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Title: The role of Guanxi in buyer-supplier relationships in Chinese small and medium-sized enterprises – a resource based perspective

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The role of Guanxi in buyer-supplier relationships in Chinese small and medium-sized enterprises – a resource based perspective

Abstract
This paper examines the role of guanxi (personal relationships or connections) in buyer-supplier relationships in Chinese small and medium-sized enterprises (SMEs), through exploratory research that gained access to companies actually using guanxi. The resource-based view (RBV) provided a systematic approach for analysing the role of guanxi in terms of its potential to be a source of sustained competitive advantage.

Business guanxi connections were identified as possessing the potential to be considered an organisational resource. This study identified several valuable attributes of guanxi at the organisational level. However, the guanxi-based advantage can only be sustained under certain conditions. SMEs should create an organisational environment that encourages their employees to actively establish and maintain guanxi connections within the company and beyond. However, companies in China need to recognise that firms that possess superior technological skills or capabilities have a stronger bargaining power, as they are able to deliver quality at competitive prices over the long run.

Keywords – Guanxi, buyer supplier relationships, resource-based view, China

1. Introduction
With a population estimated to be in excess of 1.35 billion, a transition towards a market based economy and apparently permanent positive economic growth, the People’s Republic of China (PRC) is reputed to be one of the world’s largest and fastest growing emerging and promising markets (National Bureau of Statistics of China, 2012). In the academic literature China is often portrayed as being a relational society, where the cultural concept of guanxi (personal relationships or connections) has a major influence on both social and business norms (Tseng et al., 1995; Styles & Ambler, 2003). Rooted in the Confucian philosophy guanxi practice has been pervasive in the lifeblood of the Chinese business community for more than 2000 years. Personal networks are popular universally, but in China, they have unique, distinct ways of operation (Gu et al., 2008) and any business, irrespective of size, local or foreign ownership, inevitably face guanxi dynamics in China (Luo, 1997a). So, while similar concepts to guanxi can be found in other cultures, we believe that the importance of guanxi relationships in Chinese social and business life deserves special attention (c.f. Standifird & Marchall, 2000).

While the Chinese government has pursued its liberalisation reform and promoting foreign investment, it has also encouraged a wide variety of privately owned SMEs to emerge (Carlisle & Flynn, 2005). In the past decade, private SMEs have been starting to gain tremen-
dous economic momentum and have been playing an important role in the Chinese economy (Cunningham & Rowley, 2010). Particularly, they have been easing employment pressure, encouraging non-governmental investment, contributing significantly to the economy’s growth and helping disperse the market prosperity among the broader population (Anderson et al., 2003).

The link between guanxi and SMEs appears to be driven by a pragmatic desire for advancement and organisation survival. Guanxi can be an important business tool to launch new commerce for SMEs because they often have neither a strong brand nor sufficient trust in relationships for doing their business. In addition, many Chinese SMEs face enormous handicaps such as lack of legitimacy, resources and lack of government support. In an environment such as this, guanxi becomes crucial in cultivating business relationships, managing scarcity, securing production factors, distribution channels, and institutional support and for that matter the firm’s survival (Xin & Pearce, 1996; Carlisle & Flynn, 2005). Su et al (2003) suggests that SMEs are perhaps more dependent on guanxi and thus might have different needs and capacities than larger companies due to their scarce resource base. They are therefore an import area for research with regards to the application of this business tool (guanxi).

The previous academic literature has faced a scarcity of resource-based analysis with sufficient theoretical depth regarding guanxi in buyer-supplier relations from the perspective of Chinese SMEs. Adopting the resource-based view (RBV) theory, the role was examined in terms of the potential of guanxi to be considered as a source of sustained competitive advantage. Specifically, two research questions were posed for this investigation: Question 1: How does guanxi in buyer-supplier relationships act as a source of competitive advantage for Chinese SMEs?; Question 2: When is this guanxi-based competitive advantage considered to be sustainable? By adopting an exploratory perspective for the research, the semi-structured and in-depth interviews with Chinese managers revealed some interesting insights and conclusions. Business guanxi connections were identified to possess the potential to serve as an organisational resource. They constitute a valuable part of the human resource and some of the connections can even be considered as strategically important for SMEs. Furthermore, this study identified several valuable attributes of guanxi at the organisational level. According to the RBV framework, guanxi can be considered as a potential source of competitive advantage. However, the guanxi-based advantage can only be sustained under certain conditions; these are explained further in this paper.

The paper is structured as follows. First, literature on the RBV and aspects of guanxi are briefly presented. This literature is used to assist in the research design and qualitative data on China and guanxi are presented in the findings. These are then discussed and compared to
findings from the literature. We finish with conclusions and suggestions for both researchers and practitioners alike.

2. The literature

Within this section we briefly present literature on the RBV and aspects of guanxi. This has been done to: i) reduce the degree of crossover between the literature and discussion sections; ii) control the word count within reasonable limits; iii) focus more on the ‘value add’ through the defined contribution of the discussion.

Business practices and concepts of relationship management differ in many regions of the world (Hofstede, 1983). In the case of China, a major difference constitutes the concept of guanxi which represents an important cultural component of buyer-supplier relationships (Ambler, 1994; Wong, 1998). In Chinese, guanxi refers to two characters, guan and xi, meaning “gate” and “connection” (Wan and Ng, 2013) and Cheng (2007:81) states that “one must pass the gate to get connected to [the] networks”. But what are the differences between guanxi and standard relationship management in Western companies? In the West, business relationships are also important resources for creating opportunities. Personal relationships and connections which are similar to guanxi exist in any country although definitions do differ from the term guanxi. Cheng (2007) identifies the differences between relationship management and guanxi in terms of: i) the personal characteristic of guanxi and the particular nature of the relationship; ii) trust from xinyong (trust); and iii) trust and the unique meaning of renqing (favour). Xinyong and renqing are said to direct behavioural norms in guanxi, and this is different from the Western concept of relationship management in terms of the order in which transactions and relationships take place and the short-term versus long-term nature of business transactions (Geddie et al., 2002 and 2005; Sin et al, 2002).

