The convergence of Knowledge Management and a Guanxi Network

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“He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper\textsuperscript{1} at mine, receives light without darkening me.”\textsuperscript{2}


\textsuperscript{1} A wax candle (Oxford English Dictionary, 1989)
\textsuperscript{2} Thomas Jefferson’s comment on the role of knowledge and its usefulness
Abstract

As globalisation has opened up world markets, it is inevitable that cultural aspects will have an effect on organisations operating in a global economy. These organisations operating in the age of globalisation are placed under pressure to remain technologically current and aware of international developments which may have an impact on business. As access to knowledge forms an invaluable link between international business and the economic sustainability of an organisation, the effectual use of knowledge resources is important. The thesis is therefore centred around the following question: **How can cultural characteristics be incorporated in the Knowledge Management process**

The cultural effects of operating in a global economy are important as organisations are now exposed to a diverse number of cultural characteristics which can have an effect on how business is conducted. Cultural diversity is especially evident when considering Eastern, especially Chinese, and Western cultural characteristics. When considering China’s continued economic growth since entering the global market, and the role it now plays, an understanding of these cultural factors can be beneficial to Western organisations that wish to establish business ties in China. This cultural diversity is addressed through a theoretical framework using Beamer and Varner (2008) as the primary data source. The framework will emphasise the role of cultural characteristics and their effect on communication and on the behaviour of individuals.

In order to gain a clear understanding of China, it is necessary to understand how China’s early years of development have had an effect on cultural characteristics inherent to China. The formation of networks, especially Guanxi networks, can be seen as a response to China’s years of development and over time these networks have become a defining characteristic of the Chinese culture. Drawing on Luo (2007), the thesis establishes the role of Guanxi networks in China and places focus on how the trust based environment which is evident in the Guanxi networks is an invaluable point from which to inter-connect with the Knowledge Management process.

As access to knowledge is important in the global economy an understanding of the elements that make up knowledge is necessary. Knowledge consists of two types, namely; explicit knowledge, for example databases, and tacit knowledge, like know-how. The thesis emphasises
the importance of capturing and recording tacit knowledge, as tacit knowledge is invaluable to an organisation. Furthermore, focus is placed on the way in which cultural characteristics are reflected in the implicit processes of how knowledge is shared and communicated. In order to provide the theoretical framework of Knowledge Management, Nonaka, Toyama and Konno (2000) will be used. In order to support the theoretical elements raised by Nonaka et al, Brelade and Harman (2003) will be used to gain a practical viewpoint on Knowledge Management. Furthermore, Huotari and Livonen’s (2004) theoretical and practical insights on trust and Knowledge Management will be used to address issues of trust that are raised in relation to Knowledge Management.

When considering knowledge creation and knowledge transfer activities, effective knowledge management processes are critical for an organisation operating in a global economy. When considering the role China plays in the global economy, it is relevant to address and discuss the role trust plays in the Chinese culture and how the knowledge management process can be maximised through the use of knowledge inherent in Guanxi networks. Guanxi networks represent complex knowledge structures where culture and business elements are closely interlinked.

Therefore, through the conscious incorporation of these knowledge structures, an organisation can enhance its Knowledge Management process. By combining the Knowledge Management process with the inter-connectivity of culturally ingrained networks, it can be illustrated how the networks provide a potentially useful knowledge source for Western organisations. In order for an organisation to benefit from this potential knowledge source, awareness needs to be created of the cultural characteristics related to the Chinese culture. This cultural awareness will create an understanding of how an organisation can access the network’s retained knowledge. Through an understanding of how communication occurs and how implicit elements such as trust affect the communication process, an organisation operating in China can employ a Guanxi network as a knowledge resource in their business strategy and through this employment gain a competitive advantage.
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1. **Introduction**

As business is increasingly conducted globally, it is important to consider the effects international business activities can have on an organisation. China is a country which has been significantly affected by the increase in global business activities. The reason for this is that China’s economy has enjoyed continued economic growth since becoming an active participant of the global economy\(^1\). This growth of the Chinese economy has made it attractive to Western organisations who wish to establish business ties in the Asia-Pacific region. Furthermore, the positive influence of China’s growth has lead to an increase in spending power and consumer willingness to embrace Western goods\(^2\). This willingness to spend, and the high savings rate of the Chinese consumer\(^3\), makes China an appealing market for foreign investment.

Due to the economic benefits of taking advantage of China’s growing economy, organisations are drawn toward investing in China through the establishing of divisions and/or joint ventures. The establishment of these business ties stress the importance of knowledge resources. Knowledge resources are resources like know-how which are important to an organisation’s strategic advantage. The World Bank report (World Development Report 1998/99:4) states that,

> “... the realization that economies are built not merely through the accumulation of physical capital and human skill, but on a foundation of information, learning and adaptation.”

This statement further supports the value that can be gained through accessing information stored within an organisation and the business environment. This access to information is important as through the incorporation of information knowledge is created. Furthermore, through an understanding of cultural dynamics inherent to China, especially Guanxi networks, an organisation has the potential to enhance their competitive advantage. Guanxi means **“connections”** or **“relationship building”** (Yunxia, 2005:17), and these ‘connections’ are observable in the structure of these social networks.

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\(^2\) Ibid, p. 4  
\(^3\) Ibid, p. 3
1.1. **Thesis statement**

This thesis will highlight the importance of effective Knowledge Management through a discussion of which cultural elements can be incorporated in this process. The objective is to create a theoretical framework to assess the extent to which Chinese cultural networks can be incorporated into an organisation’s strategic process through the use of Knowledge Management. The thesis will be based on the following questions;

**How can cultural characteristics be incorporated in the Knowledge Management processes when an organisation operates within China?**

- What cultural characteristics are evident in business activities in China?
- To which extent can an organisation operating in China, include the cultural network Guanxi as a Knowledge Management resource in their business strategy?

1.2. **Theoretical framework**

This thesis takes a theoretical format, which draws on two primary theoretical aspects; namely Knowledge Management and Culture. Culture as a primary characteristic will be discussed with specific focus on the Chinese phenomenon of Guanxi networks.

