

Social Exchange in China: The Double-Edged Sword of Guanxi

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ABSTRACT. We present two studies that examine the effects of guanxi on multiple social groups from the perspective of Chinese business people. Study 1 ($N = 203$) tests the difference in perceived effects of six guanxi contextualizations. Study 2 ($N = 195$) examines the duality of guanxi as either helpful or harmful to social groups, depending on the contextualization. Findings suggest guanxi may result in positive as well as negative outcomes for focal actors and the aggregate.

KEY WORDS: guanxi, China, social exchange, social capital, favors, bribery

Introduction

Business scholars emphasize the importance of cultivating social ties and connections within and between business organizations. The value of networks for acquiring resources is theorized and has been empirically tested at the level of employees, boards of directors, business suppliers and between firms

and governments (Adler and Kwon, 2002; Bain, 1997; Carpenter and Westphal, 2001; Seibert et al., 2001; Sparrowe et al., 2001; Xin and Pearce, 1996). Guanxi, a system of social ties in China, is the recent focus of scholarly research and had been empirically examined as an antecedent to firm and joint venture performance (Luo, 1997, 2001; Park and Luo, 2001; Peng and Luo, 2000) and as an effective substitute for formal institutional support (Luo, 2001; Xin and Pearce, 1996). Practitioner publications portray guanxi as a necessary asset in business; managers are 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 (Ahlstrom et al., 2000; Pearce and Robinson, 2000; Tsang, 1998; Wall, 1990). Possessing guanxi may allow a manager to increase business sales, avoid fines or taxes, receive business permits or receive information on proprietary technology (Ahlstrom et al., 2000; Pearce and Robinson, 2000; Xin and Pearce, 1996). Few empirical studies, however, consider whether some of the practices associated with guanxi stand in the way of performance.

One reason why guanxi researchers may not address this question is that empirical tests of guanxi and firm performance rarely address the actual practices involved in the establishment and maintenance of guanxi (Luo, 1997, 2001; Park and Luo, 2001; Peng and Luo, 2000). For instance, many guanxi studies infer specific meaning and sentiment into the mere existence of a social tie without consideration of what is actually exchanged. Park and Luo (2001, p. 457) note that, "the rules of reciprocity in guanxi establish a structural constraint that curtails self-seeking opportunism and preserves social capital within the existing structure." Yet, evidence of a system of social

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exchange based upon reciprocity does not guarantee its effectiveness or a reduction of opportunism. It depends, in part, on the nature of the exchange and the context. Granovetter (1985, p. 491) describes how the existence of ties does not ensure that trust exists. He explains, "While social relations may indeed often be a necessary condition for trust and trustworthy behavior, they are not sufficient to guarantee these and may even provide occasion and means for malfeasance and conflict on a scale larger than in their absence." Without an understanding of the specific nature of the exchange, it is difficult to infer much of interest from the mere existence of the tie.

Theoretical foundation

Our theoretical arguments for conducting this investigation are grounded in two research perspectives. We apply research on social exchange, social capital and in-group identification, which predict that *guanxi* will result in helpful as well as harmful outcomes. We also apply normative theory in business ethics, which asserts that normative analyses of international business practices must consider the attitudes of those who belong to the local community. Thus, in order to judge whether *guanxi* is harmful or helpful, we need to gauge Chinese managers' attitudes towards practices associated with *guanxi*. Both theoretical perspectives provide the motivation for our empirical studies.

Social capital

Social capital, according to Adler and Kwon (2002, p. 17) is "understood roughly as the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action." *Guanxi* is also described as social relations or ties, which establish certain privileges, including access to resources and opportunities (Bain, 1997; Dunfee and Warren, 2001; Hwang, 1987; Park and Luo, 2001; Tsui and Farh, 1997; Xin and Pearce, 1996). When discussed in a business context, *guanxi* may refer to not only a specific tie between two individuals (e.g., Fan and Wei have good *guanxi*) but also the entire network of ties of a specific individual (e.g., I hired Fan

because he has good *guanxi*) (Aufrecht and Bun, 1995). The former refers to the nature of a specific tie while the latter refers to the sum or accumulation of ties. It is not, however, the mere accumulation of ties that signifies the value of the social capital.

Social capital, rather, depends upon the value of resources or opportunities potentially exchanged because of the ties. Adler and Kwon (2002) assert that, "Only the resources potentially available to the actor in social exchange should be construed as sources of social capital" (Adler and Kwon, 2002, p. 34). For instance, Chinese managers often seek *guanxi* with government officials who provide permits, assign environmental fines or enforce accounting regulations. Managers would favor one tie with a government official over many ties with non-governmental employees simply because the actions of the government official may allow the organization to avoid fines or receive permits. Thus, social exchange is a crucial element in evaluating social capital.

Social exchange

Social exchange entails the exchange of favors or gifts between individuals with unspecified obligations to reciprocate (Adler and Kwon, 2002; Blau, 1964). Such exchange of favors is a crucial component of *guanxi*. As Hwang (1987, p. 963) explains, "If the potential RA [resource allocator] accepts a very precious gift, it will be extremely difficult to refuse P's [a petitioner] request in the future. By such means, P seeks a greater influence over RA to obtain some value controlled by him." This influence that the petitioner possesses is the result of an informal norm of reciprocity associated with social exchange. Past research suggests such examples of social exchange may result in helpful as well as harmful outcomes for the petitioner, the resource allocator, and the community where they reside.

Adler and Kwon (2002) review conceptualizations of social exchange and social capital in various literatures and, in doing so, carefully highlight associated benefits and risks for not only the focal actor, but also others as well. These risks include investing more in a tie than it is worth, ties that create value for a focal actor but harm the aggregate

and ties that ultimately constrain action due to the strength of the obligations.

Empirical evidence supports the negative effects of social ties in negotiations (Fry et al., 1983; Tenbrunsel et al., 1999). Tenbrunsel et al. (1999) found that interpersonal relationships negatively affected economic outcomes in a negotiation experiment. When relationships were allowed to influence partner matching in a negotiation, economic outcomes were less optimal and market surplus was lower than when relationships were not allowed to influence partner matching. Thus, the negative effects of social ties extend beyond those who engage in the exchange. Research on in-group identification and favoritism also suggests that guanxi will negatively affect those outside the exchange.

