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

KEY WORDS: China, *guanxi*, *guanxi* management, stakeholder salience

Introduction

This article adopts a constructive view of *guanxi* to advance a notion of *guanxi* management for organizations doing business in China. In doing so, we build upon a steadily accumulating stream of literature in this journal, which, beginning a little under a decade ago, has systematically assembled the foundation concepts that are now available to support development of a conceptual and research framework that (1) better enables *guanxi* management in China, and (2) suggests a model for effective *guanxi*. In addressing these objectives, we aim to tackle two questions that have not been examined in *guanxi* research: What *guanxi* is necessary for enhancing business performance...
in China? And among the necessary guanxi relationships, which are more important? Some researchers believe that an effective guanxi relationship can reduce the transaction costs of information search, relationship monitoring, and contract enforcement (cf. Wong and Leung, 2001). However, guanxi as perceived by Westerners appears costly to work with because guanxi is predicated on reciprocity, which involves some unavoidable obligations (Chen, 1994). As Ambler (1994) notes, “(t)he obligations of guanxi are very real: in the wrong place, at an inappropriate time, with unsuitable people, the obligations can become a trap which is hard to escape.” Furthermore, some researchers argue that such guanxi relationships may also provoke ethical concerns about bribery or corruption in a transitional China market (Fan, 2002).

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

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

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

- In 1998, the point of departure was from cross-cultural research, and there was a suggestion made of guidelines for ethical business conduct across cultures (Smeltzer and Jennings, 1998).
- By 1999, analysis had begun to focus on the ethical pragmatics (given prevalent corruption in China) of choosing local partners, and of negotiating with same (Steidlmieier, 1999);
- JBE publication in the year 2001 saw the beginnings of distinction-drawing between favor-seeking and rent-seeking guanxi (Su and Littlefield, 2001) to organize somewhat the many forms of guanxi only some of which are related to corruption and bribery (Dunfee and Warren, 2001).
- Then in 2002, the literature began assessing consequences (highlighting the likelihood that costs of guanxi exceed benefits, and calling for the study of guanxi within the context of all stakeholders) (Fan, 2002) and identifying within three groups (unethical profit seekers [UPS], anti-governance guanxi cultivators, and apathetic executives) those most likely to be UPS: young executive working in privately held firms (Chan et al., 2002).
- In 2003, one troubling alternative explanation (guanxi is not as much cultural as it is related to cognitive moral development) was removed (Su et al., 2003).
- And a study in 2004 explored context as a guanxi mediator, finding both plusses and minuses, depending upon context (Warren et al., 2004).
- Then, in 2005, the illicit payment/gift-giving link was confirmed and published in JBE, resurfacing the need to distinguish bribery from guanxi, and especially to identify a theoretical structure to conceptualize effective guanxi (Millington et al., 2005).
Hence, there is now a need for a constructive framework to enable *guanxi* management in China—especially to suggest a model for effective *guanxi*. This paper is written in support of this ongoing investigation, and to provide such a framework with testable propositions.

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

**Guanxi: a network of coalitions**

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

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

This conception of *guanxi* poses an important question about the way of doing business in China: With the development of the legal and regulatory institutions in China will doing business in China become impersonal?

Other researchers have challenged this transitional view and argued that *guanxi* is a cultural imperative in doing business in China (e.g., Ambler, 1994; Hwang, 1987; Lovett et al., 1999; Pearce and Robinson, 2000; Tsang, 1998; Yeung and Tung, 1996). Su and Littlefield (2001) distinguished between two types of *guanxi* relationships to address the ethical issue of *guanxi*: favor-seeking *guanxi* versus rent-seeking *guanxi*. Favor-seeking *guanxi* is culturally rooted signifying social contacts and interpersonal dependence in a collectivistic society. People pool and exchange their resources (favors) to enhance the probability of survival. In contrast, rent-seeking *guanxi* reflects on institutional norms signifying social collusion based on power exchange in a hybrid Chinese socialist market economy. Rent-seeking *guanxi* began to flourish along with China’s economic reform and open-door policy in the late 1970s (Gold, 1985; Snell and Tseng, 2001) when resources were first allowed to flow through markets. Officials who controlled state-owned resources exchanged these public resources for personal benefits (rents). Su and Littlefield (2001) maintain that Westerners have to distinguish between these two different types of *guanxi* when doing business in China.