Guanxi is therefore complex, multi-faceted and existing definitions in the literature do not capture its true nature (Fan, 2002). Lovett et al (1999) and Park and Luo (2001) suggested that i) favour, ii) reciprocity, iii) face, iv) trust and v) affection are the central dimensions of guanxi. Please see Table 1.

Table 1 – Aspects of Guanxi

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Definition</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favour (renqing)</td>
<td>Guanxi relationships are established or strengthened when one party does something, e.g. a favour (renqing), thereby developing an unpaid obligation.</td>
<td>Hwang, 1987</td>
</tr>
<tr>
<td>Reciprocity (bao)</td>
<td>Guanxi also embodies reciprocity (bao) of renqing obligations by all parties involved. When one individual receives a favour, he/she is expected to reciprocate the favour in the future.</td>
<td>Hwang, 1987; Luo 1997a; Wong et al, 2007</td>
</tr>
<tr>
<td>Face (mian-</td>
<td>A key component in guanxi dynamics is defined as “… one’s respect,</td>
<td>Wong et al, 2007, p.</td>
</tr>
</tbody>
</table>
status, and moral reputation and an image of self-delineation in terms of approved social attributes as the recognition by others of one’s social standing and situational defined position”.

Personal trust (xinyong)
Due to the lack of stable political and legal structures in China, personal trust (xinyong) sometimes plays a more salient role than legal contracts among Chinese businessmen. Xinyong is different than the Western concept of trust; it can refer to the integrity, credibility, trustworthiness, or the reputation and character of a person.

Yau et al., 2000; Wang, 2007; Tong & Yong, 1998; Leung et al., 2005; Humphreys et al, 2011

Affection (ganqing)
The Chinese term for affection, sentiment, and a measure for emotional commitment or the degree of closeness. It determines an important dimension of guanxi ‘quality’. Building-up ganqing requires prerequisites, such as the experience of sharing and social interactions through the process of living, working or studying together.

Tsang, 1998; Tong & Yong, 1998

Examining a firm’s competitive advantage from the RBV perspective allows emphasis of the magnitude of importance placed upon the firm’s internal resources, such as capabilities associated with relational assets (Dyer & Sign 1998; Hunt, 1997; Morgan & Hunt, 1999, Yang, 2008). A firm’s resources can be perceived as strengths that a firm can use to conceive and implement its strategies (Barney, 1991) and categorised as financial, physical, human, and organisational assets (Barney, 1991; Morgan & Hunt, 1999). Guanxi might be considered as part of the firm’s human resources (Tsang, 1998; Fan, 2002) and primarily relates to personal relations and exchanges that take place among members of guanxi networks (Fan, 2002). Consequently, guanxi processes are often represented as a long-term personal investment into ones ‘social capital’ (Xin & Pearce, 1996; Luo, 1997a; Luo & Chen, 1997; Tsui & Farh, 1997; Nahapiet & Ghoshal, 1998; Fan, 2002; Standifird, 2006). On the other hand, guanxi can be perceived as an organisational resource if it is utilised for the purpose of the organisational goal achievement or as a way of finding business solutions (Xin & Pearce, 1996; Yeung & Tung, 1996; Luo, 1997a; Tsang, 1998; Fock & Woo, 1998; Park & Luo, 2001; Standifird, 2006; Gu et al, 2008). Guanxi can also be considered to be an organisational strategic resource (Peng & Heath, 1996; Luo 1997a,b; Luo & Chen, 1997; Zhang & Keh, 2010). Furthermore, resource heterogeneity and imperfect mobility represent two core elements of the RBV theory (Barney, 1991). Park and Luo (2001) have empirically proven that guanxi utilisation is heterogeneous across firms and depends on the institutional, strategic, and organisational settings of each organisation. Regarding resource mobility, however, guanxi that is related to human resources is argued to be mobile in nature (Luo, 1997a; Fan, 2002). Consequently, when an employee leaves the company, the guanxi connections leave the organisation with him/her (Fan, 2002). Thus, the imperfect mobility of personal guanxi depends upon the extent to which the company can retain its staff (Wright et al, 1994; Barney & Wright 1998; Tsang, 1998). Guanxi as an organisational resource, on the other hand, has the characteristic of being imperfectly mobile (Tsang, 1998).

A firm’s attributes must be valuable in order to be considered as strategically important
resources under the RBV (Barney, 1991; Yang, 2008). A review of the available literature identified seven guanxi-based value drivers. Please see Table 2.

