

**BUSINESS-TO-BUSINESS RELATIONSHIPS IN CHINESE
CONTEXTS: CONCEPTUALISING THE INTERCONNECTIONS
AND OUTCOMES OF KEY *GUANXI* CONSTRUCTS**

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Abstract

Relational marketing is increasingly important in business. Various studies (Amber 1995; Chen 1995; Davis 1995; Wong, 1999) have acknowledged trust, dependency and reciprocity as key dimensions of China's "*Guanxi*" business relationships, but not identified the interconnections among these. This paper explores these relationships to provide a better understanding of the nature of long-term business-to-business relationships between Chinese and Western firms. In addition, the development of a conceptual framework including these key *Guanxi* constructs and linking them to relationship performance is proposed, together with proposed future research.

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INTRODUCTION

The purpose of this paper is to provide greater understanding of *Guanxi*, its relationship to Western practices of relational marketing, to indicate how *Guanxi* links to successful business outcomes in China and to consider how to use this knowledge for effective business practice. For a number of years, authors considering business to business relationships and networks (e.g. Blankenburg-Holm et al 1996; Hakansson and Johanson 1993; Hallen et al 1991; Wilkinson and Young 1989, 1997) have advocated that researchers shift the focus of their research from a transactional to relational approach. The importance of relational marketing has been recognised more recently in the field of international business (Keep et al 1998). At the same time, studies focusing on relationships in China's have increased. Recent studies (Abramson and Ai 1999; Chen and Chen 1998; Ewing 2000) have acknowledged that the Chinese version of relational marketing significantly contributes to the long-term overall performance and short-term sales performance of foreign firms in China. Various studies (Amber 1995; Chen 1995; Davis 1995; Wong 1999) have identified that central to relationship building in Chinese business is "*Guanxi*". The paper is organised as follows. Key studies on the importance and nature of *Guanxi* are reviewed. Emerging from this review is a conceptual framework that considers more specifically than previous work, the interrelationships between key aspects of *guanxi* and the factors that moderate between relationships and performance in China. The paper closes with suggestions as to how this framework can be used by managers and for future academic research.

RELATIONAL MARKETING IN CHINA AND THE SIGNIFICANCE OF *GUANXI*

In theories of relational marketing buyer-seller exchange is conceptualized as a largely cooperative process (Wilkinson and Young 2002) where a mutual exchange and fulfilment of promises takes place in a network of sellers, consumers, stakeholders and competitors (Gronroos 1994). This is particularly apt in a Chinese context where, it is argued, business relationships are *Guanxi* based (Rodrigo 1998; Amber 1995; Wong and Chan 1999; Chen 1995; Davis 1995). Literally translated, *Guanxi* means "personal relationships" (Standifird 2000). Chen (1995) defined *Guanxi* as, "(personal relationships) with implications of a continual exchange of favours". *Guanxi* also refers to the concept of drawing on broader connections or networks in order to secure favours in personal or business relationships (Luo 1997). *Guanxi* can be envisaged as the glue that holds networks together; "the social interactions within the network place its members in the equivalent of an infinitely repeated game with a set of people they know" (Davis 1995).

Business literature comments extensively on the functional benefits of these personal connections seeing them as "*essential to establish a good relationship before committing to business transactions...*" (Amber 1995) and commenting that it is *Guanxi* rather than Western-based entry strategies that "*should be given the first priority in Chinese business circles*" (Su and Littlefield 2001). However, *Guanxi* plays a much wider role than merely the way in which Chinese markets should first be breached. It guides the fundamental orientation of relationships. A *Guanxi* relationship is personal and beneficial to both parties in multiple contexts, rather than being just as a tool for facilitating transactions (Yau et al, 2000). It is the fundamental safeguard of a relationship. For example, where *Guanxi* is strong, a contract may be drawn up at a much later date, but not considered as important or necessary (Yau et al, 2000).

Guanxi fulfils social, economic and legal functions (Wong and Chan 1999). The *social perspective* suggests *Guanxi* relationships are made up of instrumental, as well as expressive ties. Expressive ties exist among the members of an extended family and close friends, in whom the allocation of limited resources is determined by individual need rather than individual contribution. Instrumental ties involve allocating resources to outsiders or strangers based on individual contribution. A direct

refusal to do so could cause disrespect to the receiving party. From an *economic perspective*, the informality of *Guanxi* relationships reduces transaction costs by making business deals in China more effective and efficient (Wong 1999). Finally, the *legal perspective* suggests that Chinese businesspeople use informal rather than formal sanctions. Contracts become a consequence of mutual trust rather than a mechanism within which it can be built (Wong 1999). This contrasts with a western view that a contract should be finalized before any formal cooperation is undertaken (Williams et al 1997). Sanctions are built within the expressive family ties, as well as instrumental ties within business environment (Wong 1999).

