

## A conceptual framework proposing the impact of the Guanxi with trust and information sharing on business performance

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### Abstract

In response to intensifying competition and escalating customer expectations, a majority of entrepreneurs apt to draw a special attention on social relation to gain a competitive advantage beyond rival. Relationship is one of the most essential stage for business performance that regarded as a mutually oriented interaction in between two reciprocally committed persons. In term of relationship in Asian context, many firms in China use interpersonal relationship (Guanxi) to reduce unpredictable or risks in business environment and increase business performance. Additionally, trust as well as an information sharing has been indicated as the elementary structure of Guanxi. Accordingly, the paper aims to propose a conceptual framework among the factors of Guanxi, trust, information sharing and business performance in order to providing the valuable insights in incorporating Guanxi that allows firm to gain a higher trust and to share information efficiency which lead to gain higher business performance.

**Keywords:** Guanxi, trust, Information sharing and business performance

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## บทคัดย่อ

เพื่อตอบสนองต่อการแข่งขันที่รุนแรงในการทำธุรกิจ อีกทั้งตอบสนองต่อผู้บริโภคที่มีความต้องการเพิ่มขึ้น ผู้ประกอบการส่วนใหญ่ได้ให้ความสนใจในด้านความสัมพันธ์ระหว่างสังคมเพื่อสร้างจุดได้เปรียบทางการแข่งขันในธุรกิจมากกว่าคู่แข่งทางการแข่งขัน ความสัมพันธ์เป็นหนึ่งในขั้นตอนพื้นฐานในการดำเนินธุรกิจ ซึ่งเกี่ยวข้องกับปฏิสัมพันธ์ระหว่างผู้มีส่วนได้ส่วนเสีย ในบริบทด้านความสัมพันธ์แบบอาเซียน หลายองค์กรในประเทศไทยใช้ความสัมพันธ์ระหว่างบุคคล หรือความซึ้งในการลดความเสี่ยงที่ไม่สามารถควบคุมได้ในการทำธุรกิจ ภายนอกส่งผล กระทบต่อการบริหารจัดการธุรกิจ ปัจจัยความเชื่อใจและการแบ่งปันข้อมูลระหว่างองค์กรธุรกิจยังถือได้ว่าเป็นส่วนหนึ่งที่สำคัญขององค์ประกอบความซึ้งกัน ดังนั้นบทความวิชาการนี้มีจุดประสงค์เพื่อเสนอกรอบแนวคิดระหว่างปัจจัยความซึ้ง ความเชื่อใจและการแบ่งปันข้อมูลและประสิทธิภาพในการดำเนินการทางธุรกิจ งานวิจัยนี้ยังให้ข้อมูล เกี่ยวกับองค์กรในการใช้ความซึ้งนับได้ว่าเป็นปัจจัยหลักในการแบ่งปันข้อมูลที่สร้างความเชื่อใจระหว่างองค์กรเพื่อนำไปสู่การปรับปรุงประสิทธิภาพการดำเนินการทางธุรกิจ

**คำสำคัญ** : ความสัมพันธ์ระหว่างบุคคล การเชื่อใจ การแบ่งปันข้อมูล ประสิทธิภาพในการดำเนินการทางธุรกิจ

## Introduction

One of the most important paradigm transfer of modern business management is that individual firms no longer compete as solely independent entity, but instead of supply chains. In this emerging competitive environment, the ultimate success of business requires a change from managing individual functions to integration activities (Nijaguan and Kumar, 2016). The higher of uncertainty environment, the more entrepreneurs rely more on social connection to gain competitive advantages (Sheng et. al, 2011). Therefore, relationship management has a considerable effect on many areas of the supply chain and has dramatically impact on business performance.

