

## เครือข่าย Guanxi, ค่านิยม, และจริยธรรม ทางธุรกิจ: มุมมองในเชิงเครือข่ายธุรกิจ

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### บทคัดย่อ

บทความนี้ศึกษางานวิจัยในปัจจุบันและทฤษฎีที่เกี่ยวข้องกับ guanxi ที่มีความสัมพันธ์กับค่านิยมและจริยธรรมทางธุรกิจ โดยแยกออกจากบทความที่เป็นความสนใจของสังคมและแวดวงวิชาการที่ศึกษาการใช้ guanxi เป็นเครื่องมือทางธุรกิจ ความสำคัญของ guanxi ในบริบทของจีนได้รับการยอมรับอย่างกว้างขวางโดยนักวิชาการและผู้ปฏิบัติงานทางธุรกิจ ถึงแม้ว่า guanxi จะเป็นที่ยอมรับของสังคม ยังคงมีข้อโต้แย้งในประเด็นที่ว่า แนวคิดเรื่อง guanxi และการปฏิบัติที่เกี่ยวข้องกับ guanxi นั้นมีจริยธรรมหรือไม่ และ guanxi เป็นสิ่งที่ปฏิบัติสืบทอดกันมายาวนานเป็นวัฒนธรรมของประเทศจีนที่ไม่มีการเปลี่ยนแปลง หรือ guanxi เป็นแนวคิดที่มาจากค่านิยม ความเชื่อและขนบธรรมเนียมประเพณีของสังคมซึ่งสามารถเปลี่ยนแปลงภายใต้สิ่งแวดล้อมที่เปลี่ยนแปลงไป บทความนี้นำเสนอและวิเคราะห์ข้อโต้แย้งดังกล่าว

ผลจากการวิเคราะห์พบว่า *guanxi* เป็นแนวคิดที่ซับซ้อนที่มีรากฐานทางวัฒนธรรม ซึ่งอาจแยกแยะความแตกต่างในการดำเนินธุรกิจของนักธุรกิจชาวจีนจากนักธุรกิจจากประเทศทางแถบตะวันตก โดยลักษณะที่แท้จริง รูปแบบ และระดับของ *guanxi* และการปฏิบัติอยู่ในขั้นตอนการเปลี่ยนแปลงแบบพลวัต ซึ่งจะสัมพันธ์กับวัฒนธรรมจีนและการปฏิบัติที่สืบทอดกันมายาวนานกับการพัฒนาทางเศรษฐกิจและโครงสร้างพื้นฐานทางกฎหมาย เพื่อเป็นการให้ความสำคัญกับแนวคิดเรื่องสถาบัน (*Institutional Approach*) ดังนั้นบทความนี้เสนอว่างานวิจัยในอนาคตควรให้ความสำคัญกับบทบาทของนักปฏิบัติทางธุรกิจในกระบวนการเปลี่ยนแปลงของสถาบันเช่นเดียวกับการมีปฏิสัมพันธ์แบบพลวัตระหว่างบุคคลและสภาพแวดล้อมของสถาบันนั้น

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## ***Guanxi* Networks, Values, and Business Ethics: A Business Network Perspective**

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### **Abstract**

This paper examines current *guanxi* research and theories in relation to values and business ethics, departing from the popular social and academic interest of *guanxi*'s instrumental use to business. The importance of *guanxi* in Chinese contexts has been widely acknowledged by academics and business practitioners. Despite this general consensus, there are arguments on whether *guanxi* and its practices are ethical or not, culturally rooted and stand the test of time, or institutionally defined, subject to environmental changes? This paper presents and analyzes the arguments. The results suggest that *guanxi* is a complex concept of cultural roots, which may distinguish many Chinese business practices from those of westerns. Yet the nature, forms, and scale of *guanxi* and its practices are in a dynamic changing process along with the evolving Chinese culture and institutional environments, economic and legal infrastructure in particular. Acknowledging the contribution of the institutional approach, this paper proposes that future research shall pay more attention to the role of economic

actors in the institutional changing processes, as well as the dynamic interactions between individuals and their institutional environments.

