

THE STUDY OF THE GUANXI TRANSFERRING PROCESS FROM INDIVIDUAL TO THE ORGANIZATION BY GENETIC ALGORITHM

Chun-Hao Cheng, National Kaohsiung Hospitality College
Chi-Jung Hsieh, Kun Shan University
Yen-Hui Ouyang, Kun Shan University

ABSTRACT

Guanxi covers not only the relationships, but also the core social customs of individuals from China. This study is similar to previous studies, in focusing on the link between an individual's guanxi and the organization. It differs from previous studies, however, in the way that subjects' process of transferring guanxi is analyzed. This paper proposes modeling the economies of individual guanxi so that its impact on the organization in dyadic business exchanges can be measured. First, this paper introduces the concept of individual guanxi in the business environment. Secondly, some of the variables that are related to this issue are presented. Thirdly, a process for transferring guanxi is proposed to better understand the effect on the organization. With the transferring process, the organization could recognize the importance of guanxi, and gather up the threads of improve performance. Finally, we propose a numeric simulation to perform this guanxi transferring process using a genetic algorithm. In this process, it is found that the chromosome (the individual guanxi), crossover probability (the interaction between the individual guanxi), and mutation probability (the uncertainty of guanxi) all play important roles.

JEL: A1, O53

KEYWORDS: Guanxi, Genetic Algorithm, Mutation Probability

INTRODUCTION

Guanxi is considered to be important in the context of impersonal business dealings within a weak regulatory environment (Xin and Pearce, 1996). Bian (2005) regards guanxi as a Chinese phenomenon, and defines it as a dyadic, sentimental tie with frequent interaction, high intimacy, enduring emotional attachments, and repeated resource exchanges. Comparing to Western, social customs are different in many dimensions, such as business customs, transaction rule, interpersonal contact, and relationships with family, friends, and strangers.

Guanxi is not only an important factor in doing business in China, but also in wilder Chinese society. Guanxi is costly and time consuming to develop (Park and Luo, 2001; Yu, 2002; Fan, 2002b; Reid and Jallat, 2006), and while it may produce beneficial effects for the focal parties, it may reduce overall efficiency and effectiveness. (Warren et al., 2004). Davies et al. (1995) suggest that guanxi is believed to offer help in obtaining information on government policies, market trends and business opportunities and thus is an indispensable bridge between business and officials. A common conception by many Westerners is that guanxi is unethical (Chan et al., 2002), and it is often taken to be synonymous with bureaucratic corruption and bribery (Lovett et al., 1999; Su and Littlefield, 2001; Su, Sirgy, and Littlefield, 2004), or regarded as a source of nepotism and cronyism (Braendle et al., 2005; Chan et al., 2002; Tan and Snell, 2002), resulting in favoritism or under the table deals (Millington, Eberhardt, and Wilkinson, 2005). However, guanxi is for more complex than this, and is an important way that Chinese social network are able to function efficiently.

Zhang and Zhang (2006) suggest that when an individual joins an organization, their resources, including

guanxi, are introduced into their new employer. Guanxi can thus be beneficial to an organization, while the guanxi's value to the individual is not reduced. However, individual-level guanxi needs to be transformed into an appropriate form to best serve the organization, and we propose a conceptual framework to describe this. The transferring process can be divided into four stages: germinating, nurturing, transplanting (and converting), and expanding (or weakening). Not all of an individual's guanxi will pass through these four stages, and when an individual leaves an organization, some of their guanxi may be lost, meaning that it did not transplant or convert to the organization. However, if an organization can offer better employment terms to an individual, they may stay and develop their guanxi to improve firm performance. Further, through out genetic algorithm, we can regard the individual's guanxi as chromosomes and will be allocated reproductive opportunities to be selected. Under the given standard of fitness, we choose the better chromosomes to reproduce, crossover, and mutation to find the better target optimal solution. We can observe many variables in the guanxi transferring process. It will be an useful consideration of planning strategy for the organization in the future. The paper closes with some concluding comments.

The paper aims to provide readers with a sound understanding of the process of transferring guanxi and to act as solid base for further study and research. The work is organized as follows. In the next section, we review the literature and explains the purpose of study. In thhe following section, we discuss the framework of the guanxi transferring process and the related four stages. Finally, we propose a numeric simulation to illustrate the framework with a genetic algorithm.