In-group identification

In separate but related literature, the privileges of guanxi are characterized as a form of favoritism for the in-group (Tsui and Farh, 1997). Guanxi involves favoring those who share connections with the focal actor and, in many cases, these connections are based upon membership in the same social groups. For instance, family membership and common associations (neighbors, schoolmates) are two important foundations for the establishment of guanxi (see Tsui and Farh, 1997 for a full description of types of relationships). In addition to favoring members of the in-group when making decisions or allocating resources, research on in-group identification suggests that members of the in-group will disparage and subordinate the out-group members in an effort to enhance perceptions and self-esteem (Ashforth and Mael, 1989). To the extent that guanxi is related to identification with an in-group, research suggests that those without social ties will suffer the same negative outcomes often experienced by out-group members.

To summarize, research on social exchange, social capital and in-group identification suggest the potential for negative outcomes (Adler and Kwon, 2002; Ashforth and Mael, 1989; Blau, 1964; Granovetter, 1985; Kranton, 1996; Tenbrunsel et al., 1999), yet many who conduct empirical research on guanxi do not fully explore this aspect of the practice (Luo, 1997, 2001; Park and Luo, 2001;

Peng and Luo, 2000). In this paper, we examine the benefits and harms of using guanxi in Chinese business from the point of view of Chinese business managers. In the next section, we explain why it is important to examine the normative evaluations of guanxi practices from the perspective of local managers.

Normative implications

The decision of whether to adopt a local custom or practice is a classic issue in international business ethics. Donaldson and Dunfee's Integrative Social Contracts Theory (ISCT) (1999) is a norms based approach to resolving such a conflict. Under ISCT there is an obligation on the part of managers and firms to follow the practices of a host culture when the practices are embedded in legitimate norms and those norms make a practice mandatory. In the lexicon of ISCT, legitimate norms are norms authentic to a community that are consistent with hypernorms where hypernorms are manifest, universal ethical principles and authentic norms "reflect the aggregate attitudes and behaviors of the members of an identifiable community" (p. 86). Thus, an authentic norm must be reflected in both observed behaviors and also in attitudes of community members that the practice is the right thing to do. Under this approach, the definition of the community is critical. Business phenomena typically have effects at the level of the individual, the organization, and a broader society or nation state. Groups of individuals, the firm itself and the broader society may all constitute appropriate communities for the evaluation of norms. Dunfee and Warren (1999) suggest generally that there are circumstances in which guanxi may not be considered an appropriate norm, even on the part of those who engage in the practice. Little is known concerning the attitudes of members of Chinese communities toward guanxi.

Purpose of the study

In this paper, we are motivated by an interest in advancing empirical research on guanxi so that it better matches the more comprehensive research on social exchange, social capital and in-group

identification. We also seek information about the attitudes of Chinese business people concerning the propriety of particular uses of guanxi. Knowledge about these attitudes can help to determine when authentic norms support the practice of guanxi in particular communities in China. Our research is guided by three research questions:

- R1: Is the use of guanxi helpful to all directly affected social groups (focal actors and the aggregate)?
- R2: Does guanxi result in harmful outcomes for focal actors or the aggregate?
- R3: If harmful outcomes exist, how do they relate to the helpful outcomes?

In an effort to answer these questions, we conducted two studies of Chinese managers. Study one tests managerial perceptions of guanxi effects on multiple social groups. The findings of this study suggest that some forms of guanxi may produce beneficial effects for focal actors while harming the aggregate. The second study more closely examines the nature of the effects on various social groups by allowing respondents to describe, in their own words, ways in which guanxi is helpful and harmful to managers, business organizations, and the Chinese community. Our studies confirm past findings regarding the helpfulness of guanxi but also reveal complexities regarding harmfulness that have not been fully identified and explored in previous studies.

Methods

We used two empirical studies to examine guanxi practices and the effects on managers, business organizations and the Chinese community. Our approach was constrained by the sensitivity of the subject matter and the environment in which the surveys were administered. When designing the survey, we made sure we could extract detailed information regarding guanxi practices without probing into the business practices of the respondent because pretests indicated that individuals would not want to report on their own behavior or that of individuals they know.

In the first study, Study 1, we used scenarios focusing on exchanges involving specific fictitious managers. We provided study participants with scenarios of guanxi based upon contextualizations in the literature and asked the respondent if the practice depicted helped or harmed the manager involved, the business organization and the Chinese community.

In the second study, Study 2, we chose a grounded approach to understanding the effects of guanxi (Glaser and Strauss, 1967) by asking Chinese business people to provide contextualizations of guanxi involving both helpful and harmful forms of social exchange. In an open-ended survey, participants described guanxi practices that they perceived as helpful to managers, business organizations and the Chinese community and those that they perceived as harmful.

Study 1

We examined the popular press and past research on guanxi for stories and examples of guanxi in business. We then created a survey that presents six scenarios involving guanxi and measures perceptions of effects on three social groups (managers, business organizations, Chinese community). We pre-tested the language of the survey to suit the respondents. The original survey included the term “society” which was not as easily understood as “community” so we changed the terminology. The entire survey was written in Chinese.

Study 1 involved 203 participants from a school located in a large city in Mainland China. We were unable to collect specific personal data on the respondents because it threatened the sense of anonymity of the survey. We did, however, collect general data on the demographics of the program where the study was conducted and, given our sample size ($N = 203$), we suggest this information serves as a reasonable estimate of our sample. The average student age was 28.2 years old, 61% of the students were male and they averaged 5.7 years of full-time work experience.

The first scenario addresses the use of guanxi with government officials to avoid fines for polluting (Ahlstrom et al., 2000; Chan et al., 2002; Dunfee and Warren, 2001). The second scenario provides an

example of gift giving between business partners (Ang and Leong, 2000; Chan et al., 2002; Dunfee and Warren, 2001; Luo, 2001; Park and Luo, 2001; Peng and Luo, 2000; Su et al., 2003; Tsui and Farh, 1997; Xin and Pearce, 1996). The third scenario captures the role of guanxi in purchasing (Dunfee and Warren, 2001; Merrilees and Miller, 1999; Wong and Chan, 1999). The fourth scenario describes the hiring of classmates for job positions (Bain, 1997; Dunfee and Warren, 2001; Sensenbrenner and Sensenbrenner, 1994). The fifth scenario describes an exchange where a payment is given to avoid incarceration and thereby provides a form of protection (Ahlstrom et al., 2000; Dunfee and Warren, 2001; Xin and Pearce, 1996). The sixth scenario describes the maintenance of customer relationships (Ambler, 1995; Ambler et al., 1999; Ang and Leong, 2000; Chan et al., 2002; Davies et al., 1995; Dunfee and Warren, 2001; Merrilees and Miller, 1999).

