

**Understanding Networking in China and the Arab World:  
Lessons for International Managers**

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Submitted to *Journal of European Industrial Training* August 2005  
Revised March 2006

# Understanding Networking in China and the Arab World: Lesson for International Managers

## Structured Abstract

### **Purpose**

To explore the implications of internationalisation for *guanxi* and *wasta* and the role of trust, family and favours in underpinning these traditional models of networking. The paper also draws some implications for management development professionals and trainers.

### **Methodology/Approach**

Our argument is based on relevant literature and cases, and the authors' own knowledge acquired through research in China over 8 years and the Arab World over 25 years. The Chinese research involved analysis of company reports, informal conversations and semi-structured interviews conducted with almost 100 interviewees including Western expatriate managers and local Chinese managers between 1998 and 2005 in Shanghai, Beijing, Suzhou and Wuxi. The Arab research also involved analysis of company reports and informal conversations, as well as interviews and surveys conducted throughout the Middle Eastern region, including the GCC states, Algeria, Jordan, Libya, Palestine and Yemen.

### **Findings**

The research finds differences in the continuing relevance of *guanxi* and *wasta* and suggests that while *guanxi* is adapting to internationalisation, *wasta* remains traditional in its influence on business and social life.

### **Practical implications**

The paper suggests the need for increased training of international managers to adjust to culture-specific networking in China and the Arab World and provides some practical guidelines to managers to assist their intercultural effectiveness in these two regions of the world.

### **Originality/value of paper**

The research is important in that it extends knowledge of traditional networking practices in exploring the Arab World which is hitherto under-researched and in undertaking comparative examination of China and the Arab World which is also a new area of research.

**Key Words:** *guanxi*, *wasta*, networks, internationalisation, international managers

### **Research Paper**

## INTRODUCTION

The rapid increase in the number of organisations that have decided to internationalise their operations over the last twenty years has made more salient the need for the international

managers whom operate across these borders to be cross-culturally aware, sensitive and adaptive to local cultures. One of the key issues that has been identified by researchers and practitioners alike as contributing to the intercultural effectiveness of international managers is cross-cultural training (CCT). CCT is designed to ensure that they are equipped to personally deal with the psychological stresses of adjustment to a new cultural environment as well as being able to effectively manage their organisation's human resources in subsidiary operations (Forster, 2000; Tung, 1988; Zakaria, 2000). The understanding and knowledge that such international managers require becomes more pertinent in situations where there is a substantive cultural distance between managers' nation of origin and the subsidiary nation to which they have been assigned (Kaye & Taylor, 1997). Two such regions of the world that present numerous challenges and opportunities to international businesses and their managers are China and the Arab World. Key to working effectively within both of these regions is appreciation of the interpersonal networks and connections that pervade all aspects of business and social life. In this article we suggest that intercultural effectiveness of international managers within these transforming economies necessitates being well prepared for working with *guanxi* in China and *wasta* in the Arab World. *Guanxi* has been defined variously as networks, connections, contacts and even nepotism. A standard definition is that it refers to interpersonal connections (Buttery & Wang, 1999) and it is regarded as being all-pervasive in both Chinese business and social activities (Michailova & Worm, 2003). *Wasta* is Arabic for connections (or pull) and like in China, it is seen as a force in every significant decision in Arab life (Cunningham & Sarayrah, 1993). While such traditional practices have been moderated by industrialisation and internationalisation (and somewhat more so in the case of China), we contend that they remain ubiquitous aspects of these ancient and fascinating societies.

Though in recent years considerable attention has been devoted to analysing China's *guanxi*, the Arab World's *wasta* has not been adequately researched nor has there been any substantive literature examining the similarities and differences between interpersonal connections in the two regions or their implications for international managers. In this paper we undertake such an exploration in highlighting how *guanxi* and *wasta* work in practice, how they converge and diverge, and how they have been affected by internationalisation and modernisation of these nations. In so doing, we suggest that international managers need to understand the social networks to facilitate the effectiveness of their subsidiary operations in China and the Arab World, but also to recognise why these practices continue to function, and in developing the nexus of management thought and practice. We further argue the need for increased CCT of international managers to adjust to culture-specific networking in China and the Arab World. We provide specific examples of aspects of *guanxi* and *wasta* of which international managers should be aware in order to assist their intercultural effectiveness in these two increasingly strategically important regions of the world.

Since China's rapid engagement in the world economy post 1978 when Deng Xiaoping's introduced the Open Door Policy to reintegrate China into the international economy, China has become of economic strategic import to many Western organisations that have decided to relocate and/or expand their operations (Blackman, 2000). Despite being regarded as one of the most challenging destinations for expatriate managers, China is currently recording amongst the highest rate of expatriate assignments internationally (GMAC, 2003). It has become the largest, fastest growing and the most heavily engaged in international investment of all the transition economies (Child & Tse, 2001, p. 5). While maintaining a Communist military and polit-bureau, by the early 1990s Jiang Zemin had pushed for almost complete conversion to a market economy

(Blackman, 2000). Yet, despite some continued concerns about China's humanitarian record and obstacles to its complete economic development, its 2001 acceptance into the World Trade Organisation (WTO), and Beijing's approval to host the 2008 Olympics, has confirmed China's position as a major player on the international economic stage.

