


The Cultural Roots of Guanxi: An Exploratory Study

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1. INTRODUCTION

UANXI (simply translated as ‘personal connections/relationships’) is a major dynamic in Chinese society. Why is this so? One answer lies in the Chinese cultural roots in Confucianism which emphasises the importance of interdependent social connections. With their distinctive historical heritages, human relationships and institutional artefacts tend to vary across national boundaries. Culture and belief systems are therefore important to understanding the nature and significance of social interactions.

Yet, while there is general agreement that guanxi is an important aspect in the context of China, few have placed it into a theoretical context. There is also a paucity of research in an empirical setting as to what constitutes guanxi, and what explains the varying guanxi perceptions across cultures and nations. In this short paper, we first review the guanxi literature to conceptualise its distinctive traits; and second, to test the relationship between the guanxi traits and cultural dimensions with data taken from three groups of individuals studying in tertiary institutions in Singapore. We conclude by discussing some theoretical and practical implications of our empirical results.

2. CULTURAL ROOTS OF GUANXI

a. Confucian Roots of Guanxi

The Chinese word ‘guanxi’ (关系) refers to the concept of drawing on established connections in order to secure favours in personal relationships. The nature of relationships depends on the lifelong experience of those involved in building

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the relationships. Therefore, the route to developing relationships can be very different in different cultures and belief systems. It is also strongly dependent on the institutional infrastructure of societies (Hill, 1995; and North, 2005). Not only are the paths to relationship building different, but also the relative importance of the attributes which comprise the kinship between people is likely to vary across cultures and in the same culture over time (Buttery and Wong, 1999). Thus, to understand the importance of *guanxi* and how it operates, one must look to China's Confucian legacy.

Since the Han dynasty (BC 206–AD 220), Confucianism has held a significant position in Chinese society, and its influence is still felt in many facets of Chinese life (Jacobs et al., 1995). In Confucian societies, an individual is first and foremost a relational being and part of a communitarian social system. The Chinese live in an intricate web of personal and social inter-connections. Their incentive structures and enforcement mechanisms tend to be informal rather than formal (North, 1990). Social order and stability depend on properly differentiated role relationships between particular individuals. Family, kinship networks, colleagues, neighbours, classmates, friendship circles, and even casual acquaintances make up the social framework, into which they grow and form the institutional system which governs their behaviour. At the same time, the influence of Confucianism is not limited to China; according to Luo (2000) it accounts for the pattern of life styles and attitudes of the overseas Chinese, and indeed the social and commercial fabric of which they are part.

b. The Traits of Guanxi

Now we will briefly deal with the 'what' of *guanxi*. Descriptions of *guanxi* have been provided by several prior studies (e.g. Alston, 1989; and Yeung and Tung, 1996). However, perhaps the most comprehensive treatment of *guanxi* is that recently offered by Luo (2000). According to his research, there are several important attributes of it.

First, *guanxi* is essentially a utilitarian concept. *Guanxi* bonds two persons through the exchange of favours rather than through sentiment. This relationship does not have to involve friends, though, where possible, this is preferred. *Guanxi*-related ties that are no longer seen to achieve objectives are easily broken. Second, *guanxi* is reciprocal. *Guanxi* implies reciprocity in exchange for favours. The relationships established through the performance of reciprocal obligations tend to be seen as perpetual, with one repayment requiring yet another expression of favour or consideration. It is, however, worth noting that *guanxi* is not necessarily *equally* reciprocal (Alston, 1989). Indeed frequently the exchange relationships tend to favour the weaker partner.