Authenticity

The first question after each scenario asked if the manager in the scenario was using guanxi. The respondents responded using a 7-point scale where 1 was "definitely not," 4 was "somewhat," and 7 was "definitely yes." This question was designed to confirm the authenticity of our scenarios.

Helpful-Harmful

Given the sensitive nature of our subject and the environment in which the data were collected, we were particularly careful about the privacy of the participant's responses and worded questions in a manner that would cause fewer social biases. We avoided critical or harsh language such as "unethical" or "wrong." Respondents were asked "Is this type of guanxi helpful or harmful to the Chinese community?" "Is this type of guanxi helpful or harmful to the business organization?" and "Is this type of guanxi helpful or harmful to the manager mentioned in the scenario?" We provided respondents with a 7-point scale where 1 is "harmful," 4 is "neither" and 7 is "helpful."

Statistical analysis

First we tested whether the effect was statistically more than "4" (helpful) or less than "4" (harmful) at a 0.05 significance level using a one-sample *T*-test. Then we tested the difference in the means of harmfulness and helpfulness on the various social groups using ANOVA and paired-samples *T*-tests. A summary of means and standard deviations is presented in Table I.

Scenario one

In this scenario, Mr. Wang, a manager of a middle-size and state-owned company, relies on his friendship with local government officials to avoid paying fines for violating pollution regulations. Respondents rated this scenario as an authentic representation of guanxi ($t = 41.48, p < 0.001$). Perceptions of community and organization effects of the practice were statistically different from "neither" in the direction of harmful ($t = -37.46, p < 0.001$ and $t = -2.13, p = 0.035$). Perceptions of effects on managers were statistically different from "neither" and in the direction of helpful ($t = 3.49, p < 0.001$). Analysis of variance showed that perceptions of the scenario's effects on the three social groups were significantly different ($F = 6.62, p < 0.001$). Perceptions of the effects of this practice on the community were significantly different from those on the organization ($t = -14.64, p < 0.001$) and manager ($t = -19.02, p < 0.001$). Perceptions of the effects of this practice on the organization were significantly different from those on the manager ($t = -5.01, p < 0.001$). Respondents perceived the effects as most harmful to the community and most helpful to the manager.

Scenario two

In this scenario, Mr. Zhang, a sales manager for a machine-tool factory, gives gifts to the procurement department of his large customers. Respondents rated this scenario as an authentic representation of guanxi ($t = 31.25, p < 0.001$). Perceptions of community effects of this practice were statistically different from "neither" in the direction of harmful ($t = -10.68, p < 0.001$) while perceptions of effects

TABLE I
Mean effects of guanxi practices ($N = 203$)

	Authenticity ^a Mean (s.d.)	Community ^b Mean (s.d.)	Organization ^b Mean (s.d.)	Manager ^b Mean (s.d.)
<i>Scenario 1:</i> Mr. Wang, a manager of a middle-size and state-owned company, relies on his friendship with local government officials to avoid paying fines for violating pollution regulations.	6.68 (0.92)	1.39 (0.99)	3.67 (2.20)	4.51 (2.07)
<i>Scenario 2:</i> Mr. Zhang, a sales manager for a machine-tool factory, gives gifts to the procurement department of his large customers.	6.41 (1.09)	2.90 (1.46)	4.66 (2.00)	5.52 (1.76)
<i>Scenario 3:</i> Mr. Liu, a manager who is in charge of a procurement department in a large detergent company, agreed to buy a large amount of material from his boss's brother's company.	5.79 (1.76)	2.21 (1.30)	2.29 (1.47)	5.00 (1.99)
<i>Scenario 4:</i> Mr. Wu, a general manager of a branch of Bank of China in He Nan Province, only hires his old classmates who attended college with him.	5.10 (1.76)	2.79 (1.45)	2.62 (1.48)	4.90 (1.71)
<i>Scenario 5:</i> Mr. Chen, a business manager in a large restaurant in Jinan city, is visited by officials who say Chen violated an unwritten accounting regulation. The officials send Chen to jail for a week. One of Chen's employees, Ms. Wu, is friends with the officials and asks the officials to let Chen pay money to avoid spending time in jail. The officials agree and Chen pays the money.	5.76 (1.73)	2.20 (1.39)	3.53 (1.90)	4.99 (2.05)
<i>Scenario 6:</i> Wu Chang, a business manager, develops a loyal, long-lasting relationship with his set of customers.	4.61 (2.27)	5.23 (1.50)	6.08 (1.26)	6.22 (1.19)

^a Seven point Likert scale where "1" is definitely no "4" is somewhat and "7" is "definitely yes".

^b Seven point Likert scale where "1" is harmful, "4" is neither and "7" is helpful.

on the organization and manager were statistically different from "neither" in the direction of helpful ($t = 4.67$, $p < 0.001$ and $t = 12.26$, $p < 0.001$). Analysis of variance showed that perceptions of the scenario's effects on the three social groups were not significantly different ($F = 2.10$, $p = n.s.$).

Scenario three

In this scenario, Mr. Liu, a manager who is in charge of a procurement department in a large detergent company, agreed to buy a large amount of material from his boss's brother's company. Respondents

rated this scenario as an authentic representation of guanxi ($t = 14.44$, $p < 0.001$). Perceptions of community and organization effects were statistically different from “neither” in the direction of harmful ($t = -19.58$, $p < 0.001$ and $t = -16.35$, $p < 0.001$). Perceptions of manager effects were statistically different from “neither” in the direction of helpful ($t = 7.07$, $p < 0.001$). Analysis of variance showed that perceptions of the scenario’s effects on the three social groups were not significantly different ($F = 1.36$, $p = n.s.$).