For its part the Arab World (which we define as Egypt, Iran, Jordan, Palestine, Saudi Arabia, Syria, and the Gulf Cooperation Council states of Bahrain, Kuwait, Oman, Qatar, United Arab Emirates, and Yemen) has also attracted increasing international interest in recent years. Much of this attention has been in the wake of September 11, 2001 and the subsequent Bali, Madrid and London bombings and has principally been in the context of geo-political concerns such as the 'war against terror', (Weir & Hutchings, 2005). Nonetheless, the Arab World is an area of growing economic significance and offers investors and exporters many opportunities across many business sectors (Ali, 2005). However, the nations of the Arab World do reflect great economic, political and social diversity. Though several oil rich nations have profited from their reserves, such as Saudi Arabia, Egypt, Syria, Kuwait, UAE, and Yemen, the declining price of oil has meant that they have needed to find new ways to generate income. Other nations, in the Arab World are in economic decline, such as Palestine and Jordan, and have been dependent on revenues from their petroleum-producing neighbours, (Cunningham & Sarayrah, 1994). Hence, they risk severe economic consequences if they do not develop new sources of revenue. The Arab World also encompasses extremes of politics and religion and modernity, as well as extremes of urbanisation, ranging from Egypt's Cairo, one of the world's oldest continuously occupied cities, to the much more recently developed city states of Dubai and Abu Dhabi in the UAE (Weir, 2003b). Irrespective of such variations, there is a clear sense in which the Arab nations are culturally homogeneous, in being unified by Islam. The Arab World remains of significance to

the Western world and international managers not only for its economic interests but also because it comprises a large proportion of the world's Islamic people, who account for 20 per cent of the world's believers (Weir, 2003b).

## **METHODS**

The discussion presented herein is based on relevant literature and cases, and the authors' own knowledge acquired through research in China over the past 8 years and the Arab World over the past 25 years. The Chinese research involved analysis of company reports, informal conversations and semi-structured interviews conducted with almost 100 interviewees including Western expatriate managers and local Chinese managers between 1998 and 2005 in Shanghai, Beijing, Suzhou and Wuxi. The Arab research also involved analysis of company reports and informal conversations, as well as interviews and surveys conducted throughout the Middle Eastern region, including the GCC states, Algeria, Jordan, Libya, Palestine and Yemen. Organisations to interview were selected from databases maintained by Western trade and business associations in China, personal contacts and referral from prior interviewees in both regions. In both regions, the researchers acquired insider status in a number of organisations because of return visits to conduct follow-up research projects. Such insider status was an advantage in gaining access to organisations as well as in soliciting information from interviewees. The disadvantages were offset, in part, by the inclusion of junior colleagues/postgraduate students in the research process who were outsiders to the Chinese and Arab contexts and who could, accordingly, lent academic distance to the research projects.

The companies in both China and the Arab World represented a variety of industries and ranged in size from small, owner-operated businesses to large multinational corporations. The

companies included those that have been very economically effective in the regions and those that have not. Multinational companies drawn on for interviews include, but are not limited to, ABB, Accenture, BASF, Bechtel, BHP-Billiton, Dow Corning, Conrad Hotels, Maersk, Nike, Philips and Unilever. The elimination of random sampling in favour of snowballing/convenience sampling through use of business organisations and personal contacts does suggest the potential for bias on the part of the interviewer and the organisations providing contacts. However, it is a strategy that was also used by an international team of researchers currently reporting best practice in IHRM (Von Glinow et. al., 2002, 150). This approach was adopted given the difficulties associated with gaining an adequate sample when utilising random sampling in China and the Arab World. For further discussion of the difficulties associated with the use of conventional methodological approaches in the developing world, see Usunier, 1998).

Interviewer and interviewee bias was minimised by the use of a neutral setting, by establishing trust and rapport by referral via business associations and earlier company contacts, and the use of funneling of questions. Semi-structured interviews were used that ranged in length from 40 minutes to three hours. Interview notes were transcribed and, where interviewees were agreeable were audio recorded, and confidentiality was assured. Differing conceptions of the interviewees were contextualised, re-contextualised and grouped, where possible. The transcribed interviews were manually coded and analysed by qualitative inquiry and done separately for China data and Arab World data. The data from the two regions was collected at differing points in time and did utilise different sets of interview questions. The conclusions developed within this paper were derived from qualitative analysis of differing data sets, along with verification of findings by referral to secondary data.

## GUANXI AND WASTA AND NETWORKS

### Networks

Traditional Western understanding of networks and/or interpretations of business and social relationships have focused on transaction cost analysis, social exchange and interaction dimensions. Institutional theorists (North, 1990; Scott, 1995) have explored the influence of institutions on organisations, and the impacts that different institutional frameworks have had on business operations (Peng, 2002). Cultural theorists (such as Hofstede, 2001; Triandis, 2002) have focused largely on providing descriptions of national cultural values (although some also consider organisational and sub-national levels). Yet, other perspectives than economic or social dimensions have been used to explain relationships in the eastern context. In discussions of networks in the Eastern perspective, there has been a synthesis or interaction of *culturalist* and *institutionalist* explanations (see Hutchings & Michailova, 2006; Lowe, 1998). Western research has examined the impact of interlocking directorates, political connections, and other interpersonal relations in market activities (Mizruchi, 1987; Scott, 1991). Intercultural studies have also focused on relationships including family networks, friendship, and other particularistic ties (for discussion in context of Asia, see Lever-Tracy, et al., 1996; Redding, 1990).