Third, *guanxi* is transferable. If A has *guanxi* with B, and B is a friend of C, then B can introduce or recommend A to C or vice versa. The extent and success

of the transferability of guanxi mainly depends on how much satisfaction B feels about his guanxi with both A and C. Fourth, guanxi is a highly personal concept. It operates at the level of the individual. Its essential ingredients are trust, honesty, reciprocity, respect and social status (Davies et al., 1995). This explains why interpersonal loyalty is often more important than organisational affiliation or legal status in Chinese society. Fifth, guanxi is long-term oriented. Every guanxi relationship is regarded as a stock of relational capital¹ which is to be conserved or augmented in times of abundance and plenty, but drawn upon in times of need. It is developed and reinforced through continuous, long-term interpersonal associations and interactions. Sixth and lastly, guanxi is an intangible asset. People who share a guanxi affinity are committed to one another by an informal and unwritten code of trust, forbearance, reciprocity and equity. The main enforcement mechanism is that disregarding these virtues can, and often does, seriously damage one's respectability and social standings. Table 1 summarises these six traits of guanxi.

TABLE 1
The Traits of Guanxi

<i>Traits</i>	<i>Description</i>
• Utilitarian	Guanxi is purposefully driven by personal interests
• Reciprocal	An individual's reputation is tied up with reciprocal obligations
• Transferable	Guanxi is transferable through a third party as a referral
• Personal	Guanxi is established between individuals
• Long-term	Guanxi is reinforced through long-term cultivation
• Intangible	Guanxi is maintained by an unspoken commitment

3. THREE PROPOSITIONS ABOUT GUANXI AND SOCIETAL CHARACTERISTICS

Our propositions are based upon the notion that guanxi, as a social phenomenon, can be understood within a special social, cultural and institutional context. In particular its *modus operandi* is highly influenced by the Confucian legacy, with its high regard for harmony and hierarchy. In Confucianism, people view themselves as being closely interdependent of each other, and strongly embedded in the surrounding social context. As a result, interpersonal and inter-organisational

¹ In the context of International Business and Foreign Direct Investment the concept of relational assets is explored in some depth in Dunning (2004). Relational assets are defined as the stock of a firm's willingness and capability to access, create, to shape economically, and to coordinate the resources and capabilities necessary to beneficial relationships, and to sustain and upgrade the quality of these relationships. It is, however, somewhat narrower than the relational concepts developed by Dyer and Singh (1998) and Nahapiet and Ghoshal (1998), in that it focuses on the willingness and ability of firms to engage in successful relationships, rather than on the overall benefit arising from these relationships.

harmonious interactions are valued and sought after. Confucian ethics also exhort individuals to respect patriarchs and elders and such respect is extended to authority of all kinds (Alston, 1989).

Such a high regard for harmony and hierarchy in the Confucian system leads us to link the concept of *guanxi* to the well-developed cultural study by Hofstede (1991). Here our proposition would be that the twin pillars of *guanxi*, *viz.* harmony and hierarchy, are basically similar to two of Hofstede's cultural dimensions, *viz.* collectivism and power distance. However, we also recognise the stream of studies which view *guanxi* as an alternative to formal institutions (e.g. Xin and Pearce, 1996). We thus incorporate formal institutional characteristics, as a factor affecting perceptions about *guanxi*, into our propositions.

a. Collectivism and Guanxi

Hofstede (1991) conceptualised collectivism-individualism as self-orientation versus collectivity-orientation. He defined collectivity-orientation as an individual's obligation to pursue the common interests of the community of which he (or she) is part. In collectivistic societies, the sense of communitarism takes precedence over the sense of individual interests. As a consequence, such values as relationships and harmony are particularly highly valued.

Perhaps, because of the widespread influence of Confucianism, the Chinese often view themselves as being deeply embedded in the social system of which they are part, wherein harmony is a valued ingredient of human wellbeing. For example, the concept of harmony is manifested in terms of the yin/yang symbols which reflect mutually reinforcing but harmonious traits (Buttery and Wong, 1999). In a harmony-oriented society, the emphasis is placed upon the relationship, *i.e.* the nature and content of the associations between individuals. As a result, the self in relation to the other becomes the focus of individual experience. The importance of face or reputation is the consequence of living in a society that is very conscious of its social surroundings (Hofstede, 1991). This view of an interdependent self and sense of communitarism is in sharp contrast to the Western view of an independent self (Yeung and Tung, 1996). In this paper, we shall argue that one of the underlying building-blocks of *guanxi* is collectivism – the traditional Confucian concept of the group taking precedence over the individual. So our first proposition is:

P1: *Collectivism leads to a strong perception of guanxi.*

b. Power Distance and Guanxi

Power distance refers to the extent to which the less powerful members of societies expect and accept that power is distributed unequally. The more society

accepts inequality and is respectful of authority, the greater the power distance is likely to be (Hofstede, 1991).

One basic tenet of Confucianism stresses the importance of an individual's place in the hierarchy of social relationships. In particular, the hierarchy identifies five types of relationships: *viz.* 'wu-lun': ruler-subject, father-son, husband-wife, brother-brother and friend-friend. These five relationships are the basis of the Chinese social system and its institutional infrastructure. A person's acceptance and fulfilment of his role in the hierarchical system is regarded as essential for the smooth functioning of society. These relationships are based on complementary obligations and mutual trust. However, relationships and their impact are frequently asymmetrical.

In such a social hierarchy, *guanxi* links two persons, often of unequal ranks, in a way that the weaker partner can call for special favours for which he does not have to equally reciprocate (Alston, 1989). Those in positions of power and authority are expected to assist those who are disadvantaged. In return, the former gains face and a good reputation (Yeung and Tung, 1996). We thus argue that the second building-block of *guanxi* is power distance – the Confucian feature of interdependence between unequal parties. Our second proposition is:

P2: *Power distance leads to a strong perception of guanxi.*

c. Formal Institutions and Guanxi

According to North (1990 and 2005) it is the content and quality of formal and informal institutions and their respective enforcement mechanisms which ensure the proper functioning of society, and the necessary prerequisites for economic growth. Formal institutions, such as law, provide the constitutions and the legal framework, rules and regulations of behaviour. Informal institutions, such as tradition, convention and codes of conduct, guide individuals and society to function in a desired manner through the promotion of social norms and values.

Increasingly, modern – and particularly Western – societies would seem to be using *top-down* formal institutions as the primary means to guide the norms and social and economic conduct of individuals and organisations. Informal institutions, including the spontaneous *bottom-up* behavioural norms of individuals, families and special-interest groups, are used to complement formal means. However, in societies where formal incentive structures are undeveloped or ineffective, societies are likely to rely much more on informal structures as the primary means to ensure certainty and security (North, 2005).

Guanxi is highly needed and utilised to make up for the deficiencies of formal institutional artefacts (e.g. intellectual property rights) and failures in the legal system (Xin and Pearce, 1996). In this context, it is argued that *guanxi* may compensate for inadequate formal incentive structures and/or enforcement

mechanisms (Nee, 1992). Thus, from this view, any perception of *guanxi* is an artefact of institutional conditions. That is, in circumstances of weak formal institutions, personal connections and networking become fundamental parts of economic and social exchanges. While informal relationships and networking are also important in the West, their role is often overshadowed by formal institutions and enforcement mechanisms, which establishes what can and should be done (Yeung and Tung, 1996). Our third proposition is then:

P3: *Guanxi is often an alternative to formal institutions.*

4. RESEARCH DESIGN

a. Instrument Development

In order to test these three propositions we first identify a number of *guanxi* traits, cultural dimensions and institutional characteristics. These are set out in Table 2. These items have been adapted and modified from those summarised by (a) Luo (2000) with respect to traits of *guanxi*, (b) Hofstede (1991) with respect to cultural dimensions and (c) Kaufmann et al. (1999) with respect to formal institutions. Our sample correspondents were then asked to rank their opinions of the items on a seven-point Likert scale which ranged from 'strongly disagree' (1) to 'strongly agree' (7).