The primary data on Knowledge Management will be obtained from theorists Nonaka, Toyama and Konno (*SECI, BA and Leadership: a Unified Model of Dynamic Knowledge Creation, 2000*) with supporting practical information from Brelade and Harman (*Practical Guide to Knowledge Management, 2003*). General Culture aspects will be covered using Beamer and Varner (*Intercultural Communication, 2008*), Cartè and Fox (*Bridging the Culture Gap, 2008*) as well as Gudykunst and Kim (*Communicating with strangers, 2003*).

To expand further on cultural characteristics specific to China, information will be provided on Confucianism and ‘Face’ using Xinzhong Yao (*An Introduction to Confucianism, 2000*) and Christopher P. Early (*Face, Harmony and Social Structure, 1997*) respectively. Information on the importance of trust in Knowledge Management will be provided by Huotari and Livonen (*Trust in Knowledge Management and Systems in*
Furthermore, Yadong Luo (Guanxi and Business, 2007) will be included to provide the connection between Guanxi and business, as well as provide supporting material for the discussion.

Secondary data in the form of various sourced articles published in international business and scientific journals have been read in order to gain a clearer understanding of the role of Guanxi in today’s global economy. These articles and journals include; Academy of Management Executive, Academy of Management Journal, Business Information Review and Journal of Business Research.

1.3. Methodology

In order to create a solid framework for the thesis the initial part of the document will be dedicated to establishing the theoretical criterion that constitute Culture, the Chinese cultural network Guanxi and Knowledge Management.

The initial part of the thesis will provide an overview of characteristics evident in Eastern and Western cultures. This overview will be elaborated on through a description of Confucianism and how the Confucian belief of maintaining harmony and the development of trust are significant elements of the Guanxi network.

As Knowledge Management is also an element of the thesis, the second part of the thesis provides an outline of Knowledge Management, including an overview of tacit and explicit knowledge. Knowledge Management as a process and the role it plays in today’s global economy will also be covered in this section.

Once the framework of the thesis has been established, a discussion will be carried out on how Knowledge Management and Guanxi networks can be employed as a strategic element of business dealings in China, taking into account the questions raised in the thesis statement. Upon completion of the Discussion, a conclusion will be drawn where the theoretical framework and findings will be concluded on and future considerations will be addressed in relation to other areas of possible interest or those that may require further research.
1.4. **Delimitation**

Due to time constraints this thesis will be limited to the following:

Guanxi is a relatively new concept in the West. The extent to which it can be considered positive from a business perspective is much debated as Guanxi is often linked to corruption. This thesis will focus on the positive elements of a Guanxi network as a cultural phenomenon of the Chinese culture and how it can be used by an organisation as part of the Knowledge Management process. The thesis will therefore not provide an assessment of possible controversial practices.

The thesis does not address how communication occurs within a Guanxi network as it is a discussion on the strategic aspects of Guanxi. Therefore, Communication Theory, as a process within a Guanxi network has not been included. Communication Theory is however covered in relation to how culture influences communication.

Organisational Theory has not been included as the thesis is a discussion on the Chinese cultural phenomenon of network creation, that is Guanxi networks, and whether it is possible to incorporate this as part of the Knowledge Management process. The dynamics of how individuals and an organisation behave based on internal and external environmental factors are not covered in this thesis, as the factors that define and determine group behaviour are not the focus of the paper. The focus of the thesis is on whether a national cultural phenomenon like Guanxi networks can be used.
2. **Culture**

*Human beings draw close to one another by their common nature, but habits and customs keep them apart.*

Confucian saying (Gudykunst & Kim, 2003:53)

2.1. **Culture and Communication**

As business is conducted in a global economy, it is inevitable that individuals will be exposed to new cultures, and this exposure will have an effect on how individuals interact and how communication occurs. Even though cultural characteristics may appear alike it is important to be aware of the differences that do exist, as “communication is unique within each culture” (Gudykunst & Kim, 2003:53). It is therefore through an understanding of these differences that effective communication can be carried out.

Beamer and Varner (2008:37) state that communication consists of both verbal and non-verbal elements, and how meaning is assigned to these elements. Additionally, due to “the complexity of the relationship between people, businesses, and cultures” (Beamer & Varner, 2008:430) the intricate nature of communication is further highlighted. Due to these differences between cultures, communication across cultures highlights the need to understand how messages are received and understood based on the context of the message. The interpretation of messages is therefore influenced by amongst other things values, attitudes and experiences which are a result of an individual’s cultural encoding (Beamer & Varner, 2008:37).

Culture is shaped by ones past and learned through shared behaviours and norms, values and attitudes (Beamer & Varner, 2008:5). As stated by E. Hall (1966) in Beamer and Varner (2008:5);

> “Culture[is] those deep, common, unstated experiences which members of a given culture share, which they communicate without knowing, and which form the backdrop against which all other events are judged.”
Hall’s statement highlights that culture can be seen as a characteristic of individuals who are exposed to a shared experience. These experiences are encoded in individuals through shared life experiences and a shared understanding of what the interpretation of these experiences mean (Beamer & Varner, 2008:6). Shared experiences can be observed in traditions and customs, and are visible in, for example, the Chinese custom of bowing to show respect\(^4\). Where the lower the bow the higher the social status held by the person who is bowed to. Therefore, in order to ensure effective communication, it is necessary to gain an understanding of how culture affects individuals.

### 2.2. Cultural Characteristics

In the individualist cultures of the West, individuals value their own achievements and rights over those of the group (Beamer & Varner, 2008:129). Membership to groups within individualist cultures is loose and chosen based on a personal need, with little pressure placed on conformity by these group members (Gudykunst & Kim, 2008:56). The converse of this is observed in the Chinese culture, which is a collectivist culture. Individuals, in a collectivist culture, form part of a group and responsibility to the group takes priority over the needs of the individual. Membership to the group is important and individuals are committed to maintaining harmony and group membership (Beamer & Varner, 2008). An example, of this commitment to the group is observed in the Chinese custom of ‘Face’. Face is a representation of the status of the individual in relation to other individuals, and affects how individuals interact and communicate. Face will be covered in greater detail in Section 3.