For the purposes of understanding China and the Arab World, social network analyses prove of most value. Mitchell defined social networks as a ‘specific set of linkages along a defined set of persons’ and that the ‘characteristics of these linkages as a whole may be used to interpret the social behaviour of the persons involved’ (Mitchell, 1969, p. 2). Mitchell suggested that the group was key to and the interaction of people within an established relationship was more important than any information that they shared. Mitchell argued that social networks prevail in the absence of formal institutional structures; a theme that has been used by Boisot and

Child (1996) and Peng and Luo (2000) in much more recent times to describe China. Mitchell (1969) distinguished *networks* of interpersonal relations as being separate from formal economic and/or political roles. He further argued that interpersonal networks embody both a channel of communication (transferring of information between individuals) and are instrumental (involving transferring of goods and services between people). Of most interest to China and the Arab World is Mitchell's (1969) discussion of the quality of relations in which he referred to *reciprocity* (extent to which a transaction is reciprocated), *intensity* (strength of obligations) and *durability* (whether enduring or transient) of the relations.

### **Guanxi and Confucianism**

Redding (1990) has argued that the need of people in China for a networked society is rooted in the insecurity that emerged in a close-to-subsistence-level society and lack of trust in the forces of modernisation. While China's communist history of nationalist production has meant that people in China have had a different experience of business than people in the Chinese diaspora, it is generally regarded that the practice of networking is comparable given the shared Confucian history of ethnic Chinese throughout the world. Buttery and Wang (1999, p.147) note that "relationships are often built on a cultural platform which means the route to developing a good relationship can be very different in Western to Eastern cultures" and the basis of networks for the Chinese is premised on Confucian principles (Kienzle & Shadur, 1997).

Bian and Ang (1997, p. 3) argue that "unlike Christianity, which puts individuals in reference to God, Confucianism relates individuals to their significant others, such as father and uncle in the family, and teacher and master in one's career. This lays both the abstract and the concrete foundations for *guanxi* to operate in Chinese societies, both in and outside China". Core

to understanding networks in China, *guanxi* literally means relations but also refers to a wider set of interpersonal connections that facilitate favour between people on a dyadic basis (Yang, 2002). *Guanxi* is fundamental to business in China and develops between those who are strongly tied on the basis of familiarity or intimacy (Bian & Ang, 1997) and may be based on locality or dialect, kinship, workplace, social organisations, and friendship.

Luo (2000) suggests that *guanxi* differs from inter-firm networking in the West in that it is ubiquitous in playing a fundamental role in daily life. Indeed, whereas the exchanges favoured in Western society are sporadic and discrete in time, the Chinese focus on relationships created over long periods of time that are built on frequent exchanges (Michailova & Worm, 2003). Moreover, whereas in most Western nations business and social positions are quite separate, in China interactions with another are viewed as part of a whole relationship, i.e. hierarchical relationships that exist in the workplace are also replicated in a social setting. *Guanxi* is seen as a relationship of achieving status and moving from being an outsider to an insider (Buttery & Wang, 1999). Those who fall out of a personalised network are regarded as outsiders and do not share benefits of networking with insiders (Hutchings & Michailova, 2004). Moreover, Littrell (2002) suggests that being an insider is a source of identity, protection, and loyalty. Achieving insider ascription or working through intermediaries who have insider status is essential for international managers to gain entrée to government organisations, local politicians and bureaucrats whom can grease the wheels of business.

*Guanxi* is a relationship between two people who are expected, more or less, to give as good as they get. A Chinese individual with a problem, personal or organisational, naturally turns to his or her *guanxiwang*, or 'relationship network,' for assistance. Further, an individual is not limited to his or her own *guanxiwang*, but may tap into the networks of those with whom he or

she has *guanxi*. While *guanxi* is essentially an inter-personal relationship (Tan & Yeung, 2000), there is still need to develop inter-company relationships to be successful in China (Li & Wright, 2000) and there is a risk that a company may lose its *guanxi* if an individual leaves the organisation. An important lesson for international managers is that because Chinese relationships are built over a long period of time they may have less trust in a foreigner who may not be perceived as committed to China and who is likely to move on to other locales. The successful international organisation and managers is the one that recognises the need to invest long periods of time in building relationships and networks.

Yet it has also been questioned whether in the context of internationalisation *guanxi* may be declining in importance (Hutchings & Murray, 2002). Luo (2000) suggests that organisations with better technical and organisational skills (larger organisations) will have less necessity to cultivate new *guanxi* networks. Guthrie (1998) argues that while *guanxi* networks may be legitimate, the actual practice of using *guanxi* is considered by larger companies as unnecessary and dangerous in light of new regulations and official procedures that are outlawing corrupt *guanxi* practices. Perhaps the greatest difficulty for international managers is in defining what is corruption or unethical practices verses what is simply the way of doing business. The Chinese themselves have their own definition with the belief that corruption is occurring when money changes hands or the exchange of gifts influences the decision of the receiver (Hutchings & Murray, 2002).

