% of the respondents agreed that the importance of guanxi would diminish in the future, when asked to compare the present situation with that when China first opened her markets in the early 1980s. Both the Mainland and Hong Kong groups thought the current role played by guanxi was shrinking. Furthermore, out of the 30 telephone interviews, 8 respondents believed that the use of guanxi would diminish in China.

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*“Guanxi will finally fade out from China. Chinese people will ultimately find that guanxi can only bring negative impacts to us. China is approaching a more structural, open and competitive era.” (Telephone Interview 26)*

*“We must not use our authority to do anything improper.” (Telephone Interview 29)*

*“The old days had passed and now the story is not the same as before. The Government is more open now and the public recognise their rights. The public will challenge the Government if they assume there is any unfairness or infringement of their rights. You cannot use guanxi to settle everything now.” (Telephone Interview.29)*

*“I think guanxi is now diminishing in China.” (Telephone Interview 10)*

*“I trust system... I trust the Hong Kong value and system. Although we are part of China, I sincerely believe under the one-country-two-systems model, Hong Kong will not be affected by Chinese guanxi....It will be a big tragedy if Hong Kong loses her righteous and impartial values.” (Telephone Interview 17)*

*“I can feel that the environment is changing. I can say, with more and more influence from Mainland Chinese Government, our existing Hong Kong values*

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*may change. Guanxi, I think, will become very important in Hong Kong in future.”*  
*(Telephone Interview 17)*

*“In order to compete, you must be practical. That is what I tell my clients: don’t employ anyone who you know, only employ those who are capable and help you succeed. I also tell my students to study hard. If they are capable and smart enough, they can get good jobs with or without guanxi.”* (Telephone Interview 6)

*“What can you do? This is China. I don’t like it (guanxi) but it exists and is always present in my daily life. How can China’s economic and business performance be improved if guanxi still plays an important role? It only will hinder China’s economic development. Sometimes I am so surprised that China has been emerging to become a world economic power but still maintains such an outdated habit.”*(Telephone Interview 6)

*“I didn’t say that guanxi is not important in China, or in Taiwan. It is still important but, unlike the past, it is not the only way to achieve your goals. Those buyers are responsible for their performance. If they cannot get good products to sell, it will affect their performance in their companies. Good guanxi with the buyers cannot guarantee that they will pick your products.”* (Telephone Interview 3)

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*“If you cannot provide good services to clients, they will not come to you again next time even if you provide them meals and gifts. I think it is a trend now in China.” (Telephone Interview 14)*

*“I found the importance of guanxi is diminishing in China now as the China market is becoming more open and competitive.” (Telephone Interview 3)*

*“I think guanxi is important in China, but not as important as in the old days. Now the Chinese are more practical and rational. The Chinese understand that if they want to compete in the world market, they need to provide good products and services. I think guanxi is just an entrance tool. Even if you have successfully entered into the business, relying on good guanxi alone cannot sustain the business relationship. It would be too fragile if it is not supported by the desired quality products or services.” (Case Study 2)*

Same as the answers given to the question “whether guanxi is important or not”, those who agreed that the use of guanxi would diminish were mostly the younger generation, or people with a university degree, and just a few respondents who were over 40 years. The majority of respondents who believe that the use of guanxi will not diminish are either without university degree or over 40 years old.



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h) Reasons for diminishing

Some typical explanations given by respondents on reasons why guanxi will diminish in China are “*more interaction with western countries*”; “*formation of rules and regulations*”; “*more western investments which demand fair competition*”; “*more competition generally, where product quality matters more than guanxi*”.

In survey B, both Hong Kong and Mainland Chinese young generation groups saw the role of guanxi was diminishing over time as structures and legislation have been improving in Mainland China and as the business environment was becoming more exposed to western business practices.

*“We need capable and excellent professionals...China becomes more and more open. Too much guanxi existing in our university will generate public attention and eventually will bring us trouble.” (Telephone Interview 28)*

*“All these achievements need capable people. If China only depends on guanxi to recruit people, we cannot reach such success.” (Telephone Interview 28)*

*“I think guanxi is diminishing in China in general. We cannot afford to make too many mistakes. Everything must be regulated, formal and impartial, in order to*

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*compete with the world and bring effectiveness and efficiency.” (Telephone Interview 28)*

*“The China market becomes more open and competitive. Everyone knows the prices and trading terms and conditions. No one can enjoy special privilege even if you know someone with influence.” (Telephone Interview 3)*

*“They need the ‘real substantial benefits’ instead of a vague guanxi relationship – a good product guarantees that they can make profits. Guanxi only lubricates business deals.” (Case 2)*

*“Now the Chinese are more practical and rational. The Chinese understand that if they want to compete in the world market, they need to provide good products and services.” (Case 2)*

*“If you don’t have substantial businesses that can benefit both sides, no one is willing to continue the business even if you have very good guanxi with somebody else.” (Case 2)*

i) *Are Chinese new generations becoming more practical?*

In Case 2, Mr. Guo’s relationship with his clients was built on practical concerns.

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*“Business is business. I provide you with your expected products to your satisfaction and you pay me the required amount. I need not please you deliberately merely because I want your business.”*

Mr. Guo’s business principle relies on fair treatment, which is “I give you what you want and I get what I deserve”. In this situation, guanxi is far less important. It also implies that Mr. Guo’s Chinese partners are more focused on product quality and market acceptance instead of the guanxi with Mr. Guo. Instead of providing expensive gifts or reciprocals, Mr. Guo supplied good products and services to his clients.

Furthermore, Mr. Guo observed that his Chinese partners were practical.

*“Now the Chinese are more practical and rational. The Chinese understand that if they want to compete in the world market, they need to provide good products and services. I think guanxi is just an entrance tool. Even if you have successfully entered into the business, relying on good guanxi alone cannot sustain the business relationship. It would be too fragile if it is not supported by the desired quality products or services.”*

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*“If you don’t have substantial businesses that can benefit both sides, no one is willing to continue the business even if you have very good guanxi with somebody else.”*

Mr. Guo has rejected the traditional ideas of guanxi and adopted what might be perceived as a western attitude. His focus was not on the relationship but on the customers’ perceptions of value and quality. In short, he has depersonalized the transaction. Similarly, in the telephone interview with Mr. Ji (10), he explained that he only purchased from suppliers if their products were competitive enough.

*“Frankly speaking, I don’t like guanxi. If your products are competitive enough, I still will buy from you even we don’t have guanxi.”*

In Mr. Ji’s case, good product is much more important than good guanxi.

In the telephone interview with Mr. Hsu (20), Mr. Hsu expressed that product quality was also more important than guanxi.

*“I don’t think guanxi has given me any help in my business. People place more emphasis on product quality nowadays. Even if you have good guanxi but no good product quality, you still cannot conclude the business.”*

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Same as telephone interview 22:

*“Some of our equipment is purchased from China. We do not maintain any guanxi with our suppliers. We buy their products because their requirements meet our demands.”*

From the above mentioned, we found that if the relationship is merely based on guanxi, material or benefit exchange, such a relation can be very fragile. According to the findings, the new Chinese generation is more practical and realistic.

Foreign business partners who do business with Mainland Chinese also influence Mainland Chinese on the latter’s thinking on guanxi. From the telephone interviews, most interviewees who were working for foreign companies or organizations did not like guanxi, and would like to avoid using guanxi in their duties. For example in the telephone interview (10), Mr. Ji, working for a US based multi-national retail chain in China, stated that:

*“Although most of our managers are foreigners, they emphasise that no staff should mix up guanxi with our business. Many times they repeatedly remind us our company cannot accept any guanxi in our business during meetings...If I don’t*

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*handle it carefully, I will be suspended and even lose my job. I therefore dare not have lunch or dinner with my suppliers.”*

The same attitude towards guanxi can be found in Ms. Meng’s telephone interview (16):

*“On the first day when I reported to duty, my supervisor seriously warned me that I could not use any guanxi to get any benefit in my job. If I do so, I will be terminated immediately without any warning. The word guanxi is very sensitive in this office. We dare not even to talk about it...My supervisor dislikes guanxi. He told me that the office runs by rules and procedures and emphasised that we are a government agent and should do everything legal.”*

Regardless of whether the new generation of Mainland Chinese like guanxi or not, their working environment with a foreign culture has impacted their thoughts on guanxi. With more and more western business philosophy and practices infiltrating the Chinese market, and structural and formal business set up by the Chinese authorities, Chinese business people are more willing to rely on rules and regulations rather than guanxi.

j) *Is loyalty still important?*

Good guanxi network depends upon loyalty. Although loyalty and righteousness are part of core values in traditional Chinese culture, such tradition seems to be gradually losing its

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importance in China's rapidly developing economy, especially when the entire economic environment becomes more materialistic.

In Chinese traditions, loyalty means trust and obedience without queries or hesitation. Those who die for the emperor, the nation, or an ideal are honoured as loyal heroes. . Obviously, such thought has been diminishing in the changing Chinese culture; it is not even advocated or paid attention by the Chinese new generations.

In Mr. Guo's case, according to Mr. Guo, the clients did not seem to expect Mr. Guo's loyalty. Loyalty, as one of the key elements of guanxi, seems to become less important in maintaining guanxi.

k) *How do Chinese New generations view reciprocity?*

Burt (1992) states that the reciprocal exchange of favours is essential to cultivate and sustain guanxi. In case 1, Mr. Huang receives reciprocal help from the owner of the printing company because Mr. Huang helped the owner to solve the customs problem. On the other hand, Mr. Huang also offered reciprocals to customers officers to thank them for their help. Both the owner and Mr. Huang felt providing reciprocal help is just a natural obligation, to honour their counterparts who have offered them guanxi before.

In Case 2, Mr. Guo clearly stated that,

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*“I never give very expensive gifts to my clients; I would neither deliberately treat them to very expensive meals nor entertain them with like karaoke and nightclub activities. To me, business is business. I provide you with your expected products to your satisfaction and you pay me the required amount. I need not please you deliberately merely because I want your business.”*

In survey B, 42 of the Mainland Chinese group thought that there were changes in the operation of guanxi;

*“in the past, guanxi was associated with corruption, now it is only lubrication”*  
(Survey B)

*“more reasonable now, more focus on reciprocity, more human”* (Survey B).

This employment of a traditional way of doing things seems to have been modified, adapted and shaped into the use of sincerity, integrity and based on a true friendship to gain respect and guanxi from others. Material reciprocity appears less important.

Such reciprocity due to a sense of good will and personal affection are being doubted. The new Chinese entrepreneurs expect reciprocity of guanxi entailing exchanges of roughly equivalent value. They are no longer tied together through an invisible and unwritten code of reciprocity and equity.



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l) *The new Chinese generation can make their own success without guanxi*

The open door policy adopted by the Chinese government has given an environment for the new Chinese generation to establish their own wealth without relying on guanxi. According to China Security Daily (Zhong Guo Jian Jun Bao, April 20, 2007), it is reported that in China more than 140 small and medium entrepreneurs individually owns more than USD 12.5 million in assets. These entrepreneurs accumulate their wealth through their stocks publicly listed in China's different stock market exchanges. Many of them make their fortunes through strategic stock trading and investments. This indicates that due to the economic growth and the gradual maturity of financial market in China, Chinese entrepreneurs are able to make profit and build up their fortunes through formal or alternative business channels without relying on guanxi.

Scholars suggest that Chinese guanxi is rooted in Chinese history, characterised by apparently strong government controls with strict Confucian codes of ethics, filial piety, shame inculcation and pragmatism (Standifird & Marshall, 2000; Alston, 1989, Hwang, 1987). However, at the same time, there are Chinese scholars, both of the economic and humanity arenas, claiming that the traditional Chinese culture is diminishing (Yang, 1987). Hong Kong and Taiwan, inheriting the Chinese culture but in different socio-economic environments, are typical examples displaying such change. They do not uphold

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traditional Chinese values so strongly as their counterparts in Mainland China. In fact, guanxi in China herself is also evolving alongside her rapidly developing economy.

#### 5.2.5 Conclusion: Modern Chinese entrepreneurs' views on guanxi

On an overall sense, the findings of the case studies, surveys and telephone interviewees, in general, do not deny the importance of guanxi. Most of the respondents found guanxi entails both conventional economic and social advantages, and is critical and useful when initiating a business. Guanxi provides a facilitating element for entrepreneurship, influencing opportunity perception and recognition.

In Survey A, although 89% of respondents who are entrepreneurs said they would actively cultivate guanxi, more than 50% of them indicated that they did not like guanxi. The reason as to why they actively cultivated guanxi, as cited by them, was that they could not avoid it and they had no alternative choice. Such response demonstrates that entrepreneurs would not resort to use guanxi in their business if they are given alternatives for the same benefits. In such, guanxi is inevitable.

Despite this reservation, 27% of respondents felt that guanxi was very important for their business.

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*“you cannot move a step forward if you don't have guanxi”*,

The rest (73%) saw guanxi as important. None felt that it was not at all important.

Nevertheless, the attitudes of modern Chinese towards guanxi have been changing. It seems that while there are serious reservations about employing guanxi, it is seen as an essential element in business and probably unavoidable. Taken together, our responses seem to show how playing the guanxi game is an inherent part of Chinese entrepreneurship, whether the entrepreneurs like it or not.

### **5.3 Chapter Summary**

To summarise the findings, the majority of the respondents and interviewees recognised that guanxi is still an important resource for individuals and enterprises in China to induce cooperation and govern relationship, regardless whether Chinese, both old and new generations, like it or not. The feedback also echoes Wong and Tam's finding that guanxi still sits at the core of Chinese business (Wong & Tam, 2000). As Chan et al. (2002) and Tai (1998) state, firms use guanxi to mobilize complementary benefits by arbitrating different networks and even potentially negotiating between competing networks. They

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maintain that guanxi does provide the lubricant for the Chinese to get through life and heavily influence Chinese social behavior and business conduct (Chan et al., 2002) because guanxi can build the network which could help them gain access to and expand their business (Tai, 1988). The findings in this study largely support their claims.

It could be concluded from this study that guanxi still plays an important role within entrepreneur business in China today. In the responses given by the Mainland Chinese respondents, the Confucian qualities such as harmony and face are frequently referred to indirectly. Most saw guanxi as inextricably linked to the Chinese culture. Instrumentally, guanxi remains convenient, perhaps even necessary. Good connections provide access and overcome obstacles so that guanxi is a part of the social and economic environment. However, comparatively speaking, this is not the case for conducting business in Hong Kong. According to the Hong Kong respondents in the telephone interviews, not only did all of them unwilling to admit the use of guanxi, they even expressed subtle fear that guanxi would erode Hong Kong's business environment in the future. If China moves further away from the centralised economy and has more interfaces with the west, a reduction in the use of guanxi is anticipated by many of the respondents.

