An exploratory examination of the use of guanxi by Chinese business people to influence the government’s interpretation, practices and application of policy in China

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Statement of Originality

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Date: January 1, 2014
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ABSTRACT

This research investigates the role of guanxi in the Chinese business-to-government market. To succeed in China, relationships with the Chinese government are paramount for most corporations. The aim of this research is to explore the question “How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?”

In the past decade, multinational corporations have continued to expand the battle fields of business from local countries into global markets. Government policies and regulations are key drivers in the globalization process and have become increasingly important for individual countries such as China. It has been acknowledged that guanxi is an important aspect of doing business in China. A good relationship with the Chinese government and government officials is crucial for any multinationals. However, there is lack of research on the relationship requirements with the government around the use of guanxi as a lobbying and persuasion tactic.

This research seeks exploratory data to understand the role of guanxi in connection to business and the Chinese political system, and how guanxi influences the interpretation and execution of government policies from a relationship marketing perspective. This research has been undertaken by means of the interpretivist exploratory approach, drawing on insights from twenty business people, all of whom have had many years of experience in the Chinese market.

This research finds businesses use guanxi to influence government policies at both organizational and personal levels. They persist to establish a good guanxi, trust and xinren relationship with government officials. Other factors may also affect the consideration of guanxi strategies including the size of enterprises, economic and technological contribution of businesses, performance and the accountability of the government, the stability of society and the regional variations of guanxi culture.
CHAPTER 1 INTRODUCTION

1.1 Research Background

In recent decades, the globalization of markets has been accelerated and driven towards a “converging commonality” by technological changes and social, political and economic developments (Stonehouse, Campell, Hamill & Purdie 2005). In order to achieve world economies of scale to gain cost and price reductions, multinational corporations (MNCs) are moving into a new global operating format to standardize their products and operating systems through technology, regardless of evolution and the divergence of cultural preferences, national tastes and standards (Levitt 1983; Marcus, Kaufman & Beam 1987). Porter (1990) suggests that to compete in the global market, companies must achieve a high level of competitive performance in their domestic market before selling their products worldwide. To attain a sustainable competitive advantage, companies have to operate globally and innovate consistently on an on-going basis. Undoubtedly, the involvement in political activities by businesses has become inevitable and appears to be increasing in order to accomplish organizational objectives. Companies may also act in the public interest with government, for example, during times of industrialization and urbanization (Epstein 1969; Mitnick 1993). The purpose of this research is to investigate the political relationship between business corporations and government in China and the role of *guanxi* on influencing the interpretation, practices and application of government policies.

1.2 The Role of Government

Porter (1990) argues that governments play a vital role in building and enhancing the attributes of the *diamond of national advantage* in order to attain national competitive advantage. Notwithstanding this, it becomes more difficult for government to protect or
support industries. Instead they are increasingly playing the role of a catalyst in creating an environment in which companies can gain a competitive advantage through consistent innovation based on national capabilities.

Governments in home countries can drive an industry toward globalization through the institution of policies, legislation and regulation. In contrast, the governments of foreign countries can set policies to favour and attract global business (Yip 1992). Both host and foreign governments institute trade policies, technical standards, marketing regulations, government ownership and control on certain industries (Stonehouse et al. 2005). Government policies can subsequently affect the strategies and performance of firms (Marcus et al. 1987).

1.3 Corporate Political Strategies

In order to secure a favourable business climate and stay competitive in an ever changing environment, companies strive to gain access to those who are involved in the formulation of public policy (Epstein 1969; Gale & Buchholz 1987; Schuler, Rehbein & Cramer 2002; Shaffer 1995). This is evident in a growing body of literature on business-government relationships highlighting issues such as influencing legislative and regulatory processes, lobbying, seeking access to political committees, coalition building, and advocacy advertising (Gao & Tian 2006a; Shaffer 1995).

In western countries, corporate political action (CPA) has been adopted by firms for almost three decades for the purpose of participating in government processes and influencing government decisions (Gao & Tian 2006b). Organizations employ a variety and combination of political tactics in their attempts to influence public policy so as to achieve strategic goals (Hillman & Hitt 1999; Getz 1993). Political tactics include the determination and distribution of power relationships, influence between business
corporations and the various functions of governments and influencing the decision making process (Epstein 1969).

1.4 The Development of Corporate Political Action (CPA) in China

The political and legal systems in China are different from those in the west (Gao & Tian 2006a, Gao & Tian 2006b), and China like the other developing countries has a unique history (Grindle & Thomas 1991; Kaufmann, Kraay & Mastruzzi 2003). China has not fully adopted business political environment management strategies (Gao & Tian 2006b) as the political and business environments are not separated. Instead, domestic firms operating in China are likely to have adopted compromised political strategies in which relationships with government officials are important (Rivera, Oetzel, de Leon & Starik 2006). Therefore, when foreign investors enter China, the development of connections and people-based relationships are likely to play an important role in gaining a commercial foothold. The success of relationship marketing in China is determined by the level of the guanxi network (Pearce & Robinson 2000). This point is supported by a survey of western business executives (Yueng & Tung 1996) on key success factors for long term business success in China. Of all possible success factors, only guanxi was consistently chosen by all respondents.

1.5 The Importance of Relationships (Guanxi) in China

The relationship orientation of the Chinese as opposed to the rules orientation of Westerners is a key challenge for Westerners seeking insight into Chinese business behaviour (Trompernaars & Hampden–Tuner 1997). The Chinese prefer to do business with those they know and trust and this is therefore a prerequisite for developing successful business relationships in the Chinese market (Pearce & Robinson 2000; Wong, Maher, Evans & Nicholson 1998). The Asian business literature emphasizes the
precedence of person-to-person business relationships over contractual relationships in China (Herbig & Martin 1998). This is in direct contrast to the arms-length inter-organizational relationships found in Western countries (Björkman & Kock 1995; Lasserre & Schütte 1999; Luo 2007; Tung & Worm 2000). Further, Luo (2007) argues that person-to-person relationships are not only important in business-to-business activities but also in business-to-government activities (Luo 2007) as there are no political campaigns in China and therefore limited opportunities for political lobbying. 

Guanxi with government officials becomes an important influencing tactic when firms participate in political engagement (Tian, Gao & Wei 2003). However, guanxi in China is a personal asset and hence CPAs in China are individually driven and undertaken in private (Gao & Tian 2006b).

1.6 Research Justification

This section details the justification for this research and concludes with the overarching research question of this study.

1.6.1 The Growing Importance of the Chinese Market

China commenced economic reform in 1978 moving from a centrally-planned to a market-oriented economy, and since that time its economic growth has been phenomenal (Cao 2001; Yeh 2001). The accession of WTO in 2001 further propelled economic reform and enhanced market openness. The rule of law has been strengthened in both the economy and society (Xu 2001). Despres (2001) notes that the economic growth of China is not only of importance to the United States, but it will bring prosperity and stability to the world economy (Xu 2001). Owing to its huge population and rapidly developing economy, China has become one of the largest markets in the world (Gao 2006). While multinational companies see China as a new paradise (Gao 2006), they
encounter a huge array of political and institutional issues when engaging in business in China. Hillman and Keim (1995) suggest that it is expected that firms will inevitably be involved in political activity when expanding their businesses into China.

1.6.2 The Limited Understanding of Corporate Political Action in China

Business-to-politics interaction has flourished in the United States since the late 1950’s (Epsterin 1969), and corporate political action (CPA) has been a popular topic for management scholars since then (Gao & Tian 2006a). Business-to-politics interaction has also attracted interest from other disciplines including political science, sociology, economics and business studies (Mitnick 1993). However, studies on this topic have mainly been confined to Western countries. Study on CPA in non-Western countries and particularly in China is rare (Gao & Tian 2006b; Gao 2006). Therefore, this research is important as it seeks to explore the role of CPA in China.

1.6.3 The Role of Trust and Guanxi in CPA Practise in China

Chinese culture has been influenced by Confucianism for more than 2000 years. Confucianism emphasizes the maintenance of balance and harmony as well as good relationships in social networks. As a result of a relatively weak legal system, a good social relationship between individuals with strong guanxi is important (Gao & Tian 2006b). The role of interpersonal relationships (guanxi) has been cited as one of the major dynamics in Chinese society and one that has pervaded Chinese business for centuries (Luo 2007). Following the boom of the Chinese market, studies have started to attempt to understand the determinants that influence the government policy decision-making process from the guanxi perspective (Fan 2002; Su, Sirgy & Littlefield 2003; Wood, Whiteley & Zhang 2002). Although guanxi-based lobbying is recognized as one
of the most popular approaches being adopted (Gao & Tian 2006a), a comprehensive understanding on the role of _guanxi_ in CPA has yet to be determined.

### 1.6.4 The Efficacy of CPA in Connection to Guanxi

Theories and models have been developed to assess the efficacy of certain types of relationships in different disciplines, such as the leaky bucket theory (Grönroos 1995), the acquisition and retention costs theory (Christopher, Payne & Ballantyne 1991), the return on relationship theory - ROR (Gummesson 1999), the five-stage model (Dwyer, Schurr & Oh 1987) and customer lifetime-value (Ambler & Styles 2000). Most are derived from the marketing discipline. Other theories, such as transaction cost theory (Kaufman, Englander & Marcus 1993; Williamson 1981; 1985) are derived from economics. The principle-agent model (Keim & Baysinger 1993), the functions/goal model (Andrews 1987), the phased development model (Andrew 1987) and the systems model (Fleisher 1993) are derived from political science. These theories and models have been applied to CPA practices in western countries. However, the transferability of management theories from one culture into another has been questioned (Hofstede 1993; Rosenzweig 1994; Tsang & Kwan 1999). Further, the aforementioned theories and models have neither been tested in the Chinese context, nor in connection with the _guanxi_ construct. Therefore there is ample justification for exploring the applicability of these theories and models in relation to CPA in China.

### 1.6.5 Guanxi as a Sustained Competitive Advantage?

_Guanxi_ has been cited as a type of on-going competitive advantage for doing business in China (Tsang 1998). The resource-based theory of strategic management suggests that the resources and capabilities of firms enable them to obtain a competitive advantage and achieve superior performance (Barney & Zajac 1994; Oliver 1997). However, the
resource-based view has not made an examination, beyond the properties of resources and resource markets, to explain firm heterogeneity, particularly in a social context such as network ties (guanxi), and how this heterogeneity influences firms towards achieving a sustainable difference (Ginsberg 1994). The limited theoretical development on this aspect of the resource based view also justifies this research (Tsang 1998).

1.6.6 Enhancing Guanxi Knowledge in Connection to Business-Government Relationships

Despite guanxi attracting academic and practical interest, there are few in-depth treatments exploring the concept and practice systematically and vigorously from a business perspective (Gold, Guthrie & Wank 2002; Luo 2007). Guanxi has been studied by scholars across disciplines, such as sociology and relationship marketing. However, empirical research in China has been slow to eventuate in the last decade. Part of the reason for this is suspicion on the part of government officials (Business China, May 1999), and the scarcity of reliable data (Luo 1997). Moreover, the study of guanxi in respect to business-government relationships in connection with corporate political action in China is almost untouched (Gao & Tian 2006a). A better understanding of CPA practice and the role of guanxi in influencing public policy in China will expand the accumulation of knowledge in this area (Tsang & Kwan 1999). It will be beneficial not only to scholars, but also to indigenous and foreign business people actively engaged in the Chinese market.

1.6.7 Research Question

With a huge population of 1.3 billion and a growing middle class, China continues to be an attractive market for foreign firms. Indeed, if China continues to grow as it has done over the past 20 years, it is destined to be the world’s largest economy and comparable to
the United States within the next few decades (Michalski, Miller & Stevens 1996). However, western firms continue to fail in the Chinese market, often because of a tendency to do business in China as they would in their home country. Therefore it is important to better understand critical success factors for engaging in business in China. The literature suggests that guanxi is a critical success factor in business in China. A small body of literature also suggests that political strategies and tactics practiced in business-government interactions may be different to those used in the west. Therefore this research provides valuable insights into Chinese business-political behaviour by examining the following research question: **How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?**

1.7 Methodology

Exploratory research in international marketing tends to use a qualitative approach for two main reasons. First, the involvement of both cross-cultural factors and complex interrelationships make extrapolation through quantitative techniques difficult (Li & Cavusgil 1995; McDonald 1985) and secondly, because quantitative data is limited in its application to development at the theoretical and conceptual levels (Hantrais & Mangen 1996). Therefore, the present research adopts an inductive reasoning approach to generate theories and ideas (Cavana, Delahaye & Sekaran 2001) in an attempt to understand what happens and why (McDonald 1985) and uses a critical realist perspective (Tsang & Kwan 1999) within the interpretive social science paradigm (Neuman 2003). Exploratory, qualitative research is chosen as the method to generate and advance knowledge through the collection of “rich” information in order to discover emerging patterns (Cavana, et al. 2001; Neuman 2003). This approach is most suitable
for in-depth international business research for business elites in the Asian context (Yeung 1995).

Overly structured interviews are not suitable for exploratory research, as predetermined questions provide limited opportunities to derive thick and rich descriptions (Cavana, et al. 2001). Therefore, a semi-structured interview protocol was designed by the researcher focus on the research subject in the Chinese context, but remains flexibility to establish conversational style to explore new areas by the researcher not originally anticipated. The interview protocol was reviewed by the researcher’s principal and co-supervisor, and was pilot tested by two respondents to enable the researcher to become more familiar with the interview process and identify refinements in technique and changes to the protocol.

Face-to-face semi-structured field interviews were conducted in either Cantonese or Mandarin in order to enhance data collection and increasing rapport. The interviews started off to reassure the legitimacy of participants and verified guanxi playing an important role when they liaise with government. Then the interviews followed the logical flow according to defined protocol but allowed free discussions and exploration of new areas in a natural way related to the research problem.

Participants included members of trade associations, business owners, and leaders and executives with operations in the Chinese market. To ensure that the interviews were reliable and could be transcribed and analyzed at a later stage, they were digitally recorded after attaining advanced permission from each respondent. Throughout the interviews, adjustments were rarely made to the protocol but participants were probed when certain topics arose in order to explore emergent themes.
1.8 Thesis Outline

Chapter 1 provides a background to this research, the topic area, the importance of undertaking this research, an overview of this dissertation and an introduction to the research question.

Chapter 2 presents a comprehensive interdisciplinary review of Western and Chinese literature in order to compare and contrast the Western and Chinese systems and practices. Chapter 2 concludes with an identification of the gap in the literature, and a presentation of the research questions.

Chapter 3 describes the research methodology and design adopted for this study. This includes the development of an interview protocol, the identification and selection of respondents, accuracy verification and the methods of capturing and processing data.

Chapter 4 discusses the process of identifying, coding, and categorising the data collected from the interviews and includes a discussion of themes that emerged from the content analysis of data.

Chapter 5 concludes with a discussion from the data analysis in Chapter 4 and presents a conceptual framework to provide a clearer understanding of the use of guanxi by Chinese business people to influence the government’s interpretation, practices and application of policy in China. The implication for theory and practice, the limitations of the study and the areas of future research are also discussed.

1.9 Definitions

Specialized words used every day in social theory can create confusion. Weak, contradictory and unclear definitions of concepts can restrict the advancement of knowledge (Kreuger & Neuman 2006). The definitions adopted by researchers are often inconsistent. Therefore, significant and contentious terms are defined to establish the positions that have been taken in this research. Theoretical definitions are linked to
conceptual frameworks and to value arguments. For a definition to have usefulness it must be clear, explicit and have a particular meaning that has no uncertainty or imprecision (Neuman 2003). Key definitions used in this research are listed below. A glossary of terms used for the rest of this research immediately follows the end of Chapter 5.

**Interpretation** - The way in which someone explains or understands an event, information, someone’s actions (Longman Dictionary 2003).

**Practice** – Something that people do often, especially particular way of doing something or a social or religious custom (Longman Dictionary 2003).

**Application** - The practical purpose for which an idea can be used, or a situation when this is used (Longman Dictionary 2003).

**Corporate Political Action (CPA)** - Any purposeful action by a firm intended to influence a governmental policy or process (Getz 1997).

**Collective Political Actor** - Any group, organization, or coalition of such units, that participates in the political process with the intention of influencing outcomes. Collective political actors may include individuals, individual firms, trade associations, public interest groups, political parties and coalitions of such actors.

**Corporate Political Strategy** - The use of an organization’s resources to incorporate objectives and to undertake systematic actions that are directed towards the social, political and legal environment in order to secure either permanent or temporary advantage and sway over other actors in the process (Mahon 1989).

**FIE** - Foreign-Invested Enterprise.

**CPPCC** - National Committee member 政協委員
Group - A number of individuals with a common interest (Olson 1971).

Lobbying – The initiation and transmission of a message, by someone other than a citizen acting on his own behalf, that is focussed at a governmental decision-maker with the hope of influencing his/her decision(s) (Milbrath 1963).

Public Interest Group - “Seeks a collective good, the achievement of which will not selectively and materially benefit the membership or activist of the organization” (Berry 1977, p. 7).

North China and South China - China is divided into North and South regions by the Qingling Mountains and the Huaihe River. Accordingly, Beijing is in North China, and Shanghai in South China.

1.10 Boundaries and Delimitations of the Research

There is a lack of empirical research pertaining to business corporations and the political process in China (Gao & Tian 2006a). This research adopts an interpretive paradigm to investigate the role of guanxi in corporate affairs and government relationships. The boundaries and limitations of this research are identified below.

- This research focuses on business-to-government relationships in the Chinese market. Therefore, the generalizability of findings may be limited to the Chinese market within Chinese ethnicity and culture.

- This research focuses on relationships at the business-to-government level. The present study investigates the role of guanxi, in the execution of corporate political action on public policy for the goal of achieving organizational competitive advantage, rather than business-to-business or business-to-customer activities to achieve transactional exchange goals. Nevertheless, the lack of participation from
government officials disallows a holistic view including both government and business perspectives.

- The present study was conducted primarily in Hong Kong and mainland China. Respondents included senior executives and managers who had a liaison role with the government in the Chinese market. A guanxi between the respondents and government had already been built in their operating territories before the study, and also existed during the study. It is noted that the strength of trust and their guanxi with the government may affect the result of their influence on the interpretation, practise and application of public policies. However this combined effect is not considered fully in this research.

- The Chinese landscape is huge. The present research covers the geographic areas of Hong Kong, Guangzhou, Shanghai and Beijing, and this has limitation for representing China in a generalizable way because there are cultural variation among the non-open and rural areas in Northern and inland China.

1.11 Conclusion

This chapter presents the foundations of the research and introduces the subsequent chapters of the dissertation. It introduces the research problem and identifies the following research question – **How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?**
CHAPTER 2  LITERATURE REVIEW AND RESEARCH ISSUES

2.1 Introduction

This chapter aims to build a theoretical foundation for the research topic and identify topic specific issues that have not been answered in previous studies. A brief discussion on the research background was presented in Chapter 1. This included the role of government and the development of CPA and Corporate Political Strategies in Western countries. Recent developments associated with guanxi and relationships with the Chinese government were also discussed. This chapter includes a literature review of three parent disciplines: political science; relationship marketing and; international business with the latter acting as an overarching framework. The main focus of cross-over coverage includes: Chinese interpersonal connections (guanxi) and business-to-government relationships.

Overarching institutions are discussed within the context of institutional economics. The political and legal systems of both China and the West are briefly discussed. The differences between both systems are highlighted, with the nature of Chinese political agency discussed in detail. Extant theories around collective action, behavioral theory, resource theory, agency theory, interest group theory, public choice theory, transaction-cost theory and exchange theory are appraised in detail and discussed in relation to CPA.

Network and relationship marketing are examined in the next section, with Chinese culture and its relationship to personal networks, trust and guanxi highlighted. Particular emphasis on liaison with Chinese government officials, where firms strive to gain competitive advantage, is the key focus of this section. This section identifies that the practice of CPA through guanxi has not been fully explored in the Chinese context. This is an important gap in the literature and one to which this research aims to reduce. The framework in which this gap has been identified is illustrated in Figure 2.1 below.
2.2 The Role of Government in Economic Development

The role of government in economic development has been typified as occurring in three phases: prime mover phase, problem phase and rehabilitation phase (Adelman 1999). Economic growth led by governments (prime mover phase) has been an essential feature of socio-economic development from the Industrial Revolution until the present time. Government also played a critical role in promoting technology dynamism, industry policy and increasing productivity in both industry and agriculture while investing in infrastructure, human capital and industry (problem phase) (Adelman 1999). After the end of World War II (rehabilitation phase), the global economic system was designed to
increase economic interdependence while allowing national governments to pursue their own welfare and development goals (Adelman 1999).

To sustain continued growth, the major functions of government have to shift from purely social development to the creation and development of both economic and political institutions and the building of infrastructure to promote industrialization (Adelman 1999). During both the 19th and 20th centuries, activist governments seeking competitive advantages changed international trade and commercial policies and this changed the thrust of government finance, investment and incentives. In the process of institution-setting, promoting policy and institutional reforms, the structure of power practiced by governments has determined the choice of policy. The impact of governments on the economy and society, including business organizations, depended on whose interests the government represented (Adelman 1999). Therefore, it is argued that government policy decisions meaningfully affect the governance, operations and performance of firms (Marcus et al. 1987). There is considerable evidence indicating that political history and economic history are always closely related (Adelman 1999; Adelman & Morris 1967).

Economists have explicitly recognized the importance of government influence on the environment of economic activity (Epstein 1969). In 1980, Michael Porter introduced his acclaimed 5 Forces model. Porter suggests that the state of competition in an industry depends on five basic competitive forces that shape industrial competition and in turn affect a firm’s profitability (Stonehouse et al. 2005). They are: rivalry among existing firms; potential entrants; bargaining power between suppliers; bargaining power between buyers; and the threat of substitutions. The overall power of these forces determines the ultimate profit potential in an industry. Porter (1980) argues that government policy can be a major barrier to entrance that may limit or foreclose entrance into industries, using controls such as licensing requirements, limits on access to raw material, pollution and
safety and technology standards. He also finds that governments play a vital role in shaping the context and institutional structure that stimulates companies to gain competitive advantage at the national level (Porter 1980).

Porter’s findings in relation to government are also demonstrated in the globalization drivers developed by Yip (1992, 2003). Yip proposes that there are four categories of drivers that determine the degree of globalization within an industry. They are: market, cost, competition and government drivers. The strengths of drivers in different industries and markets are varied. Yip (2003) suggests that government policies, legislation and regulation may drive an industry toward globalization, especially in relation to technical standards, marketing regulations, government ownership of competitors and customers, and the concerns from host country governments.

Government represents a major potential source of influence on the functioning of industry and consequently there is a growing body of literature suggesting that “government” be viewed as a sixth force (Boddewyn 1993; Fried & Oviatt 1989; Kriz 2008; Mahon & McGowan 1998; Rugman & Verbeke 2000; van den Bosch & de Man 1994). Porter (1990) argues that either a pure free market or pure government support of industry is detrimental and would ultimately lead to the permanent erosion of country’s competitive capabilities, and that both are required. In his Diamond model of National Competitive Advantage, Porter (1990) suggests that the four attributes, factor conditions, related and supporting industries, demand conditions and firm strategy, structure and rivalry all contribute to the national competitive advantage. The proper role of government is as a catalyst and challenger to encourage, prompt and move companies towards a higher level of competitive performance. Nevertheless, the role of government is inherently partial and only successful when working in tandem with favorable underlying conditions in the diamond (Porter 1990).
2.3 The Nature of Politics and the Political Process

Lasswell (1965, p. 3) defines politics as the study of “who gets what, when and how”. Epstein (1969) suggests that politics is a process concerned with the relationships of governance, power, influence and control among individuals and societies. It involves the determination of relationships of power and influence among diverse social interests, business corporations and the many organs of government. The essential element of politics is the attempts by social interests, both individual and collective, to access and impact upon the *diverse foci* of governmental decision making (Epstein 1969). Politics, therefore, includes all the activities engaged by social interests with the intention of guiding, affecting and influencing governmental actions. In practice, government operations involve the formulation, implementation and the enforcement of policy by legislative, executive, administrative and judicial bodies. These activities normally involve politics associated with interest groups intent on influencing public opinion regarding factors such as government operations, opposing social interests and the needs of political participants.

In the West, a presidential election has its own dramatic quality because of the pomp and circumstance around the election process (Esptein 1969). Electoral activities centre on the selection and support of candidates, or on issues that come before the public. Although the selection of public officials becomes important to business firms, an election normally take place with little involvement by corporations. In contrast, because most political decisions important to firms are outside the electoral process, business firms prefer to concentrate their activities on broader governmental politics and attempt to maximize their position in society on a day-by-day basis through lobbying (Epstein 1969).
2.4 The Western Political and Democratic System

It is inevitable for business to involve itself in the political process (Epstein 1969). As a result of having a presence in a pluralistic democracy, the involvement of business in corporate political activity will continue to increase in the foreseeable future of companies (Epstein 1969). This section discusses the nature, history, theoretical development and practice of Corporate Political Activity (CPA) in the West over the last two centuries.

The development of American politics went through several stages as the American economy developed. The beginning of corporate political involvement in the United States can be dated to 1820 (Epstein 1969). During this early era of a government-led economy, the attainment of corporate status required involvement in political activities by individuals. During the post-civil war period of the 1880’s, and following the consolidation of industrial activity into large national units, the “Age of Enterprise” emerged. This era was not only commonly known for the introduction of a new mode of economic activities, but also for a significant change in the way American politics was conducted. Political power shifted from agricultural and patrician interests to the new class of entrepreneurs in an era of democratic and economic freedom (Epstein 1969).

In the decade following the election of William McKinley as President, corporate political activity was equally apparent in both governmental and electoral processes. In governmental politics, corporate interests exerted continual efforts to acquire the support of political decision makers in the municipal office, state legislature, and congress (Epstein 1969). It was the beginning of Corporate Political Action in the history of United States.

2.4.1 Political Competition and Contestability

Today, corporate political activities proceed largely through the creation and use of agents around the democratic political process. It involves a contest over whose opinions
are finally reflected in the public decisions that have importance to the economic health of firms. Mitnick (1993b, p. 12) defines political contestability as a ‘collective political actors or a system of such political actors possesses attributes, resources, positions, or other factors, in themselves or in their environment, that promote the ability to compete effectively in the political process’. According to Mitnick (1993b), political contestability can be recognized at two levels with important differences – the firm and the system. To ensure the playing field is fair and level for all individual participants, it is necessary to design and implement a system with contestability that permits democratic political competition. The criteria of such a democratic political system are that it should respect popular will and include representational neutrality (Epstein 1969). It is also required that values regarding democracy be widely shared, and that diverse positions arising from representation be respected (Cnudde & Neubauer 1969; Downs 1957; Mitnick 1993b; Pitkin 1967). It is also important that preferences held by people are able to be transmitted into a decision arena in which campaigning and competition are free and unblocked (Mitnick 1993b).

2.4.2 Elitism and Pluralism

Corporate political activity has been the subject of attention across disciplines including political science (Bauer, Pool & Dexter 1963), sociology (Laumann & Knoke 1987; Zald 1978), business management (Epstein 1969; Keim & Baysinger 1988; Mahon 1989; Marcus et. al 1987; Yoffie 1987) and economics (Braeutigam 1996). It is noted that disagreements exist in sociology and political science concerning the political power of business leaders in the community. The difference in the conclusions from sociologists and political scientists are largely attributable to the research perspective each adopt in studying a problem. Sociology focuses attention on individuals and classes of individuals who occupy high economic power and/or are key wielders of influence and control
(Hunter 1963; Rose 1967). In contrast, political science tends to focus on issues and decision making processes (Epstein 1969).