### **Wasta and Islam**

Much like China, the basic rule of business in the Arab World is to establish a relationship first, build connections, and only actually come to the heart of the intended business at a later meeting.

There is a master assumption that a network or web of connections already exists and the issues concern if, and how, it may be accessed. In traditional Western models the emphasis is on the immediate transaction itself. Thus in the Arab milieu much that subsequently transpires appears to be in direct contrast to Western practice in which focus is placed on 'getting the deal done' and a friendship- may only develop later as a separate function to the business transaction. Just as in China, the Arab process of building relationships prior to transacting business is very time-consuming. However, once a relationship has been established verbal contracts are absolute and an individual's word is his/her bond and failure to meet verbally agreed obligations will certainly lead to a termination of a business relationship. Three factors are core to business and society in the Arab World. Firstly, the global philosophy of Islam is based on practice rather than dogma. Secondly, there is an expectation that good practice of Islam is what all Muslims do, Thirdly, Muslim societies are wholly networked and all business activities revolve around these networks. Like its Chinese counterpart *guanxi*, *wasta* thus also involves a social network of interpersonal connections rooted in family and kinship ties. Involving the exercise of power, influence and information-sharing through social and politico-business networks, *wasta* is intrinsic to the operation of many valuable social processes, central to the transmission of knowledge, and the creation of opportunity. Just as *guanxi* has positive connotations of networking and negative connotations of corruption, so too does *wasta* and it is possible to refer to good *wasta* and negative *wasta*. Though Sawalha (2002) suggests that *wasta*, as the use of connections for personal gains, commonly stands for nepotism, cronyism, and corruption in general, and, is a deeply rooted practice among all segments of society and in all sectors, this was not the original meaning of *wasta*. *Wasta* is literally defined as Arabic for connections or pull and may be utilised as a form of intercession or mediation. Traditionally, the head of the family in Arab nations

performed *wasta* services by obtaining for the supplicant what is assumed to be otherwise unattainable. In recent years, *wasta* has come to mean the seeking of benefits from government. Though *wasta* pervades the culture of all Arab countries and is a force in all significant decision-making, it is not usually mentioned by most writers nor is it openly discussed by Arabs themselves (Sawalha, 2002). By illustration one could point to a typical response to the question of *wasta*'s continued influence. A Western business person may ask an Arab colleague whether *wasta* is still influential in business transactions s/he will very probably at first say no but then if the Westerner asks if *wasta* will become irrelevant in Arab business and society, the response will be an emphatic reply that *wasta* is central to all Arab life. If the questioner proceeds to express condemnation or dismay at the existence of *wasta* in a specific business situation they may be listened to courteously but discreetly humoured as possibly naïve or inexperienced. But too much acceptance and understanding may also be taken as an adverse sign. In principle Arabs are permitted to criticise *wasta* in ways that from a Westerner would be considered unacceptable. Thus HRD managers are advised to train their international managers from a non-Arab background in the need to learning how to manage what may not be directly acknowledged or discussed.

Cunningham and Sarayrah (1993) argue that *wasta* has changed over time and its main goal has shifted from conflict resolution as a means of survival to intercession, and the term denotes the person who mediates/intercedes as well as the act of mediation/intercession (Cunningham & Sarayrah, 1994). Intermediary *wasta* endeavours to resolve inter-personal or inter-group conflict and a *jaha* (*wajaha'*, mediation group of notable emissaries sent by the perpetrator's family to the victim's family) acts to inhibit revenge being taken following an incident involving personal injury (Cunningham & Sarayrah, 1994). *Wasta* as mediation binds

families and communities for peace and well-being in a hostile environment and this form of *wasta* benefits society as a whole, as well as the parties involved (Cunningham & Sarayrah, 1994). Intercessory *wasta* involves a protagonist intervening on behalf of a client to obtain an advantage for the client, such as a job, a government document, a tax reduction, or admission to a prestigious university. In instances where there are many seekers of the same benefit, only aspirants with the strongest *wastas* are successful (Cunningham & Sarayrah, 1994). In Western business it is common to negotiate with only one organisation at a time after initial quotes have been received. In the Arab World negotiations will be conducted with several businesses simultaneously and the organisation to win the deal will usually be the one with the strongest *wasta* connections. The lesson for international managers is to avoid placing all their efforts on the product/service delivery but rather to invest their time and resources in the requisite business acumen of cultivating strong connections. In this context there is no substitute for achieving a good reputation for honest dealing. Western managers may come unstuck if they presume to act as they believe local managers from an Arab background might behave. Indeed, any inference relating to such topics as “corruption” may be very bitterly resented.