Furthermore, in terms of the degree of guanxi existing between the parties involved, there is a difference according to the cohort of parties involved. Guanxi is strongest between

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the Chinese patron and the Chinese client in China. Guanxi is moderate and situation-dependent between Mainland Chinese and Hong Kong Chinese. Between the American Chinese (and expatriates) and the Mainland Chinese, guanxi is relatively weak.

As a concluding remark on the nature of guanxi, perhaps it is meaningful to quote the following two responses given in telephone interviews. Mr. Bei (Telephone interview 27) wittingly offered some analysis of guanxi. He suggested that guanxi itself was purely a relationship and not in itself a bad thing, it bonded relationship between people. The reason why people always link guanxi with corruption and bribery, according to Mr. Bei, was that many people have misused guanxi by using material rewards to influence others to give or return advantages.

*There are many people who use guanxi to take advantages, which involve corruption, bribery, unfairness and unrighteousness. This is true. But the problems come from the people who misuse guanxi. Guanxi itself is a neutral element. The word guanxi only describes the relationship between one and another.”*

This perspective was unanimously echoed by Dr. Kao (Telephone interview 28):

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*“Regardless whether you like it or not, guanxi exists and it appears in your daily life. I think the question is how you react to it and what your attitude is.”*

In this light, guanxi is part of the Chinese culture and in itself, may be only a neutral descriptive term. Guanxi is a natural phenomenon and exists in Chinese daily life. It inevitably exists among human relationships and interactions. It grows, is cultivated and produces; to the effect that it affects human decisions, not only in the social arena, but also in the economic world where transactions abound, mostly involving tangible and material benefits. In entrepreneurship, especially at the beginning of its life-cycles, guanxi when used probably is a catalyst for growth. Whether guanxi is desirable or not somehow depends on its proper use. As human utilitarian motivations play a large part in economic transactions, different processes come at play; sometimes causing conflicts and clashes with other values like integrity, transparency and fairness. That may be the reason why guanxi is sometimes regarded unfavourably or treated like a taboo in modern business practices. At least, guanxi is not discussed formally and academically as a management attribute or leadership trait to be pursued in modern business studies.

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# Chapter 6

## Conclusion

### 6.1 Introduction

The aim of this thesis is to explore the role of guanxi in Chinese entrepreneurship. The study generates an understanding of the role and nature of guanxi in the Chinese entrepreneurial process. Qualitative and quantitative techniques were used to examine and understand the related concepts from different Chinese entrepreneurs, as well as Mainland Chinese and Hong Kong senior executives. This is achieved through literature review, surveys, case studies and telephone interviews conducted on a wide spectrum of Chinese. The purpose of this Chapter is to present and summarize the main conclusions arising from this research, relevancy of previous literature, the implications for theoretical and practical aspects, effectiveness of methodology and limitations of the study.

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## 6.2 Conclusion on Guanxi and its changing nature

The surveys and interviews demonstrate that the use of guanxi, though still common amongst entrepreneurs and in certain circumstances help entrepreneurs get what they want, is becoming less important. Moreover, the studies also show that new Chinese generations are not willing to depend heavily on guanxi in their business practices. They prefer to conduct business through a more structural process, such as acting according to rules and regulations. This can be achieved through a process of building a more open business environment, converting personal benefits into practical business considerations, and improving the legal system by the Government. As a matter of fact, the surveys and interviews conducted in Chapter 5 demonstrate that there is a tendency for many Chinese entrepreneurs to value more formalized way of doing business and look forward to achieving such a business environment. Here, guanxi's main features and the dynamics of change as revealed by the research are highlighted.

### 6.2.1 Guanxi's intrinsic importance – its inevitability

The findings confirm the importance of guanxi as proposed in the literature. Guanxi, regarded as equivalent to the network of social and business connections (Arias & Gomez,



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1998) and essentially a cultural construct with a particular value in doing business in China, is still present in many aspects of Chinese social and business interaction today (Studwell, 2002). Guanxi is an important resource for individuals and enterprises in China to produce cooperation and govern relationship, sometimes as a response to scarce resources and lack of a reliable legal system (Seligman, 1999). The facilitating function of guanxi in extending the capabilities, the contacts and the resources of the respondents' business agrees with the general western notion of networking, which extends the capabilities and resources of the networked entrepreneur.

Being a deep-ingrained element in traditional Chinese culture and heritage, guanxi therefore continues to have a role in governing China's business and social environment and relationships. Zhou and Aram (1995)'s doubts that guanxi will become less important are therefore in some ways valid. Its prevalence also echoes Wong and Tam's finding that guanxi still sits at the core of Chinese business (Wong & Tam, 2000), being an inevitable lubricant in business conduct and social life (Tai, 1998; Chan et al., 2002).

According to the surveys and interviews conducted in this thesis, it is found that although Chinese young generations may not like guanxi, it seems that they do not have any other choice but to resort to using it in many circumstances. Guanxi is seen as an essential element in business and probably unavoidable.

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### 6.2.2 Guanxi's structural foundation eroded – its importance diminishing

The study shows that although guanxi still plays an important role in today's modern Chinese entrepreneurship, it is lingering and diminishing. Its continued existence and relevancy may be transformed gradually through China's massive institutional change and the rise of a new generation of entrepreneurs upholding new values. The survey respondents expressed the inadequacy of relying on guanxi. This agrees with Arias' view that a good guanxi network, even if considered desirable and necessary, is now deemed not sufficient for business success in China (Arias, 1996).

Both new and old Chinese generations agree that guanxi remains important and still has influence when doing business in China. However, due to the changing social and economic environment, both internal and external, it is also true that the manifestation and effects of guanxi are less often applied and less useful in facing practical business considerations, compared to previous use and application of guanxi. The new generation of Chinese entrepreneurs faces a different business environment in China's more open economic environment. For example, they have responded by adopting more international business standards and relying less on the traditional guanxi. As Vanhonacker (2004)

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states, legal changes are making it more difficult, not to say illegal, to “pull guanxi” to obtain access to certain controlled resources . This echoes the assertion of Arias (1996) that guanxi will not provide the same advantages as in the past in modern China due to the erosion of the structural foundation of guanxi by various socio-economic elements, providing external and internal dynamics. This also agrees with Yang’s suggestion that guanxi might turn to be less important. (Yang, 1994).

### 6.2.3 Guanxi’s cultural heritage eroded – Confucian values fading

Fan (2002), Hutchings and Murray (2002), Bian and Ang (1997), Standifird & Marshall (2000) suggest that guanxi has its roots in Chinese history and cultural philosophy of traditional Confucianism. Other scholars (Gold et al., 2002; Wong & Tam, 2000; Tung & Worm, 2001) also agree that guanxi has been long established in Chinese society and lies at the heart of China’s social order, its economic structure, and its changing institutional landscape. As part of Chinese culture and tradition, guanxi is important in almost every realm of life, from politics to business and from officialdom to street life, and is among the most important, talked about, and studied phenomena in China today. Important expressions of guanxi, like harmony and face, were implied by many Mainland Chinese respondents in this study.

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According to Hwang (1987), such tradition seems gradually losing its importance in China's rapid economic development. Guanxi is less upheld as an element in business relationships. Its associated elements, like loyalty and face, are now less emphasized, giving way to pragmatic concerns like lower production cost and quality output and operational effectiveness. The survey respondents, especially the younger and westernized cohort, display traits similar to those emerging non-state entrepreneurs predicted by Chow & Tsang (1994) and Arias (1996): enlightened, dynamic and responsive to demands to changes with an innovative mentality. They were also influenced by western values like creativity, innovation, leadership, transparency, confrontation and communication skills, professionalism, and assimilation of outsiders, striving not only to survive, but also to self-actualize.

It is found that the younger generations of Chinese may not be fully accepting guanxi as important. Yang's claim that the Chinese culture is diminishing in an economically developed society (Yang, 1987) is more evident in Hong Kong and Taiwan, which inherit the Chinese culture but in different socio-economic environments. They do not uphold traditional Chinese values as strongly as their counterparts in Mainland China but rely more on elements other than guanxi for business success.

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#### 6.2.4 Guanxi's structural relationship – more personal elements

As there are some commonalities between Chinese guanxi and western networking, as described in Chapter 2, the study examines the differences between networking and guanxi. Hackley and Dong (2001) use social structure and cultural values to distinguish guanxi from western networking. Hackley and Dong (2001) suggest that social interactions are based on equality, freedom, and personal interests; and respect and reputation are earned by individuals, not given by the social structure. But Chinese culture is loosely translated into connection, which contains social networking or special interpersonal relationships, which also carries the meaning of power, social status and resources transmission. Guanxi is an intrinsic part of China's social structure and social interaction.

Simmons, et al. (1996) and Wong and Tam (2000) further elaborate on the concept of guanxi “wang”, or a network or web; guanxi can be described as a relationship between and among people which may include different levels of people. Such “wang”, according to Tsang (1998), remains an informal, almost ‘invisible’ group and intangible. It can be very influential but remains unrecorded and undocumented. The cases and telephone

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interviews have shown how such “wang” brings different levels of people together, even in the context of an academic research. There is a substantial structural element in guanxi that distinguishes it from the western notion of networking.

The process of guanxi formation concerns developing relationships and turning such relationships into close personal bonds. This is achieved through different ways and relationships, such as kinship, classmates, and alumni, identification of common affinity and friendship. This involves converting relationship from kinship, business or social, into a personal bond. The conversion process evolves by developing understanding, enhancing knowledge and experience of individuals, and applying the norms and etiquette of Chinese culture. Being embedded in rich guanxi relationships allows Chinese entrepreneurs to identify the relevant links and commonalities to activate or develop guanxi. Acquiring and activating these links and commonalities are based on actions, knowledge, experience and cultural background of different individuals. Knowing what is expected when developing such guanxi is only learned through understanding the context and how it operates. Consequently we have to conclude that guanxi is not static, it is dynamic. Moreover this dynamic quality means that guanxi has to be renewed.

Luo’s “five” guanxi characteristics has been adopted in this thesis to specify the

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uniqueness of guanxi and how it is different from social networks. Applying Wall's (1990) idea, developing, cultivating and expanding one's guanxi in China has become a common preoccupation and a form of social investment. Face, affection, trust, gift, and reciprocity are the five core elements that would appear to characterise the structure and determine the effectiveness of guanxi. Furthermore, building guanxi networks requires strategic thinking. Strategies will pinpoint short- and long-term guanxi targets and needs. As Li and Wright (2000) remark, higher social status creates greater 'face' for the intermediary, which in turn leads to greater social obligations for the parties to develop and maintain their guanxi.

Guanxi allows Chinese entrepreneurs to use, create and develop relationships with different people. However, the level of guanxi is determined by the ties which make up the relationship. The forming of such embedding nature entails acquiring knowledge about the kinship, Chinese protocols, etiquette and traditional Chinese culture. For example, as the interview data demonstrate, the extent to which both Mr. Huang and Mr. Guo are embedded affected their ability to draw on social and economic resources. Nevertheless, the different culture backgrounds, or the different uses of guanxi element, between Mr. Huang and Mr. Guo have different impacts upon their business outcomes. Mr. Huang, a traditional Chinese, uses his guanxi, to extract the economic value. Mr. Guo, who is influenced by western culture and prefers using the western way of doing business with

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Mainland Chinese, treats guanxi only as a way of facilitation. Regardless of the different economic outcomes received by Mr. Huang and Mr. Guo, it is evident that guanxi still has its implications for the business and the way business operates

Guanxi is experienced and expressed by the respondents involved more interpersonal ties from family or kinship and friendship instead of a more structural relationship suggested in most western literature. Such guanxi is also now characterized by the tendency of building a reservoir of obligations and reciprocity, with concerns not so materialistic, but more affective and subtle. This also entails a longer-term maintenance aspect and softer values in personal connections like communication, trust, integrity and sincerity. Hence, findings here are quite different from the structural properties of guanxi as advocated by Yongqiang and Zhilong (2006), but much closer to those of Yang (1994) and in particular Fan's (2002) who adopt a notion of acquired relationships.

#### 6.2.5 Guanxi's utilitarian aspects – its facilitating benefits

Guanxi can help to gain resources, and these material resources, informational goods and situational advantages are major benefits. The resources take the form of inside or intimate knowledge, contacts, sources of advice, support, applicable and specific



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information. Such resources may bring Chinese entrepreneurs practical economic benefits such as knowing competitors' bidding prices, privileged access and ability to sell to his or her guanxi networks with higher prices and commissions, influence over their counterparts to use their products even though the price and/or quality are not ideal.

These kinds of benefits obtained through guanxi are determined by the level of ties among individuals. Obtaining these benefits requires the ability of the individuals to utilize their guanxi and its bonds. According to our surveys, the principle source of guanxi is friendship ties, a linkage founded on close ties. Furthermore, guanxi affects the entrepreneurial process and outcomes. Guanxi works as a mechanism among individuals for generating contacts, business ties and cooperation. Guanxi helps individuals to widen their social networks. Through guanxi, entrepreneurs' business and social networks can be extended.

The analysis demonstrates that guanxi eases and lubricates the process of entrepreneurship. Guanxi facilitates the entrepreneurial process by helping entrepreneurs to be. The guanxi in which a particular individual is located with not only facilitates his or her own entrepreneurial process; it also determines the shape and form of entrepreneurial outcomes through gaining privileged access. Guanxi provides a mechanism which brings different

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individuals together. Guanxi acts as a tool for dealing with the dynamic context in which entrepreneurship thrives; the tool which changes from being a fundamental requirement (old traditional way of doing business) to being an additional and alternative means to an end.

Guanxi enables Chinese entrepreneurs to become embedded and is part of the social context. Through guanxi, Chinese entrepreneurs are provided the subtle dynamics to pursue and exploit commercial and business opportunities. Gaining privileged access and developing more contacts can be achieved through guanxi. Moreover, guanxi allows the entrepreneurs to understand and then enact or re-enact the business environment, and the recognition, realisation and creation of possibilities are made possible through guanxi. The interviews in Chapter 5 give different examples on how guanxi was manipulated to help interviewees gain benefits.

The study shows the inevitable role of guanxi as experienced by entrepreneurs. In starting and developing their enterprises, there are many different opportunities entrepreneurs encounter in their daily lives and interactions. In order to identify opportunities, and realise the potentials of these opportunities, Chinese entrepreneurs need to know and understand guanxi. Guanxi is a valuable resource but at the same time cannot be treated in

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a purely economic sense. It needs to be understood and sustained by and anchored in the social context. The ability to identify business opportunities remains with the entrepreneurs, but guanxi still helps and influences entrepreneurial outcomes.