**Keywords:** *Guanxi*, Business network, Business ethics, Values, Institutions

## Introduction

The importance of *guanxi* and business ethics in social and economic terms provides motivations to conduct this study. Business scholars stress the importance of social ties and networks in various social and cultural contexts (e.g. Ganesan, 1994; Gronroos, 1994; Alston, 1989; Luo, 2007; Ledeneva, 2008; Preechanont, 2009; Chua et al, 2009). In a Chinese context, *guanxi*-embedded social ties and interpersonal connections are highly valued. In Luo's (2007, p.1) words, *guanxi* "binds literally millions of Chinese firms into a social and business web. It is widely accepted that *guanxi* is a key business determinant of firm performance. It is the lifeblood of both the macro-economy and micro-business conduct. Any business in this society, including both local firms and foreign investors and marketers, inevitably faces *guanxi* dynamics. No company can go far unless it has extensive *guanxi* networks in this setting".

Business ethics has been recognized as of essential importance for business (Sternberg, 2000) and has increasingly become a prominent business topic (Crane & Matten, 2007; Fisher & Lovell, 2009). Business ethics is "the study of business situations, activities, and decisions where issues of right and wrong are addressed" (Crane & Matten, 2007, p. 5). In the minimum terms, businesspeople and their organizations directly influence a variety of stakeholders by ethical or unethical business decisions and practices. *Guanxi* and related business practices significantly extend, empower, enlarge the influence in Chinese settings. On the other hand, the changing Chinese economic and legal infrastructures have impacts on the culturally rooted values,

beliefs and social rules in relation to *guanxi* concept. This increases the complexity of *guanxi* dynamics and motivates *guanxi* research in relation to business ethics. Ethical issues and situations tend to gain more presence in ambiguous and uncertain conditions where multiple stakeholders, interests, and values are in conflict (Trevino, 1986).

### ***Guanxi* and Its Core Conceptions**

*Guanxi* is an important concept in understanding Chinese peoples' life. Bian (1997, p. 369) defines *guanxi* as "relationship or relation, but its essence is a set of interpersonal connections that facilitate exchanges of favors between people". Some *guanxi* researchers treat *guanxi* as a form of interpersonal relationship predominantly based on particularistic criteria or ties (e.g. Jacob, 1979, King, 1992; Tsui & Farh, 1997). Others consider that *guanxi* forms an important asset for those who possess it (e.g. Davies et al., 2003). *Guanxi* is defined as "the set of personal connections which an individual may draw upon to secure resources or advantage when doing business or in the course of social life" (Davies, 1995, p. 155).

*Guanxi* is developed on the basis of blood relations or social interactions, including those through intermediaries (Tsang, 1998). Strong *guanxi* requires that "the individuals must interact, exchange some favors, build trust and credibility, and work over time to establish and maintain the relationship. Actions supporting the development of strong *guanxi* may include invitations to visit one's home or place of business, entertainment, gifts, use of supportive intermediaries and such things as hiring the offspring of the subject party" (Dunfee & Warren, 2001, p. 192). Su et al. (2003, p. 310) indicates that "*guanxi*

is inherent in Chinese peoples' work ethic and can be conceived as a cultural way of doing business in China. Indeed, the purpose of *guanxi* is to share the scarce resources that otherwise are not available”.