Scenario Four

In this scenario, Mr. Wu, a general manager of a branch of Bank of China in He Nan Province, only hires his old classmates who attended college with him. Respondents rated this scenario as an authentic representation of guanxi ($t = 8.95$, $p < 0.001$). Community and organization effects were statistically different from “neither” in the direction harmful ($t = -11.88$, $p < 0.001$ and $t = -13.32$, $p < 0.001$). Manager effects were statistically different from “neither” in the direction of helpful ($t = 7.47$, $p < 0.001$). Analysis of variance showed that perceptions of the scenario’s effects on the three social groups were significantly different ($F = 9.39$, $p < 0.001$). Effects on the community were significantly different from those on the organization ($t = 2.14$, $p < 0.001$) and manager ($t = -13.20$, $p < 0.001$). Effects on the organization were significantly different from those on the manager ($t = -14.56$, $p < 0.001$). Respondents perceived the effects as most harmful to the community and most helpful to the manager.

Scenario Five

In this scenario, Mr. Chen, a business manager in a large restaurant in Jinan city, is visited by officials who say Chen violated an unwritten accounting regulation. The officials send Chen to jail for a week. One of Chen’s employees, Ms. Wu, is friends with the officials and asks the officials to let Chen pay money to avoid spending time in jail. The officials agree and Chen pays the money. Respondents rated this scenario as an authentic

representation of guanxi ($t = 14.52$, $p < 0.001$). Perceptions of community and organization effects were statistically different from “neither” in the direction of harmful ($t = -18.33$, $p < 0.001$ and $t = -3.51$, $p = 0.001$). Perceptions of effects on managers were statistically different from “neither” in the direction of helpful ($t = 6.95$, $p < 0.001$). Analysis of variance showed that perceptions of the scenario’s effects on the three social groups were not significantly different ($F = 1.92$, $p = n.s.$).

Scenario Six

In this scenario, Wu Chang, a business manager, develops a loyal, long-lasting relationship with his set of customers. Respondents rated as an authentic representation of guanxi ($t = 3.84$, $p < 0.001$). Perceptions of community, organization and manager effects were statistically different from “neither” in the direction of helpful ($t = 11.64$, $p < 0.001$, $t = -23.49$, $p < 0.001$ and $t = 26.59$, $p < 0.001$). Analysis of variance showed that perceptions of the scenario’s effects on the three social groups were significantly different ($F = 4.73$, $p < 0.006$). Perceptions of effects of this practice on the community were significantly different from those on the organization ($t = -9.82$, $p < 0.001$) and manager ($t = -9.64$, $p < 0.001$). Perception of effects on the organization was not significantly different from those on the manager ($t = -1.71$, $p = n.s.$). While respondents perceived the practice effects as helpful for all three social groups, respondents perceived the effects as most helpful for the manager and least helpful for the community.

Results

Findings of Study 1 suggest that Chinese business managers differentiate between the effects of guanxi on managers, organizations and the community and that harmfulness and helpfulness varies depending upon the contextualization. All scenarios were considered authentic examples of guanxi. All perceptions of effects on social groups were clearly perceived as either harmful or helpful. Respondents viewed guanxi as helpful to the manager in all six scenarios. The effects of two scenarios were

perceived as helpful for the business organization and two were not. Only one scenario displayed a form of guanxi that was viewed as helpful to the Chinese community.

General patterns also were observed across social groups. Perceptual differences between social groups were established for scenarios 1, 4 and 6. In these scenarios, guanxi was more helpful to the managers than to the community.

Overall, these results suggest guanxi provides few benefits for the Chinese community. Past research, however, indicates that guanxi provides useful functions for the society (Xin and Pearce, 1996). In Study 2, we use an open-ended survey as means to capturing lengthier, more descriptive accounts of the overall impact of guanxi. The research method employed required responses on both the helpfulness and harmfulness of guanxi.

Study 2

The findings of Study 1 provide a characterization of guanxi where it is viewed as harmful to the community and sometimes harmful to the business organizations. This evaluation of guanxi conflicts with the characterization of guanxi in the literature as a helpful tool for organizations. In order to further explore the complexity of guanxi as a cultural practice, we asked Chinese business people to describe guanxi in their own words. We purposefully did not ask about social exchange that had helped or harmed the respondent or that the respondent had witnessed because we were concerned about social biases in reporting and the possibility of not being able to collect sufficient data (Peng and Luo, 2000).

We distributed 237 questionnaires in a graduate business class and 195 were returned. Surveys and responses were written in Chinese. We guided their responses through a series of questions, in order to insure that the respondents provided a full spectrum of guanxi behaviors. Because we are interested in not only the types of guanxi (harmful and helpful types) but also how it affects different social groups, we asked six questions on the nature of guanxi. We asked respondents, in six separate questions, to provide examples of guanxi that (1) helps individual business managers, (2) harms individual business managers, (3) helps business organizations, (4) harms

business organizations, (5) helps the Chinese community, and; (6) harms the Chinese community.

Data analysis

In China, two bilingual Chinese graduate students developed thematic categories of guanxi based upon a random sub-sample of questionnaire responses (10% of the overall sample). Then the coders independently coded the responses using these thematic categories. The coders met three times to adjust the coding categories so that they better reflected the larger sample. All coding was conducted in Chinese and the unit of categorization was the question: the respondent mentioned a specific thematic category or did not. The coders agreed on categorization of 79% of responses. The coders agreed in 88% on Question 1, 87% on Question 2, 74% on Question 3, 61% on Question 4, 69% on Question 5 and 96% on Question 6. A third graduate student in the United States who was born and raised in China reconciled those responses where the coders did not agree.

Tables II and III display the frequency of thematic categories in the respondents' answers. Some answers were longer and touched upon several themes. Therefore, one response could be coded as containing several themes. Not every respondent answered every question; a difference in the sample sizes for survey questions reflects a difference in response rates to questions. In addition to respondents skipping questions, 13 respondents specifically stated that they could not answer the first question because they felt there was no helpful form of guanxi for the community.

Data in the tables are organized according to the most frequently given outcomes for the managers, business organizations, and then the community. The frequency indicates the number of respondents who provided a survey answer that the coders felt contained this thematic category. The percentage of the sample that gave the response is listed next to the frequency.

