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GUANXI: CONNECTIONS AS SUBSTITUTES FOR FORMAL INSTITUTIONAL SUPPORT

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Interview data from China are used to test an argument that executives develop personal connections in societies with underdeveloped legal support for private businesses. In China, such connections are called *guanxi.* An underdeveloped legal framework makes private-company executives more dependent on *guanxi* than executives in state-owned or collective-hybrid companies. Compared to the other executives, private-company executives considered business connections more important, depended more on connections for protection, had more government connections, gave more unreciprocated gifts, and trusted their connections more.

Although executives spend substantial time interacting with others outside their organizations, theories of organizational behavior are surprisingly silent on the meaning of these contacts. Sociologists and organizational theorists have studied structural connections among executives for years (Granovetter, 1985; Larson, 1992; Macaulay, 1963; Powell, 1990; Yan & Gray, 1992). However, formal structure provides an incomplete picture of how executives develop connections. Executives also meet with others in settings of their own choosing and strive to build personal dependence in addition to formal structural dependence. As others have noted, informal relations help employees work around formal constraints within organizations (e.g., Crozier, 1964; Pfeffer, 1992). We propose that one reason executives seek out connections and cultivate close personal relationships is to obtain resources or protection not otherwise available.

Such personal connections seem particularly important to executives in countries without a stable legal and regulatory environment that allows for impersonal business dealings (Redding, 1990; Zucker, 1986). For example, without an impartial judiciary, executives are reluctant to develop business relationships with those they do not personally trust. The importance of

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good personal relationships to doing business in developing countries has been discussed widely in popular writings for managers (cf. *Asian Advertising and Marketing,* 1989; Fox, 1987), yet the advice given in business periodicals has rarely been analyzed in management scholarship. We drew on the work of Redding (1990), Putnam (1993), and Nee (1992, 1989) to develop hypotheses about which executives in the People's Republic of China will find personal relationships more important for business and invest more in their cultivation.

In China, interpersonal connections are called *guanxi.* In her comprehensive study, Yang stated that *guanxi*

> means literally "a relationship" between objects, forces, or persons. When it is used to refer to relationships between people, not only can it be applied to husband-wife, kinship and friendship relations, it can also have the sense of "social connections," dyadic relationships that are based implicitly (rather than explicitly) on mutual interest and benefit. Once guanxi is established between two people, each can ask a favor of the other with the expectation that the debt incurred will be repaid sometime in the future (1994: 1–2).

In China, *guanxi* usually does not carry negative connotations, whereas allowing something to be decided by open competition instead of by using connections may be considered stupid and disloyal (e.g., Alston, 1989; Chen & Pan, 1993; Hwang, 1987; Lockett, 1988; Yau, 1988). Despite its importance, we know of no empirical tests of *guanxi* or of the circumstances that shape when, where, and with whom such relationships should be most important to managers.

FRAMEWORK AND HYPOTHESES

Guanxi as a Substitute for Formal Institutional Support

We suggest that managers cultivate personal connections to substitute for reliable government and an established rule of law, characteristics we merge under the label "structural support." This idea is hardly new (cf. Boisot, 1986; Coleman, 1993; Fallers, 1965; Putnam, 1993; Riggs, 1964; Walder, 1986), but it has not been systematically tested. Redding observed that networks in China are useful in "the regulation of transactions in the absence of state institutions for that purpose" (1990: 56). Certainly, many observers have noted that *guanxi* is endemic in Chinese business (Alston, 1989; Hall & Xu, 1990; Jacobs, 1980; Leung & Yeung, 1995; Lockett, 1988; Yang, 1994; Yau, 1988), yet Walder noted that "the concept is by no means culturally unique [to China]; the terms *blat* in Russia and *pratik* in Haiti refer to the same type of instrumental-personal tie. *Guanxi* is not a sociologically precise term: it refers to instrumental-personal ties that range from strong personal loyalties to ceremonial bribery" (1986: 179). A weak rule of law is problematic for all who do business in China, but such unreliability would prove particularly burdensome for newer, smaller private businesses. China today provides a context in which we can study the role of connections as manager-initiated substitutes for the kind of formal institutional support taken for granted in countries with more stable business environments.