## **Trust**

It has been argued that attempts to regulate traditional forms of networking, particularly the Arab *wasta*, by legal or juridical constraint usually fail because they are intrinsically tied to trust and social structures and family connections (Weir, 2003a). For the Chinese, emotional trust is more important than cognitive trust, and is based on sentiment-based ties between individuals which may also be extended to others through the relationship network, *guanxiwang* (Gao & Ting-Toomey, 1998). *Xinyong* (trust) literally means the use or usefulness of trust but also refers to the integrity, credibility, trustworthiness, or the reputation and character of a person (Kiong & Kee,

1998). Moreover, when an individual helps one's *guanxi*, that individual's reputation is raised and trust and *mianzi* (face) won from others. Trust is also associated with the importance of one's word over legal documents. When trust has been established, one's word can be taken in business transactions – to go against one's given word is to lose face and trust and ultimately one's good *guanxi*. Reciprocity is also linked to *guanxi* and trust with an unwritten rule that one must Payback + 1 when a favour has been provided.

Relations of trust between business partners are integral to successful business transactions in the Arab World also. While the Western world relies on formal agreements and legally-prepared and signed contracts, once a trustful relationship has been established in the Arab World business partners need only give their word of honour in business dealings (Demirbag, Mirza & Weir, 2003). Consultation or *Shura* is central to business relationship in the Arab World (Siddiqui, 1997) and decisions carry great importance as they are deemed to have been made on behalf of Allah. Though trust is endemic to business and social relationships, participation is key and consultation means the right to appeal decisions (Espisito, 1988). While trust in China hails from Confucian philosophy, trust in the Arab World is rooted in Islam and faith in God. It should be noted, though, that while the word of an Arab is his/her bond, the phrase 'Insha'Allah', literally "if God wills it" can be a simple statement or a form of words covering the strong possibility of inaction or even a negative outcome to apparently agreed courses of action. Weir (2003a) argues that, by its very nature, this is an indefeasible expression, for all outcomes represent the will of God and what eventually happens, or does not happen, is equally an expression of Divine will. The successful international manager is one who recognises this pre-existing state and who works slowly but surely towards gaining the trust of his/her Chinese and Arab counterparts.

## **The importance of family**

Family is of central importance in both China and the Arab World. In China, the notion of family encompasses the extended family and the wider community. Not only do people feel a sense of obligation to their family, but also an obligation to save and maintain face for their family and extended networks. Reciprocal obligations are not limited to family and kinship only but also to non-kin ties in which people are expected to help each other as if they are fulfilling obligations to their family members (Bian & Ang, 1997). This reciprocity is integrally tied to *guanxi* and further extended to the repayment of business and social deeds, and those that fail to deliver, may be “labelled as *bugou pengyou*, or ‘not enough of a friend’” (Seligman, 1999, p. 36).

Family forms the basis of business organisation even more so in the Arab World than China. Moreover, the family in the Arab World is the primary *wasta* channel (Muna, 1980). The formalities of social, family and political life are strictly preserved, even in managerial settings. Just as Chinese business culture revolves around banqueting, it is impossible to undertake any kind of meeting in an Arab organisation without the ubiquitous coffee or tea rituals associated with the ‘diwan’. The traditional tribal *wasta*, the *shaykh*, was a man of honour, whose word was his bond and whom would assume responsibility for his acts (Cunningham & Sarayrah, 1994). Although originally based upon family loyalty, *wasta* relationships have expanded to encompass the broader community of friends and acquaintances as does *guanxi* in China. It is further argued that *wasta*-based recruitment and allocation of benefits reinforce family ties, thereby connecting the individual to the economy and polity. Indeed, Cunningham & Sarayrah (1994) and Weir (2003a) proffer that the importance of family connections is so great that how people are admitted to university or hired for a job is less important than their performance in class or on the

job. Moreover, where a close family member appears at the office of even quite a senior manager, it is regarded as improper for the demands of organisational hierarchy to take precedence over the obligations due to family (Suliman 1984). International managers can never assume the position of a close family member but they are advised to work with Chinese and Arab middle managers and business partners as intermediaries to form a more trustful bond with their employees and business associates. In so doing they can work towards a situation of insider status and knowledge sharing which will be of long-term profit to their organisation

### **Favours**

In both China and the Arab World the notion of favours is tied to *guanxi* and *wasta* respectively. Yet, while the Chinese differentiate between favours that support *guanxi* relationships and bribery and corruption, in the Arab World the idea of favours is generally regarded as having negative connotations, despite being widely practiced. In China, the value of *guanxi* depends upon the element of *ganqing* or affection that is tied to *renqing* (favours) (Kiong & Kee, 1998). The word *renqing* indicates individual emotional responses of daily life and translates into a resource allocated to another person as a gift and connoting a set of social norms to guide an individual to get along well with other people (Wong & Tam, 2000). It has also been used to refer to bribes. However, as the use of bribery is universally condemned in China, particularly now that there has been the introduction of laws specifically dealing with corruption, the Chinese themselves make a sharp distinction between bribes and favours. While giving cash is usually viewed as buying someone's services and hence is condemned, gift giving may constitute bribery or can be simply *guanxi* cultivation, depending on the intention and who is giving. Yet, Guthrie (1998) maintains that corrupt practices are increasingly considered backdoor as actors play more

and more attention to the laws, rules and regulations that are part of the emerging rationale-legal system. Managers of large private organisations, he argues, increasingly view *guanxi* practice as unnecessary and dangerous in light of new controls and official procedures (Guthrie, 1998). Therefore the extent to which international managers may be required to exercise favours is declining and may only necessitate the type of business entertaining that occurs in Western business.