LITERATURE

Many studies have acknowledged the importance of individual's guanxi for the organizations that they work for. However, there has been little investigation into the process by which this guanxi is transferred, and that is thus the aim of this study. With regard to the inter-organizational level, Park and Luo (2001) suggest that organizations connect with others to acquire new technologies and to expand their product or market reach. Studies have shown that organizational and technological competency is often at the nexus of these networks. In addition, because resources are often scarce and organizations tend to compete for them, the resource dependence model focuses on inter-organizational efforts to gain power and control over essential resources, while minimizing threats to organizational autonomy (Cummings, 1984). In a competition for resources, organizations may maintain good guanxi with other firms in order to build an inter-organization social network. To date, the majority of guanxi research in the organizational context has focused on operations in the public domain or between personnel representing inter-organizational guanxi (Kao, 1993; Luo, 1997; Park and Luo, 2001; Tung and Worm, 2001; Yeung and Tung, 1996; Fock and Woo, 1998).

At the intra-organization level, the individual employee is the essential unit. Studies have indicated that a primary concern of Chinese managers and organizations is to engage in extensive networking activities through guanxi and various informal agreements to build trust and exchange favors (Tsui and Farh, 1997). Pearce and Robinson (2000) suggest that people do business only with those they know and trust. Negotiations are undertaken more obliquely than in the West, often focusing on long-term goals rather than specific current objectives. Negotiators thus take longer to gather information about the other party and evaluate the trustworthiness of a potential partner, and the focus is rarely on closing a business deal as soon as possible.

At the firm level, Park and Luo (2001) showed that managers' guanxi ties enhance firm performance through access to diverse information, resources, and opportunities. In a similar study, Peng and Luo (2000) illustrated that the impact of managerial ties on firm performance varied by ownership, firm size, and industry. Grainger (2004) investigates this question by examining and comparing survey results collected from trade executives based in Hong Kong (Fock & Woo, 1998) with data collected from

employees from a large State Owned Enterprise (SOE) in south-west China. The results confirm that in both the intra-organizational and inter-organizational environments, mutual cooperation and trust are important characteristics of guanxi. However, individual guanxi is the foundation of success for the organization. Consequently, the important point to examine is how individual’s guanxi transfers into the organization.

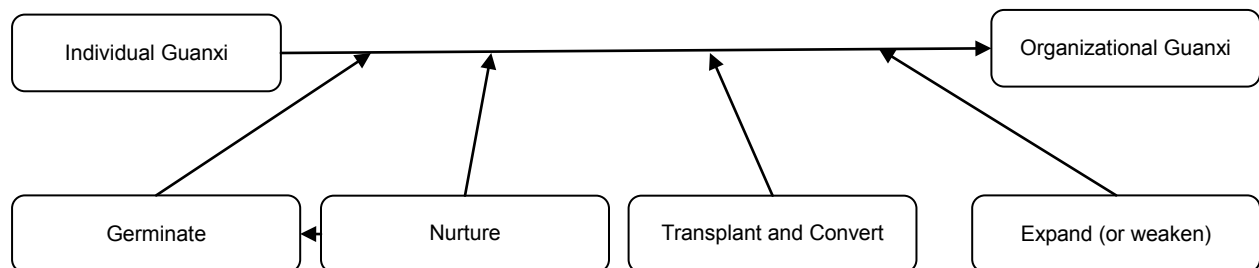
Peter and Humphreys (2007) suggest that guanxi is in general considered as an important element of the national culture of China, and as such it can also become an asset in corporate culture, as personal relationships are dedicated to and used by the firm. Possessing guanxi may allow a manager to increase business sales, avoid fines or taxes, receive business permits or information on proprietary technology (Pearce and Robinson, 2000; Xin and Pearce, 1996). Some studies have drawn on resource-based theory by taking guanxi as a kind of organizational resource and capability that not only affects the firm’s performance, but creates competitive advantages (Tsang, 1998). Many scholars have explored the process of building, maintaining and managing guanxi (Chen and Chen, 2004; Leung, Wong, and Wong, 1996; Vanhonacker, 2004). In an organizational context, a guanxi-based network is part of an organization’s core competency and provides competitive advantage (Luo, 1997). In the rapidly changing economic and social environment of China, guanxi has become even more entrenched with strong and direct implications for business practices (Park and Luo, 2001). Understanding and applying the notion of guanxi is thus necessary if Western firms wish to be successful when engaging in business in China. Still other investigators maintain that- guanxi has no effect or even a negative one on firm performance (Braendle et al., 2005; Li and Athuahene-Gima, 2001), and that its role in Chinese business is diminishing (Fan, 2002a).