b. Sample and Data

Our sample consisted of three groups of individuals: Chinese Singaporean, Non-Chinese Singaporean (Malay and Indian origins) and Mainland Chinese (PRCs) studying in tertiary institutions, *viz.* polytechnics and universities, in Singapore. The choice of sampling frame was mainly motivated by our desire to identify the differences in cultural as well as national environments across the three groups. Between December 2004 and January 2005, we asked the students to answer the questionnaire containing *guanxi* traits, cultural dimensions and formal institutions with reference to their home countries, *viz.* China or Singapore. Two hundred and thirty-eight students responded to our questionnaire; 73 of these were Chinese Singaporeans, 87 were non-Chinese Singaporeans and 78 were from mainland China. We excluded 28 incomplete questionnaires, and used 210 responses consisting of 70 from each group. We then used factor analysis and linear regression models to try to answer two main questions:

- (a) What are the underlying *guanxi* traits identified by our respondents?
- (b) How might one explain the variations in *guanxi* perception?

TABLE 2
The List of Questionnaire Items

Guanxi Traits

Utilitarian

1. Gaining favours/benefits
2. Exchange of favours

Reciprocal

3. Reciprocal obligations
4. Interdependence in a web of relationships

Transferable

5. Social network consisting of contacts' contacts
6. Navigating relationships in a social network
7. Third parties as a referral

Personal

8. Personal relationship in daily life
9. Personal ties rather than organisational affiliation

Long term

10. Long-term personal relationships

Intangible

11. Personal commitment

Cultural Dimensions

Power distance

12. Acceptance for inequality
13. Less powerful dependent on more powerful
14. Inequality being necessary for society to function

Collectivism

15. Group interests over individual interests
16. Group harmony
17. Comfortable in a group

Formal Institutions

Laws

18. Equal under the law
19. Independent judiciary
20. Corruption in government

Enforcements

21. Effective enforcement mechanisms
22. Recourse to impartial courts for appeal
23. Effective communications about changes in laws and policies

5. RESULTS AND DISCUSSION

a. Guanxi Traits

We first checked Cronbach Alpha² to test for reliability of the items included. We checked alpha for the three constructs separately – 11 guanxi perception items, six cultural dimension items and six institution items. The 11 guanxi items consist of six traits: utilitarian, reciprocal, transferable, personal, long term and intangible (as set out in Table 2). The overall alpha for 11 guanxi items was 0.72. However, the results showed that when item 9 (personal ties rather than organisational affiliation) was deleted, the overall alpha increases significantly. It made us delete item 9. The reliability test was run for the cultural and institution items, producing the acceptable Cronbach Alpha values, 0.56 and 0.79 respectively.

We undertook our factor analysis to identify the underlying factors that best explained the traits of guanxi. Given the multidimensional nature of guanxi construct, the assumption of non-correlation among the items is unlikely; as a result, we believe the promax rotation method to be an acceptable procedure. The results of the factor analysis are set out in Table 3.

TABLE 3
Results of the Factor Analysis

<i>Variables</i>	<i>Factor 1</i>	<i>Factor 2</i>	<i>Factor 3</i>
5. Social network consisting of contacts' contacts	0.797	0.156	
6. Navigating relationships in a social network	0.737	0.150	0.242
7. Third parties as a referral	0.654	0.270	0.191
4. Interdependence in a web of relationships	0.609	0.375	0.445
10. Long-term personal relationships	0.235	0.710	
11. Personal commitment		0.688	0.241
8. Personal relationship in daily life	0.235	0.646	0.434
3. Reciprocal obligations	0.298	0.623	0.358
1. Gaining favours/benefits	0.237	0.128	0.853
2. Exchange of favours	0.193	0.464	0.767

Note:

The factor score less than 0.1 is suppressed by default.

² Cronbach Alpha is a coefficient of reliability. It measures how well a set of items measures a single latent construct.

