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# **“The Role of Guanxi in Chinese Entrepreneurship”**

Edward Yiu-chung Lee and Alistair R Anderson

Aberdeen Business School, The Robert Gordon University, Garthdee, Aberdeen, UK

Email contact; Edward Lee [lee19991212@yahoo.com]; a.r.anderson@rgu.ac.uk

## **Abstract**

Although Chinese guanxi has long been traditionally recognised as playing an important role in business, much less is known about the application and practices of guanxi by modern entrepreneurs. This is the objective of this exploratory study, to enquire about the role and nature of guanxi in modern Chinese entrepreneurship.

Towards this end we conducted interviews and a survey to collect data about how and if guanxi is practiced and used. Our data, although somewhat limited in sample size, presented some interesting data about the way that guanxi was established and used. In contrast to the traditional view about the structural role of relationships that provides the conventional framework for guanxi, we found that modern entrepreneurial guanxi was predominantly established through friendship bonds. Moreover it appears to be maintained more by social obligations of reciprocity than by any more material transaction. Indeed where entertainment or gifts were exchanged, these seem to be iconic representations of the friendship ties.

## **Introduction**

Whilst Chinese entrepreneurship, as both practice and as an academic topic, has gained a strong foothold, we remain relatively poorly informed about how entrepreneurship operates in China. Although a vast literature exists about entrepreneurship in general, we know very little about how entrepreneurs operate in the specific context of China. We do know that in economic, political and socio-cultural terms, China is different and perhaps even unique. Thus any research which examines how entrepreneurship is articulated in this particular context can help our understanding. It is towards this end that this study contributes. The general entrepreneurial literature has, over the last 20 years, recognised the role and importance of networks. However, most of this literature has a very western approach to networking and it is also broadly recognised that networking is different in China. Guanxi, connections, is seen as a particular type of network and networking which reflects the particularities of China. Thus this exploratory study considers the role and application of guanxi in Chinese entrepreneurship. This study address the fundamental question of Chinese entrepreneurship from a cognitive perspective: how Chinese entrepreneurs view guanxi. It suggests social networks, relatives, friends, schoolmates, and former employers are necessary and may even be sufficient to explain the process of identifying business opportunities and success.

## **The research problematic**

It is often argued (Yongqiang, Zhilong, 2006) that, in comparison to the west, China has a very different culture and political economic system. Confucianism is said to remain a powerful influence, although becoming less pervasive in the light of globalisation. Individual rights in the Chinese context are not universalistic but *guanxi* specific and particularistic. Indeed, Buckley et al (2006) suggest that guanxi and its associated mianzi (face) are the most prominent cultural characteristics for business. This fundamental web of interpersonal relationships is an inseparable part of the Chinese Business environment. As Don and Dawes (2005) put it, without guanxi ties there are no obligations and indeed, no rights. Although guanxi has a long heritage in China, Fan (2002) notes that it was only in the 1980's that western academics began to consider the importance of guanxi. Nonetheless, Leung and Wong (2001) propose that the modern version of guanxi is not identical to the traditional Confusion form and should be best seen as a strategic tool to achieve business goals. Nor can guanxi be simply be seen as relationship marketing, the relationships are individual rather

than corporate. Guanxi is thus seen to be different from western ideas and conceptualisations of networking. Indeed, guanxi can also be construed as an art that includes ethics, tactics and etiquettes (Yang, 1994).

Buttery and Wong (1999) argued that Guanxi, the building of relationships with a network of people through which influence is brokered, was necessary in the PRC. This is because the central administration of such a large country, in terms of political strategy and ideology, left it largely to the local communities to achieve their own practical every day aims through the exchange of favours and resources. Moreover, they note how the limited ability of people in local locations in the PRC to generate personal wealth as a basis for exchange has caused them to expect more of their Guanxi relations than from the central provision of their rights, or the ability to build personal wealth under the centrally managed system. This means that they have found alternatives to personal wealth and security in the form of Guanxi which may be described as symbolic capital and mutual obligation and trust, and are alternatives to contracts and legal rights. Xin and Pearce (1996) make a similar point, arguing that guanxi acts as a substitute for institutional support. Liao and Sohem (2001) suggest that this is precisely the problem that Chinese entrepreneurs face. Difficulties in the political and legal interpretations combine with difficulties of access to resources, thus creating a need for guanxi.