In current competitive market, developing a long-term relationship and keeping existing customers satisfied has long been a potential strategy for many organizations (Pongpaew and Tiangsoongnern, 2016). In the recent literature, a considerable attention has been paid to many Western literatures that investigated the relationship marketing issue in Western organizations. Thus far, there has been relatively handful researches have investigated the context of relationship in an Asian context. During the last decades, several Eastern organizations have taken up the top position in the global supply chain, the movement to a market economy and high growth rates has significantly attracted multinational organizations investment. Therefore, government, business, and academic leaders are increasingly seeking to understand Eastern business practices to understand general differences in conducting business (Cao et al., 2014). Unlike connection in the West, relationships in the East are strengthened by strong sense of connectedness that is essential

to gain approval for access business. Giving the fact that China, a country with one fifth of the world's customers, has become the world's fourth potential market and its rapid growth make China a pivotal player in the global market (Tongeren et al., 2004). However, doing business in China are known for its complication and key differences lie in between business practices of managing personal relationship, also known as *guanxi*. Guanxi regarded as an interpersonal and inter-organization relationships with the implication of continued exchanges of favors over time (Cheng, 2012).

Guanxi, rooted in Confucian social theory, has become one of the most important building blocks in establishing the social structure in Chinese society (Zhou et al., 2007). Guanxi consist of two Chinese characters, Guan (gate) and Xi (connection). One must pass the gate to get associated to network. As such, guanxi regarded as a relationships or social collaboration based on mutual trust and interest that embedded in indigenous Chinese construct to captures personal, and non-work-related connections (Nordenfur, 2012). Guanxi acts as a significantly determinant in trading succeed in China, especially in the negotiation and effective communication process, it also plays a significant role in doing business in China. The more Guanxi connection based between two parties, the greater frequency of their communication with each other in the network. Interestingly, Guanxi are also identified as potential sources of building trust that lead to superior information sharing between supply chain partners (Chaikij, 2017).

In general, many scholars suggested that the strong ties of Guanxi between partners can lead to a high level of trust. Trust has been defined as “the willingness of a party to be vulnerable to the actions of another party, which based on the anticipation that other will act a particular action important to the trustor, irrespective of the ability to monitor or control the party” (Seco and Lopes, 2014). Trust has emerged as a central strategic asset for organization that considered to exist if one party believes that the other party is honest or benevolent. Also, trust plays a vital role explaining the core operation behavior of people. Previous researches define several definitions of trust (Ostrom and Walker, 2013). For the purpose of this study, we implemented (Zaheer et al., 1998) definition of interfirm trust as one party's anticipation that they can rely on another to satisfy obligations, behave in a predictable manner, and act and negotiate equally when the possibility for opportunism exists. This explanation emphasizes on the expectations, rather than the origins of trust.

Nonetheless, Sengun (2010) mentioned that trust is embedded through personal interactions. Trust developed gradually and evolving in a slow process where there is risk and hence little trust in the early stage enabling individuals to build their connections and tie in major transactions. Therefore, trust can be considered as a relationship-based concept, which is developed, reinforced, or reduced by bilateral activities in a series of transaction that lead to share information among trading partners for effective supply chain planning and successful supply chain integration (Khan et al., 2015). Several studies mentioned that trust and its interaction with information sharing are an important factor that influence the efficiency of economic transactions (Ozer et. al, 2014).

According to a rapid change of a new edge technology in digital era, a number of enterprises have more opportunities to share information to collaborate between stakeholders. Information sharing can facilitate the decisive synchronization between these partners that lead to increase business performance. Many researchers have illustrated the need for an intimate, connection between supply chain partners for longs, the need of information flows and sharing a precise up-to-date data should be taken into account to stimulate supply chain performance (Lotfi et al., 2012). Information sharing is basic to effective coordination in a supply chain, especially in reducing the bullwhip effect.

Information sharing is progressively seen as a significant contributor to the success of business and can increase supply chain efficiency by resourcing inventories and smoothing production. In addition, the information sharing also accounted for a basic to effective coordination in supply chain, many researches have investigated that information sharing has a positive impact on supply chain performance, especially in reducing the bullwhip effect phenomenon (Lotfi et al., 2012). Moreover, the information sharing enables firms to make a better decision in their function contributing to better resource utilization, minimizing supply chain cost, satisfy the customers' demand and gaining higher business performance (Mentzer, 2012).