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

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

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

First, a *guanxi* coalition is a long-term cooperative business relationship. *Guanxi* implies interdependence based on common interests or stakes. The Chinese people believe that everything has two sides (*yin/yang*), that is, life alternates between advantageous and disadvantageous situations. Thus, social interdependence is like a “stock” that can be put away in times of abundance and plenty and used in times of need and necessity (Yeung and Tung, 1996). Many empirical studies have shown that *guanxi* is a key factor in long-term business success in China (Lee et al., 2001; Luo, 1997; Pearce and Robinson, 2000; Yeung and Tung, 1996). A pivotal issue in doing business in China is to secure scarce resources such as markets, information, land, raw materials, electricity, and trained labor (Davies et al., 1995). Western multinational companies (MNCs) have no competitive advantages over these production factors. *Guanxi* with local partners is an effective way to share these scarce resources. Thus, developing and maintaining a long-term resource coalition requires building long-term friendships and trust (Pearce and Robinson, 2000).

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

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

The third characteristic of *guanxi* as a coalition of resources is in its nature as a hierarchy of cooperative business relationships. Chinese society itself represents a hierarchy of social relationships: ruler–subject, father–son, husband–wife, brother–brother, and friend–friend. The rules that guide successful *guanxi* are that the humble cannot assail the noble, the distant cannot overrun the closer, and the individual cannot override the group (Yueng and Tung, 1996). Different *guanxi* partners can contribute varying amounts of resources, and they become more or less important as a direct function of the resources they contribute. Not all *guanxi* relationships are necessary and not all necessary *guanxi* relationships are equally important. In today’s China, those in power and authority possess most of the social resources and thus can provide most assistance to those in need (Davies et al.,
Effective guanxi

Effective guanxi is a trust–commitment relationship
Davies et al. (1995:210) – guanxi exchanges “need to be handled with sensitivity as Western businessmen are in danger of overemphasizing the gift-giving and wining-and dining components of a guanxi relationship, thereby coming dangerously close to crass bribery or to being perceived as ‘meat and wine friends,’ which is a Chinese metaphor for mistrust”
Yeung and Tung (1996:63) – “five fundamental dimensions of guanxi: instrumentalism, personal relationships, trust, reciprocity, and longevity”
Luo (1997:53) – “people who share a guanxi relationship are committed to one another by an unspoken code of reciprocity and equity”
Pearce II and Robinson Jr. (2000:35) – “guanxi is the basis on which they exchange a lifetime of favors, resources, and business leverage”

Effective guanxi is a power-dependence relationship
Hwang (1987:947) – guanxi is a social hierarchy where individuals employ power to obtain desired social resources controlled by others
Yang (1994:64 – guanxi refers to relationships or social connections based on mutual interests and benefits
Xin and Pearce (1996:39) – “one reason executives seek out connections and cultivate close personal relationships is to obtain resources or protection not otherwise available”
Yeung and Tung (1996:56) – “emphasis on personal power promotes the practice of guanxi in a hierarchical Chinese society of interdependence”
Tsang (1998:4) – guanxi can be developed and sustained only when personal resources are valuable, rare, and imperfectly imitable
Wong and Chan (1999:9) – guanxi is to “consolidate each party’s resources to optimize the pooling of expertise and experience”

Effective guanxi is dynamic
Yang (1994:123) – guanxi has a cumulative effect, having a propensity for escalation
Chen (1995:61) – guanxi should be avoided when costs of guanxi exceed its benefits
Yeung and Tung (1996:55, 61) – “guanxi is maintained and reinforced through continuous long-term association and interaction” “in order to attain business success in China, it is important for the company to maintain a strong and right guanxi network”
Tsang (1998:5, 8) – “guanxi may become worthless or even turn into a liability once the partner loses power” The company must do guanxi audits to identify which guanxi becomes stale and needs rejuvenation, which guanxi is crucial to the survival of the company and has to be handled well, and whether important stakeholders are paid more attention to strengthen guanxi with them