This view of relationships is not entirely compatible with the approaches of Western-style relationship marketing. While personal relationships are seen as fundamental in *Guanxi* to develop a future business relationship, relationship marketing does not view personal relationships as important at an early stage (Williams et al 1997). In a Western context, a relational marketing plan starts by defining its network of channels, business contacts and key influence agents (Gronroos 1994) rather than the network of influence and trust to which one has access. In a Western context businesspeople build transactions first and, if they are successful, believe a personal relationship will follow (Williams et al 1997). In contrast, it is suggested that Chinese business relationship building is a continuous process that commences with building *Guanxi* prior to business commencing and where *Guanxi* building continues throughout the process (Keep et al 1998; Rodrigo 1998; Yau et al 2000). Such approaches are not entirely limited to Chinese or Asian firms. Interestingly, Nicholas et al's study (1999) indicates that many Australian firms are adopting a Chinese rather than Western approach to relationship building. The importance of *Guanxi* is supported by a number of studies (e.g. Abramson and Ai 1999; Chen and Chen 1998; Luo 1997; Wong 1999; Wong 1998). The link between *Guanxi* and performance has been explored in varied contexts. Ewing (2000) explored the benefits of *Guanxi* for Singapore firms trading in China, identifying it as a key success factors for Singaporean firms that it has have successfully cultivated social and business networks in China. Abramson and Ai (1999) identified effective *Guanxi* relationships as the most important factor affecting the sales and overall performance for Canadian companies doing business in China. However the focus in this and indeed most studies to date is on the performance – *Guanxi* link rather than the nature of *Guanxi* itself. As Wong (1999) states: "*Although extensive research on relationship marketing has been carried out in recent years, there has been no definite understanding of complex concepts of Guanxi relationships in a Chinese society...*"

THE DIMENSIONS OF GUANXI

The limited work that recognizes the complexity and subjectivity of *Guanxi* often speculates on the dimensions it contains. We use a basis of discussion Wong's (1998) *Guanxi* model because it presents a comprehensive range of *Guanxi* dimensions and links these to performance and in particularly relational outcomes. Dependence, exchange of favors, adaptation and trust are all postulated to have a direct affect on quality of relationships. Trust and adaptation are postulated to have direct and strong effects of sales performance, mutual dependence and reciprocating favours are thought to have an indirect and less significant effect and to be instead related to termination costs (Wong 1998).

It is beyond the scope of this paper to explore these constructs in depth. The importance of trust and adaptation in effecting business performance has been widely discussed. Factors including the impact of trust on relational continuity, the depth and scope of activities that that can be effectively performed, the positive impact on network growth and development, the possibilities for personalization are among the benefits identified (see Abramson and Ai 1999, Moorman et al 1993, Morgan & Hunt 1994, Sullivan and Peterson 1982, Wong 1998, Young and Wilkinson 1989, 1997). Similarly, mutual dependence has been positively linked to relationship quality and performance (Wong 1998, Svensson 2002) due in particular to reliance upon to the information and resources (Davies et al 1995; Wu 1996). However there is little consensus on the sources or dimensions of dependence and limited understanding as how it operates on relational performance

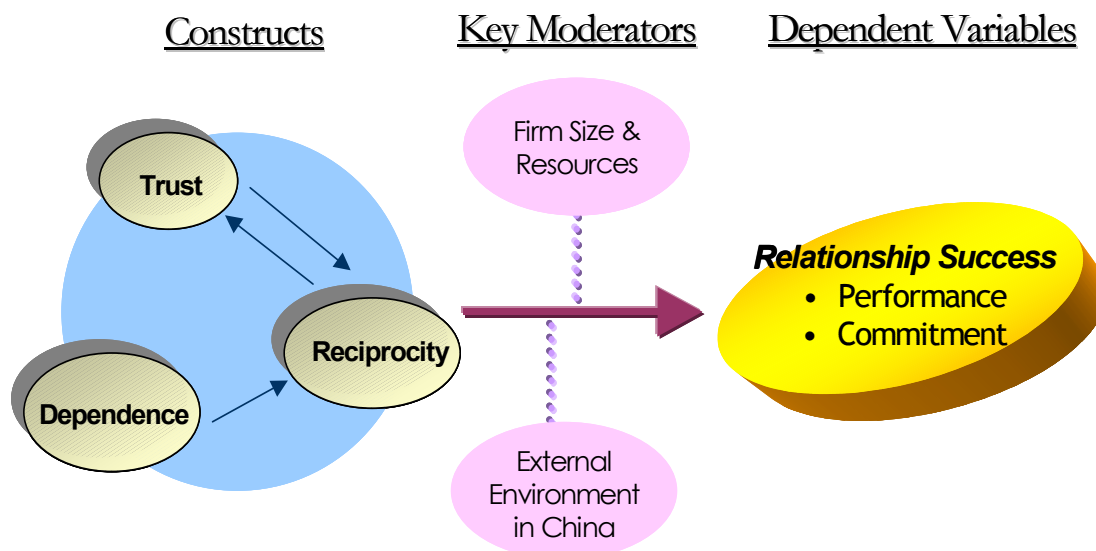
(Young and Wilkinson 1994, 1997). The process of exchanging personal favours is termed as “reciprocity” (Su and Littlefield 2001). In *Guanxi*-based relationships whenever a favour is obtained, an obligation to return the favour is created. *Guanxi* relationships do not practice repayment immediately. Rather, continuing obligations are a framework in which relationships are enhanced and strengthened (Su and Littlefield 2001). In Wong’s (1998) study, reciprocity was positively related to the quality and cost of relationships and reciprocity is found to be one of the key dimensions of *Guanxi* in other studies (Su and Littlefield 2001; Wu 1996).