Communication in collectivist cultures is high in context due to the emphasis placed on how communication occurs. The emphasis that is placed on communication is evident in how individuals interact, for example, the importance that is placed on maintaining harmony within the group during communication (Gudykunst & Kim, 2003:71). Individualist cultures of the West are low in context as communication is direct and explicit, and business is conducted in an environment which is relatively context free (Carté & Fox, 2008:18). Consequently, as communication is low in context in the West it allows for easier interpretation of messages, whereas in China communication is high in

\(^4\) An example of respect provided during Semester 4 – Cultural Theory (2008)
context and this context makes the message interpretation process more complex as attention needs to be paid to the implicit elements of the message.

2.3. Collectivist Culture and Group Structure

In order to gain a clearer understanding of China, it is necessary to expand further on cultural characteristics and communication, through a consideration of how group membership is structured. This is an important consideration as it is this structure that has an effect on how group members interact and communicate.

Collectivist cultures like China, which are high context cultures, are relationship orientated (Beamer & Varner, 2008:129) and this implies that emphasis is placed on the implicit. The emphasis that is placed on relationships is evident in the hierarchical structures within groups. Furthermore, this hierarchical structure has an effect on the power distances that are observed between individuals, and according to Hofstede’s power distance scale, China has a high power distance. The high power distance means that the more senior the individual, the greater the amount of respect that is commanded (Carté & Fox, 2008:23-30). Consequently, how interaction occurs, and is acted on by members lower in the hierarchy, is affected by this high power distance.

Power, and the context it holds, in a culture also influences how communication occurs and how individuals interact during the communication process. Individualist cultures, like the West, have lower power distances which are reflected in an organisation’s structure and how levels of authority are defined. These cultures have flatter hierarchies with low power distance (Beamer & Varner, 2008:239). The flatter structures allow for free communication between managers/employees and individuals and is considered low in context as it is direct and precise (Gudykunst & Kim, 2003:62). China, on the other hand, has clearly defined hierarchical structures which place an emphasis on following clearly defined chains of communication and processes. The clearly defined chains of communication are not only evident between managers and employers, but also in the groups to which individuals belong outside of the work environment. The implications of this are that individuals are obligated to behave in a certain way based on the amount of power held by another individual. Consequently, the high power distance in Chinese
cultures implies that communication is indirect (Gudykunst & Kim, 2003:62), and the context of the message is in the unspoken part of the message rather than the actual message.

The emphasis that is placed on the implicit part of the message once again highlights the role harmony plays in how group relationships are managed in China. Due to the focus on hierarchy, the Chinese culture places greater emphasis on the development of a relationship, and the maintenance of this relationship through Face, than Western cultures do. Early (1997:43), describes Face as the context that defines the exchange and interaction between Chinese individuals within a social context. Consequently, it is here through both implicit and explicit actions that the relationship building process allows for the maintaining of group harmony and effective communication.

2.4. **Sub-Conclusion**

As communication is more than the words used to express oneself during the communication process, the implicit and explicit elements that make up communication need to considered. It is through an awareness of these elements that a shared context can be created where communication can occur and succeed. Due to the cultural dynamics between the East and West, and in order to prevent misinterpretation of communication, an environment needs to be created which supports communication between the sender and receiver. Consequently, through the creation of a shared context, where messages are interpreted in a context that is understood by all, the communication process can be enhanced.

In order to create a shared context, the influences of cultural characteristics on communication need to be addressed. Cultural characteristics are reflected in communication, and there are observable differences between the Eastern and Western cultures. China, a collectivist culture, is a country where communication is high in context. The high context characteristic means that greater emphasis is placed on how communication occurs, that is the implicit elements of the communication process. However, low context cultures of the West place focus on the explicit elements of the
message. Furthermore, in high context cultures, relationship maintenance is an important part of communication, and how it occurs is observed in the practice of Face.
3. **Guanxi**

3.1. **Introduction to Guanxi**

Guanxi, which means “connections” or “relationship building” (Yunxia, 2005:17), is a cultural characteristic of China that has become “the lifeblood of both the macro-economy and micro-business conduct” (Luo, 2007:13). The cultural phenomenon of network creation is, however, not a new phenomenon as similar processes are evident in the West. The Western practice of network building is seen in, for example, ASB’s Alumni programme or an executive’s membership to a country club. Luo (2007) explains that what differentiates the two is that Western membership is elective, whereas in China it is a cultural characteristic which is carried through into all spheres of an individual’s life.

To fully understand the role Guanxi networks play in the Chinese society, and in business, it is necessary to understand where Guanxi finds its roots. Guanxi’s roots are found in the Chinese belief of Confucianism which emphasises the maintenance of harmony with groups. The Confucian belief of maintaining harmony can therefore be seen to be instrumental in creating “a social hierarchy strong enough to harmonize a large and complex society of contentious human beings” (Luo, 2007:13). Furthermore, years of hardship experienced by the Chinese, due to social and economic factors, has stressed the importance of ensuring the wellbeing of the group and the individuals connected to networks (Luo, 2007). Consequently, these networks are found in both the social context, for example family, as well as in the business context, and it is through a shared context that the networks are created.

Guanxi networks are characterised as networks of intricately woven webs of social connections, which in the business context, create a bond between individuals connected to the network (Beamer & Varner, 2008:244). Furthermore, as China’s high context culture emphasises harmony, this emphasis is carried through into Guanxi networks. The environment in which communication occurs in the Guanxi network is important and the practice of Face is therefore an essential part of a Guanxi relationship. As stated by Beamer and Varner (2008:244), it is this Face that plays an important role in the development of
trust and credibility in individuals. It is therefore this trust and credibility that is an essential requirement, and a characteristic, of Guanxi networks.

3.2. Confucianism

China finds its roots in a culture that dates back 2,000 years (Yao, 2000:13). The Chinese culture is based on the belief of Confucianism, which is a set of rules and values as defined by Confucius. Confucianism is based on the belief that a person is not a separate entity, but socially interactive (Luo, 2007:13), and the central element of Confucianism is that emphasises is placed on maintaining peace and harmony with the group.