Table 2 – Guanxi-based value drivers

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Definition</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative governance mechanism</td>
<td>Guanxi mechanisms such as trust, favour and face giving reduce risks in weak and uncertain legal systems and governmental institutional support</td>
<td>Xin and Pearce, 1996</td>
</tr>
<tr>
<td>Gaining access to scarce resources</td>
<td>A primary guanxi function which helps accommodate growth</td>
<td>Davies et al, 1995; Xin &amp; Pearce, 1996; Yi &amp; Ellis, 2000; Pearce &amp; Robinson, 2000; Park &amp; Luo, 2001; Su et al, 2003</td>
</tr>
<tr>
<td>Trustworthy, richer, and more useful information</td>
<td>The organisational guanxi network of reliable sources saves search costs, allowing partners to make more informed decisions</td>
<td>Luo, 1997a; Millington et al, 2006</td>
</tr>
<tr>
<td>Gain access to new business opportunities</td>
<td>Facilitates ‘back doors’ into the business community, through preferential treatment and mutual support instead of arms length dealings</td>
<td>Yi &amp; Ellis, 2000; Ambler, 1994; Luo 1997a</td>
</tr>
<tr>
<td>Corporate reputation enhancement</td>
<td>Development and maintenance of a network of high-quality contacts</td>
<td>Davies et al, 1995; Yi &amp; Ellis, 2000; Standifird, 2006; Fan, 2007</td>
</tr>
<tr>
<td>Reduce transaction costs</td>
<td>The potential to reduce opportunistic behaviour</td>
<td>Luo, 1997a; Standifird &amp; Marshall, 2000</td>
</tr>
<tr>
<td>Smooth transaction arrangements</td>
<td>E.g. the smoothing of transportation arrangements, procurement of production resources, collection of payments, long-term mutual collaborations between parties</td>
<td>Davies et al, 1995; Leung et al, 1996; Lee &amp; Dawes, 2005; Lee &amp; Humphreys, 2007; Humphreys et al, 2011</td>
</tr>
</tbody>
</table>

Guanxi was identified as really providing value. However, investment of resources such as effort, time and money are required for the cultivation, maintaining and utilisation of guanxi relationships (Luo & Chen, 1997; Fock & Woo, 1998; Lovett et al, 1999; Park & Luo, 2001). An important feature of guanxi is therefore that it is an organizational resource which belongs to specific individuals; in this it differs from other resources that can contribute to improved performance, effectiveness and efficiency. In general terms, organizations can accumulate business resources (such as know-how, skills, and capabilities) but guanxi is a mobile human specific resource. This means that when an employee leaves the company, the guanxi connections leave the organization with him/her (Fan, 2002). Guanxi is important for SMEs and business start-ups because they are often struggle to secure excellent human resources.

The RBV literature discusses a variety of isolating mechanisms, which act to preserve
the sustained competitive advantage\(^1\). Please see Table 3.

Table 3 – A variety of isolating mechanisms that preserve the sustained competitive advantage, according to the RBV

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Definition</th>
<th>Relevant Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guanxi as a rare resource</td>
<td>Businesses may face difficulties in the form of scarcity of appropriate guanxi connections</td>
<td>Tsang, 1998; Dyer &amp; Sign, 1998; Wong &amp; Chan, 1999; Yeung and Tung, 1996</td>
</tr>
<tr>
<td>Guanxi as an imperfectly imitable resource</td>
<td>i) unique historical path dependence</td>
<td>Yeung and Tung, 1996; Tsang, 1998; Dierickx &amp; Cool, 1989; Barney, 1991; Luo, 1997a; Fan, 2002</td>
</tr>
<tr>
<td></td>
<td>ii) social complexity</td>
<td>Barney, 1991; Park &amp; Luo, 2001; Ramasamy et al, 2006; Wong et al, 2007; Yeung and Tung, 1996; Dierickx &amp; Cool, 1989; Barney &amp; Hansen, 1994</td>
</tr>
<tr>
<td></td>
<td>iii) casual ambiguity</td>
<td>Barney, 1991; Tsang, 1998</td>
</tr>
<tr>
<td>Guanxi as an imperfectly substitutable resource</td>
<td>A review of guanxi literature revealed that the concept of substitutability and non-substitutability of guanxi is not addressed within the academic discussion so far</td>
<td>Barney, 1991</td>
</tr>
</tbody>
</table>

The literature review revealed limited studies (one) that attempted to address guanxi from a RBV perspective. Tsang’s (1998) analysis came to the conclusion that guanxi represents a necessary company resource, but as the sole success factor it is not sufficient for business success in China. However, Tsang’s study faced several limitations. First of all, he did not fully apply the RBV framework for his analysis. Particularly, his analysis did not address the substitutability question. Moreover, as with many other guanxi studies, there was no distinction made between guanxi with the government and the guanxi utilised in buyer-supplier relations, which can be different in nature (Park & Luo, 2001). Furthermore, Tsang also did not make the distinction between large and small and medium-sized companies. Finally, similar to the majority of guanxi literature, Tsang (1998) emphasised guanxi from the perspective of foreign enterprises but did not provide a focus on enterprises with a mainland Chinese background. This is an indication of the paucity of literature regarding a resource-based analysis with a sufficient theoretical depth of the role of guanxi in buyer-supplier relations in SMEs in China. Indeed, Wan and Ng (2013) in their paper focused on the significance of guanxi in relationship marketing (on perspectives of foreign banks in China) identify a lack of literature on relationships between guanxi and marketing/operations and call for further research in this area. Consequently, this investigation intends to cover this research gap.

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\(^1\) For assumed mechanisms see above, *guanxi as a heterogeneous and an imperfectly mobile organisational resource.*
3. Research methodology

The aim of this research was to examine the role of guanxi in buyer-supplier relationships in Chinese SMEs. Specifically, the role was examined in terms of the potential of guanxi to be considered as a source of sustained competitive advantage. By adopting the RBV framework as a theoretical lens, two research questions were identified as appropriate: Research question 1: How does guanxi in buyer-supplier relationships act as a source of competitive advantage for Chinese SMEs? This question is primary concerned with the analysis whether guanxi can be considered as an organisational resource and what valuable attributes it can provide to Chinese SMEs; Research question 2: When is this guanxi-based competitive advantage sustainable? This question allowed the analysis of the sustainability mechanism – rareness, imperfect imitability and imperfect substitutability.