Trust, dependence and reciprocity have been conceptualized as that which constitutes the distinctiveness of a *Guanxi* relationship and have been operationalised and used as such in studies of business relationships (e.g. Wong et al 2001, Mavondo and Rodrigo 2001). However the focus of such study often has been on one *Guanxi* aspect, e.g. trust. For example, Håkansson and Johanson (1993) and Svensson (2002) have considered the centrality of and the links of dependence, as have Chen and Boggs (1998) and Child and Mollering (2001) with trust and Keister (1999) and Su and Littlefield (2001) with reciprocity. Little work has considered how the various aspects of *Guanxi* are interconnected within successful business relationships. In Mavondo and Rodrigo’s (2001) and Wong and Chen’s (1999) studies, their models assumed each *Guanxi* construct operated independently. Thus, the dynamic role of *Guanxi* in business relationships remained largely unknown (Ying 2002). This is contrary to much of the IMP work that has considered the relationship atmosphere, of which *Guanxi* would certainly be a part, as a richly interconnected whole.

PROPOSED CONCEPTUAL FRAMEWORK

Figure 1 presents our framework of *Guanxi*, the interconnections between its components and its impact on relationships. This framework is line with studies that have considered the relationships between constructs, though not necessarily *Guanxi*. For example as reflected in our model, Keister (1999) found that dimensions of dependency promote reciprocity. Child and Mollering (2001) that trust can be established by reciprocal exchanges. And Su and Littlefield (2001) found that reciprocity is influenced by the degree of trust.

Figure 1: Conceptual Framework on Interconnections of *Guanxi* Constructs



Our model also moves beyond the work of other theorists (such as Wong 1998) as it directly considers the extent to which the characteristics of the firms participating in exchange impact on the performance of the relationship, This is in line with findings of a number of studies that indicate that in overseas operations the importance and resourcing of relationships (e.g. Gomes-Casseres 1997; Kohn 1997, Chen and Chen 1998, Redding 1996) and firm size (e.g. Chen and Chen 1998,

Luo 1997, Buckley 1989) are linked to the need for effective relationships. We therefore propose that firm size and resource are important moderating variables among the interactions of key *Guanxi* constructs.

Also embedded in our framework is recognition of the unique character of the China business environment and its importance in relationships (Anderson et al 1994, Luo 1997) and more specifically in *Guanxi* (Tan and Litschert 1994; Yan and Gray 1994, Tan and Litschert 1994; Yan and Gray 1994) development. The consequences of successful *Guanxi* has been empirically linked to performance including both long (Abramson and Ai 1999, Ewing et al 2000) and short-term (Gronroos 1994) economic performance. Social/economic personal including aspects such as organizational commitment have also been considered as part of performance and linked to *Guanxi* development (Mavondo and Rodrigo 2001). Particular aspects of *Guanxi* have been similarly linked to performance, in particular trust and adaptation (Wong 1998). We therefore argue that our framework is both empirically supported and integrates much of the thinking to date on the nature and role of *Guanxi*. It also extends the debate to a more systematic consideration of the relationships between the theoretical perspectives that were not previously considered.

CONCLUSIONS AND FUTURE RESEARCH

Numerous studies suggest that Chinese businesspeople develop *Guanxi* prior to business negotiations or transactions (Keep et al 1998; Rodrigo 1998; Yau et al 2000). As Western businesspeople begin to interact in Chinese markets they are finding that their model – that of building transactions first and, if they are successful, following up with a personal relationship - is not effective (Williams et al 1997). A review of the literature has determined that the models of this process to date do not entirely capture the phenomena we seek to explore.

Future research in this area should benefit from our framework, which identifies the linkages and interaction between key *Guanxi* constructs that have previously been ignored and that also provides a basis of prescription for managers. Near completion is an in-depth qualitative study considering the workings of Chinese business networks as they function in business relationships with foreign firms and their members via interviews of Chinese and Western managers operating in Sino-Australian dyads. This will enable us to validate our model in a preliminary way. In the longer term we hope to more deeply consider the process by which *Guanxi* is developed. Understanding of the way(s) in which managers signal, act and interact to build and harvest the obligations of *Guanxi* would be useful to businesses seeking to enter Chinese markets and develop relationships with local firms and from a public policy perspective. Governments seeking regulate and administer cross-national business need to do so in harmony with the cultures and customs of potential trading partners. Too often this is considered only at the most macro level but an understanding of the micro processes can facilitate environment with fewer rather than more barriers to relationship building. In addition to being administratively sensitive to the requirements of Chinese trading partners, understanding of the processes of *Guanxi*, could enable (better) training of firms and individuals seeking to enter China in the skills of reciprocity and meaningful training in cultural sensitivity.

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