Confucius believed that moral virtue produced trust and faith in people, and with this a harmonious society could be established (Yao, 2000:23). Harmony was believed to be controlled and determined by ‘heaven’ through the awarding or withdrawal of the “Mandate of Heaven”, and ‘heaven’ was considered to be the entity responsible for controlling and determining the human world and thereby assuring harmony (Yao, 2000:143). The “Mandate of Heaven” was seen to legitimise the power held by the person and this power was held until such time as the mandate was withdrawn (Yao, 2000:144). Consequently, Confucius’ teachings are seen as the practice which is concerned with maintaining harmony and reinforcing the individual’s responsibility to the group.

3.3. Face and Harmony

The Chinese view of ‘self’ stresses the importance of understanding how interaction between individuals occurs, and the role Face plays during these interactions. Where Face is seen as a means to maintain harmony within the group and avoid conflict due to disharmony between individuals (Early, 1997:48). As Yunxia (2005:21) explains, the individuals perception of ‘self’ is closely related to a web of social relationships. Face is therefore seen as an individual’s public image and, as explained by Early (1997:42), is the element that determines how interaction occurs between individuals within a defined social context.

As Face is implicit by nature, it has an effect on communication and this has an effected on the overall context in communication occurs. The role Face plays in communication can be
observed in, for example, the situation where an employee may not make a decision until such time as it has been discussed with the group, and consensus has been reached by all involved in the decision making process. The inclusion of entire group emphasises the importance placed on trust, as it through this trust that credibility is established and all involved are confident that the desired outcome will be reached (Luo, 2007:16). This importance placed on trust highlights the role of Face as the process through which credibility is established.

3.4. **Sub-conclusion**

Guanxi networks are an important part of Chinese society, and the practice of network building is observed in both social and business activities. The establishment of these networks is an integral part of the Chinese culture. These networks require the establishment of a shared context where a relationship can be developed and expanded on.

As China’s belief in Confucianism is deeply engrained in the Chinese culture, this characteristic has an influence on how interaction occurs. It is during this interaction that Face plays an important role in relation to how harmony is maintained within the group. The reason for this is that Face defines the context in which communication is carried out. This interaction emphasises the importance of the development of trust, as it is through this trust that the credibility of individuals is achieved. Consequently, trust and credibility are important elements for the maintenance of Guanxi networks.

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5 An example provided during Semester 4 – Cultural Theory (2008)
4. **Knowledge Management**

4.1. **Introduction to Knowledge Management**

As the concept of Knowledge Management is an important element of this thesis it is essential that a solid Knowledge Management framework is established. In order to further clarify the framework it is also necessary to define the meaning of Knowledge Management in the context of this thesis. For this purpose Brelade and Harman’s (2003:7) definition of Knowledge Management will be applied:

> “Knowledge management is the acquisition and use of resources to create an environment in which information is accessible to individuals and in which individuals acquire, share and use that information to develop their own knowledge and are encouraged and enabled to apply their knowledge for the benefit of the organisation.”

As stated by Brelade and Harman (2003) this definition includes both physical resources available to an organisation as well as the individuals who hold the knowledge. Accessing this knowledge, which is important to an organisation, is best done in an environment which contributes to new knowledge creation (Brelade and Harman, 2003:7) as without this environment new knowledge cannot be created.

4.2. **The importance of Knowledge Resources**

With the opening up of markets, and the extent to which business is being conducted globally, organisations are placed under pressure to manage their knowledge resources. As Brelade and Harmon (2003) state, the success of the management of knowledge resources is important as organisations are increasingly measured by their activities that allow for and promote the sharing of knowledge for the benefit of the organisation.

Knowledge resources within an organisation can be in the form of explicit knowledge and tacit knowledge. Databases are an example of explicit knowledge and know-how, which are the resources from which an organisation can benefit the most, is tacit knowledge

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6 In Brelade & Harman (2003:7), cited from "Knowledge Management and the role of HR" by C. Harman and S. Brelade
retained by an individual. (Brelade & Harmon, 2003). The Dictionary of Accounting (2009) defines know-how as;

“Industrial information and techniques that assist in manufacturing or processing goods or materials.”

Knowledge resources, especially know-how, are important as they can be used to set an organisation apart from its competitors (Brelade and Harman, 2003:14), and this knowledge, from a strategic perspective, can lead to a competitive advantage for an organisation (Nonaka et al, 2000:5). In order to achieve this competitive advantage an organisation needs to successfully access tacit knowledge through Knowledge Management activities, and these activities need to be designed so as to encourage knowledge sharing.

Not only are Knowledge Management activities that encourage knowledge sharing important, but also the process of determining which knowledge resources are important. As stated by Brelade and Harmon (2003) state, it is through a structured approach to the identification and codification of information that an organisation can ensure the knowledge necessary for success is recorded. Furthermore, as knowledge is dynamic it has the capability to “continuously create new knowledge out of existing firm-specific capabilities” (Nonaka et al, 2000:8). Due to this ability to continuously create new knowledge, it is important that an organisation engage in regular knowledge sharing and recording activities.

4.3. **Knowledge Management as a process**

The knowledge creation process is shaped by the context in which social interactions are carried out between individuals and/or organisations, and without this context specific knowledge, knowledge is perceived as ‘just information’ (Nonaka et al, 2000:7). Consequently, it is through this process of interpretation that an individual will create meaning based on the context that has been created, and without this context the full potential of the retained knowledge may not be achieved. It is this meaning which eventually becomes knowledge.
Nonaka (2000:12) describes the knowledge creation as a continual process, or spiral, which occurs externally and internally within an organisation. As Nonaka’s diagram, “Ba as Shared Context in Motion” (Attachment 3) shows, Ba\(^7\) provides the shared context from which the knowledge spiral can develop and grow the knowledge creation process (Nonaka et al, 2000:14). Due to its dynamic nature knowledge continually develops throughout the knowledge creation process, and in order to fully understand this process it is necessary to understand what knowledge is.

Knowledge is made up of explicit knowledge and tacit knowledge. Explicit knowledge is knowledge that is codified and is transferrable (Brelade & Harman, 2003:9). Communication of explicit knowledge is achieved through systematic or structured processes like database contents and operating procedures (Nonaka et al, 2000:7). Through the recording of explicit knowledge an environment is created where information can be stored and is accessible for reuse within the organisation. Conversely, tacit knowledge is knowledge which is retained by employees and is harder to capture and codify than explicit knowledge (Brelade and Harman, 2003:19). Due to the personal nature of tacit knowledge, it is largely influenced by the context in which this knowledge is created.