A qualitative approach was considered appropriate due to the exploratory nature of the research - it enabled an investigation into areas of socio-cultural life, such as guanxi relations, where the collection of quantitative data is difficult or not possible to conduct (Glaser & Strauss, 1967; Bamford, 2008). This method emphasises a more open approach of data collection, which provides the opportunity to acquire in-depth rather than breadth data and understanding over the complex guanxi concept (Remenyi et al, 1998; Silverman, 2005).

The tentative nature of the research was very much emphasised by the struggle to get managers to take part. Whilst in general conversation people were willing to give an opinion on guanxi, once a request for a more formal discussion was made many managers chose not to proceed. Indeed, prior studies showed that Chinese people are reluctant to reveal information about their personal guanxi to strangers due to its sensitive nature (Yeung & Tung, 1996; Xin & Pearce, 1996; Fan, 2002).

To try and overcome the difficulty of finding managers willing to talk openly about the sensitive topic of guanxi, two methods were adopted. First, following the suggestion of Yeung and Tung (1996) to rely on personal contacts, managers were asked for a favour to establish an initial contact with Chinese managers in Chinese SMEs. The authors did have the restriction that they needed managers able to speak English (interestingly, this did not appear to be a problem at all), and for them to gain permission for an interview with the author (this was a problem). The second method employed relied on the so-called ‘snow-balling’ approach (Remenyi et al, 1998); after each interview it was explained to the interviewees the extremely difficult nature of finding Chinese managers willing and able to talk about guanxi. Some respondents were cooperative and provided access to further potential respondents. However, following-up on these few recommendations and getting agreement proved very
challenging indeed. This is an area mentioned within the recommendations for future research within the conclusion section. Furthermore, in order to protect the identity of the respondents and the companies they represented, the authors had to limit the detail presented on the organisations involved. This is a recognised limitation of the transparency of the primary research but could not be done any other way.

The issues of obtaining access to willing respondents and gaining their permission to use the data collected presented real challenges. In-depth interviews therefore provided the best apparent way to elicit information and control the data gathering as well as to provide deeper insights within this obviously highly sensitive area of research (c.f. Brand & Slater, 2003). Furthermore, this paper has been positioned as exploratory research from a methods perspective. To strengthen the validity of the contribution the authors asked additional respondents to recount actual examples of guanxi; we have therefore presented several concrete examples in terms of how guanxi works as a useful business tool. These are presented in section 4.6.

3.1 Sample profile

The population addressed in this investigation is targeted at SMEs located in China with Chinese ownership. There is no one standard definition for what constitutes an SME. In the UK the Companies Act 2006 defines an SMEs as: i) a small company has a turnover of not more than £6.5 million, a balance sheet total of not more than £3.26 million and not more than 50 employees; ii) a medium-sized company has a turnover of not more than £25.9 million, a balance sheet total of not more than £12.9 million and not more than 250 employees (Companies Act, 2006). For this research project we have applied this definition. Table 4 outlines the main sample profile of this investigation. The interviewees and the companies are coded in letters to preserve confidentiality and anonymity. The participating companies ranged in size in terms of employees from 5 to 140 with a mean of 63. Regarding the annual turnover, all participants indicated a turnover of less than US$100 million and thus they can be considered as small and medium-sized in nature. Further, five out of six companies were originally privately established with a history of 3 to 20 years. While, two of the companies belonged to the manufacturing sector (A, C), the rest of the firms (B, D, E, F) embodied mainly service providers. All of the interviewees were Chinese nationals with a gender split of one-third female and two-thirds male. Regarding the educational background, all of the participants disclosed that they have achieved a higher educational degree in Anglo-Saxon educational systems. All of the respondents were engaged in either buyer or supplier relations or both. Five out of six interviewees were senior managers and in charge of either the entire company or major departments. This majority also indicated that they possessed some degree of owner-
Furthermore, to provide real life examples of guanxi in application a secondary survey was carried out using seven additional SMEs within the Shenzhen Region; with the findings similarly coded. These companies were all Chinese owned and ranged from a pharmacy supplier with just 10 employees to a manufacturer with 45 employees. Please see Table 10.

### 3.2 Data analysis method

With the permission of the interviewees, all interviews were digitally recorded and transcribed verbatim. The analysis of the qualitative reference data was undertaken in the light of the understanding of the key issues regarding the guanxi and RBV theory identified previous-
ly in the literature review. This allowed the coding of the transcription material into categories derived from the literature, especially the RBV theory categories (Fereday & Muir-Cochrane, 2006). Reliability limitations refer to the difficulty of gaining the same results if the same research procedures are repeated. E.g. the semi-structured interview method would be difficult to repeat as the naturally emerged conversations with the respondents are difficult to replicate (Maylor & Blackmon, 2005). The validity limitation refers to the question whether the results are “generalisable” to a broader population (Maylor & Blackmon, 2005, p. 363). The main limitation of this research is the small sample size of six, core, in-depth interviewees and the lack of a random selection. Nevertheless, in the case of exploratory research, it is more about gaining insightful evidence regarding attitudes towards a certain topic in order to generalise to theory rather than to population (Miles & Huberman, 1994). Furthermore, there also might be a sampling bias. The sample was composed of Chinese managers who were able to speak English and possessed a Western educational experience. However, this might not apply to the broader population of Chinese managers. To address this concern, following the main data collection, analysis and discussion an electronic survey was conducted involving seven employee staff in small companies within the Shenzhen Region. The results of this survey are presented, with the addition of several concrete examples of the application guanxi. Of course, all concerns regarding research methodologies cannot be directly addressed within this paper, we have therefore made suggestions for further research in the conclusion.