Effective guanxi is not equal to bribery
Tsang (1998:4) – “outright bribery may be good enough to get a business transaction done on a one-off basis, but it cannot buy ganqing, an essential element of guanxi”
Lovett et al. (1999: 4) – “the central difference is that guanxi means relationship building, while bribery is simply an illicit transaction”
Pearce II and Robinson Jr. (2000:31) – “developing guanxi and maintaining guanxi goes beyond gift-giving and favor exchanges; it requires building long-term mutual benefits, friendships, and trust” Su and Littlefield (2001:210) – “guanxi is not a political maze but a web of human relationships”
Su et al. (2003:309–310) – “guanxi orientation has very little to do with ethical reasoning” “the confusion of the two types of guanxi relationships (favor-seeking guanxi versus rent-seeking guanxi) leads to the belief that guanxi is ripe with ethical abuse”

Effective guanxi and resources

Effective guanxi is a resource coalition in Chinese business communities
TABLE I
Continued

Tai (1988:8) – “the right connections can bring cheap and reliable material supplies, tax concessions, approval to sell goods domestically or for export, and provision of assistance when problems arise”

Davies et al. (1995: 213) – “guanxi smoothes transactions, provides information and resources”

Luo (1997:54) – “whenever scarce resources exist, they are mainly allocated by guanxi rather than bureaucratic rules”

Wong and Chan (1999:4) – “this relational association indicates a coalition of organizations cooperating together interfunctionally in various areas”

Pearce II and Robinson Jr. (2000:31–32 – “guanxi is a form of social investment that enriches the executive’s current resources and future potential” “networking is now believed to enhance a firm’s competitive advantage by providing access to the resources of other network members”

Resources and firm survival
The firm’s competitive advantage is based on the firm’s resources
Penrose (1958:216) – “the maximum possible expansion for all firms taken together is determined by the availability of resources”

Pfeffer and Salancik (1978:46) – “an organization’s vulnerability is determined by the magnitude and criticality of resources exchanged from other organizations”

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

Conner (1991:144) – “performance differentials between firms depend to significant measure on possession of unique inputs and capabilities”

Castanias and Helfat (1991:155) – “rare and difficult to imitate internal firm resources are key to the firm’s acquisition and maintenance of sustainable, competitive advantage”

The firm’s task is to negotiate external resources for survival
Pfeffer and Salancik (1978:2) – on “the key to organizational survival is the ability to acquire and maintain resources”

Anderson (1982:19) – “in attempting to maintain the support of its external coalitions, the organization must negotiate exchanges that ensure the continued supply of critical resources”

1995; Luo, 1997; Pearce and Robinson, 2000). For those guanxi partners who are distant or less familiar, they may be less affectionately attached to the guanxi relationship and thus are less motivated to contribute their resources in a timely fashion. Finally, given a network of guanxi relationships, individual guanxi partners contribute fewer resources than the guanxi group as a whole. Thus, it is unwise to sacrifice the whole guanxi web for a single guanxi partner, even though it is important.

In summary, effective guanxi in Chinese business communities represents a long-term coalitional relationship among guanxi partners to deal with resource scarcity and environmental uncertainty. Guanxi relationships are developed and maintained because all guanxi partners share a common goal to which they are willing to contribute resources. In other words, guanxi partners are stakeholders (Tsang, 1998) influencing the consumption of scarce resources for business success. Resource exchange through a coalition serves to attend to the common stakes. Thus, we introduce the notion that effective guanxi is inexorably tied to the resources that ensure firm survival. As summarized in Table I, effective guanxi is defined to be: a trust-commitment/power-dependence relationship among firm stakeholders that is dynamic (cumulative, utilitarian, and long-term), yields socioeconomic benefits (positive work morale, group harmony, and enhanced effectiveness), and is substantially distinct from bribery. Effective guanxi produces resource coalitions that can negotiate the external resources necessary for competitive advantage-based survival.