As knowledge creation occurs through the interaction between tacit and explicit knowledge (Nonaka et al, 2000:9), it is important that an environment is created that encourages the sharing of knowledge. Nonaka (2000:28) describes the ideal environment as an environment where “organisation members feel safe sharing their knowledge”. The sense of security that is created through the establishment of an ideal environment promotes the development of trust between the organisation and individuals, as well as, between members involved in the knowledge creation process. The trust that has been developed is important as it creates the foundation on which the knowledge sharing relationship is based. Furthermore, when considering the role access to knowledge plays in today’s global economy, it is clearly visible the benefits that can be gained from effectively managing these knowledge resources.

\(^7\) Ba is defined as the shared context in which knowledge is shared, created and utilized (Nonaka, et al, 2000:14)
4.4. **Knowledge Management and the Knowledge Economy**

Business today is largely conducted in a global economy where access to knowledge resources plays a role in the success of an organisation. As Brelade and Harmon (2003) highlight, the increased focus on knowledge, and knowledge resources, in today’s global economy may be the reason that it is increasingly referred to as the Knowledge Economy. The Oxford Dictionary of Economy (2009) describes the Knowledge Economy as;

> “an economy in which growth is thought to be dependent on the effective acquisition, dissemination, and use of information, rather than the traditional means of production”

This definition highlights that information is an important element of the Knowledge Economy as an organisation’s focus is no longer on how an advantage can be gained through production practices like, for example, the procedures employed to increase productivity and thereby increase an organisation’s production capacity. As a result of this change in focus, in today’s Knowledge Economy, emphasis is now placed on access to information which has the potential to provide an organisation with the strategic advantage it needs.

The Knowledge Economy not only emphasises the importance of access to knowledge retained by individuals in organisations, but also ensuring that the individuals who hold the knowledge do not leave the organisation (Brelade and Harman, 2003:65). The retention of these individuals is important as when they leave the knowledge they tacitly hold leaves with them. The individuals who hold this knowledge are known as Knowledge Workers, and Brelade and Harman (2003:10) describe these individuals as people “whose basic ‘tools of the trade’ are their knowledge and experience”. Knowledge workers are therefore an important part of the Knowledge Economy as the knowledge held by them can be seen “as the mechanism for leveraging a unique asset” (Brelade and Harman, 2003:20). Therefore, for an organisation to benefit from the knowledge held by these Knowledge Workers it is important that they record the knowledge they hold for future use.
4.5. Sub-Conclusion

As an increasing amount of business occurs globally, focus is no longer solely on traditional production methods but on the individuals who hold the knowledge necessary to provide a competitive advantage. The knowledge held by these individuals is both explicit and tacit in nature. It is tacit knowledge, for example know-how, which is an important element for achieving and maintaining a competitive advantage. However, as tacit knowledge is harder to record the processes necessary for recording this knowledge are different to the processes used for explicit knowledge. It is therefore important that consideration is given to the processes necessary for recording this knowledge.

As tacit knowledge is held by Knowledge Workers, organisations place emphasis on the retention of not only the knowledge held by Knowledge Workers, but also on the retention of the Knowledge Workers. The reason for this focus on Knowledge Workers is that should they leave the organisation, the organisation risks losing a valuable knowledge resource as well as possibly their competitive advantage.

Furthermore, as access to information is an important part of the knowledge creation process, consideration needs to be given to the process of knowledge creation. Additionally, it is important that attention is given to the environment in which knowledge sharing and creation occurs. Therefore, in order to implement Knowledge Management processes that encourage the sharing and creation of knowledge, consideration needs to given to the context in which knowledge is created as well as the creation of an environment where individuals feel secure during the process.
5. **Discussion**

The continued economic growth experienced by China has created a market that is appealing to Western organisations, and the benefits that can be gained through a competitive advantage here are numerous. As the goal of an organisation is to achieve and maintain a competitive advantage, the focus of how best to achieve this lies in the effective use of processes and individuals within, and connected to, an organisation.

When considering the potential of tacit knowledge, it is interesting to consider how country specific cultural elements can be incorporated. The incorporation of cultural characteristics becomes even more significant when considering how globalisation has opened up world markets. An example of this cultural characteristic is evident in China where socially constructed networks are an integral part of society and are known as a Guanxi network (Beamer & Varner, 2008:244). As mentioned in Section 3, Guanxi is a socially constructed network where individuals are connected to each other through trust. As China is a culture rich society, these social dynamics are reflected in how Chinese networks are constructed and how individuals behave. These networks spread throughout society, that is, they are found both privately and in the business arena. The family network is a private network and is characterised by links with family members, whether they are parents, siblings, uncles, or cousins. In the business arena, individuals are linked to other members of the business environment and the networks may consist of old school colleagues or other individuals with whom a relationship has been developed. As these networks are finely woven into the Chinese culture, it is a cultural factor that is implicit in nature. This implicitness is due to the fact that the exact inter-connectedness is not observable to an outsider, yet members of the network implicitly know how communication occurs and the importance that is placed on maintaining the relationship.

As the Guanxi network is intricately woven into the Chinese society, this inter-connection provides a member with access to another member connected to the network further on (Luo, 2007:10). This opportunity to connect with another Guanxi member is made possible by the trust that has been established upon entry into the network. The benefits that can be gained from this inter-connectedness of members are that an organisation can gain access to knowledge held by members further on in the network. That is, the organisation is not
restricted to only the knowledge held by their Guanxi network contact. An important factor for an organisation to be aware of is that a Guanxi relationship is held by an individual and not with an organisation as a whole (Luo, 2007). As this Guanxi relationship is held by a person, an organisation risks losing this link to the network if the Guanxi member leaves the network. Conversely, this link to the network may also be lost if the individual who represents the organisation leaves. The reason for this loss is that the initial relationship is developed with the representative of the organisation and not the organisation as a whole.