Nee (1992) classified Chinese organizations into three types: state (federal)-owned, privately owned, and collective-hybrids, enterprises typically owned by local governments that produce products for competitive markets. He noted that China's transitional economy is characterized by weak capital market structures, poorly specified property rights, and institutional instability, of which a lack of coherent business laws is an example. These characteristics make market exchanges uncertain and costly. Under these circumstances, private companies have difficulty getting capital, because the banks, which are state-owned, favor state-owned companies. Further, in a country with uncertain property rights, the potential for threatening interference and expropriation from party and governmental officials is great. According to Nee, collective-hybrids have structural advantages over both privately owned and state-owned companies, because being affiliated with local governments protects them from government interference. At the same time, collective-hybrids sell in competitive markets, so they face "hard budget constraints" (Kornai, 1989) that encourage efficiency, unlike state-run companies. As Nee noted, Chinese state-owned companies, which face substantial regulatory restraint on wages, prices, capital expenditures, and product mix, are at a substantial organizational disadvantage. Similarly, Chinese private companies, which do not have the institutional protection of government ownership that state-owned and collective-hybrid companies do, are subject to arbitrary extortion by officials and others since the society lacks a reliable rule of law.

We take Nee's insights as a point of departure and suggest that Chinese private-company executives operating without the structural protection of governmental support, which is more available to state-owned and collective-hybrid organizations, will not passively await their fate. Rather, by developing *guanxi* as a substitute for the formal institutional protection government ownership offers their counterparts, they will cultivate close personal relationships with people useful to business. Certainly, all Chinese managers will use *guanxi,* but these connections will be seen as even more important by those with less structural support—that is, by private-sector managers.

Controlling for the Liability of Newness and Smallness

Before proceeding, it is necessary to discuss a potential alternative explanation for the greater importance of personal connections to executives in Chinese private companies. Private companies are relatively new and small in a country that is still, at least nominally, communist. Their executives may cultivate connections to counteract liabilities of newness and smallness, not as a substitute for structural protection.

Stinchcombe (1965) claimed that new organizations generally face greater risks than older organizations, because they lack external legitimacy. Empirical studies have tended to support the idea that newness is a liability for organizations (e.g., Delacroix & Carroll, 1983; Freeman, Carroll, & Hannan, 1983; Hannan & Freeman, 1989; Singh, Tucker, & House, 1986). Further, Freeman and colleagues (1983) showed that smallness presents its own liabilities to organizational survival. Aldrich and Auster (1986) suggested this is because new, small organizations have executives with fewer ties with others. Further, Singh and colleagues (1986) and Aldrich and Fiol (1992) found that as the number of ties held by executives of new and small organizations increased, the chances of their survival increased. Thus, in China, it is possible that executives in private companies stress the importance of their personal connections simply to counteract liabilities that result from their organizations' youth and smallness, not as a substitute for formal structural support via ownership. Therefore, to conduct a stronger test of the structure-substitution hypothesis, we needed to control for organizational age and size.

> *Hypothesis 1: With the age and size of their companies controlled, executives in private Chinese companies will report that their business connections are more important to their success than will executives in either state-owned or collective-hybrid companies.*

Using *Guanxi*

If *guanxi* is more important to managers with great need for a substitute for formal structural support, this importance should be reflected in the ways these managers characterize their relationships. In particular, we would expect such a substitution to be reflected in greater reliance on connections as a defense against threats, a greater reliance on connections in government, and reports of deeper and closer connections on the part of private executives. Those who rely on their business connections as a substitute for a stable rule of law would also be expected to see them as primarily defensive. That is, rather than reporting the usefulness of connections in obtaining customers, market information, or securing credit, as managers in stable developed-market economics might, managers in less developed countries may report needing connections to help them face fundamental threats, such as expropriation and extortion (Nee, 1992; Redding, 1990; Yang, 1994).

> *Hypothesis 2: Executives in private Chinese companies are more likely to report that their business connections are useful as a defense against threats than are executives in either state-owned or collective-hybrid companies.*

Further, threats to companies in such societies can come from a misuse of ill-defined power or the absence of governmental protection from extortionists and thieves. In addition, private companies need access to resources controlled by government. Thus, we would expect good connections in government to be of paramount importance to those in societies with a weak rule of law. In China, executives of state-owned and collective-hybrid companies secure their government protection structurally, via government ownership. To substitute for such protection, private-company managers will use personal connections to government officials.