Park and Luo (2001) also maintain that guanxi can become an asset at the organizational level when personal relationships strong connections among key managers. Although their opinion is correct, and Zhang and Zhang (2006) illustrate the process, neither study tries to understand how individual guanxi is transferred into the organizational guanxi by numerical analysis. The study is an attempt to supplement the findings of individual guanxi studies.

CONCEPTUAL FRAMEWORK

When an individual joins an organization, they will bring their personality and other resource into it, eventually changing how the enterprise operates. This process is presented in figure 1, which illustrates the four stages of the transferring process: germinating, nurturing, transplanting (and converting) and expanding (or weakening). There are many factors that influence the different stages. In stage 1, family and personal background perform a critical role. In stage 2, organizational resource and efficiency are important factors. In stage 3, the interaction between individuals has the main influence. Finally, in stage 4, environmental uncertainty is a critical factor.

Figure 1: The Process of Individual Guanxi Transferring to Organizational Guanxi



This figure shows the key stages in the guanxi transferring process. We suggest that individual guanxi will change with distinct features in the different stages.

Stage One: Germinate

In Chinese society, family members, close clan members and in-laws are the foundational base. Yang (1994) proposed that the Chinese often categorize others into three types of guanxi: (1) family people, (2) familiar people, (3) strangers, and some researchers even define guanxi as a web of extended family relationships (Kipnis, 1997). An individual with a higher rank has an obligation to provide favors to help their family members with a lower rank without an anticipation of reciprocity (Farsh et al., 1998; Su and Littlefield, 2001). Loyalty and mutual trust are thus two core factors in the relationship between family members. Zhang and Zhang (2006) noted that the strength of family relationships is generally not affected by whether or not beneficiaries actually return favors, and that this is the longest lasting and strongest kind of guanxi. When the individual joins the organization the initial stage, the family members will possess different endowments and do not endeavor to develop. The endowment with powerful guanxi will improve organization and business development. Otherwise is not. It deserves to be mentioned that nature endowments of guanxi may be consumed away or damaged organization. We could conclude that family guanxi may help an individual to get better job or position. Moreover, the relationship between family members will have effects over a long period of time.

Chen (1995) suggested that guanxi is best defined as friendship, with implications of a continual exchange of favors. Yang (1994) defined building guanxi as a transformation process, whereby two discrete individuals construct a basis of familiarity to enable the subsequent development of their relationship. Guanxi can be defined as a special type of relationship which contains trust, favor, dependence and adaptation (Wong, 1998). We suggest that guanxi can evolve from family to friends and to strangers, and can disperse from individuals to organizations and further to government officials. It is noteworthy that if this dispersion process develops well, it could improve the performance of organization. Otherwise, it may harm. The wider relationship is the reciprocal type that includes neighbors, classmates, and colleagues who have a common background. They may provide assurance and trust and create a barrier to competitors (Vanhonacker, 2004), while within, they exchange favors which are roughly equivalent in value and repeat exchanges (Su and Littlefield, 2001), although once they can not reciprocate, the guanxi may not be as close as before.

Stage Two: Nurture Stage

The individual uses resources provided by the organization to maintain the original guanxi and broadens guanxi with others. They may use their guanxi (in their private capacity) to benefit to their employer, but this guanxi remains personal property and will not become an organizational asset (Tsang, 1998). Meanwhile, if the individual abuses resources, the organization will be damaged. In particular, if an individual leaves the organization they can take the guanxi they have developed with them. Some organizations protect their capital from abuse by adopting strict policies. Consequently, such organizations fall into a vicious circle, and eventually lose business. In contrast, if organizations can establish appropriate internal regulations, they could increase individual loyalty and improve performance.

The guanxi network improves efficiency by reducing transaction costs (Davies et al., 1995; Lovett et al, 1999). Guanxi may bring personal gains to individuals, and vital resources and cost savings to the organizations that employ them. For foreign investors, guanxi relationships provide informal ways to reduce environmental uncertainty and opportunistic behavior (Standifird and Marshall, 2000). Foreign entrants in Chinese markets should thus mount sustained efforts to build up guanxi to gain a competitive edge. Guanxi can be a negative asset, however, if not well managed within and between foreign and local firms (Vanhonacker, 2004), and while it is vital to adopt the guanxi approach in their relationships with Chinese partners, foreign investors should be aware that guanxi alone cannot eliminate threats and competition (Fock and Woo, 1998).