4. Findings

The RBV framework was adopted as a theoretical lens to guide the research and facilitate a systematic analysis of the role of guanxi. Interview transcripts provided a rich evidence base to cover the RBV framework categories.

4.1 Guanxi as an organisational resource

The identified themes for the potential of guanxi to be considered as an organisational resource are summarised in Table 5. All respondents indicated that within their daily business practice they rely on guanxi when a need arises, problems need to be solved or when help is needed. The common perception is that guanxi can provide a higher likelihood of being successful and achieving company goals.
Table 5: Identified themes within the organisational resource category

<table>
<thead>
<tr>
<th>Identified Themes</th>
<th>Cited by Respondents</th>
<th>No. of Citations (out of 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of guanxi in daily occupational life and for organisational goal achievement</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Corporate encouragement for utilising and establishing guanxi connections for organisational purpose</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Guanxi cultivation as personal value enhancement and organisational guanxi as corporate value enhancement</td>
<td>B, C, D, E, F</td>
<td>5</td>
</tr>
<tr>
<td>Incentives provision for establishing ‘fruitful’ organisational guanxi</td>
<td>B, C, D, E</td>
<td>4</td>
</tr>
<tr>
<td>Guanxi as an evaluation criterion for new employees</td>
<td>B, D</td>
<td>2</td>
</tr>
<tr>
<td>Guanxi as a strategic tool for approaching customers</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Formal budgets for establishing new and maintaining existing guanxi connections to customer companies</td>
<td>B, E</td>
<td>2</td>
</tr>
<tr>
<td>Guanxi as a strategic tool for approaching suppliers and securing supply</td>
<td>B, D, F</td>
<td>3</td>
</tr>
<tr>
<td>Involvement of higher level positioned managers into organisational guanxi process</td>
<td>C, E, F</td>
<td>3</td>
</tr>
<tr>
<td>Transferring personal guanxi connections to the organisational level</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Authors

All participating companies encouraged their employees to utilise their guanxi for the purpose of company goal achievement. All senior managers (B, C, D, E, F) indicated that guanxi of their employees contributes, not only to their personal value enhancement, but also to the enhancement of the company’s value. Four respondents (B, C, D, E) also revealed that their companies provide incentives to their employees to utilise their guanxi. The incentives ranged from a renqing obligation, dinner with the boss, gifts and also monetary incentives. Respondent F explained:

“Essentially, every company is encouraging their staff to try to use their own personal guanxi. Of course they did not put it in black and white but no boss will be against this kind of guanxi. Everybody knows that in this kind of world you have to go for the guanxi otherwise you lock [yourself] the door.” - Respondent F

Some of the participating companies (B, D) even perceived guanxi as an important criterion of human resources in their field of occupation and thus evaluate their potential new employees on their guanxi before hiring them.

“Sales people are supposed to have guanxi, because this is a part of their value. Why do we hire someone, it’s because, of his personality in the first place, and in the second place, because of his or her guanxi. That is going to help a lot to promote the sales.” - Respondent D
Guanxi is also seen as a strategic tool for approaching new and existing customers and suppliers. All respondents said that guanxi is very important for suppliers in order to find and establish contacts to potential customers for the purpose of business expansion. Two respondents (B, E) also indicated that their companies have also established a formal budget for establishing new and maintaining existing important guanxi relationships with customer companies.

Three other respondents (B, D, F), also referred to the importance of having guanxi relationships with suppliers. Having this kind of guanxi relationships to the personnel of supplier companies allows them to gain information from suppliers quickly to achieve a safe supply of goods and smooth transactions. Interviewee B explained that some small companies could face the lack of access to goods directly from the manufacturer because of the large minimum order quantities asked by the suppliers. Here guanxi connections help to achieve a safe supply of goods though backdoor agreements.

Three interviewees (C, E, F) also highlighted that when new upper level guanxi between a customer and supplier is developed, it usually requires the involvement of higher positioned managers from the side of an SME sized supplying company. Even more, in the case of Chinese SMEs the establishment of important guanxi connections with key account customers can mean that the owner of the supplying company gets involved in the guanxi process. This involvement of senior management or owners into the establishment of important upper level guanxi connections has two functions. The first function was indicated by interviewee E:

“This is more about being convincing and showing respect and about giving face to the other higher positioned managers from the customer side.” - Respondent E

The other function refers to preserving important guanxi connections within the company and making the guanxi connections resistant against employees’ movements to other competitor companies. Respondent F described the most common approach mentioned:

“I recognize that guanxi is the employees’ own personal asset but at the same time I try to switch this personal asset to the company’s asset by encouraging my staff to introduce this kind of guanxi relationship to the other colleagues. In case my staff left the company, I allow [by doing this] that the door is still open.” - Respondent F

4.2 Guanxi as a valuable resource

Table 6 summarises the evidence on value adding benefits and the associated costs of guanxi-based buyer-supplier relations. The most cited valuable attribute of guanxi based relations is that they provide access to valuable information e.g. about the market, potential business opportunities, customers, suppliers, competitors etc., which can also result in a first-
mover advantage.

The second most cited (A, C, D, E, F) benefit refers to the enhancement of business in terms of gaining access to new deals and maintaining existing deals. Half of the respondents (B, C, D) also indicated that having the appropriate guanxi can contribute to decreasing transaction costs.