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

A key issue in stakeholder theory is to identify the salient stakeholders, that is, “Who and What Really Counts” (Freeman, 1994). In general, there have been two perspectives for identifying stakeholders: narrow view of stakeholders and broad view of stakeholders (Mitchell et al., 1997). The narrow view of stakeholders tends to identify those groups that can directly affect or be affected by the achievements of the firm’s objectives (cf. Bowie, 1988; Clarkson, 1995; Donaldson and Preston, 1995). In contrast, the broad view of stakeholders attempts to include all the groups and/or individuals “who can affect or are affected by the achievement of the organization’s objectives” (Freeman, 1984, p. 46). Given the networking and hierarchical nature of guanxi, we adopt the broad view of stakeholders in our model to identify necessary guanxi coalitions in Chinese business communities. In addition to Mitchell et al.’s (1997) stakeholder salience theory, our model uses aspects of Anderson’s (1982) constituency theory, because constituency theory describes how resource coalitions are formed and managed in relation to the firm’s goal hierarchy. We will briefly describe these two theoretical models to establish the conceptual foundations for our model of guanxi.

Stakeholder salience theory

As noted by many, the broad view of stakeholders poses a bewildering complexity for managers who are trying to sort out the various stakeholders in terms of their varying importance for the firm’s continued survival. Mitchell et al. (1997) drawing upon the various theories of the firm have developed a theoretical framework of stakeholder identification and salience. This framework is based on three relationship attributes of stakeholders: power, legitimacy, and urgency. Power refers to the ability of stakeholders to influence the firm’s survival based on their possession of resources. A stakeholder can exert power using three types of resources: (1) physical resources of force, violence, or restraints, (2) material or financial resources, and (3) symbolic resources (Etzioni, 1964). Therefore, power may reflect the level of importance of a given stakeholder group. Legitimacy in stakeholder salience theory (Mitchell et al., 1997) is considered (in a sociological v. strictly normative light) to be “... a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 574). Consequently, legitimacy also reflects the level of importance of a given stakeholder group. Urgency refers to the degree to which stakeholder claims matter and need immediate attention (Mitchell et al., 1997). Urgency exists when a relationship or claim is time-sensitive and important to the stakeholder. Mitchell et al. argue that power, legitimacy, and urgency should be combined to identify stakeholders and assess their level of salience.

Anderson’s constituency theory

Anderson (1982) suggests a constituency theory of firm survival by drawing upon the behavioral model of the firm (Cyert and March, 1963; Simon, 1964) and the resource-dependence model of the firm (Pfeffer and Salancik, 1978). The gist of this theory is that a business firm is viewed as a coalition of resources or interests, internal and external alike, and that the firm’s survival is dependent on obtaining the needed resources from the external coalitions through the efforts of the internal coalitions (Table I). In stakeholder salience parlance, internal coalitions are responsible for the identification of salient stakeholder coalitions – where both internal and external assessments of salience consist of evaluating the power, legitimacy and urgency of such stakeholders relative to firm survival. Here, because the survival of the firm is the ultimate goal, the salience of stakeholders is evaluated as to whether the firm can secure the resources potentially available through the relationship. According to resource-dependence and behavioral theory logics (respectively) the firm is therefore viewed to consist of “structures of coordinated behaviors” (Pfeffer and Salancik, 1978, p. 32) negotiating among multi-salience stakeholders for the resources deemed to be important based on the “aspirations” of coalition-participant stakeholders (Cyert and March, 1963: 27–28).
Such negotiation requires specialization of its internal coalitions represented by the various functional areas of the firm. Internal coalitions are thought to form because functional specialization, (for example, industrial relations and personnel – as functionally invoked internal coalitions – specialize in securing resources from labor coalitions; finance and accounting specialize in negotiating with stockholders and creditor stakeholders; material management and purchasing specialize in supplier group exchanges; marketing specialize in negotiating customer stakeholders) creates common goals, aspirations, and behaviors (Cyert and March, 1963). In addition, public relations, legal, tax, and accounting specialize in negotiating the continued supports and sanction of both government and public coalitions (Anderson, 1982, p. 21). We shall suggest as the paper proceeds, that the salience of these internal coalitions provides an opportunity for utilizing the notion of specialization to guide and shape the effectiveness of a firm’s guanxi relationships.