The above discussion establishes that guanxi, trust, information sharing can be beneficial in at least some financial circumstances in Thailand. So, the objective of this study is to propose a conceptual framework among the factor of guanxi, trust, information sharing and financial performance. In other words, this study relooks a new way to improve business performance and reduce uncertainty in business context by implementing one of the most success factor in doing business in China that called Guanxi with facilitating by trust and exchanging information factor in enhancing business performance. The methodologies used in previous research typically concentrated on relationship marketing or customer relationship management in Western's context and there is lack of study on enhancing business performance by using a personal

relationship in term of Asia's context. Besides, among many ethnic groups of Thai people such as Indians, Muslims and Westerners, Sino-Thai people are one of the biggest population with many of them earn their livings in business sectors and usually they play a key role of the country's economy (Ativetin, 2018).

So, this paper fills gaps in the literature on relationship management by coping with the interpersonal relationship in Asian context that would be benefit for financial performance in business circumstance. This study also provides the valuable insights in incorporating Guanxi to decrease inevitable risk and also allows firm to gain a higher trust and to share information efficiency which lead to gain higher business performance. The next following section is organized as flows: In next section, the systematic review of previous studies on Guanxi, information sharing, trust and financial performance would be demonstrated. Finally, we then proposed the conceptual framework and discussion.

## 2. Literature Review

### Guanxi

Guanxi, deeply recognized as an interpersonal relationship, can be classified into three main parts, which are family, friends, and businesses. Guanxi in context of family is a constantly relationship that take place among family members and it is dominated by the rule for the social exchange and resource distribution within a family. In term of a friend's context, Guanxi is a steady and long-term relationship with other people apart from the family to reach material target and follows the reciprocal favor. Guanxi in a context of business, regarded as the finding business procedure solutions via connections in person and sharing benefits among partners (Mentzer, 2012).

Guanxi, an innate Chinese root, captures personal and non-work-related connections that are based on reciprocal favor (Mayfair, 1994). The previous study mentioned that Guanxi in China is an ancient concept that has dominated people's social and economic lives. As such, Guanxi reflects delicate fiber woven into the social life of every Chinese person and every aspect of the Chinese society (Zhou et al., 2018). Chinese people will take Guanxi as a first step in doing business in China, therefore, terms such as friendship, social reputation, personal collaboration, and interpersonal connection are at the heart of Chinese business (Chaikij, 2017). From the point of inter-organizational relationships, guanxi opens dialogues, builds trust between partners, resolves channel conflicts and eventually forms a long-term orientation relationship. Guanxi can reinforce the influence of customer orientation and trust that lead to have a good impact on business performance.

Guanxi are commonly adopted to enhance performance in international joint ventures through the development of trust and sharing an insightful information. According to the definition of Guanxi in this study, it is concerned with a strong emphasis on the relationships in business performance. Thus, it should have an important role to play with regard to the management of the relationships in business performance (Chao, 2011). This section concludes the role of Guanxi in management practice. Many organizations use Guanxi as the first step in conduct business in China. Undoubtedly, Guanxi encourage real economic advantages to the economy. The greater level of Guanxi exist between two individuals, the greater frequency of their communication with each other in the network (Cheng, et al. 2011). As a result of having the right Guanxi can bring many assets and lead to enhance business performance (Chao, 2011).