In order to benefit from the connection to a Guanxi network, it is important that an organisation have a clear understanding of how cultural characteristics can affect communication. The communication process between the Guanxi member and the organisation’s representative will in turn have an effect on the Knowledge Management process. It is therefore important that an organisation is aware of the fact that cultural characteristic inherent to China are not only reflected in how Guanxi networks are created but also in how communication occurs.

**5.1. The Role of Communication**

Communication is characterised by both the implicit and explicit elements of culture, and these cultural characteristics may initially appear alike. However, closer examination shows that implicit elements hold deeper meaning and affect interactions between individuals. As highlighted in Section 2, individuals in high context cultures, like China, will use the implicit elements of communication as part of the message delivery process, whereas Western cultures place emphasis on the explicit elements. Implicit communication is observed in the Chinese custom of Face, where for example, an employee will not make a decision without first discussing it with their superior, or fellow group members, as by doing so the employee will cause the other individual to lose credibility. A negative implication of this lengthy process, on an organisation, is that the need to internally discuss issues can cause delays in the communication and decision making process. Furthermore, a Chinese individual may not feel comfortable with sharing knowledge if it they feel it goes against their superior. Due to this unwillingness of an individual to share knowledge, when viewed from a Knowledge Management perspective, it is an important factor to

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8 An example of credibility provided during Semester 4 – Cultural Theory (2008)
consider as without this communication knowledge cannot be shared. The unwillingness to share knowledge therefore has negative implications for an organisation as knowledge sharing is a vital element of the knowledge creation process. It is this knowledge creation process that allows an organisation access to the retained knowledge that can lead to a competitive advantage. Therefore, in order to fully understand how communication influences the knowledge creation process it is important that an organisation consider how the communication process is affected by cultural characteristics. Through an understanding of these cultural characteristics inherent to China, an organisation is able to incorporate the necessary implicit elements into their communication process. An organisation’s willingness to show understanding of communication processes other than their own can provide an organisation with an opportunity to gain credibility with the Chinese individual with whom they are communicating.

A further important factor for an organisation to consider is that even though the necessary adaptations may have been made to their communication process there may still be misunderstandings due to deeper cultural encoding. This misunderstanding in not restricted to only the Chinese individual but may be the organisation’s representative. That is, the organisation’s representative who has been chosen as the liaison between the Chinese individual and the Western organisation. The misunderstanding may be as the representative views implicit communication as unnecessary and time consuming due to the time needed to build relationships and follow the implicit practice of maintaining harmony in all interactions. This misunderstanding may stem from the differences in culturally encoded characteristic of implicit communication in the East and explicit communication in the West. Consequently, communication within an organisation’s home country will be less complex than communication across cultures, as individuals intuitively understand the contexts which are part of the message encoding process.

In order to harness the full potential of access to a Guanxi network it is therefore important that communication, and the role it plays as a link between the Guanxi member and the Knowledge Management process, is considered. As mentioned earlier, this consideration is important as Guanxi networks are culturally engrained in the Chinese culture through finely interwoven social connections. It is these connections that hold both cultural
characteristics and the implicitly understood network requirement of trust. Due to the extent to which Guanxi networks are present in the Chinese culture this network is a valuable resource as it provides a navigation mechanism through which businesses communicate and operate. Therefore, through the effective use of this network, an organisation has access to a communication network which reaches deep within the Chinese society.

5.2. The Role of the Knowledge Management

Access to knowledge and knowledge resources has become important for an organisation in today’s global economy. Therefore, through the recognising of knowledge resources accessible to an organisation, an organisation can implement procedures to capture and retain these. As Section 4 highlighted, tacit knowledge for example know-how, which is a “difficult-to-imitate resource” is harder to capture and record, yet once recorded plays a defining role in achieving a competitive advantage (Nonaka et al, 2000:21). Tacit knowledge may be in the form of knowledge of a consumer characteristic or process which is culture specific and access to this knowledge can have an effect on an organisation’s competitiveness, and this knowledge may be held by individuals inside and outside of the organisation. In order to access this retained knowledge an organisation will need to implement activities that encourage the knowledge sharing and recording process. This process can be through an apprenticeship or mentorship where an individual with the desired tacit knowledge works closely with an employee of an organisation\(^9\). During this process, a relationship is developed where the knowledge is shared and can then be recorded. Once the knowledge has been recorded an organisation can either use it immediately or store it for later use. When seen in the context of this thesis, an example of this relationship is when an organisation enters into a business relationship with a Chinese consultant. Through this relationship the organisation not only gains insight into cultural characteristics inherent to China, but it also gains access to the consultant’s Guanxi network and the knowledge held by it.

When considering the extent to which a relationship needs to be developed between the Chinese consultant and the organisation’s representative, it is important that awareness is

created of the environment in which the relationship is developed. The environment, or context, is important as it is in this environment that the flow of knowledge between individuals will occur. Without this context, the knowledge creation process may not be effective and the organisation will be unable to access the knowledge retained by the Guanxi member. The advantage that can therefore be gained from inclusion in a Guanxi network is that the Guanxi member has access to business knowledge of the Chinese business market which can be beneficial to an organisation. This knowledge can be in the form of legislative requirements or labour practices which may be culture specific. Consequently, in order to ensure success during knowledge sharing and creation process, it is important that an organisation is aware of the cultural characteristics that are inherent to China, and that the communication processes reflect this awareness, as through this trust can be developed. The development of trust is important as this trust creates credibility in the communication process, and it is this communication process that provides the link between the Knowledge Management process and the knowledge retained by the Guanxi member. Trust is therefore a vital element for the creation of a knowledge sharing environment.

5.3. The Role of Trust

An interesting point of departure in the discussion on cultural characteristics represented by Guanxi networks, in relation to Knowledge Management, is to consider how these two elements rely on trust. As the theoretical framework highlighted, trust is an element that not only characterises them both but also plays an integral part in how they function. Oxford Dictionary of Philosophy (2009) describes trust as;

“the attitude of expecting good performance from another party, whether in terms of loyalty, goodwill, truth, or promise. Economically trust is precious, enabling parties to bypass the costly precautions and safeguards needed in transaction with parties ...”