#### 6.2.6 Guanxi's reciprocity – Pragmatic orientation

Reciprocity is the core concept of guanxi identified with the support of different scholars (Huang, Li & Weight (2000); Redding & Ng (1982); Winstead et al. (1995); Easton and Araujo (1992). However, its orientation is now more geared towards pragmatic considerations. The findings in general support the views of Yang (1986) and Hwang (1987). Previous invisible and unwritten code of reciprocity and equity, highly dependent on “renqing”, is now less upheld by modern entrepreneurs (Yang, 1986). Interpersonal favours and generosity are given with the expectation that they will be reciprocated (Hwang, 1987) and even negotiable (Yang, 1986) in a pragmatic way. Such orientation towards personal relations and the exchange of favours and social obligations as social capital, as asserted by Hwang (1987), is evident in the survey findings. The respondents' pragmatic behaviour, profit motive, market mindset and expectation that reciprocal guanxi entails exchanges of equivalent value is in line with Fan's prediction of the changing nature of traditional Chinese guanxi networks (Fan, 2002).

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The traits as seen from our survey respondents are typical of the new generation of Chinese entrepreneurs, who consider giving resources from the perspective of financial returns, echoing the practical, outcome focused and tradition-free entrepreneurs featured by Hwang (1987).

#### 6.2.7 Reliance on guanxi - Constraint factors

The findings reveal several factors that have an effect on the reliance on guanxi, including the background of the entrepreneurs, and the pursuit of business goals.

- 1) Age and outlook

According to the analysis, old and new Chinese generations have been experiencing changing Chinese economic conditions. Nonetheless many younger and newer entrepreneurs had a different approach to guanxi, apparently because they are becoming more practical and prefer western business styles. Respondents younger than 40 years old, with higher education and those who have studied overseas indicated guanxi to be less important, and agreed that the use of guanxi would diminish. The younger generation has

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grown up in a more open socio-economic environment, with increased business opportunities and open market that offer western perspective and norms.

2) Western impact

Exposure to foreign business practices and foreign culture has impacted the respondents' acceptance of guanxi. Naturally, respondents from Hong Kong, a westernized international city, tended to have a more cautious and detached, if not negative and somewhat apprehensive, attitude towards the deployment of guanxi. Compared to their Mainland Chinese counterparts, the Hong Kong respondents accorded lower importance of guanxi to their business dealings.

3) Pragmatic business goals

Many respondents asserted that their business success would depend on elements other than guanxi. They focused more on the importance of product and service quality, profitability, knowledge, market competitiveness, consumer satisfaction and adherence to international standards. Long-term guanxi relationship is sustained by these elements instead of guanxi through gift-giving. Although it is through guanxi that resources and

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economic benefits are acquired, guanxi may play a less important role when business value and product quality are concerned. The practical approach in China's business development makes Chinese entrepreneurs fail to depend heavily on guanxi.

#### 4) Stage of business development

Guanxi is recognized to be of higher importance mainly at the start and early development stage of a new business venture, bringing opportunities and awareness of potential information and resources. Once stabilized, other factors for business success will take over.

#### 6.2.8 Summary

While the literature treats guanxi as being a critical component to Chinese entrepreneurship, this research demonstrates that guanxi is often an ancillary element to modern Chinese entrepreneurship. It inevitably acquires a diminishing role, albeit remaining a significant element in doing business in China. Guanxi is profoundly Chinese, a product of Chinese culture and organizational forms. International cultures and the internationalization of organizations suggest that the Chinese way will become less

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important. As China continues to internationalize by moving away from a cheap production zone to a more knowledge based economy, we may expect to see the importance of guanxi diminish.

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## 6.3 Implications

### 6.3.1 Theoretical implications

This thesis demonstrates that Chinese entrepreneurship is influenced by guanxi. It supports the view of Gold (2002) and Wong and Tam (2000) that guanxi lies at the heart of China's social order, its economic structure, and is a fixed element of culture and society. However, as discussed in Chapter 2, traditional Chinese culture is diminishing nowadays. Furthermore, due to change of the Chinese business environment, economic liberalisation of China, changes in the Chinese civil services, improvement in legal systems, emergence of private enterprises and modern management, and the new approach of new generation of entrepreneurs; the influence of guanxi in China has been changing.

There is no doubt that guanxi can bring substantial rewards to both individuals and organisations. As Davis (1995) states, the repeated favour-exchanges ensure some type of trust among the members of a guanxi network, which tends to minimise the risk of uncertainty and the inflexibility of asset-specificity. The findings in Chapter 5, especially from the two surveys, echo Davis' suggestion. In other words, guanxi provides the lubricant for the Chinese to get through life and heavily influences Chinese social behavior and business conduct (Chen, 1994).



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However, scholars (Guthrie, 1998; Lee & Eills, 2000; Tsang, 1998; Fan, 2002) also point out the disadvantages of guanxi. They argue that Chinese managers are increasingly finding themselves compelled by market forces and the institutionalisation of a legal infrastructure to distance themselves from the “crooked” ways of guanxi practice. These scholars highlight the complexity of guanxi in form and in use, as well as point out the dynamics as guanxi changes over time.

According to the analysis, this research concludes that guanxi is still an important resource in Chinese entrepreneurship, and sits at the core of Chinese business culture. Although guanxi is seen as essential and unavoidable, the attitudes of modern Chinese towards guanxi have changed. Guanxi is only a tool to lubricate business processing in modern Chinese entrepreneurship and not as critical as in the past.

### 6.3.2 Practical implications

With the diminishing importance of guanxi in enterprises, there are a few practical implications. There would be less reliance on guanxi to facilitate business dealings. Replacing such reliance would be more emphasis on rules and regulations. Pragmatic knowledge and skills instead of gifts as guanxi lubricants would be deployed. China’s

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younger entrepreneurs would be more aligned with their counterparts in Hong Kong and other international areas in business values and practices.

The research finds that although guanxi is not yet perceived as a taboo in business dealings, the new generation of Chinese entrepreneurs displays less reliance on guanxi as a lubricant. Guanxi may even be considered as insufficient and potentially costly for, if not limiting, business performance. Instrumental relationship will substitute personal guanxi gradually. Interpersonal favours and generosity are rendered with the anticipation that they will be reciprocated in a pragmatic way (Hwang, 1987). As the disadvantages of guanxi may be offsetting its benefits (Lee & Eills, 2000), Chinese entrepreneurs may turn to rely on other factors for business success. They may now seek to know more about the business itself, their business counterparts, laws and regulations, and the socio-economic environment. In this way, their perspective and capability may be expanded to other business arenas and factors.

Dependence on formal, regulatory business practices would be replacing that on guanxi. As China becomes more prominent in the world's economy with a more dynamic international interface, business practices will have to be regulated and institutionalized. The adoption of objective practices in business behaviour and standards will provide a common platform for business interactions.

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Instead of focusing on the micro aspect of maneuvering guanxi among people, the younger generation of entrepreneurs is more inclined to pursue practical knowledge to enhance their business performance and role. The pursuit of knowledge on management skills, the legal system, auditing and accounting standards, and the international world will therefore become more common and even popular. There is already a trend in increasing provision of modern management studies, creating a promising market for continuing education.

Together with its diminishing importance, the culture of gift-giving as a tool for guanxi, would be less utilized. As guanxi is closely related to bribery, it is foreseen that, at least on the institutional level, the culture of bribery may be curtailed. China has already begun some official anti-corruption measures in forbidding government employees to offer or accept gifts during the holiday seasons. According to an article in China Daily September 17, 2013, "Nanjing officials warned over holiday gifts", officials were banned from attending banquets and sightseeing at public expense as well as having lavish lifestyles. Those who violate the rules will be suspended immediately, and their leaders will also be punished. The anti-corruption measures have caused the prices of many products that are usually chosen as gifts, like moon cakes and crabs, to decline. This may signify the beginning of the decline of the commonly accepted utility of gift-giving as a tool of guanxi. Of course, whether this will be sustained will need long-term and effective

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institutionalized reforms that govern business practices. As an emerging world economic giant, Chinese entrepreneurs need to compete not only domestically, but rather internationally on product quality, and outstanding business strategies.

In the decades to come, with more dependence on business factors and knowledge other than guanxi, the younger generation of entrepreneurs will be more aligned with their international business counterparts with a more international outlook and mentality (China Daily, 2013).

## **6.4 Effectiveness of Methodology**

The study provides a measure of support for continuing and expanding qualitative and quantitative approaches, which demonstrate how effective these techniques can be in developing an extensive and comprehensive understanding of guanxi. The information provided by surveys, cases and telephone interviews give the study recent and updated information on how Chinese new generations and entrepreneurs view about Chinese guanxi. The interviews allow the researcher to get much closer to the “difficult” area of guanxi; something which is hard to explain but often only can be felt. Such qualitative method is effective in view of the intangible nature of the guanxi topic. Through personal

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contact, communication and experience sharing, personal views and assessment could be solicited.

Furthermore, in order to explore the role of guanxi in Chinese entrepreneurship, the thesis has examined whether guanxi can still provide the same advantages in China today, and given a detailed account of the myth of guanxi, the effectiveness of guanxi, and whether guanxi has become less important in China. Quantitative and qualitative methods were used through the administration of questionnaires, case studies and telephone interviews. According to the surveys and interviews, the analysis finds that guanxi is only a tool to implement business strategies but never a substitution. Furthermore, the researcher's own guanxi, with the trust already in place, has enabled the interviewees to talk freely about their views, and the benefits and practices of guanxi. Usually this would be difficult to achieve in a survey to be done on a more random sample without any affiliation. Guanxi is already shown to be having a role in this academic study.

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## 6.5 Limitations

Although this thesis makes an important contribution to understanding the role and nature of guanxi in Chinese entrepreneurship, it is recognised that the methodology of the research may have some inherent limitations.

The first limitation lies in the relatively small sample size. The number of respondents (a total of 152) limits the extent of generalisation of the findings. The responses and sharing of fourteen entrepreneurs (interviewed in depth) and 152 respondents (surveyed through questionnaires) coming from different regions of China, as a sample of modern Chinese entrepreneurs, broadly reflect the perspectives of typical Chinese entrepreneurs. However, due to the vast and changing number of Chinese enterprises in China, in a large spectrum of sizes, especially growing in some other newly developing distant or rural areas, this study would appear a very minute one. A farmer trying to improve his farming methods and enlarging his field and produce can be regarded as an entrepreneur. At the same time, a billionaire who is maintaining his large-scale start-up business with several thousands of employees and overseas branches is also an entrepreneur. Whilst the sample may still claim to represent the typical Chinese entrepreneur in general sense, it is far from being representative of the universal population in view of the very dynamic definition and emergence of the ever-evolving Chinese entrepreneur.

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The second limitation lies in the types of sample subjects chosen. Most of the sample subjects, especially in the surveys, are master and undergraduate business students and they are known to the researcher in a teacher-student context. The other respondents are mainly known business associates. The sample may be criticised as being too homogenous and not heterogeneous enough. The fact that the questionnaires in Surveys A and B were administered directly and personally by the researcher in a classroom environment and in case studies and telephone interviews may bring in criticism that some undue influence was present. For example, the obligation to complete the questionnaires or the conversations, and the subtle tendency to answer with a “politically (or academically) correct” stance may render the responses untrue or unrepresentative. While one side of the coin provides the advantages in attaining qualitative responses more easily, the other side of the coin may point to the insufficiency of objective sampling.

A third related limitation is that the sample of surveyed subjects consists of mainly the younger generation and this may be criticised as a biased or unrepresentative sample. Most of the respondents, though working, were still pursuing business management studies academically. This would mean that they might be relatively inexperienced in the business world, thus might not have enough exposure in the world of guanxi and pragmatic business practices. However, it is within this cohort that the perception of the

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younger entrepreneurs towards the future role of guanxi could be gauged. They were more ready and capable of seeing beyond the present and looking forward to the future. Moreover, these students are likely to be the business leaders of tomorrow so their views and understanding are likely to influence the future applications of guanxi. Though they have acted as reliable source of information on future perceptions and development of guanxi, this younger cohort might appear to critics as inadequate and not experienced enough in giving a full account of how guanxi has helped their business. It is hoped that the two case studies with the input from the more experienced and mature entrepreneurs could supplement this shortfall. It is also hoped that the younger cohort striving to improve academically could be seen as representatives of the future leaders in the entrepreneurial world, thus giving a glimpse of the future evolution of guanxi.

The fourth limitation lies in the emphasis on the qualitative and interpretative orientation of the study. The flexibility and open-ended nature of the interviews and surveys did permit a range of explanatory factors and contexts to be solicited and investigated. The findings are full of direct responses and provided sufficient qualitative expressions and data to allow meaningful analysis to generate an in-depth understanding of the role and nature of guanxi in Chinese entrepreneurship. The ample information has given a rich source of information to be interpreted. However, the other side of the coin means that



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there may be difficulties in presenting and categorising the qualitative responses, each of which being different. Certain subjective decisions would need to be taken in categorising and explaining them within set parameters and conceptual frameworks. In so much as the researcher trying to be critical and objective, this study which relies on qualitative and interpretative orientation may at the same time give an impression of subjectivity in the explanation of the findings. Nevertheless, with *guanxi* being a concept infused with dynamic and subjective connotation, a qualitative and interpretative approach is deemed as more effective and thus takes on more weight than the quantitative data in this study. Though this qualitative approach can be regarded as an advantage, it can be at the same time losing the strengths of a purely empirical and quantitative approach. Due to the “subjective” nature of the subject matter and to ensure accessibility of data collected, the qualitative approach, together with its inherent limitations, has nevertheless been adopted. It is hoped that the advantages and benefits of the present approach have outweighed the limitations it inevitably brings.

The fifth limitation lies in the subject matter of “*guanxi*”. In some ways, this is a taboo and intangible topic, as it undeniably connotes negativity. It is associated with informality, alternatives to legal means, under-the-table avenues, unethical attitudes, dependence on personal relationships, corruption, bribery, injustice and unfairness. For respondents who

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have been benefitted by guanxi, they might have understated the real phenomena and presented their righteous and approved stance in an interview communication with the interviewer with personal relationship; in order to avoid the embarrassment of having unapproved behaviour or the feeling of being too transparent. The attitudes displayed may not be totally genuine. Soliciting objective responses may be difficult. This is an intrinsic limitation due to the subtle nature of guanxi.

## **6.6 Suggestions for Further Research**

The significant contribution of the findings is that they have provided an insight into the perception and importance of guanxi in modern Chinese entrepreneurship; as well as its diminishing importance with China's rapid economic development and institutionalization; pointing out that pragmatic economic and business benefits are increasingly generated through constructed and formal business operations rather than the old style Chinese traditional guanxi. However, due to the long-existing nature of guanxi in every sphere of Chinese business relationship, it will be over-simplistic to apply the conclusion of a single study universally.