Stage Three: Transplant and Convert Stage

Based on the individual's abilities and the organization's resources, the individual can make efforts to improve performance. In addition, the organization can establish itself as reputable by having a multitude of organizational participants engaged in guanxi-based business practices. However, firm performance will be further raised by team work, which is important for achieving organizational objectives. Barnard (1938) stressed that motivating participants to continue to make contributions is one of the most important activities of management, and purposed a cooperative system theory to illustrate the interaction between members. The theory emphasizes the combination of organizational objectives, members' willingness, and communication ability. The cooperating behavior within an organization may be affected or limited by environment conditions and social factors. Highly connected individuals are attractive exchange partners due in large part to their network of connections, and the organization becomes an attractive exchange partner to the extent that individuals within it are well connected. Because guanxi is transferable from person to person, the development of individual links ultimately leads to a network of relationships. Once within a network, one maintains face, or mianzi, by reciprocating favor for favor, and such individuals will cooperate to do business well.

Yang (1994) provided excellent descriptions of how guanxi is established, maintained, and mobilized in China, and Farh et al. (1998) found that guanxi relationships promote interpersonal trust among individuals. Standifird (2006) suggested that the existence of highly connected individuals within a particular organization can have a multiplying effect to the extent that they are connected to one another. The connection of organizational employees to one another expands the quality of the guanxi networks for individuals working within an organization, which in turn makes a firm's dyadic relationship with its employees more valuable. However, just because two individuals work within the same organization does not mean that they will have good guanxi with one another. Guanxi must be cultivated both within and across organizations, and thus, it is important that the organization explicitly support the development of guanxi among its employees.

Stage Four: Expand (or Weaken) Stage

After the transplant and convert stage, the organization may expand the business scope of guanxi. If the organization can provide enough resources and opportunities, the individual will still contribute to the same organization. The main factor that affects whether an individual will stay or leave is the mutation probability of the environment. We can classify a firm's environment into internal and external types. The mutation probability of the internal environment is determined by a firm's resources, system, staff and efficiency, while the mutation probability of the external environment is determined by macroeconomic factors. If the internal mutation probability is positive and beneficial to the organization, the individual will choose to stay, and the organization will achieve synergy. Otherwise, the performance of the organization will decline. If the external mutation probability is positive and beneficial to the organization, some individuals will choose to stay and get more welfare and higher positions within the firm, as it has sufficient resources. Others may leave the organization and take their guanxi and related derivatives away. As result, a firm's guanxi weakens.

The connection of employees to one another has the added benefit of creating obligations between organizational members. Guanxi is first and foremost a product of the individual. When an individual leaves the organization, so do the guanxi connections associated with them. Moreover, the embedded obligation of employees to one another reduces the probability that one will leave the organization for fear of losing face with members of their guanxi network. Thus, by encouraging the connection of employees to one another, the organization not only enhances the quality of the guanxi network for individual employees, but also reduces the probability that the individual will leave the organization.

NUMERIC SIMAULATION

We adopt a genetic algorithm (GA) to description the individual guanxi procell of transferring. GA is based on Darwin’s basic conception of natural selection and “survival of the fittest”, now has many fields of application in business administration. The most common genetic operators are reproduction, crossover and mutation (Foy et al, 1992). Reproduction chooses potential solutions from the population, based on their fitness evaluations, that will be used to create new generations. The high fitness characteristics are to be passed on, whereas the low fitness ones are to be discarded. The second operator, crossover, randomly selects two solutions from the population and crosses them at a random position to form two new offspring. In practice, we set a relevant fitness function, coding and initial population in order to decide the relevant chromosome. As the purpose of our study, we pick up the size of organization are 25, 50, 75 and 100 to illustrate the performance by computers. Hence, we need to set parameters that include population size, chromosome length, crossover probability and mutation probability.