When considering the definition above, it is clear that trust is not only an element of human interaction but also has an effect on an organisation’s strategy. So, if an organisation is able to combine strategic factors as well as cultural characteristics this
A combination can be beneficial to an organisation. From a Knowledge Management perspective this combination could be possible where knowledge resources are recognised and, through the organisation’s strategic planning process, focus can be placed on how these resources can be enhanced in such a way as to give an organisation a competitive advantage. However, in order to achieve this advantage, it is important to consider what implicit elements need to be included in the Knowledge Management process. An example of this implicit element is trust.

Just as trust is an important element of a Guanxi network, this same reliance on trust is evident in Knowledge Management. Without this trust, the knowledge creation process cannot create the required context where individuals feel comfortable sharing and creating new knowledge. As it is possible to build trust between individuals despite cultural backgrounds or business goals (Iivonen & Huotari, 2004:9), the possibility exists that the knowledge creation process can include a member of a Guanxi network. Therefore, once the initial trust base has been established with the Guanxi member, it will provide the organisation with credibility within the Guanxi network.

As the commitment to establishing a trust based relationship is a long term process (Iivonen & Huotari, 2000:21), it is important that an organisation realise that this process is not a ‘quick fix’ strategy but a long term commitment to achieving a strategic goal. Additionally, and a factor that can have negative ramifications for an organisation, is that should an individual leave the organisation the trust based relationship between the organisation and the Guanxi member will be lost. In order to continue the knowledge sharing process a new trust based relationship will need to be established. A further ramification is that as the individual’s knowledge is tacitly held the organisation risks losing this knowledge to another organisation. This loss of tacit knowledge further reiterates the importance of capturing knowledge throughout the knowledge creation process so as to ensure a current record is kept of all essential information.
5.4. **The Convergence of Culture and Knowledge Management**

In order to illustrate how Guanxi networks and the Knowledge Management process can be linked I have developed Figure 1, *Single Points of Convergence between Knowledge Management and a Guanxi Network*, and Figure 2, *Multiple Points of Convergence between Knowledge Management and a Guanxi Network*. The figure is made up of the following elements. Firstly, the inter-linked circles on the Guanxi Network are the individual members who are joined together in a trust based relationship. As the figure shows these individuals may be linked into a single Guanxi network nucleus or may link to another Guanxi network through the initial point of inter-connectedness. Secondly, the Knowledge Cycle is represented by a spiral formation. This formation is based on Nonaka et al’s diagram “*Ba as a shared context in motion*” (Attachment 3) in which the dynamic nature of knowledge is reflected as a spiral.

**Single Points of Convergence between Knowledge Management and a Guanxi Network** (Attachment 4, Figure 1)

The initial point of contact, Point A, is where the knowledge creation cycle connects with the Guanxi member. The initial need to connect with a Guanxi network may be as a result of the organisation’s entry into the Chinese market, and the connection to the Guanxi network may be via a Chinese consultant. Through this connection to the consultant, a link is established where the organisation can access information that is specific to the Chinese market. This access to information can provide the organisation with a strategic advantage during the start-up phase of the business venture, as the consultant will have access to the know-how necessary to obtain the resources needed by the organisation. These resources can include for example labour practice advice or information on which industrial areas would be best suited for the organisation’s business.

In order to initiate this relationship, it is necessary for an organisation to first develop a trust based relationship with the Guanxi member, as credibility needs to be established between the individuals involved. It is important that the organisation’s communication, with the Guanxi member, incorporates the necessary implicit contexts that show an understanding of China’s cultural dynamics.
Once trust has been established an environment, Point B, can be developed in which knowledge creation can occur. This environment, or points of convergence, is the shared context where the organisation and the Guanxi member share and create new knowledge. As this point of convergence is based on trust, it allows for the free flow of knowledge between the Guanxi member and the organisation’s representative. It is this new knowledge that is created during the point of convergence that can lead to a competitive advantage for the organisation through, for example, a reduction in transaction costs (Huotari & Iivonen, 2004:10)(Luo, 2007:48). These transaction costs are costs incurred during business activities, for example research costs and the initial cost related to the start-up of an organisation. It is these costs that can further enhance the advantages which an organisation can gain from association with a Guanxi network, which is the strengthening of their competitive advantage due to cost savings on the expenses incurred during the start-up phase of business.

**Multiple Points of Convergences between Knowledge Management and a Guanxi Network** (Attachment 4, Figure 2)

A further point for an organisation to consider is that as knowledge is dynamic, and is continually developing, it may be necessary for an organisation to reconnect with the Guanxi network again at a later stage. It is here that an organisation can gain maximum benefit from working with a member of a Guanxi network. The benefit is that as Guanxi emphasises trust, and as trust is carried throughout the network (Luo, 2007:10), once the initial trust has been established between the two individuals, this credibility that has been established gives the organisation, or specifically the individual linked to the organisation, credibility throughout the network. The reason for this credibility throughout the network is that Guanxi is transferrable (Luo, 2007:10).

In order to address the transferability of credibility, I developed Figure 2, *Multiple Points of Convergence between Knowledge Management and a Guanxi Network*. Figure 2 shows, based on Luo’s theory of Guanxi’s transferability, that due to the trust system in a Guanxi network the initial trust based relationship, Point A, establishes credibility between the representative and the Guanxi member. It is this credibility between the representative and the Guanxi member that becomes the base from which further contact with the network can
be launched. In a situation where an organisation may need to reconnect with a Guanxi network, the initial credibility is important as access may not be allowed to the Guanxi network without this.

Therefore, as the knowledge cycle is continually developing due to its dynamic nature, it may be necessary for an organisation to re-initiate a relationship with the Guanxi network at a later stage to gain new knowledge. During this re-initiation process, it is this initial credibility (Point A) that allows the organisation access to another member (Point B) of the Guanxi network. An interesting point to consider is that it is also possible to have more than one member of a Guanxi network active in the knowledge creation process. The reason for this is again that the initial trust created, Point A, establishes credibility which makes it possible for another Guanxi member, Point C, to join the knowledge creation process. The multiple inter-connections to a Guanxi network would, for example, be necessary if knowledge was needed on two different business aspects, for example, a specific resource base available in a certain area and the skill set needed to benefit from the available resources.