> *Hypothesis 3: Compared to executives in either state-owned or collective-hybrid Chinese companies, executives in private Chinese companies will report more connections with individuals who hold positions in government.*

Finally, we propose that private-company executives will seek to build relationships that are deeper in trust (closer *guanxi*) than those sought by executives with structural protection. Sociologists long have argued that "modern" forms of impersonal bureaucratic organization provide substitutes for the particularistic trust relationships characteristic of premodern societies (Coleman, 1993; Riggs, 1984; Walder, 1986; Weber, 1947; Zucker, 1986). Clear property rights, an independent judiciary, and predictable impersonal enforcement of regulations provide institutional protection that does not depend on the particularistic knowledge of others. People need only assume that others are following the known rules (Coleman, 1993; Weber, 1947; Zucker, 1986). However, without this form of structural protection, business executives must fall back on particularistic relations (Redding, 1990; Zucker, 1986). Because the kind of protection required may involve risks for both parties, risks such as bending or ignoring laws, managers would seek to develop business relationships that are as trustworthy as possible. This depth of relationship should be reflected in reports of greater trust in connections among those who most depend on them for protection.

> *Hypothesis 4: Executives in private Chinese companies will report that their business connections are characterized by more trust than executives in either state-owned or collective-hybrid companies will report as characteristic of their relationships.*

Building *Guanxi*

How can executives build good connections with people who can provide resources and protection? Although many ways of doing this may be possible, in China normative expectations are clear, as they are built on long traditions of *guanxi* (Redding, 1990; Yang, 1994). How is *guanxi* developed in China? Jacobs (1980) suggested that *guanxi* depends primarily on shared identification with family, hometown, region, school, or place of work. The possibilities are varied enough that people motivated to build *guanxi* can find a common basis. This is not to suggest that common background will necessarily lead to good *guanxi* between people. It does imply that individuals who do not share some of these common backgrounds will have less of basis for developing *guanxi* than individuals who do. However, *guanxi* varies in its closeness, and Jacobs argued that it can be made closer either by a social interaction that contributes to positive affect (*ganqing*) or by helping, both of which rely, to some extent, on gift giving as an indication of goodwill and respect:

> If, for example, a township leader wishes to make his *guanxi* with a village leader closer, the township leader will attempt to increase the social interaction between them by inviting the village leader to banquets on such occasions as weddings in the township leader's family and festivals in his home village. Should a wedding occur in the village leader's family, the township leader will be sure to send a wedding gift (1980: 228).

In building *guanxi,* gift giving continues over time. As Alston noted "*Guanxi* ties have to be continuously reinforced" (1989: 28). Two of the most frequently used tactics to enhance *guanxi* in Chinese society are presenting a gift to and holding a banquet for the other party (Hwang, 1987).

Although *guanxi* often involves the exchange of gifts, these gifts are viewed as investments in the relationship. The emphasis in China is on the relationship being built (Hwang, 1987; Yang, 1994). They are not fee-for-service bribes, as they often are in other countries where import licenses or construction contracts have well-known "prices" (cf. Gupta, 1992). This is not to say that straightforward bribery does not occur in China. It does, and participants in such an act may call it *guanxi,* but Chinese society widely scorns such *guanxi* (cf. Yang, 1994). Therefore, given the general expectation in China that gift giving will cultivate connections, we expected private-company executives to invest more in building the quality of their *guanxi* to protect themselves from the risks inherent in China's uncertain legal environment, and their expectations will be reflected in their gift-giving patterns.

> *Hypothesis 5: Executives in private Chinese companies will report giving more nonreciprocated gifts to those with whom they have business connections than executives in either state-owned or collective-hybrid companies.*

METHODS

Sample

The sample for this study was composed of managers in various industries from state-owned, collective-hybrid, and private companies in an interior Chinese city with a population of half a million people in late 1992. In China, it is difficult to find executives willing to talk openly about their *guanxi.* To overcome this problem, the first author drew the sample from the business connections of a close relative who is an executive for the state-owned insurance company in that city. Since all businesses in that particular region are required to obtain insurance policies from this insurance company, the manager of the insurance company had close connections with local businesses. The sample included heads and directors of key functional units (operations, finance, and marketing) in financial services, industrial manufacturing, textile manufacturing, transport, retail, and wholesale trade organizations. Only one executive declined to be interviewed. Interviewees were 15 state-owned-company executives, 8 collective-hybrid-company executives, and 9 private-company executives. We selected as wide a variety of industries as possible given the used to have all three types of company ownership possible in China in 1992 represented. We initially identified ownership status and industry using insurance company records and then confirmed them during interviews. We are aware that the demarcation lines between these legal ownership categories in China may, in practice, have become quite murky (for example, an executive of a state-owned company may direct the organization's resources to his private company, or a collective-hybrid may be a convenient legal designation for a privately controlled company). However, although such practices make it more difficult to find the hypothesized effects, they should not confound interpretations of supportive results. The average age of the interviewees was 41.7 years, and their mean tenure with their companies was 7.2 years. Eighty-one percent of the interviewees were men.