Among the elitist theorists, Domhoff (1967) and Walker (1966) express their views that the business elite constitute a national ruling class in the United States based upon a national corporate economy and the institutions that the economy nourishes. Conversely, researchers in political science generally do not support this finding and tend toward a pluralist interpretation of the distribution and execution of political power. Dahl (1967) suggests that multiple centers of power exist in American pluralism in which there is a distribution of political resources with no single elite holding the key to controlling all decisions of communal importance. This is because the power structure is dependent on a large number of factors and forms. They are: the size of the community; the party structure; the nature, number, owner and size of business interests; the regional location; the relationships among business groups; the presence of other highly organized social interests and; the socioeconomic composition of the population (Kariel 1961; Mason 1950; Reagan 1960).

Elitist theory has its own merit. The classical democratic system assumes that citizens are all well informed and share and treasure core public values. All citizens care about what their government does and participate in the collective governance of the democratic process. The system is open, universal, active, principled and responsive (Cobb & Elder 1972). However, this democracy is rarely found anywhere and few voters choose to exercise suffrage. Studies show that both the rates of participation in public events and citizens’ knowledge of public policy are low. Pluralist democratic elite theory solves the dilemma of non-participation by raising the analysis from the individual to the system level (Cobb & Elder 1972). In a pluralist system, the job of informed participation is given to groups and their elite leaderships. A citizen need not participate, but group elites do.
To achieve this, Mitnick (1993b) suggests that pluralist theory is required to meet four criteria: (i) social pluralism; (ii) varied and opposing elites who are circulating and accessible; (iii) a basic agreement, at least among the elites, on the laws of democratic competition and; (iv) regular chances for the public to participate in the appointment of public officials. These four requirements are comprehensive enough to explain the generalized theory of competitive constraint to inhibit anyone from dominating the competitions (Epstein, 1969).

2.5 Corporate Political Action

It is apparent that there is no single accepted terminology or conceptual definition of corporate political activities. The confusion comes mostly from multiple implicit definitions of political strategy and the manner in which various authors categorize their own strategy types (Oberman 1993). In this research, the definition of corporate political strategy and action are adopted from Mahon (1989) and Getz (1997) respectively, as identified in the ‘Definitions’ section 1.9 of Chapter 1. Oberman (1993) suggests that corporate political strategy should concentrate on the environmental context in which threats and opportunities are perceived by firms. Political objectives and strategic choices sought by firms to solve environmental issues are such that objectives will be tied to a specific political action policy, and then turned into tactics as Figure 2.2 illustrates.
Keim and Zeithaml (1986), classify the five most common strategic typologies adopted by politically active firms. They are: electorate building; political action committee donations; advocacy publicizing and; lobbying and coalition building. This research does not specifically investigate corporate political strategy and the process of choosing policy type, or any standard affair functions directed toward the social environment at large. Rather, following the definition in Chapter 1, the present research focuses on the behavior and activities undertaken in business-government activities in China.

### 2.6 Extant Theories of CPA

In the past two decades, conceptual and theoretical frameworks have been developed to explain CPA in Western countries. Scholars from various disciplines (Boddewyn 1993;
Cook 1977; Dohan 2005; Epstein 1969; Evans 1996; Getz 1993; van den Bosch & de Man 1994) have used either deductive or inductive empirical methods to understand the phenomena of firms engaging in government politics. This section reviews the extant theories highlighted in Table 2.1 against their disciplines of origin.

### Table 2.1 CPA Theories from Various Disciplines

<table>
<thead>
<tr>
<th>Political Science</th>
<th>Economic and Political Economy</th>
<th>Organization Science</th>
<th>Social Science</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Interest group pluralism</td>
<td>• Collective action</td>
<td>• Resource dependency</td>
<td>• Principle agent/Agency theory</td>
</tr>
<tr>
<td></td>
<td>• Public choice</td>
<td>• Exchange theory</td>
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<td></td>
<td>• Transaction cost</td>
<td>• Institution theory</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Behavioral theory</td>
<td></td>
</tr>
</tbody>
</table>

#### 2.6.1 Interest Group Theory

The terms interest group theory and pluralism are synonymous (Latham 1952; Miller 1983). Interest group theory emphasizes the connection of activities of membership organizations to the doctrine of pluralism (Schlozman & Tierney 1986). Salisbury (1984) suggests that political actors, such as business organizations, perceive and act politically upon their own interest. The efforts of interest groups to attain a compromise between their competing goals are a feature of interest group pluralism (Shaffer & Hillman 2000). It is essential that the democratic system requires effective contestability and functioning to permit interest groups to solicit governments on behalf of their members (Getz 1997).

The Western emphasis on liberty and pluralism tends to create favorable conditions for pressure and interest groups (Olson 1971). Furthermore, they use government as a tool in competition and in creating the environment most favorable to their success over competition (Mitnick 1993b).

Getz (1997) suggests that two types of interests, economic and ideological, explain business involvement in the political pluralistic coliseum, although heterogeneous groups
have inconsistent interests (Plotke 1992). There is also empirical support (Evans 1996; Olson 1971) for the proposition that the efforts of interest groups play a significant role in their success. However, inter-group conflict is also a matter that creates negative effects (Evans 1996). The success of each social interest depends on the ability to build allies with other groups (Epstein 1969). Despite the fact that the interests of large public groups are more difficult to organize than concentrated economic interests (Olson 1971), coalition politics is important and can become a major tool in business advocacy (Little 1986; Mitnick 1993).

2.6.2 Collective Action

The theory of collective action emphasizes the voluntary provision of public or collective goods by private actors (Olson 1971). In every organization, it is purported that there is an interest shared by all its members (MacIver 1932) and there is no group without an interest (Bentley 1949). Those who belong to an organization or group should have a common interest and every member will also have their own individual interests that may be different from those of the others in the group (Olson 1971). Olson (1971) theorizes three types of groups: large or latent; intermediate and; privileged small groups. He suggests that sanctions or selective incentives are needed to avoid free-riders and mobilize the latent group. Without sanctions or incentives, economic or social, individual members in large groups would likely prefer to enjoy the benefits but let the others pay for the cost of collective goods. In contrast, in privileged groups, one or a few members value and are willing to bear the full burden of collective goods, although the goods may be obtained without any group organization or coordination because the member relationship is so close. In intermediate groups, although some collective goods are provided, the efficiency tends to be suboptimal (Olson 1971). Collective action theory
has been adopted by CPA to describe the relational aspects of CPA and demonstrate how it may change as an issue evolves (Getz 1997).

2.6.3 Public Choice Theory

When firms recognize a potential benefit in a government policy, public choice theory suggests that they will engage in the political arena to try to snare that policy. Conversely, if the cost outweighs the benefits, firms will refrain from being politically active (Getz 1997). Keim and Zeithaml (1986) recommend two tactics, coalition and constituency building, in order to shift the legislator’s position to align with the interests and preferences of a firm.

2.6.4 Transaction Cost Theory

Transaction cost theory has been used to explain the phenomenon of a desire to reduce the costs and risks associated with administering CPA either independently or through coalitions (Getz 1997). Marcus et al. (1987) recommends firms engaging in CPA consider enhancing their internal management structure or contract out to specialized intermediaries according to the frequency of issues. For non-specific issues, a firm should choose a trade association to manage political action. This is because the individual costs involved in trying to achieve small objectives would require considerable resources for an individual firm and may affect its financial performance (Hillman, Zardkooh & Bierman 1999). Williamson (1991) argues that uncertainty between the interaction of businesses and government creates huge transaction costs. Political processes are very complex and it is nearly impossible for firms to realize and manage all aspects of dynamic issues.
2.6.5 Resource Dependency

Resource dependency theory has been used to explain organizational behaviors in CPA. The dependence of firms on favorable government policy to generate revenue may be a result of firms using CPA to shape a government relationship, such as obtaining government contracts. The theory advocates that firms may use CPA to mitigate uncertainties and reduce the likelihood of negative effects from that dependence (Getz 1997). Baysinger (1984) proposes the use of CPA to attain three organizational objectives: domain management; domain defense and; domain maintenance, in which domain defense and maintenance are resource dependent. Mahon et al. (1989) argues that the level of a firm’s stake, (that is, high or low dependency), may affect its decision in relation to political involvement.

2.6.6 Exchange Theory

Exchange theory suggests that it is the importance of power and dependence to social relationships that enable the transfer of resources for mutual benefit (Cook 1977). Exchange theory is associated with resource dependency theory, but the difference is that resource dependency theory emphasizes the dependence of business on government, whereas exchange theory emphasizes the interdependence of two institutions or systems. Interdependence is the result of a balance of power and dependence in an exchange relation. Non-balanced relations tend to move toward balance over time. A business’s power is relatively high when the government needs resources that the firm can provide. In such situations, the firm is likely to exploit this advantage and utilize CPA to gain competitive advantage (Getz 1997).
2.6.7 Behavioral Theory of Firms

The behavioral theory of firms emphasizes the impact of the business decision making process on firms’ willingness to engage in political activity. The theory suggests that organizational structure and conventional practice have an impact on goal development, the creation of expectations and the implementation of choices (Cyert & March 1966). Characteristics such as structure, resources, routines and history influence a firm’s interpretations and responses to environmental stimuli. It is suggested that more profitable companies with rich resources are capable of executing their decision and gain effective CPA (Getz 1997). Other characteristics, such as firm size, firm age, experience, traditions (Hillman & Keim 1995) and structure (Rehbein & Schuler 1995) are also determinants that increase the preference of firms to be political active.

2.6.8 Institutional Theory

Institutional theory was developed from behavioral theory. Institutional theory suggests that firms engage in CPA in two ways: (a) firms obtain formal and informal institutional resources, such as laws, favorable public opinion and legitimacy, and (b) firms with resources and experiences institutionalize knowledge and tend to implement CPA to resolve business problems (Getz 1997). Oberman (1993) argues that CPA is an attempt to transform political resources into formal institutional resources by increasing an actor's stock. Oberman typifies political resources as financial resources, policies, ideology, political culture, group perceptions, communication networks and public opinion. CPA is a means of acquisition and use of political resources to establish desired political institutions.
2.6.9 Agency Theory

Agency Theory has been used to explain CPA activities. From the political-business perspective, it is acknowledged that firms act as principals and government officials as agents (Getz 1993; Keim & Baysinger 1993; Mitnick 1993c). Although democracy assumes that government officials represent their constituents, a government official may not consider a particular firm to be a legitimate constituent (principal) when he/she makes policy decisions. From a theoretical perspective, the dimensions of typology developed by Getz (1997) assists to overcome this structural problem through the introduction of levels (international, national, regional, local) and functions (executive, legislative, judicial).

2.7 Choices of Political Tactics

Tactics are specific actions taken to advocate certain policy positions (Berry 1977). A number of theories developed by scholars were discussed in the prior section. This section draws upon the previous section to conceptualize political influencing activities and tactics.

2.7.1 Resource and Typology

Political activities can be viewed as an attempt to transform a political resource into a formal or informal institutional resource. Political actors invest their initial stocks of political resources in various political activities and transform them into formal and informal institutional resources (Mitnick 1993). As Table 2.2 illustrates, Objective or Mixed mode content represents the output and properties of institutional resources controlled by the actors in two formats, i.e. formal and informal. The formal organization is classified into social and government respectively and includes trade associations, courts, legislatures, and agencies. The properties of the informal structures include
ideology and group values, presentation in the forms of the political culture and societal value.

Table 2.2 Typology of Political Resources

<table>
<thead>
<tr>
<th></th>
<th>Institutional Resource</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal Resources</strong></td>
<td>- Social structure e.g. industry trade association agencies</td>
</tr>
<tr>
<td></td>
<td>- Government structure e.g. Government institution, courts, legislatures (policies, laws, constitutions)</td>
</tr>
<tr>
<td><strong>Informal Resources</strong></td>
<td>- Group values e.g. social values (norm, information, policy output)</td>
</tr>
<tr>
<td></td>
<td>- Patterns of group behavior</td>
</tr>
<tr>
<td></td>
<td>- Group perceptions</td>
</tr>
<tr>
<td></td>
<td>- Ideology e.g. political culture, iron triangles, policy networks</td>
</tr>
<tr>
<td></td>
<td>- Communications networks public opinion</td>
</tr>
</tbody>
</table>

*Source: Developed for this research from Oberman 1993*

2.7.2 Choices of Tactics and Activities

Getz (1993) theorizes that a firm’s choice of political activities is dependent on the target and nature of issues. It is particularly characterized by the relationship between a firm and policy maker and that suggests that this type of agency relationship helps to identify which political tactics best suit different situations (Mitnick 1993). According to Getz (1993) there are three variables that influence the choice of CPA tactics. They are: the target types for political activity, the type of policy and the issue of the life cycle. The political target is defined as an individual, group, or organization at whom CPA is directed. The attributes of political targets consist of authority, level (international, national, regional or local), functions (executive, legislative, or judicial) and the way of access (internal and external). The conceptual idea of the life cycle is adopted from political science to describe the evolving patterns of policy-making and business

Scholars categorize CPA tactics in many different ways. Getz (1993) groups these into seven categories: lobbying, reporting research results, reporting survey results, testifying at governmental hearings, legal actions, personal service and constituency building.

- **Lobbying** refers to direct contact and communication between a registered lobbyist representing the firm and public policy makers.

- **Reporting research results** is a means by which a firm shares newly learned data with policy makers.

- **Reporting survey results** informs policy makers about changing attitudes among their constituents.

- **Testifying at congressional or administrative hearings** allows firms to simultaneously present their views to several interested policy makers.

- **Legal actions** may include litigation, threatening the use of legal procedures, or filing *amicus curiae* briefs (*amicus curiae* is Latin and means "friend of the court" and relates to someone volunteering a brief of legal opinion to assist a court in deciding a matter).

- **Personal service** by corporate leaders in official government posts has potential political benefits for corporations. An executive may serve at the federal cabinet level, in executive and administrative departments or as a consultant or a member of special committees.

- **Constituency building** refers to corporate efforts to identify, educate and motivate political action stakeholders who may otherwise develop public policy that could impact on the corporation.

Getz (1993) theorizes that firms engage in CPA because their agency relations with government decision makers are imperfect. She highlights four possible causes:
knowledge, capacity, disposition and effort. The various political tactics are not equally useful for resolving different agency problems. Therefore, the selection of appropriate tactics to be included in CPA depends on the particular agency problems that arise in different situations, as Table 2.3 illustrates.

Table 2.3 Agency Problems and Political Tactics

<table>
<thead>
<tr>
<th>Problem Type</th>
<th>Tactics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge</td>
<td>Lobbying</td>
</tr>
<tr>
<td></td>
<td>Testimony</td>
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<tr>
<td></td>
<td>Personal service</td>
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<tr>
<td></td>
<td>Research reporting</td>
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<tr>
<td>Capacity</td>
<td>Legal action</td>
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<tr>
<td>Disposition</td>
<td>Constituency building</td>
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<tr>
<td></td>
<td>Survey reporting</td>
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<tr>
<td></td>
<td>Legal action</td>
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<tr>
<td>Effort</td>
<td>Constituency building</td>
</tr>
<tr>
<td></td>
<td>Survey reporting</td>
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<tr>
<td></td>
<td>Legal action</td>
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</tbody>
</table>

Source: Developed for this research from Getz 1993

2.7.3 Collective Organizing

When firms pursue strategic goals and activities of political influence, collective coalitional setting is often seen as one of the tactics. Littlejohn (1986) notes a tendency of higher cooperative and coalition-building activity as firms start to define their political objectives more precisely. Through collective organizing, political actors such as collectives of business people or their lobbyists attempt to increase the stock level of institutional and non-institutional resources (Oberman 1993).

Keim (1981) suggests that when the interests of the initiating firm are closely aligned with other firms across a variety of issues, the process of organizing collective action is defined as constituency building. When the interests of a certain group are generally heterogeneous but overlap on a given issue, the organizing of collective action is defined as coalition building (Wexler 1982). An individual firm may consider one of three roles
in relation to collective organizing. They are: (i) an initiating or entrepreneurial role; (ii) a participating role and; (iii) a non-active, free-riding role (Yoffie 1987). Olson (1971) argues that a firm may take an initiator role when it perceives that its stake in an issue is high enough to receive a net benefit from successful policy decisions, even if it assumes the entire cost of organization on its own. Firms with medium stakes and/or resources may assist others in their efforts, while low stake/resource firms may take the approach of free riders.

2.7.4 Political Communication
When a political actor undertakes CPA, the goal is normally to communicate policy preferences to the intended receivers (government decision makers or intermediaries) who control the distribution of institutional resources and can contribute their political resources directly or indirectly (Oberman 1993). Such political communication may be private or public. For example public communication may take place through congressional testimony or advocacy advertising in public forums. The range of audiences may range from one important decision maker to millions of people. The content of communication can be informational or pressuring and either logical reasoning or a direct threat. Table 2.4 below summarizes the classification of communication activities from Oberman (1993).
Table 2.4 Classification of Influence Activities

<table>
<thead>
<tr>
<th>Avenue of Approach in Decision Master</th>
<th>Breadth of Transmission</th>
<th>Content of Communication</th>
<th>Typical Influence Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public</td>
<td>Information</td>
<td>Official testimony</td>
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<td>Policy analysis</td>
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<td></td>
<td>Private</td>
<td>Information</td>
<td>Rational argumentation</td>
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<td></td>
<td></td>
<td></td>
<td>in direct lobbying</td>
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<tr>
<td></td>
<td></td>
<td>Pressure</td>
<td>CPA contributions</td>
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<td></td>
<td></td>
<td></td>
<td>Bribery</td>
</tr>
<tr>
<td>Direct</td>
<td>Public</td>
<td>Information</td>
<td>Advocacy advertising</td>
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<tr>
<td></td>
<td>Private</td>
<td>Information</td>
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<tr>
<td>Indirect</td>
<td>Public</td>
<td>Information</td>
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<td></td>
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<td>Public exposure,</td>
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<td></td>
<td>Constituency influence</td>
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<tr>
<td></td>
<td>Private</td>
<td>Information</td>
<td>Collegial persuasion</td>
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<tr>
<td></td>
<td></td>
<td>Pressure</td>
<td>Litigation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Collective organizing</td>
</tr>
</tbody>
</table>

*Developed for this research from Oberman (1993)*

This section has discussed the variables and choices of political tactics for companies that strive to achieve their business objectives. The options for CPA tactics include: lobbying, reporting of research results, reporting survey results, testifying at governmental hearings, legal actions, personal service and constituency building. Political communication is an important part of influencing government policies directly or indirectly. The following section discusses cultural and interpersonal relationships from a marketing perspective.

2.8 Culture and Relationships from a Marketing Perspective

This section discusses how an understanding of cultural values contributes to the success of business relationships in international business and international marketing. It also explores the potential interrelationships between CPA from political science and Relationship Marketing (RM).
2.8.1 Cross-Cultural Studies in Business and Marketing

Culture has long been identified as a key factor underlying systemic differences in behavior from one country to another. Cultural values and assumptions are powerful forces shaping people’s perceptions, dispositions, and behavior (Markus & Kitayama 1991), and these vary across cultures (Geetz 1973; Hofstede 1980; Parker & Tavassoli 2000). For successful engagement in international marketing, it is necessary to bridge cross-cultural psychic distances in order to allow for prediction of consumer behavior (Czinkota & Ronkainen 1998; Fletcher & Bohn 1998; Jeannet & Hennessey 1995). For example, the term collectivism-individualism, used by researchers including Hofstede (1993) and Triandis (1993) identifies global variations in one aspect of human behavior. It surpasses the Geertzian approach (Geetz 1973) on idiosyncratic causes of cultural traits by considering differences at a country level. Although the divergence of theories on self-construal from psychology and anthropology fails to replicate certain aspects of cultural differences (Markus & Kitayama 1991), studies including Hofstede (1980), Triandis (2002), and Zabkar and Brencic (2004), support the argument that cultural differences such as collectivism and individualism affect business relationships.

Trompenaars and Hampden-Turner (1997) present a list of seven cross-cultural dimensions, consisting of: universalism versus particularism (rules versus relationships); individualism versus communitarianism (individuals versus groups); neutral versus emotional (range of feelings expressed); specific versus diffuse (range of involvement) and; achievement versus ascription (how status is accorded). Moreover, Trompenaars and Hampden-Turner (1997) refine the work of Kurt Lewin (Hunt 1991) by using concentric circles to present the notion of public over private space of a diffuse and specific culture. According to this model, individuals in a diffuse culture do not easily make friends with outsiders and therefore their private circles are difficult to penetrate. Nonetheless, once
the circle is penetrated, more of a person’s private life can be shared among member of their group. Trompenaars & Hampden-Turner (1997) suggest that relationships and interpersonal trust dominate in diffuse societies. Trompenaars and Hampden-Turner (1997) define specific societies as U-type and diffuse societies as G-type as is illustrated in Table 2.5. They further suggest that individuals internally determine the success and failure of business interactions based on their underpinning values. They warn that overlapping the U-type impersonal, and G-type highly personal, may lead to the collapse of relationships between business partners. To maintain a stable and deep relationship, a good balance and interplay between specific and diffuse orientations are required to develop and maintain strong affiliations.

**Table 2.5 Differences between Specific and Diffuse Cultures**

<table>
<thead>
<tr>
<th>Specificity (U-type)</th>
<th>Diffuseness (G-type)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Direct, to the point, purposeful in relating.</td>
<td>1. Indirect, circuitous, seemingly “aimless” forms of relating.</td>
</tr>
<tr>
<td>2. Precise, blunt, definitive and transparent.</td>
<td>2. Evasive, tactful, ambiguous, even opaque.</td>
</tr>
<tr>
<td>3. Principles and consistent moral stands independent of the</td>
<td>3. Highly situational morality depending upon the person and context encountered.</td>
</tr>
<tr>
<td>person being addressed.</td>
<td></td>
</tr>
</tbody>
</table>

*Developed for this research from Trompenaars & Hampden-Turner (1997)*

According to Hofstede (1993), there are five elements that portray a country’s cultural values. They are individualism/collectivism, the type of power distance (high/low), long-term/short-term orientation, the avoidance of uncertainty and masculine (aggressive) or feminine (nurturing). By way of example, Chinese society holds cultural values that are collectivist, high in power distance and long-term oriented (Hofstede 1993). The material presented in this section enhances understanding of similarities and difference between
cultures and highlights the relationship orientation of the Chinese culture. This is required in order to provide the context for the discussion in following sections.

2.8.2 Relationship Marketing

The study of business relationships in the Western literature originated from transaction cost theory, social exchange theory and interaction theory (Buttery & Wong 1999). As noted in Section 2.6.4, transaction cost theory refers to the costs generated from the exchange process in relation to the final market prices of goods and service. It reflects the nature of the relationship between buyer and seller (Ouchi 1980). Social exchange theory refers to processes and activities in which two parties engage with the expectation of exchanging valuable resources. Trust contributes an important and favorable influence in such a dyadic interaction (Blau 1964; Schurr & Ozanne 1985). These two approaches are limited due to their static nature and they do not always apply to the dynamic process of relationship building (Buttery & Wong 1999). Interaction theory fills this gap by the dynamic attributes of mutual influence and communication in the transactions process (Kutschler 1985). Cunningham (1980) and Hakansson (1982) suggest that adaptation is required from both actors over a period of time in order to build a close relationship that leads to exchange episodes.

Over the past two decades, the traditional marketing concept and the 4Ps marketing mix has started giving ground to relationship marketing (RM) principles (Gronroos 1994), due to a growing realization of the importance of customer retention and customer relationships. Gronroos (1994) argues that RM is a leading approach in shifting the marketing paradigm. Firms that utilize an RM strategy are able to build personal relationships with all customers. Berry (1983) proposes that the role of RM is to attract, maintain and enhance customer relationships. Moller and Halinen (2000) conclude that there is no one unifying theory of RM with sub-disciplines of direct marketing, business
and network marketing, marketing channels and service marketing. Further, there is a considerable difference in the classification of market-based RM and network RM in terms of consumer orientation and inter-organization orientation.

2.8.3 Market-Based Relationship Marketing

Market-based RM involves fairly simple exchange relationships and assumes a customer-oriented market context (Moller & Halinen 2000). Market-based RM also relates to organization strategy, customer loyalty and economic and relationship-oriented business behaviors. The view of organization strategy suggests that in addition to creating new customers, businesses may adopt offensive marketing strategies to attract disappointed customers away from competitors (Storbacka, Strandvik & Gronroos 1994). Indeed, RM has the dual role of getting and keeping customers (Christopher et al. 1991) and argues that such strategies can minimize customer turnover and achieve increased profitability through attracting the disaffected customers of other suppliers (Egan 2004; Storbacka et al. 1994).

The economic view suggests that economic benefit is always the prime objective of any commercial organization. However, the RM perspective suggests that relational exchanges should be more than short term, as ongoing economic benefits remain important to all parties in the relationship (Morgan 2000). Christopher et al. (1991) suggest that the cost advantage of customer retention surpasses the cost of customer acquisition and justifies an RM orientation. Although there are concerns that RM appears to be expensive (Berry 2000; Egan 2004), many researchers indicate that developing long term relationships with customers has a positive impact on business performance (Crosby & Stephens 1987; Crosby, Evans & Cowles 1990; Nayyar 1990). Moreover, Ambler and Styles (2000) suggest that the lifetime value of customers cannot be ignored. Organizations pursuing a customer retention strategy may shift their focus from customer
numbers to the contribution value of individual customers over their lifetime (Dawes & Swail 1999).

Dick and Basu (1994) suggest that customer loyalty comprises an important basis in the development of a competitive advantage that can be sustained into the future. The customer loyalty view suggests that customer satisfaction is a proxy of repurchasing behavior (Hutcheson & Moutinho 1998). To pursue revenue from loyal customers (Kolter 1997), organizations have to adopt strategies to improve customer satisfaction, strengthen bonds and achieve customer loyalty (Ravald & Gronroos, 1996). Although the grounded theories of trust and commitment developed by Morgan and Hunt (1994), and other dimensions of RM orientation such as bonding, empathy, reciprocity and trust, originated in the West (Butler 1995; Holden 1997; Jones & George 1998), their emphasis on the importance of interpersonal relationships is particularly well suited for a G-type culture such as China.

2.8.4 Network-Based Relationship Marketing

Network-based relationship marketing (network marketing) involves more complex relationships and business networks and assumes an interorganisation-oriented context (Moller & Halinen (2000). Over the past 10 to 15 years, European scholars have developed a network approach for industrial or business-to-business markets (Mattsson 1997). More recently, scholars and the Industrial Marketing and Purchasing group (IMP) have shifted their focus of network-based RM into the international business context (Håkansson & Snehota 1995; Jansson, Johanson & Ramström 2006; Mattsson 1997; Thorelli 1986). Network marketing involves the individual and the interconnected relationship structures in which influencing action can be initiated by the buyer, seller or a third party. Dyadic relationships of network actors need to be strongly and mutually interdependent for effective coordination of activities and resources. Network marketing
creates long term (Elg & Johansson 1996) and dynamic exchange relationships. The exchange relationship creates value for all parties involved and is therefore treated as a set of marketing investment activities (Mattsson 1997). The Western perspective on network based relationship marketing is also reflected in the Chinese view of business networks as valuable commercial investments. The value of networks is acknowledged as a key success factor for business in China (Chen 1995; Fang 1999) and is superior to money (Wang, Zhang & Goodfellow 1998) when the connection emphasizes guanxi or interpersonal relationships (Buttery & Leung 1998) and a guanxiwang or guanxi network (Yang 1994).

2.8.5 The Intersection of CPA and RM

Håkansson and Snehota (1989) suggest that the inter-firm network relationship can be used as a strategy to manage the dynamics of different environmental interdependencies of organizations. Its connections and linkages are a portfolio that could be used to generate strategic advantage (Campbell & Wilson 1996; Day & Wensley 1983; Elg & Johnsson 1993). Elg and Johnsson (1996) suggest that in a competitive environment, when the boundaries surrounding an established network structure dissolve, the extended network is likely to exploit a whole new range of potential customer and supplier relationships. Meanwhile, new competitors who could become a threat to the focal organization’s home market may be blocked by members of the focal firm’s original network structure. This offensive network strategy agrees with the opportunity (offensive) typology from CPA proposed by Oberman (1993), in which the extension of opportunities and capabilities of an organization reshapes its environment (Borys & Jernison 1989; Håkansson & Johanson 1988).