*Guanxi* and its practices play an important role in Chinese business life. For example, Chinese tend to distrust strangers until the relationship partners have the opportunity to get to know each other (Chu & Ju, 1993). *Guanxi* enables the formation of a resource coalition by which business associates share resources and enjoy assistance, both of which are difficult to acquire by other means (Tsang, 1998). *Guanxi* is particularly important to private businesses since they possess lower levels of resources than other economic actors such as state owned enterprise and joint ventures in the People's Republic of China. *Guanxi* can further be useful in gaining access to new customers, retaining existing clients, facilitating business operations, or avoiding government investigations (Dunfee & Warren, 2001). Davies et al. (1995) indicate that *guanxi* benefits businesses in three specific ways. Firstly, can serve as the source of information regarding market trends, government policies, import regulations, and business opportunities. Secondly, *guanxi* yields benefits in accessing and securing resources including import license applications, approval of advertisements, applications to the provincial and central governments, recruitment of labor, and securing land, electricity, and raw materials for joint ventures. Lastly, *guanxi* smoothes the running of transactions, such as building up a company's image, effective transportation arrangements, and ease in collecting payments. Since these benefits are concerned with power directly granted by the people, *guanxi* may have serious ethical implications and raise important

operative ethical issues (Su & Littlefield, 2001).

### **Ethical Issues in Buyer-Seller Relationships**

Drawing from previous literatures and information from group interviews, Carter (2000, p. 194) identifies a series of unethical activities in the business relationships between buyers and sellers, including

- using obscure contract terms to gain advantage over the other party of the relationship,
- writing specifications that favor any preferred supplier,
- exaggerating the magnitude of any problem to gain concessions,
- allowing any preferred supplier to rebid after the closing date,
- allowing only certain suppliers to bid,
- giving preference to suppliers preferred by top management,
- allowing the personalities of any preferred supplier to impact decisions,
- concocting / making up a second source of supply to gain an advantage over suppliers,
- asking the other party of the relationship for information about competitors,
- purposefully misleading the other party of the relationship,
- using bribery,
- overestimating demand to gain volume discount,
- soliciting quotations from suppliers with little chance of success,
- using “backdoor” selling techniques such as approaching personnel in engineering, manufacturing, or other departments outside of purchasing,

- cancelling purchase orders in progress and trying to avoid cancellation charges,
- allowing any preferred supplier to become dependent on the purchasing organization for most of its business,
- using small payments to facilitate international transactions, and
- using less competitive prices or terms for buyers purchasing exclusively from the supplier.

The above issues are identified by Carter in his study of the relationships of US buyers and their existing non-US suppliers. Carter finds that these issues are recognized as unethical by both US and non-US businesspeople. This raises a fundamental question-whether the standards distinguishing ethical or unethical are universal or different across cultures. In addition, many of the above issues present in a situation, where interpersonal and interorganizational relationships are intertwined. In a Chinese context, the intertwined relationships are more salient as a result of *guanxi* and related business practices. Does this mean that *guanxi* provides a fertile soil in the People's Republic of China for unethical issues to flourish? In the following part, we further explore *guanxi* practices and its ethical consequences.

### Arguments: Is Guanxi Ethical or Unethical?

*Guanxi* has been connected with unethical business practice (Wong & Chan, 1999). Characterized by favor, trust and interdependence, *guanxi* often involves insider-based decision-making and is perceived by many Chinese as the only efficient means to conduct business

when business infrastructure are not yet fully functional (Wong & Chan, 1999). “The art of *guanxi* involves the exchange of gifts, favors and banquets, the cultivation of personal relationships and networks of mutual dependence, and the manufacturing of obligation and indebtedness” (Yang, 1994, p. 6). People from western rule-orientated culture frequently connect *guanxi* with corruption, nevertheless Chinese regard the obsession with rules inappropriate and perceive it as signaling a lack of trust, which is important part of friendship and essential in business interactions (von Weltzien Hoivik, 2007).

Other researchers argue that *guanxi* has different types and only certain types of *guanxi* are connected with the unethical business practices (e.g. Lovett, et al., 1999; Su & Littlefield, 2001; Brand & Slater, 2003; Millington et al., 2005). Su and Littlefield (2001) conceptually divided *guanxi* into two categories: culturally rooted favor-seeking *guanxi* and institutionally defined rent-seeking *guanxi*. The former emphasizes social network and interpersonal exchange of resources (favors) in a collectivistic society. The latter focuses on power exchange in a hybrid Chinese socialist market economy. The phrase “rent-seeking” was introduced by Anne Krueger (1974) and now generally refers to the activities of extracting uncompensated value from other people without contributing to productivity. Su and Littlefield (2001) suggest that the rampant rent-seeking *guanxi* are the major source of ethical issues related to corruption and bribery. Thus the linking of *guanxi* with ethical abuse is a confusion of the different types of *guanxi* relationships.