Three respondents (B, D, F) have also indicated that guanxi can reduce opportunistic behaviour from other parties. The threat of loosing good quality guanxi with a business partner prevents the other party switching to a competitor. SME suppliers are also unable to secure their position once the purchasing personnel are changed at the customer company. General manager F revealed an example where his company suddenly lost a cooperation contract that lasted successfully for several years with a big foreign company. The newly assigned foreign

### Table 6: Identified themes within the value adding attributes category

<table>
<thead>
<tr>
<th>Valuable Attributes of Business Guanxi Identified Themes</th>
<th>Cited by Respondents</th>
<th>No. of Citations (out of 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuable attributes of organisational guanxi</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gaining valuable and relevant information (e.g. about market, prices, potential business opportunities, customers, competitors etc.)</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Enhancing business: acquiring more business, gaining more business opportunities, getting the deals, increasing market share</td>
<td>A, C, D, E, F</td>
<td>5</td>
</tr>
<tr>
<td>Decreasing transaction costs</td>
<td>B, C, D</td>
<td>3</td>
</tr>
<tr>
<td>Preventing opportunistic behaviour</td>
<td>B, D, F</td>
<td>3</td>
</tr>
<tr>
<td>Gain access to resources in general terms</td>
<td>B, D</td>
<td>2</td>
</tr>
<tr>
<td>Smoothing transactions arrangements between buyer and supplier</td>
<td>B, F</td>
<td>2</td>
</tr>
<tr>
<td>Enhancing corporate reputation</td>
<td>C, B</td>
<td>2</td>
</tr>
<tr>
<td>Gaining first mover advantage</td>
<td>A</td>
<td>1</td>
</tr>
<tr>
<td>Creating flexible agreements or back door facilitation to suppliers or customers</td>
<td>B</td>
<td>1</td>
</tr>
<tr>
<td><strong>Opposing costs of guanxi</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time input</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Financial cost</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Personal effort</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Pay back of favours</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Uncertainty of guanxi exchange</td>
<td>A, C, D, E, F</td>
<td>5</td>
</tr>
<tr>
<td><strong>Trade off between benefits and costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost is rather an investment than an expenditure</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Opportunity cost of guanxi is perceived to be high (guanxi competition)</td>
<td>A, C, D, E, F</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Authors
purchasing staff just allocated the business to another supplier. However, having the appropriate upper level guanxi allowed F to prevent this loss of business.

Table 6 reveals further benefits, nevertheless, all interviewees were also aware of the opposing costs associated with guanxi practice. Participant E stated that his company spends between 2 to 5 per cent of total revenue to build-up important guanxi connections with customers and maintain existing ones. From the interviews, the costs associated with guanxi can be summarised as: (1) time; (2) financial; (3) personal effort, (4) reciprocation of favours; and (5) uncertainty over outcomes and span of time of reciprocation. However, these costs are perceived as an investment rather than expenditure. The common perception was that it is just a matter of time to when the investment was going to yield.

4.3 Guanxi as a rare resource

Table 7: Identified themes within the resource rareness category

<table>
<thead>
<tr>
<th>Guanxi as a Rare Resource Identified Themes</th>
<th>Cited by Respondents</th>
<th>No. of Citations (out of 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived scarcity of important business guanxi connections</td>
<td>A, B, C, E, F</td>
<td>5</td>
</tr>
<tr>
<td>Reasons for the perceived scarcity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficulty in identifying the right key decision makers</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Difficulty in establishing new guanxi connections</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Difficulty due to guanxi competition</td>
<td>A, C, E, F</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Authors

Table 7 outlines the evidence gained on the scarce nature of guanxi connections in inter-firm relations. Five out of six respondents (A, B, C, E, F) revealed that they have been lacking the necessary guanxi relationships. Even an experienced managing director (F) revealed:

“I have been dealing in China for 25 years already, and still feel the lack of guanxi. If you want to work as an agent for those overseas companies and if you don’t have this kind of guanxi, you won’t get it!” - Respondent F

Most respondents referred that having guanxi with the right decision maker requires access to upper level guanxi, which is very difficult to achieve. The first difficulty lies in identifying who makes the required decisions. Respondent D explained:

“In most of these companies, they don’t have only one head. We should first of all make sure we are in the right direction; we are contacting the right person. Otherwise, if you have made this step wrong you may lose the opportunity to have business with this company.” - Respondent D

Respondent F also referred to the difficulty of identifying the right heads on lower levels:

“Sometimes the operation department, or the operation managers, they also can do
a lot of damage or a lot of interruptions to your supply chain. Unless you know those key persons, there is no chance you can break the icing” - Respondent F

In case the key decision maker was identified, there is still the difficulty of establishing a guanxi relationship to a person they never knew or met before.

“They don't know you and you don't know them. So normally, they will not trust you and they will ignore you.” - Respondent E

Moreover, the guanxi competition that might have a higher ‘quality’ guanxi to key decision makers might also result in a barrier for establishing this kind of influential guanxi. The common opinion was that, in a business environment such as PRC, if one does not go the guanxi way, the competition would. The opportunity costs of not having this kind of guanxi are perceived to be high.

4.4 Guanxi as an imperfectly imitable resource

Table 8 provides a summary on the imperfectly imitable nature of business guanxi. The evidence was categorised according to the three RBV mechanisms of the imperfect imitability construct: i) historical path dependencies; ii) social complexity; and iii) casual ambiguity.