Procedures and Measures

Data were collected by means of a structured interview we first developed in English. In line with Brislin's (1986) recommendations, the instrument was translated into Chinese and back-translated into English to ensure accuracy of translation. To ensure use of up-to-date terminology and correct meanings for each item, we conducted two field tests with business students from China. Each interview, which lasted 60 to 90 minutes, started with the following statement: "We are interested in learning how managers develop their businesses and solve problems. In particular, this study focuses on ways managers work with others to get things done. . . .You and your organization will be completely anonymous. We are interested in general trends and will never release any information that could be used to identify you or the organization." Then, descriptive information was obtained about the managers and their companies (e.g., enterprise ownership, age, size). Next, the interviewer told the respondent this: "All managers rely on help from others outside their 'unit.' Managers deal with nonsubordinates, or those they have no hierarchical authority over, in efforts to develop their organizations as well as solve the day-to-day problems. Therefore, for the following questions, please be brutally honest. Your information will be used solely for research. Think of 8 to 10 individuals who are most useful in helping you succeed in this job. Think of those who are useful for day-to-day problems of your current job and those who are helpful to your long-run career success. These individuals are not necessarily the ones you 'like' the most or are close friends with, but those most necessary to your job and career success. Please exclude your direct subordinates from the list." All the interviewers but one identified eight individuals, with one collective-hybrid executive identifying ten. At this point the interviewees were asked to write a nickname for each connection onto a card the size of a business card (to provide anonymity for connections). A series of 27 questions was presented, and for each question the interviewees were asked to assign each of the "relationships" (the 8 or 10 cards in their hands) into the appropriate response category (e.g., 1 = deeply distrust, 5 = trust completely). The questions and response options relevant to this study are reported below.

Interviewees sometimes elaborated on an individual relationship with examples and comments. From the 32 interviews, we obtained data on 258 business connections. Table 1 gives means, standard deviations, and correlations among the studied variables.

The *importance of a connection* was assessed with the question, "How important is the relationship to you?" Executives rated relationships on a range from 1, "not important," to 4, "vitally important."

Whether a connection was a *defense against threats* was assessed by the executives' responses to the following statement: "This relationship is useful as a defense against threats," (1 = strongly disagree, to 5 = strongly agree). Whether a person offered a *government connection* was measured by responses to "What is the primary reason for the person's usefulness?" Responses were coded as 1 for "important connections in government" or as 0 for any of the following: "important connections in key companies," "important connections elsewhere in this company," "controls financial resources," "access to customers," "technical or professional knowledge," and "I have to go through this person." *Trust in the connection* was measured by asking, "To what extent do you trust the person?" (1 = deeply distrust, 5 = trust completely). The variable called *give connection gifts* was assessed by the following question: "People in business relationships often give one another gifts. Could you categorize these relationships by the form of gift giving between you and the other?" (1 = give connection nonreciprocated gifts or 0 = do not give connection gifts or give mutual gifts.) Because we were testing the hypothesis that executives in less structurally secure situation would have more need to strengthen their *guanxi* via giving gifts than those in more structurally secure environments, we focused on nonreciprocated gift giving.

Organizational age and *size,* the control variables, were assessed by asking for descriptive information in the first section of the interview. It is important to note that the organization referred to here is the business unit (e.g., an ink-manufacturing plant), not an entire company.