Table 1: Description of Parameters

The Parameters	The Description of the Parameters
The population size	The more population, the more time we need. We consider different sizes of organization, simulating the sizes of 25, 50, 75 and 100.
The chromosome length	An individual is a chromosome for an organization. Everyone has the different family influence and personal ability. The different size of organization will perform the diverse achievement, and the chromosome length represents the guanxi of the individual. In general, we can get a more accurate solution with a longer chromosome, although this needs more time for coding and decoding According to accuracy and time concerns, we set the chromosome length at eight codes.
The fitness function	$rn_i = \text{round} \left(\frac{Nr \cdot (\gamma_i + \delta_r)}{\gamma_i + \delta_r + (1 - f_i)} \right)$ <p>Where rn_i represents the reproduction of volume for chromosome i; Nr is the maximum reproduction of chromosome; $\gamma \in [0,1]$, δ_r is the factor of reproduction. The formula of the fitness function is as follows:</p> $f_i = \frac{\text{fit}(\text{chro}^i)}{\max_k(\text{fit}(\text{chro}^k))}$ <p>Where $\text{fit}(\text{chro}^k)$ is the fitness value of the chromosome, and $k=1,2,\dots,p$.</p>
The crossover probability	<p>We use crossover probability to represent the interaction between individuals. A higher crossover probability makes the superior one replaced and a lower crossover probability terminate the search. Therefore, we set crossover probability equal 0.5. The crossover process is as in the following equations:</p> $\text{chro}^{n1} = \gamma \cdot \text{chro}^{s1} + (1 - \gamma) \cdot \text{chro}^{s2}$ $\text{chro}^{n2} = (1 - \gamma) \cdot \text{chro}^{s1} + \gamma \cdot \text{chro}^{s2}$ <p>Where chro^{s1} and chro^{s2} represent the selected chromosomes for crossover. chro^{n1} and chro^{n2} represent the new chromosomes after the crossover process. γ is random variable. In addition to the crossover, we evaluate the new chromosomes by the following function:</p> $S_i = \text{fit}(\text{chro}^i) \cdot \gamma_i$ <p>Where S_i is the fitness value for the judge of retained. We can then pick up a higher fitness value and put it into the evolution process.</p>
Mutation probability	The interaction of the individual guanxi may help or hinder the organization. We need to consider the uncertainty of guanxi, and we use the mutation probability to describe its evolution. With GA, higher mutation probability will lose the similar between generations, and a lower mutation probability will converge at a local optimum. In general, an acceptance value is 0.05.

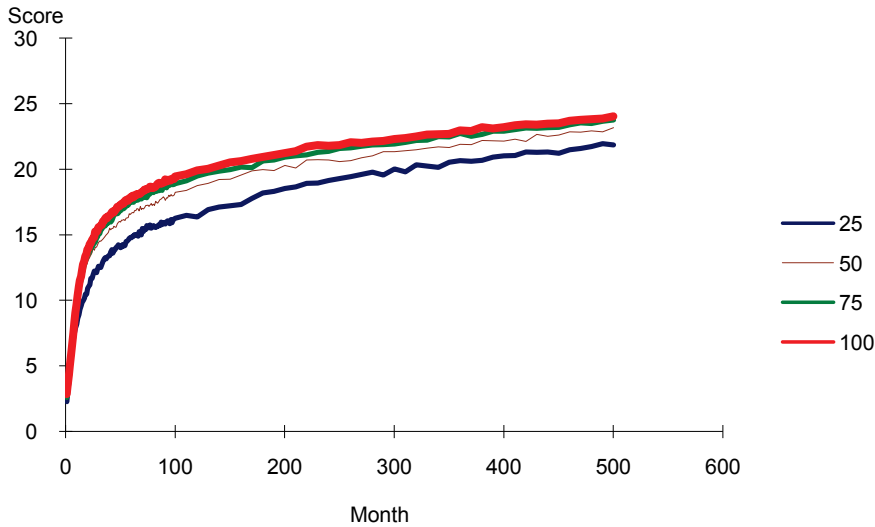
This table outlines the parameters used in the study

RESULT

According to the parameter settings above, we can simulate the performance of different size organizations as shown in Figures 3 and 4. Figure 3 illustrates that the bigger organizations will perform well in the long term, but the size of the performance difference decreases over a long period as shown in