The network approach in CPA is implicit. It is described as a social relationship and understood as an agent-principle and advisory relationship (Mitnick 1993). The network
in CPA is realized through the involvement and influence of governmental and electoral political activities. Governmental activities include supporting trade-association activities, establishing and maintaining legislative and administrative contacts, utilizing public relations, service in governmental posts by corporate managers and maintaining a continuous liaison with administrative agencies. The primary electoral activity is the channeling of corporate funds to candidates and parties through corporate managers. Corporate executives also engage in electoral politics by holding important posts in state and national party circles (Epstein 1969).

Up to this point, this chapter has explored the nature of business and political relationships by drawing on the extant Western literature from political science and relationship marketing. In this process, it has identified that, whilst such theories may serve to foster a better understanding of interpersonal relationships in U-type cultures, they may not necessarily be as effective in understanding interpersonal relationships in G-type cultures. Consequently, the following section specifically explores the nature and role of interpersonal relationships in business and in politics in the world’s most rapidly growing G-Type culture, China.

2.9 The Chinese Interpersonal Relationship – Guanxi

Relationship marketing was discussed in the previous section because close relationships and trust have long been acknowledged as keys to success in the Chinese market (Amber 1994; Hall & Hall 1987; Johansson 1995; Luo 1997; Xin & Pearce 1996). Personal relationships are considered to be parallel with guanxi in the Chinese literature (Amber & Styles 2000), therefore this section discusses guanxi in greater detail.

The actors-activities-resource (AAR) model (Anderson, Håkansson & Johanson 1994) emphasizes industrial networks and refers to three layers of substance to explain the phenomena of interdependent business network relationships (Anderson, Håkansson &
Johanson 1994) at the firm-to-firm level (Mattsson 1997). The layers are actor bonds, activity links and resource ties. This contrasts with the Chinese cultural perspective that trust is cultivated at the personal level (Hamilton 1996; Jansson, et al.; Wank 1996; Wong & Leung 2001). Indeed, Chinese culture and business networks with an emphasis on interpersonal dynamics and trust offer important insights into Chinese business behavior (Kao 1996; Wong 1996.). Trust can be classified at the systems and personal levels among indigenous Chinese (Wong 1996) and economic action is embedded in the structure of social relationships (Granovetter 1985) in Chinese culture. Guanxi is a key dynamic in Chinese society and has been integral in Chinese business for centuries (Buttery & Leung 1998; Drew & Kriz, 2012; Kipnis 1997; Luo 2007; Pye 1986). Guanxi has become more entrenched in recent years, heavily influencing Chinese social behavior, business practice and political landscapes (Luo 2007). Any business in the Chinese market, including local and foreign investment, inevitably faces guanxi dynamics (Buttery & Leung 1998; Luo 2007).

2.9.1 The Definition and Emergence of Guanxi

Guanxi has been broadly defined as relationships and connections. Western researchers therefore tend to link relationship marketing and guanxi together (Buttery & Leung 1998; Buttery & Wong 1999; Kipnis 1997; Oye 1986). In China, friendship and trust are the basis for doing business. Relationships are much more important than transactions and Chinese business people pay little store to formal contracts (Buttery & Leung 1998; Pye 1992). Guanxi has been defined as relationships (Kipnis 1997) and connections (Bian 1997) in the business context. Guanxi contains reciprocal obligation, assurance and understanding, and rules the attitudes of Chinese social and business relationships in facilitating and securing the exchange of favors based on personal relations (Hwang 1987; Luo 2007).
Luo (2007) suggests that guanxiology or the study of guanxi is cross-disciplinary and has five features from macro to micro. They are family, community, society, firm and individual. Guanxi is grounded in history, sociology, economics, politics, business, and psychology (Wood et al. 2002). Guanxi is developed from deeply rooted cultural beliefs stemming from Confucianism (Bond 1986; Buttery & Leung 1998; Chen 1995; Drew & Kriz, 2012; Luo 2007; Redding 1990; Wood et al. 2002). Accordingly, an individual is a social and relational being and familial ties are the primary focus of Chinese society (Chan 1995; Fukuyama 1995; Pye 1992). Social order and stability depends on adequate roles and relationships between individuals.

The five traditional relationships of Confucianism (wu-lun) emphasize relationships between prince-subject, father-son, older brother-younger brother, husband-wife, and friend-friend. This hierarchical and paternalistic order of relationships forms the basis of Chinese social networks (Drew, Kriz & Redding, 2014; Luo 2007). Accordingly, Butterfield (1983) has observed that the Chinese tend to divide people into categories with different kinds of treatments. The kind of treatment depends on relationships between individuals and attests to why guanxi is so important in Chinese society. The influence of Confucianism has also resulted in Chinese relationships being based on principles of harmony, hierarchy, morality, and kinship (Buttery & Wong 1999; Shenkar & Ronen 1987), with the Chinese always viewing themselves as interdependent in the surrounding social context (Tsui & Farh 1997). This contrasts with Western cultures in which individuals are perceived as independent, self-contained and autonomous (Buttery & Wong 1999; Luo 2007).

2.9.2 Types of Guanxi

Yang (1994) categorizes Chinese relationships into three types based on the degree of closeness and strength: jia-ren 家人 (family members); shu-ren 熟人 (familiar persons
outside of family, for example neighbors or people in the same village, friends, colleagues, or classmates, from superficial to extremely intimate) and; *sheng-ren* 生人 (mere acquaintances or strangers). These three relationships have completely different social and psychological meanings to the parties involved and are governed by different sets of interpersonal rules. *Jia-ren* 家人 describes strong family identification with important role obligations. *Shu-ren* 熟人 portrays friendships as taking both utilitarian and expressive forms. Developing *shu-ren* involves cultivating *renqing* 人情 or ties of affect and obligation (Yang, 2003) and is a prerequisite in sustaining a relationship from which one might expect reciprocity and favoritism. The *sheng-ren* 生人 relationship is superficial and temporary. It is dominated by utilitarian and personal gain. Due to the recent industrialization of China, Tsui and Farh (1997) argue that the more interpersonal relationship in *shu-ren* is becoming increasingly important.

Luo (2007) and Kipnis (1997) suggest that *guanxi* is divided into two categories, blood based and social based. Because family is the basic building block of Chinese society, blood based and family *guanxi* are the most important as they include one’s family members, relatives, and members of the same clan. The base of social *guanxi* mainly arises from social interactions with non-related others. Social *guanxi* may also be subdivided into locality or dialect, fictive kinship, work place, trade associations, or social clubs and friendship (Luo 2007).

2.9.3 The Guanxi Construct

There are a number of constructs associated with the term *guanxi* as the following list adapted from Luo (2007) indicates:

- *la guanxi* (拉关系) – get on the good side of someone and store social capital with them
- *gua guanxi* (搞关系) – work on guanxi
• **guanxi gou qiang** (关系够呛) – relationship has gone bad

• **li shun guanxi** (理顺关系) – put guanxi back in order

• **guanxi wang** (关系网) – guanxi network within which favors are exchanged and circulated

• **guanxi hu** (关系户) – a person, organization or government body as a focus point of connection

Although many have written on the use of *guanxi* in business, few have placed the construct into a theoretical context (Luo 2007). Butterly and Wong (1999) propose an integrated model of the construct of *guanxi* built on dependence, adaptation, trust and favor. To establish *guanxi*, one has to overcome the natural defense of a stranger through the process of building a relationship from the role of an outsider to that of an insider (Buttery & Wong 1999), often drawing on an introduction to or by a trustworthy and reputed intermediary (Bian 1997; Luo 2007). Wank (1996) argues that a continuity of *guanxi* requires ongoing capital investment to enhance the efficacy and durability of the client-patron relationship once the *guanxi* is built. To achieve a higher level of bonding and commitment, the cultivation of a harmonious business relationship is required through empathy and the giving of face or *mianzi* 面子 (Bond 1986). In Chinese society, *mianzi* has been used as a power game to strengthen one’s *guanxi* network and social status and as a mechanism to guarantee an allocator’s help to disburse their resources in a favorable way (Hwang 1987). Moreover, Luo (2007) suggests that trust is especially important in sustaining the *guanxi*. Yeung and Tung (1996) agree that trust has been an essential condition for *guanxi* when companies are doing business in China.

Luo (2007) introduces a *guanxi* conceptual framework in a schematic way as illustrated in Figure 2.3.
The core elements composing the guanxi construct are moral behavior, social basis and social modes embedded in the daily life and activities of Chinese society and economy. The eight principles of moral behavior are the foundation of Chinese human relations and networks. An actor in a network should obey these principles in order to maintain his or
her face – *mianzi*. *Mianzi* not only represents the size of an individual network, it provides leverage to expand and manipulate a *guanxi* network. Significant elements of the dynamics of *guanxi* include the prestige of not losing face and being able to save another’s face. The giving and acceptance of *mianzi* is the courtesy of respecting and recognizing status and moral reputation (Luo, 2007). Societal rules, values and the hierarchical structures of authority implicit in Confucian culture have been functioning within clan-like networks in Chinese society for over 4000 years (Drew, et al. 2014). Within the inner circle, family members are the core and are characterized by a high degree of trust. Distant relatives, classmates, friends and acquaintance are arranged peripherally in accordance of the distance of relationship, and this forms a nested *guanxi* network. When situations arise, this *guanxi* network is often mobilized as a resource to achieve a desired result (Luo 2007).

### 2.9.4 Business-Government Relationships in the Chinese Context

Political *guanxi* has been recognized as a source of competitive advantage and a critical success factor in China (Kriz 2008). While Western management literature has increasingly studied the management of networks as an important facet of strategic action to strengthen a firm’s competitive advantage, relationship development or network building between organizations is vital to corporate success in all countries (Luo 2007). Networking can bridge the gap between business people of different nations and cultures, and may stimulate trade (Luo 2007). In China, no company can go far unless it has extensive *guanxi* networks (Luo 2007).

*Guanxi* implies mutual obligations, assurances and understandings, and governs Chinese attitudes toward long-term social and business connections (Luo 2007). *Guanxi* is the social lifeblood of the Chinese business community, extending throughout politics and society (Kao 1993). *Guanxi* can help reduce political volatility and hence, encourage
investment and diversification resulting from speculation in service and manufacturing initiatives (Luo 2007). For multinational enterprises running businesses in China, government regulation and political guanxi can be the most critical forces (Luo 2007; Yang 1994). If one tried running a business without guanxi in China, one could not compete effectively in some key industries, such as real estate (Yeung & Tung 1996).

“Links to political circles are [an] important aspect of personal networks around guanxiqiye (related enterprises 关系企业)”, (Numazaki 1996, p. 77). Numazuki (1996) suggests that political connections may be actively cultivated by entrepreneurs through personal guanxi networks based on a certain sameness (tong 同). This type of personal network enables entrepreneurs to mobilize a wide range of people resources to serve investment and political purposes. Personal networks of business group leaders may also extend well beyond the boundaries of guanxiqiye (related enterprises关系企业) to form capital links woven into a large web of inter-firm relations with cross-investment and interlocking directorship. Hamilton (1996) refers to this wide network of entrepreneurs as “guanxi capitalism”.

In the West, corporate political activities are essential for business performance and survival (Hillman, Keim & Schuler 2004; Wilts & Skippari 2007). To be able to realize and influence public decision making, firms need resources such as knowledge, expertise and relational skills (Dahan 2005). Compared to the West, China has very different cultural, political and economic systems, and these suggest the need for different approaches to corporate political action when firms deal with the government. China has a single-party political system as opposed to the typical Western two-party or multi-party system. The Communist Party is the only party qualified to own all the political power. Although China’s leaders have promised to offer some form of democracy, it is widely acknowledged that democracy does not exist or is very limited in China (Kwong 2008; Thornton 2008; Tsai 2007; Wang 2008; Yang 2008). China adopts an elitism/corporatism
philosophy whereby the leaders of the party and nation are elected indirectly within the elite group without a constituency or public campaigning (Gao 2006; Qui 1993). To influence public policy, businesspeople and firms either participate directly in the congress or take a relational approach (Gao 2006).

While the Central government is undertaking reform to move from highly centralized planning to a market-oriented economy, government-business relations are still quite random (Luo 2007). Government intervention in business at all levels is still high (Gao 2006) and guanxi has been used as a strategy to shape the non-market environment (Baron 1995) and reduce political uncertainty and risk from the Chinese government (Gao 2006; Luo 2007). Due to uncertainties in the Chinese legal and institutional system, the enforcement of ambiguous regulations is always subject to the personal interpretation of government officials. Resources are primarily allocated based on the guanxi rather than bureaucratic rules (Luo 2007; Putman 1993; Xin & Pearce 1996; Yeung 2000). Chinese firms develop guanxi to overcome competitive and resource disadvantages (Drew & Kriz, 2012) by cooperating and exchanging favors with government authorities. Through personal networks, guanxi creates a mechanism to circumvent the cumbersome Chinese bureaucracy and ambiguous rules. Luo (1997) suggests that a long-term relational approach with government is of particular importance as it leads to a positive impact on the efficiency and effectiveness of foreign-invested enterprises (FIEs) operating in China. Yueng (2000) agrees that good patron-client relationships with local cadres and officials is crucial to foster smooth foreign investment opportunities in China because local politics can play an important role in circumventing regulations imposed by the central government.

Gift-giving is common in Chinese societies and the custom often leads to trust and cooperation at the beginning of a relationship (Luo 2007). However, since 1978, when the central planned economy shifted into a redistributive and commodity economy,
guanxi has frequently been perceived as a more instrumental, hardened, cynical and politicized mechanism. It is argued that this perception is associated with the post-revolutionary idea of guanxi being associated with gift-giving, bribery and the black market during times of economic hardship, all of which feature transactions that are short-term (Yang 1994). Drew and Kriz (2012) argue that such practices are more associated with zou houmen or back-door dealings rather than being reflective of the essence of guanxi. Gao (2006) also argues that there are large numbers of questionable gift and money-giving occurrences in China that undermine the heritage and cultural morality of guanxi. However, Luo (2007) suggests good guanxi construction and maintenance does not always need gift-giving, as the traditional practice includes goodwill and respect. Luo (2007) also suggests that business ethics in China rest upon a rich cultural morality that emphasizes personal virtue and the right ordering of personal relationships in social organization. Gift-giving is an integral part of interpersonal relationships in China and an expected behavior that shows respect, while strengthening commitment and reciprocity – bounded by rules of moral legitimacy. If the foundation of guanxi rests on inappropriate gift-giving, guanxi would be viewed by the Chinese as lacking in authenticity and therefore any obligation that has been created intentionally would be limited and short-term. Finally, Gao (2006) suggests that other financial incentives are also common tactics in China including honoraria for speaking, paid travel expenses and paying education fees for children of officials, and personal service.

As previously noted, Chinese senior government officials are not elected by a constituency, therefore the strategy of building a constituency is not commonly used in China. Instead, leaders of firms and business people may participate in politics by being elected to congress through their interpersonal relationships with others. This direct participation may allow them to formulate industrial regulations or policies for government based on their expert knowledge. However, as accession to the congress is
limited to a small group of people, informal face-to-face lobbying with familiar officials is a common strategy. In order to present a good impression to government, a politically-related strategy is often adopted by business people to assure the reinforcement of their firm’s voice in the policy decision-making process. Tactics include employing laid-off employees from SOEs, frequently visiting officials and inviting officials to visit the company and attend important events (Gao 2006).

2.9.5 An Empirical Investigation of the effects of Business-Government Relationships on Policy Decision Making

In China, the central administration of political strategy and ideology limits the rights and abilities of people to build their personal wealth (Buttery & Wong 1999). This, therefore largely leaves it up to local communities to achieve their own goals through the exchange of favors and resources. This suggests that they have found an alternative means to achieve personal wealth and security through the use of guanxi (Buttery & Wong 1999).

As discussed in Section 2.4 and reiterated above, because of China’s different political system, participants do not practice Corporate Political Action in the same way as in the West. Rather they use guanxi to influence public policies. Whilst there is a great deal of literature on Chinese interpersonal relationships and guanxi (Ambler 1994; Bone 1987; Buttery & Wong 1999; Chan 1995; Gao 2006; Hamilton 1996; Luo 2007), this literature review has identified that empirical research on political guanxi is rare and this justifies the need for further research. The lack of previous research and theory building in the literature also means that there is no conceptual or theoretical framework on which this area of research may build. Therefore the current research aims to explore the research questions and to develop a conceptual framework for business-government guanxi.
In conclusion, this chapter has discussed the literature on the legal system and Corporate Political Action in both China and the West. An overview of relationship and network marketing and cultural development in the Chinese context has also been discussed. *Guanxi* has been identified as one of the most influencing cultural dynamics in Chinese social behavior, business practice and politics. Chapter 3 discusses the research methodology developed to address the above four questions under the overarching research question: *How does the use of guanxi by Chinese businesspeople influence the government’s interpretation, practices and application of policy in China?*
CHAPTER 3 RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction

Chapter 3 outlines the methodology and research design adopted for this study. The chapter starts with a discussion of the philosophy adopted by the researcher. This is then followed by a broad review of paradigms, a discussion of alternative research methods and the rationale behind the chosen approach. Issues of validity, the limitations of the research and ethical considerations are also discussed in detail.

3.2 Research Philosophy

“The social sciences, such as anthropology, psychology, political science and sociology, involve the study of people – their beliefs, behavior, interaction, institutions, and so forth” (Neuman 2003, p. 7). This research is conducted within a sociological paradigm because it involves the study of the beliefs, behaviors and interactions of Chinese business people and politicians in relation to the informal Chinese institution (Drew & Kriz, 2012) guanxi.

Sociology is called a multi-paradigm science (Neuman 2003). There is no single paradigm that is all-powerful; instead, several compete with each other (Neuman 2003). Positivist, interpretive and critical paradigms are not treated on their own. Hence, pluralistic approaches are of equal importance amongst other alternatives in research (Neuman 2003), in which all provide mutual benefit (Foxall 1995; Sarantakos 1993) in the search for irrefutable truth (Chalmers 1982, Guba & Lincoln 1998). A pluralistic approach in the rigorous and systematic observation of the social world has become an accepted way to gain knowledge in modern science (Neuman 2003, Patton 2002).

Modern positivists hold an essentialist view that social reality does exist and is waiting to be discovered. It is patterned and ordered such that science allows humans to
discover the order and law of nature (Mulkay 1979). Positivism is the oldest and most widely used philosophical approach to social science (Miller 1997). It sees social science as a methodology combining deductive logic and precise empirical observation of individual activity for the purpose of discovering probabilistic causal effects that can be used to predict the general patterns of human behavior. Positivists prefer precise quantitative data and often use experiments, surveys and statistics to test, measure and explain hypotheses and phenomena (Derksen & Gartrell 1992). This leads to the researcher being able to remain detached, neutral, and objective concerning issues that are not relevant to the actual lives of real people (Neuman 2003).

Conversely, the interpretative approach is related to hermeneutics (Blaikie 1993). It is emic, idiographic and inductive, rich in detailed description and limited in abstraction (Denzin & Lincoln 2003; Schwandt 2001). Interpretive theory gives readers a feel for another’s social reality and reveals the meanings, values, interpretive schemes and rules of living used by people in their daily lives (Neuman 2003; Smart 1976).

A lack of understanding of Corporate Political Action in the Chinese context and the role that *guanxi* plays in influencing government policies justifies qualitative research into Chinese culture. This research undertakes naturalistic/inductive inquiry (Guba 1978; Patton 2002) and uses qualitative techniques (Denzin & Lincoln 1998; Miller & Fredericks 1996; Patton 2002) where appropriate, to engage in a cultural study that investigates the application of *guanxi* designed to influence government policies in the Chinese context. A qualitative approach may not satisfy a positivist outlook (Gross, Levitt & Lewis 1996; Hunt 1991) or constructivist perspective (Guba & Lincoln 1998), but it stresses the socially constructed nature of reality that satisfies the nature and requirements of the present research, based on the critical aspects of the historical realism of Chinese culture in terms of both its dual logic and dialectical characteristics (Denzin & Lincoln 2003). Such an approach emphasizes the value-laden nature of the inquiry and
seeks answers to questions that stress how social experience is created and is given meaning (Denzin & Lincoln 2003). In contrast to this, quantitative studies emphasize not the process, but the measurement and analysis of the causal relationship between variables (Denzin & Lincoln 2003). The qualitative inquiry process is a powerful source of grounded theory that is generated from fieldwork (Patton 2002). The interpretation of cultures involves identifying unique features of specific context and meaning via symbolic interactionism and is essential to understanding Chinese social meaning (Neuman 2003), an understanding that is built from the bottom up (Berry 1980). Moreover, qualitative dissertations have become better understood and accepted as increasingly common for judging qualitative contributions to knowledge accumulation (Patton 2002).

In summary, this exploratory study is based on a pluralist philosophy that follows the rules of discovery and justification in research. The researcher is a critical realist who, through this research, aims to both uncover any illusions and to demystify the real structure (Swartz 1997) of Corporate Political Action in Chinese markets. This research adopts an interpretative approach that is considered appropriate for the diffuse and circular Chinese cognitive style (Nisbett 2003).

### 3.3 The Interpretive Social Science Paradigm

For more than three decades, “social science and humanities have drawn closer together in a mutual focus on an interpretive, qualitative approach to research and theory” (Denzin & Lincoln 2003, p. vii). The interpretive approach asserts that social life derives from social interactions and socially constructed meaning. This approach perceives social reality as consisting of people constructing meaning and creating interpretations through their daily social interactions (Neuman 2003). Such a paradigm is suitable for the cognitive process used by the Chinese (Redding 1990). The interpretive method is,
therefore, used to inquire into the role of political *guanxi* used when doing business in Chinese markets.

Interpretivism is concerned with how ordinary people manage their practical affairs. The interpretative researcher uses qualitative methods to acquire an in-depth understanding of how people create meaning in everyday cultural life (Neuman 2003). Interpretative and qualitative approaches see the unique features of specific contexts as being essential to understanding social meaning (Neuman 2003). This research technique is particularly suitable when taking into account the preference for Chinese face-to-face exchanges and interpersonal relationships (*guanxi*) (Luo 2007). Moreover, the use of interpretative and qualitative techniques is specifically supported in cultural studies by Berry (1989). To summarize, the interpretative approach is considered to be an ideal methodology for this in-depth exploratory investigation of Chinese culture.

### 3.4 Alternative Research Methods

Alternative data collection methods were considered for this research. This section discusses the merit and rationale for the decision to use in-depth, semi-structured field interviews.

#### 3.4.1 Case Studies

Exploratory qualitative case studies are widely accepted as being a basis for developing new detailed and loosely structured concepts and methods (Pinsonneault & Kraemer 1993) in the marketing discipline (Patton 1990; Perry & Coote 1994; Yin 1994). Case analysis involves the collection of comprehensive and in-depth information (Patton 2002). This was considered to be an acceptable option in view of the fact that in-depth and rich descriptions are a valuable outcome and appropriate to meeting some of the goals of this research (Denzin & Lincoln 1998). In addition, case studies are particularly
valuable for gathering organizational data for the purpose of problem-solving (Cavana, et al. 2001), or program evaluation (Patton 2002). The present research focuses on the interpersonal relationships between individuals and government officials that exist for the purpose of influencing policy development and execution. However, authentic case studies are difficult to find because many companies prefer to guard them as proprietary data (Cavana, et al. 2001). Therefore, a case study approach is not appropriate for this research.

3.4.2 Grounded Theory and Substantive Theory

Grounded theory is a widely used approach in qualitative research (Neuman 2003). It uses a system of procedures to develop an inductively reasoned theory about a phenomenon (Strauss & Corbin 1990). The purpose of grounded theory is to build a theory that is faithful to the evidence derived from the research, and it pursues generalizations by making comparisons across social situations (Neuman 2003). Although the present study conforms to a form of “high order” and exploratory research (Denzin & Lincoln 1998; Patton 2002; Sarantakos 1993), sufficient studies and formal theories have been developed in the parent and immediate disciplines of political science, international marketing and Chinese interpersonal relationships – guanxi - and a comprehensive conceptual grounding for the topic areas has already been established in the literature.

3.4.3 Focus Groups

The focus group is a research technique used to collect information through group interaction on a topic that is determined by the researcher (Morgan 1997). Although the use of focus groups to collect data from participants has a number of similarities with one-on-one interviews, focus groups are considered impractical for a graduate research
project that has limited resources and support, such as the financial resources necessarily involved in logistics, facilities and travel arrangements (Cavana, et al. 2001; Morgan 1997) and, more particularly, the fact that the facilitator has to pay special attention to group composition and to the conducting of the group discussions (Schein 1969).

3.4.4 Observation

It is possible to gather data without asking questions of participants through observation of people in their natural work environment, their activities and behaviors, or by means of other points of interest that are recorded (Cavana, et al. 2001). However, the cognitive thought processes of individuals cannot be captured (Cavana, et al. 2001; Neuman 2003). Therefore, observation does not satisfy the exploratory nature of this research, research that requires richness of data in order to describe social reality.

3.4.5 Face-to-face in-depth semi-structured field interviews

Face-to-face in-depth semi-structure interviews are considered to be a valid option for this research. In-depth interviews focus on probing for detailed information relating to a research problem by means of open-ended and flexible questions (Sarantakos 1993; Seidman 1991) delivered in a non-threatening environment (Cooper & Emory 1995). The face-to-face interactive process can encourage participants to share intrinsic opinions, include tacit knowledge, and to dredge previously unthought-of memories from the unconscious mind (Cavana, et al. 2001). The semi-structured interview uses a pre-planned, logical approach to manage the interview process (Cavana, et al. 2001) in a natural but somewhat directed setting (Patton 1990; Sarantakos 1993).

Although face-to-face field interviews impose vast limitations relating to resources and geography, they have the highest response rates and permit in-depth questioning (Neuman 2003). The researcher can adapt the questions as necessary, clarify doubts and
ensure that the responses are properly understood by repeating or rephrasing ambiguities that which would be impossible to detect in a telephone interview (Cavana, et al. 2001). Well-trained interviewers can ask questions that vary in type and/or complexity by means of extensive probing. While face-to-face field interviews have the potential for introducing interviewer bias and can be costly, they provide rich data, offer opportunities to establish rapport with the participants and help to explore and understand complex issues (Neuman 2003). Many ideas that are ordinarily difficult to articulate can be uncovered and discussed during such interviews.

Structured interviews are closed and elicit fixed-responses (Patton 2002) to reduce the extent to which individual differences in circumstances can be queried. As such, they do not permit the interviewer to pursue topics or issues that were not anticipated prior to the interview (Patton 2002). Semi-structured interviews, that is, those that combine various approaches (Patton 2002), offer the interviewer flexibility in probing and determining when it is appropriate to explore subjects in greater depth; it is even possible to pose questions about new areas of inquiry that were not originally anticipated in the interview protocol without the omission of salient topics (Patton 2002). Semi-structured field interviews are favored in cultural settings (Pareek & Rao 1980) and consist of the following characteristics (Neuman 2003):

i. The beginning and end are not clear.
ii. The order of questions is determined by the situation.
iii. The interviewer encourages in-depth elaboration.
iv. A friendly conversational exchange.
v. There are numerous probes and open-ended questions.
vi. The interviewer and participants jointly control the pace and direction of the interview.
vii. The social context is noted for interpreting the meaning of responses.
viii. The interviewer adjusts to the participant’s norms and language.

*Adapted from Denzin (1989)*

In-depth, face-to-face, semi-structured field interviews are best used at the exploratory stages of research when the researcher seeks an understanding of the concepts or situational factors (Cavana, et al. 2001). Consequently, this approach has therefore been adopted for this research.