The ten items were then loaded into three factors, which were found to explain 55 per cent of the variance, *viz.* 29, 14 and 12 per cent respectively. We named factor 1 ‘social network’, factor 2 ‘personal relationships’ and factor 3 ‘relational capital’. That is, our analysis identified these three factors as particularly notable characteristics of guanxi. In other words, the results showed that six traits of guanxi identified by the literature can be collapsed into three factors or attributes. As perceived in this way, guanxi resembles Adler and Kwon’s concept of ‘social capital’, which refers to the goodwill available to individuals or organisations, the source of which is asserted to reside in the structure and content of the actor’s social relations (Adler and Kwon, 2002). In their words, its effects flow from the information, influence and solidarity it makes available to the actor. This definition encompasses *direct and indirect ties*, and allows these ties to be a form of *capital* available to individuals. The three factors identified by our analysis are strikingly similar to those characteristics of both social and relational capital – and indeed those components of informal institutions most frequently identified by North (1990 and 2005). Factor 1 – social network – captures the transferability of guanxi through third parties; factor 2 – personal relationships – captures the long-term commitment and reciprocal obligations that reside at the personal level (cf. Granovetter, 1973 and 1992); and factor 3 – relational capital – captures the benefits necessary to take advantage of the benefits of relational ties (Burt, 1992; and Dunning, 2004).

b. Culture and Guanxi

Descriptive statistics and correlations are presented in Table 4, where we draw attention to the correlations between our independent variables. The two cultural

TABLE 4
Descriptive Statistics and Correlation Matrix

	Mean	St. Dev.	(1)	(2)	(3)	(4)	(5)	(6)
(1) Guanxi	5.11	0.72						
(2) Power distance	4.42	1.10	0.313*					
(3) Collectivism	4.93	0.99	0.300*	0.194*				
(4) Formal institutions	4.56	1.15	0.153	-0.129	0.273*			
(5) Ethnicity	0.33	0.47	0.044	-0.288*	0.051	0.038		
(6) Nationality	0.33	0.47	-0.153	0.206*	-0.170	-0.360*	-0.500*	
(7) Gender	0.50	0.50	0.068	-0.177*	0.062	0.171	0.189*	-0.175

Notes:

Ethnicity: 1 = Non-Chinese Singaporean, 0 = Otherwise; Nationality: 1 = Mainland Chinese, 0 = Otherwise; Gender: 1 = Female, 0 = Male. * Significant at the 0.01 level (two-tailed).

TABLE 5
Results of the Regression Analysis

<i>Dependent Variable</i>	<i>Guanxi</i>	<i>Factor 1: Social Network</i>	<i>Factor 2: Personal Relationships</i>	<i>Factor 3: Relational Capital</i>
Independent variables				
Power distance	0.226*** (0.045)	0.159* (0.063)	0.212*** (0.053)	0.388*** (0.079)
Collectivism	0.133** (0.050)	0.127 ^ψ (0.069)	0.184** (0.058)	0.043 (0.086)
Formal institutions	0.057 (0.045)	0.039 (0.063)	0.095 ^ψ (0.053)	0.017 (0.078)
Controls				
Gender	0.103 (0.095)	0.172 (0.132)	0.190 ^ψ (0.111)	-0.211 (0.164)
Ethnicity	0.089 (0.118)	0.351* (0.163)	-0.025 (0.138)	-0.206 (0.203)
Nationality	-0.184 (0.122)	-0.327 ^ψ (0.169)	0.009 (0.143)	-0.284 (0.211)
Intercept	3.162*** (0.352)	3.036*** (0.488)	3.299*** (0.412)	3.141*** (0.609)
Number of observations	210	210	210	210
Adjusted <i>R</i> -square	0.178	0.119	0.158	0.131
<i>F</i> -statistics	8.536***	5.688***	7.525***	6.258***

Notes:

^ψ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. Standard errors in parentheses.

dimensions are seen to be moderately correlated with each other. The institutional variable is positively correlated with collectivism, but negatively with power distance. Perhaps this is because the Singaporean group is characterised by high collectivism and high institution scores, while the Chinese group is characterised by high power distance and low institution scores.