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Though it is found in general that guanxi is diminishing in importance in modern Chinese entrepreneurship, there should be a cautious awareness that the extent, pace, indications and impact of the change varies. The dynamics involved may be different among sectors, size, ownership, locality, history, culture of the business as well as the exposure to alternative values. A long-established small family rural-based business inherited through several generations with hands-on management may be very different from a new enterprise urban venture set up by a young entrepreneur with overseas experience convinced of the value of formal business standards and accountability to stakeholders. The impact of the change of guanxi will inevitably be very different among these two entities.

It will be difficult to generalize that certain sectors or business sizes or management styles are more susceptible to the changing nature of guanxi. Some sectors which have been heavily relying on guanxi and human relationship, for example, through referrals to obtain business, may still have to cling to guanxi in order to sustain and survive profitably. Some other business, due to its small size, may be flexible to change through the owners' own conviction and decision; while large size companies may be more determined and resourceful to implement rules and regulations to decrease their reliance on guanxi, sometimes in order to stay politically correct through being 'clean' from bribery practices.

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That said, there are still a variety of factors affecting business' responses to the changing importance of guanxi. In general, ingrained attitudes and practices valuing guanxi may be slower and more difficult to be uprooted except when facing challenges from the regulations, decreased profits and widespread social stigma.

This study, like all most academic studies on existing phenomenon, is limited by the current data collected and the difficulty to generate a predicting conclusion for future trend. If there are major socio-economic changes, any tendency currently witnessed may be reversed. Major changes and upheavals are not unprecedented in Chinese history. In the same way, government direction and policy may also speed up or slow down the diminishing trend of guanxi.

The findings in this study allow a grounded model to be produced for testing in other contexts and/or with a larger sample of Chinese entrepreneurs. With the limitations explained in the above section, on the size and homogeneity of the sample, as well as the qualitative and interpretative approach, and the various factors involved, it would be interesting and academically relevant if further research will be carried out to supplement and fill up the missing loops. Quantitative measures and a much larger sample could be used to test the relationship and patterns identified from this study. A larger sample of

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modern Chinese entrepreneurs, involving a wider cross-section of different emerging categories of entrepreneurs can be employed to examine in greater detail the impact and use of guanxi. Longitudinal studies would help the understanding of how guanxi evolves over different development and economic phases.

Research tracking major socio-economic changes and government policies and directives and the phenomenon of guanxi in different business environments and portfolios will be illuminating for understanding the relationship among them. In regard to the very recent discussion and Chinese government's indication of the modernization of rural areas and encouragement of township development with rural entrepreneurs and ownership, a study on whether guanxi would emerge strong again and take on a new tone would be interesting and fruitful.

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Zhong Guo Jian Jun Bao, April 20, 2007

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# Appendices

- A. Survey A Questionnaire
- B. Survey B Questionnaire
- C. Transcriptions of 30 Telephone Interviews

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## Appendix A



The Robert Gordon University

### Survey on Entrepreneurial Study

#### English Version of Survey A Questions:

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1. What does “Guanxi” mean to you?
2. Do you think “Guanxi” is important especially when you start your new business?  
Now Important  
Very Important    1                      2                      3                      4                      5                      6                      7                      Not  
important
3. Where do you receive your “Guanxi” from? (can pick up one or more)  
Schoolmate  
  
Business partners  
  
Good friends

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Former employer

Former colleague

Friends of friends

Kinship

Other Relatives

Others

4. Who do you think you will receive “Guanxi” the most?

Schoolmate

Business partners

Good friends

Former employer

Former colleague

Friends of friends

Kinship

Other Relatives

Others

5. Do you use “Guanxi” frequently?

No

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Yes (How often)    Very often    1    2    3    4    5    6    7  
Not often

6. Who do you think can provide you the most reliable “Guanxi”  
Schoolmate

Business partners

Good friends

Former employer

Former colleague

Friends of friends

Kinship

Other Relatives

Others

7. Can you achieve what you expected after using “Guanxi”? Why?  
Not often

Very often

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8. How “Guanxi” can help you achieve what you expect? Give example (s)

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9. What kind of “Guanxi” do you use frequently?

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10. How do you manage / cultivate your “Guanxi”?

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11. Why do you think the other offer you his or her “Guanxi”?

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12. Will you use different level of “Guanxi” in different situation?

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13. How do you maintain / prolong your “Guanxi”?

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14. How do you return the benefit to those who have offered you “Guanxi”?

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15. How “Guanxi” assists your business development?

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16. Will you actively develop “Guanxi”?

No

Yes (How often) Very often      1      2      3      4      5      6      7

Not often

17. Do you really like the “Guanxi” game?

No

Yes Very like 1      2      3      4      5      6      7      Not like

18. Do you think “Guanxi” is important in your business?

Not important, why

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---

Very Important    1      2      3      4      5      6      7    Less important

---

19. What is the nature of your business

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20. What is the scale of your business?  
How many employees:

Annual return?

21. Is your business growing or shrinking?

Growing Very successful 1 2 3 4 5 6 7 Not very successful

Shrinking Very bad 1 2 3 4 5 6 7 Not too bad

22. You come from

lower class

middle class

wealth class

and

civil servant family

family business

others

23. Your education background  
Not finish elementary school



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Elementary school graduate

Junior high school graduate

High school graduate

College graduate

Master level graduate

PhD / Dr. degree graduate

24. How long have you been working?

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25. Your age? \_\_\_\_\_

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## Appendix B



The Robert Gordon University

### Survey on Entrepreneurial Study

#### English Version of Survey B Questions:

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1. What does “Guanxi” mean to you?
2. Do you think Guanxi becomes more important or less important in China nowadays, compare with the 1980s when China opened her market? Why?
3. How much help of Guanxi can give if you have a very unique and successful product that can be marketed? Why?
4. Do you think Guanxi really give you some help in today’s China business environment? Why?

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5. Do you rely on Guanxi when doing your business? If yes, what is the level:

No. I do not rely on it.

Very Important    1       2       3       4       5       6       7       Not important

6. Do you refer your Guanxi to your other contacts? Why?

7. Do you think is there any changes, in terms of manipulating and cultivating, of guanxi nowadays compare with 1980s? How is it?

8. What is the role of Guanxi playing in today's China business environment?

9. Do you think Chinese Guanxi culture is a must in doing business in China? Why?

10. Many foreigners criticize Chinese pay too much attention on Guanxi which many times creates unfair and unreasonable business environment. What do you think?

11. Do you think Guanxi is only important in China, or any other place in the world?

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12. Will the importance of Guanxi diminish when China market become more open? Why or why not?

13. When do you think Guanxi plays the most important role:

- When you start to build your business
- In the process of the business
- Make my business more successful
- Not important at all

14. Do you really think Guanxi can give you help?

No.

Very Important    1       2       3       4       5       6       7       Not important

15. Can you achieve what you expected after using “Guanxi”? Why?

Not often

Very often

16. How “Guanxi” can help you achieve what you expect? Give example (s)

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17. Do you use “Guanxi” frequently?

No

Yes (How often) Very often 1 2 3 4 5 6 7 Not often

18. What kind of “Guanxi” do you use frequently?

19. Do you cultivate your “Guanxi” actively?

20. How do you maintain / prolong your “Guanxi”?

21. Will you use different level of “Guanxi” in different situation?

22. Does “Guanxi” assist your business development? How?

23. Do you really like the “Guanxi” game?

No

Yes Very like 1 2 3 4 5 6 7 Not like

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24. General speaking, do you think “Guanxi” is important in your business?

Not important, why

Very Important 1      2      3      4      5      6      7 Less important

25. What is the nature of your business

26. What is the scale of your business?

How many employees:

Annual return?

27. Is your business growing or shrinking?

Growing Very successful 1 2 3 4 5 6 7 Not very successful

Shrinking Very bad 1 2 3 4 5 6 7 Not too bad

28. You come from

lower class

middle class

wealth class

and

civil servant family

---

family business

others

29. Your education background

Not finish elementary school

Elementary school graduate

Junior high school graduate

High school graduate

College graduate

Master level graduate

PhD/ Dr. degree graduate

30. How long have you been working?

31. Your age? \_\_\_\_\_

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## Appendix C

### **Records of Telephone Interviews**

#### Telephone Interview 1

Name: Mr. Shi  
Occupation: CEO of a private investment company  
Education: College graduate  
Age: About 45 years old  
Location: Beijing

Background: Mr. Shi is a former senior investment officer of a large Chinese state-owned bank. In 2001, he quit the position when he was 35 years old. He then established his own company and focused on financial and property investment in China.



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*“You know, I know many important and influential people through my job. I handled their deposits and therefore know how rich they are. They do not want the government know how rich they are, so they encourage me to run my own business and handle their fortune privately. Frankly speaking, they financed me to establish my own company.”*

*“Is guanxi important? Of course you know in China, no guanxi, no business. However, I need not buy them gifts; they even pay the bill when we dine out. They are rich, much richer than I am. Frankly speaking, I act as their safety guard, and look after their fortunes. The only thing I must follow is to keep everything in secret. I cannot talk to anyone anything about my clients, regarding their fortunes or investments.”*

*“Yes, sometimes I lose money on their investments. To them, it is a small amount. Of course, I need to be very careful because if I continuously lose their money, they will give me up. I therefore need to maintain a good guanxi with them because when I lose money, our relationship still can be maintained because of our friendship.”*

*“I am sponsoring some of my contacts’ (no, they are not my clients) children study abroad, mainly the US, Canada, United Kingdom and Australia. Sponsoring means I pay all their tuition fees and daily expenses. Although they are not my clients, they introduce me to clients and help me a lot. “Help” means they provide me assistance and*

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*convenience in different aspects. In return, I act as their children's guarantor and am responsible for their children's overseas study expenses."*

*"I cannot tell you whether those contacts are government officials or not, they are just my contacts."*

*"Is it worthwhile? Of course it is. Through this kind of relationship, my contacts rely on me heavily and provide me with more assistance and convenience when necessary. We have a very good guanxi."*

*"My boy is now studying high school in UK. I deliberately arrange him to go to the same school with one of my contact's son. I hope my boy can build up a good friendship with him as my contact is so influential. Perhaps after they grow up, their good guanxi can help my boy develop his future. And possibly they will be my future boss as well."*

*"When I travel overseas, I always visit those kids. Take them out for meals and send regards from their parents. They respect me of course because I pay for all the expenses. Of course I hope one day they will help me and my son, same as their parents, after they graduate and are successful in their careers."*

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## Telephone Interview 2

Name: Mr. Cao  
Occupation: President of a logistics company  
Education: Elementary school graduate  
Age: About 60 years old  
Location: Shengyang

Background: Mr. Cao is the owner and President of a local Shengyang logistics company. He used to work as a driver of a local state own transportation company. In 1990, he quitted his job and established his own transportation company. At that time Mr. Cao only owned a second hand 3.5 ton truck. In 2010, Mr. Cao owned a 50,000 sq.ft. warehouse in Shengyang city and ten 3.5 ton trucks.

*“Guanxi is extremely important in my business. We are not big company. The reason why we can consolidate business is because people give face to me. I need to act very humble and always please them. They can give business to my competitor if they do not*

---

*like me....Why do they give me face, I don't know. Probably it is because of my humility and good services."*

*"I understand that it is important to buy my clients meals and gifts, but I rarely do that. We are a small company and our margin is very low. We cannot afford to pay such extra costs. I understand the importance of maintaining good guanxi with my clients but I have no money to build guanxi."*

*"I think I charge the cheapest among my competitors. My business philosophy is sell more but with low margin. I think my charge is about 20% lower than my competitor. All my clients are privately owned companies. We cannot charge them high prices. It is hard to grasp business from state own enterprise. I used to work for a state-own-enterprise (SOE) so I know the tricks. You need to give them benefits otherwise you cannot get the business."*

*"Yes. Many times I visit my clients when I am free. Just to say hello and maintain the relationship. I do not give them any gift when I visit them. It will be a huge expense if I buy them gifts every time when I visit them. Every time when I visit my clients, I will ask for their suggestions on how to improve our services and see if there is any other business areas then we can offer to them. Moreover, I also say something good about and praise*

---

*them. I give them face. I respect my clients and am very low key and humble when I deal with them. I let them feel that they are very important*

*“I dare not develop business with government people. It is hard. I don’t have the background even though I use to work for SOE. I was only a driver at that time and did not know any influential people. I don’t even dare to try to knock on their doors. They will not even talk to me.”*

*“No, I have never tried to contact them (government agents) because I know that they will not give me business. I have no good guanxi with them.”*

*“I have already told you that the reason why they (the clients) give me business is because they give “face” to me. The reason why they give me “face”? I really don’t know. Perhaps it is because I am a good man....I don’t believe they give me business is because I charge them lower price. I think the main reason is I give them face, and they therefore give me face in return.”*

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### Telephone Interview 3

Name: Ms. Ling  
Occupation: President of a trading company  
Education: College graduate  
Age: About 60 years old  
Location: Shanghai

Background: Ms. Ling is a Taiwan Chinese from Taiwan. She established her import/trading company in Shanghai since 2000. Mainly she imports Taiwanese food related products from Taiwan and sells to different retail channels in greater Shanghai area.

*“Of course I know the importance of guanxi. I am from Taiwan. You know guanxi is also very important in Taiwan. However, same as Taiwan, I found the importance of guanxi diminishing in China now as the China market is becoming more open and more competitive.”*

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*“Supermarkets and retail chain stores buyers are very picky. Regardless how good guanxi you have, they will not pick your products if they find your products cannot be sold to customers in their stores.”*

*“I didn’t say that guanxi is not important in China, or in Taiwan. It is still important but, unlike the past, it is not the only way to achieve your goals. Those buyers are responsible for their performance. If they cannot get good products to sell, it will affect their performance in their companies. Good guanxi with the buyers cannot guarantee that they will pick your products.”*

*“It is the same situation prevailing in this industry. I tried to build good guanxi with the managers and the supervisors of the buyers, but it does not work. Those managers are also salary employees. They report to their supervisors and are responsible for profit and loss. Even though they speak to me frankly that they could not give me any help even if we had very good guanxi. In foreign-owned supermarkets and retail stores, you can hardly develop guanxi with expatriates. They are foreigners and do not buy the guanxi idea.”*

*“Many times I send some small gifts to those buyers. Just want to maintain good guanxi with them. I understand that giving them gifts may not help me to sell more products to*

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*them but I just want to maintain a good guanxi with them. We are Chinese and this is one of our traditions to maintain good guanxi. I don't buy them expensive gifts, just small tokens or something interesting. Even those buyers told me that they could do nothing to help me even if I bribed them."*

*"When I was in Taiwan in the 80's, I could still sometimes force supermarket buyers to pick my products because I had good guanxi with their bosses. In 2000, I still could use the same way in doing business in China but not now. The China market becomes more open and competitive. Everyone knows the prices and trading terms and conditions. No one can enjoy special privilege even if you know someone with influence."*

*"In order to succeed, I need to find more new and better products for the China market. China is changing which makes the business environment more and more competitive. I really enjoy the old days using guanxi to do business. It is much easier. Once you have developed good guanxi with someone, you can sell anything to them. Such investment (meals and gifts) are worthwhile. I could make at least double on what I had paid."*



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Telephone Interview 4

Name: Mr. Gordon  
Occupation: Attorney of a US based law firm  
Education: JD  
Age: About 30 years old  
Location: Shanghai

Background: Mr. Gordon is an American and attorney of a US based law firm and has been re-located to Shanghai since 2010. As Mr. Gordon cannot practice laws in China (he does not own any Chinese legal license), he acts as a business/legal consultant in China. However, his role is to provide legal advice to his Chinese clients who do business with US companies.