### **Trust**

Trust is a significant aspect in business relationship which acts as an important role in establishing and maintenance of effective long-term cooperative relation. Over last decades, many researchers have paid much attention to the trust theory and various definitions of trust have been defined, for example, trust has been defined as “the willingness of a party to be vulnerable to the actions of another party based on the anticipation that other will act a particular action important to the trustor, irrespective of the ability to monitor or control the party” (Seco and Lopes, 2014). Trust also has been considered as a willingness to put oneself at risk or be vulnerable in relation to another group or individual (Edmondson et al., 2011). When trust is in place, each individual work together on behalf of the organization, performing as if the future were more certain than current risks and uncertainties might indicate (Amrbozini and Martinelli, 2017). Another study of Mayer and Gavin (2005) investigated that trust was directly associated with individual employee’s ability to focus on the needs of the organization through organizational behaviors despite of a lack of knowledge regarding the behavior of organization leadership. In the other way, a lack of trust in the same situation was related to an increase levels of supervising of leaders on the part of employees resulting in lower levels of employee performance.

Definition of trust has been discussed in several studies, it was found that trust is developed via personal connections which can be developed gradually, evolving in a slow process where there is risk and therefore little trust in the initially step enabling individuals to develop their relations and engage in major transactions (Chaikij, 2017). Therefore, trust is a relationship-based fundamental, which is established, reinforced, or decreased by bilateral activities in a series of economic exchanges (Khan et al., 2015). In term of business context, each partner will be

persuaded that they will not be victims of hazardous behaviour such as adverse selection, moral risk, and hold-up.

### Information sharing

In order to accomplish in successful business performance, each party have to not only be willing cooperate their activities and agree on a proper way of redistributing their profit, but also sharing their information to diminish uncertainty and smooth operations in the supply chain (Huang et. al, 2017). Information sharing is seen as a significant contributing factor to the success of business that can enhance supply chain efficiency by resourcing inventories and smoothing production. In addition, the information sharing accounted for a basic to effective coordination in supply chain, many studies revealed that information sharing has a positive effect on business performance, especially in mitigating the bullwhip effect (Lotfi et al., 2013). Information sharing enables organizations to make better decisions in their operation and production leading to better resource exploitation and lower supply chain costs. Better management of information allows firms to be more responsive to customers' requirements (Lotfi et al., 2013). According to the complexity and rising competition in supply chain, information sharing is thus receiving more attention as a common basis of business practice. The supply chain network of companies comprises of suppliers, manufacturers, warehousing center, distributors, and retailers; and a number of raw materials, intermediate and finished goods that flow between them. As such, information and financial flows are a prominent factor to effectively synchronize all parts of supply chain together.

The concept of information sharing is not new. It is believed that in the modern industry supplier is necessary to disperse knowledge and information while retailer would need some incentives to share cost and demand information. Nevertheless, the benefit of information sharing cannot be disregarded, Shang et al. (2015) discovered how the retailer exchange information to none, one or two manufacturers, and find the retailer's preference depends on production cost, competition intensity and contract schemes. Considering mutually information sharing of chain member.

### **Business performance**

According to the complexity and intensify business environment, many firms investigate various ways to monitor and control the administration of strategic target to meet customer demand. Periodic assessment of organization performance conducted for several motivation to help investors in establishing their anticipations concerning the future earning potential of firms, including support a probable feedback on how well the company has achieved its targets (Venanzi, 2012). Business performance considered as a consideration of both effectiveness and efficiency in accomplishing a given task, as of operation point of view, in other worlds, it was identified as the reporting process that provides feedback to employees on the result of activity (Ambalangodage, 2016). In term of business performance academic literature, the most two widely used measurement are financial and non-financial measurement. In general, a great deal of small and medium firms agree that the dimensions of quality and time are essential to certify the levels of waste must be kept low whereas customer demand must be kept high to empower them to be flexible enough to correspond to market fluctuation. However, the larger companies are more response to market share or market penetration (Chao & Anantana, 2014).

Financial performance evaluates the effectiveness and efficiency in achieving a given business task (Mentzer, 2004). It is often considered to assess the productivity of a particular ratio of real output and real input (Chao & Anantana, 2014). Regarding to the most common constructs implemented in financial performance measurement are profitability which measures return on investment (ROI), return on sales (ROS), return on assets (ROA) and financial liquidity. The financial dimension of performance is found to be the fundamental of regular business level management reviews regardless of the size of the company because it indicates the feasibility of potential company or organization growth. The financial dimension of performance is the most appropriate basis for measuring performance output, regardless of company size (Chaikij, 2017).