### 3.5 Research Design and Implementation

This section details the key elements in the research design and implementation, including the sampling method, participant selection, gaining access, interview protocol, pilot study, recording and transcription, interview monitoring, the coding process and ethical consideration.

An interview protocol was developed to focus on the way business is conducted in Chinese culture. It was necessary to identify business people who are involved in Chinese markets and operate within China and the country’s unique political system. The researcher is an ethnic Chinese male from Hong Kong, with Cantonese, Mandarin and English as his primary languages. Therefore, it was expected that most of the interviews would be conducted in either Cantonese or Mandarin. Data analysis and theme development was conducted mainly in Chinese following the interview recording. However, the analysis reported in this dissertation is presented in English as the intended audience is mainly Western.

#### 3.5.1 Sampling Method

Qualitative inquiry is concerned with finding cases that will enhance the learning process about context specific social life (Neuman 2003). The aim of this research is to collect targeted cases, events and actions that can clarify and deepen the understanding of the
research topic and therefore requires non-probability sampling techniques. While this approach is not generalizable to the entire population (Cavana, et al. 2001), it is deemed to be relevant to the research topic (Sarantakos 1993) as it may offer useful information that is potentially available from the targeted group (Cavana, et al. 2001) rather than from specific representatives based on sampling (Flick 1998). There are a number of varieties of non-probability sampling techniques (Miles & Huberman 1994; Neuman 2003; Sarantakos 1993). Purposive, judgmental and quota sampling techniques were used in this study for the reasons discussed below.

**Purposive and Judgmental Sampling**

The research topic requires information to be obtained from specific target groups who are in the best position to provide the desired information (Cavana, et al. 2001). The researcher has used a wide range of methods in order to locate appropriate people to be key participants, including: personal connections; the industrial chamber of commerce and related associations and; government liaison offices (Neuman 2003; Pongtaveewould & Uncles 1998). Participants include those who have worked in or have relevant experience of the Chinese market and have a good understanding and knowledge of related issues, such as business connections and personal guanxi.

Although purposive or judgmental sampling may curtail the generalizability of the findings, it is, nevertheless, a viable method for obtaining the unique information that is required from specific pockets of those who possess the needed facts and are able to supply relevant information (Cavana, et al. 2001). In relation to the overarching research question, the views and knowledge of enlightened business leaders are a rich data source.

**Quota Sampling**
Quota sampling is considered to be a form of proportionate stratified sampling based on a predetermined number of participants (Cavana, et al. 2001). Quota sampling was used to select participants from two groups.

**Group A:** Individual participants with a direct relationship to the researcher, such as friends, classmates, vendors and customers. This group consists of businesspeople or executives with substantial experience in the Chinese market. They use personal *guanxi* and social status to influence government policy in order to create a favorable business environment.

Required attributes and business circumstances for Group A participants:

i) Must have substantial experience in the Chinese market, either in an executive position or as a business owner with a good understanding of public policies in China.

ii) Must have a good connection with, and be required to liaise with, Chinese government officials as part of their business role.

iii) Must be required to deal with, or be under the regulation of, Chinese government policies.

**Group B:** Individual participants selected from industrial associations who have direct access to government officials or policy makers in order to formally influence policies (without solely relying on *guanxi*) on behalf of association members.

Required attributes and business circumstances for Group B:

i) Must have substantial experience in the Chinese market, either in an executive position or as a business owner with a good understanding of public policies in China.

ii) Must have a good connection with, and be required to liaise with, Chinese government officials as part of their role.
iii) Participants work in the chamber of commerce, industrial associations or liaison offices.

Participants were chosen from the above cluster groups in order to provide construct validity, to avoid bias and increase the level of trustworthiness of this research (Cavana, et al. 2001). Other required attributes from both groups are also included:

i) Must have Chinese ethnicity and originally come from Hong Kong or Mainland China.

ii) Must be able to explain in detail the themes related to the research either in Chinese or English.

iii) Must be willing to provide sufficient details on subject matter.

3.5.2 Interview Protocol and Interview Process

The purpose of qualitative interviewing is to allow entry into another person’s perspective (Patton 2002). Being sensitive to “languaculture” means the leading of the researcher “beyond the words into the nature of the speaker’s world” (Agar 2000, p. 94). The use of local language is a way to enhance data collection during the interview process by increasing clarity, respect and rapport (Patton 2002). From the emic perspective, sensitivity to a local language usually illuminates a setting or culture (Patton 2002). The researcher is an ethnic Chinese, originally from Hong Kong, who took full advantage of the “languaculture”. The data collection and analysis process was facilitated by means of the participant’s own languages, both Cantonese and Mandarin, without the necessity for interpreters.

To achieve a high degree of consistency and ensure the flow of rich data in the interviews (Eisenhardt 1989, Minichiello 1990), an interview protocol was developed to facilitate consistency across interviews, but also to retain flexibility in a systematic way (Patton 2002). The interview protocol (see Appendix C) included questions and issues
that formed the basic lines of inquiry and ensured that critical elements identified in the literature review were covered. Hence, the researcher remained free to establish a conversational style while still focusing on the predetermined subject (Patton 2002).

The conversational style and interview protocol allowed greater flexibility and individualization (Patton 2002) and the combined approach ensured that certain key questions were addressed as well as allowing the researcher to explore other discretionary items. The combined strategy offered flexibility in probing and exploring with the possibility of posing questions about new areas of inquiry not originally anticipated (Patton 2002).

At the beginning of the interview, participants were informed about the purpose. The general introduction is important to validity in that the participant is made more aware of the study foci (Yin 1994). While the opening statement provided an overview, the amount of information offered to each participant was balanced so as to avoid any bias (Patton 2002). During the course of the interview, the researcher made the utmost effort to establish a rapport with participants and motivate them to share information honestly and openly (Cavana, et al. 2001).

Relationships and political guanxi are at the core of this study, but this cue was left until Question 4 to allow participants to draw on their own perspectives. If this was not volunteered, more specific probing took place. During the interview, a “funnel sequence” was applied (Neuman 2007); starting from broader questions then narrowing down to a specific focus (Minichiello 1990). This interview technique allows for the reduction of reluctant or involuntary information (Cavana, et al. 2001). Additional probing was also used for cross-checking and confirming and refining answers (Minichiello 1990). The list of questions used in the protocol and their purposes is expounded in Tables 3.1.
## Table 3.1 Interview Protocol and Purpose of Questions

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
<th>Purpose of the Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.1</td>
<td>Refer our conversation over the phone, could you please confirm that as part of your role, you are a government official or are required to liaise with government?</td>
<td>Assures the participant is a suitable candidate.</td>
</tr>
<tr>
<td>Q.2</td>
<td>Could you please tell me something about your company and yourself?</td>
<td>Collect demographic and company information from the participant.</td>
</tr>
<tr>
<td></td>
<td>• Category of your business, such as MNC or local, no industry or product is required.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Years of experience in China.</td>
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</tr>
<tr>
<td></td>
<td>• Revenue (global, regional, and China in RMB).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Regions or territories covered by your organization or business.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Your role and responsibility in the organization, such as government official, owner or executive, no specific position or title is required.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Are you responsible to institute public policies and/or liaise with government officials?</td>
<td></td>
</tr>
<tr>
<td>Q.3</td>
<td>What do you think are the key success factor for doing business in the Chinese market?</td>
<td>Discuss the critical success factor, and verify the importance of guanxi and the vital role it plays in doing business in China.</td>
</tr>
<tr>
<td>Q.4</td>
<td>What are your comments on interpersonal relationships regarding guanxi and trust in connection with doing business in China?</td>
<td>Confirm the conceptual understanding of and relationship between connection, guanxi and trust from the participant.</td>
</tr>
<tr>
<td></td>
<td>Do you think there is any trust/xinren between business and government, particularly on the influence of policies interpretation, practices and application through political guanxi?</td>
<td></td>
</tr>
<tr>
<td>Q.5</td>
<td>Do you believe that your company has at some stage influenced the interpretation, practices and application of public policy of the government? Can you share a story or give an example?</td>
<td>Probe and confirm whether guanxi is one the tools used to influence government’s interpretation, practices and application of policy in China.</td>
</tr>
<tr>
<td>Q.6</td>
<td>Do you believe the need for potentially influencing the government’s interpretation, practices and application of policy is affected by the industry or region you are in?</td>
<td>Probe and offer the participants the opportunity to respond in their own words and to express their own personal perspectives on the ways to influence government’s interpretation practices and application of public policy.</td>
</tr>
<tr>
<td>Q.7</td>
<td>Does your company harness resources to put structures in place to shape organizational relationships with government? If “yes”, then explain how and in what way?</td>
<td>Probe whether any available resource and structure is in place to support political action, choice or tactics, and if the choice of political activities is dependent on the target and nature of the issues.</td>
</tr>
</tbody>
</table>
Table 3.1 Interview Protocol and Purpose of Questions (con’t)

| Q.8 | From the following list, could you please rank the most effective way to influence the government’s interpretation, practice and application of public policy, from most effective to least effective and please explain why.  
  • **Lobbying**: a direct contact and communication between a registered lobbyist who is representing the firm and a public policy maker.  
  • **Reporting Research Result**: a means by which a firm shares newly learned data with a policy maker.  
  • **Reporting Survey Results**: informs policy makers about changing attitudes among their constituents.  
  • **Testifying at Congressional or Administrative Hearings**: allows firms to present their views to several interested policy makers simultaneously.  
  • **Legal Actions**: includes litigation, threatening the use of legal procedures, or filing amicus curiae briefs.  
  • **Personal Service**: executive may serve at the federal cabinet level, in executive and administrative departments, or as consultants or members of special committees by corporate leaders in official government posts and has potential political benefits for the corporations.  
  • **Constituency Building**: corporate efforts to identify, educate, and motivate to political action stakeholders who may be affected by public policy that have an impact on the corporation.  
  • **Advocacy Advertising**: at public forum  
  • **Participate into Congress**  
  • **Relational Approach** | Probe whether the participant is involved in: lobbying; reporting research results; reporting survey results; testifying at congressional or administration hearings; legal actions; personal services by or for corporate leaders in official government posts; constituency building; advocacy advertising in the public forum; and/or using collegial persuasion along with any other different methods being adopted in China. |
| Q.9 | Does your company rely on trade association or any specialized intermediaries to manage political action? | Probe whether industrial or trade associations are being used as a collective action, or any specialized intermediaries are being used to manage political action. Probe whether *guanxi* is being used and/or if this occurs through connections. |
| Q.10 | Apart from CPA, do you act collectively with others and in what way? | Probe whether constituency or coalition building tactics is being adopted to shift legislator’s position. |
| Q.11 | At what levels do you normally influence policy – local, regional or national? And please explain the reason on the coverage. | Probe whether available resources are in place to influence public policy at the local and/or national level with the presence of business interest. |
Table 3.1 Interview Protocol and Purpose of Questions (con’t)

| Q.12 | If relational approaches are preferred as ways to influence policy results, could you please rank this from most preferred to least preferred:  
|      | - Jia-ren 家人 - family members  
|      | - Shu-ren 熟人 - familiar persons such as relatives outside of family, neighbors or people in the same village, friends, colleagues or classmates; from superficial to extremely intimate  
|      | - Sheng-ren 生人 - mere acquaintances or strangers, no blood base and social base. | This question probes the preference of using family ties, insider or outsiders as a source of influence. |
| Q.13 | Are any particular strategies being used to shape your relationship with government for the purpose of influencing the interpretation, practices and application of public policy? | Probe whether financial incentive, constituency-building or information strategy is being adopted. |
| Q.14 | Among the three strategies of influencing government policy: (1) interpersonal guanxi, (2) collective efforts through trade association or labor union etc. and (3) constituency-building; which approach would you prefer? Please explain why and in what situation. | Probe and reconfirm whether the most effective CPA approach is being adopted in each different situation. |

The flow of questions was not expected to move in a sequential order and was adapted to allow for participant comfort. The protocol acted as a guide and it was not expected that all participants would answer all questions. Hence, the researcher intended to cover all aspects of the political guanxi as a whole, in order to yield meaningful results in relation to the overarching research question.

To ensure the interviewer did not misinterpret the perceptions provided in the interviews, responses to answers were always repeated back to the participants during the course of the interview. However, despite the use of the protocol and questioning, the depth and detail of the responses were ultimately dependent on the quality of the interviews (Patton 1990; Yeung 1995).

3.5.3 Pilot Study

A pilot study testing the interview protocol was conducted with two individuals (one business owner and one senior executive) with substantial experience in the Chinese market. The pilot study enabled the researcher to become more familiar with the
interview process and identify refinements in technique and possible changes to the protocol.

The pilot study was conducted two weeks before the main study and commenced in September, 2012. The pilot interviews took between 45 minutes and 2 hours and were digitally recorded. After the pilot study, the protocol remained largely intact. However, the pilot study identified the need to adopt the use of the local language to align with Chinese culture in order to build rapport with the participants as Cavana, et al. (2001) suggest. Moreover, the pilot study highlighted the need for the researcher to allow more time for the participant to respond in his/her own words and to use paraphrasing.

3.5.4 Main Study

All participants were initially contacted via a telephone call to gauge their willingness to participate by means of a verbal explanation of the research objective. After they indicated their potential willingness to participate, a formal written invitation along with the Participant Information Statement (Appendix A) and the Consent Form (Appendix B) with details concerning confidentiality were e-mailed to the participants. The field research included interviews with a cross section of businessmen and executives from both Hong Kong and China who had substantial experience in Chinese markets and met the requirements identified in Section 3.5.1.

The research was conducted in Hong Kong, Guangzhou, Shanghai and Beijing. Eighteen participants were sought for the main study. Although the sample size was less than the 40-45 suggested by Perry and Coote (1994), it was considered to be realistic and conformed to Patton’s (1990) proposal of a purposeful range of around 15, and Yin’s (1994) recommendation that several cases would be sufficient for postgraduate research.

To assure consistency, the main study was a replication of the pilot, with the aforementioned minor modifications. As the participants used either personal guanxi or
were capable of directing access to policy institutions to influence government policy (see Section 3.5.1), a cross section of businessmen, senior executives and representatives from the interest groups were chosen (Cavana, et al. 2001).

3.5.5 Interview Recording and Transcription

No matter how well an interview is conducted, a failure to capture the actual words of the person being interviewed will mean overall failure (Patton 2002). Data collected by audio recording, in preference to field notes, was used to preserve the authenticity of all interviews. The use of audio recording permits the researcher to be more accurate and attentive to participant perceptions (Lofland 1971; Patton 2002). It ensures that each interview is recorded as fully and fairly as possible from the particular participant’s perspective (Patton 2002). It is also an important memory aid for the data analysis phase (Cavana, et al. 2001). It must be noted that the audio recording approach may cause participants to suppress information (Cavana, et al. 2001), particularly in mainland China (Fang 1999). Therefore, the purpose of the audio recording was explained to all participants when seeking their advanced consent.

The identity of the participants was protected by replacing their name with a code and removing from transcripts any potential identifying information. An electronic copy of participant names and their codes was filed separately from the transcripts. All transcripts were kept in a secure password protected computer (see Appendix A for Participant Information Statement). Signed consent forms were kept in hard copy form in a lock cabinet. All other data and materials were kept on both the supervisor’s and student researcher’s computer in electronic form and password protected.

3.6 Reliability and Validity
Rigor is important to both qualitative and quantitative research as it is paramount in ensuring quality (Denzin and Lincoln 2003; Lincoln & Guba 1986; Patton 2002; Miles and Huberman 1994; Neuman 2003; and Yin 1994). Reliability and validity are central issues. Both are important in establishing the accuracy and credibility, or believability, of findings (Neuman 2003).

Diverse approaches to qualitative inquiry such as phenomenology, ethno-methodology, ethnography, hermeneutics, critical theory, realism and ground theory remind us that issues of quality and credibility intersect with the audience and the intended inquiry purpose. This research adopted traditional scientific research criteria to increase the credibility and legitimacy of the qualitative inquiry by the implementation of a rigorous form of data collection and analysis (Patton 2002).

Glesne (1999) suggests that “social construction” and “interpretivism” generate new concepts to distinguish quality in qualitative research. Lincoln and Guba (1986, p. 75) propose that constructivist inquiry demands analogical criteria inherited from traditional social sciences. The criteria are “credibility as an analog to internal validity, transferability as an analog to external validity, dependability as an analog to reliability and conformability as an analog to objectivity”. They represent “trustworthiness” as being parallel to rigor (Patton, 2002) and are used in this research as discussed below.

3.6.1 Credibility

A purposive sampling method was used to obtain unique information from the very specific pocket of people who possess the facts needed to constitute a rich data source. Quota sampling was used to select participants from two groups that included individuals who use personal guanxi and representatives from commercial chambers. Participants were chosen from a diverse cluster so as to provide construct validity to avoid bias and increase trustworthiness.
According to Patton (2002), credibility refers to the rigorous methods of doing field work that yield high-quality data that are systematically analyzed. This research addresses credibility issues through the design and implementation of a rigorous approach in the following ways.

- Semi-structured interviews were conducted with a pre-planned interview protocol. The interview protocol enabled consistency, but remained flexible so that the participants could share intrinsic opinions and rich data for this exploratory study.
- The pilot study improved reliability and ensured the questions were appropriate and clear.
- The main study consisted of a cross section of 18 participants that included businessmen, senior executives and interest group representatives.
- Audio recording was used to preserve details and assure data recording accuracy during the interview process.

3.6.2 Confirmability
Confirmability, or objectivity, refers to the ability of an independent reviewer of research data to develop similar findings. To enable such checks and balances, this research implemented the following processes.

- A supervisor reviewed samples of the data and analysis (Marshall & Rossman 1995).
- A peer-group review process was implemented. This included other researchers and a formal confirmation and approval process by academics from the University of Newcastle.
- Transcripts were produced from audio-recorded interviews. As noted in Section 3.5.5 the audio recording increased the accuracy of data collection and preserved details in a complete and fair condition.
• Alternative views were sought to generate and assess rival explanations and conclusions from the research project supervisors (Glasser & Strauss 1967). Comparing alternative patterns and searching for the conclusion with the best fit (Patton 2002) allowed a balanced appraisal of the data.

• An audit trail was established to allow traceability for any future researcher and evaluator (Lincoln & Guba 1986).

3.6.3 Dependability

Dependability refers to the stability and consistency with which the instrument measures the concept and assesses the “goodness” of a measure (Cavana, et al. 2001). By definition, interpretive research is subjective. Hence, the following steps were built into the research to balance bias (Marshall & Rossman 1995) and assure dependability.

• An interview protocol was used that suggested areas of interest without pre-empting specific questions and without limiting the scope for alternative opinions (Eisenhardt 1989).

• Sources were cross-checked and cross-validated during field work to assure questions were well understood and answered consistently by participants.

• This exploratory research included a pilot and a main study.

3.6.4 Transferability

Transferability or generalizability is contentious in qualitative research (Cronbach & Associates 1980; Marshall & Rossman 1995). Although the degree of transferability
depends on the similarity and congruence between two contexts (Lincoln & Guba 1985), the design of this research permits reasonable “extrapolation” such that findings are likely to be applicable to other situations under similar conditions. (Patton 2002). Extrapolations are particularly useful in addressing concerns about a research topic for both the present and the future (Patton 2002), and this was evidenced in the following ways.

- The logic and methodology of this research can be used for future studies.
- Four reference points were used, namely Hong Kong, Guangzhou, Shanghai and Beijing to improve the generalizability of this research.
- Participants were chosen using purposive and quota sampling methods so as to avoid bias and to improve the generalizability of this research (see Section 3.5.1).

3.6.5 Triangulation

Triangulation is an alternative to validation (Flick 2002). It consists of multiple observers, theories, methods and data sources, so that researchers may overcome intrinsic biases that come from single-methods, single-observer, and single-theory studies (Denzin 1989). Due to its limited budget and time frame, this research had a limited potential to apply multiple methods and measures (Patton 2002). However, the researcher used intra-triangulation methods (Patton, 2002) as outlined below.

- **Triangulation of Sources**
  
  As mentioned above, there was a mixing of different types of purposeful samples to avoid bias and to check for consistency from the same method.

- **Review by Inquiry Participants**

  Participants who were studied reviewed their transcripts and verified that their perspectives were reflected (Glesne 1999) and this facilitated analytical triangulation.
Expert Audit Review

This research received a final review by the researcher’s supervisor. Such an audit needs to be conducted according to appropriate criteria in order to assess and render judgment about the quality of data collection and analysis.

In summary, the reliability and validity checks that were used in the pilot and main study conformed to those prescribed for interpretive research.

3.7 Limitations of Research Methodology and Design

The research methodology and design used in this study conform to the respective literature. However, the methodology and design do have some limitations as noted below.

- Future research could extend to a larger geographic area. As this research was confined to Hong Kong, Guangzhou, Shanghai and Beijing it may have bias arising from its regional limitations.
- This research lacked direct access to, and the possibility of, interviewing members of the People’s Congress who have been appointed from business sectors. This source of participants may have provided other insights into how government policies influence institutions in China.
- This research focused on the context of a cultural study of political guanxi from the perspective of native Chinese without considering and investigating the formal political institutional system. Future research could be extended to produce a more fine grained analysis of the political institutional system.

3.8 Ethical Considerations

This study relates to human research. Hence, the welfare and rights of participants had to be protected. To comply with regulatory, legislative and university requirements, a peer review and ethical clearance were respectively obtained from both the Faculty Research
Committee and University of Newcastle Human Research Ethics Committee (HREC). A copy of the approval related to this research is provided in Appendix F. All participants were informed of their rights in relation to the interview and their freedom to withdraw at any time in the Participants Information Statement (Appendix A). A consent form (Appendix B) was also prepared for all participants in both the pilot and the main study.
CHAPTER 4 ANALYSIS OF RESEARCH DATA

4.1 Introduction

This chapter analyses and discusses the data collected from field research according to the research design methodology and strategies defined in Chapter 3 in order to answer the research question discussed in Chapter 1 and Chapter 2: How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?

The focus of this research is to investigate the political relationship between business corporations and government, and the role of guanxi in influencing the interpretation, practices and application of government policies in the Chinese context when companies strive to create favourable operating conditions in China. In keeping with the non-linear orientation of the Chinese cognitive process (Nisbett 2003), a narrative report writing style has been adopted by the researcher. A large number of descriptive tables and verbatim citations have been utilized to organize the data chronologically to “tell a story” around specific individuals and events (Neuman 2007) with some detail from a positivist perspective (Kriz 2009).

4.2 Data Analysis and Coding

The researcher is an ethnic Chinese from Hong Kong. He is a native speaker of both Cantonese and Mandarin. Research participants invited for the interviews are all ethnic Chinese from Hong Kong, Guangzhou, Shanghai, and Beijing. Therefore, Cantonese and Mandarin were the languages used for the interviews in order to draw out the deep, substantial and rich responses from participants (Geertz 1973).

Digital audio recordings, in either Cantonese or Mandarin, were initially transcribed into Chinese in order to keep the original meaning and context intact. They were then
translated into English and categorized according to themes using open coding processes. The transcripts were analyzed using NVivo 10 and Microsoft Excel to identify patterns and themes from the responses. The researchers adopted a mixed-methods approach to analyze and organize the data into conceptual categories to create themes and concepts. Iterations and cross checking between Chinese transcripts and the English coding tables were made to refine the coding and to establish links between concepts or themes.

4.2.1 Demographics of Respondents

Twenty respondents, (including the two from the pilot interviews) from four cities were invited to participate in this research. They were all indigenous Chinese, and came from a range of industries. Most were business executives and owners of businesses covering the whole of China, in both cities and rural areas. Interviews were conducted in the cities in which the respondents’ firms were located. The ages of the companies ranged from three to thirty years. The total annual turnover of each company ranged from between six million to fifty billion RMB. The demographics of the respondents are listed in Tables 4.1 to 4.3 below.

Respondents were chosen from two clusters in order to provide construct validity for the data (Cavana, et al. 2001).

**Group A:** Individual participants who have a direct relationship with the researcher. They may use personal *guanxi* and social status to influence government policy in order to create a favorable business environment.
Table 4.1 Number of Respondents from Cluster of Groups

<table>
<thead>
<tr>
<th>No. of Respondents</th>
<th>Group A (individual respondents)</th>
<th>Group B (respondents from associations and CPPC members)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Developed from a content analysis of the transcript

Table 4.2 Number of Respondents from Chosen Locations

<table>
<thead>
<tr>
<th>No. of Respondents</th>
<th>Hong Kong</th>
<th>Guangzhou</th>
<th>Shanghai</th>
<th>Beijing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
<td>8</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

Developed from a content analysis of the transcript

Table 4.3 Demographic of Respondents

<table>
<thead>
<tr>
<th>Resp. No.</th>
<th>Gender</th>
<th>Age</th>
<th>Industry</th>
<th>Region</th>
<th>Annual Turn Over</th>
<th>Group (A/B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>F</td>
<td>47</td>
<td>manufacturing</td>
<td>Guangzhou</td>
<td>20 billion RMB</td>
<td>B</td>
</tr>
<tr>
<td>2</td>
<td>M</td>
<td>41</td>
<td>retail</td>
<td>Guangzhou</td>
<td>266 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>3</td>
<td>M</td>
<td>65</td>
<td>manufacturing</td>
<td>Guangzhou</td>
<td>23 billion RMB</td>
<td>B</td>
</tr>
<tr>
<td>4</td>
<td>M</td>
<td>45</td>
<td>manufacturing</td>
<td>Shanghai</td>
<td>200 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>5</td>
<td>M</td>
<td>50</td>
<td>logistic service</td>
<td>Shanghai</td>
<td>25 million RMB</td>
<td>A</td>
</tr>
<tr>
<td>6</td>
<td>M</td>
<td>55</td>
<td>business consulting</td>
<td>Beijing</td>
<td>Unknown</td>
<td>B</td>
</tr>
<tr>
<td>7</td>
<td>M</td>
<td>51</td>
<td>manufacturing</td>
<td>Shanghai</td>
<td>2 billion RMB</td>
<td>B</td>
</tr>
<tr>
<td>8</td>
<td>M</td>
<td>53</td>
<td>business consulting</td>
<td>Hong Kong</td>
<td>Unknown</td>
<td>A</td>
</tr>
<tr>
<td>9</td>
<td>M</td>
<td>57</td>
<td>trade fair organizer</td>
<td>Hong Kong</td>
<td>50 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>10</td>
<td>M</td>
<td>59</td>
<td>trading</td>
<td>Hong Kong</td>
<td>6 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>11</td>
<td>M</td>
<td>38</td>
<td>trading</td>
<td>Guangzhou</td>
<td>30 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>12</td>
<td>M</td>
<td>55</td>
<td>manufacturing</td>
<td>Guangzhou</td>
<td>700 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>13</td>
<td>M</td>
<td>41</td>
<td>IT system consulting</td>
<td>Shanghai</td>
<td>2 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>14</td>
<td>F</td>
<td>43</td>
<td>retail</td>
<td>Beijing</td>
<td>Unknown</td>
<td>A</td>
</tr>
<tr>
<td>15</td>
<td>M</td>
<td>54</td>
<td>trading</td>
<td>Beijing</td>
<td>1 million RMB</td>
<td>A</td>
</tr>
<tr>
<td>16</td>
<td>M</td>
<td>45</td>
<td>retail</td>
<td>Shanghai</td>
<td>140 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>17</td>
<td>M</td>
<td>50</td>
<td>real estate</td>
<td>Guangzhou</td>
<td>700 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>18</td>
<td>M</td>
<td>46</td>
<td>business consulting</td>
<td>Beijing</td>
<td>Unknown</td>
<td>A</td>
</tr>
<tr>
<td>19</td>
<td>M</td>
<td>48</td>
<td>manufacturing</td>
<td>Guangzhou</td>
<td>30 million RMB</td>
<td>B</td>
</tr>
<tr>
<td>20</td>
<td>M</td>
<td>53</td>
<td>manufacturing</td>
<td>Guangzhou</td>
<td>80 million RMB</td>
<td>B</td>
</tr>
</tbody>
</table>

Developed from a content analysis of the transcript

Group B: Individual participants selected from industry associations who have direct access to government officials or policy makers in order to formally influence policies (without solely relying on guanxi) on behalf of association members.