Validity Issues

Since data were collected by interview, all variables are single-item scales. Therefore, it was not possible to compute interitem reliability coefficients. Nor was it possible to tape interviews about such a delicate subject in a country with little tradition of confidential, disinterested social science research; thus, we could not compute interrater reliability coefficients for these measures. However, since interviewees sorted cards into categories visible to them on the desk, the interviewer was not required to make any

TABLE 1
Means, Standard Deviations, and Correlations Among Variables[a]

Variables	Mean	s.d.	1	2	3	4	5	6	7
1. Importance of connection	3.34	0.89							
2. Connection defends against threats	4.18	0.92	.51**						
3. Government connection[b]	0.37		.15*	.26**					
4. Trust in connection	3.94	0.86	.35**	.25**	.11				
5. Give connection gifts[c]	0.37		.29**	.19**	.35**	−.00			
6. Organizational age	14.06	12.17	−.13*	−.10	−.17**	−.07	−.00		
7. Organizational size	55.88	83.56	−.04	.11	.04	.07	.04	.28**	
8. State-owned company[d]	0.47		−.18**	−.13*	−.25**	−.12	−.13*	.77**	.21*
9. Collective-hybrid company[d]	0.25		−.11**	−.10	.16**	−.08	.04	−.32**	.07

[a] $N = 258$.
[b] Mean indicates that 37 percent of the relationships were useful for their connections in government.
[c] Mean indicates that 37 percent of the connections received nonreciprocated gifts.
[d] The three types of organizational ownership were dummy-coded, resulting in two variables. State-owned companies are coded as 1 in variable 8, and collectives are coded as 1 in variable 9.
* $p < .05$
** $p < .01$

assessments or inferences, a circumstance that provides some modest confidence in measure reliability.

As for construct validity, no prior information on the validity of these measures was available since they are new. We derived information on construct validity first through the responses and elaborations of interviewees, which provided a qualitative check on the executives' understanding of questions. We share some interviewee elaborations in the Results section, both to reflect the executives' understanding of the concepts being measured and to provide illustrations of the way business connections operate in China. Second, we sought preliminary support for the construct validity of these measures from confirmation of this study's hypotheses. Nunnally (1967) argued that an important test of measures' construct validity is whether the network of theoretically expected relationships is supported, and therefore, construct validity accrues over time from many studies.

Since each executive reported multiple connections, one potential problem is nonindependence of measures: there may be less variance within than between interviewee responses. We used a within-and-between analysis (WABA) (Dansereau, Alutto, & Yammarino, 1984; Yammarino & Markham, 1992) to test this potential problem. The corrected F from the WABA analysis was not significant for any variables. Variance existed both within and between interviewees on each variable, suggesting that it is appropriate to treat each connection as an independent unit. This test also contributed to evidence for the measures' construct validity.

Finally, since managerial level might affect the kinds of connections executives have (we sampled from two levels), we tested for effects of such differences on the study variables for each of the ownership types. Results of t-tests indicated no significant differences on any study variable between general managers and functional managers, the two types of interviewees.

RESULTS

To test Hypotheses 1, 2, and 4 and to identify specific differences on each variable across the three different ownership types, we performed one-way analysis of variance using Scheffé's multiple range test for comparing pairwise means. The first hypothesis predicts that executives in private companies will report that their business connections are more important to their success than will executives in either state-owned or collective-hybrid companies, given controls for company age and size. As Table 2 indicates this hypothesis was supported. Private companies in China were more likely to be newer and smaller than the collective-hybrids and state-owned companies, with the state-owned companies significantly older than the other two (mean age was 24 years for state-owned vs. 7 years for collective-hybrids and 3 years for private companies, $F = 198.23$, $p < .01$), and the private companies were significantly smaller (a mean of 16 employees, vs. 75 in state-owned and 66 in collective-hybrid companies; $F = 13.02$, $p < .01$). Nevertheless, we found that, even after we controlled for the companies'

TABLE 2
Results of Analysis of Variance and Cell Means[a]

Variables	State-Owned Company Connections	Collective-Hybrid Company Connections	Private Company Connections	Sum of Squares	*df*	*F*	η
Importance of connection[b]	3.17	3.18	3.79	19.59	2	13.63*	.31
Error	(0.96)	(0.91)	(0.50)	181.73	253		
Connection defends against threats	4.05	4.03	4.53	11.99	2	7.03**	.23
Error	(0.99)	(1.02)	(0.67)	218.48	256		
Trust in connection	3.83	3.82	4.23	8.61	2	6.00**	.21
Error	(0.81)	(1.05)	(0.68)	183.53	256		
N	120	66	72				

[a] Numbers in parentheses are standard deviations. For all variables, private-company executives' values are significantly higher than those of state-owned and collective-hybrid executives at $p < .01$.