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

Given that guanxi in Chinese business communities is a resource coalition among various guanxi partners and guanxi partners are mutually dependent on each other for survival, we find constituency theory to be useful in developing a hierarchical stakeholder model of guanxi to identify which guanxi is necessary and which guanxi is more important. We therefore employ constituency theory to define an importance hierarchy of the firm’s stakeholders. According to recent concepts advanced in the development of stakeholder theory this importance hierarchy – while grounded in the idea of stakeholder salience – can nevertheless be further dimensionalized. Such dimensionalization is useful because it integrates the more traditionally utilized concepts of internal/external or core/major/peripheral (Carroll, 1979, 1993), and primary/secondary (Clarkson, 1995) stakeholders with the salience notions of Mitchell et al. (1997). The logic of constituency theory suggests that such a dimensionalizing analysis should begin with the idea of stakeholder salience as follows: According to their salience to firm survival, stakeholders of the firm can – as argued in the preceding paragraphs – be classified: (1) into internal stakeholders and external stakeholders,

<table>
<thead>
<tr>
<th>TABLE II</th>
<th>Example dimensions of the hierarchical stakeholder model</th>
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<tr>
<td>Internal stakeholders</td>
<td>External stakeholders</td>
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<tr>
<td>Core stakeholders</td>
<td>Major stakeholders</td>
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<td>Primary stakeholders</td>
<td>CEO</td>
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<td>CFO</td>
<td>Shareholders</td>
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<td>VP-marketing</td>
<td>Customers</td>
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<td>VP-sales</td>
<td>Distributors</td>
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<tr>
<td>VP-R&amp;D/engineering</td>
<td>Product industry</td>
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<tr>
<td>VP-operations</td>
<td>Suppliers</td>
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<tr>
<td>Human resources director</td>
<td>Employees</td>
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<tr>
<td>Secondary stakeholders</td>
<td>Public relations director</td>
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<tr>
<td>Accounting/MIS manager</td>
<td>Auditors/creditors</td>
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<tr>
<td>The firm’s attorney</td>
<td>Legal groups</td>
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<tr>
<td>Risk management team</td>
<td>Insurance firms</td>
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<tr>
<td>Ethics committee</td>
<td>Stakeholder</td>
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<td></td>
<td>communities</td>
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(2) into core, major, and peripheral stakeholders, and into (3) primary and secondary stakeholders (see Table II).

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

**A Hierarchical stakeholder model of guanxi**

The first goal of our model of guanxi is similar to the identification and salience objectives addressed by Mitchell, et al. (1997): to identify all the necessary guanxi relationships for doing business in China and distinguish among these guanxi relationships in terms of their legitimacy and urgency (importance and criticality). Specifically, this model should first be able to identify as many of the guanxi stakeholders as necessary and distinguish between external guanxi and internal guanxi. Management ought to meet not only the demands of external stakeholders, but also the demands of internal stakeholders. That is, the resource demands of internal departments must also be rank-ordered and satisfied according to some notion of legitimacy. The activities of the various functional areas within the firm could thus be coordinated to secure maximum resources from external coalitions.

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

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

Internal and external guanxi relationships

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

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

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

Proposition 1:

Guanxi-oriented internal management is positively associated with effective guanxi.