During the course of data collection, it was found that a high percentage of respondents were also members of industry associations. During the interview, one
respondent was also identified as being a member of the Chinese People’s Political Consultative Conference (CPPCC 中国人民政治协商会议) of the Communist Party and was therefore classified into Group B.

4.3 Development of Themes and Perception

This section analyzes and discusses the collected data following the order of the interview protocol. It also includes additional information yielded by asking additional probing questions in order to gain further depth and richness in particular issues.

Question 1 aimed to clarify the legitimacy of the respondents who liaise with government and officials. Question 2 was used to collect basic information in relation to the nature of each business, its history, annual turnover, geographic coverage and industry field, in order to determine whether such factors have implications for the respondent’s relationships to government and government officials. Questions 3 to 14 were posed to respondents to probe and gain insights into the nature, interpretation and practice of guanxi for the purposes of influencing government policies. Sections 4.4 to 4.7 discuss a number of key themes that were identified from a content analysis of the answers given by the respondents to questions 3 to 14. These themes in turn have been used to develop a Business-Government Guanxi theoretical framework (presented in Chapter 5) which in turn answers this study’s the overarching research question.

4.4 Critical Success Factors in the Chinese Market

The literature discussed in section 2.9.4 suggests political guanxi is a source of competitive advantage in the Chinese market and may be a critical success factor in doing business. Therefore, question 3 was posed to investigate the importance of guanxi: the role it plays in doing business in China, particularly with regards to liaison with the government and; whether or not it is a critical success factor. Although it was not cited as
a critical success factor by all respondents, seventeen indicated that guanxi is mandatory for the assurance of the smooth running of business operations and as a source of competitive advantage for companies, as illustrated in Table 4.4.

Table 4.4 Critical Success Factors Relating to Guanxi and Government Relationships

<table>
<thead>
<tr>
<th>Resp.</th>
<th>Comments</th>
<th>Relationship with Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>It is necessary to have a good guanxi with the government anytime you do business in the Chinese market.</td>
<td>Y</td>
</tr>
<tr>
<td>7</td>
<td>It is mandatory to maintain an adequate guanxi with government officials when running a business in China.</td>
<td>Y</td>
</tr>
<tr>
<td>8</td>
<td>Understand the way to work with government officials, keeping constant positive contact.</td>
<td>Y</td>
</tr>
<tr>
<td>9</td>
<td>Maintaining a good and strong guanxi with the senior government officials is essential.</td>
<td>Y</td>
</tr>
<tr>
<td>12</td>
<td>The most important is guanxi. Through this you can get information and resources from the government, such as the identification of land that will be developed in the future for factories purpose. And government incentives such as the people and tax deductions that are some of the success factors.</td>
<td>Y</td>
</tr>
<tr>
<td>13</td>
<td>The key success factor is to follow the government’s policies.</td>
<td>Y</td>
</tr>
<tr>
<td>14</td>
<td>Guanxi is very important in China in mobilizing resources, particularly with regard to senior government officials.</td>
<td>Y</td>
</tr>
<tr>
<td>15</td>
<td>Distributors in every location need to maintain a good guanxi with the government.</td>
<td>Y</td>
</tr>
<tr>
<td>16</td>
<td>In order to maximize profits, you have to follow government policies when running a business in China. Another key success factor is that we have the capability to anticipate the future direction of government policies. The policy is absolutely one of the factors that affect your success in the Chinese market.</td>
<td>Y</td>
</tr>
<tr>
<td>18</td>
<td>A good guanxi with the government will allow you to obtain good projects and loans from the bank.</td>
<td>Y</td>
</tr>
<tr>
<td>19</td>
<td>Following government policies and having a good guanxi with government officials would streamline the operations of our business.</td>
<td>Y</td>
</tr>
<tr>
<td>20</td>
<td>The guanxi with Chinese officials is one of important factors, but it does not mean you will automatically have success, because there are other business factors.</td>
<td>Y</td>
</tr>
</tbody>
</table>

Developed from a content analysis of the transcripts

Moreover, these seventeen respondents confirmed that guanxi is one of the critical success factors in running a business in China. Among the seventeen, twelve indicated that a good guanxi with the government and officials was a critical success factor. As a critical success factor, all of the seventeen cited the importance and benefits of maintaining a good guanxi with the government as being necessary for various reasons, such as: reducing uncertainty; ensuring smooth operations; enhancing products and
services to create a competitive advantage and; obtaining advanced information for the development of company strategies, as illustrated in Table 4.5 below.

<table>
<thead>
<tr>
<th>Resp.</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A good <em>guanxi</em> with the government will streamline tedious bureaucratic processes, thus saves time and money. A good <em>guanxi</em> with government will certainly enhance a company's competitiveness.</td>
</tr>
<tr>
<td>2</td>
<td>Some regions may need to have a very good <em>guanxi</em> with the government in order get support for the local businesses.</td>
</tr>
<tr>
<td>3</td>
<td>It is necessary to establish good communication and a <em>guanxi</em> with the government for any company entering into the Chinese market.</td>
</tr>
<tr>
<td>4, 5, 10</td>
<td>A good <em>guanxi</em> with the government can guarantee the smoothness of company operations.</td>
</tr>
<tr>
<td>6</td>
<td>Big enterprises have their own systems and resources and may have a liaison office in Beijing so as to communicate directly with the government.</td>
</tr>
<tr>
<td>7</td>
<td>An adequate <em>guanxi</em> is necessary for a business in China. Many areas need to cooperate with the local government. They can create hidden costs and inconvenience, such as importing and tax issues from the custom and commercial inspection departments.</td>
</tr>
<tr>
<td>8</td>
<td>Mitigate the financial risk of non-compliance.</td>
</tr>
<tr>
<td>9</td>
<td>It is definitely a competitive advantage if you can establish <em>guanxi</em> with the government.</td>
</tr>
<tr>
<td>11, 12, 14</td>
<td>It is very helpful for us to maintain a <em>guanxi</em> with the government. We follow government policies to develop our market and product strategy. Advanced information from the officials helps us to define the company’s strategy in order to preempt opportunities, such as locations and land the government will develop in the future. The support from other government departments is also important, such as licenses etc.</td>
</tr>
<tr>
<td>15</td>
<td>Having a good <em>guanxi</em>, the officials referred me to engage in government business and projects</td>
</tr>
<tr>
<td>16</td>
<td>Government policies are definitely the life and death of your business. The level of trust and <em>guanxi</em> with government officials is crucial to circumvent the situation.</td>
</tr>
<tr>
<td>18</td>
<td>The <em>guanxi</em> with government is the determinant whether you can obtain good government projects and bank financing.</td>
</tr>
</tbody>
</table>

*Developed from a content analysis of the transcripts*

The findings from this section support the vital role of *guanxi* in running a business in the Chinese market. Moreover, the evidence strongly supports the idea that maintaining a good *guanxi* with the government is one of the critical success factors and a source of competitive advantage for companies. Therefore the first theme identified in the analysis of the data is as follows:

**Theme 1:** Establishing and maintaining a good *guanxi* with government and government officials is one of the key success factors for doing business in China.
4.5 Perceptions of Guanxi and Xinren

This section investigates perceptions of the roles of guanxi and xinren (deep trust) in the context of commercial activity, drawn from answers to question 4. The perceptions of guanxi and xinren are then used in Section 4.6.2 to examine how businesses build deep relationships with government officials for the purpose of influencing the interpretation, practice and application of policies. Seventeen respondents provided clear explanations of the differences between guanxi and xinren while the other three perceived them as largely the same thing. By way of example, respondent 19 suggested:

Guanxi and xinren are tied together and they are at the same level. Because we have guanxi therefore I establish xinren with you. They coexist.

Respondent 2 suggested that guanxi is a feeling and is emotional; it can be personal or inter-organizational. Respondents 3, 13 and 20 suggested a relationship starts from guanxi and can be developed into a deeper trust over a period of time. Respondents 4 and 7 suggested that, to establish a xinren relationship, the interactions between two people have to be well tested through a long term relationship starting from a guanxi, then developed into trust and finally turned it into a deep level of xinren. This position was reinforced by respondent 9 who suggested that xinren means deep trust, obligation and reciprocity and that it is the basis for unconditional friendship:

Respondent 9: Xinren is reciprocity. I owe you renqing (人情) because you help me this time. I'll return later when you need help. This is a “purified guanxi” that I don't need to please you. In contrast, if I need to give you benefit, this is not a trust (xinren). It is an investment that I need to calculate the return from the exchange.

Respondent 5 and 17 suggested that a purified form of guanxi is rare in business culture in China and this was supported by respondents 6 and 9 who both suggested that because of the involvement of personal interest (各取所需) and economic benefit, guanxi become superficial and therefore a deep level of trust or xinren is hard to establish and maintain. Additional insight was given by respondent 4 on the path of relationship
development from *guanxi* into trust and finally *xinren*. Respondent 4 classified *guanxi* into two categories of Chinese relationships based on the degree of closeness and strength as the following quote illustrates:

**Respondent 4:** Guanxi has many forms and layers, such as good connections and relationships with people. The first level is Shu-ren (熟人 familiar persons outside of family) and Sheng-ren (生人 mere acquaintances or stranger). Both are superficial without deep emotion. The second level is “trust” that the relationship with Shu-ren (熟人) is required a very long time to build the familiarity and trust, such as colleague working together. Although the trust level is not very deep, the person will help you on little things with condition when necessary. The third level of guanxi is “xinren” that the relationship of Shu-ren (熟人) has been well tested over a long period of time with very deep trust. That means a very good relationship in that the person can be trusted in everything.

Figure 4.1 illustrates the developmental stages from *guanxi* to trust and *xinren* derived from the content analysis of the open ended responses to question 4.

**Figure 4.1 Perceptions of Guanxi and Xinren**

<table>
<thead>
<tr>
<th>Guanxi</th>
<th>Trust</th>
<th>Xinren</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Properties</strong></td>
<td><strong>Properties</strong></td>
<td></td>
</tr>
<tr>
<td>Feeling and emotion</td>
<td>Responsibility and Obligation</td>
<td></td>
</tr>
<tr>
<td>Transactional and temporal</td>
<td>Well-tested and long time to build</td>
<td></td>
</tr>
<tr>
<td>Connection</td>
<td>Reciprocal</td>
<td></td>
</tr>
<tr>
<td><strong>Time Axis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Superficial without deeper emotion</strong></td>
<td><strong>Little trust</strong></td>
<td><strong>Deep trust</strong></td>
</tr>
<tr>
<td><strong>Provide a little help with condition</strong></td>
<td><strong>Very good guanxi</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Developed from the content analysis of the transcripts*
Content analysis of the responses to question 4 identifies the following three themes:

**Theme 2:** Guanxi is a feeling and an emotion. It can be personal or inter-organizational. Benefit is a key element of guanxi in Chinese business culture. It is superficial without deep emotion. It is transactional and temporal.

**Theme 3:** “Trust” is in between guanxi and xinren: it is a degree of trust, but not deep trust. It will assist you to get a little help but with conditions attached.

**Theme 4:** Xinren is much deeper than guanxi. It means deep trust that includes obligation and reciprocity. It has to be well tested through a long period of interaction between people.

Section 4.5 reinforces the idea that guanxi is transactional and temporal. It is superficial without deep emotion. However, xinren is much deeper than guanxi. It has a high degree of trust that requires a long time to be built and is well tested through ongoing interaction. In addition to obligation and reciprocity, xinren involves the deep trust of a person who can be “trusted in everything”. This infers that a person may be willing to take a risk for someone who can be xinren (trusted).

### 4.6 Relationship Building with Government

This section investigates the approaches and processes of relationship building between businesses and the government. Question 5 to 6 were posed to probe whether guanxi has been used as one of the tools for relationship building with the government, and to explore the respondent perceptions on how the use of guanxi influences the interpretation, practices and application of public policy.

#### 4.6.1 Government Communication

In response to question 5, respondents 1, 3, 7 and 9 suggested that in order to streamline the institution and implementation of new policies, the government was willing to
communicate and consult businesses, industrial associations and labor unions in an open manner. The government organized industrial seminars, conferences and meetings and invited relevant parties to meet, be introduced to and hear feedback about the new polices in both public and private forums. Respondents 12, 16 and 20 indicated that, in circumstances such as the recent economic downturn after the global financial crisis, the government made temporary changes to trade policy after receiving requests from large exporting manufacturing firms.

Respondent 16: We are one of the top ten businesses in this city. If there are any new policies or initiatives from the government, the mayor and secretary will discuss them and consult our opinions.

Respondent 20: The government is willing to listen to businesses and continue to enhance the policies, particularly for large enterprises.

All seven respondents suggested that the government was willing to hear or solicit opinions, particularly from sizable companies, when introducing policies or making changes to policies. The content analysis leads to the identification of Theme 5 as below.

**Theme 5:** The government is open and willing to communicate with firms in the public and in private about new policies or policy changes.

### 4.6.2 Relationship Building

While nine respondents stated that they wanted to build a closer relationship with the government directly, respondents 5 and 7 were reluctant to do this due to legal ambiguity and the time required in forming close relationships. Instead, they preferred to maintain their relationship with the government officials at the “guanxi” level (superficial without deeper emotion), rather than trust or xinren.

Respondent 5: It is not good to be high profile in China. Since rules and regulations are ambiguous, it is easy to be trapped and become a scapegoat.

The content analysis leads to the identification of Theme 6.
**Theme 6:** Due to legal ambiguity in China, some business executives or owners prefer to keep a low profile and maintain a superficial *guanxi* with government to avoid being trapped and or become scapegoat.

In contrast, although *guanxi* may already exist at the company level, respondents 2, 4, 8, 9, 10, 12, 14, 17 and 20 preferred to cultivate a higher degree of interpersonal trust with senior government officials in order to be able to resolve specific business issues as and when they arise as the following quote illustrates:

*Respondent 2: Although we have a public relationship department responsible for liaising with the government, our General Manager still maintains a very good *guanxi* and close communication in person with a high level of trust with the senior official.*

The content analysis leads to the identification of Theme 7 as below.

**Theme 7:** Even though *guanxi* may exist at the company level, business owners or executives prefer to cultivate a higher degree of interpersonal trust with senior government officials. Another issue that became evident from respondents 10, 12 and 14 is that some firms maintain a good *guanxi* with the government in order to increase the likelihood that they might be offered contracts for government projects, as the following quote suggests:

*Respondent 14: The trust between government and businesses is on the basis of benefit. I think it is very hard if they treat you as a real friend and help you without benefit.*

This therefore gives rise to Theme 8:

**Theme 8:** Although firms prefer to maintain good *guanxi* with government, for some, it is on the basis of benefit. Therefore *guanxi* with government officials is superficial in some circumstances and without a deep feeling of trust or *xinren*.

The responses to this question from respondents 5, 10, 11 and 15 indicate that some firms prefer to use an intermediary for one of the following two reasons: 1) they do not have sufficient resources to build a *guanxi* with government officials; 2) the business is in its infancy and does not have a sufficient *guanxiwang* (*guanxi* network) to develop
relationships with government officials. However, in the latter case, it was noted that most of the time firms without a governmental connection use friends or intermediaries as bridges with which to build guanxi (la guanxi 拉关系) with the government.

Respondents 10 & 15: Most of the time, we rely on friends to connect and build a guanxi (la guanxi 拉关系) with officials. My friends could be officials in the same or different departments.

Respondent 11: Now, we rely on our friend to liaise with senior government officials with whom they have a closed guanxi. Although we met the officials once or twice, it is not enough long to build trust. Therefore, if we have any doubt or issues, we are making use of our intermediary to communicate with the officials.

Respondent 5: Unless your firm is a huge enterprise with significant investment in that region, there is no way to meet with the senior officials except by being introduced by friends through dinners or public events.

These insights give rise to the identification of Theme 9.

Theme 9: Companies that don’t have sufficient resources to build a guanxi with government officials, or do not have enough guanxiwang, will often make use of friends or intermediaries to connect with officials through dinners or public events.

4.6.3 Multi-Level Relationships

The literature discussed in sections 2.9.4 and 2.9.5 suggests that personal networks and relationship skills in China have been used to serve political purpose and influence public decision making. Therefore, question 7 was posed to investigate whether specific organizational resources were used by respondents to shape government relationships.

Apart from respondents 2, 8, 16 and 17, all other respondents did not have sufficient designated resources to manage guanxi with government officials. Rather, they relied on their functional department managers to liaise and deal with the respective government departments at the operational level, such as the finance department liaising with the Tax Bureau and the legal department liaising with the Economic and Trade Ministry (经贸委).
Although respondent 5 outsourced some of those functions to external service providers in order to avoid spending excessive time and effort liaising and socialize with government officials, they suggested that *guanxi* is required in order to be involved at multi-levels, from provincial to city level and from senior staff to operational staff levels. This position was reinforced by respondents 6, 7, 9 and 14 who all suggested that it is necessary to build relationship (buy relationship 收買) at multiple levels with the government hierarchy to ensure that business runs smoothly. For example, respondent 9 stated:

*Respondent 9: Through guanxi, particularly at the province level where it has superior power, I can ask the sub-region to help. When the instructions come from the province, the sub region does it in a more efficient manner.*

The findings from the analysis of this question leads to Theme 10:

**Theme 10:** Companies of comparable size may allocate resources and have designated departments to manage their government *guanxi*. In those companies that do not have dedicated resources to manage relationships with government officials, functional department employees have to liaise with corresponding government department officials at the operational level using their own *guanxi*.

However, for strategic issues, the responses indicate that senior executives and business owners still prefer to maintain *guanxi* with senior government officials at the personal level, as identified in Theme 7. Although respondent 3 commented that only multinational enterprises could afford to have designated resources to handle government relationships, respondents 2, 8, 16 and 17 indicated that they have designated departments, namely Public Relationships or Government Relationships, to manage *guanxi* with the government. The revenue size of their companies is between 140 million and 800 million RMB per annum. They are at the mid-range of the companies participating in this research. These four companies come from different industries
without any specific pattern, but are of comparable size in their own regions. Moreover, respondent 14 suggested that maintaining good *guanxi* at the top was very important. This was concurred with by respondent 9 who suggested that a top-down *guanxi* approach was preferable in order to influence the government.

*Respondent 9: It is important that you have a good guanxiwang (guanxi network) at the senior level. Due to the centralized power system in China, it is preferable to adopt a top-down guanxi approach, rather than a bottom-up one, to influence the government. It would be more effective if you have guanxi with the most senior official in the province or in Beijing. Since we have a very good guanxi at the province level, our job is much easier as we obtained an agreement at the top and then went directly down to the local authority.*

The content analysis leads to the identification of Themes 11 and 12 below.

**Theme 11:** Business owners and senior executives prefer to keep strategic issues and *guanxi* with senior government officials at a personal level.

**Theme 12:** It is important to build multi-level relationships with government when dealing with issues relating to multiple levels of authorities. Having good *guanxi* with a senior official and adopting a top-down approach is an effective way of influencing the interpretation and practice of government policies down to the hierarchy of his/her custody.

Table 4.6 summarizes the data collected from all respondents and lists the resources from their organizations allocated to manage government *guanxi*. The table indicates that all executives prefer to adopt a top-down approach to maintain a *guanxi* with senior government officials at a personal level. Despite this, there were four companies that have designated resources to manage government *guanxi* in which all the functional departments of their companies liaise with respective government officials at the personal level.
### Table 4.6 Organizational Resources Allocated to Manage Government Relationships

<table>
<thead>
<tr>
<th>Resp.</th>
<th>Designated Resource (no. of employee)</th>
<th>All Department</th>
<th>Business Executives/Owner (personal guanxi)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>2</td>
<td>Y (2)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>3</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>4</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>5</td>
<td>N</td>
<td>Partial due to outsource</td>
<td>Y</td>
</tr>
<tr>
<td>6</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>7</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>8</td>
<td>Y (1)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>9</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>10</td>
<td>N</td>
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<td>12</td>
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<tr>
<td>20</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
</tbody>
</table>

*Developed from a content analysis of the transcripts*

#### 4.6.4 The Development and Source of Xinren Relationships

Sections 4.6.1 to 4.6.3 investigated the relationship building between businesses and government, as well as the preference of organizations that are adopting their own strategies to maintain desired levels of relationships with multiple levels of government ranging from *guanxi* (superficial) to trust (little trust) to *xinren* (deeper emotion with trust*
in everything). While the semi-structured interviews were organized to facilitate the flow of ideas and allow flexibility for the respondents to express their opinions, additional comments were provided by respondents offering richer information on the development of trust and *xinren* (deeper trust) between businesses and government officials.

Respondent 3 suggested that *guanxi* could start with government officials on the basis of friendship. After a period, this *guanxi* might develop into a deep trust (*xinren*). However, the relationship has to be legal and moral. Any illegal activities would break the trust and the government officials would terminate the *guanxi* in order to protect themselves. This was reinforced by respondents 6 and 9 who suggested that the friendship included families, character, lifestyle and habits. All friends were equal and the trust was established without an intermediary. The friends helped each other reciprocally. Respondent 8 suggested that the relationships established with government officials came naturally and as friendships do not have business implications, the *xinren* was easily established in one to two years.

*Respondent 8:* *My business does not need to build any relationships with the government. I just have dinner with friends, who are senior officials, and I don’t ask for help or any favors from them. Our friendship is more natural and our relationship is even better than some people who have run a business in Beijing for more than 10 years, Because they all treat me as a friend, we established xinren after one to two years.*

The content analysis leads to the identification of Theme 13 as below.

**Theme 13:** *Xinren* with government officials may start on the basis of friendship. It takes a long time to establish *xinren* (trust). It is mutually supportive and reciprocal. The *guanxi* has to be legal and moral. Otherwise the government officials may consider terminating the *guanxi* in order to protect their self-interest.
Respondents 2, 4, 6, 9 and 13 shared the view that inherited family relationships (blood based, insider guanxi) were important when establishing xinren with senior government officials.  

Respondent 13: If the guanxi comes from the families, it can be trusted with a high degree of xinren. I believe that my families would try their best to help me out compared with the other people.

The content analysis leads to the identification of Theme 14 as below.

Theme 14: Blood based or insider guanxi with adequate cultivation helps to develop a xinren (deep trust) relationship.

This section infers that a deep xinren with a government official may start purely from the basis of friendship without the consideration of benefit and an intermediary in an equal situation. It also confirms that insider blood based guanxi with adequate cultivation helps to develop xinren.

4.6.5 Mutual and Reciprocal Benefit, and Regional Variation

In addition to the issue of friendship, respondents 3, 4 and 9 suggested that guanxi with the Chinese government was mutually beneficial and reciprocal. China is a society of reqing (人情) or heartfelt reciprocal obligation. Respondent 6 reinforced and further explained that reqing (人情) means ‘we owe somebody after receiving help and sometimes it is a tactic to do it intentionally to government officials for future reciprocal favors’. Respondents 3 and 7 stressed that personal guanxi is necessary for both business and government and relies on the businesses performing, and vice versa, as the business wants to minimize business problems through relationship building with government. Respondent 9 and 14 suggested that guanxi is transferable and sustainable when businesses help government officials attain significant performance achievement.
Respondent 9: Once we successfully help[ed] the government to find an investor to fund the Suzhou Industrial Park project, the governor received a merit from Beijing and felt very happy. He then referred us to the other province. Our guanxi followed him to another region when he finished his tenure.

Respondent 14: It is not only the businesses that need the help from government. The government also needs the continued support from enterprises on government policies to glorify their performance.

Therefore relationships between businesses and government are mutually inclusive and the content analysis leads to the identification of Themes 15 and 16 as below.

**Theme 15:** The guanxi between businesses and government are mutual and reciprocal. A good relationship between businesses and government increases the motives for doing favors. In return, reciprocal favors are expected from each other.

**Theme 16:** Guanxi is sustainable and transferable when it helps officials attain a significant achievement.

Respondent 2, 13 and 20 suggested that the dependence on guanxi by government varies from region by region. In the inner cities in the north and west, such as Sichuan and Hunan, the dependence on guanxi for the influencing of government polices is stronger. In the south and east coast regions of China such as Shenzhen, Guangdong and Shanghai, business is less reliant on guanxi.

Respondents 10, 13, 14 and 19 suggested that the interpretation and execution of policies varies in different regions. They suggested that the political system and the implementation of government policies are well developed in big cities. However, in the second and third tier cities and rural areas, systems are weak and the influence of people on government practice and policies is still high. Therefore it is crucial for people to have a connection with the right person in these areas. Interestingly however, respondent 16 suggested that guanxi with junior officials are more important than with senior officials in the highly regulated cities in the coastal areas.
Respondent 16: If we divide China into three regions, such as west, middle and the coastal east. The dependent of guanxi in the east and part of the middle is lesser than the west because the systems and policies are more mature. The dependent of guanxi is very important at the county level. However, in the eastern and coastal areas, due to the maturity of systems and policies, the guanxi with junior officials are more important than with senior officials.

The content analysis leads to the identification of Theme 17 as below.

**Theme 17:** In the rural cities of China, such as the northern and western areas, the relationships between businesses and government is more dependent on guanxi. Therefore the influence on the interpretation and practice of government policies is higher compared to the well-developed cities in the coastal areas.

The analysis of collected data reveals that the interpretation and implementation of government policies vary by regions. Businesses and government in rural cities in the northern and western areas of China are more dependent on guanxi than in the more developed eastern cities.

### 4.6.6 The Right Person

Respondent 5 indicated the preference for using *shu-ren* rather than *sheng-ren*, when a *Jia-ren* relationship did not exist so there was a need to connect to the government through an intermediary. Respondent 6, 7, 9, 10, 11 and 14 suggested the importance of identifying the right person who had the *guanxiwang* (*guanxi* network) or possessed the power and was willing to help to attain a desired result.

*Respondent 6:* The performance of many company’s in-house liaison offices in Beijing is very bad. It is because their guanxi is not in the right place (关系不到位). Guanxi has to be in the right place (关系到位), which means that you must have guanxi with the right person, i.e. someone who has the guanxiwang or owns the authority and who is willing to help you. We classify government officials into two categories: 1) an official who is the right person and has the authority to get things done (关系到位); 2) an official who is not the right person and cannot get thing done (关系不到位), who is superficial and just wants a meal but can do nothing to help.
The above comments suggest the importance of identifying the right person as an intermediary when businesses do not have a direct connection or *guanxi* with the relevant government officials. The respondents confirm that finding the right person in China is very important as a bridge to *guanxi* or by possessing the right authority and being willing and able to get things done. This leads to the identification of Theme 18 as below.

**Theme 18:** It is important to find the right person who has the necessary *guanxiwang* or has the authority to get things done.

While *guanxi* with the Chinese government is mutual and reciprocal, business people are more dependent on *guanxi* in northern and western China due to immature rules and regulations in such areas. The identification of the right person is crucial to get things done.

### 4.7 Influence of Government Policies

The literature discussed in Section 2.9.4 suggests that the enforcement of ambiguous rules is subject to the personal interpretation of government officials. To circumvent the bureaucratic hurdles, firms make use of *guanxi* to influence the government’s interpretation and execution of policies from government officials. This section investigates whether *guanxi* is used by businesses for influencing government officials, and any other factors that may impact on the *guanxi* building between businesses and government.

#### 4.7.1 Institution of Policies

Question 5 was posed to examine and confirm whether *guanxi* is used to influence the government’s interpretation and implementation of government policies. Respondent 10 suggested that the annual five-year master plan defined by the central government in Beijing is the road map for national economic and social development and includes
support for the development of specific strategic industries. Business enterprises therefore formulate their strategies according to this road map in order to pursue their interests. Respondent 1 suggested that she cannot do anything to influence the government to change its policies and therefore follows policies. Respondents 5, 15 and 17, coming from three small companies, admitted that they don’t have the capacity to influence the implementation of government policies. They could only follow the policies and find some ways for survival within grey areas. Respondent 6 suggested that government policies are formulated by teams of experts in Beijing. This respondent suggested that in reality, all companies, regardless of size and location, including MNCs, Hong Kong companies, local companies and state owned enterprises (SOEs), could not influence the institution or change government policies.