The respondent's answers focused on the types of exchanges used to establish and maintain guanxi and how the practices affected the various social groups (managers, business organizations, Chinese community). Some of the themes are conceptually close or overlap but were not merged in order to reflect grouping of terms used by the respondents. For

TABLE II
Thematic categories for helpfulness

Thematic categories	Manager (<i>N</i> = 183)	Business organization (<i>N</i> = 191)	Community (<i>N</i> = 180)
Political harmony and peace; build trust between regions, businesses and with family, friends and government; create a cooperative environment	72 [38%]	17 [9%]	48 [27%]
Receive stock options, bonuses, commission; kickbacks	46 [25%]		
Win government projects; Receive investments and loans; funds from overseas	45 [24%]	59 [31%]	71 [40%]
Reduce procedures (permits, exports and imports, inspection) and thereby increase efficiency	32 [18%]	14 [7%]	13 [7%]
Receive better job opportunities and promotions	32 [18%]		
Increase in sales; Receive improved purchasing ability (higher quantity, discounts, better quality, extension of credit)	30 [16%]	37 [20%]	1 [1%]
Develop customer network	24 [13%]	39 [20%]	13 [7%]
Receive news, trade secrets, confidential information, competitor information	21 [11%]	16 [8%]	25 [14%]
Develop efficient marketing channels	5 [3%]	24 [13%]	9 [5%]
Receive access to new technology and innovations	1 [1%]	44 [23%]	23 [13%]
Receive government support in the form of policy changes		41 [21%]	
Individuals and businesses donate money to schools, to community development, and for environmental clean-up		3 [2%]	16 [8%]

instance, low quality goods may be a factor in economic inefficiencies but the coders felt that these should be two distinct categories. In the next section, we analyze the data in the tables.

Themes

As a starting point, we will begin with a discussion of the most frequently occurring thematic categories at

the micro-level (managers). We will then extend the discussions of helpful and harmful themes to the macro-level (business organizations and community).

Individuals

Helpful to individuals. The most frequently discussed form of helpful guanxi for a manager involved the development of trust, cooperation and reputation. In

TABLE III
Thematic categories for harmfulness

Thematic categories	Manager (<i>N</i> = 158)	Bus organization (<i>N</i> = 195)	Community (<i>N</i> = 195)
Lowering of ethical standards; harm to personal and community image and reputation	75 [47%]	13 [7%]	14 [7%]
Obligated to bribe with money and women or smuggle	42 [27%]	17 [9%]	48 [25%]
Suffer from unfair competition and economic inefficiencies	34 [22%]	60 [31%]	73 [37%]
Lose ambition and initiative	16 [10%]	3 [2%]	
Receive low quality goods; poor construction	9 [6%]	67 [34%]	43 [22%]
Suffer from workforce composed of unqualified employees	3 [2%]	13 [7%]	12 [6%]
Suffer from weakened adaptability to the environment		12 [6%]	
Incur high costs associated with guanxi-building activities		10 [5%]	
Waste social and environmental resources		8 [4%]	19 [10%]
Tax evasion		4 [2%]	26 [13%]
Prevents execution of law		1 [1%]	28 [14%]
Prevents social fairness and transparency			54 [28%]
Guanxi between government and business prevents international investment			10 [5%]

our sample, 38% of the respondents mentioned the helpfulness of guanxi for maintaining a peaceful and cooperative environment. Embedded in this theme was the ability to call upon others for favors. Managers with reputations for trust and good relationships are able to acquire resources for themselves, their businesses and their friends and family.

These personal gains also appear in the second most frequent theme (25% of the respondents), the receipt of personal financial profit from guanxi. Through social exchange in business, managers are able to receive bonuses, commissions, and kickbacks from sales. Personal rewards for managers also include stock or options, which are most often the result of another common response: professional success. Close to one-fifth of all respondents noted the ability to achieve professional achievement through job offers and promotions as a helpful aspect of guanxi for a manager. A job offer or promotion may be offered because of a previous debt or the

need to establish guanxi with new individuals (e.g., hiring a relative of a government official). According to our respondents, it is not uncommon to request that job applicants have good guanxi. For instance, one respondent explains, “many companies’ recruitment advertisements say, ‘Those who have wide social relationship are preferred’.”

The influence of guanxi on career advancement also occurs through less direct avenues. In general, employees with good guanxi are able to work more efficiently because they can avoid procedures and processes (18% of respondents). More specifically, good relations with customs offices may expedite importing and exporting. One respondent explained. “The relationship with related departments such as customs house is good for the successful implementation of business and the lowering of costs.” Social ties with government officials are also particularly valuable because they may prevent the assessment of taxes and fines for

violations of regulations and thereby reduce company expenses.

Personal gain coincides with professional gain such that the well-connected manager is able to attract funds from domestic and foreign sources (24% of respondents) and sell more products (16% of respondents). Those with *guanxi* may achieve an increase in sales by simply calling upon those with outstanding obligations. One respondent remarked, "If I had a good relationship with some company's buying manager, it would be easy for me to establish a business relationship with this company. And with the same price and quality my friend would buy products, which is good for my promotion." As the comment indicates, those with *guanxi* can develop customer networks quickly (13% of respondents). More generally, respondents discussed the role of *guanxi* in developing efficient marketing channels (3% respondents). A respondent provided an example of such a situation: "some places abound in some foods, but they can't sell them in the market due to the poor traffic. In this case they can turn to some sales company, which can help sell these foods on the market."

Guanxi is involved in the exchange of intangible goods as well as tangible goods. *Guanxi* is important for the exchange of information such as news, trade secrets, and competitor information (11% respondents). As one respondent explains, "Relationship can provide some non-confidential information, which can not be got from normal channels." It also serves as a means for receiving access to new technology and innovation (1%).

The common themes for helpfulness of *guanxi* reflect an interrelated set of outcomes. The managers' ability to establish and develop cooperative and trustful relations, through favors or gifts, allows them to extend their network to others' and ultimately receive financial and professional success.