[b] This was an ANCOVA test with controls for the covariants organizational age and size. However, these covariates were not significant.

* $p < .05$

** $p < .01$

relative youth and small size, executives in private companies apparently did seek to compensate for their relative lack of formal structural support by relying more on their *guanxi*.

Similarly, data reported in Table 2 support Hypothesis 2. Executives in private companies reported significantly more use of their connections to protect against threats than did either collective-hybrid or state-owned company executives.

Logistic regression analysis was used to test Hypotheses 3 and 5 because the dependent variables in these cases were dichotomous (Norusis, 1990). This test partially supports Hypothesis 3. The model chi-square tests the null hypothesis that the coefficients for all of the terms in the current model except the constant would equal zero. This procedure is comparable to the overall *F*-test for regression analysis. In this case, the model chi-square for government connections is 16.34 ($p < .01$), which indicates the main effect in this model is significant. Since there are three categories of independent variables, we used a two-parameter coding in this analysis. When ratings by private executives were compared to those of state and collective executives, the coefficient was 0.99 ($p < .01$). When ratings by collective executives were compared to those of state and private executives, the beta was 4.15, $p < .001$. From the two parameters (two dummy variables for three different ownership structures), it can be seen that managers from privately and collectively owned companies are more likely to have government connections than executives from state-owned companies. The collectively owned companies may need government connections as much as the private companies because many scarce resources are still controlled by the central government, and the local government officials with whom the collectives typically have close ties are not of much help in gaining these critical resources. The following interviewee quotations illustrate how private companies' executives use government connections. The first is from the general manager of a private computer company. "X," his administrative assistant, is the one of a high government official. The general manager hired X in order to strengthen his *guanxi* with the father.

> My company had bad luck. We were audited for income tax fraud. The Auditing Bureau has Red Eye Disease [jealousy]. Whenever they see a private company making money, they come and find trouble.
>
> The tax auditor just showed up one day and wanted to see company books. There are no standardized rules on how to keep books in China, especially for private companies like ours. If they want to find fault with your income tax, they will always find something wrong. If we had been found guilty of tax fraud, we could have faced thousands of yuan in fines and the possible suspension of our business license. All our hard work would have been gone like the wind. Our accountant was very worried. I called my administrative assistant, X, into my office and told him the situation. He smiled and said, "Give me a 2,500 yuan allowance [equivalent to a middle managers' six-month salary]

> and I will take care of everything." I had no choice. So I said, "I will give you 2,500 yuan, but you will lose your job if you cannot handle this crisis."
>
> By noon, my phone rang. X asked me to go to lunch with the auditors, at the best restaurant in the city. We hired a Mercedes Benz and went to lunch. The auditors kept saying that they only needed a working lunch. I was worried that X had gone overboard, but X was right. After expensive drinks and Peking duck, the head auditor started to praise our accounting system, saying how good and efficient it looked. This lunch lasted three hours and cost plenty, but it saved my company. After lunch the head auditor left me a notice requesting a 2,500 yuan income tax supplement. The reason he had to force us to pay the supplement was that he had to report to his boss on what he accomplished that day. Later on I found out that X's father is a good friend of the head auditor.
>
> There are too many threats for small companies like mine. There are no laws to protect you. The only way we can protect ourselves is through personal connections, trust, and being flexible. I hired X, a high school graduate, with his father's connections in mind. It does not sound right but everyone does it; you have to be open-minded.

Hypothesis 4 states that private-company executives would report closer *guanxi* with their business connections as reflected in executives' reports of greater trust in them. The results in Table 2 show that executives in private companies in fact reported their business relationships as characterized by greater trust than did the executives in state-owned or collective-hybrid companies. The following quotation from the founder and owner of a private textile trading company illuminates how important Chinese private-company executives feel it is to have trustworthy, responsive connections:

> In my mind, all business is connections and trust. That is all it is. No trust, no connections, no business. If you do not have connections to look after you at different levels of government, they can find excuses to suspend your business. The key connections I have are very close relationships. We have a kind of bond among us. As to how I maintain these relationships, I use various ways. I regularly invite people out to dinner, good food. You establish a good relationship, and help comes naturally—sometimes you don't have to ask. Relationships take a long time to build, and you need to maintain them.