### **3. The Methodology and Model**

To understand the role of guanxi on the provision of trust, information sharing and business performance, the conceptual framework was developed based on research model (Fig.1). The selection of the construct and the development of the conceptual model are motivated by key considerations from the literatures highlighted as (1) Guanxi and trust (2) Guanxi and information sharing (3) Guanxi and financial performance (4) Trust and information sharing (5) Information sharing and financial performance (6) Trust and financial performance

### A. Guanxi and Trust

Guanxi are widely used to increase performance in business through the development of trust. Guanxi establishes trust between partners, facilitates exchanges of favor for organizational objective (Luo et al., 2012) which provides partners with a high degree of satisfaction in the relationship (Chaikij, 2017). Interestingly, Guanxi also can strengthen inter-organization cooperation by exploiting firm boundary agents' (e.g., a firm's purchasing manager or sales manager) trust and information sharing (Shou et al., 2011). From the standpoint of interorganizational relationships, guanxi opens dialogues, forms trust between partners, resolves channel conflicts and eventually forms a long-term orientation relationship (Wong et al., 2016). Guanxi provides some assurance of interorganizational behavior and leads to the generation of relationship-sustaining factors, for instances, trust and commitment. Empirical researches have also demonstrated that guanxi encourages the generation of trust and promotes trust-based exchanges (Nie et al., 2011). Similarly, Guanxi has been regarded as form of interpersonal trust, for example, demonstrate that strengthened guanxi with supervisors facilitates organizational (Xian et al., 2017). In line with above arguments, we develop the following proposition that:

*H1: There is a positive relationship between Guanxi and trust*

### B. Guanxi and Information sharing

In an organizational context, guanxi-oriented practice is considered as one of the core competency components of organization and acts as the ears and eyes which managers rely on to get useful information, new project and support (Cheng and Tang, 2012). Exchanging information through guanxi network often follows successful transactions: close relationships result from frequent information exchanges among parties (Melendez and Li, 2017). Guanxi provides a precious entrepreneurial tool to fill gaps in information flow between unlinked firms and between firms and important outside stakeholders: firms applied guanxi to broker structural holes and alter the existing connection. In order to achieve successful supply chain collaboration, each party has to not only coordinate their activities and agree on an appropriate way of profits, but also disperse their information to reduce unpredictable and smooth operation running in the supply chain (Shang et al., 2015). Information in China often flows through guanxi network as it is the most important social construct which is the strength of ties that are particularly important when people pass information across organizational barriers (Aalbers and Dolsma, 2015). To verify previous work, we examine the following hypothesis:

*H2: Guanxi is positively related to the information sharing*

### C. Guanxi and Business performance

According to previous study, guanxi is one of the most significant success factors when conducting business in China, having the right guanxi can bring many advantages (Feng, 2016). Previous studies have suggested that investing in and using business guanxi can help a firm develop a strategic competitive advantage, ultimately strengthening its performance (Bu, 2015). According to Abosag (2016),

international suppliers that are better at implementing guanxi will be considered more favorably by their respective Chinese buyers, leading to business success via increased performance, buyer satisfaction and relationship longevity. Similarly, in a common business guanxi network, a firm can effectively interact with its business partners in a particular way at a particular time for a particular price, leading to lower transaction costs and better performance. Guanxi can also bring other advantages to any business, such as facilitating new product development and improving their speed to market, strengthening marketing capabilities, improve financial performance as measured by market share, return on assets, return on investment as well as new market development and improving competitive positioning. Guanxi also help companies to increase the level of business performance by mean of building up their reputation and image in minds of their key partners. (Lee et al., 2017). Therefore, it is hypothesized that:

*H3: There is a positive relationship between guanxi and business performance*

### D. Trust and Business performance

A growing interest in developing trust between organizations stems from belief that trust can increase business performance. Trust has been considered as a significant element which makes members, strategic alliances, and organization achieve target with response to customer's requirement. If trust exists in a business relationship, each partner will be convinced that they will not be victims of behavior hazard such as adverse selection, moral risk, trust has been theorized to reduce opportunistic behavior which then reduces transaction costs and increase business performance (Wang et al., 2014). The valuable influence of trust in business performance in term of transactional economic context, trust reduce searching, contracting, monitoring and enforcement cost and unpredictable information sharing thus can be increase business performance (Villena et al., 2016). In order to achieve the business effectiveness, a critical element is developing trust across the organizational boundaries, especially for relationships such as alliances between buyers and shippers in supply chain. Many scholars have been investigated that trust plays its role through reducing coordination costs and transaction risks in inter-organizational

relationships. Thus, it is considered as a significant factor in the success of business performance (Wang et al., 2014). In line with above arguments, we develop the following proposition that:

*H4: Trust is positively related to business performance*

#### **E. Information sharing and Business performance**

Information sharing regarded as a basic to effective synchronization in supply chain, many studies have examined that exchanging sharing has a positive effect on business performance, especially in reducing the bullwhip effect (Li et al., 2017). Supply chains consist of many associating members like manufacturers, suppliers, shippers, and retailers which they are all working together to achieve the main target which is to satisfy customer with products and services. All these members are having different ranges of information which need to be exchanged between each other. Many incentives upon sharing information amongst partners as they are being able to make good decisions, increase visibility between members and gain more profitability in business (Hassan and Nasereddin, 2018). Recently, many organizations have policies and procedure that encourage employees to help others and share information to improve the organization efficiency (Maduenyi and Oke, 2015). Information exchanging is the capturing and disseminating of timely related information for planning and checking of supply chain operations and business practice. Information sharing is found to be a significant factor to the efficiency, effectiveness and competitive advantage of supply chain and business performance (Baihaqi & Sohal, 2013). Therefore, it is hypothesized that:

*H5: Information sharing is positively related to the business performance*

#### **F. Trust and Information sharing**

In general, Guanxi opens dialogues, develops trust between firms, resolves channel conflicts and eventually forms a long-term collaboration from the standpoint of inter-organizational relationships (Chen and Jie, 2018). Trust is crucial to fostering and maintaining inter-organizational relationships and can increase the probability for partnered organizations to share information and knowledge resources, to be involved in joint learning processes and to share the costs of discovering and leveraging new opportunities, with enhance business performance. The concept of information sharing is not new. It is believed that in the modern trade, supplier is better off with information sharing while retailer would need some incentives to share cost and demand information. Nevertheless, the advantages of information sharing cannot be disregarded. Sharing information and trust among trading partners are required for enhancing business planning and successful supply chain integration (Kwon and Shu, 2014). Trust plays an important role in

strategic partnerships and requires partners perceive each other as trustworthy and can lead to share more information among traders (Abdullah and Musa, 2013). Past studies suggest that effective communication between channel members as well as buyers and suppliers can often contribute to relational outcomes such as satisfaction and sales performance, as well as enhancing trust and commitment (Yen and Abosag, 2016). In line with above arguments, we develop the following proposition that:

*H6: There is a positive relationship between trust and information sharing*

This paper's conceptual framework portrays the relationships among four constructs: Guanxi, trust, information sharing and business performance. Guanxi, as an important source of information, the efficient ways to seek financial and technical support, to increase market shares and reduce risks, has positive contribution to the performance. A high quality of guanxi with between partners can help the company to reduce the influence of informational asymmetries, to cut procurement cost, and also ensure smooth and easy information flow and materials flow. Business performance is multi-dimensional and is contained of several different aspects, guanxi can provides many ways to enhance each aspect of business performance through trust and information sharing according to the systematic review in the previous section. The following part will represent a conceptual model of each construct.