Arabs are increasingly concerned that favours are being interpreted as an attempt to change the behaviour of the recipient. In a pioneering opinion poll carried out by the Arab Archives Institute in 2001, 87 per cent of respondents stressed the need to eradicate *wasta*, viewing it as divisive and symptomatic of corruption, even though more than 90 per cent also responded that they believed they would be using it at some point in their lives (Sawalha, 2002). Weir (2003a) notes, however, that the exchange of gifts in the Arab World, which often puzzles or offends Western managers, should not necessarily be construed as an attempt to influence the judgement of a recipient but may be interpreted merely as a mark of respect. Moreover, it is to signify reciprocal acceptance of status and marking the initiation or honouring of an agreed bond - and to this end *wasta* shares similarities with Western business custom.

## **ARE GUANXI AND WASTA STILL RELEVANT IN AN INTERNATIONALISED WORLD?**

The issue of whether *guanxi* and *wasta* will continue to have relevance is one on which these two regions diverge somewhat considerably. Most analysts of China's networking suggest that China's internationalising agenda means that *guanxi* is declining in importance whereas analysis

of the Arab nations suggest that despite modernisation of this part of the world, *wasta* will continue to play an important part in business activities. Indeed, it has been suggested that ‘taming’ *wasta* has no easy answer. Moreover, remedies imported from the West, such as reforming administrative structures, and strengthening the oversight/audit function have not stemmed the *wasta* ‘tide’ (Cunningham & Sarayrah, 1993). While Cunningham and Sarayrah (1993) argue that *wasta* has made life difficult for conscientious officials trying to live by the law, they have also suggested that in difficult economic times, the search for a *wasta* ‘solution’ intensifies (Cunningham & Sarayrah, 1994). It should be noted; however, that the role that interpersonal connections play in both China and the Arab World may be affected by factors such as company size (and its subsequent influence over local practices) and individual international managers’ ability to comprehend cultural forms of networking and adjust their business practices accordingly.

### **The impact of internationalisation and Western laws and accounting in China**

It has been argued that personal connections have been crucial in China in transacting business (Hutchings & Murray, 2002) and family business, weakened by Communist ideology and state practices, including the one-child policy, is returning to importance (Ho & Si, 2001). Yet recent literature has suggested that as transitional economies become more competitive, the networks and connections previously thought to be imperative for business success will no longer be as important as before (Child & Tse, 2001; Wright et al., 2002; Yang, 2002). Undoubtedly *guanxi* has been a powerful tool for achieving business ends in a society that lacked clear bureaucratic norms, sound legal principles and practice, and institutional trust. Yet, as China is implementing international standards of accounting, law, property rights, and management, the role of *guanxi* is

expected to decline in significance. Importantly though, Redding (2002) notes that China's equivalents of modern legal practices and individual freedoms are in the 'societal laboratory' stage and, while Hong Kong shows clear indication of the development of institutionalised trust in place of interpersonal trust, it did take many years to achieve (Tam & Redding, 1993; Redding, 1997).

What is notable is that *guanxi* has greater impact in the public, state-owned sector than in the private sector and greater importance to small companies than multinationals. It has been suggested that for larger organisations, family and extended *guanxi* is not nearly as significant as it is in the smaller, localised family business, the SOEs and the private, foreign companies. Larger companies often have *guanxi* by virtue of their size and as such do not need to work at building relationships to the same extent as small companies (Hutchings & Murray, 2002). Luo (2000) suggests that the development of the Chinese economy will present greater diversity in organisational ownership and higher disparity in individual outcomes and incomes. Competitiveness of the industrial environment will require superior productivity and competency and shortages will disappear (Luo, 2000) and consequently, he argues, organisations with better technical and organisational skills will have less necessity to cultivate new *guanxi* networks (Luo, 2000). Certainly changes being wrought at a political level suggest moves to stamp out fraud and corruption at the highest levels but the scope for favours to be done for family and friends in exchange for business deals at the lower levels does seem culturally entrenched. However, if one refers to *renqing* as doing minor favours then aspects of *guanxi* continue to have relevance (Hutchings & Murray, 2003) and probably this form of *guanxi* will continue to exist much as does networking in the Western context. It can also be expected, however, that there will be substantive regional differences with the once open, but now again closed cities in remote parts

of China, continuing to observe even the corrupt aspects of *guanxi* with local political connections being crucial to any business transaction.

### **The impact of modernisation and democratisation in the Arab World**

Cunningham and Sarayrah (1994) argue that the *wasta* system will continue in the Arab nations for as long as the dissatisfaction of those disadvantaged by *wasta* remains an insignificant political issue or the concern for declining societal productivity resulting from *wasta* is not regarded as a national priority. Accordingly they suggest *wasta* can be expected to remain a major practice in Arab society and will not be ‘tamed’ until such time as there are calls for significant social change (Cunningham & Sarayrah, 1994). Core to potential change to *wasta* practice is social change, political activity and modernisation. The 1990s witnessed an influx of universities from North America, Europe and Australasia offering programmes, such as MBAs, throughout the Arab World, and a reference to ‘Egyptian administration’ will often raise a smile among the more recently Westernised Arab managerial elites in other Arab states (Younis, 1993). Yet, it is too simplistic to refer to dichotomies of ‘Western/modern’ with ‘Arab/traditional’ (Dadfar, 1993; Weir, 2003b) and to assume that as the Arab nations have greater exposure to Western ideas that *wasta* will decline in importance.