We tested the three propositions by regressing our cultural and institutional variables on guanxi. As seen in Table 5, our results support Propositions 1 and 2 but not 3. The power distance variable is positively and significantly related to the guanxi perception at the 0.001 level. The relation between collectivism and guanxi is also positive and significant. Broken down into the three main attributes of guanxi, the power distance variable significantly predicted the perception of guanxi as relational capital, personal relationships and social network. The collectivism variable, while predicting the perception of guanxi as personal relationships and social network, only reached a significant level of 0.01 and 0.10 respectively. Unexpectedly, the formal institutional variable is positively and

significantly related to the one attribute of guanxi, i.e. personal relationships, albeit at the 0.10 level. This result appears to imply that, contrary to what Proposition 3 predicts, guanxi can be complementary rather than alternative to formal institutions. More likely we believe that formal and informal institutions develop in tandem with each other, but with formal institutions and enforcement mechanisms gaining in relative importance as countries move upwards on their development paths, and the physical and human environment becomes more complex. Overall, we find the strong effect of cultural dimensions on perceptions of guanxi, which supports our proposition that guanxi is deeply rooted in Chinese cultural characteristics, *viz.* collectivism and strong power distance.

6. CONCLUSIONS

Guanxi takes on a special significance in Chinese societies. Without guanxi one simply cannot get anything done (Davies et al., 1995). The Chinese have turned guanxi into a carefully calculated art. Constructing and maintaining guanxi is a common preoccupation for entrepreneurs, managers, officials and even college students (Luo, 2000). As one popular saying in Chinese society puts it, 'Who you know is more important than what you know' (Yeung and Tung, 1996).

While there seems to be a consensus about the importance of guanxi in Chinese societies, there is debate over the extent to which guanxi is something unique to Chinese culture. Some view guanxi as a phenomenon deeply rooted in the Chinese culture, while others view it as little more than a Chinese idiom of social capital and networks (see Gold et al., 2002, for a review). Our exploratory study appeared to favour the view that guanxi is a cultural phenomenon. What makes guanxi indigenous to Chinese culture is the fact that it originates from the Confucian legacy with the high value it places on harmony and hierarchy.

APPENDIX
Questionnaire Used in the Survey

<i>Please tick that which comes closest to reflecting your opinion: (1) strongly disagree to (7) strongly agree</i>		1	2	3	4	5	6	7
1	It is fair that people can gain favours/benefits by depending on their network of contacts.							
2	It is natural that I give favours to and receive favours from my network of contacts.							
3	When someone helps me, I will want to repay it by all means.							
4	In my network of contacts, people depend on one another.							
5	My network of contacts does not consist of only who I know but also includes those that my contacts know.							
6	I can make use of my contacts' contacts as long as I have a good relationship with my contacts.							
7	My limited contacts do not matter, for my contacts are able to introduce me to their network of contacts.							
8	A personal relationship with others is part and parcel of daily life.							
9	A personal connection that a person brings to a group disappears when the person leaves the group.							
10	People should help one another at all times; you never know when you might need their help.							
11	A personal connection is developed and reinforced through personal care and commitment.							
12	It is natural that there exists inequality (in terms of education, income, status) among people.							
13	Less powerful people should be dependent on the more powerful.							
14	Inequality is necessary for society to function smoothly.							
15	It is fair that group interests prevail over individual interests.							
16	I put group harmony above my own opinion.							
17	I feel comfortable in a group.							
For Q18–23, please make reference to your home country when answering.								
18	Citizens are equal under the law, with access to a non-discriminatory judiciary.							
19	The judiciary is independent and not subject to interference by the government.							
20	There is no corruption within the government.							
21	The legal system is effective at enforcing rules and regulations.							
22	Citizens have recourse to impartial courts for challenging the legality of government actions.							
23	The government communicates changes in laws and policies successfully.							

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