*“I heard guanxi is important before I come to Shanghai. I have very good guanxi with my clients. We always dine out and have fun. They (his clients) are nice guys. Although I do not understand Chinese, but I know they always call me “Lao Woi” (means foreigner) behind my back.”*

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*“I don’t need to call business. We are a big firm and many times our cases (business) are referred by our old clients. We are a big company and provide professional services. We do not need guanxi to generate business.”*

*“I don’t trust Chinese guanxi although I have it. It is too vague. How can you prove you have a good guanxi with someone else? How can you quantify it? I heard that it (guanxi) is important in China but I don’t feel it. I would say a good relationship will smooth business process but it cannot give you too much help. I think my clients still listen to my legal advice even if we don’t have good guanxi.”*

*“On the contrary, I felt my Chinese clients want to maintain good guanxi with me. Every time when I meet with them, they treat me very well and bring me out for dinner. I don’t ask them to do any favour for me, neither do they. We just have fun and treat each other as friends. I think I have very good guanxi with them.”*

*“We have Chinese senior partners and I think they generate most business for the firm. I don’t know how they generate the business. I just know we have lots of assignments and many Chinese companies want our services. Perhaps my bosses have good relationship with our clients and that is why we can get so much business.”*

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*“The reasons why I feel I have good guanxi with my clients are we are good friends. As I am new to China, many times I ask questions about difficulties I face in my daily life; they are always willing to help me. Are there any difference between guanxi and relationship? I think they are the same.”*

*“When we dine out or have fun, such as karaoke, sometimes I pay, sometimes they pay. They do not insist on paying. Even many times we share the bills. I treat them as business friends only. As their English is not too good, sometimes I need to guess what they are talking. No, they never ask any favor from me. What kinds of favor can I offer them? I am an attorney and can only give them legal advice.”*

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Telephone Interview 5

Name: Mr. Ma  
Occupation: College student  
Education: A Year 2 College student  
Age: About 19 years old  
Location: Xian, Shanxi Province

Background: Mr. Ma is a college student at a university at Xian. Mr. Ma comes from a small village from Changsa, Wunan province. Mr. Ma is the only son in his family and he studied very hard in high school in order to get into a Chinese university.

*“My parents have told me guanxi is very important in China. They even asked me to maintain a good guanxi with my professors otherwise I cannot graduate. Do I believe it? In certain circumstances, yes. I believe the importance of guanxi, especially in China.”*

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*“We do not discuss such issue (guanxi) among our peers. However, many times I heard my schoolmates said “no problem, I know who and who, we can settle the issue”, or “My dad or mom has very good guanxi with someone, we can get things done.” I don’t have good guanxi with anyone influential, neither do my parents. Sometimes, I admire my schoolmates who have good guanxi with influential people.”*

*“I come from a rural area and am not rich. It is hard for me to develop good guanxi with influential people. Frankly speaking, I expect my schoolmates will bring me to social gatherings where I can meet people who are influential and then I can develop guanxi with them.”*

*“Guanxi is very common in China. I heard many stories like someone getting a job because his parents have good guanxi with the department head, or someone was almost caught by police but through his friend’s guanxi, he was released. Yes, it is unfair. But in China, if you have a “good Dad” (a father with influential), everything can be very ‘fair’”.*

*“No, I don’t have any good guanxi with anyone influential so I have never exercised any guanxi. I don’t think my relationship with my schoolmates is guanxi. We are just friends. They are still young and cannot give me any benefits. What benefits? Good job, fortune, power.”*

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*“It is hard to compete in China if you don’t have good guanxi. Let me ask you, why should I hire you if I don’t know you? Can I reject to hire someone if he or she is recommended by someone with influence? The answer is very clear. Take a look at those who are rich. Either they have good dads or know somebody with influence.”*

*“I don’t feel China is experiencing any big change. My parents told me that we were very poor in the old days and they did not even have enough food to eat. I cannot compare it because I have not experienced it. However, I don’t feel there is any big change in my village where I grow up. I am so happy I am one of the few students that can study at university in my village.”*

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Telephone Interview 6

Name: Dr. Bao  
Occupation: Professor  
Education: Ph. D  
Age: About 40 years old  
Location: Guangzhou, Guangdong Province

Background: Dr. Bao is a professor at a Guangzhou university where he teaches marketing. Furthermore, Dr. Bao also acts as a business consultant to help enterprise on different business projects. He received his undergraduate education in China, and his Master and Ph. D in the US.

*“I know guanxi but I despise it. I think guanxi is an element which creates unfairness and injustices. I know it is important in China, but I have choice. Guanxi is bad heritage in China. China is now changing. We should not inherit such outdated culture.”*

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*“In order to compete, you must be practical. That is what I tell my clients: don’t employ anyone who you know, only employ those who are capable and help you succeed. I also tell my students to study hard. If they are capable and smart enough, they can get good jobs with or without guanxi.”*

*“I used to write recommendation letters for my students for job applications. Many companies called me directly and checked references on my recommended students. I told them the truth. Many of my recommended students are finally hired. I don’t think those company executives know me, at least I don’t know who they are. I don’t have any guanxi with those executives.”*

*“Guanxi can bring you disadvantages in business. I once conducted a marketing strategy project for a client. During the consultation, I found the company’s marketing manager was not qualified to take up the position and not capable. I was sure he could not implement my marketing plan. When I discussed this concern with the General Manager, he told me that he was also aware of the disability of that manager but he could do nothing because the manager was the cousin of the company’s president.”*



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*“One time I was very angry. I gave a “C” grade to one of my students. Then a few days later in a meeting with my department head, he asked me about this student’s performance. My department head didn’t ask me to change the student’s grade but he told me that the student planned to apply graduate school overseas and good grades were important to him. Later on I knew that the student’s father called my department head because they were friends. What did I do? Of course I did not change the student’s grade. He deserved what he had performed. But I did tell the student that I did not appreciate his dad’s call to my department head.”*

*“What can you do? This is China. I don’t like it (guanxi) but it exists and is always present in my daily life. How can China’s economic and business performance be improved if guanxi still plays an important role? It only will hinder China’s economic development. Sometimes I am so surprised that China has been emerging to become a world economic power but still maintains such an outdated habit.”*

*“I am not ambitious. I am very satisfied with my current position. I do not aim for any promotion. Therefore, more or less, I can neglect guanxi influence in my job. As a scholar, I must have my principles. I will do anything that I think is right and nothing that I think it is wrong.”*

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Telephone Interview 7

Name: Mr. Deng  
Occupation: General Manager  
Education: College graduate  
Age: About 40 years old  
Location: Shanghai

Background: Mr. Deng is a general manager of a foreign-owned food company in Shanghai. Mr. Deng joined the company only few months ago after he quit a local food company.

*“I am new to this position but I would like to share with you more on my last job. You know why I quit from that position? I really could not tolerate that sales director, who is the nephew of the president. He is not capable and even was rude and impolite toward me because he does not need me because he has a “good” uncle. The president is semi-retired and does not come to the office regularly. I did report the situation to the president, even proposed to fire the sales director, but he just told me to cooperate with*

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*the sales director. I know the president knows the inability and poor performance of his nephew but he just does nothing.”*

*“It was very discouraging. I was responsible for the profit and loss of the company but the sales director did not cooperate with me. Many times he did not follow my instructions. The worst thing was after he made mistakes in business; he went to the president directly and complained about me.”*

*“I understand why the president does not fire his nephew. The president’s parents died when he was a young kid. His aunt, who is the mother of his nephew, raised him up. I think the president is returning the favor he has received from his aunt to his nephew.”*

*“The sales director’s behavior really frustrated me a lot. It also affected the working atmosphere in the company. The other staff felt it was unfair and unjust that the sales director should be exempt from his mistakes and disobedience. It affected the office morale.”*

*“I don’t want to be the scapegoat for the failure of the company. Furthermore, I did not think I was being respected in the company. How can I lead other staff? I therefore quit the position and then later joined this company.”*

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*“The reason I picked a foreign company is because I don’t want to go through the same experience. I think foreign companies would not allow such happenings. They would be more westernized and modern, and only focus on results.”*

*“I like my current job. My supervisors are foreigners. They are very straight forward. Any promotion and rewards given are based on your actual performance. Regardless who you are, if you do not perform well, you go.”*

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Telephone Interview 8

Name: Ms. Tai  
Occupation: General Manager  
Education: High school graduate  
Age: About 50 years old  
Location: Fuzhou, Fujian Province

Background: Ms. Tai is the General Manager and owner of a 3-star hotel in Fuzhou. Her major visitors are local Chinese tourist and business people. Her major customers are local Chinese travel agents.

*“No guanxi, no business. I rely very much on travel agents to bring tourists to stay at my hotel. I know many travel agents executives who decide to give business to which hotels of their choices. How can I not maintain good guanxi with them?”*

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*“Besides meals and gifts, I also give rebates to many travel agent executives. It is hard to say whether it is legal or illegal (to give rebates), it is very common and an open secret in China. Some of their supervisors know I gave rebates and many of them don’t know.”*

*“The hotel competition is very keen here in Fuzhou. Our location is not in the downtown area and our facilities are not very good. It is hard to attract business. We need help from travel agencies.”*

*“I also need to maintain good guanxi with the tourist guides. Many times our visitors complain about this and that, I need the tourist guides to comfort them. The tourist guides give faces to me because they know I know their supervisors.”*

*“Many times I provide free room nights to travel agent executives as a reward. Of course, I need to send them gifts in Chinese Dragon Boat Festival, Moon Festival and Chinese New Year. The value I gave to different persons depends on how much business they have generated for me, more business, more expensive gifts, and vice versa. This is business”.*

*“As I said, no guanxi, no business. Last time I didn’t know why one of my travel agent contacts stopped supplying me visitors. I thought it was because he did not like the gifts I gave to him. I therefore paid him a visit personally, said sorry to him and brought him a*

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*precious gift – a Rolex watch I purchased from Hong Kong which valued HKD 70,000 (about USD 9,000). Our guanxi was therefore resumed and he supplied me visitors from then on.”*

*“It is very difficult to do business in China. In order to be successful, it depends on who you know and who you are. Unlike western world, guanxi dominates everywhere in China. When I travel to the US, I don’t see any guanxi. For example, the US travel agents do not send tourist to my hotel even though I told them that I am a good friend of their bosses.”*

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Telephone Interview 9

Name: Mr. Yi  
Occupation: Chief, Social Welfare Department, a county in Guangdong province  
Education: High school graduate  
Age: About 50 years old  
Location: Guangdong Province

Background: Mr. Yi is the Chief of Welfare Department of a county in Guangdong province. Mr. Yi is promoted to the current position since he has joined the county government in 1985.

*“Guanxi does exist in China but it is not important now. We do everything legal and with proper procedures. What you have heard are not true. China is a country that performs everything legal. We are government and we serve our people.”*

*“I do my job at my best effort and everyone do the same. We do not need to use guanxi in our job. We treat our visitors like friends. We listen to their demand and try our best to*



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*help them. We are friends. There is no guanxi exist between us. We do not accept any gift. We are government employees. We serve them.”*

*“I do accept meal invitations because I treat them as part of social gatherings and part of my job duties. You need to keep close with the public so you know their needs. You need to give face to those who invite you. It is impolite if you refuse someone’s invitation. I cannot control the meal quantities; regardless they are lavish or simple. They give me face if they treat me expensive meals. I don’t ask for that. I don’t think there is any relationship link with guanxi.”*

*“There is no neither advantage nor disadvantage of guanxi. Guanxi is friendship. We are good friends (between the public) so we have good guanxi. Please do not misunderstand guanxi and over-emphasis its importance.”*

*“I admitted that in the old days, China is very emphasis on guanxi. However, as you know, our government becomes more and more modernize in the past decades. You should not use the old concept to view China nowadays. We changed a lot. Now people can live under fair, equal and justice. The old guanxi no more exist in China.*

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*“We never accept gifts given by publics. Even the central government has announced that all government employees include central and provincial levels should not use their authorities to gain any advantages or benefits. We are their (public) servants. We are here to serve them. It is our job and duty.”*

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Telephone Interview 10

Name: Mr. Ji  
Occupation: Head of Purchase Department of an US based multi-national retail chain in Nanjing  
Education: MBA graduate  
Age: About 30 years old  
Location: Nanjing, Jiangsu Province

Background: Mr. Ji receives his undergraduate education from a very reputable university in China and MBA from the US. Mr. Ji joins the company since he has returned to China after his master study.

*“Guanxi is a very sensitive issue in our company. My supervisor always reminds me that we are a multi-national company and must do everything legal. Even there is a “cannot do” list printed in our staff handbook which include cannot receive gift from customer which exceeds RMB 100; and we need to pay our share when dine out with customers.”*

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*“Although most our managements are foreigners, they emphasize that no staff should mix up guanxi with our business. Even many times they repeatedly remind us our company cannot accept any guanxi in our business during meetings.”*

*“You know, my position is very sensitive. I am responsible for purchasing. There are lot of people want to sell their products to our company. If I cannot handle it carefully, I will be suspended and even lose my job. I therefore dare not have lunch or dinner with my suppliers.”*

*“Of course I have experienced lots of temptations. Not only they try to offer me cash, one of the suppliers even invite me to make a 10-day trip to the US and they pay for everything. Why don't I accept it? Come on; unless I want to lose my job, I don't even think about it.”*

*“When I negotiate with suppliers, almost most of them promise to give me personal rebate if I choose their products. I dare not. I told them that if they can give my company a further discount instead. Sometimes if I feel the supplier pushes me too much (offer me personal benefits), I told them directly that we did not do business in this way.”*

*“I know that many of them want to make guanxi with me. They many times ask me go out for dinner or coffee. Although they insist the functions were only limited to dinner or*

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*coffee and nothing more, I still reject those offers. They always tell me that they want to make friends with me. I told them that we are already friends.”*

*“I am young and like to continue to work for this company. I don’t want any “bad guanxi” will affect my career. Frankly speaking, I don’t like guanxi. If your products are competitive enough, I still will buy from you even we don’t have guanxi. How can I know all suppliers?”*

*“I think guanxi is now diminishing in China. Many of my former schoolmates and friends also don’t like guanxi. Only old generations, like my parents, still believe in guanxi. Guanxi is outdated.”*

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Telephone Interview 11

Name: Mr. Wang  
Occupation: Salesman of a Chinese computer software company in Shenzhen.  
Education: College graduate  
Age: About 30 years old  
Location: Shengzhen, Guangdong Province

Background: Mr. Wang is a salesman of a local Chinese software company based in Shengzhen. Mr. Wang is mainly deal with Hong Kong vendors. Mr. Wang travels to Hong Kong frequently, almost one to two times in a week.