Harmful to individuals. The financial and professional success associated with *guanxi* may also involve some outstanding and undefined obligations. For instance, our respondents were quick to point out that job opportunities and promotions are not given without reciprocal and unspecified obligations. One respondent spoke of exchanges involving smuggling: "a manager may be promoted because of his good relationship with his boss. But his boss

may ask him to smuggle." Payment of bribes with either money or women was another frequently referenced practice associated with *guanxi*. One respondent explained, "In order to maintain the relationship the managers give money or pretty women to obtain trade and profits." These obligations lead to the lowering of ethical standards, which was the most frequently mentioned theme (47% of respondents). One respondent explains the way building *guanxi* may distract them and present some conflicting responsibilities, "The major duty of managers is to manage the operation effectively. If they are busy in relationship, their time and energy can't be guaranteed and they will encounter some moral conflicts."

The Chinese business people note how *guanxi* may lead to hiring of unqualified employees (2% of respondents) and the purchasing of low quality products (6% of respondents), both of which affect a manager's career and ability to do their work.

Guanxi, however, is most clearly viewed as harmful from the perspective of those managers who do not have access to such exchanges. Despite being talented and qualified, they are unable to secure work or promotions and are unable to find purchasers or sellers (22% of respondents). These restrictions lead to a lack of initiative and loss of ambition (10% of respondents).

Businesses

Helpful to businesses. Given that *guanxi* is a connection or social tie between two individuals rather than organizations, it is not surprising that many of the firm benefits of *guanxi* are derived from those accrued to the manager. The direct connections between managerial *guanxi* and the benefits to the firm are depicted in the following quote:

In China, enterprises prefer to employ those people, who have wide relationships. If they have relationship with government, it is easy for them to get favorable policies; if they have good relationship with bank, it is easy to get loans; if they get on well with customers, it is good to their sales.

The most frequently mentioned theme was the ability to win government projects and receive funds domestically and internationally (31% of

respondents). This theme is similar to the second most frequently mentioned theme, beneficial treatment in sales and purchases for the day-to-day operations (20% of respondents). More generally, businesses benefit from increased efficiency of marketing channels (13%) and access to new technology and innovation (23%). The above quote also reflects another benefit attributed to *guanxi*: government support in the way of changes in laws and policies (21% of respondents).

Government support extends beyond legislative changes; it may provide firms with access to otherwise unobtainable resources. A respondent explains, "The good relationship between enterprises and government department can help the enterprises obtain various advantageous conditions, such as loans." As privatization of industries spreads social ties also affect access to land or private business opportunities (Ahlstrom et al., 2000). Another respondent explains, "If an enterprise can obtain idle properties of the government, it can save expense and increase profits."

Expedited approval processes and receipt of permits were another mentioned theme (7% of respondents). Our respondents explained how "making use of relationships to obtain permission from related government bureaus can lubricate the execution of laws" and "The relationship with government officials will greatly influence the approval of projects and the rights of export and import, etc." *Guanxi* may also be a way to avoid inspection and evade regulatory requirements pertaining to accounting, the environment and construction standards. Individuals may avoid fines and taxes by establishing good *guanxi* with a government official.

The acquisition of firm resources and opportunities is a reflection of the firm's reputation and cooperative relationship with other businesses, the government, and the community (9% of respondents). *Guanxi* with other firms may include exchange of resources, cooperation in business strategy or competition as well as exchange of valuable information (8% of respondents). One respondent summarized the collaborative relationships developed by firms:

Enterprise A has a good cooperative relationship with Enterprise B. A provides parts (electronic machines) to B and they have long-term contracts. Therefore, their

prices and sizes are comparatively set and other electronic machine-making factories can't enter B's market easily. And it is possible for B to reward A with competitors' information.

As illustrated in the above quote, strong customer relations are important for firms because they lead to repeated sales and other benefits. In our sample, 20% of respondents mentioned the helpfulness of *guanxi* in the creation of a strong customer network. One way to strengthen the relationship is through hiring practices. As a respondent explained, "A special relationship will lead to some special demands. For example, the gratitude to some customer can be reflected in the employment of the customer relatives."

Harmful to businesses. Businesses, like managers, may suffer from the obligations of *guanxi*. The most common theme was the receipt of low quality goods due to social ties (34% of respondents). Relationships lead individuals to make business decisions based upon connections rather than quality. One respondent gave an example from work, "some manager bought some poor quality and high price goods from his wife's company."

In addition to receiving lower quality goods, businesses must hire those with *guanxi* regardless of their skills and work experience, leading to unqualified employees (7% of respondents). A respondent explains how this practice relates to hiring government relatives: "Due to the relationship some enterprises recruit some unqualified employees who are relatives of some government leaders. But they usually do not work hard or efficiently, which brings losses to the company."

Other obligations include bribery and smuggling (9% of respondents). One respondent explains, "Enterprises are forced to offer money or bribes to other organizations or departments to establish relationships." These practices relate to a larger concern regarding the lowering of ethical standards (7% of respondents).

In many of the instances where the managers engage in an exchange, they use the firm's resources to do so. This may result in a costly burden for the firm (5% of respondents) and it is not clear who owns relationships cultivated with firm resources. One respondent explained, "Sometimes managers

will sacrifice the company's benefits for establishing a good relationship with key customers. In this case it is difficult for the company to fire them or change their positions. Even if these people change jobs, the relationship established before can help them develop." The respondents to our survey indicated that guanxi is established and remains between people. Some specifically referred to the loss of guanxi due to turnover. Furthermore, guanxi resides at the level of the individual, not the organization so if turnover occurs at the firm, business may suffer. As one respondent explains, "those enterprises which live on relationships might have to stop its business because of the personnel changes in its key relationship network."

There is also a fear that the use of guanxi in business will harm initiative among business organizations (2% of sample): "Relationship prohibits the enterprises' initiative in improving the quality of products and working efficiency. Even if they have high-quality and low-price products, they still can't defeat their competitors, who have some favorable relationship."

As with the managers, lack of guanxi may impede competitive opportunities for those companies that do not possess strong relationships (31% of sample). Those with high quality goods cannot compete with those who have good guanxi despite the production of inferior goods. As one respondent explains, "In a business bid, our company failed although our product's quality was better. The reason is our competitor has a good relationship with the key person of the bidding company." This theme was echoed throughout the responses.