Researchers further argue that gift giving within *guanxi* is different from unethical business practices of illicit payment and corruptions

(Lovett, et al., 1999; Brand & Slater, 2003; Millington et al., 2005). The former involves building business relationships and *guanxi* networks, while the latter are mainly concerned with the pursuit of self-interests and individual gains. Thus these researchers state that *guanxi* is not a synonym for bribery and not necessarily connected with ethical issues. Furthermore, Chinese businesspeople are well aware of the ethical boundaries between morally proper *guanxi* and unethical and illicit practices of bribery and corruption (He, 1994; Liu & Xiong, 1994; Steidlmeier, 1999).

### ***Guanxi* as Culturally Rooted: A Cultural View**

A number of researchers identify significant differences in buyer-seller relationships between the People's Republic of China and western countries (e.g. Kuhlmann, 1994; Brand & Slater, 2003; Millington et al., 2005). The enthusiasm of researching *guanxi* and unethical business practices reflects the novelty of the conception and its practices and the lack of equivalents in western business world (Brand & Slater, 2003; Millington et al., 2005). In contrast to Chinese business ethical issues, Kuhlmann (1994) finds that issues arising in western buyer-seller relationships are mainly related to the correctness of information, quality and safety, pricing, and terms of contract. The variance of business practices and ethical issues may have their roots in the underdeveloped legalistic culture in the People's Republic of China. Wong and Chan (1999) state that the western businesspeople honor written contracts and respect legal orientations comprising laws, regulations and policies. When conflicts arise, western businesspeople tend to appeal to the formal procedure and employ

legal professionals to protect the enforcement of the contracts. Thus the contracts are finalized before any formal business cooperation. By contrast, for Chinese businesspeople, *guanxi* “works like a lubricant to ‘oil the wheels of transactions’ under the present, poorly developed legal systems” (Wong & Chan, 1999, p. 110-111). The buyer-seller relationships are influenced by *guanxi* orientations and developed through informal procedures of dining and gift-giving. Formal contracts are subsequent to the building-up of mutual trust, which indeed devalues the contracts in founding the relationships in the first place.

Researchers continue to explore the variance of business and ethical values and beliefs and the associated impacts on their business practices (e.g. Mavondo & Rodrigo, 2001; Su & Littlefield, 2001). Su and Littlefield (2001) explain the difficulties for western businesspeople to enter *guanxi* as western businesspeople conduct business on the basis of contractual conventions and commercial law rather than good faith and personal feelings. In addition, western business rules emphasize that people take independent responsibilities and face consequences, while *guanxi* respects *mianzi* (face, individual prestige), friendship or *renqing* (human feeling), which may excuse people from their own personal fault. Furthermore, western business systems and routines exclude power collusion and transactions. The above literatures recognize the significant differences existing in buyer-seller relationships. This raises a question: whether the ethical perspectives of western and Chinese business are fundamentally different or have some homogeneity. This question demands more academic attention.

Chinese and western businesspeople are located in different

social and cultural contexts, characterized with various values and norms. The various culturally rooted values and beliefs of relationships cause the differences of behaviors and business practices of businesspeople. Drawing on previous literatures, Mavondo and Rodrigo (2001) systematically compare Chinese and western buyer-seller relationships on seven dimensions.