Assuredly as political and legislative reforms and reforms in public administration, financial, and judicial areas occur in the Arab World, there will be enhanced social and economic justice and transparency. However, though the Arab World is also undergoing rapid social and economic change, particularly in urbanised areas, the region continues to be dominated by the essential cohesiveness of the family and tribal structures (Weir, 2003b). This suggests that *wasta* will remain integral to business activity. But caution must occur in assuming that calls for

modernisation equal 'Americanisation' or even 'Westernisation'. It can be assumed that within the Arab World choices will be made to accept aspects of western life and culture that are compatible with the culture and traditions of that region and reject those aspects which are perceived as objectionable or unnecessary (Weir, 2003b). It must also be remembered that Arabs are not adverse to change per se as they regard it as being consistent with the will of Allah. Cunningham & Sarayrah (1994) suggest that correcting *wasta* excesses from the societal apex is of concern but present leaders show little inclination to accept this challenge. They suggest that utilising *wasta* in its original form as mediation, will only occur when the disadvantaged attach themselves to a larger social grouping and sensitivity and skill is used by family/organisational leaders to combine fairness to family with market effectiveness (Cunningham & Sarayrah, 1994).

## **THE ROLE FOR HRD IN PREPARING INTERNATIONAL MANAGERS TO WORK WITH GUANXI AND WASTA**

As part of organisations' strategic international human resource development consideration needs to be given to providing international managers with the requisite cross-cultural preparation and training that assists them in being interculturally effective across international borders. Being able to attain, train, retain and retrain international managers who work in China and the Arab World as well as ensuring that they maximise cross-cultural understanding necessitates MNCs increasing their awareness of the issues that need to be considered when training, educating and developing managers for the challenges of these culturally diverse societies. Attention must be given by HRD managers and specialists to shifting their focus from merely providing technical competence training to international managers to developing their interpersonal skills and appreciation of diversity.

Fundamental to international managers' success in doing business in China and the Arab World is the ability to work with *guanxi* and *wasta* (and associated dimensions of trust, family and favours) and the insider/outsider dichotomies that are core to these interpersonal connections. Despite *guanxi* and *wasta* being predicated on pre-existing relationships, it is not impossible for international managers to enter into these insider relationships in either China or the Arab World. This can be done chiefly by work through intermediaries or third parties, who already possess insider status, while time is being devoted to building one's own relationships, establishing trust, and acquiring tacit knowledge through commitment over time to local partners and their interests. The issues we have presented throughout this paper are indicative of what HRD departments within international organisations need to do to develop their international managers for working within Chinese and Arab culture. These issues are of course by no means confined to HRD professionals engaged in the Chinese and Arab markets. They are indicative of a trend within HRD towards a greater understanding of the need for what Nurmi (1999), in evaluating the largest HRD intervention undertaken in Finnish industry, calls "educators, not trainers". In this case, there are some occupations, such as the one of paper machine operator's which cannot be studied in the classrooms of the vocational institutes HRD interventions in a Greenfield site and with workers apparently without prior negative expectations of management were nonetheless considerably affected by what Nurmi identifies as "cultural nuances". In our experience it is precisely in these domains of "cultural nuance" that even well-prepared Western HR professionals can run into difficulties through not comprehending the seamless web of cultural interactions and meanings they are entering in China and the Arab World. To some extent there is no substitute for experience and much of this experience for the HR professional will not be gained without the possibility of making mistakes. These mistakes are the more likely when the

technological contexts as well as the cultural settings are novel for the Western manager. Mafod (2006) has recently completed a study of the introduction of HR practices in Libyan enterprises and compared the financial and petro-chemical sectors, studying both HR professionals and line managers. His findings show that there are not commonly shared attitudes to HR procedures and that in practice a lack of clarity exists creating a situation in which Western-trained Management training and development (MTD) professionals are at a disadvantage. Mafod (2006, p.328) concludes that “despite the availability of financial resources and investment in training, design or selection of powerful MTD programmes and use of effective training methods, the effectiveness of MTD is weakened when the orientation is not clear and nothing is done to enhance environment adaptability and control the adverse affects related to the human factors.”

But the lack of clarity is not an accident or adventitious mistake that can be easily remedied by more explicit objectives or a clearer focus on delivery methods; rather it is a part of the general cultural context that must be factored in before training programmes and MTD interventions are initiated. Mafod (2006, p.330) argues that the way forward is a more explicit adoption of a system model both in designing MTD programmes and in persuading senior managers of their value as projects.