External guanxi includes focus on all the external stakeholder groups such as boards of directors, stockholders, customers, product industry, suppliers, auditors and creditors, insurance companies, work unions, government and courts, and mass media. Since these stakeholder groups will affect the achievement of the firm’s objectives to a greater or lesser extent, guanxi relationships with these stakeholders are necessary. Wealth of studies have emphasized the importance of guanxi, where external guanxi partners are chosen for their effectiveness in ensuring a long-term success in China (cf. Davies et al., 1995; Lee et al., 2001; Luo, 1997; Pearce and Robinson, 2001; Tsang, 1998). The importance of external guanxi in Chinese business communities is encouraged by Chinese culture and resource availability in China (Tai, 1988). Doing business in China is interpersonal and cooperative. Two key factors of business success, trust and commitment (Morgan and Hunt, 1994), are predicated on friendship that is developed through guanxi rather than contracts. Moreover, resource allocation in
China to a great extent has been carried out by people in power or authority rather than by markets (Tsang, 1998; Yueng and Tung, 1996). Therefore, an extensive network with various external guanxi coalitions that fit the firm’s long-term needs, serves as an indispensable asset of the firm. We therefore define the term “effective external-coalition guanxi” to be: a trust-commitment/power-dependence relationship between a firm and external coalitions that is dynamic (cumulative, utilitarian, and long-term) and yields socio-economic benefits (positive work morale, group harmony, and enhanced effectiveness).

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

**Proposition 2:**

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

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

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

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

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

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

**Proposition 3:**

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

**Primary versus secondary guanxi relationships**

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

As illustrated in Table II, core guanxi relationships may then be distinguished in terms of primary and secondary guanxi stakeholders. This distinction is based on the hierarchical structure within the firm. Again, examples of primary core guanxi stakeholders include the CEO, CFO, VP-marketing, VP-R&D/engineering, VP-production/operations, and VP-human resources. Examples of secondary core guanxi stakeholders are public relations director, accounting/MIS manager, sales manager, the firm’s attorney, risk manager, and an ethics committee. By definition (Clarkson, 1995) primary core guanxi stakeholders make key decisions that affect the survival and growth of the firm. Secondary core stakeholders provide a supportive function for primary core stakeholders.

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

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

Given the complicated hierarchies of guanxi relationships and groups, guanxi management needs to identify the most important guanxi partners (Tsang, 1998; Yueng and Tung, 1996). As previously discussed, guanxi is a dynamic with changeable borders.
and salience. The importance of guanxi is determined by the firm’s resource requirements and the availability of guanxi. Therefore, the compelling demands of urgency as proposed by Mitchell et al. (1997) dictate distinctions among various guanxi relationships. Urgency emphasizes the timing and criticality of guanxi to the firm. The guanxi that is critical to the firm’s survival is more salient and must be given the higher priority. Urgency motivates management to identify a dynamic hierarchy of guanxi relationships.

Within the primary core guanxi stakeholders, which group is most important and must be given the highest priority in resource allocation? The answer may depend on the market environment of the firm and upon the capabilities of the firm to bridge the internal–external continuum from the firm’s core to its periphery (Pfeffer and Salancik, 1978). We define the guanxi relationships that accomplish the resource-dependence-based bridging function to be effective external bridging guanxi.

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

Proposition 4:

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

and,

Proposition 5:

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

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

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

**Proposition 6:**

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

and,

**Proposition 7:**

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

**Specialization in guanxi management**

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

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

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

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

**Proposition 8:**

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

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**Discussion and conclusion**

Some argue, “China is a land of guanxi ... Nothing can be done without guanxi” (Tsang, 1998, p. 5).

And although there are large MNCs such as Wal-Mart, which downplay guanxi based on their resources advantages; on balance, developing and maintaining an effective guanxi relationship with local Chinese partners appears to us to be a key factor for most small to medium sized foreign companies to achieve business success in China. Of course, even effective guanxi is not monolithically pervasive in its costs or in its benefits. For example, guanxi cultivation is costly and ethically risky (Su and Littlefield, 2001). And while guanxi is important in China, there are certainly successful companies that do not exert much effort on developing guanxi. Furthermore, it is also important to acknowledge that while it is helpful to identify types, scope and hierarchical relationships surrounding the guanxi phenomenon, identification of the processes needed to improve guanxi quality are also important. Thus in this final section of the article we wish to summarize our arguments, present some of the research implications, and then turn specifically to three key recommendations that we have identified that can be helpful in improving guanxi quality.