*“It is hard to build guanxi with Hong Kong people. I have the feeling that they try to avoid me and do not want to deal with me. I don’t know why. Perhaps it is because of my pronunciation of Cantonese is not accurate enough. Many times I invite them dinner and karaoke but most of the time they reject me. Even we have dinner for the first time, they reject me next time. I have the feeling that Hong Kong people have prejudice on Mainland Chinese.”*

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*“I want to build good guanxi with them. I want them to buy my products. I don’t know why they reject free meals and entertainments.”*

*“I offer them meals and entertainments and they reject. What can I do? As a matter of fact, I can either give them more privileges and personal benefits if we can do business successful. However, even I don’t have that chance to tell them.”*

*“I know Hong Kong people are very practical and materialistic. I offer what they want and I get what I want from them. What’s wrong? You only can build up guanxi through meals and karaoke.”*

*“Guanxi is of course important and that is why I want to build good guanxi with my vendors. Guanxi is networking. More friends you know, more guanxi you have. If I know them and have good guanxi with them, I can sell my products to them.”*

*“Before I handle Hong Kong market, I was responsible for South China market. I was successful. Most of my clients are my friends and we have very good guanxi. How do I define good guanxi? I can talk anything with my clients, our families and daily life; we always dine out and have karaoke. I normally paid the bills. This is friendship.”*

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*“Yes. Sometimes my clients will ask me for some favors, such as helping them buy something special from Hong Kong when I travel there. It is piece of cakes. I normally do not charge them back if the items are not too expensive.”*

*“I don’t think guanxi is diminishing in China. What I will say is that it is just not popular in Hong Kong only. However, I have the confidence that since Hong Kong has returned to China’s sovereignty in 1997, Hong Kong will ultimate cope with Chinese traditions and accept our culture.”*



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Telephone Interview 12

Name: Ms. Sze  
Occupation: Community Relations Office of a Hong Kong non-profit organization  
Education: College graduate  
Age: About 30 years old  
Location: Hong Kong

Background: Ms. is a community relations officer of a Hong Kong non-profit making organization. Ms. Sze's main job duty is to raise funds for the organization and maintain good relationships with the community.

*“Guanxi is of course important in my job. My job nature is to deal with guanxi. I need to maintain good relations with the community and promote our image, so people and local enterprises are willing to donate to our organization and sponsor our programs.”*

*“My guanxi is unlike Chinese guanxi. You know what I mean. Here is Hong Kong and we are a public organization. We must do everything legal.”*

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*“I don’t treat my potential donor meals. Instead, I visit them at their offices, or just have coffee outside their offices. We are not profit making organization. Our donors know that they are doing charity work if they either give donations or sponsors to us.”*

*“We do not offer any reciprocal to our donors. Our donors know that they are doing charity when giving us donations. Of course, we offer them a certificate after their donations but I don’t consider it as any reciprocal.”*

*“I make friends with some of our donors. They are nice people. According to your term, yes, we have very “good guanxi”. However, our guanxi is based on our friendships; no material exchange has been involved.”*

*“I am not that powerful. How can I give them assistance? They are rich and more influential than I am. I have a very clear cut between job and personal life. I do not seek assistance or benefit from them. I think they will look me down if I ask them for favor. Our guanxi is limited to business.”*

*“I will not force them to give donations, even I cannot do so. All donates are voluntaries. Of course I will not, and cannot, give them any benefits or advantages in order to attract*

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*their donations. We are a charity and non-profit organization. What kinds of benefit or advantages that I can give to those rich people?"*

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Telephone Interview 13

Name: Mr. Lee  
Occupation: Human Resources Director of a multi-national bank in Hong Kong  
Education: College graduate  
Age: About 40 years old  
Location: Hong Kong

Background: Mr. Lee is the Human Resources director of a multi-national bank in Hong Kong. Mr. Lee's main duty is to help the company to recruit capable staff.

*"I know nothing about guanxi. However, I know it is bad thing."*

*"It is quite unusual. In the past, no one will approach me for asking me to employ his son or daughter. But in the past few years, I have been receiving phone calls from my business contacts on asking me to give their relatives jobs at my bank."*

*"Most of them are Mainland Chinese. I don't think HK people will do such approach. They know the game rules. I think those have who called me that don't know the*

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*procedures. Although I am the HR Director, I have no influence on hiring who and not hiring who. I just direct the relevant candidates to related department.”*

*“If you ask me what guanxi is about, I think this is guanxi so I don’t like it. We need to do everything under procedures.”*

*“Even something strange that they (people who called Mr. Lee) said they are my friends. Honestly speaking, many times I don’t know who they are. Some of them met me at business cocktail reception, or functions. We might have just exchanged our name cards and they claimed I am their friends. So strange.”*

*“Even few of them said they knew my boss, the Vice President of Operation. I then told them to contact my VP directly as I could not give them any help.”*

*“Why should I afraid of rejecting their request? We are professionals. I am doing my job. They should go through the recruitment process if they want to work for the bank. This is Hong Kong. Here is not China. If they want to complain about me because I don’t give their relative jobs, go ahead. Who cares? I even think my supervisor will neglect them as well.”*

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*“Our main duty is to screen all applicants at initial recruitment stage. If we find those candidates who have met the minimum requirement, we will then send their resumes to the related department and let their department head make the decision. We have no right to give job position to anybody. I think Hong Kong style HR is different from China’s HR department.”*

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Telephone Interview 14

Name: Mr. Mao  
Occupation: China's Certified Public Account  
Education: College graduate  
Age: About 30 years old  
Location: Shengzhen, Guangdong

Background: Mr. Mao is a Chinese CPA and a partner of his own CPA firm in China.  
Mr. Mao has worked for a local CPA firm after his college graduate and started his own CPA firm in 2009.

*“Guanxi is of course important to our business. There are so many different CPA firms in China. Why should clients give their business to you if you don't have guanxi with them? My definition of guanxi is we know each other, we are friends.”*

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*“Trust, it depends on what level of trust you are talking about. I think our clients must trust us otherwise they will not give me their business. However, I think trust between us is only limited on business.”*

*“Some of my clients become my friends, but as I said, there are different levels of friendship. My clients are only my business friends, not personal friends.”*

*“The difference (between business and personal friendship) is you will not tell your business friends about your family and personal matters. We will only talk about something superficial.”*

*“I need to treat my clients’ meals and give them gifts. This is part of our jobs. We chat, we are friends. But as I said, our chat topics are limited on social issues, sometimes political affairs but nothing personal. How can you talk to someone personal who you do not know too much?”*

*“Even I treat my personal friends meals and give them gifts, it is totally different from what I have treated to my clients. The big difference is the attitude. I treat my clients well is because they give me business. I just want to show my appreciation and want them to give me more business and refer me more potential clients in future. However, I don’t*



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*expect any thing from my friends if I treat them meals and give them gifts. We are friends. We don't talk reciprocal."*

*"It is not a matter of like it (business guanxi) or not. It is part of our job. We need to maintain a good guanxi with our clients. Of course, I prefer to stay with my friends instead of the clients if I can have any choice."*

*"As a matter of fact, it is hard to use meals and gifts to attract business in future. Most enterprises are more focus on services. If you cannot provide good services to clients, they will not come to you again next time even if you provide them meals and gifts. I think it is a trend now in China."*

*"This is also what we expect. We hope our clients appreciate our job performance and give us jobs continuously but not because we have treated them meals and gave them gifts. As a matter of fact, I have the feeling that some of my clients are not every eager to accept our meals and gifts."*

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Telephone Interview 15

Name: Mr. Chan  
Occupation: Mid-level Civil Servant of Hong Kong Special Administrative Region  
Government  
Education: College graduate  
Age: About 30 years old  
Location: Hong Kong

Background: Mr. Chan is a mid-level civil servant of Social Welfare Department at Hong Kong Special Administrative Region Government. Hong Kong returned to China's sovereignty in 1997. Mr. Chan has been serving the Hong Kong government since he graduated from college.

*“Unlike China, there is no guanxi here in our department. We are civil servant. Anyone who wants to become a civil servant needs to go through the standard hiring system. I trust the system and I don't think there is any exception because of guanxi.”*

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*“Now the Hong Kong media is very powerful. If there is any mistake that any government department has made, not only will they report it widely, they even exaggerate it. No one dare to use guanxi to take advantage.”*

*“I don’t feel there is any change, at least in my department, after 1997. We do the same routine work, go through the same procedures. No one come to me and asks for special treatment because of guanxi.”*

*“Perhaps it is because most people I deal with are Hong Kong’s lower or lowest class people, who do not have any guanxi, or their guanxi is not that powerful.”*

*“If you ask me whether I use guanxi in my job, probably yes, but I don’t think it is guanxi. For example, many times I need to refer some clients to different department because our department does not handle their particular issues. You know, you need to wait for a long queue for any government service. Sometimes I found the need of my client is somewhat urgent, I will then call up my friend in that particular department and let my client jump the line. Sometimes my friend will help me. It is not illegal because every officer has his or her power and discrepancy in arranging their cases. I won’t say my friend give me any “face”, I think my friend just sympathy with the client and wants to give him or her some*

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*immediate assistance. Of course, if I don't call my friend, my client needs to follow the queue and wait for a long time for the service."*

*"Of course I will not cold call any official in other department who I do not know and ask for special arrangement (jump the line) for my clients."*

*"We are friends. Of course they (Mr. Chan's friends in other departments) will not ask for reciprocal. We just want to help people. I don't think there is anything involve in unfairness. I don't know the clients. I just want to help them because they need urgent assistance."*

*"Of course I will give them (Mr. Chan's friends in other departments) help if they ask me. We are friends."*

*"Good question. I don't think I will give special assistance to anyone if it is requested by any officer who I don't know. I will ask them to follow the procedure."*

*"It is unfairness. Think about those who need urgent assistance but cannot jump the line, guanxi plays the difference."*

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Phone Interview 16

Name: Ms. Meng  
Occupation: Local hired officer of a foreign Government commercial agent in China.  
Education: College graduate  
Age: About 30 years old  
Location: Beijing

Background: Ms. Meng is a locally hired officer of a foreign Government commercial agent in China. Although Ms. Meng works for a foreign Government agent, she is considered as a local staff and does not enjoy any diplomatic treatment.

*“On the first day when I reported to duty, my supervisor seriously warned me that I could not use any guanxi to get any benefit in my job. If I do so, I will be terminated immediately without any warning. The word guanxi is very sensitive in this office. We dare not even to talk about it.”*

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*“As my main duty is to promote my host country’s products here in China, I don’t have too much power and cannot use any guanxi to influence anything. I need to report everything to my supervisor. Everything is very open in my job.”*

*“Yeah, many of my friends asked me to help them apply for a visa to visit my host country. Of course I can do nothing on this. First, my duty is trade only, and second, anything concerning visas is very sensitive. I told my friends that I could do nothing on this but some of them do not believe me. They thought I should have the influence because I work for the Consulate.”*

*“My supervisor dislikes guanxi. He told me that the office runs by rules and procedures and emphasized that we are government agent and should do everything legal.”*

*“I really learn a lot from my job. It is totally different from what I have experienced. The working atmosphere is totally western and people are very straight forward. Although many of my colleagues are foreign expatriated diplomats, we never talk about guanxi in this office.”*

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*“One time when I called a local company and asked them to receive a foreign company who is looking for sales agencies here in China, the local company thanked me a lot and wanted to give me some rebate. Of course I stopped it. As a matter of fact, I pick that company randomly, from yellow page only.”*

*“It is very common that both my relatives and friends over-estimate my guanxi here in my job. They always think that since I am working for a foreign government agency, I have many good guanxi and can access many resources. It is not true. It is only a job.”*

*“No. My foreign clients who seek distribution services here in China never offer me any benefit even though I have successfully help them locate a distributor. On the contrary, many Chinese local companies which I have contacted, regardless whether they have gotten the distribution right from my foreign clients always call me up and want to maintain guanxi with me. What I mean by guanxi here is they always invite me for meals and attend special functions, such as their company annual dinner, birthday parties, etc. Of course, I reject them all.”*

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Telephone Interview 17

Name: Mr. Li  
Occupation: Customs Officer of Hong Kong SAR Government  
Education: College graduate  
Age: About 50 years old  
Location: Hong Kong

Background: Mr. Li has joined the Hong Kong Customs Department since college graduation. Mr. Li has been relocated to different Hong Kong ports. Currently he is the Chief of a sub-department and handles Departmental internal affairs.

*“Many people, mainly Mainland Chinese, tell me they have good guanxi with who and who, especially when they were caught because of smuggling. One guy even told me that he knew my Director-General very well and asked me to release him when he was caught smuggling by me. Of course I neglect him.”*



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*“One time I caught a guy at sea who tried to smuggle cigarettes into Hong Kong. When I caught him, he offered me HKD 80,000 and told me he knew my direct supervisor and asked me to release him. I asked him the name of my supervisor but he could not name him. I told him that I would charge him for bribery if he did not take back that HKD 80,000 immediately. These kinds of temptation and boasting happen frequently. You must stand firm.”*

*“I trust the system. I think the reason why I have been promoted to currently position is not because of guanxi. As a matter of fact, I don’t have any good guanxi in the department; it is because of my performance.”*

*“I have no comment on the Chinese customs officers, although I know some of them through exchange programs... Yes, no comments, not even a word.”*

*“As I said, I trust the Hong Kong value and system. Although we are part of China, I sincerely believe under the one-country-two-systems model, Hong Kong will not be affected by Chinese guanxi, especially at governmental level. It will be a big tragedy if Hong Kong loses her righteous and impartial values.”*

*“I know guanxi is important in China, especially within the government. I think guanxi is who you know and how deep the relations you have with him or her. Fortunately, it does*

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*not happen in Hong Kong. I think it is a bit unfair if someone gets promoted only because of his or her guanxi but not the performance. It will affect staff morale.”*

*“I try not to maintain any relationship with my Chinese counterparts (Chinese Customs Officers). I contact them purely because of job purpose. You know, it is very sensitive. I try not to even know, or hear, what they will do or have done. I just do my part of my job. If necessary, I will pass cases, with detail information, to them and let them handle them. Once I have passed the cases to them, I will not touch it anymore.”*

*“I am happy with my job. I like my staff, supervisors and colleagues. I very much treasure the working environment here in Hong Kong, a clean, fair and open Government structure.”*

*“How do I foresee the department in the future? Well, I am going to retire in 6 years. It is not my business any more. However, frankly speaking, I can feel that the environment is changing. I can say, with more and more influence from Mainland Chinese Government, our existing Hong Kong values may change. Guanxi, I think will become very important in Hong Kong in future. That is what all I can say.”*

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Telephone Interview 18

Name: Mr. Fu  
Occupation: Chief, Purchase Department of a State Owned Enterprise in China  
Education: High school graduate  
Age: About 50 years old  
Location: Beijing

Background: Mr. Fu is a local Chinese and Chinese government employee. Mr. Fu has been working for a central government agency first, then transferred to different SOEs (State Owned Enterprise). Currently, Mr. Fu is the Department Head of Purchase Department of a large SOE in Beijing.