In China, running a business, even though it is very small, is complicated and risky. It requires potential business owners to make decisions on different matters such as the type of business, access to limited resources and issues such as timing. In order to be successful, they should also be equipped with certain entrepreneurial competence in the areas of attitudes, skills and knowledge (Ho & Yu, 1986). This type of entrepreneurial competence had also been discussed by Cooper and Dunkelberg who tried to distinguish different types of entrepreneurial business ownership using the factors of personal characteristics as well as experience and knowledge (Cooper & Dunkelleberg, 1986). Furthermore, it has been proposed that personal characteristics, personal environment, personal goals, business environment and business idea are the five variables influencing an individual's decision to behave entrepreneurially (Naffziger, Hornsby & Kuratko, 1994). It is in this way that grasping some understanding of guanxi allows us to see how these personal variables may fit into the context of Chinese entrepreneurship.

Guanxi is a complex phenomenon. The Chinese phrase “guan-xi” consists of two characters; The character “guan” means a gate or a hurdle, and “xi” refers to a tie, a

relationship, or a connection. Guanxi literally means “pass the gate and get connected.” (Lee and Dawes, 2005). It has its roots in the cultural philosophy of Confucianism. Confucianism considers society as a huge network in which a person plays different roles. This is important, because in Chinese culture the collective is always considered more important than the individual. There are four kinds of basic relations in society: emperor-subject, father-son, husband-wife, friend-friend. Depending on these four kinds of relations, society achieves a balance (Yongqiang, Zhilong, 2006), the Confucian ideal. More recently, Fan (2002) has identified a modern guanxi base, Family - (e.g. kin and in-laws) Relationship by nature- (e.g. from same town; classmate; same profession Relationship acquired - (e.g. friend). Interestingly the first two are blood ties but the second and third are social. Thus, even today, Confucian tradition defines individuals in relational terms (Yang 1994). Unlike Christianity, which puts individuals in reference to God, Confucianism relates individuals to their significant others (Bian and Ang, 1997). Thus Chinese society has been seen to be organized by concentric guanxi circles, extending outwards from the family (the core) to relatives, friends (Don and Dawes, 2005). The web of these obligations can be seen as the fabric of Chinese society. Given the role of this locational relationship, guanxi requires familiarity or intimacy, characterised by strong, rather than weak, ties. But guanxi is not merely a relationship, but also a tie through which the parties exchange valued materials or sentiments. Guanxi is also implicitly based on mutual interests and benefits (Yang 1994). Literally, guanxi means social connection and is a synonym for special favours and obligations within the guanxi circle. Sometimes seen, particularly by westerners, as corrupt because of the gifting aspects, these exchanges are not to be seen as equivalent to corruption (Feun and Wong, 2001).

Therefore, due to the uniqueness of Chinese culture and characteristics, relationship building is different from western practices. But equally, if not more so in China, relationship building is important for the success of entrepreneurship. Indeed, western entrepreneurs may find difficulties in using western network building technique to develop the Chinese market. Similarly western academics may not be able to simply apply a western appreciation of networking to guanxi.

### **Focusing on entrepreneurial guanxi**

There seems to be a lack of research in the literature that explores guanxi in enterprise. Nonetheless, guanxi has increasingly been viewed as a core attribute of

Chinese entrepreneurship, without which Chinese entrepreneurship cannot take place. Bian and Ang, (1997) propose that a key characteristic of guanxi is trustworthiness, which is the result of relatively long-time interactions and the basis for future exchange relations. Given that few exchanges within guanxi networks are formalised, this trust is essential. Moreover within the Chinese context, Carlyle and Flynn (2005:87) note that “the mere existence of a business relationship does not ensure the necessary connectedness that makes for a sense of working at ease and in harmony with a business partner”. Trust is also important for reciprocal obligation which is another key aspect of guanxi. "The manufacturing of obligation and indebtedness" is "the primary and binding power of personal relationships" in contemporary China (Yang 1994:6). Moreover, fulfilling one's obligations (*renqing*) to the guanxi group is culturally expected by both the Confucian tradition and the new ethics in contemporary China (Yang 1994) Failure to honour these obligations usually results in exclusion from the network and the loss of access to the resources embedded in the network. Once guanxi is established between two individuals, each can ask a favour of the other with the expectation that the debt incurred will be repaid sometime in the future. Carlisle and Flynn (2005) suggest that this process operates as a modern Confucian construct, where harmony is to be achieved through guanxi in life and business. The positive relationships of guanxi can protect dignity or face (*mianzi*) and allow, affirm and honour relationships of individuals involved in business (Redding and Ng, 1992).