Finally, executives in private companies were significantly more likely to report giving their business connections nonreciprocated gifts than were the executives of either state-owned or collective-hybrid companies, supporting Hypothesis 5. Although the overall model chi-square is only marginally significant ($\chi^2 = 4.673$, $p < .10$), with logistic regression analysis the two parameters indicate that private-company executives are more likely to engage in gift giving than executives from state-owned companies (private vs. state-owned and collective, $\beta = 0.63$, $p < .05$; collective vs. state-owned and private, $\beta = 0.45$, n.s.). By their own reports, these private business executives sought to use gift giving to build closer *guanxi.*

DISCUSSION

In interviews with executives in Chinese state-owned, collective-hybrid, and private companies we found, as expected, that private-company executives in this developing economy sought to compensate for their lack of formal institutional support by cultivating personal connections. Even after controlling for organizational age and size, we found that private-company executives' business connections were more important to them than the connections of collective-hybrid and state-owned company executives were to them. Further, as expected, private-company executives relied significantly more on building connections with government officials to defend themselves against threats like appropriation or extortion. Finally, the private executives made more extensive use of gift giving to build these connections and maintained business connections of greater trust than did executives in the more structurally secure collective-hybrid and state-owned companies. Private-company executives counteracted their formal structural disadvantages by building good *guanxi* with government officials as protection from unstable conditions. Thus, this test provides independent empirical confirmation of observations about the role of particularistic personal relationships as substitutes for formal structural supports in business relationships made by historians and sociologists such as Weber, Redding, Walder, Fallers, and Zucker. Although many have written of the necessity for good *guanxi* when doing business in China, few have placed this business practice into a theoretical context, and we are not aware of any empirical data systemically testing the role of gift giving in Chinese business relations.

Although the cultural role of gift giving has been analyzed extensively by anthropologists (e.g., Bell, 1991; Ekeh, 1974; Malinowski, 1922), not enough attention has been paid to the role of gift giving in business relationships (Bruhn, 1996). We hope this preliminary study of connections and gift giving in one society demonstrates the value of a better understanding of patterns of gift giving for those interested in international management research.

These results also offer potential insights into non-Chinese business settings. They support the idea that the "corruption" often decried by Westerners doing business in many developing and transitional societies (cf. Blunt & Jones, 1992; *Economist,* 1993a, 1993b; Gupta, 1992) is in part a consequence of weakly institutionalized structural protection for private business. As legal protection for private firms becomes established in China, tracking the changes there may provide a future experimental test of these ideas.

A structural approach to the issue of personal relationships in business has important practical implications. It suggests that forbidding what the

West calls bribery in societies in which gift giving is the expected way of building personal relationships would simply drive such actions further underground. If laws and reliable government cannot provide protection to those wishing to conduct business, businesspeople will seek to create their own protection, drawing on the means available to them. The interesting question is the extent to which a "culture of corruption" might be functionally autonomous, perpetuating such forms of gift giving beyond their structural utility. Future research might test these arguments in other developing countries.

Finally, this study opens up a relatively unstudied area of organizational behavior. Heretofore, the study of cross-organizational connections among executives has primarily focused on structural studies of formal interlocks or the "boundary-spanning" of scientists and engineers. As valuable as that work is, we hope this study demonstrates that cross-organizational connections are a fertile source of insights regarding organizations. As reliance on alliances and other forms of network organizations increases, cross-organizational connections also promise to assume increasing importance.

Several limitations of the current research should be acknowledged. First, although the WABA analysis indicated that it was appropriate to treat each connection as an independent unit, it did not remove the potential threat of nonindependence of observations in this study. Second, our use of many single-item measures makes it difficult to tease out the different dimensions of constructs such as trust. Also, the reliability of these single-item measures is unknown. Third, the sample used in this study was not randomized, so caution needs to be taken in generalizing its results.

In conclusion, this is a small, preliminary, empirical study addressing a large issue. Its context is a society undergoing massive economic upheaval, and it relies on single-item measures that are not independent. We hope future research will be able to address these questions in other settings with measures in which we can have more confidence. Nevertheless, these initial data do suggest promising new directions for international management research. They provide a provocative glimpse of the ways in which managers in structurally weak developing and transitional societies may build substitutes for the formal rule-of-law that managers in the developed world can take for granted. Patterns of gift giving, too, may be a rich vehicle for learning about business relations in different institutional contexts and could enlighten researchers as to the potential rewards of studying executives' connections outside their organizations.

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