Table 8: Identified themes within the imperfect imitability category

<table>
<thead>
<tr>
<th>Guanxi as an Imperfectly Imitable Resource Identified Themes</th>
<th>Cited by Respondents</th>
<th>No. of Citations (out of 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Historical path dependence</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term perspective in guanxi relations</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td><strong>Social complexity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social interactions as a necessity for maintaining guanxi relations</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Feelings and emotions can constitute business guanxi relationships</td>
<td>A, C, E, D</td>
<td>4</td>
</tr>
<tr>
<td>Blurred boundaries between business and friendship perspective</td>
<td>C, D, E, F</td>
<td>4</td>
</tr>
<tr>
<td>Mutual personal trust in long-term oriented guanxi</td>
<td>A, C, D, E</td>
<td>4</td>
</tr>
<tr>
<td>‘Quality’ and closeness of guanxi as a barrier mechanism against competition</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td><strong>Casual ambiguity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Situation specific nature of guanxi</td>
<td>E, D, F</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Authors

All participants provided indications that guanxi relationships are long-term in nature. This long-term perspective on guanxi relations requires the participants to continuously invest resources such as time, money, and personal effort in order to maintain and strengthen their guanxi relations. Some of the respondents (A, B, C, E) also indicated that some of their guan-
xi-based cooperation has existed since or even before their companies were founded. Interviewee F revealed some common social interaction activities used for strengthening guanxi:

“In China, normally you have to communicate more with the business guanxi partner, you have to be friendly and occasionally you go to have dinner, drinking, and singing with them. This is the time to build, secure and strengthen that kind of guanxi relationships.” - Respondent F

Five interviewees (A, C, D, E, F) also highlighted some indications for social and cultural complexity of guanxi relationships. Guanxi is perceived to be more than a relationship as opposed to the Western perspective. It has more social attributes in it, which makes it difficult to distinguish between where business objectives tend to play the role and where friendship starts to emerge. Feelings and emotions can also be a part of the guanxi-based exchange. Thus, the boundaries between business and friendship tend to be blurred. Interviewee D emphasised the attitude behind guanxi:

“When we maintain guanxi, business purpose is kind of subconscious. It is not a theme. We just come out and feel happy and are friends. And then in the future, when the time comes and opportunity comes for business, then we talk about business. Then we also help each other.” - Respondent D

The long-term perspective of guanxi-based relationships also has an impact on trust between guanxi parties. Four participants (A, C, D, E) revealed a similar pattern of trust development. If the guanxi is just built and new in nature, then there tends to be no trust between business guanxi partners. However, if it is an existing long-term guanxi, with prior cooperation and interactions, then guanxi partners usually trust each other. Trust is also perceived to be a mutual product of both parties.

The analysis also proposed that ‘quality’ of guanxi tends to influence the guanxi-based exchange outcome. All respondents provided indications that high ‘quality’ guanxi, e.g. strong and close guanxi relationships tend to contribute to a positive achievement of business objectives. Ultimately, high ‘quality’ guanxi connections tend also to serve as a barrier for competitors to establish high ‘quality’ guanxi connections and conduct exchange with key decision makers.

Finally, respondents E and F indicated that guanxi with government officials will be differently approached than guanxi with suppliers or customers. Respondent D revealed that guanxi in different departments will be utilised for different purposes. For instance, guanxi possessed by members of the marketing department is utilised for gaining new and relevant market or competitor information, while guanxi possessed in the sales department is utilised...
for approaching buyers and gaining new customer contracts and those in purchasing department are primary targeted at suppliers for identifying the relevant suppliers and securing a safe supply of goods.

4.5 Guanxi as an imperfectly substitutable resource

Table 91: Identified themes within the imperfect substitutability category

<table>
<thead>
<tr>
<th>Guanxi as an Imperfectly Substitutable Resource</th>
<th>Cited by Respondents</th>
<th>No. of Citations (out of 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common perception on replaceability of guanxi</td>
<td>A, B, C, D, E</td>
<td>5</td>
</tr>
<tr>
<td>Guanxi as a cultural product is difficult to replace</td>
<td>A, B, C, D, E</td>
<td>5</td>
</tr>
<tr>
<td>Similar guanxi substitutes</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>‘Quality’ and closeness on guanxi as a barrier mechanism against competition*</td>
<td>A, B, C, D, E, F</td>
<td>6</td>
</tr>
<tr>
<td>Dissimilar substitutes</td>
<td>C, E, D, F</td>
<td>4</td>
</tr>
</tbody>
</table>

*See above - Guanxi as an imperfectly imitable resource.

Source: Authors

The interview results regarding possible guanxi substitutes are summarised in Table 9. On one hand, the majority of interviewees (A, B, C, D, E) felt that there is nothing that can directly substitute the guanxi practice. They perceived that guanxi is deeply enrooted in their culture and common practice for centuries and thus almost impossible to substitute. Respondent C expressed:

“It has been done since a long time ago. We cannot change it! It’s ‘Gen Shen Di Gu’.” - Respondent C

‘Gen Shen Di Gu’ (根深蒂固) is a Chinese idiom and can be translated as ‘it is deeply ingrained in people’s mind’ or ‘such a culture is hard to change’ (Kingsoft Corp, 2010).

On the other hand, some respondents (C, E, D, F) reflected that guanxi alone is not sufficient to bring long-term success. In the end it is the product or service, which is sold to the customer for a particular price and with a particular quality. They highlighted that a fair deal, e.g. the right price and quality of a product or service, is still the main selection criterion of most customers. Even if they have some guanxi connections to a customer company they still have to deliver a high quality product or service at a right price in order to satisfy the customer, achieve the customer's trust and secure the contracts over the long run. Some of them have concluded that sometimes guanxi relationships utilised for the purpose of acquiring contracts with the customer might be substituted by a fair deal.