However it has been argued (Fan, 2002) that merely being in a relationship, does not in itself produce guanxi. Moreover the number of people in an active guanxi is limited. So like social capital, guanxi needs to be actively developed, succoured and maintained. However guanxi can also be construed as a linking mechanism; with good guanxi, one single guanxi can open many doors. A single guanxi can thus provide access to much wider network of connections. No matter how, this Confucian code and associated practices, whilst well established, is also likely to have come under considerable pressure to change in the new context of China's “open doors”, and its much closer association with westernised business practices. The purpose of this study is to explore the role, nature and extent of guanxi for modern Chinese entrepreneurs.

## **Methodology**

The purpose of this research was to explore the underlying meanings and the

applications that practitioners have and use about guanxi. We were particularly interested in how guanxi affects entrepreneurs in their business and to identify some themes that characterize the major issues and concerns that constitute the debate about guanxi as a field of study.

The following are some specific objectives of this study:

1. To explore the attitude of entrepreneurs towards using guanxi.
2. To examine the factors associated with the intention to employ guanxi.
3. To investigate the general background about the use of guanxi.

To achieve these ends, this exploratory study collected data by surveying Chinese entrepreneurs. We developed a questionnaire which allowed us to tap into the respondents' meanings about and the use of guanxi. The questionnaire was first designed in English, then after amendments and modifications, the final questionnaire was translated into Chinese. The questionnaire consisted of 5 pages containing some 14 close-ended questions and 11 open-ended ones. Some questions were divided into multiple sections covering different areas of the aspect and Likert scales (A 7-point scale was adopted with "1" representing "very important" and "7" representing "not at all important".) were frequently used to estimate the respondents' allocation of the importance of the topic. The open ended questions invited respondents to tell us about their opinions, whilst the closed questions were more concerned with establishing frequency.

We were aware that collecting such data is notoriously difficult. The combination of a reluctance to provide information to strangers; reticence about personal data and general mistrust of putting opinions on paper, required us to use a variety of techniques to develop appropriate sample frames.

1. One sample frame was chosen from the members of China General Chamber of Commerce, a quasi government organization. On our behalf, the official from the China General Chamber of Commerce randomly selected 50 member companies from their computer data base. According to the information provided by the China General Chamber of Commerce, 90% of the companies were either Beijing or Shanghai based and another 10% based in Guangdong province. The majority 85% were in the service industry (insurance, investment, trading and logistics), the rest 15% in light industry, such as shoes and toys manufacturers. The questionnaires were distributed to those selected companies. All questionnaires

were sent through China General Chamber of Commerce. The China General Chamber of Commerce provided a stamped return envelope to each respondent and respondents were requested to complete and return the answered questionnaires to China General Chamber of Commerce Beijing Office. After collecting the completed questionnaires the China General Chamber Beijing Office sent the un-opened envelopes to Hong Kong for data analysis.

China General Chamber of Commerce

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

2. 30 questionnaires were distributed by mail to entrepreneurs who conducted business in China. Among those entrepreneurs, 20% percent were bankers or financial investors, 40% were manufacturers and logistics providers, and 30% were real estate developers. Those entrepreneurs were either friends or friends of friends of the interviewer.

Interviewer's contacts

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

3. Finally 10 questionnaires were completed by personal interview. Six interviews were conducted in Hong Kong when the Chinese entrepreneurs visited Hong Kong; Two were conducted in Beijing and the final two in Shanghai when the interviewer traveled over there. Those interviewees were acquaintances of the interviewer. Out of the 10 interviewees, 4 were in the insurance industry, 2 were in the hotel industry, 3 were in the garment industry and 1 in real estate development.

Personal interview

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

The data from all questionnaires, either mailed or interviewed, was anonymised. A total of 90 questionnaires were distributed to the above mentioned target groups. In total of 27 valid returned questionnaires were processed, and the response rate was 30%. It is interesting to note the very poor response rate from the Chamber, where the researchers were not known to the respondents. In comparison, the excellent responses from established contacts seems indicative of the importance of networks!



## Findings and discussion

### The meaning of guanxi

When we asked what does “Guanxi” mean to you we were given a range of responses. These could be categorised into the role of guanxi; the importance of guanxi and the benefits associated with guanxi.

#### Role-

Respondents told us, *“help some to become successful; accumulate resources; mutual benefit; the source of future fortune; shorten the process and bring improvement; give you help in anything; the way to create resources; bargaining, exchange”*.

Our answers to the open ended questions spoke about the importance and benefits and included- *“help others include friends, relatives, colleague, employer and employees, etc.; networking among people; very important in human chemistry; very important in our daily life; guanxi decides everything and your future; involve passionate, interests, fortune, resources, culture, and kinship”*.

Thus we can see that guanxi is, in general terms, seen as a method of facilitating business. It is, however as the comments suggest, a very personal thing. The respondents noted how it connected people, but also how it involved these same people. Moreover it is seen, in most cases to be crucial to success.