In contrast, respondents 4 and 11 suggested that, as a sizable enterprise and market leader in a core industry, they had the economic power to negotiate with the government. Both suggested that most of the time you can obtain policy support from all levels of government – municipal, provincial and national. Moreover, respondents 3 and 13 suggested that the government has started to listen and consult with the public, businesses, industrial associations and labor unions in the course of developing and implementing polices. This aligns with the finding in Section 4.6.1 and Theme 5 that the government is open and willing to communicate with firms in public about new policies or policy changes. Respondent 20 reinforced this point by stating that although it was very hard to influence government policies through his company alone, there were business consultants from Hong Kong, industrial associations and large enterprises that tried to influence the Chinese government to modify its policies. However, respondent 7 suggested while their firm could not directly influence the government, they could influence policy indirectly through encouraging government to adopt a higher industry standard.
Respondent 7: It is very difficult to influence the government to change its policies most of the time. In environmental protection, we did very well and advanced far. We are trying to influence government policies indirectly to define a higher standard in order to create a competitive advantage for our company.

Among the eleven respondents who provided the aforementioned comments, only four indicated that they could not influence the government at the policies development stage. The other seven respondents indicated that they could influence the implementation of policies to a certain degree, but it that it depends on their size and the implications for the local economy. The content analysis leads to the identification of Theme 19 as below.

**Theme 19:** It is very difficult to influence the government at the policy development stage. Some enterprises may influence the government to a certain degree but it depends on the size of the company and the implications for the local economy.

### 4.7.2 Interpretation and Execution of Policies

Question 6 was developed to gauge whether or not respondents perceived that the need to influence the government’s interpretation, practice and application of policy was influenced by an industry field or a geographic region. It was posed in such a manner as to allow respondents to express their opinions and thereby draw richer information. However, during the conversation, there was very little discussion about region or industry. Instead, the respondents highlighted other areas in which guanxi were important to their businesses, such as respondent 14 who suggested that the interpretation and execution of policies vary in different regions. Respondent 14 also indicated that, in most situations, local governments are flexible and implement polices according to the local situation and personal interpretation, particularly to those enterprises with which they have good guanxi.

Respondents 1, 7, 8 and 17 suggested that they can neither influence the government at the policies development stage nor encourage change to published policies. However,
they may influence the government’s interpretation and execution of government policies through their guanxi network (guanxiwamg - 关系网) to circumvent cumbersome bureaucratic processes. Respondent 2 concurred that the government does not have consistent rules and procedures to implement new policies. Therefore, policies could be influenced through lobbying.

Respond 3 suggested that although there are public hearings, some issues may not be appropriately discussed in the open public. Since he had very good guanxi with senior officials, through a special arrangement of private meetings, the official was willing to help him defer the enforcement of policy by a different interpretation.

Respondents 4 and 12 suggested that sizable companies with good guanxi with local government may find it easier to influence the government’s interpretation of government policies, particularly when companies align with the long term strategies of the government. Respondent 18 reinforced that apart from company size, it is also important for a firm’s contribution to the local economy. Respondents 5, 8, 10, 16 and 19 suggested that there are different interpretations of government policies because the policies are ambiguous and difficult to understand. The enforcement of policies and regulations are both dependent on guanxi with officials and subject to the personal interpretation of officials. Therefore good guanxi with the local government can influence government’s interpretation of policies.

Respondent 5: Our industry cannot influence government policy. We may influence government’s interpretation and execution of policies. For example, during the launch of the new labor law, there were many different interpretations and it was difficult to understand. The law is in favor of the employee but it has a lot of ambiguities. Having a good guanxi with the Labor Bureau, and its designated consultant firm, they explained the policy to us and taught us how to compile our employment contracts in a way that favors our company. The policies from the Custom Department apply to the whole of China. However, the interpretation from local officials can be different. Because we are not a big company, it is easier for us to access the government at the local level and influence their interpretation and implementation of policies.
The above analysis leads to the identification of Themes 20, 21 and 22 posed from Question 6.

**Theme 20:** The implementation and application of ambiguous government policies depend on the *guanxi* with businesses and are subject to the personal interpretation of government officials.

**Theme 21:** The local government tends to implement policies and rules according to the local situation. Good *guanxi* with the local government is likely to influence government’s interpretation and implementation of policies.

**Theme 22:** The size and economic contribution of companies are factors that influence government’s interpretation, practice and application of government policies.

This section confirms that some firms utilize their personal *guanxi* to influence government’s interpretation, implementation, and application of government policies for the purpose of resolving business problems and issues, such as circumventing cumbersome bureaucratic processes and the compilation of labor contracts favorable to the employer.

### 4.7.3 Size of Companies and Economic Contribution

Respondent 14 suggested that *guanxi* with government officials is important regardless of firm size. Similarly, respondents 10 and 11 suggested that it is difficult for small companies to access senior officials without *guanxi*. Therefore, the *guanxi* of friends and intermediaries are crucial components for SMEs wishing to build connection with the government. Respondents 4, 5, 7, 12, 13, 16, 19 and 20 suggested that sizable enterprises with significant contributions to the local economy definitely have a bigger voice and find it easier to access the local and provincial government to build relationships. Therefore larger businesses appear to be able to more easily influence government’s interpretation and execution of government policies through high level personal *guanxi*. 
Respondent 20: Big companies definitely have the advantage of influencing government policies through direct access and personal guanxi with senior officials. Since the local government has a lot of authority, a big company with a good guanxi with the local government and a significant contribution to the local economy will definitely influence the execution of government policies more effectively.

The content analysis leads to the identification of Themes 23 and 24 as below.

**Theme 23:** The size and economic contribution of companies to the community may positively influence their guanxi with government.

**Theme 24:**
Big companies have the advantage of direct access to senior officials for guanxi building and are more effective in influencing the government’s interpretation and application of policies through their guanxi.

4.7.4 Accountability, Economic Growth and Social Stability

In addition to the points raised in the previous section in relation to question 6, the following points were also raised. Respondent 1 suggested that in order to maintain the economic wellbeing and stability of society, government officials are flexible in how they execute government policies in critical situations. Respondents 2, 3, 4, 7, 9 and 11 suggested that profitable companies who have made a significant economic contribution to the local economy have the advantage to establish good guanxi with government officials. They also suggested that in recent years the performance and promotion of government officials are determined by the economic growth in their jurisdiction. In order to perform well, local governments are willing to provide more support and flexibility, and adjust their interpretation of policies to stimulate continued investment from businesses.

*Respondent 3:* As a core industry in the territory and due to having good guanxi with the government, the officials is willing to adjust its policy accordingly to ensure the continued
development of our company for the purpose of exceeding the government’s financial plan and performance index.

Respondent 4: To pursue economic development, our local government took flexible alternatives to approve our mega projects speedy to avoid the lengthy approval procedures from Beijing that normally required waiting for two to three years.

Respondent 12 raised the issue that guanxi between businesses and government may not sustainable if a company is unprofitable and without a tax contribution to the local government. Respondents 13 and 14 noted that economic contribution from businesses is a major concern of government officials since it is one of the measurements that determine their promotion. Moreover, respondent 18 proposed that the stability of society is one of government’s key objectives. Therefore maintaining low unemployment and encouraging economic growth to enhance the quality of life of residents are two prime objectives. To pursue economic development, the government is willing to provide necessary supports to businesses and adjust polices through different interpretations of policy in order to meet or exceed its performance targets.

Respondent 18: Now, maintaining the stability of society is one of the key objectives in China. Senior officials may need to step down if company liquidations lead to high unemployment rate and social instability. Therefore, the officials are willing to help and work with companies to resolve business problems in critical situations through different interpretation and practicing of policies.

The content analysis of the additional response to Question 6 leads to the identification of Theme 25 and 26.

**Theme 25:** Profitable companies with significant economic contribution to the local economy have the advantage in establishing good guanxi with government officials, vice versa the guanxi may diminish.

**Theme 26:** Economic development and social stability are key objectives of government officials. To pursue economic development, the government is willing to provide
necessary supports and adjust polices through different interpretations in order to meet or exceed its performance targets.

The analysis of the above data confirms that economic growth and social stability are key objectives for senior government officials, which leads them to be more flexible in supporting business requests through different interpretations of policies. Profitable companies with high tax returns may more easily cultivate a good guanxi with government officials, but the guanxi may diminish if they become less profitable.

4.7.5 Industrial Association and Collective Action

The literature discussed in Section 2.9.4 suggests that collective action in China is rare. Therefore, questions 9 and 10 were posed to investigate the development and implementation of any collective action taken by the respondents, either by industrial associations or other types of coalitions with industry partners.

Data gathered in this research reveals that the majority of industry associations in China are organized by local governments. Respondents 7, 12 and 14 suggest that most of the holders of key positions in industry associations, such as chairman or honorary chariman, have a government and communist party background. These associations are administrated by employees appointed by the local government but do not belong to any part of the government body. Respondents also suggested that the controlling of industry associations is a measure used by government officials to demonstrate that they have a close relationship with business and are capable of mobilizing enterprise resources. Therefore the local government actively invites businesses to join the associations. Moreover, industry associations can be a platform to help government officials to develop their career inside the government.

Respondent 14: In China, it is very rare for all members of trade or industrial associations to be businessmen. Most of the key positions, such as chairman or honorary chairman have a government and communist background. These associations have very close relationships
with the government. Last year, I helped my friend to meet and join the trade association in Shanxi when he returned and decided to stay in China from aboard. His father is a senior official at the province level. In order to help his son (my friend) to develop his career and move up the ladder inside the government, they invited the provincial governor to be the chairman and his son to sit another key position in the association. This was part of the plan when his son started his government career and partnered with the seniors.

Respondents 1 and 19 suggested that industry associations do influence government’s interpretation and execution of policies. Repondents 2, 3 and 20 agreed that the influence on government policies by industrial and commercial chambers has become more obvious and important in recent years. Industry associations can and do reflect the opinions of their members to the government. Respondent 16 suggested that the senior members of his industry association are all wealthy and powerful overseas Chinese and with very good guanxi with the senior officials. If any business problems arise, the officials always settle the problems swiftly. Respondent 4 supported the growing importance of industry associations. His CEO is the chairman of an industry association and always requests members to submit research proposals to seek government support for their industry.

In contrast, respondent 5 did not agree that industry associations can really influence government policies. At present, the association representing his industry rarely liaises with government. Respondent 6 suggested that industry associations are only suitable for business to business connections because there is no deep personal trust between association members and government officials and it is therefore inappropriate to deal with government through industry associations.

Respondents 7 and 9 suggested that their purpose for joining an industry association was not to influence government policies collectively. Rather their membership provides them with the opportunity to meet government officials for guanxi building purposes and then resolve business issues on their own. Respondents 10, 12 and 13 suggested that the
reason they joined a trade association was solely for industrial networking and information sharing. Respondent 10 was an outlier and explained that he is a member of the Chinese People’s Political Consultative Conference (CPPCC 政協委員), therefore he can gain direct access to the heads of every department without relying on guanxi. He also participated on the advisory board on government structure and can therefore influence the execution of government policies. When he works with the people inside the government structure, the officials treat him as part of their organization because of shared trust.

*Respondent 10: The industrial association I participated in does not well organized without clear objective. Most of the members participate in for purpose of industrial networking and information sharing.*

Respondent 17 suggested that although he participated in an industry association, he preferred to let his business partner do the talking because he was a senior government official with a vast experience of guanxiwang. Respondent 18 suggested that he didn’t join an industry association because he has direct guanxi with the secretary of the city.

The analysis of the data above leads to the identification of Theme 27 to 29.

**Theme 27:** A large number of industry and trade associations have a government background and are controlled by party members. They are normally run by government officials behind the scenes but are influenced by wealthy businesspeople.

**Theme 28:** Industry associations are mostly used for developing business connections, information sharing and guanxi building with government officials. It is rare that they represent industries to liaise then influence government policies.

**Theme 29:** Industry associations are increasingly influencing government policies to resolve business issues at a personal level through the close guanxi of the association’s senior members.
The analysis in this section reveals that, in the Chinese context, industry associations are largely organized by local and provincial governments as mechanisms for liaising with local businesses in order to improve economic conditions. Therefore, they do not provide a mechanism for business to influence government policy. Rather, the analysis confirms that they tend to be used by Chinese business people for business networking, information sharing and as a platform on which to build guanxi with government officials to allow for favorable interpretations of somewhat ambiguous policies and rules.

4.7.6 Strategy and Tactics

This section examines the strategies and tactics adopted by respondents to shape the relationship between businesses and the government. The literature discussed in Section 2.9.3 and 2.9.4 suggests that guanxi networks are often mobilized as resources to achieve desired business results and as tactics for entrepreneurs to mobilize a wide range of people resources for political purposes. Therefore, questions 7 and 8 were posed to investigate the resources utilized by organizations and the strategies and tactics adopted for guanxi development in order to attain businesses results.

Most Preferable Approaches

The literature discussed in Chapter 2 suggests a number of approaches used in the West to influence the development and implementation of government policy. Question 8 was developed around such approaches in order to evaluate whether such approaches were applicable in the Chinese context. Table 4.7 illustrates the most effective approaches ranked by the respondents to influence government’s interpretation and implementation of government policies. Respondents were asked to rank their preferred approaches for use in the Chinese context with 10 being the most effective and 1 being the least effective.
### Table 4.7 Ranking of Effective Approaches

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<th>Resp.</th>
<th>Lobbying</th>
<th>Reporting Research Results</th>
<th>Reporting Survey Results</th>
<th>Testifying at Congressional or Administration Hearings</th>
<th>Legal Actions</th>
<th>Personal Service</th>
<th>Constituency Building</th>
<th>Advocacy Advertising</th>
<th>Participate in Congress</th>
<th>Relational approach</th>
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<td><strong>Total Score</strong></td>
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<td><strong>27</strong></td>
<td><strong>23</strong></td>
<td><strong>42</strong></td>
<td><strong>164</strong></td>
</tr>
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</table>
The total score of individual ranking indicates that the relational approach is the most effective and frequent approach adopted by fourteen respondents. This was remarkably far above the second - reporting research result, and the third – lobbying, both receiving 75 and 67 marks respectively. This finding strongly suggests that the relational approach is the first choice of most respondents. Further, according to respondent 5, in order to lobby effectively a relationship approach or good guanxi is a prerequisite.

Respondent 5: Lobbying is impossible if you don't have the guanxi with senior government official.

The analysis also indicates that the relationship approach, reporting research results and lobbying all have the highest ranking and are linked together.

Respondent 3: The usage of lobbing through personal network and reporting research result are both important. One cannot go to lobby without any supporting. The research report is part of the supporting at the lobbying process.

Respondent 9: Personal guanxi is definitely ranking number one. The second is "lobbying" plus "reporting research result", or plus "reporting survey result". Because it must has data to support the lobbying. During the course of lobbying, it must have data and analysis to justify the pros and cons, and the effect to the society or future trend.

On the other hand, with regards to advocacy advertising, respondents 1 and 18 highlighted that the advocacy of opinions on the Internet is also an effective way of imposing pressure on the government. Respondent 10 commented that because he is a CCPPC member (政協委員), he does not need to utilize guanxi most of the time. He has the power to legitimately and directly access the government. The exception is when there are large projects or issues, he then needs to mobilize his guanxi resources (guanxiwang 关系網) at the personal level.

The content analysis of the response to Question 8 leads to the identification of Themes 30 and 31 as below.

**Theme 30:** The relational approach is the most effective and frequent approach adopted by most respondents.
**Theme 31:** In order to lobby effectively, good *guanxi* is a prerequisite, combined with the support of a research proposal or reports. Moreover, all respondents, except 5 and 19, commented that they do not use coalition tactics with the other businesses to influence the government policies, rather they are used for business purpose only (see Section 4.7.5).

**Relational Approach**

The literature discussed in Section 2.9.2 suggests that Chinese *guanxi* is categorized into three types based on the degree of closeness and strength: *jia-ren* (家人), *shu-ren* (熟人) and *Sheng-ren* (生人). These three relationships have completely different social and psychological meanings with different sets of interpersonal rules. This section further examines the *guanxi* categories utilized by all respondents when adopting the relational approach posed in Question 12.

Table 4.8 illustrates the ranked *guanxi* categories preferred or used to influence government’s interpretation and practice of government policies. The highest preference to lowest preference ranges from 3 to 1. The respondents were told that they did not need to rank all items if they did not think it practical in real situations. Marks are then assigned in order to individual items based on the ranking sequence. The highest preference rank receives 3 marks, the second preference rank receives 2 marks, and the third preference rank receives 1 mark.

The data analysis from Table 4.8 indicates that *shu-ren* seems the most preferable approach for most respondents as it received the highest marks. However, there is a statistical error: the total frequency of highest rank for *Jia-ren* is 39, compared to the total frequency of second rank for *Shu-ren* at 33. This statistical error was due to incomplete rankings from respondents 12, 14, 17 and 20 in the *Jai-ren* category.
Table 4.8 Preferred Guanxi Categories for Influencing Government Policies

<table>
<thead>
<tr>
<th>Resp</th>
<th>Jia-ren (family members)</th>
<th>Shu-ren (familiar persons)</th>
<th>Sheng-ren (mere acquaintance or stranger)</th>
<th>Situational (Y/N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>3</td>
<td>2</td>
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<td>Total Score</td>
<td>33</td>
<td>39</td>
<td>14</td>
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</table>

Developed from a content analysis of the transcript

Therefore, based on the total occurrence of highest rank and descriptions from the respondents, jia-ren is the most preferable choice. As the following quotes indicate, this may be due to blood based relationships containing a higher degree of xinren.

Respondent 13: My ranking sequence is 1) jai-ren; 2) shu-ren; 3) sheng-ren. Firstly, it is because jia-ren is the one I can trust most and the xinren from our blood relationship.
Secondly, jia-ren won’t deceive me as there are many braggers in China who make a living from guanxi deception.

Respondent 15: I would start from a blood based relationship because it does not make things high profile. A blood based relationship has deep trust with the protection that my families will not beat me. The second choice is shu-ren because of confidentiality. I won’t use sheng-ren.

The content analysis of the responses to Question 12 leads to the identification of Themes 32 and 33 as below.

**Theme 32:** Jia-ren is the preferable choice for the relational approach. This is because a blood based relationship has a high degree of xinren.

However, there were four exceptions to choosing shu-ren as the primary mode. Respondents 15, 16, 17 and 20 all mentioned protection, confidentiality and risk issues. Further, respondents 16, 17 and 20 suggested that they would not choose families to handle risky issues.

**Respondent 17:** In China, there are many grey areas. We try to avoid to involving families as it may harm the entire innocent family (株連九族 involves nine Zhu in a criminal case). Therefore, I prefer to use shu-ren or sheng-ren.

**Respondent 20:** I would choose shu-ren with knowledge in the industry. Some issues may have risks that mean you have to be careful and are not suitable for involving families.

This finding leads to Theme 33, which qualifies Theme 32.

**Theme 33:** The majority of respondents would prefer to work with jia-ren. However when there is a risk and ambiguity, some respondents would prefer to use shu-ren.

**Strategies to Shape the Relationships with the Government**

Question 13 was posed to examine whether firms adopt particular strategies to shape their relationship with government for the purpose of influencing the interpretation, practice and application of public policy. The literature discussed in Section 2.9.4 suggests that guanxi may be associated with gift-giving, bribery or the black market. Therefore, this section further investigates whether financial incentives, constituency-
building or information strategies are adopted to influence government’s interpretation and application of policies. In response to question 13, respondent 1 suggested that monetary activity is one of the most effective approaches to maintaining good guanxi with the government in order to streamline the cumbersome bureaucracy. This contrasts with the suggestion from Respondent 5 that face giving - mianzi (面子) is more important on some occasions, rather than monetary or gift-giving.

Respondent 5: To maintain a guanxi, it is not necessary to use monetary or personal benefit. It just can be a subscription to the membership of an industrial association organized by the government as a face giving (mianzi 面子).

Respondent 8 suggested that on some occasions it is necessary to buy consulting services or products from a dedicated vendor with whom the official might have a personal interest. However, respondent 9 suggested that xinren is a must for guanxi building in the longer term with the government, even though bribery still exists.

Respondent 9: Trust is a must to established guanxi with government officials. When China had just opened the market, the mayor would be very happy if we gave him several or ten thousand dollars. It is totally different now as China has become rich. It would definitely be a competitive advantage if you can establish a xinren with the officials, although it has become more difficult now as they need to protect themselves. Xinren is different from guanxi. For example, we organized an international trade fair. We were required to spend a huge amount of money and we needed to claim from the government. Because we cooperated and our xinren relationship had been established long before, the approval process was very smooth, although some bribery existed that I left to my staff to handle.

Respondents 1, 8, 9 and 17 confirmed that bribery does exist and is prevalent between businesses and government officials as illustrated below.

Respondent 17: In China, being a government official means you own the power. You own the power means you own a fortune. The more senior your position means it would create more fortune. Although not every official involving in bribery or personal interest, there are 90% of officials involving in it.

The content analysis of the responses to Question 13 leads to the identification of Theme 34.
Theme 34: Although not every government official is involved in bribery or corruption to further their own personal interest, such things do exist and are prevalent between businesses and governments.

Respondents 14, 15 and 17 suggested that intermediaries having xinren with officials are very important before a business can build xinren with government officials on their own. This is because when guanxi is established on the basis of personal interest or bribery, officials have to be very careful and protect themselves against people they do not know.

Respondent 14: When I worked as an intermediary representing companies to obtain government projects, the official did not trust the companies but only me. The most important is to let them trust that you won’t hurt them. It is because the more senior they are, the more easily they can get the money without asking. What is most important to them is to be safe and selective.

Respondent 17: In China, corrupting government officials can be sentenced to death. Therefore, officials won’t accept any money except when you have a deep trust (xinren).

The content analysis of the responses to Question 13 leads to the identification of Theme 35 as below.

Theme 35: If a business does not have xinren, it is very important for the business to draw on the xinren between an intermediary and government officials before the business can build a xinren with the officials on their own. This is because the officials have to be very careful and protect themselves against the people they do not know.

The literature discussed in Section 2.7.2, 2.7.3 and 2.7.4 suggests that constituency building is adopted in Western countries. However, there is no evidence from any responses to question 13 that constituency building and information strategies are adopted to shape the companies’ relationship with government.
Strategies to Influence Government Policies

The literature discussed in Chapter 2 suggests three strategies for influencing government policies. They are: interpersonal *guanxi*, collective efforts and constitution building. This section further examines the most effective CPA approaches by evaluating the responses offered in relation to question 14. The findings from the responses to this question are similar to those posed in question 8 (discussed in section 4.7.6) on the most effective ways to influence government’s interpretation, practice and application of public policy. In response to question 14, respondents were first asked whether they had specific strategies and tactics to influence government policies. Then the respondents were asked to rank the following three strategies in order of most effective and preferable: (1) interpersonal *guanxi*; (2) collective actions through industrial association and; (3) constituency building.

Respondents 2, 3, 4, 8, 13, 16, 17, 18 choose interpersonal *guanxi* as the most preferable and effective approach with which to influence government policies. All of these respondents did not choose other approaches for the following reasons: Respondent 3 asserted that, despite industry associations becoming stronger in recent years, most of the business issues are resolved by still relying on personal *guanxi* with officials. Although respondents 5 and 17 did not agreed with this position, respondents 8 and 16 suggested that collective action may strike a nerve in the Chinese government as this is considered as a sign of instability. Respondents 3, 4 and 16 suggested that constituency building is premature and not effective in China at present. Therefore, the analysis of the responses to Question 14 reconfirm the identification of Theme 31, that the relational approach is the most effective and frequent approach adopted by most respondents.
4.7.7 Regional Influence

The literature discussed in Section 2.7.2 suggests that political targets exist at different levels (international, national, regional or local). Therefore, question 11 asked respondents to discuss the levels at which they engaged in trying to influence policy. Table 4.9 illustrates that eighteen respondents indicated that their influence was confined to the local level. Although all eighteen respondents had operations across different regions, they all preferred to liaise with the government at the local level due to considerations of efficiency and effectiveness.

*Respondent 5: Although we have various offices located in different regions, the most effective way is to deal with the local government when it can directly help us to resolve the issues. Another reason is that the power of Chinese government is distributed to the local authority, if the local government can handle that for us, we don’t want to go to the province level.*

Two respondents, 7 and 16, suggested that their companies had a presence throughout the whole country. Therefore they could influence government officials at the national level. Moreover, respondent 16 suggested that they had a formal management structure to cover each operating region. Therefore, they could influence the government at the local, regional and national levels.

*Respondent 16: We classify by our job scope, and responsibility by different levels. My big boss is responsible for the whole China. His guanxiwang covers the nation. I am responsible for the province level. My subordinate is responsible for their own city and county. Therefore, the influence of our enterprise covers the whole of China at national, regional and local level.*

Respondent 10 suggested that because he is a CPPCC member (政協委員), his position allowed him to influence the government at the city and regional level.
Table 4.9 Regional Influence of Guanxi

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<tr>
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<th>Situational</th>
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</table>

Frequency: 12 3 2 1

Developed from a content analysis of the transcripts

The content analysis of the responses to Question 11 leads to the identification of Theme 36 as below.

**Theme 36**: Sizable companies with operations in multiple regions are able to influence the government at the national and regional level. For efficiency and effectiveness, companies prefer to deal with the local government if issues can be resolved locally.
4.8 Summary of Themes

This section summarizes the themes developed through the analysis of data collected from the field. The findings provide insights from respondents to help answer the research question: How does the use of guanxi by Chinese business people influence the government’s interpretation, practice, and application of policy in China? A detailed discussion of the findings and the conceptual framework is presented in Chapter 5.