Concerns regarding economic inefficiencies extended to those who benefited from the social exchange system but became too dependent on it (6% of respondents). One respondent explained:

Enterprises appoint people according to favoritism. It will lead to the low working efficiency and the morale of all the employees. The bonus between the supplier and demander lowers the enterprise's competence. The excessive care of government makes the enterprises too dependent on the exterior environment.

Tax evasion is another way in which firms become dependent on the external environment; firms stay

competitive by not paying taxes rather than lowering costs through improved procedures and processes (2% of respondents).

The social exchange system led not only to the waste of valuable personnel who are not hired due to a lack of guanxi but also to the wasting of environmental resources that are polluted or unfairly distributed in society (4% of respondents). In these instances, the businesses without guanxi are affected by the lack of law enforcement (1% of respondents).

Community

Helpful to Chinese community. Benefits of cooperation between individuals and businesses may also extend to the community. Respondents discussed how guanxi between community members results in peace, cooperation, and political harmony (27% of respondents). Cooperation between regions is viewed as an important step in China's development. One respondent explains how the government has strategically chosen to develop cooperation between regions:

China is a large country. Due to the differences in history, geological environment and humanity every region's development level is different from others'. Since 1990s the Chinese government has been carrying out the assistance plan among provinces, cities and autonomous regions in order to narrow the gaps among them in economy and commerce, such as Shanghai and Yun Nan; Jiangsu and Shanxi. Such relationship is good for improving the cooperation among regions and is, therefore, good to the social development.

This cooperation not only provides tangible resources, but also facilitates the dissemination of intangible resources such as information (14% of respondents) and technological advancements (13% of respondents). One of our respondents spoke specifically of the value of information regarding technology:

Now the business information system is not advanced enough so sometimes relationship can serve as a supplement. For example, a technical product, which has high commercial value, can hardly get venture capital due to the unadvanced information market. In such case it can find a partner through personal relationship.

Guanxi between the Chinese community members and foreign business people is viewed as helpful for financial development and investment (40% of respondents) as well as sales (1% of respondents) and customer networks (7% of respondents). A respondent explains, "China is now in the process of enterprise system reform. Many enterprises are short of capital. The relationship in business can help China attract funds from home and overseas, which can push the social development." Some respondents credit guanxi for China's entry into the World Trade Organization and financial support from international organizations. A respondent explains, "Through the relationship with the secretary of the World Bank we can introduce capitals and improve our economic development." The Chinese businesspeople also believe that strong relationships with overseas Chinese will help the reputation of the country and its image in international affairs.

On a larger scale, efficient marketing channels are important for the distribution of resources (5% of respondents). "Establishing good and healthy business relationship (such as the relationship between manufacturers and suppliers as well as customers) can help keep a stable development of productivity, which is good to the society in the long run."

Guanxi also benefits the Chinese society by providing alternatives when bureaucratic procedures stand in the way of community development. A respondent provided an example: "some valuable educational project can't be implemented due to interference of some governmental officials. Finally, it is done through relationship." In this case, guanxi provided a helpful and more efficient outcome for the community (7% of respondents). Guanxi may also cause companies to provide donations for societal programs such as education and the cleanup of pollution (8% of respondents). As one respondent explains, "Hong Kong billionaire Li Jiachen built up the Shantou University in his hometown, which is a great contribution to the Chinese education."

Harmful to Chinese community. Many of the beneficial forms of guanxi for managers and businesses are not beneficial for the community. As we mentioned earlier, 7% of the respondents specifically stated that they could not answer the first question because they felt there was no helpful form of guanxi for the community.

Many responses focused on the negative aspects of awarding business based upon guanxi. A common theme in the responses indicated poor quality goods were a harmful outcome for the community (22% of respondents). One respondent explained, "Some contractors, who have good relationship with the local government officials, win the project though they are unable to undertake the task." Another respondent explained how defective construction projects harmed citizens: "Due to the existence of relationship – many buildings such as bridges and dams are of poor quality, which killed a lot of people. For example, the Rainbow Bridge event in Ji Jiang."

Respondents also expressed concern about pollution and the wasting of resources (10% of respondents). One respondent explained, "Relationship enables some groups or individuals to monopolize resources, such as land, natural resources and money. This will lead to unfair competitions and lower the effectiveness of the market." Another respondent reported that, "some enterprises imported garbage, which polluted the environment of China and threatened people's health." The waste of resources extends to concerns about human resources. Respondents commented on the harmfulness of a workforce composed of unqualified employees (6% of respondents).

According to the Chinese businesspeople, widespread guanxi practices such as payments to government officials (25% of respondents) hinder the development of their legal and economic system.

The popularization of relationships will weaken the economic rules' effect on resource allocation. Bribery can bring interests to individuals but lower the speed of national economic development. Sometimes it even causes danger to citizens. For example, it was reported that in China some newly built houses were dangerous before they were put into use.

Tax evasion (13% of respondents) was commonly discussed in examples of bribery. One respondent explains: "When some government officials form cliques for their own interests, such relationship will greatly harm the society. For example, some enterprise bribed key government officials in order to evade taxes."

Guanxi was credited with creating monopolies, which led to fewer business opportunities and choices for products and services. "The close

relationship between local enterprises and local government will lead to the local protectionism.” Respondents also showed concern that government intervention in business prevents investment (5% of respondents).

Ultimately, the respondents felt the community suffers from unfair competition and economic inefficiencies (37% of respondents), a lack of social fairness and transparency (28% of respondents), and a lowering of ethical standards (7% of respondents). The following quote from a respondent summarizes concerns regarding economic and social issues:

“Relationships prevent the formation of the competition mechanism. If companies use relationships to establish themselves, get loans and obtain special operation rights, social resources cannot be allocated in a reasonable way and the productivity will be lowered. The social trust is damaged and it will increase the vicious circle.”

Respondents not only expressed concern about harm to the economic system but also harm to the legal system (14% of respondents). One respondent explained, “The biggest harm is that it will make China a country ruled by individuals instead of laws. Competition is based on social relationships not abilities.”