Turning to the details of the responses, we asked, “Do you think “Guanxi” is important especially when you start your new business?” 51% considered it very important; 27 % quite important , whilst the remainder saw it as important. Nobody saw it as unimportant. These results confirm the importance of guanxi as proposed in the literature.

Since we were also interested in how guanxi works we asked respondents, where do you receive your “Guanxi” from? We present the results in rank order below.

<i>Good friends</i>	25	(18.80%)
<i>Schoolmate</i>	24	(18.05%)
<i>Friends of friends</i>	18	(13.53%)
<i>Business partners</i>	18	(13.53%)
<i>Kinship</i>	17	(12.78%)

<i>Former colleague</i>	13	(9.77%)
<i>Other Relatives</i>	9	(6.76%)
<i>Former employer</i>	8	(6.01%)
<i>Others (former customer)</i>	1	(0.80%)

It is very clear that the principle source of guanxi is friendship ties. These are affective ties, characterised by close bonds and based upon knowing the other. This leads us to propose that entrepreneurial guanxi is not, as suggested in the literature, an outcome of structural relationships, but rather a linkage founded on close ties. Indeed when we asked about who provides the most reliable guanxi, over 70% indicated that it was friends, schoolmates or friends of friends. One respondent commented “*depends on how in-depth the relationship is* “. Again this comment, alongside the statistics, seems to emphasise the closeness of ties.

To address the issue of quality of benefits from guanxi we asked who provides the best guanxi?

<i>Schoolmate</i>	15	(25.79%)
<i>Good friends</i>	14	(25.22%)
<i>Business partners</i>	7	(12.5%)
<i>Kinship</i>	8	(14.27%)
<i>Former colleague</i>	3	(5.35%)
<i>Friends of friends</i>	4	(7.14%)
<i>Other Relatives</i>	3	(5.35%)
<i>Former employer</i>	1	(1.79%)
<i>Others (customer)</i>	1	(1.79%)

Our results were very similar to those about who, thus suggesting that guanxi is “worked” to provide the best outcome. But again it seems significant that friendship ties dramatically outweigh any other form of relationship. For us this seems to suggest that trust may be important and that trust, and the concomitant vulnerability, is based on knowing the other.

When we asked our respondents if they used guanxi frequently, they responded as follows,

If yes (How often)	Very often=1	2,3,4,5,6,	7=Not often
<i>No.</i>		3	(11.11%)
<i>Yes</i>	<i>Rank 1</i>	8	(29.63%)

Rank 2	2	(7.4%)
Rank 3	5	(18.52%)
Rank 4	5	(18.52%)
Rank 5	2	(7.4%)
Rank 6	0	(0%)
Rank 7	2	(7.4%)

So it seems that the vast majority of our respondents used guanxi regularly, and only a small minority not at all, and some 25% infrequently. This leads us to support the argument that guanxi is an important part of Chinese entrepreneurship.

When we asked if guanxi achieved what was expected, some 18.5% told us not often. In the open ended responses this group commented, *“the market has changed, guanxi seemed not that important; control the information even better than using guanxi; use your own power”*. This does seem to suggest that guanxi outcomes may be changing and that, for some at least business is less about personal relationships.

In sharp contrast, over 80% of the respondents felt that guanxi did deliver. They told us, *“be sincere and can seek help; tell someone frankly what do you need; once you have used your guanxi, it is of course you can achieve something”* These comments, whilst confirming the importance and utility of guanxi also hint at the depth of the relationship. Words like sincere, frankness, help are all indicative of trust.

Some respondents focused more on the pervasion and the practical implications, *“it is so common in Chinese daily life; kinship and relatives will really give you help; established a reliable guanxi network; almost 90% can achieve what I expected; unless you think s/he can provide you the necessary guanxi, otherwise don’t use it; in China, no guanxi, you can do nothing”*. We also noted how guanxi works, *“the other normally will feel bad to reject someone’s requests”* but that it *“gives you more confidence. However you need to, “find the appropriate person who can provide appropriate guanxi”*. It thus seems reasonable to argue that guanxi remains very important in the conduct of every day business for most entrepreneurs.