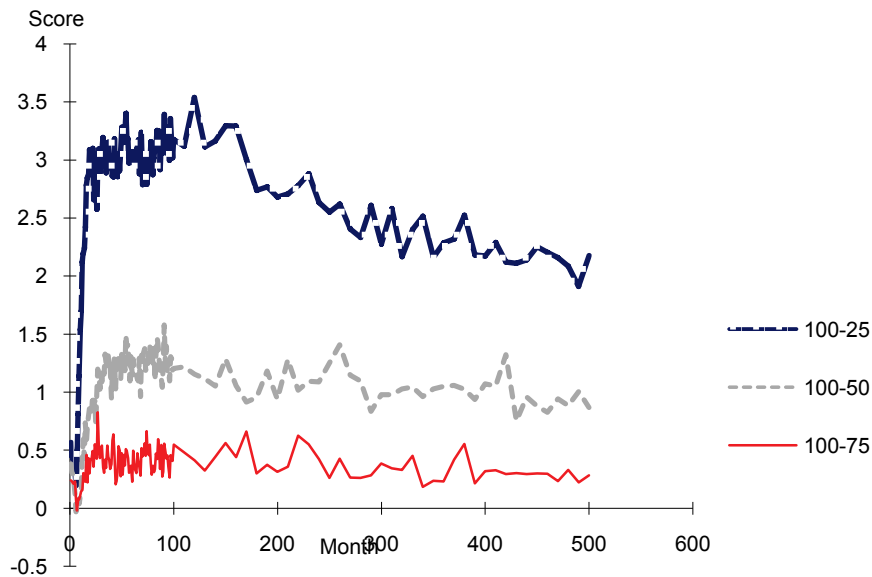
Figure 4. In addition, bigger organizations need more capital input and easily get into distress in the initial period. On the other hand, large organizations also have more resources to develop their business.

Figure 3: Performance of Different Sized Organization



This figure shows the performance of different sizes of organization. We simulate the sizes of 25, 50, 75 and 100 for 500 months. The larger companies performed well, especially in the initial periods.

Figure 4: Difference in Performance for Different Sized Organization



This figure shows the difference in performance between the different sizes of organization. We found the great the difference in company size, and the greater the difference in performance. However; this difference decreases in the long term.

CONCLUSION

The study purpose a framework to illustrate the process of transferring individual guanxi. Individual enter organizations to nurture, convert and expand their individual guanxi. The individual guanxi will display the different develop level and performance with organization. However, the individual guanxi is the basic element that will determine the development of organization. In the transplanted and convert stage, the interaction between individuals will expand the network of organizational guanxi. After the guanxi generating deeply, due to the mutation probability of environment, the organization will show the multi-development. In the simulation, the bigger organization will perform well in the long term, but the difference between different size firms will decrease in the long run.

This study shows that foreigners who want to invest in China must be familiar with the process transferring of guanxi. There are some limitations of the research. First, although the results of the descriptive analysis have shown the overall pattern of the guanxi transferring process with simulated. Second, genetic algorithm generally could not provide a full picture of the guanxi of complicated and the failure case. Therefore, we suggest that future research can extend our research and test the different situation of performance by actual numbers. Next, future research can investigate the influence of individual guanxi on job performance by using questionnaires, and thus better understand the internal guanxi situation of a company. Finally, future research also might use other statistics or measurements to develop simulations and perhaps obtain better results. In view of the fact that China will be the most potential market and the factory, guanxi will play an extremely important role in the Chinese society. It would be beneficial to the development in the foreign capital entering the Chinese market if we manage the relations within the organization well.

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BIOGRAPHY

Dr. Cheng Chun Hao is an Associate Professor of The Graduate School of Hospitality Management at National Kaohsiung Hospitality College, Kaohsiung, Taiwan. He achieved his PhD from the Graduate School of Commerce Meiji University in Japan. Dr. Cheng's research interests include financial management, investment, guanxi, brand evaluation and hospitality . He has published his research in such journals as Management Review(covered by TSSCI) Journal of Chinese Economic Research, Journal of Chinese Economic Research, Asia Pacific Tech Monitor, and Fuzzy Set and System(covered by SCI).

Dr. Hsieh Chi Jung is an Assistant Professor in Finance and Banking within the School of Business and Management at Kun Shan University, Tainan, Taiwan. He achieved his PhD from the School of Management, National Sun Yat- Sen University in 2008. Dr. Hsieh's research interests include asset allocation, optimal portfolio, guanxi, and hospitality and catering. He has published his research in such journals as Journal of Chinese Economic Research, Journal of Chinese Economic Research, Logistics Management Review, and International Journal of Public Health(covered by SSCI). He is also a reviewer of the African Journal of Business Management(covered by SSCI). He can be contacted at: the School of Business and Management at Kun Shan University, No.949, Dawan Rd., Yongkang City, Tainan County 710, Taiwan (R.O.C.) E-mail: sonichsieh@yahoo.com.tw

Yenhui Ouyang is a lecturer in the Department of Finance and Banking in the School of Business and Management at Kun Shan University, Tainan, Taiwan. She received her Master Degree in business administration from University of Missouri. Her current research interests include human resource management, banking industry management, and customer relationship management.