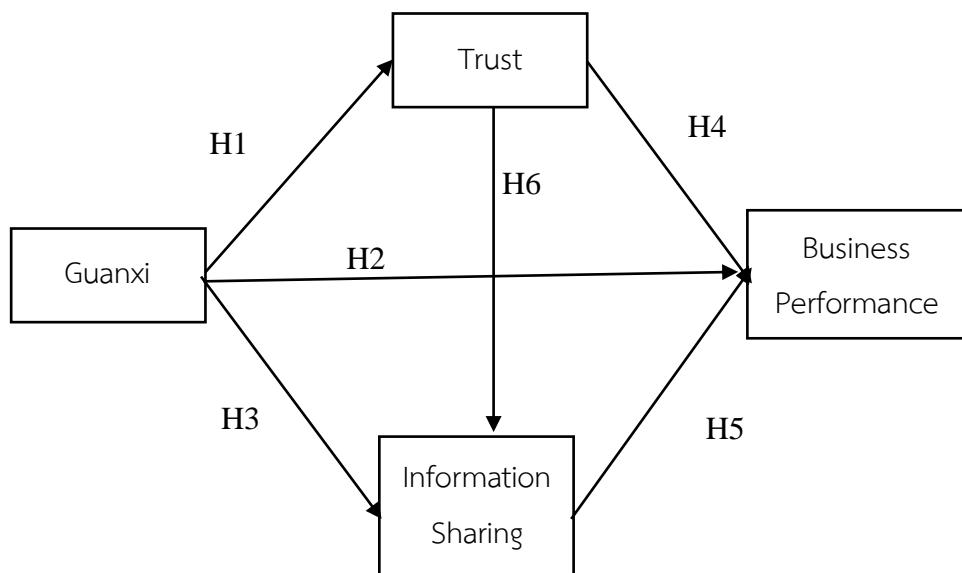


Figure 1 Conceptual Framework

#### 4. The Findings

The paper aims to propose a conceptual framework among the factor of Guanxi, trust, information sharing and business performance. The review also provides the set of testable propositions, derived from previous studies and conceptual articles to understand the significant role of guanxi in decreasing an inevitable supply risk management that allows firm to gain a higher trust and to share information efficiency which lead to gain higher business performance. The research extends the framework highlighted in the earlier section based on variables identified from literature review are based on the conceptual framework, the derived hypotheses and have not been empirically measured. This study is a part of ongoing research, so this proposed conceptual framework will be empirically validated to prove this framework into accepted and validated model. In addition, the future research should be directed toward investigating the interrelations among these constructs.

#### 5. Summary and Conclusions

In conclusion, with a population of 1.3 billion, China recently became the second largest economy and is increasingly playing a significant and influential role in the global economy and attracted investing from major multinational corporations. Guanxi regarded as the first step in doing business in China and it is also be one of the important determinant factors in trading successfully in China. Guanxi contributes to firm growth in terms of market expansion and provides an opportunity to enhance market share by lowering transaction costs and business uncertainty (Cheng et. al, 2011). In addition, the more Guanxi connection based between two parties, the greater frequency of their communication with each other in the network. Moreover, Guanxi could be contributed trust, information sharing and control and can increase a business performance (Adler & Kwon, 2002).

This study relooks a new way to improve business performance and reduce uncertainty in business context by implementing one of the most success factor in doing business in China that called Guanxi with facilitating by trust and exchanging information factor in enhancing business performance. by proposing a conceptual framework for revealing interactions amongst guanxi, information sharing, trust and business performance. It is presumed in this particular conceptual-framework that the set of guanxi that add improvement for trust, information sharing and business performance. The proposed conceptual framework attempted by suggesting guanxi practice which would help business efficiency.

It is expected that this study will provide useful information for practitioners in managing relationship with regard to business performance. The summary of this study could help entrepreneurs to better understand the characteristics of Guanxi, including effectively integrated Guanxi through effective management time and exchanging information to develop one of the supporting strategic planning in the organization.

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