The first dimension concerns relationship levels. Chinese buyer-seller relationships are strongly influenced by *Guanxi* values and norms, and interpersonal relationships are key part of interorganizational relationships (Yau, 1988; Ambler, 1995). In contrast, for western businesspeople, interpersonal relationships are important with yet unidentified role in interorganizational relationship (Mavondo & Rodrigo, 2001). In a study of small businesses in the UK, Lu (2010) finds that interpersonal relationships are useful in terms of information exchanges and credit sales. Yet interpersonal relationships are far from forming a decisive factor on interorganizational relationships, which are primarily regulated through contracts.

Chinese and western buyer-seller relationships are different in terms of social bonds, as the second dimension. Social bonds represent “the degree of mutual personal friendship and liking shared by the buyer and seller” (Wilson 1995, p. 339). In Chinese buyer-seller relationships, *guanxi* contains elements of social interaction, friendship and closeness that are all integral parts of social bonding (EAC Group, 1993). Friendship leads to business (Mummalaneni & Wilson, 1991; Ambler, 1995). In a western business context, social interaction has no association with business relationships (Iacobucci & Ostrom, 1996). Socialization is unimportant and of no purpose in the development

of long-term business relationships; business may lead to friendship (Mummаланeni & Wilson, 1991; Ambler, 1995).

The third dimension presented by Mavondo and Rodrigo (2001) is cooperation. Anderson and Narus (1990, p. 45) define cooperation as “similar or complementary coordinated actions taken by firms in an interdependent relationship to achieve mutual or singular outcomes with expected reciprocation over time”. On this dimension, Chinese businesspeople believe that greater environmental uncertainty requires greater flexibility and tend to have a preference to flexibility and compromise (MacInnis, 1993). In contrast, western managers are often more inflexible and resort to more confrontational methods to resolve problems (MacInnis, 1993).

The fourth dimension addressing the difference between Chinese and western buyer-seller relationships is characterized by the diversified understanding and application of trust concept. Trust is an “expectancy held by an individual or a group that the word, promise, verbal or written statement of another individual or group can be relied upon” (Rotter 1967, p. 651). In Chinese business contexts, trust is regarded as a norm in interpersonal relations, and has been identified as one of the key foundations of relationships (Osland, 1990; Wu, 1994). Indeed, trust in Asian cultures often negated the need for formalized contracts (Thorelli, 1990). To western businesspeople, development of trust is a time-consuming activity, in which many western managers are unwilling to invest (Thorelli, 1990). Interpersonal trust is of importance in business transactions as a complement to legal obligations (MacNeil, 1980; Anderson & Weitz, 1990).

Furthermore, Chinese buyer-seller relationships differ from

western in the adoption of Chinese “face” construct as the fifth dimension. Face, also known as *mianzi*, symbolizes individual’s social status or prestige recognized by others, and acquired through successfully performing specific social roles (Hu, 1944). In Chinese buyer-seller relationships, the values of face and corresponding reputation often act as “hostages” to ensure that promises are kept (Williamson, 1983; Osland, 1990; Wu, 1994). In western business contexts, there is no similar construct; Face-giving and any emotional display are considered as a sign of weakness (Hofstede, 1983; Rodriguez & Wilson, 1995).

The sixth dimension to characterize the difference between Chinese and western buyer-seller relationship is time orientation. Time orientation presents a belief that relationships may be unprofitable initially, but will be profitable in the long run (Gronroos, 1994). Chinese businesspeople emphasize the importance of the continuity of relationships. Once *guanxi* established, both parties will attempt to keep the relationship alive through the reciprocation of favors and benefits (Wu, 1996). It is difficult to break an established relationship or re-establish a broken relationship with the Chinese (Yau, 1988). For western businesspeople, long-term orientation or continuity is understood as an outcome of a relationship (Anderson & Weitz, 1990; Ganesan, 1994).

The final dimension proposed by Mavondo and Rodrigo (2001) is reciprocity. Reciprocity is characterized by “a mutually contingent exchange of benefits between two or more units” (Goulder, 1960, p. 164). *Guanxi*-based reciprocal behavior is similar to western culture where an exchange only takes place if mutual benefit is involved.