The discussion on the convergence of culture and Knowledge Management has highlighted the possibility of incorporating the knowledge held in a Guanxi network into the Knowledge Management process through the development of trust. As trust is a requirement of both the knowledge creation process and a Guanxi network, it is through this that an organisation can gain access to the knowledge resources within a Guanxi network. Furthermore, once the initial points of convergence has been established, the knowledge cycle can benefit from the knowledge held by multiple Guanxi members.

However, as Guanxi networks represent the cultural dynamics of China, it is important to address how communication is affected by cultural characteristics inherent to China. This is especially important as communication provides the link between the Guanxi network and the Knowledge Management process. As China is a high context culture, relationship building and the welfare of the group as a whole are important considerations for the Chinese. This high context characteristic will, therefore, have an impact on the knowledge process as access to the tacit knowledge of a Guanxi member will require that a relationship is developed. Furthermore, as a high context culture places emphasises on the
group, an organisation will need to ensure that this cultural dynamic is addressed through, for example, involvement of the Guanxi member in company activities, for example, functions and conferences. Through this involvement trust can be established, as well as credibility, as the organisation is implicitly communicating to the Guanxi member he is part of the organisation and that the organisation is committed to the achievement of the shared goal. This sense of commitment and trust is also important to the representative of the organisation who is tasked with developing a relationship with the Guanxi member. The reason for this is that the sharing and creation of knowledge requires trust amongst the individuals involved in the process, and this trust in the relationship and process extends to both the Guanxi network member and the organisation’s representative. Without this trust, the sharing of knowledge and new knowledge creation may not be effective.

In the initial part of a relationship building process, an organisation may consider involving a senior manager of the organisation in the process. Through this involvement of senior management, further credibility can be established in the process. This inclusion of senior management will implicitly communicate to the Guanxi member that the organisation as a whole is committed to the relationship. The reason for this appearance of commitment is that through the inclusion of a senior manager credibility is given to the process. The reason for this is that through the manager’s interest in the process an impression is created that the organisation as a whole is committed to the process. Furthermore, focus should be placed on communication as through continual communication, a sense of inclusion in the process can also be created and commitment to the process can be achieved. Once again, this sense of inclusion and commitment are important as they are elements of the finely interwoven networks which are evident in China, where members work together toward a common goal.

Therefore, in order for an organisation to effectively incorporate the knowledge held by a Guanxi network, it is important that their communication strategy addresses both the implicit and explicit cultural characteristics that are inherent to China. This cultural consideration can, for example, as mentioned earlier be through the inclusion of senior management. It is important for an organisation to recognise the importance that is placed

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10 An example provided during Summer University – China Business (2009)
on the development of trust between the individuals involved in the knowledge process, as without this an organisation may not benefit from the knowledge held by the Guanxi network. This involvement is important, as through this, the Guanxi network can be included in the Knowledge Management process as a knowledge resource. It is this inclusion as a resource that can be used in an organisation’s business strategy to gain a strategic advantage in today’s global economy.

5.5. **Future Considerations**

Further research can be done on Organisational Theory in the context of how individuals and groups behave within an organisation. This can be done with consideration given to how organisational dynamics can either promote or hamper the relationship between an organisation and a Guanxi network. As communication is the process used during knowledge sharing and creation, research can be done into Communication Theory where special attention is given to how communication occurs within a Guanxi network and between networks members, and communication between the organisation and the Guanxi network based on how these two entities are structured.

Lastly, further research can be done into what the financial implications are when dealing with a Guanxi network, taking into account both the positive and negative elements that have an effect on membership of a Guanxi network. It is important here to also consider the organisational obligations that may be due by the organisation due to the Guanxi network’s link to the Knowledge Management process, for example company sensitive information.
6. Conclusion

With the pace at which business is conducted in today’s global economy an awareness of the benefits of effectively managing knowledge resources is important. This awareness is important as through the effective use of knowledge resources, an organisation can gain a strategic advantage. As know-how is the knowledge resource from which an organisation can benefit the most due to its uniqueness, it is important that an organisation carefully considers where these resources are held. Through the identification of these resources, the necessary activities can be implemented to capture and record this knowledge.

Furthermore, as business in conducted globally, an organisation can benefit from a cultural understanding and an awareness of how cultural encoding affects communication. This cultural awareness is especially important if an organisation wishes to harness the benefits that are achievable through the inclusion of cultural characteristics, like for example a Guanxi network in China.

In order to benefit from the knowledge held by a Guanxi network, it is important that an awareness of cultural characteristics is created and that communication reflects this awareness. Through this awareness trust can be developed. It is this trust based environment that is important as it is this interconnection which provides the environment that enables the sharing and creation of new knowledge. Through the inclusion of a Guanxi member in the knowledge creation process, an organisation has access to knowledge held by the Guanxi member. This inclusion provides the organisation with access to culture specific business knowledge of the Chinese business market, and it is this knowledge from which an organisation can benefit. This benefit is further enhanced due to the possibility to reconnect with the network during various phases of the business strategy.

One may therefore claim that though the conscious inter-connection of Knowledge Management and Guanxi networks, and through the networks existing inter-connectivity, an organisation has access to resources that can be invaluable to an organisation. Furthermore, through association with this network, knowledge can be gained which can enhance an organisation’s Knowledge Management process. Consequently, through incorporation in a Knowledge Management process, the culture and business specific
knowledge retained in a Guanxi network can, if effectively employed, be used by an organisation operating in China to gain a strategic advantage over competitors. This strategic advantage which can be gained emphasises the importance of drawing on cultural characteristics during the Knowledge Management process.
7. Bibliography


**On-line Dictionary references**

**Know-how**

**Trust**

**Knowledge economy**

**Additional reading**

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8. **Appendices**

**Appendix 1**

**Appendix 2**

**Appendix 3**
Nonaka et al’s “*Ba as shared context in motion*”

**Appendix 4**

**Figure 1**
Single Points of Convergence between Knowledge Management and a Guanxi Network

**Figure 2**
Multiple Points of Convergence between Knowledge Management and a Guanxi Network