*“We conduct all purchases in accordance with instructions given by my supervisors. They pick the suppliers and I do all the liaison work. Sometimes I have influences in choosing suppliers but not frequently. My supervisors are my General Managers and Directors”*

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*“I don’t know whether there is any guanxi that exists in choosing suppliers, I just follow the instructions and do my job. I know sometimes my supervisors even receive instructions from a much, much higher level.”*

*“Of course many foreign companies want to sell their products to us. It is very common that we need to visit their factories overseas to do some investigations before we decide to choose any suppliers. Normally they are responsible for all local expenses including hotel room bills but not air-tickets. I won’t consider this as a kind of bribery but just normal procedure.”*

*“Of course meals and gifts are unavoidable during the visits. It is not a matter of guanxi. It is only part of the job. We may not pick them as suppliers even if they have treated us to good meals and give us gifts.”*

*“What kinds of gifts we have received? Sometimes watches or brief cases. However, they know that even if they offered us gift, we cannot guarantee that we would give them the contract.”*

*“I don’t consider it is any kind bribery (receiving gifts), they just want to show their friendship to us. We are friends.”*

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*“I don’t know whether such gifts or meals help them to receive the contracts or not. As a matter of fact, I am not responsible for picking up suppliers. However, I won’t say it (gifts and meals) does not work. Sometimes it may help if the supplier is on a border line.”*

*“Of course we will give preference to our existing suppliers when placing second orders. We are friends, we know their product qualities and prices, and it is very logically that we ask them to supply us again.”*

*“Our existing suppliers visit us frequently. Many times when they have new product developments, they invite us to visit their factories overseas.”*

*“To maintain a good guanxi with our existing suppliers is important. We know their company, we know the people, and we therefore need not to spend extra efforts to source new suppliers.”*

*“When they visit us, we treat them good meals as well. We are friends. We also present gifts to them mostly are our traditional Chinese art crafts. We do not pay for their air tickets or hotel room bill. It is not a matter of fairness or not by not paying their hotel room bills, it is because we normally do not do that.”*

*“I think the reason they pay for our hotel room bills when we travel is because they are very generous.”*

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Telephone Interview 19

Name: Mr. Wu  
Occupation: Front Desk Manager, a local 5-Star hotel in Shanghai  
Education: College graduate  
Age: About 40 years old  
Location: Shanghai

Background: Mr. Wu is a Front Desk Manager of a local 5-Star hotel in Shanghai. The hotel is owned by the Shanghai City Government. Mr. Wu used to work for a department at Shanghai City Government and was transferred to the current position in 2008.

*“China is a country of guanxi. How can you say guanxi is not important in China? Many times you even cannot get a room at my hotel if you don’t have guanxi.”*

*“Our hotel is a government hotel. Besides walk-in clients, we mostly serve guests referred by the Government, including central and city level employees. (Chinese) Senior Government officials normally stay at our hotel, as well as foreign government senior officials, when they travel to Shanghai.”*

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*“Guanxi of course works here in this hotel. What type of room will give you depends on your ranks and guanxi. Normally Chinese government officials pay the standard room rates. We normally upgrade their room level depending on their ranks. However, if you have good guanxi, we will upgrade you to a better room even you are a low ranking officer. Many times we are fully occupied. However, if you have good guanxi, we still can squeeze a room for him or her.”*

*“Sometimes we need to handle some cases carefully. They are government officials. We have to please them. Sometimes a government official refers a guest to us, and at the same time another government official also asks us to host another guest, but we do not have enough rooms. We will make the decision to who is the guest should we accept depends on the guest’s guanxi level with the particular officer and the officer’s seniority. It is an art actually.”*

*“Our guanxi is very simple. It depends on who you know or are related to. Many times we receive calls from our city government to ask us to give special treatment to Mr. so and so. Of course we will pay special attention to that particular guest. However, there is some trick. Special treatment level depends on who give us the call, how high level the caller is. If the caller is at high rank, we will give more special treatment to that guest.”*

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*“Normally the guests who have received special treatment do not give us any reciprocity. I don't know whether they have given any reciprocity to the one who refers him or her to us, but definitely we have never received anything from them.”*

*“Sometimes some guests behave very arrogant and always remind us he or she knows who and who. Even some of them are only low rank officer but they have ‘good background’, what can you do?”*

*“Although there are some guests who just walk-in and are not referred by any government officials, we know them well. They are either successful business people or government officials. Although they are not referred by our seniors, we still give them special treatment because they are influential. We know they have good guanxi with senior level officials.”*

*“Guanxi is very important, especially within Chinese government network.”*



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Telephone Interview 20

Name: Mr. Hsu  
Occupation: General Manager of local Chinese import and export Company  
Education: College graduate  
Age: About 35 years old  
Location: Shanghai

Background: Mr. Hsu graduated from a local Chinese university and received his MBA in Australia. He worked for local Chinese companies and never worked for any foreign owned company.

*“I understand guanxi is a Chinese tradition but I think it is diminishing nowadays.”*

*“It depends on what kinds of guanxi you are talking about. I don’t think guanxi has given me any help in my business. People place more emphasis on product quality nowadays. Even if you have good guanxi but no good product quality, you still cannot conclude the business.”*

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*“Of course I know some powerful and influential people. Can they give me any help? It depends. However, it definitely does not work if I use their guanxi and try to sell poor quality products to my clients.”*

*“You can feel the changes here in China. Although my parents still insist on the importance of guanxi and introduce their friends or guanxi to me, I doubt its usefulness. I consider it as more a courtesy and respect rather than called guanxi relationship. I don’t know my parents’ friends and they don’t know me. Where is the guanxi?”*

*“Guanxi culture is not popular in our company. As we need to deal with many foreign companies, it is useless if you talk about guanxi with them, even they don’t know what guanxi is about. The foreigners are very practical. They only focus on price and quality.”*

*“Of course sometimes my suppliers want to treat me “good”, you know what I meant. But I cannot accept it. We source our products based on price and quality. Our clients will not buy from us if the price and quality are not right. My boss will come to me if I would have purchased something that my foreign clients do not like. How can I respond to my clients who have treated me ‘good’ but I finally do not buy their products? I don’t take this kind of risk.”*

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*“Good question. Even if I would have decided to buy from that particular supplier, I still will not accept their offers (benefits). Business is business. I don’t think it is reasonable and moral if we mix business with personal interests.”*

*“Why should they want to make friends with me? If it is merely because of business, I would rather not maintain this kind of friendship. Yes, you are right. It is hard to find real friendship in business world. Guanxi is friendship. I don’t want any bad guanxi.”*

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Telephone Interview 21

Name: Ms. Chin  
Occupation: General Manager of foreign owned import and export Company  
Education: College graduate  
Age: About 35 years old  
Location: Beijing

Background: Ms. Chin graduated from a local Chinese university and has been working for this current company since her graduation.

*“I don’t like guanxi but you still have to deal with it. What can I do? I have much experience about guanxi, and all of them are bad.”*

*“Last time my container was blocked at the customs during Chinese New Year. The customs told me that it would take a long time to be released because of the long queue. He implied to me the problem could be solved, that is we could jump the line, if we ‘did’ something. He did not elaborate what ‘did something’ means but I understood what he*

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*said. We never do this kind of thing (according to Ms. Chin, it is bribery). We don't have guanxi inside the customs. What can I do? We cannot complain as any complaint will only make the case even worse. We only can sit and wait."*

*"We never construct any guanxi with customs so we don't have any guanxi there. We do everything legal. However, you still have trouble if you don't have any guanxi."*

*"Guanxi, to me, is really annoying. I do not want to deal with people. Everyone has his or her own life. I don't want to make my life so complicated."*

*"There are so many bad examples. As mentioned last time the Chinese Customs hold up our container, we finally asked our custom broker to give us help. However, I told my custom broker frankly that we would never give any gift or money out. Finally, our container was released, but the Chinese custom released it on the Chinese New Year Eve. We lost a lot of money on that issue. All transportation companies were on holiday already and we could not deliver the goods to our retail outlets outside Beijing area. We need to motivate all our local staff, use our own automobiles or whatever transportation means to distribute the goods to local Beijing retails outlets. We also need to pay a lot of penalties to our different vendors because we could not supply them products for Chinese New Year sales. Even our custom broker said it was the Customs Officers that gave him 'face'; otherwise our container would be hold till after Chinese New Year. "*

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*“I don’t want to involve any guanxi. If I have to and cannot avoid it, I will let my agencies handle it. I really tire and feel sick of it.”*

*“There are many other bad examples which I do not want to talk about it. They are nightmare to me. Good luck to your guanxi research and I hope your research will arouse the attention of the public to see how bad the consequence is of guanxi.”*

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Telephone Interview 22

Name: Mr. Ho  
Occupation: Manager of a Hong Kong based sports equipment wholesaler  
Education: College graduate  
Age: About 30 years old  
Location: Hong Kong

Background: Mr. Ho received his college education in Hong Kong. Mr. Ho has served different local companies before he joined the current company.

*“This is what I always worry about. We Hong Kong people do not want the Chinese bad behavior to affect Hong Kong, such as Chinese guanxi. You know Hong Kong used to be ruled under the British and we used to have a clean Government. Business transactions are very open and people do business legally.”*

*“To me, Chinese guanxi means meals, corruption and gifts. I may be wrong but that is my impression on Chinese guanxi. Of course I do not like it.”*

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*“Fortunately even though I need to do business with Mainland Chinese, I need not to deal with any guanxi with them. We normally communicate through e-mails and phone calls. Sometimes my Mainland Chinese clients will visit Hong Kong and pay us a visit. We normally treat them to meals, but not very expensive, and that is it. If they want to have sightseeing, we will introduce them travel agencies and let them handle it themselves.”*

*“I don’t think we need to please them or maintain a good guanxi with them. Of course they are our business partners and we treat them good, but not that of what I expect in a guanxi relationship. Why do we not build up good guanxi with them? Why should we? Can good guanxi guarantee our sales? I don’t know. But I just do not like, nor want, to build up guanxi with them too deliberately. Business is business. If you value our products, buy it, otherwise, forget about it.”*

*“Sometimes our Mainland Chinese clients will ask me for a better price. They will show off how good guanxi they have in China with someone who are rich or powerful and tell me that if I can offer them a better price, they will introduce those good guanxi to me when I go to China.”*

*“Of course I don’t believe it. Even if it is true, I don’t need those good guanxi. Honestly speaking, I think guanxi is a bit ugly.”*



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*“Think about Hong Kong in the old days. At that time, no one will come to you and say buy my products, or give me some advantages because I know who and who. It is ridiculous. Who cares who you know?”*

*“Some of our equipment is purchased from China. We do not maintain any guanxi with our suppliers. We buy their products because their requirements meet our demands. Even one of our China suppliers is sourced via yellow page. I don’t know them and they don’t know me. They sent us samples and quotations, we found the prices and qualities are right, then we do business with each other. We have never met each other. We only communicate through e-mails and phone calls. No guanxi exist between us.”*

*“It is hard to say whether my Chinese supplier want to maintain guanxi with me or not. Of course, the owner has invites me to visit their factory a few times but I don’t think it is necessary. I can feel that the owner and his staff treat me very nice. I think it is because we give them business. It is very natural that they should treat us politely and want to maintain a good relationship with us.”*

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Telephone Interview 23

Name: Ms. Ping  
Occupation: Business Consultant of an US based consulting firm  
Education: College graduate  
Age: About 30 years old  
Location: California, USA

Background: Ms. Ping is now working for a US based consulting firm. Ms. Ping migrated into the US in 2002 from Guangzhou. Ms. Ping received her MBA in the US.

*“Although Americans do not like to talk about guanxi, I think it is still important. Of course unlike Chinese, Americans are more straight forward and more open. Guanxi many times cannot apply onto them.”*

*“I am currently member of many different associations. In my professions, I need to develop my social network and know more people.”*

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*“I think guanxi is same as social network. You build up a relationship with someone and then become his or her friends. Such relationship will help you generate new business or get referrals.”*

*“Once I have made acquaintance with someone, I will follow up our relationship. I will give him or her a follow up call and see if we can develop some guanxi.”*

*“What kinds of guanxi do I want to develop? Of course, I expect them to give me new business and referrals. It is not necessary to make them as good friends to me; just a normal level of guanxi is enough.”*

*“You know, unlike China, it will be a bit awkward if you invite someone you just know for lunch or dinner here in the US. Even many American Chinese are Americanized. It is hard to build guanxi with them. I think it is due to cultural difference.”*

*“Unlike Chinese, even though you have made good friends with someone else, or in Chinese saying, we have very good guanxi; he or she still does not give you any help when necessary. Guanxi is very fragile here (the US).”*

*“I have many friends in China. When I am in China, if I need any help, I can ask my friends to give me help and almost 100% of them are willing to help. This is the power of guanxi. Good guanxi can give you lots of help.”*

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*“There are pros and cons of guanxi of course. However, guanxi is part of our Chinese traditions. We must respect our culture. That is why we are Chinese. Through guanxi, we can bond our relationship much closer and act like a family. We help each other.”*

*“Although now I am holding a US passport, I still consider myself as a Chinese. We have so many good cultural and traditions. Guanxi is one of them. Through guanxi, we shorten distance between people and can behave like brothers and sisters.”*

*“I know many people link guanxi with corruption and bribery. I don’t think so. I think Chinese guanxi is like an art. You cannot touch it, but can feel it. You cannot prove it, but it really exists. Guanxi can be very useful and also can mean something when you need it. Guanxi is knowledge.”*

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Telephone Interview 24

Name: Mr. Smith  
Occupation: Loan Manager of an American Bank  
Education: College graduate  
Age: About 40 years old  
Location: California, USA

Background: Mr. Smith is an American. He is a loan manager of a US based bank. Mr. Smith duty is to identify qualified clients and then give them bank loans.