Among Chinese, there is less hesitancy in being the first and greater beneficiary (Osland, 1990). The norm of reciprocity creates an obligation on the part of the beneficiary towards the benefactor, thus acting as a “hostage” in sustaining a network relationship (Wu, 1996). For western businesspeople, reciprocity involves identical or equal exchange of benefits and a relationship where unequal exchange exists is characterized as “exploitation” (Goulder, 1960).

These dimensions of the relationships show various norms and values in different cultural contexts, which influence the shaping of heterogeneities of Chinese and western businesspeople’s values, beliefs and hence their business practices. Cultural forces have significant influence on *guanxi* and its practices. Yet the institutional environments of business relationships or networks consist of various forces, which are constantly in a changing process. In the People’s Republic of China, the economic and legal infrastructure changes have noteworthy impacts on business ethics in relation to *guanxi* and its practices.

### **Guanxi as Institutionally Defined: an Institutional View**

Researchers notice that there are significant changes in the conception and practices of *guanxi* in the People’s Republic of China. Disagreeing with the argument that *guanxi* is culturally rooted in the Confucian heritage (Yeung & Tung, 1996; Lovett et al., 1999), Guthrie (1998) perceives *guanxi* as an institutionally defined system relying on the institutional structure of society. *Guanxi* and its practices have undergone significant changes, which have been connected with the development of the legal system and increasingly advanced economic

reform (Guthrie, 1998). In a similar vein, Dunfee and Warren (2001) connect the changes in the conception and practices of *guanxi* with the series of environmental transitions in the People's Republic of China: increased privatization of business firms, a movement towards more emphasis on the rule of law, and changes in forms of business operation and corporate governance. In addition, the relevant environmental changes include increasing competition among business firms, increased foreign investment, growing job mobility, the increase of information flows through the internet and telecommunications and an escalating worldwide campaign against unethical practices of corruption and bribery. To these authors, *guanxi* and its practice are subject to the influence of a series of external factors and ethical institutions of Chinese business are thus in a changing process: old culturally rooted institutions are challenged and new institutions come into being.

These environmental changes shake the ground of the traditional *guanxi* concepts and their practices. Chinese business networks display characteristics and behaviors similar to those of the networks in Western business environments (Hendrischke, 2007). In a study of the relationships of urban industrial managers, Guthrie (1998) argues that the significance of *guanxi* may be declining in the People's Republic of China's economic transition, as views and perceptions of *guanxi* are changing in important ways. The author notices managers perceive differently the importance of connections and networks in markets and business. Some managers view social relations as a fundamental part of business relations in a market economic system, while others increasingly view *guanxi* practice as having diminishing

importance, replaced by an emphasis on price and quality. Guthrie finds that a number of managers of the former group not only view *guanxi* as an important aspect of market economies, but they believe *guanxi* is a common business rule working in the rest of the world rather than something particular to the People's Republic of China. Furthermore, Guthrie suggests that Chinese economic actors increasingly pay attention to formal justice, rational bureaucratic actions, contract based agreements, as well as the laws, rules and regulations that are part of the emerging rational legal system. Thus the *guanxi* practices have been seen as unnecessary and dangerous by those investigated managers in light of new regulations and prohibitions against such approaches to official procedures. Guthrie thus argues that *guanxi* and relevant associated practices have become less important in the business contexts of the People's Republic of China.

There are other factors calling for the attention of businesspeople in the People's Republic of China. These factors may decrease the relative importance of the role of *guanxi* in business further. In a study by Yeung and Tung (1996), foreign businesspeople emphasize that *guanxi* is a key factor, yet it alone will not guarantee the achievement of long-term business success in the People's Republic of China. Foreign investors shall also consider choosing the right business location and right entry strategy, competitive prices, complementary goals, familiarity with the Chinese negotiation style, flexibility in business operations, long-term commitment to the market, management control, product differentiation and quality, and understanding of policy. The evidence provided by the above literatures shows changes in

values, beliefs and hence business practices in Chinese business *guanxi* relationships. Wank (2002) finds that Chinese entrepreneurs value efficiency considerations of quality, price and service in maintaining their relationships with customers and suppliers. This finding seems in line with Chrisman and Archer's (1984) study targeting the small business population in the United States, which found that price and quality and customer relationships are highly valued by small businesspeople.