Table 4.10 Summaries of Themes

<table>
<thead>
<tr>
<th>Theme</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theme 1</td>
<td>Establishing and maintaining a good guanxi with government and government officials is one of the success factors for doing business in China.</td>
</tr>
<tr>
<td>Theme 2</td>
<td>Guanxi is a feeling and an emotion. It can be personal or inter-organizational. Benefit is a key element of guanxi in the Chinese business culture. It is superficial without deep emotion. It is transactional and temporal.</td>
</tr>
<tr>
<td>Theme 3</td>
<td>“Trust” is in between guanxi and xinren: it is a degree of trust, but not deep trust. It will help you to get a little help with conditions attached.</td>
</tr>
<tr>
<td>Theme 4</td>
<td>Xinren is much deeper than guanxi. It means deep trust that includes obligation and reciprocity. It has to be well tested through a long period of interaction between people.</td>
</tr>
<tr>
<td>Theme 5</td>
<td>The government is open and willing to communicate with firms in the public and in private about new policies or policy changes.</td>
</tr>
<tr>
<td>Theme 6</td>
<td>Due to legal ambiguity in China, some business executives or owners prefer to keep a low profile and maintain a superficial guanxi with government to avoid being trapped and or become scapegoat.</td>
</tr>
<tr>
<td>Theme 7</td>
<td>Even though guanxi may exist at the company level, business owners or executives prefer to cultivate a higher degree of interpersonal trust with senior government officials.</td>
</tr>
<tr>
<td>Theme 8</td>
<td>Although firms prefer to maintain good guanxi with government, for some, it is on the basis of benefit. Therefore guanxi with government officials is superficial in some circumstances and without a deep feeling of trust or xinren.</td>
</tr>
<tr>
<td>Theme 9</td>
<td>Companies that don’t have sufficient resources to build a guanxi with government officials, or do not have enough guanxiwang, will often make use of friends or intermediaries to connect with officials through dinners or public events.</td>
</tr>
<tr>
<td>Theme 10</td>
<td>Companies of comparable size may allocate resources and have designated departments to manage their government guanxi. In those companies that do not have dedicated resources to manage relationships with government officials, functional department employees have to liaise with corresponding government department officials at the operational level using their own guanxi.</td>
</tr>
<tr>
<td>Theme 11</td>
<td>Business owners and senior executives prefer to keep strategic issues and guanxi with senior government officials at a personal level.</td>
</tr>
<tr>
<td>Theme 12</td>
<td>It is important to build multi-level relationships with government when dealing with issues relating to multiple levels of authorities. Having good guanxi with a senior official and adopting a top-down approach is an effective way of influencing the interpretation and practice of government policies down to the hierarchy of his/her custody.</td>
</tr>
<tr>
<td>Theme</td>
<td>Summary</td>
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<tr>
<td>Theme 13</td>
<td>Xinren with government officials may start on the basis of friendship. It takes a long time to establish xinren (trust). It is mutually supportive and reciprocal. The guanxi has to be legal and moral. Otherwise the government officials may consider terminating the guanxi in order to protect their self-interest.</td>
</tr>
<tr>
<td>Theme 14</td>
<td>Blood based or insider guanxi with adequate cultivation helps to develop a xinren (deep trust) relationship.</td>
</tr>
<tr>
<td>Theme 15</td>
<td>The guanxi between businesses and government are mutual and reciprocal. A good relationship between business and government increases each one’s motivation for doing favors. In return, reciprocal favors are expected from each other.</td>
</tr>
<tr>
<td>Theme 16</td>
<td>A guanxi is sustainable and transferable when it helps officials attain a significant achievement.</td>
</tr>
<tr>
<td>Theme 17</td>
<td>In the rural cities of China, such as the northern and western areas, the relationships between businesses and government is more dependent on guanxi. Therefore the influence on the interpretation and practice of government policies is higher compared to the well-developed cities in the coastal areas.</td>
</tr>
<tr>
<td>Theme 18</td>
<td>It is important to find the right person who has the necessary guanxiwang or has the necessary authority to get things done.</td>
</tr>
<tr>
<td>Theme 19</td>
<td>It is very difficult to influence the government at the policies development stage. Some enterprises may influence the government to a certain degree but it depends on the size of the company and the implications for the local economy.</td>
</tr>
<tr>
<td>Theme 20</td>
<td>The implementation and application of ambiguous government policies depend on the guanxi with businesses and are subject to the personal interpretation of government officials.</td>
</tr>
<tr>
<td>Theme 21</td>
<td>The local government tends to implement policies and rules according to the local situation. Good guanxi with the local government is likely to influence government’s interpretation and implementation of policies.</td>
</tr>
<tr>
<td>Theme 22</td>
<td>The size and economic contribution of companies are factors that influence government’s interpretation, practice and application of policies.</td>
</tr>
<tr>
<td>Theme 23</td>
<td>The size and economic contribution of companies to the community may positively influence their guanxi with government.</td>
</tr>
<tr>
<td>Theme 24</td>
<td>Big companies have the advantage of direct access to senior officials for guanxi building and are more effective in influencing the government's interpretation and application of public policies through their guanxi.</td>
</tr>
<tr>
<td>Theme 25</td>
<td>Profitable companies with significant economic contribution to the local economy have the advantage in establishing good guanxi with government officials, vice versa the guanxi may diminish.</td>
</tr>
<tr>
<td>Theme 26</td>
<td>Economic development and social stability are key objectives of government officials. To pursue economic development, the government is willing to provide necessary supports and adjust policies through different interpretations in order to meet or exceed its performance targets.</td>
</tr>
<tr>
<td>Theme 27</td>
<td>A large number of industry and trade associations have a government background and are controlled by party members. They are normally run by government officials behind the scenes but are influenced by wealthy businesspeople.</td>
</tr>
<tr>
<td>Theme 28</td>
<td>Industry associations are mostly used for developing business connections, information sharing and guanxi building with government officials. It is rare that they represent industries to liaise then influence government policies.</td>
</tr>
<tr>
<td>Theme 29</td>
<td>Industry associations are increasingly influencing government policies to resolve business issues at a personal level through the close guanxi of the association’s senior members.</td>
</tr>
<tr>
<td>Theme 30</td>
<td>The relational approach is the most effective and frequent approach adopted by most respondents.</td>
</tr>
</tbody>
</table>
Table 4.10 Summaries of Themes (con’t)

| Theme 31 | In order to lobby effectively, good guanxi is a prerequisite, combined with the support of a research proposal or reports. |
| Theme 32 | Jia-ren is the preferable choice for the relational approach. This is because a blood based relationship has a high degree of xinren. |
| Theme 33 | The majority of respondents would prefer to work with Jia-ren. However when there is a risk and ambiguity, some respondents would prefer to use shu-ren. |
| Theme 34 | Although not every government official is involved in bribery or corruption to further their own personal interest, such things do exist and are prevalent between businesses and governments. |
| Theme 35 | If a business does not have xinren, it is very important for the business to draw on the xinren between an intermediary and government officials before the business can build a xinren with the officials on their own. This is because the officials have to be very careful and protect themselves against the people they do not know. |
| Theme 36 | Sizable companies with operations in multiple regions are able to influence the government at the national and regional level. For efficiency and effectiveness, companies prefer to deal with the local government if issues can be resolved locally. |

*Developed from content analyses of the transcripts*
CHAPTER 5 DISCUSSION AND EXPLORATORY OUTCOMES

5.1 Introduction

Chapter 1 discussed the limitations of current knowledge on the use of guanxi by Chinese business people to influence government’s interpretation, practices, and application of policy in China. It further argued why this is an important area of research and presented an overarching research question.

Chapter 2 presented a comprehensive interdisciplinary review of Western and Chinese literature to develop a better understanding of the determinants that influence government policies from the guanxi perspective. A gap was identified; specifically that there is a lack of sufficient knowledge on CPA practice regarding government policy lobbying through guanxi in China. It was further identified that there is no conceptual or theoretical framework on which this area of research may build. Therefore the aim of this research was to explore four broad research questions in order to develop a conceptual framework for business-government guanxi to answer the overarching research question:

How does the use of guanxi by Chinese businesspeople influence the government’s interpretation, practice and application of policy in China?

Chapter 3 described the research methodology and design adopted for this study. This included the development of the interview protocol, the identification and selection of respondents, accuracy verification, the methods of capturing and processing data, limitations and ethical considerations pertinent to the research.

Chapter 4 discussed the process of identifying, coding, and categorising of data collected from the interviews and discussed the themes that emerged from the content analysis of the data.

This chapter draws conclusions from the data analyzed in Chapter 4 and presents a conceptual framework to facilitate a clearer understanding of the use of guanxi by
Chinese business people to influence government’s interpretation, practices and application of policy in China. The implication for theory and practice, the limitations of the study and the areas of future research are also discussed.

It has been acknowledged from the literature discussions in Chapter 2 that guanxi is an important aspect of doing business in China. However, there is lack of research on the use of guanxi as a lobbying and persuasion tactic with government officials. This research adopts exploratory and qualitative research methods to generate and advance knowledge (Cavana, et al. 2001; Neuman 2003) in an attempt to understand how guanxi influences the interpretation and execution of government policies in the Chinese context. As a result, a comprehensive framework is developed based on the extant literature and analysis of collected data from the field work (presented in Figure 5.5).

5.2 Conclusion and Implications

As discussed in Sections 4.2 and 4.3, it is necessary to validate the legitimacy of respondents who are qualified to participate before the collection of data and the subsequent development of a conceptual framework. Therefore, Question 1 aimed to clarify the legitimacy of the respondents in relation to their roles and responsibilities in representing their businesses in liaising with government officials. Question 2 was used to collect basic information for the purpose of determining whether demographic factors have implications for guanxi with government officials. Questions 3 to 14 were based on variables derived from Luo (2007) and illustrated in Figure 2.3, and were posed to probe and gain insights from respondents in relation to the nature and role of guanxi with government officials.
5.2.1 Guanxi vs. Critical Success Factor vs. Government

Guanxi has been cited as a critical success factor for businesses in the Chinese market (Luo 2007). Recent studies have attempted to start understanding the determinants that influence government policy from the guanxi perspective (Fan 2002; Su, et al. 2003; Wood, et al 2002). However, guanxi between businesses and government has not been sufficiently explored in terms of whether or not it is a critical success factor for businesses. Question 3 explored reasons why so many businesses appear to be allocating resources and efforts to cultivate close guanxi with government officials. This research finds that establishing and maintaining good guanxi with government officials is a critical success factor in the Chinese market (Theme 1) for many businesses. It also supports previous studies in finding that that guanxi with government officials assists businesses in enhancing operational efficiency, reducing uncertainty (Getz 1997; Baysinger 1984) and providing access to information (Wong & Leung 2001). Figure 5.1 illustrates findings from the data analysis conducted in Section 4.4 and identifies that establishing and maintaining good guanxi with government officials is one of the critical success factors for companies in the Chinese market.

Figure 5.1 Guanxi with Chinese Government

![Diagram showing Guanxi with Chinese Government]

Critical success factor
Competitive Advantage
- advanced information
- enhanced products and services
- operation efficiency and smoothness
- government resources
- reduce uncertainty

Developed from a content analysis of the transcript
5.2.2 Guanxi and Xinren between Businesses and Government

Various studies have been undertaken to understand perceptions and definitions of guanxi and xinren in the Chinese context. Previous research has found that guanxi can be personal and inter-organizational (Wank 1996, Sueng & Luo 2001, Zhang & Zhang 2006) and that it is transactional and temporal (Zhang & Zhang 2006). Kriz (2009) suggests that guanxi, trust and xinren are all reciprocal but have different meanings and levels of emotion. Guanxi has been repeatedly cited as one of the determinants that influence government policy (Fan 2002; Su et al. 2003; Wood, et al. 2002). However, there is little mention of xinren in terms of the relationship between businesses and government. Therefore, in order to better understand the roles of guanxi and xinren in this context, the respondents were asked about their perception of guanxi and xinren in Question 4.

The analysis of the data in Section 4.5 supports the finding in Kriz (2009) that both guanxi and xinren are reciprocal aspects but guanxi lacks the deep emotion and commitment of xinren (Theme 2). It also supports previous findings from Wank (1996), Sueng & Luo (2001) and Zhang & Zhang (2006) that guanxi is personal and that when businesses use a sincere personal approach they can build a direct personally based trust relationship with senior officials (Theme 2, 7, 10, 11). Such trust relationships assist business people to receive support from officials and help in maintaining operating efficiency and competitive advantage. In addition, the findings from this research (see Figure 4.1) suggest that there is a continuum ranging from guanxi, to shu-ren to xinren. Shu-ren is an intermediate level of trust whereas xinren involves a high level of trust that includes responsibility and obligation and requires a lengthy interactivity that is tested through exchanges and ongoing positive collaboration between the people involved.

Previous research (Luo, 2009) suggests that in most situations, business people chose the guanxi approach as opposed to the xinren approach to build relationships with
government officials. However, the majority of respondents in this research prefer to build a deeper trust relationship with government officials (Section 4.6.2 and Section 4.6.4). In this research, the only conditions under which the respondents did not want to develop a deeper relationship were ones that added the risk of being trapped by ambiguous regulations (Theme 6) and expending excessive effort to liaise and socialize with government officials (Section 4.6.3).

The findings from this research support the contention that blood based or insider guanxi with adequate cultivation (Kipnis 1997; Luo 2007; Redding 1990; Wong & Leung 2001) helps to further develop into a xinren (deep trust) relationship (Theme 14). Moreover, the guanxi between businesses and government officials can be cultivated from the basis of friendship, but such a development has to be legal and moral, otherwise the officials may consider terminating the guanxi in order to protect their self-interest (Theme 13). This research also finds that when guanxi between businesses and government officials is based on instrumental benefits, the guanxi is superficial and xinren is rarely achieved (Theme 8).

### 5.2.3 Organizational and Personal Guanxi

Oberman (1993) suggests that activities used to influence government policies are classified into direct and indirect, and subdivided into public and private (Table 2.4). The present research has a similar finding and suggests that the interaction and communication between businesses and government in China be classified into two categories - public (organizational) and private (personal) (Theme 2, 10, 11) as illustrated in Figure 5.2.
The findings of this research also agree with a previous study by Hillman & Keim (1995), that companies of comparable size may allocate designated resources, such as specialized public relations departments, to manage their government relationships (Theme 10 and Table 4.6), particularly when they have a national presence across many regions. When companies do not have designated resources to manage government relationships, managers in each department within the organization have to deal with corresponding government departments, drawing on their own guanxi (Theme 10).

There is limited discussion in the extant literature on industry associations or collective action in the Chinese context. Findings from this research suggests that industrial associations in China are mostly organized by the government for the purpose of providing industrial seminars and policy dissemination and to assist senior officials in achieving their performance targets through the dissemination of information to businesses (Theme 27). Most of the participants in this research are members of an association that engages in industrial networking and information sharing (Theme 28). Some business executives also use associations as a bridge to connect with senior officials for relationship building, and to resolve business issues through individual direct dialogue (Section 4.7.5). Although associations are collective organizations, it is rare for them to represent industries to influence government policies (Theme 28). In most situations, respondents prefer to liaise with government officials on their own, despite the
perception that industry associations are having an increasing influence upon the government (Theme 29).

Conversely, this research does find, albeit through one respondent only, that being a member of the CPPCC (2009) assists in establishing legitimacy with government officials in a weak institutional environment. This supports similar findings by Feng and Wang (2009). This CPPCC member has the political power to be able to directly access every department head and advisory board in the government structure (Section 4.7.5). They work closely with officials with a high degree of trust and without the necessity of relying on guanxi. Compared with association membership, it may be that CPPCC members have greater power to cultivate formal and informal ties and influence policies with important government bureaucrats (Feng & Wang 2009).

From the analysis of the results, there is no evidence showing that coalitions between businesses influence the implementation of government policies in China. Rather, the findings indicate that most businesses use guanxi and interpersonal trust between individual managers (both departmental and senior – Theme 11) and government officials (Theme 10) to draw small favors (Theme 3). This finding appears despite high staff turnover (either in the business or the government organization) and the potential of losing guanxi because of a loss of such contacts. Figure 5.3 draws from the analysis in Chapter 4 and illustrates the guanxi paths taken by businesses in order to try to influence Chinese government officials.
Figure 5.3 Public and Private Guanxi with Chinese Government

Ambler (1994), Crombie (2011) and Luo (1997) suggests that guanxi is sustainable and transferable when it helps government officials attain a significant achievement. Kumar, Stern & Achrol (1992) and Morgan & Hunt (1994) also suggest that partners or stakeholders may consider terminating the relationships because of undesirable performance outcomes. This research supports the findings from Ambler (1994), Crombie (2011) and Luo (1997) that guanxi between businesses and government is mutual and reciprocal. A good relationship between businesses and government increases the motives for doing favors. In return, reciprocal favors are expected from each other (Theme 15).
This research also finds that when the relationship with a government official exists on the basis of benefits, *xinren* is rarely achieved (Theme 8). It is also evident that *xinren* occasionally exists between businesses and officials when the relationship starts on the basis of friendship (Theme 13) however, the relationship has to be legal and moral. Otherwise, it supports the findings from Kumar et al. (1992) and Morgan & Hunt (1994), that officials may decide to terminate *guanxi* in order to protect themselves from undesirable performance outcomes (Theme 23 and Theme 25).

5.2.4 Intermediaries, Personal Interest and Bribery

Previous research suggests that a relational approach with direct access to senior government officials is an effective way to influence government’s interpretation and implementation of government policies (Gao & Tian 2006 a-b; Su et. al 1987; Wood et. al 2002). When firms do not have sufficient resources to build *guanxi* with government officials they will make use of intermediaries to bridge connections with government officials (Seligman 1999, Thurston 1994). Theme 30 from this research, expounded in Table 4.7, supports the previous research and suggests that when firms do not have enough *guanxiwang*, they will make use of friends or other intermediaries to connect through dinners or public events with government officials (Theme 9).

Moreover, Sue et al. (2007) suggest the importance of having a right person or intermediary who has a *guanxiwang* with government officials. This helps, as such an authority is able to get things done to satisfy business needs. The research from Getz (1997) and Marcus et al. (1987) has a similar finding, but they suggest using an intermediary in order to avoid the spending of excessive time and effort (Getz 1997; Marcus et al. 1987). This research agrees with both findings (Theme 18 and Section 4.6.6). It also suggests that business executives use intermediaries for the purpose of risk avoidance to avoid being trapped by the ambiguous rules and regulations (Theme 6).
Johnson (2007) and Luo (2003) suggest that corruption has been one of the central factors affecting social stability, structural reform and economic development in China. In contrast, previous research (Su et. al 2003) suggests that guanxi orientation has very little to do with ethical reasoning in the Chinese professional context. The results from the data analysis in Chapter 4 support the finding from Johnson (2007) and Luo (2003) that although not every government official is involved in bribery or personal interest, it does exist and is prevalent between businesses and government (Theme 34). When the relationship between businesses and government is established on the basis of rent-seeking or bribery, the new findings suggest that xinren is a very important mediator between the intermediary and senior officials (Figure 5.3, intermediary grey boxes) because officials have to be very careful to protect themselves against the people they don’t know (Figure 5.3 and Theme 35).

5.2.5 Strategies and Tactics

Previous research suggests that strategies and tactics to influence the development and implementation of government policies are various. Gao (2006) suggests that businesspeople and firms either participate directly in the congress of the Communist Party or take a relational approach to influence public policy. However, there were few scholarly discussions in the literature on other CPA approaches such as legal action, constituency building and advocacy advertising in the Chinese context. In Luo’s previous study, he (2007) proposes that despite plans being instituted by the central government in Beijing, the local government has the power and flexibility to implement policies and rules according to the local situation. Other research from Luo (2007), Putman (1993) and Yeung (2000) suggests that the implementation and application of ambiguous rules and regulations depends on guanxi with businesses and are subject to the personal interpretation of government officials.
The result of the data analysis indicates that it is very difficult to influence the government at the policy development stage and few enterprises can (Theme 19), as proposed by Gao (2006). However, some enterprises can influence the government to a certain degree at this stage, such as SOEs, and company size and the implications to the local economy are important factors (Theme 19 and Theme 22). This research strongly supports the previous finding from Luo (2007) and Gao (2006) that to influence the government, the relational approach is deemed to be the most effective and frequent (Theme 30, Table 4.7, and Figure 5.2). In addition, new findings from this research suggest that in order to lobby effectively, good guanxi is a prerequisite, in conjunction with the support of documentation (Theme 31) to justify opinions and recommendations. Among the preferable approaches (illustrated in Table 4.7), legal action, constituency building, advocacy advertising and survey results received the lowest scores and seemed to be the least preferable. Legal action and advocacy advertising in the public arena are treated as opposing or challenging the government and cause detriment to social harmony. Improper speaking in public may also lead to imprisonment. Further, due to the centralized power system in China, businesspeople prefer to adopt a top-down relational approach to influence government (Theme 12) when dealing with issues related to multiple levels of authorities. This is the most effective and preferable approach adopted by businesspeople when guanxi is established with more senior officials in Beijing and the provinces, especially where the political connections have superior power to influence policies at the congress and down through the hierarchy from Beijing to provinces, cities, and the counties.

This research supports the finding from Luo (2007) that the master policies are instituted by the central government in Beijing, but that local government has the power and flexibility to implement policies according to the local situation (Theme 20, Theme 21 and Figure 5.4). Another result of the analysis also agrees with findings from Luo
(2007), Putman (1993) and Yeung (2000) that the implementation and application of ambiguous rules and regulations depend on the *guanxi* with businesses and are subject to the personal interpretation of government officials (Theme 20). Nevertheless, findings from the research also suggest that economic development and social stability are also incentives by providing support through policy adjustment to businesses by the government (Theme 26).

Previous research from Cui and Liu (2000) suggests that China’s economic development is uneven between the coastal and the inland provinces. This concurs with the finding from Huang, Andrulis and Chen (1994) and Seung and Luo (2001), that there are significant cultural differences between Southern and Northern China and where firms in non-open and rural economic regions are more likely to develop *guanxi* networks with government authorities to compensate for their institutional disadvantage and constraints. The results of the analysis in Chapter 4 supports these previous findings that the rural and non-open cities in the northern and western areas of China, are not being regulated as strongly and that reliance on *guanxi* is stronger (Theme 17).

Figure 5.4 illustrates the findings from this research, that senior officials at the Beijing or provincial level have superior power to influence both institutional policies and the interpretation and implementation downward to the hierarchy of province, city and county levels as discussed above. Nevertheless, operational officials can only exercise their personal interpretation and practice at the local level according to local situations and *guanxi* between businesses and government officials.
There is a great deal of research on filial and social based guanxi (Kao 1993; Kipnis 1997; Luo 2007). However, there are few discussions on political guanxi in this regard. The findings from this research suggest that, to adopt a relational approach, jia-ren is the preferred choice, owing to the fact that blood-based relationships are deeply rooted with xinren (Theme 32). The choice of sheng-ren is far below jia-ren and shu-ren because there are risks. Many boast in China that they make a living from guanxi deception (Section 4.7.6). However, due to having the most complicated and least predictable regulations, Chinese firms have been facing a high risk of organizational illegitimacy. Therefore, businesses may primarily choose shu-ren as an intermediary in situations where they detect risk to the jia-ren (families), such as when dealing with rent-seeking
officials using bribery (Theme 33). Since the choice of an interpersonal category affects the effectiveness of relationship building with government (Theme 32), the identification of a right person (Theme 18) with a high degree of xinren (Theme 35 and Figure 4.1) as an intermediary or agent (Figure 5.3 and Figure 5.5, xinren and intermediary grey boxes) is a challenge for businesses.

5.2.6 Other Factors
The chosen methodology, with its semi-structured interviews, allows participants to express their opinions. The results of analysis indicate there are some other factors that may affect the guanxi between businesses and government that require further consideration. The research supports the finding from Park and Luo (2001) that guanxi between businesses and government is mutual and is based on economic consideration (Theme 23). This concurs with Wilts and Skippari (2007) that big and profitable enterprises making economic contributions to local society have the advantage to direct access and establishing good guanxi with senior officials at a personal level. As they suggest, this may subsequently influence government’s interpretation and implementation of government policies more effectively than guanxi (Theme 25). The analysis also supports the previous research of Cook (1997), that when a government pursues economic development and social stability, it is inclined to provide support through the interpretation of policies in order to meet or exceed performance targets. Meanwhile, sizable companies across regions are able to influence the government at the national or regional level. Due to the consideration of local efficiency (Luo 2007), companies are inclined to deal with the local government through their own guanxi if issues can be resolved locally (Theme 36).
5.2.7 Summary

In answering the research question, the researcher drew on themes identified in the analysis to develop the conceptual framework illustrated in Figure 5.5. The framework depicts businesses using guanxi to influence government’s interpretation, practice and application of policies at both organizational and personal levels in China. This research supports guanxi as a key element that is deeply rooted in Chinese society. Firms adopt guanxi relational approaches in conjunction with lobbying and the use of research reports to influence government policies (Figure 5.5, vertical column in the government box).

Guanxi, trust and xinren comprise levels of connection, emotional feeling and deep trust in the Chinese culture. In order to influence government policies, businesses persist in establishing a good guanxi, trust and xinren relationship with various levels of government officials from senior to operational within the government hierarchy from Beijing to provincial, city and county (Figure 5.5, in the government box). An intermediary will be employed if a guanxi connection does not exist. Blood-based guanxi (jia-ren) and friends (shu-ren) are the primary and secondary choices because: 1) blood-based relatives naturally connect with xinren and; 2) the risk of identifying the right person in China is high. However, shu-ren becomes the primary choice when dealing with government because: 1) businessmen wish to avoid risking families and; 2) personal interest or bribery may be involved. Importantly, government officials need to protect themselves against people they don’t know (Figure 5.5, xinren and the intermediary grey box). Therefore, identifying the right and trusted (xinren) person (Figure 5.5, the intermediary grey box) is a challenge for businesses. Other factors that also affect the development of guanxi strategies and tactics for the consideration of businesses include: the size of enterprises, the economic contribution of businesses to the local region, the performance and accountability of the government, the stability of society and the regional variation of guanxi culture (Figure 5.5, left ovals). Figure 5.5 below has been
developed from the present study to provide a holistic view and a conceptual framework to schematically help answer the research question:

**How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?**
Figure 5.5 Businesses and Government Guanxi Framework
5.3 Implications of Research Findings
Due to the nature and sensitivity of the present study concerning political guanxi between businesses and the Chinese government, many respondents were afraid to participate. This problem also extended to the interview processes when the researcher requested permission to take audio recordings. A trust and xinren relationship built in advance between the researcher and the respondents is paramount and surpasses the traditional rapport building approach at the beginning of each interview. Compared with the direct connections and with the many years of relationship of the researcher, the referrals needed a longer time to cultivate good guanxi to gain trust. In order to obtain an interview commitment from respondents, the researcher attended several internal meetings of a trade association organized for its subdivisions in Hong Kong and Guangzhou respectively. Although the respondents agreed to participate, two respondents were disqualified from this research due to their reluctance to provide rich data, such that the researcher did not think their contributions would help this research. One respondent declined to participate at the last minute. This respondent was a government official who would probably have been able to provide insight for this research. Therefore, the researcher advises that for any politically sensitive research conducted in China:

i) The researcher must establish trust or xinren in advance with the respondent in order to gain a commitment for interview.

ii) The researcher must have a direct connection with the respondents, or no more than two levels of separation from referrals, as this will enhance the trust level and the collection of rich and quality data (Kriz, Gummesson & Quazi 2013).

iii) A blood-based or jia-ren referral may enhance the xinren and better guarantee the quality and richness of data, because one of the richest data contributions was provided from the wife of the researcher’s close friend.

5.4 Limitations
As noted in Chapter 3, qualitative research has its limitations in generalizability and validity. Three potential limitations of this research have been identified:

i) The present research involved eight industries and twenty respondents, the geographic coverage included Hong Kong, Guangzhou, Shanghai and Beijing, and this has limitation for representing China as a whole in a generalizable way. For
example, the non-open and rural areas in Northern and inland China which have cultural variations require further exploration.

ii) The participants of the present research were all invited from businesses. Although the researcher had invited respondents from Group B (members of associations) for validity, the scope of this study covered the relationship between businesses and the government. This indicates weaknesses due to not canvasing the government’s perspective, due to the perceived difficulty of inviting officials to participate.

5.5 Future Research

During the course of the research, it was noted that there were slight differences in tactics when companies practiced guanxi with government, based on the nature of their industries. For companies that want to develop a comprehensive strategy, any future study should focus on the nature and characteristics of different industries in order to identify an effective solution and approach. Secondly, the proposed framework provides a lot of room for in-depth studies and explorations in future, including: industrial and trade associations; the roles of intermediaries and agencies; the roles and interplay between senior and operational officials and; regional variations in other emerging economies and how these might change over time.
**Glossary of Chinese terms**

*Gian ren qing* 欠人情: Owe somebody after receiving help him/her

*Guanxi* 关系: Personal connections and/or relationships

*Guan xi bu dao wei* 关系不到位: *Guanxi* not in the right place

*Guan xi dao wei* 关系到位: *Guanxi* is in the right place

*Guanxi gou qiang* 关系够呛: Relationship has gone bad

*Gao guanxi* 搞关系: Work on *guanxi*

*Guanxi hu* 关系户: A person, organization or government body as a focus point of connection

*Guanxiwang* 关系网: *Guanxi* network within which favors exchanged and circulated

*Guanxiqiye* 关系企业: A cluster of enterprises owned and controlled by a group of persons tied by a network of various *guanxi*

*Ganqing* 感情: Emotion and feeling

*Jia-ren* 家人: Family members

*Lao ban* 老板: Business owner

*La guanxi* 拉关系: To develop *guanxi*

*Li shun guanxi* 理顺关系: Put *guanxi* back in order

*Mianzi* 面子: Face and reputation

*Renqing* 人情: Sense of human obligation and human emotions

*Sheng-ren* 生人: Mere acquaintances or strangers

*Shou mai* 收買: Buy relationship

*Shu-ren* 熟人: Familiar persons outside of family

*Shu ji* 书记: High ranking officials within the Communist Party of China

*Shu tong* 疏通: Circumvent and get through situation by money

*Guo qu suo xu* 各取所需: Everyone takes their own need

*Xiang xin* 相信: Trust and to believe in

*Xinren* 信任: Deep trust
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25th September, 2012

Dear Participant,

Participant Information Statement for the Research Project:

How does the use of *guanxi* by Chinese business people influence the government’s interpretation, practices and application of policy in China?