*“I have very good guanxi with all my clients, especially my Chinese clients. They are very nice and friendly. I like Chinese food very much. To my understanding, Chinese guanxi means relationship. I know Chinese like people to give them face, or respect.”*

*“I don’t understand what you mean by guanxi cultivation. Those Chinese clients are my friends. We have very good relationship. We have very good guanxi. What I mean good guanxi is we talk, we communicate, and we respect each other.”*

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*“Normally we don’t offer meals to clients. We talk business either at their offices or my office. Everyone has his or own family, I don’t want to infringe someone’s family life.”*

*“We treat all our customers the same. However, I find Chinese customers like to find similarities. For examples, when I told them that I have been to Shanghai, they always ask me my experience in Shanghai. We have good topics. I think this is guanxi.”*

*“When I ask my Chinese clients do we have very good guanxi, they always say yes. I think I am right.”*

*“No, we never do that. I sometimes will give some company premiums, such as pens or souvenirs, to my clients. I never use my money and buy them gifts. What for?”*

*“No. I don’t need their help. What kind of help can they give to me? I don’t want to make our relationship so complicated. The only help sometimes I ask them is where I can find good Chinese restaurants.”*

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Telephone Interview 25

Name: Mr. Lam  
Occupation: Deputy General Manager of a Chinese State Owned Enterprise  
Education: College graduate  
Age: About 40 years old  
Location: Hong Kong

Background: Mr. Lam is a Hong Kong guy and received his education in Hong Kong. Currently is working for a Chinese State Owned Enterprise Hong Kong branch.

*“Of course I understand how useful guanxi is. I am now working for a SOE and experience guanxi every day. Even I get this position because of guanxi.”*

*“Last time when I was looking for a job, my former client who is a GM at a big SOE in China just introduced me to my current boss. Even though my profession is finance and*

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*this job requires the candidate should have marketing background, my boss still hired me. It is fine with me because I think I can learn from the job and handle the duties.”*

*“The other example is the last time I applied for mortgage for my newly purchased apartment. I deliberately approach a Mainland Chinese bank. As a matter of fact, I don’t know the loan manager. I just walked in and filed my application. However, when the loan office knew I was the DGM of my company, he was so nice to me. He told me that he was once met my boss at a cocktail reception and asked me to send his best regards to him. He even gave me a very exceptional mortgage rate and long re-payment years, which I did not ask for.”*

*“The loan manager treated me very nice. He even called me few times in between my loan application process. Frankly speaking, I don’t like this kind of guanxi. Although I enjoyed such benefit, I still think that I did not deserve it. It is a bit unfair to the others.”*

*“In my company, you must make sure you know who is who. What I mean is who is whose wife, brother, sister or relatives regardless their positions. You may be in trouble if you do not understand such relationship. I made a mistake one time. Last time I saw a lady, at around 10:00a.m in the morning, reading her newspaper and eating her breakfast at her desk, I therefore approached her and asked her to stop and start to work. You know how she reacted? She stared at me and just wrapped up the newspaper reluctantly. Right*



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*after I had returned to my office, my secretary rushed in and told me seriously that I was in trouble. She told me that the lady was the wife of our Second Vice President, we have six vice presidents, and how dare I challenge her.”*

*“I may quit from the job soon because I really don’t like the culture. I think I cannot fit in and cope with such a culture. It is strange to me. Even sometimes I found my subordinate have done something wrong, I could not challenge them because of their background. Those Chinese expatriates who work in this company must have very good guanxi in China, otherwise they could not be sent to Hong Kong and work here.”*

*“Yes, this is what I worry about. I am afraid that this kind of guanxi culture will become popular in Hong Kong. We Hong Kong people don’t like this kind of culture.”*

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Telephone Interview 26

Name: Mr. Chien  
Occupation: MBA student at a local Chinese university  
Education: College graduate  
Age: 23 years old  
Location: Guangzhou, Guangdong Province

Background: Mr. Chien is an MBA student at a local Chinese university where he got his BA.

*“We are the new generations. We should not inherit bad and out dated Chinese culture. We are now in 21<sup>st</sup> century. We compete so we can success. No. I don’t like guanxi and it should not exist anymore.”*

*“Guanxi brings unfairness, briberies and corruption. Just imagine, if a company employs someone who is incapable but just because of guanxi, such employee will affect the effectiveness and efficiency of that company. Is it fair?”*

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*“Will foreign business people talk about guanxi with you? We talk about business strategies; we talk about how to compete. I agree that guanxi works in the old days in China, but not nowadays. Chinese have learned that guanxi would jeopardize our business development. We are now one of the greatest economic powers in the world. We must be modern.”*

*“Guanxi will finally fade out from China. Chinese people will ultimately find that guanxi can only bring negative impacts to us. China is approaching a more structural, open and competitive business era.”*

*“I will not use any guanxi in my future. I will only use my talent, capability and knowledge to find jobs and become successful. I need not to rely on any guanxi to be successful.”*

*“Of course I consider my relationship with my relatives or classmates are guanxi. They are just a kinship or relationship. What I mean guanxi is you receiving benefits which you do not deserve but just because you know who and who.”*

*“For example, you know it is very competitive to be enrolled in this MBA program. I competed with thousands applicants and finally I was enrolled. Do I have any guanxi*

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*with the university? No, I don't. So far I don't know any of my classmates that they were accepted by this program because of guanxi."*

*"Yes I read the news (the news about a guy used guanxi and get cheap land). I think it is an exception. You know China is so big and with a huge population, such an incident cannot be avoided. However, I think it is a trend that guanxi is diminishing in China as we become more and more powerful and open to the world."*

*"I will not say I am the future of the country. However, our generation will play important roles in China's future. We are young, we are educated, and we know the modern way of doing business. If we all do not practice guanxi, how guanxi can still exist in future?"*

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Telephone Interview 27

Name: Mr. Bei

Occupation: A high school teacher at a local Chinese high school who teaches English

Education: College graduate

Age: About 50 years old

Location: Beijing

Background: Mr. Bei received his undergraduate and master degree from local Chinese universities. Mr. Bei has never studied abroad.

*“I teach my students to respect Chinese culture as we are Chinese. Although Chinese culture may not fit today’s environment, it doesn’t mean that we need to deny it. The culture is our heritage. We need to sustain it. Guanxi is part of our culture that needs to be sustained.”*

*“Guanxi itself is not bad. For example guanxi exists among our kinship, our relatives and friends. We Chinese are a nation of harmony and peace. We respect each other,*

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*especially seniors. We feel good if we can find someone who has some similarities, such as coming from the same home town; speak the same dialect, etc.”*

*“Now many people link guanxi with corruption and bribery. It is too sad. Guanxi itself is purely a relationship. I feel so bad that now many people get a bad feeling if anyone talks about guanxi. It is not the case.”*

*“It is so sad that nowadays many young (Chinese) people boast the superior and advantages of western culture and deny our traditional Chinese culture. I do not negate western culture and even recognize there are many merits in it. However, it does not mean they are all good. Same as Chinese culture, are they all bad? I doubt it. I think the young people are too subjective.”*

*“Guanxi is important in Chinese culture. Through guanxi, we bond our relationship. We can be one family, in general, through guanxi networks. It is harmony, the crucial part of our Chinese culture.”*

*“When I am teaching, I emphasize to my students that they should not forget Chinese culture even though they are studying English. Regardless how good English you can speak and write we are still Chinese. We cannot deny our whole Chinese culture only because of very little bad culture.”*

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*“I don’t think guanxi is bad. As I said, it was because many people misuse it so it creates itself a bad impression. Can you deny you have guanxi with your family? Do you think there is guanxi that exists in your friendship? Guanxi is not a bad thing.”*

*“I know what you mean. Yes there are many people who use guanxi to take advantages, which involve corruption, bribery, unfairness and unrighteousness. This is true. But the problems come from the people who misuse guanxi. Guanxi itself is a neutral element. The word guanxi only describes the relationship between one and another.”*

*“Don’t just always follow the western thoughts and follow what they have said. Study hard about our Chinese culture. We have five thousand years history. How could those traditions and heritages be sustained if they are all bad? Use your own judgment.”*

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Telephone Interview 28

Name: Dr. Kao  
Occupation: A local Chinese university professor who teaches Chinese Literature  
Education: Ph. D.  
Age: About 60 years old  
Location: Xiamen, Fujing Province

Background: Dr. Kao receives his Ph. D from a local Chinese university. Dr. Kao did all his schooling in China and has never studied abroad.

*“I think guanxi is becoming less important nowadays. It was once very important, but it is now diminishing. For example, I have been teaching at this university for almost 20 years. In the old days, I found there was many teaching staff, from lecturers to department heads, who got their positions because of guanxi. But now, it becomes very rare. I won’t say there is none, but it is very little example. We even recruit from worldwide if we need a new professor.”*



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*“I think there are many reasons that guanxi is diminishing in China. Let me use the same example of our university. Nowadays students are very demanding. They will protest if the teaching quality is not up to standards. You cannot handle the students if you are not capable and just because of guanxi. Secondly, although our university is not a world class university, we are very reputable in China. The university needs to maintain our teaching quality and academic standard. We need capable and excellent professionals. Thirdly, China becomes more and more open. Too much guanxi existing in our university will generate public attention and eventually will bring us trouble.”*

*“It is hard to say whether I like guanxi or not. First of all, regardless whether you like it or not, guanxi exists and it appears in your daily life. I think the question is how you react to it and what your attitude is. To me, guanxi is not a bad thing. But if it involve in benefit or interest transaction, then I won't do it.”*

*“Maybe you will find me a bit traditional because I study and teach Chinese Literature. However, I don't think I am too traditional. I like western culture, I like new things. According to my understanding, many foreigners misunderstood our Chinese guanxi. Foreigner always link guanxi with bribery, corruption, interest transaction, etc. They may be right but it is not all of guanxi.”*

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*“Guanxi can also bring good results. Last time my friend needs to make an urgent trip to overseas. However, he has never applied for passport. You know it takes about a month to apply for a new passport in China. It is because he has guanxi, he got his passport in 3 days and he made the trip.”*

*“I think the current rapid development of China has shown the foreigners that China is not a country of guanxi. We sent human beings to space, we boost up our economy to big enough to compete with world powers, and we build up our military strength to prevent any possible invasion. All these achievements need capable people. If China only depends on guanxi to recruit people, we cannot reach such success.”*

*“Come back to your question. I think guanxi is diminishing in China in general. We cannot afford to make too many mistakes. Everything must be regulated, formal and impartial, in order to compete with the world and bring effectiveness and efficiency.”*

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Telephone Interview 29

Name: Mr. Jiang  
Occupation: A junior civil servant at Ministry of Health.  
Education: College graduate  
Age: 24 years old  
Location: Beijing

Background: Mr. Jiang joined the Government in 2011. He was recruited through the Chinese Civil Servant Examination. Mr. Jiang graduate from a local Chinese university.

*“I know guanxi exists in China. Some of my friends and relatives thought the reason why I was recruited to become a civil servant was because I had good guanxi. It was totally wrong. I fight against hundred thousands of candidates and won this position by myself. I know that many people think you must have guanxi if you want to become a civil servant. However, according to those newly recruited civil servants I know, they do not have any guanxi.”*

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*“Many people congratulated me and want to make some sort of guanxi with me. However, I told them that the old day had passed and now the story is not the same as before. The Government is more open now and the public recognise their rights. The public will challenge the Government if they assume there is any unfairness or infringement of their rights. You cannot use guanxi to settle everything now.”*

*“You know, the Chinese rules and laws are very rigid, regardless whether they are implemented or not. I don’t want to take any risk. I had studied hard to get this job and don’t want to lose it.”*

*“I am still new to the department. My supervisor treats me good. I don’t cultivate any guanxi with him deliberately. I just do my job and he does his job.”*

*“I am an internal staff and don’t need to deal with the public, so I am rarely invited for dinner, and of course, I am such a low rank worker and no one will pay attention to me.”*

*“Some of my colleagues experienced that their friends or relatives ask my colleague to do some favor for them by using our influence. My colleagues dare not to do it because they are afraid that there would be consequences. They suggested their friends and relatives to go through proper procedures instead. I support my colleagues. We are government employees and we must not use our authority to do anything improper”.*

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*“One time my friend’s father was in hospital. My friend was not satisfied with the services of that hospital and wanted to change to a better one. However, the hospital which my friend wanted to transfer his father to is always full. My friend called me and asked me whether I could use my guanxi and let his father be moved. I told him that I could not do so. First, I do not know anyone in that hospital, so I have no guanxi there. Second, it is very risky that if someone knows I exercise my influence and let my friend’s father jump the line, I may be in trouble. Thirdly, I really don’t know how powerful I am, and whether I have such influence. I therefore turned down his request.”*

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Telephone Interview 30

Name: Mr. Wei  
Occupation: General Manager of a local Chinese Furniture Manufacturer  
Education: College graduate  
Age: 30 years old  
Location: Shanghai

Background: Mr. Wei receives his college education from a local Chinese university. Mr. Wei has never studied abroad. Mr. Wei is a Christian. Mr. Wei started his Bible study when he was in college. Mr. Wei's religious belief was initiated by a Korean missionary who has been preaching in China since 1995.

*"I know guanxi exists in China. I know guanxi is something bad. However, I will never use it because I am a Christian. I am demonstrating to my counterparts that we Christian still can be very successful in business even though we do not use guanxi as anything illegal."*

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*“We never resort to those unfair and illegal activities. We will use all proper way to get what we need. We will not use guanxi and we will do everything legal.”*

*“For example, last time we faced a water supply problem in our office. There was no water in our building. I filed the complaint with the local water department. Once of the officers came and told me that there was a long queue in our building waiting for repair. He implied to me that if I could give him some money, he could fix our problem with high priority. I told him that I would wait and follow the proper procedure. I even told him that I was a Christian and would not do anything unethical and illegal.”*

*“I know the owner of the company which sits on the 6<sup>th</sup> floor. The owner paid nothing but the water department gave him the very first priority to fix his unit. It was because the owner was a good friend with a Section Chief of the department.*

*“I understand that guanxi is important in China, but it does not justify using it. By using guanxi to achieve something, it will create unfairness and injustice, which against Biblical principles.”*

*“I want to influence my clients. I want to tell them that even though we face lots of difficulties; we still survive without doing any unethical and illegal activities. I would like to let you know that in my company, every staff knows our principles. We employ every*

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*staff through open recruitment. We sell our furniture to all our vendors through proper channels. Our sales people never take rebates from any client. We are very straight forward on that. We do not accept guanxi in our business.”*

*“One time one of my vendors asked me to supply him a cheaper price because he knew my boss. I told him to contact my boss directly. If my boss would have agreed to sell him in a lower price, then I would follow. Otherwise, I asked him to buy at the prices we offered.”*

*“Guanxi cannot be promoted anymore in China. Guanxi is not righteous. We should love each other and treat everybody the same.”*

*“As a Christian, it is my duty to perform in accordance with what the Bible has said. It is also my responsibility to tell people that they should behave with righteousness and dignity. Everyone should perform in a proper way and no short cut.”*