When we asked how and in what ways (with examples) did guanxi help our respondents achieve their goal, we received a range of responses-

- *cannot tell, it is so personal*
- *know the key persons, approach them directly*

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

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

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

Mechanics- *"frequent communicate; participate and encounter his or her hobbies; use all possible resources; use company resources, such as KTV, gifts, meals, etc.; invite parties, KTV, meals, entertainments, etc."*

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

We had not asked respondent to rank these aspects, but it appears that the mechanical aspects are as we had expected from the literature and seem to be about building a reservoir of obligations. More interestingly, for us, was the softer aspects, which seem to focus upon building the right sort of environment for guanxi to operate. Again this seems to emphasise the social aspect, rather than any sort of structural obligation. In this way our findings are quite different from that discussed earlier, where the literature discusses the structural properties of guanxi, for example, Yongqiang (2006)

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

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

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

We also asked our respondents about whether they would use different levels of gunxi in different situations. The responses showed quite clearly that the type of guanxi employed would be very context dependent. For example “*yes, use higher level guanxi to solve more difficult problems*”. Some interesting responses noted, “*depends on the needs*”, but two respondents pointed out that, “*will use guanxi carefully because it will hurt your guanxi if you use too much; use it very carefully*”.

When we asked about how they maintained their guanxi we were provided with two types of response; the first about the practical aspects and the second, as in our questions about managing guanxi, talked about the softer issues. Thus the practical maintenance was achieved by *frequent communication; tie up both interests and benefits together; make use of each other when necessary ; frequent visits, communications*. The softer, personal issues were explained, “*treat them as real friends; trust; passionate; treat them sincerely and with respect*. Thus maintainance of a long term guanxi relationship seems to operate in a very similar fashion to the way that quanxi is used. It has a practical aspect, essentially communication but this is founded on long term personal connections, where trust, integrity and sincerity prevail.

Both these dimensions also arose when we asked about how they reciprocated the benefits accrued from a guanxi connection. Some told us about specific returns including *“presenting gifts to them in their birthdays or special festivals; money; meals; provide relative and equal resources as a return”*. However most respondents alluded to returning guanxi in kind, *“help them solve their problems; share my guanxi with him or her; provide appropriate returns at appropriate time; use my influence to help him or her get more benefit; provide reciprocal help”*. Some alluded to the general context of guanxi relationships, *“treasure the friendship; treat him or her as good friends”* or *“put it in mind and remember that I own him something”*. Taken together we see these responses as emphasising the reciprocity that imbues guanxi. Although some respondents had acknowledged a material debt which they would return in material terms of entertainment or even money, most saw the obligation that was due in like terms to the service rendered. Thus the manifestation of the obligation was less material and more about returning favours.

The next section of our questions was concerned with the outcomes of guanxi. We asked how guanxi assisted in their business development. We were told how guanxi made some things possible that would not have been available without guanxi, *“get the benefit that I could not get; enlarge me business scope; provide me valuable business information; make use of his guanxi which became become mine”*. Others referred to how guanxi made things easier, *“introduce me customers; give me help when I face difficulties; every business comes from business ; help me develop my business rapidly; my hard working plus guanxi; help me get a big business.”* So it seems that guanxi made some things easier but perhaps more importantly, it extended the capabilities, the contacts and the resources of the respondent’s business. In many ways this aspect is very similar to the western notion of networking, where it has been regularly shown that networking extends the capabilities and resources of the networked entrepreneur. Perhaps the biggest difference between guanxi and networking was the respondents’ emphasis on the necessity of guanxi.

We asked our respondents if they would actively cultivate guanxi and unsurprisingly, given the benefits described earlier, the majority, 89% said yes. Indeed one third told us that they would do so very often. In contrast, when we asked them if they “liked” the guanxi game, some 50% didn’t like it at all, but *“I don’t like it but have to do it because you cannot avoid it”*. Only 22% felt that they enjoyed the game, *“I have no choice, everyone does it, what should I do”*. Despite these profound reservations, 27% felt that guanxi was very important for their business *“you cannot move a step*

*forward if you don't have guanxi*", and the remainder saw it as important. None felt that it was not at all important.

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

## **Conclusions**

Although our study has shown how guanxi is an integral part of Chinese entrepreneurship, our findings need to be seen with caution; our sample was small and may not reflect the entrepreneurial population as a whole and the study may not reflect the overall scenario of the guanxi in Chinese entrepreneurs. However according to this limited survey, it may give readers some insights, perhaps an indication of future Chinese entrepreneurship development. Our respondents were-

Most entrepreneurs were young and well educated. They understood guanxi but did not totally addicted to it. Interestingly their accounts seemed to reflect that many Chinese entrepreneurs were very idealistic and enjoyed a strong sense of righteousness. Nonetheless we can conclude that guanxi remains be a very important means of doing business in China, especially when starting up new venture. Yet this employment of a traditional way of doing things, seems to have been modified, adapted and shaped into the use of sincerity, integrity and based on a true friendship to gain respect and guanxi from others. Material reciprocity appeared less important.

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