As we have argued, HRD interventions typically take place in the Arab and Chinese contexts in structures that are already strongly networked both explicitly and implicitly. Therefore, there is an over-riding need to consider the political context and to understand that the point of entry into such an organisation can be the single most important factor ensuring the success or failure of a particular programme. However relevant their professional and technical credentials, Western consultants may frequently demonstrate by their failure to operate successfully within structures that they have not given themselves (or been given) time to

understand, that their methods are themselves inappropriate or that their solutions do not work in these new contexts. Western emphases on cost, efficiency, focus, systems and prior knowledge may themselves become self-defeating in the Arab and Chinese worlds. A more politically-sensitive emphasis on contextual ignorance and lack of understanding may open more doors for the consultant. It takes time to establish credibility but many organisations have very successfully developed leading-edge HR programmes to complement their advanced technological capabilities. For instance, Wilson (1993) draws on his experience as a professional trainer as well as a successful line manager to explain how he developed state of the art MTD programmes within an organisation, Emirates Airlines, that had committed itself to becoming the world's leading airline of choice for business travelers. Moreover, Medhat Ali (Ali, 1997) successfully introduced state of the art Total Quality Management systems into a leading Saudi organisation, SABIC.

As the great military strategist von Clausewitz famously observed “time spent on reconnaissance is seldom wasted” and this recommendation is exceedingly relevant for HRD professionals entering the promising Chinese and Arab markets. The reconnaissance should take advantage of the likelihood that whatever specifically needs to be known or could be helpful in framing a proposal or in designing a programme is probably known by somebody or somewhere may be available within an existing network. So it is imperative to arrive early, stay late, to be available for socialisation and to make it clear that one is available for repeat visits. The best way of securing opportunities is to be there and to give off the appropriate signals that one is available for the long haul and that one's organisation has made commitments to that effect. In undertaking HR activities it is essential to respect the soft signals relating to status, power and precedence filtered through the networks and to be prepared to ask seemingly “dumb” questions about Who

is Who and to Whom they are connected. Usually once the right question is asked, a useful answer may be expected. Once networks of *wasta* and *guanxi* are understood, they can be used to advantage. Indeed not to do so may be seen as evidence of a lack of serious intent.

Considerations of status are especially important also in China and the Arab World. For instance, HR professionals, however highly paid, may not be perceived locally as particularly significant members of the hierarchy. Even CEOs are likely to be perceived as less significant than are owners, so the point of entry into a project will be especially important. In principle it is usually essential to wait for the right opportunity rather than to force the pace too early. Some activities such as mentoring are likely to be perceived locally as dependent on status rather than skills. These considerations reinforce the value of perceived experience and “grey hairs” are usually an advantage. But none of this implies that one should not expect professionalism or that standards should in any respect be compromised. Reputations once lost, even inadvertently, will not be recovered easily if at all.

Weir (2003b) suggests that the values of “management” and business practice are presumed in most of our professional discourse to be universal and to be those of western capitalism, but argues that there is in the global world of management in fact a great diversity of business cultures and norms of behaviour. It is not clear that the tide of change described as “globalisation” only runs one way. There are features of China’s and the Arab World’s business and management practices that have resisted Westernisation or have at least resulted in a blending of Eastern and Western practices. Child (1994) argues that while well-defined parameters are appreciated in China, it can only be argued to work when Chinese employees have some familiarity with Western management concepts. However, Weir (1999) argues that in the Arab World management and business is inextricably linked to the characteristics and values of

Arab social organisation. These features, far from being deviant or outlying versions of Western business models, may actually provide the basis for a style of management organisation well suited to the growing requirements of a networked global society. Further, Weir (1999) suggests that there are three existing strong management paradigms that are currently influential in HRD globally, namely the North American, the European and the Japanese and that the business styles and behaviours of the Arabian Gulf region may represent 'a fourth paradigm'. In the Arab world especially it remains fundamentally important that one achieves a reputation for honest dealing and of not making simplistic presumptions about the motives of others. These behaviours are closely linked to the "soft" HRD paradigm in the West. Without negating the negative connotations of some aspects of *guanxi* and *wasta*, we suggest that both the business styles of China and the Arab World may actually have something to add to existing business and management theory and practice. To this end, international managers might be trained not only to work with *guanxi* and *wasta* when in China and the Arab World but to learn from, and apply, some beneficial aspects of such in their home nations following repatriation.

There is need for future research to about the contribution that HRD can make to assisting international managers deal with *guanxi* and *wasta*. This research should entail both benchmark and updating studies based on empirical study of actual situations, of specific projects followed through from inception to completion and of the failures as well as the successes. There are some special needs to replicate existing studies and to update them; for example the benchmark study of Muna and associates in the MEIRC project in the GFF countries (Muna 1989). Family business needs especial attention and again some benchmark research now need to be updated. (see, for example, Nahas, Ritchie, Dyer, & Nakashian, 1995). There is also a need in planning and undertaking these researches to bear in mind the wise warnings of writers like Al-Rasheed

(1994) who point out that new paradigms and non-empirical models of management and organisation are equally as subject to criticism as older ones, and if it is no longer to be taken for granted that the Western models are self-evidently fit for purpose, neither is the converse to be taken for granted. *Wasta* and *guanxi* do have their dark sides as well as their positive virtues - as HR practitioners who invest personal capital in these domains of knowledge will surely discover.

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