The institutional view emphasizes that changing environments have significant impacts on business ethics in relation to *guanxi* and its practices. Values, beliefs and behaviors of economic actors are situational, defined historically and culturally, and are subject to the large structure of the society, which consists of various and interactive environmental forces. In the People's Republic of China, business values, ethics and practices changes regarding *guanxi* is originated and fueled by the increasing adoption of market economy principles and the rule-of-law legal infrastructure. Following this reasoning, some researchers anticipate that Chinese businesspeople will increasingly accept and embrace the values and beliefs originated in the western contexts. The nature, forms and characteristics of Chinese business network will increasingly resemble those of westerns.

### Conclusions and Suggestions for Future Research

This paper reviews the literatures in relation to business ethics, values and *guanxi* concept on a business network perspective. Despite the general consensus on the importance of *Guanxi* concept and its business practices in a Chinese context, there are arguments on the

nature, the source and the moving of the concept and practices. Some researchers focus on cross-cultural divergence and propound that national culture plays a determinative role in shaping ethical and business values, beliefs and norms. Others, on the other hand, argue that *guanxi* is an institutionally defined system and evolves as a result of the changing institutional structure of society, in particular, changes from economic and legal infrastructure. *Guanxi* researchers shall notice that Chinese businesspeople are located in a changing environment, which has caused the discontinuity or changes of some deeply rooted values and beliefs and their relevant practices, particularly in terms of *guanxi*. As a result, Chinese *guanxi* relationships increasingly display complex, diversified and conflicting norms and values.

The cultural and institutional views are in accordance with the early version of neoinstitutional theory, which laid emphasis on the constraining or controlling capacity of institutional mechanism in shaping individual or organizational activities (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). This capacity functions by defining legal, moral and cultural boundaries of activities to set off the legitimate from illegitimate (Scott, 2001). However, adopting early version of neoinstitutionalism may limit researcher's contributions in accounting for the institutionalisation process of ethical perspective of *guanxi* concept and its business practices. DiMaggio (1988) points out that the approach focusing on the homogeneity and persistence of institutions has aroused a significant criticism for its inattention of the actions of creating, adopting, modifying and rejecting the institutions. This significant criticism has arisen because of the overemphasis on the constraining and controlling function of institutions.

Such works either take business practices and activities solely as the outcomes of environmental pressure, or examine these practices and activates as static social phenomena at the expense of its situational specifics and human agency, which underlies a dynamic nature and lays the emphasis on the importance of historical and cultural contexts.

To avoid the limitations, researchers shall be aware of two significant theoretical perspectives in applying institutional theory. Researchers shall pay attention to the institutionalisation processes whereby institutional practices are created, accepted, established, adopted, transformed, and discarded. Researchers shall also pay attention to the voluntaristic role of actors in interacting with the social, economic, political and cultural environments-how the businesspeople perceive, interpret, and respond to various environmental forces. In a Chinese context, the changing institutional environments have impacts on the values and ethics of economic actors. The actors actively use their understanding and interpretations to respond to the impacts. In other words, Chinese businesspeople are in a process of construction and reconstruction of the ethical boundaries of business practices-what is right and what is wrong (Lu, 2010). The reconstruction is fed back to the institutional environments, which are impacted or even reshaped by economic actors' collective actions. Cultural and institutional views may contribute to our understanding of *guanxi* in terms of the significant influence from institutional forces. Yet an approach embracing the interactions of economic actors and institutional environments is more appropriate to enhance the understanding of the dynamics of *guanxi* concept, the underlying ethics and values, and even the evolving culture itself.

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