Discussion

Returning to our research questions regarding beneficial and harmful effects of guanxi on social groups, we find that the effects of guanxi use are not always equal; focal actors may benefit from certain exchanges while the aggregate suffers. Our data confirms the positive aspects of guanxi found in past studies, which appear to depend on being on the “right side” as opposed to the “wrong side” of an obligation or being able to initiate ties. A respondent explained that, “In theory, relationship can both benefit and harm the society. But in practice when a kind of relationship network is established, it will guarantee the privileges of a certain group of people and therefore damage the social justice.” This response is not unlike the observations of social exchange theorists. As Blau (1964, p. 89) states, “the exchanges in the same institution serve sometimes to cement peer relations and sometimes to produce differentiation of status, contradictory as these two

consequences appear to be.” Guanxi follows this pattern; it “cements” the relationships of some but also causes a “differentiation of status” and thereby threatens social justice. Much like the risks of social exchange and social capital noted earlier, we find that some forms of guanxi involve ties that ultimately constrain action due to strong obligations (Adler and Kwon, 2002; Granovetter, 1985; Kranton, 1996; Tenbrunsel et al., 1999).

Lack of alternatives can make guanxi coercive

All social exchange involves unspecified obligations (Blau, 1964) but in developing countries those incurring obligations may also lack alternatives. In these cases the obligations become more coercive than voluntary. The research of Xin and Pearce (1996) offers a detailed example of how guanxi practices can involve forms of extortion. The interviewee described an account where a payment to a government official, facilitated by a social tie, freed a business manager from jail after being arrested for violating an unwritten accounting rule. In this case, the business manager had few alternatives outside of the exchange with the government official.

Others note the use of guanxi as a form of protection against abuse (Ahlstrom et al., 2000; Xin and Pearce, 1996). Ahlstrom et al. (2000, p. 9) explain, “it is not uncommon for ‘fees’ to be assessed suddenly against private firms, such as cleaning fees, night guard fees, and assessments for planting trees in urban areas.” Guanxi with an official may provide protection against such fees because otherwise, “firms have little recourse if they feel the official’s assessment is unreasonable or the fee is unjustified” (Ahlstrom et al., 2000, p. 9). Enforcement problems and the power of local officials pave the way to guanxi obligations that involve illegal behavior (e.g., personal payments to local government officials).

Weak legal institutions allow for more problematic requests in developing countries. As Blau (1964, p. 32) explains, “The power of an individual over another depends entirely on the social alternatives or lack of alternatives of the subjected individual, and this fact, as well as some others, makes it mandatory to examine power relations in a wider context than the isolated pair.” The lack of alternatives make some forms of social exchange, such as those

associated with guanxi, coercive and these coercive forms of exchange also present obstacles to the development of legal and economic institutions because they reinforce a rival power structure.

Thus, there are two ways in which guanxi practices are described as harmful to managers, businesses and the community. Individuals are obligated to respond to a request that is undesirable (e.g., give a bribe, smuggle goods, purchase poor quality goods, hire an unqualified individual) or are denied access to business opportunities because of a lack of guanxi. Both involve restricted alternatives.

A double-edged sword preventing the development of efficient legal and economic systems

Social exchange in general, and guanxi specifically, is often characterized as a necessary step along a developing country's progression towards just and efficient background institutions (Luo, 1997, 2001; Park and Luo, 2001; Peng and Luo, 2000; Xin and Pearce, 1996). Guanxi researchers suggest that once the legal and economic systems fully develop, the need for guanxi will diminish or disappear (Guthrie, 1998; Luo, 2001; Park and Luo, 2001; Peng and Luo, 2000; Tsui and Farh, 1997; Xin and Pearce, 1996). None of this research, however, considers whether some of the practices associated with guanxi stand in the way of the development of such institutions even though such assertions appear in the larger literature on social exchange (Kranton, 1996). For instance, Kranton (1996, p. 845) explains, "when people use connections to obtain goods and services, they exacerbate the conditions that support the use of connections."

While guanxi does take the place of some governmental systems, it remains an imperfect substitute. For instance, environmental dumping and fine avoidance is commonly associated with guanxi. Swanson et al. (2001) note that guanxi prevents the implementation of China's environmental policy because the informal connections affect enforcement. But the findings of our study suggest that guanxi also insures that businesses will donate money for environmental cleanup and waste disposal. Thus, guanxi may involve practices that harm the environment but also protect it and therefore, the system maintains some level of balance and basic functioning. On a

grandeur scale, however, such widespread practices prevent the establishment of systems where those who pollute are also those who are responsible for cleanup.

The duality of guanxi is identified throughout the respondents' answers. "Relationship is like a sword with two blades. It can both push the commercial development and block the economic development." The duality of guanxi is also evident in the frequency of thematic categories where the most frequent theme for helpful guanxi at the managerial level (trust) perfectly opposes the most frequent theme for harmful guanxi (lowering of ethical standards).

Limitations and Implications

This study possesses some limitations. The study does not gauge the degree to which the practices are exhibited. The frequency of the response does not indicate the frequency of the practice, but it does indicate how readily the Chinese business people in our sample offered a response that falls under the category. In addition, the sample was living in a large city and attending a graduate business school so their perspective on economic efficiency and legal institutions may not represent the view of the average Chinese citizen. We took several steps to ensure candid accounts of guanxi but given the environment, social biases may be an issue. The honesty of the responses may be skewed towards either presenting a Western approach or guarding against stating views that report negative accounts of Chinese cultural practices.

Recent empirical studies reveal the downside to guanxi (Chen et al., 2004). This research needs to be coupled with theory on guanxi and performance in order to advance a comprehensive view of guanxi in Chinese business. Future research should gauge not only the prevalence of guanxi practices but also the relation between various contextualizations of guanxi and performance. It is important for both theory and practice to understand the nature of the ties that were found to affect performance. Such specificity would establish whether such relations involve forms of guanxi that (1) have the potential to produce harm for the focal actor(s), or (2) produce harmful outcomes for the larger society. This would lead to a more comprehensive theory and insight into the role of guanxi in Chinese business.

There is also a sense in previous research that guanxi practices were not only widespread but also widely accepted by the Chinese. This paper sheds light on the complex evaluations of guanxi from the perspective of a Chinese business people. When expanding internationally, firms must address the role of the local culture in business and consider the degree to which the firm should conform to local practices. What may seem like a necessary aspect of conducting business in a particular country may be deemed, by the citizens of that country, as harmful to them, their businesses and the development of their countries (Donaldson and Dunfee, 1994, 1999; Dunfee and Warren, 2001).

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