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

**Implications for research**

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

Specifically we are able to suggest guidelines for effective internal coalitions, and that external coalitions possessing resources desired by the firm are necessary guanxi stakeholders because they can influence the firm directly or indirectly, that external coalitions that can contribute more resources to the firm survival have greater salience and therefore greater influence, and that these coalitions are more important guanxi coalitions of the firm than coalitions that contribute fewer resources. These assertions are based upon the following instrumental stakeholder theory logic: Making improvements in the management of both internal and external stakeholder resource coalitions in China, through better understanding hierarchically based guanxi relationships, is expected to lead to better firm survival prospects, in the same manner that instrumental stakeholder theory suggests that the development of mutual trust and cooperation between firms and stakeholders is expected to lead to competitive advantage (Jones, 1995, p. 422). Propositions 1, 2, and 3 suggest expected relationships (Figure 1) among specific constructs that we have identified and suggest will be useful in generating testable hypotheses to examine this logic.

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

Implications for practice

In this article we have noted that guanxi is legitimate because it is culturally rooted, representing a Chinese way of living and doing business in a collectivistic society. Guanxi reflects long-term cooperative business relationships, drawing upon a network of resource coalitions and operating within a hierarchical structure. Therefore, identifying a web of necessary guanxi coalitions and developing a hierarchy of guanxi priorities serve as the cornerstone for building effective relationship business strategies in China. Hopefully this model of stakeholder guanxi salience helps management enhance business performance in China.

We have identified three guanxi management implications that stem from our analysis. First, because of the relationship between the accurate
assessment of resources and the accurate assessment of hierarchical/salience factors in guanxi management, Western MNCs doing business in China should consider building their own guanxi hierarchy by drawing upon a resource map. That is, identifying who possess resources that are necessary for firm survival and who possess vital resources that are more important for firm survival in China. This is the foundation for identifying a network of appropriate guanxi relationships and distinguishing between important and less important guanxi coalitions.

Second, guanxi management entails a process of guanxi audits (Tsang, 1998). Given the hierarchy of stakeholder guanxi relationships, it is imperative to ensure that the more salient guanxi stakeholders are given higher priorities, and that the most appropriate internal functional departments are attending to relationships with them. Guanxi audits are also important because guanxi relationships may become stale and need rejuvenation. It is therefore important to regularly audit guanxi partners’ resources to understand their current level within the guanxi hierarchy. We realize that this portion of the audit recommendation may appear to be somewhat unnatural to Western managers; but it should be remembered that the re-analysis of hierarchical placement is virtually second nature to Chinese managers (cultural priority rules exist in a normative sense (Donaldson and Dunfee, 1999), and because of this, will expose the Western manager to undue guanxi risk if improper or tardy hierarchical analysis results in stakeholder misplacement in the guanxi hierarchy due to changes in stakeholder salience.

The foregoing recommendation leads to our third suggestion: guanxi strategies should be dynamic, changing along with business timing and location. When developing a strategic hierarchy for cultivating guanxi, it is even more important in China than in the West to know when, where, and with whom you are doing business. People in China, in building cooperative relationships, are more willing to contribute their resources when they feel the Western capital and technology can result in high efficiency. So first-movers are more likely to capture Chinese partners’ goodwill for cooperation (Tsang, 1998). People in less-developed markets such as inland provinces or in collective or privately owned enterprises are more reliant on guanxi to do business (Nee, 1992; Xin and Pearce, 1996; Su et al., 2003). Therefore, the firm’s business strategies when operating in less developed areas and dealing with collective or privately owned enterprises should be more guanxi-oriented and sensitive to the relationships suggested in Propositions 4–7.

Conclusion

As the influence of China becomes ever more present within the global transacting community the management implications of guanxi grow in their importance. As China’s economy is increasingly integrated into the world economic as a new member of the WTO, Western MNCs may face more market opportunities and at the same time experience more cultural challenges in the Chinese market. Yet, there is much misunderstanding of the phenomenon of guanxi, and to properly address our topic, it has been necessary to situate our argument within a context that is not burdened by these misunderstandings. We are hopeful that our proposed model of guanxi provides a systematic perspective on guanxi management, providing whoever wants to do business in China guidance in the identification of a hierarchy of right people at the right time, and in the right place, thus enhancing resource access and business survival. We are also hopeful that the propositions that encompass the core concepts in our analysis will be useful as a foundation for further research.

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