Document Version 2.0; dated 03/08/2012

You are invited to participate in the research project identified above which is being conducted by Mr. Alden Poon Wing Yuen and supervised by Dr. Anton Kriz and Dr. Antony Drew from Newcastle Business School at the University of Newcastle, Australia. The research is a requirement of Mr Poon’s Doctor of Business Administration studies. You have been chosen to participate in this research because you meet all or most of the criteria defined in the section of “Who can participate in this research” as below.

**Why is the research being done?**

The purpose of the research is to investigate “*How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?*” when companies strive to create a favorable operating condition in the Chinese market.

Previous research has shown that relationship marketing and *guanxi* networks are a key success factor in the Chinese market. However, there is lack of research on the relationship requirements with government around *guanxi*’s use as a lobbying and persuasion tactic. This study aims to increase academic and practitioner understanding and knowledge on this area, particularly the use of *guanxi* in influencing the interpretation, practices and application of government policies.

**Who can participate in the research?**

You are eligible to participate in the research if you fit into one the following two groups:

**Group A:** Individual participants with a direct relationship with the researcher, such as friends, classmates, vendors and customers. This group includes businesspeople or executives with substantial experience in the Chinese market.

Required attributes for Group A:

i) Substantial experience in Chinese market, either in executive position or business owner with good understanding of public policies in China.

ii) Require to liaise with Chinese government officials as part of their role

iii) Chinese ethnicity and originally from Hong Kong or Mainland China.

**Group B:** Individual participants whose names has been selected from the chamber of commerce, industrial associations and government liaison offices and who have direct access to government or policy constitutions to formally influence government policies without relying on *guanxi* solely.
Required attributes for Group B:

i) Substantial experience in Chinese market, either in executive position or business owner with good understanding of public policies in China.

ii) Require to liaise with Chinese government officials as part of their role.

iii) Chinese ethnicity and originally from Hong Kong or Mainland China.

iv) Participants chosen from the chamber of commerce, industrial associations or liaison offices.

What choice do you have?

Participation in this research is entirely voluntary. Only those people who give their informed consent in writing will be included in the project. Whether or not you decide to participate, your decision will not disadvantage you.

If you do decide to participate, you may withdraw from the project at any time without giving a reason up until you have confirmed your transcript or been given the time and opportunity to do so.

What would you be asked to do?

Once you have read and understood this Information Statement and should you decide to participate, please contact Mr. Poon through telephone call or e-mail follows to the details provided as below. Mr. Poon will contact you to arrange a personal interview at your convenience. Prior to the interview, you will be asked to sign a consent form giving your permission for the interview and for it to be audio-taped. The interview should take approximately one to two hours depends on the flow. The interview will be conducted in either Cantonese or Mandarin. During the interview, you will be asked questions related to the research subject on the use of **guanxi** in influencing the government's interpretation, practices and application of policies.

The interview will follow a guide but will use a conversational style to allow for a free flow of ideas. If you feel strongly on any issue or have more to add you should feel free to voice such opinions. Once the audio-recording is transcribed, you will be sent a copy of the transcription to confirm or change where you think is necessary. And you will be able to review the recording and transcripts to edit or erase your contribution.

What are the risks and benefits of participating?

There is minimal risk to participants as interviews will be held at a place convenient to you and your privacy and confidentiality is assured by de-identifying your transcripts with codes and avoiding specific questions about your organization and position. All transcripts and related materials will be stored securely, see below on how your privacy will be protected. Although there are no direct benefits to you as a participant, **guanxi** is an important aspect of doing business in China. The results from the research will contribute to research in International Business by increasing understanding of the use of **guanxi** in business in China. Understanding of **guanxi** in the business context is important for understanding and improving international business dealings with China.

How will your privacy be protected?

The identity of participants will be protected by replacing their name with a code. The name of the participants and their organization will not be identified in any way. Each transcript will be given a code name and any identifying information in your transcript will be edited out by the researchers and you will have the opportunity to further edit the transcript. Electronic copy of the list of participant names and their codes will be filed separately from transcript. All transcripts will be kept in secure password protected computers accessible only to the researcher. You will have the chance to check and ensure that your transcript is clear of identifiers before it is finalized.
Signed consent forms would be kept in hard copy in a lock cabinet. All other data and materials would be kept on both the computers of supervisors and student researcher in electronic form and password protected. Anonymous data will be retained for at least five years at the University of Newcastle for analysis and research conducted by University staff and students.

**How will the information collected be used?**

Results from the research will be published as part of Mr. Poon's dissertation and subsequently may be published in scholarly journals. Upon successful completion of the dissertation, a summary of the research results will be sent to participants by e-mail upon the receipt of verbal confirmation at the end of the interviews.

**What do you need to do to participate?**

Please read this Information Statement and be sure you understand its contents before you consent to participate. If there is anything you do not understand, or you have questions, you can contact the researcher.

If you would like to participate, please complete and return attached consent form by e-mail to Mr. Poon at wing.poon@uon.edu.au. Mr. Poon will then contact you to arrange a personal interview at your convenience.

**Further information**

If you would like further information please contact Mr. Poon at (852) 9389-5562 or through e-mail to wing.poon@uon.edu.au. Or project Supervisor through e-mail to Anton.Kriz@newcastle.edu.au.

**Complaints about this research**

This project has been approved by the University's Human Research Ethics Committee, Approval No. H-2012-0205. Should you have concerns about your rights as a participant in this research, or you have a complaint about the manner in which the research is conducted, it may be given to the researcher, or, if an independent person is preferred, to the Local DBA Secretariat, The Hong Kong Management Association, 16/F Tower B, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong, telephone (852) 2774-8564, or email to unc.dba@hkma.org.hk.

Thank you for considering this invitation.

Dr. Anton Kriz
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Alden W.Y. Poon
University of Newcastle, Faculty of Business and Law, Tel: 852-9389-5562
wing.poon@uon.edu.au
2012年9月25日
親愛的參與者，

研究項目信息聲明：

中國商務人士如何運用關係影響中國政府對公共政策的解釋、實踐和應用

文件版本2.0；2012年8月3日

你被邀請參加潘泳源先生在紐卡斯爾大學商學院進行以上的研究項目。這項是潘泳源先生在紐卡斯爾大學工商管理博士學位的研究論文，在安東，Kriz博士及安東尼，Drew博士監督下進行。你被選定參加這項研究，因為你滿足了以下全部或大部分“誰可以參與這項研究”中的參加者標準要求。

為什麼要做這個研究？

這研究的目的是調查當企業在中國市場努力創造一個有利的經營條件時，“中國商務人士如何運用關係影響中國政府對公共政策的解釋、實踐和應用？”。

過去的研究顯示，關係營銷和關係網絡在中國市場是一個成功的關鍵因素。然而，有關工商業與政府的關係，以及商人如何運用關係進行對政府政策進行遊說戰術的研究仍然缺乏。這項研究的目的在為了增加學者及業界這方面的了解和認識，特別在影響政府對公共政策的解釋、實踐和應用。

誰可以參與研究？

如果你具備以下的條件，便有資格參與這次研究：

第一組：與研究員有直接關係的個別參與者，如朋友、同學、供應商和客戶。他們包括在中國市場有豐富經驗的企業家或行政人員。

第一組參加者的必需條件：
i) 無論是行政管理人員或企業擁有人，他們在中國市場有豐富的經驗及對中國政策有深切的理解。

ii) 日常工作的角色需要跟政府官員打交道。

iii) 來自香港或中國內地的中國種族。

第二組：這一組的個別參與者會從商會、行業協會和政府聯絡辦事處被挑選出來，他們可以直接進入政府或政策的憲制組織，能經過正式的方式而不需單純依靠關係來影響政府的政策。

第二組參加者的必需條件：

iv) 無論是行政管理人員或企業擁有者，他們在中國市場有豐富的經驗及對中國政策有深切的理解。

v) 日常工作的角色需要跟政府官員打交道。

vi) 來自香港或中國內地的中國種族。

vii) 參與者被選自商會、行業協會或聯絡辦事處。

你的選擇

參與這項研究完全是你個人的自願選擇，只有那些願意參與並提交同意書的人才會被列入這研究項目。無論你是否決定參加，你的決定將不會另你成為不利。

如果你決定參加，你仍可在任何時候退出這項研究而無需給予任何理由，包括你已確認的文字轉錄或被給予足夠的時間和機會作出此決定。

你將要做的事情

當你看完及明白這聲明及決定參與這項研究，請跟據以下簽署底部提供的資料經電話或電郵聯絡潘先生，他會安排方便你的時間進行私人面談。在面談前，你會被要求簽署一份面談同意書同時，及在面談前徵詢你的同意，才進行錄音。。整個面談大約需要一至兩小時，取決於流程是否順順。面談將會用粵語或普通話進行。在面談過程中，你會被詢問一些關於這項研究的問題，例如如何運用關係影響中國政府對公共政策的解釋、實踐和應用等。

整個會談將遵循研究指引，並使用一個自由的談話方式讓思想進行交流。如果你有任何強烈的異議或意見，或有更多的補充，歡迎自由表達你的意見。當面談錄音被轉錄成文字後，這份文字轉錄將會送給你作為確認或跟你的難要作出修政。將來你亦可複審自已面談時的錄音，更可編輯或刪除自已的文字轉錄。
利益和風險

這項研究對參與者的潛在風險非常低，因為面談的地點便利於參與者，及參與者的身份和文字轉錄
經代號加密後，和面談的問題避免觸及參與者的機構和職位，參與者的私隱和保密因此受到保障。
一切文字轉錄及有關材料將被安全保管，請看以下“您的隱私如何受到保護”。雖然這項研究對你
作為參與者沒有直接的利益，但關係是在中國開展業務的一個重要方向。研究結果將有助研究國際
商業，和增加在中國市場上如何運用關係的知識作出供獻。增强关系的理解，对改善與中國的國際
業務往來致为重要。

您的隱私如何受到保護

參與者的身份及姓名，將被代碼取代。參加者和他們的組織的名稱將不能被識別，每份文字轉錄將
被代碼取代，任何文字轉錄裹的的識別信息將被研究人員删去，你亦有機會進一步編輯你的文字轉
錄。參與者的名和他們的代碼電子清單將與他們的文转錄分離歸檔。所有文字轉錄將被保存在
有安全密碼保護的計算機內及只供研究員進入。定稿前，參與者有機會檢查及核實他的文字轉錄裏
的身份識別訊息已被清除。

簽署同意書的抄本將保存在一個鎖櫃內，所有其他的數據和材料，以電子形式及密碼保護儲存於監
督人和研究員的電腦內。匿名的數據和資料將保留在紐卡斯爾大學至少5年，供大學教職員和學生進
行分析和研究。

所收集的信息將如何使用

研究結果將作為潘先生論文的一部分，隨後並可能會在學術刊物上發表。在成功完成研究論文後，
若層收到參與者在面訪結束時口頭確認，一份研究總結將以電郵形式發送給參與者。

你需要做甚麼來參與

請仔細閱讀本資料聲明，你同意參加前一定要先了解它的內容。如果有什麼你不明白，或有任何疑
問，你可以聯繫研究員。

如果你願意參加，請填寫附上的同意書後，致電852-93895562或電郵給潘先生
wing.poon@uon.edu.au。潘先生將與你聯繫，安排一個方便你的個人面談。
進一步的信息

如果您想了解進一步信息，請至電聯繫潘先生 (852) 9389-5562，或通過電子郵件wing.poon@uon.edu.au。或電郵研究項目主管Anton.Kriz@newcastle.edu.au。

有關本研究的投訴

這項研究已獲香港大學人類研究道德委員會的批准，編號H-2012-0205。如果你對作為本研究參與者的權利有任何疑問，或你對這項研究的進行方式有任何投訴，你可以直接聯繫研究項目研究員，如者可給一個獨立的人仕，可聯繫本地博士課程秘書處，地址：香港管理專業協會，香港黃竹坑，業興街11號，南匯廣場，B座16樓，電話：(852) 2774-8564，或電郵至unc.dba@hkma.org.hk。

感謝您考慮這一邀請。

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Appendix B
Consent Form for the Research Project:

How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?

Document Version 2; dated 03/08/2012

I agree to participate in the above research project and give my consent freely. I understand that the project will be conducted as described in the Information Statement, a copy of which I have retained. I understand I can withdraw from the project at any time and do not have to give any reason for withdrawing up until I have confirmed and returned my transcript.

I consent to participating in an interview and having it audio recorded. I also understand that I can review and edit the transcript of my own interview.

I understand that my personal information will remain confidential to the researchers. I consent that I can be anonymously quoted in reports of the research findings. I have had the opportunity to have questions answered to my satisfaction.

Print Name:____________________________________________________________________

When we receive your signed consent form, Mr. Poon will then contact you to arrange a personal interview at your convenience.

Signature: ________________________________ Date: _________________________
研究項目同意書

中國商務人士如何運用關係影響中國政府對公共政策的解釋、實踐及應用？

潘泳源先生

文檔版本 2，2012 年 8 月 3 日

我同意參與上述研究項目。據我了解，該項目將跟據信息聲明的內容而進行，而我已保留該聲明的副本。我明白我可以在任何時候退出該項目，並無需給予任何理由，包括在確認及交回我的訪談文字轉錄後。

我同意參與這次面談並接受進行即場錄音。我也明白，我可以查看和編輯自己的訪談文字轉錄。

我同意研究人員回答有關問題，樣我有充份及滿意的了解。

姓名：____________________________________________________

當我們收到您的簽名同意書後，潘先生將會與您聯繫，安排一個方便與你個人面談時間。

簽名： ________________________________ 日期： __________________________
Interview Protocol

1. Introductory remarks

The aim of this research is to develop a model by answering the question of "How does the use of guanxi by Chinese business people influence the government’s interpretation, practices and application of policy in China?"

This study attempts to understand Corporate Political Action in China in which businessman and executives potentially create a favorable environment by influencing the government’s interpretation, practices and the application of policy through political guanxi.

2. Interview Questions

Q1. Referring to our conversation over the phone, could you please confirm that as part of your job role, you are a government official or are required to liaise with the government?

Q2. Could you please tell me something about your company and yourself?
   - Category of your business, such as MNC or local, no industry or product is required
   - Years of experience in China
   - Revenue (global, regional, and China in RMB)
   - Regions or territories covered by your organization or business
   - Your role and responsibility in the organization, such as government official, owner or executive, no specific position or title is required
   - Are you responsible for instituting public policies and/or liaising with government officials

Q3. What do you think are the key success factors for doing business in the Chinese market?

Q4. What are your comments on interpersonal relationships regarding guanxi and trust in connection with doing business in China?

Do you think if there is any trust / xinren between the business and government, particularly regarding the influence of policies’ interpretation, practices and application through political guanxi?

Q5. Do you believe that your company has, at some stage, influenced the interpretation, practices and application of the public policy of the government? Can you share a story or give some examples?

Q6. Do you believe that the need for potentially influencing the government’s interpretation, practices and application of policy is affected by the industry or region you are in?

Q7. Does your company apply resources and put structures in place to shape organizational relationships with the government? If “yes”, then explain how and in what way?

Q8. From the following list, could you please rank the most effective way to influence government’s interpretation, practice and application of public policy, from most effective to least effective and please explain why.

   - Lobbying: a direct contact and communication between a registered lobbyist who is representing the firm and a public policy maker.
   - Reporting Research Result: a means by which a firm shares newly learned data with policy makers.
- **Reporting Survey Results**: informs policy makers about changing attitudes among their constituents.

- **Testifying at Congressional or Administrative Hearings**: allows firms to present their views to several interested policy makers simultaneously.

- **Legal Actions**: including litigation, threatening the use of legal procedures, or filing amicus curiae briefs.

- **Personal Service**: Executive may serve at the federal cabinet level, in executive and administrative departments, or as consultants or members of special committees; corporate leaders in official government posts have potential political benefits for the corporations.

- **Constituency Building**: corporate efforts to identify, educate, and motivate to political action stakeholders who may be affected by public policy that has an impact on the corporation.

- **Advocacy Advertising**: at public forums

- **Participate in Congress**

- **Relational Approach**

**Q9.** Does your company rely on trade associations or any specialized intermediaries to manage political action?

**Q10.** Apart from CPA, do you act collectively with others and in what way?

**Q11.** At what levels do you normally influence policy - local, regional or national? And please explain the reasons for the coverage.

**Q12.** If relational approaches are preferred as ways to influence policy results, could you please rank this from most preferred to least preferred.

Jia-ren 家人 - family members

Shu-ren 熟人 - familiar persons such as relatives outside of family, neighbors or people in the same village, friends, colleagues, or classmates, from superficial to extremely intimate

Sheng-ren 生人 - mere acquaintances or strangers, no blood base and social base.

**Q13.** Are any particular strategies being used to shape the relationship with the government for the purpose of influencing the interpretation, practices and application of public policy?

**Q14.** Among the three strategies of influencing government policy: (1) interpersonal guanxi, (2) collective efforts through trade association or labor union etc. and (3) constituency-building, which approach would you prefer to pick? Please explain why and in what situation?
面谈规定指引

1. 开场白
此研究的目的是通过回答以下问题来建立一种模式：“中国商人如何运用关系影响中国政府政策的解释、实践和应用?”。

本研究试图理解企业和高管在中国市场可能通过一些政治关系，行为，或手段来影响政府对政策的解释、实践和应用，从而创造一个有利的营商环境。

2. 面谈问题

Q1. 根据我们在电话上的谈话，请你再次确认，你日常工作角色的一部分是：你是政府官员，或你须要与政府打交道？

Q2. 你能告诉我一些有关你公司和你自己的一些信息吗？

- 公司业务类别，如跨国公司或本土企业，不系行业或产品
- 你及公司在中国的年资
- 公司总收益（全球性的，区域性的，和在中国 - 以人民币为计算单位金额）
- 你们组织或业务覆盖的区域或地区
- 你在组织中的角色及责任，如政府官员，公司持有人或高管，不系职位或称号
- 你的工作是否负责制定国家政策或需要跟政府官员联络（打交道）？

Q3. 你认为在中国市场进行商业活动取得成功的重要因素是什么？

Q4. 在中国进行商业活动时的人际交往中，你对于“关系”和“信任”有何看法？

企业与政府之间，信任是否存在，特别在利用企业政治来影响政府政策的实施过程了中？

Q5. 你相信你们公司在某种程度上影响着政府在公共政策的解释、实践和应用？你可以分享某个故事或举出一些例子吗？

Q6. 你是否认同你所在的行业或营运区域有需要影响政府对公共政策的解释、实践和应用？

Q7. 你公司有否运用资源并成立了组织来跟政府建立“组织关系”。如是，请解释如何以及通过什么方式来进行该活动？

Q8. 在以下所列的各项中，你可否根据每种做法影响政府对公共政策的解释、实践和应用的有效性，从最有效能到最低能进行排序，并且解释其原因。

- 游说：代表公司的游说者和国家政策制定者之间直接联系和沟通的方式
- 报导研究结果：公司通过与公共政策制定者分享最新所得研究数据的方式
- 报导调查结果：告知决策者有关选民之间态度的改变
- 在国会或听证会上作证：允许企业向感兴趣的决策者同时表达他们的观点
• **法律行动**：包括诉讼，胁迫使用法律手段，或通过法律顾问提交诉讼书

• **个人服务**：公司高级行政人员为联邦内阁层级（中央）的行政部及管理层提供服务，如顾问，或由公司领袖组成在政府机关内的特殊委员会的委员，因此有可能为公司带来潜在的政治利益。

• **选民建立**：公司会努力密色、培训和推动那些对公共政策有影响力的继而影响公司的政治行为利益相关者。

• **在公共论坛上发布倡导广告**

• **参与国会（中国人民代表大会）**

• **采用“关系”的途径**

Q9. 你公司是否依赖某些商会，贸易协会或中间人来处理“企业政治行为”？

Q10. 除了企业政治行为之外，你是否还与其他人或企业采取共同行动以及是通过什么样的方式？

Q11. 请问你通常是在本地，地区还是全国范围的层级上影响政府政策？并请解释作出此选择的理由

Q12. 如果“人际关系”被定为优先或首选的方式来影响政策结果，请依照从最受欢迎的到最不受欢迎的方式排序。

家人 – 家庭成员

熟人 – 熟悉的人如家庭外的亲戚，邻居或同村的人，朋友，同事，同学，从泛泛之交到至交

生人 – 仅仅认识而已的人或是陌生人，不存在血缘关系和社会（社交）关系

Q13. 为了达到影响政府对政策的解译、实践和应用的目的，有否采取一些特别的策略来塑造跟政府之间的关系？

Q14. 在影响政府政策的三个策略中：（1）人际关系；（2）通过贸易协会或工会的共同协力；（3）选民建立：你更愿意选择哪一种方式？请解释为什么并且在什么情况下。
Appendix D
Translation Verification

This serves to confirm that the attached Chinese copies of Consent Form and Participant Information Statement submitted by Mr. Poon Wing Yuen Alden (student no.: 3041901), is a true and accurate translation of the English version.

Should you have any queries, please feel free to contact Mickey Lau of the local Newcastle DBA Secretariat of the Hong Kong Management Association on (852) 27748513 or by email at mickeylau@hkma.org.hk.
PART G2 – PEER REVIEW AND HEAD OF SCHOOL DECLARATION

STEP 1 – Peer review confirmation

The research proposal contained herein has been peer reviewed by (please tick):

[ ] The following competitive research grant body and given a positive review:

In: (year) __________

OR

Reviewed by:

Dr P J Rosenberger III

On: (date) 11 May 2012

and it is confirmed that:

- the proposal has been peer reviewed by experienced researchers in the field of study who are independent of the research and the researchers;
- the aims of the research are clearly identified;
- the research proposal is well designed and methodologically sound;
- the research proposal is supported by an appropriate literature review;
- the research procedures are appropriate to the aims of the research;
- the proposed study sample is appropriate;
- if the research is conducted according to the protocol, it is expected to yield valid and useful data;
- the researcher(s) has the necessary expertise to conduct the research and perform the procedures/techniques required by the research; and
- where relevant, all methodological issues have been resolved to the satisfaction of the peer reviewers.

Title: __________

First name: Philip

Last name: ROSENBERGER III

Signed: __________

Date: 14 May 2012

Aq

Chair, Faculty Peer Review Panel

STEP 2 – Head of School Declaration

Where the Head of School has a conflict of interest with the proposed research, or an investigator on the project, a member of the research group, or a personal relationship to any member of the research team, this Declaration is to be completed by the Deputy Head of School.

I declare that:

- I am satisfied that an adequate peer review has been conducted and that the research proposal is ready for submission for ethics approval;
- the resources required to undertake this project are available; and
- the researchers have the skill and expertise to undertake this project appropriately.

Title: __________

A/Prof first name: Ramaswami

Last name: SRIKESARAN

Position: Delegated Head of School signatory

Signature: __________

Date: __________

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Thank you for your Response to Conditional Approval submission to the Human Research Ethics Committee (HREC) seeking approval in relation to the above protocol.

Your submission was considered under Expedited review by the Chair/Deputy Chair.

I am pleased to advise that the decision on your submission is Approved effective 21-Aug-2012.

In approving this protocol, the Human Research Ethics Committee (HREC) is of the opinion that the project complies with the provisions contained in the National Statement on Ethical Conduct in Human Research, 2007, and the requirements within this University relating to human research.

Approval will remain valid subject to the submission, and satisfactory assessment, of annual progress reports. If the approval of an External HREC has been "noted" the approval period is as determined by that HREC.

The full Committee will be asked to ratify this decision at its next scheduled meeting. A formal Certificate of Approval will be available upon request. Your approval number is H-2012-0205.

If the research requires the use of an Information Statement, ensure this number is inserted at the relevant point in the Complaints paragraph prior to distribution to potential participants You may then proceed with the research.
Conditions of Approval

This approval has been granted subject to you complying with the requirements for Monitoring of Progress, Reporting of Adverse Events, and Variations to the Approved Protocol as detailed below.

PLEASE NOTE:
In the case where the HREC has “noted” the approval of an External HREC, progress reports and reports of adverse events are to be submitted to the External HREC only. In the case of Variations to the approved protocol, or a Renewal of approval, you will apply to the External HREC for approval in the first instance and then Register that approval with the University’s HREC.

- Monitoring of Progress

Other than above, the University is obliged to monitor the progress of research projects involving human participants to ensure that they are conducted according to the protocol as approved by the HREC. A progress report is required on an annual basis. Continuation of your HREC approval for this project is conditional upon receipt, and satisfactory assessment, of annual progress reports. You will be advised when a report is due.

- Reporting of Adverse Events

1. It is the responsibility of the person first named on this Approval Advice to report adverse events.
2. Adverse events, however minor, must be recorded by the investigator as observed by the investigator or as volunteered by a participant in the research. Full details are to be documented, whether or not the investigator, or his/her deputies, considers the event to be related to the research substance or procedure.
3. Serious or unforeseen adverse events that occur during the research or within six (6) months of completion of the research must be reported by the person first named on the Approval Advice to the (HREC) by way of the Adverse Event Report form within 72 hours of the occurrence of the event or the investigator receiving advice of the event.
4. Serious adverse events are defined as:
   - Causing death, life threatening or serious disability.
   - Causing or prolonging hospitalization.
   - Overdoses, cancers, congenital abnormalities, tissue damage, whether or not they are judged to be caused by the investigational agent or procedure.
   - Causing psycho-social and/or financial harm. This covers everything from perceived invasion of privacy, breach of confidentiality, or the diminution of social reputation, to the creation of psychological fears and trauma.
   - Any other event which might affect the continued ethical acceptability of the project.
5. Reports of adverse events must include:
   - Participant's study identification number;
6. Adverse events which do not fall within the definition of serious or unexpected, including those reported from other sites involved in the research, are to be reported in detail at the time of the annual progress report to the HREC.

- Variations to approved protocol

If you wish to change, or deviate from, the approved protocol, you will need to submit an Application for Variation to Approved Human Research. Variations may include, but are not limited to, changes or additions to investigators, study design, study population, number of participants, methods of recruitment, or participant information/consent documentation. Variations must be approved by the (HREC) before they are implemented except when Registering an approval of a variation from an external HREC which has been designated the lead HREC, in which case you may proceed as soon as you receive an acknowledgement of your Registration.

Linkage of ethics approval to a new Grant

HREC approvals cannot be assigned to a new grant or award (i.e. those that were not identified on the application for ethics approval) without confirmation of the approval from the Human Research Ethics Officer on behalf of the HREC.

Best wishes for a successful project.

Professor Allyson Holbrook

Chair, Human Research Ethics Committee

For communications and enquiries:

Human Research Ethics Administration

Research Services
Research Integrity Unit
HA148, Hunter Building
The University of Newcastle
Callaghan NSW 2308
T +61 2 492 18999
F +61 2 492 17164
**Linked University of Newcastle administered funding:**

<table>
<thead>
<tr>
<th>Funding body</th>
<th>Funding project title</th>
<th>First named investigator</th>
<th>Grant Ref</th>
</tr>
</thead>
</table>

Human-Ethics@newcastle.edu.au