“One reason could be the price quote. The potential customers will choose the lower one, so that’s all about business, it is not guanxi.” - Respondent D
Respondent F also explained under what circumstances the fair deal might be considered as a substitute:

“In the world there is sometimes a fair deal. If everything is black and white, everything is open and transparent then your good quality, your good service and your good price have a chance to substitute. Then you do not have this kind of guanxi advantage.” - Respondent F

However, the same interviewee also emphasised that if guanxi relationships are accompanying a fair deal, the guanxi benefit can always be secured.

“In a fair deal, the guanxi definitely helps. This is how important the guanxi is. Without this kind of guanxi, then you might lose the business.” - Respondent F

4.6 Concrete examples

In addition to the above a survey was carried out amongst seven people from different SMEs within the Shenzhen Region. The results from this primary research was coded in the same manner as above (see section 3.2). Please see Table 10 for details of the company size, scope and scale. This additional research allowed the capture of real life examples of guanxi in application. Please see the examples listed below the table.

Table 10: Core themes identified by staff in small companies

<table>
<thead>
<tr>
<th>Guanxi as an Organisational Resource</th>
<th>Cited by Respondents</th>
<th>No. of Citations (out of 7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilisation of guanxi contacts in daily business practice</td>
<td>T, U, V, W, X, Y, Z</td>
<td>7</td>
</tr>
<tr>
<td>Encouragement for using your own personal guanxi contacts for companies’ purposes</td>
<td>U, V, X, Z</td>
<td>4</td>
</tr>
<tr>
<td>Guanxi as tool implementing strategies</td>
<td>U, V, W, X, Y, Z</td>
<td>6</td>
</tr>
<tr>
<td>Imperfect Mobility</td>
<td>T, V, W, Y, Z</td>
<td>5</td>
</tr>
<tr>
<td>Preservation of important guanxi connections before employees leave the company</td>
<td>T, V, W, Y, Z</td>
<td>5</td>
</tr>
<tr>
<td>Valuable Attributes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guanxi with business partners contributes to companies’ success</td>
<td>T, U, V, W, X, Y, Z</td>
<td>7</td>
</tr>
<tr>
<td>Drawbacks associated with using guanxi in business practice</td>
<td>T, U, V, W, X, Y, Z</td>
<td>7</td>
</tr>
<tr>
<td>Sustainability – Rareness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficulties establishing a guanxi connection to the right decision makers</td>
<td>T, U, V, W, X, Y, Z</td>
<td>7</td>
</tr>
</tbody>
</table>
The table above serves to reinforce the findings from the first phase primary interviews. In addition the participants recounted several concrete examples that explain further how guanxi works as a useful business tool:

“We have a small company and it is very important to have good relationships with our workmates and we have got more choice if we have good relations with our customers and suppliers because they can go to lower price for their products than others and they can sell them at a lower price than others which means that we can earn more money.” Respondent T

“A good relationship with a business partner can provide extra profit for the company’s success because they have a strong relationship with customers, suppliers and so they can use this resource to make a strong network and making a strong network is good for the company’s success.

If we don’t have strong relationships we can lose the chance to make more customers. Because we just sell the same products we need the necessary guanxi relationships with customers and suppliers. For example, for the suppliers, we have strong relation with the suppliers so we can go to lower price on materials to make the product and for the customers we have strong relations with the customers, we can sell more products for them and it’s a good long term development if we have good relationships with suppliers and the customers.” Respondent U

“I come from a medical family and my role is tax manager in my company. In China, the interpretation of taxation rules may vary by different tax officers. In order to develop good guanxi with them and get most valuable interpretation of taxation rules, I take the in-charge tax officer to see doctors if necessary.” Respondent V

“The most important thing is to increase communication, maybe some people they work
for a long time they will become friends from work partners, so they will know each other and maybe they will have dinner, have lunch, they will play together so they build a good relationship with the organisation.”  Respondent W

“Guanxi means networks for me. It can help you to get things done quicker and better if you use it in the right way. I would feel the need to use my personal guanxi in daily business practice when things are getting out of control under the normal business procedure. For example, something urgent comes up and there is no way you can get it done under normal procedures. Also, I might have to use it when I know it can help me to get things done sooner.

Our company has sales team who have good relationship with customers. Therefore they use this relationship to build-up more guanxi relationships which is good for selling properties.”  Respondent X

“Guanxi connections cannot be made unless you know someone who has guanxi to the right decision makers. So the difficult part of it is finding the person who can provide you meeting chances to talk to the right decision makers. Sometimes, in order to contact with the right decision makers you may have to meet a few people prior to that.”  Respondent Y

“We should be good friends and not just workmates and have some dinner for example. Sometimes we give them some gifts for our business partners, it is very important you know. For example my workmates (customer) son might get married and we give about 10,000 RMBS. It is very important, you know, to develop a strong relationships.”  Respondent Z

The examples stated above, from the participants, provide some very candid insight into the actual application, use, custom and practice of guanxi in China.

5. Discussion
Fundamentally this is a practitioner paper not conceptual one. In order to clearly add value and make a defined contribution within the confines of the necessary word limitation we have arranged the discussion around the research questions and the RBV construct.

5.1 Research question 1: How does guanxi in buyer-supplier relationships act as a source of competitive advantage for Chinese SMEs?

According to Barney’s (1991) RBV framework the criteria that constitute a source of competitive advantage are based on strategically important organisational resources that pos-
sess valuable attributes.

5.1.1 Guanxi as a resource

a. Guanxi as an organisational resource: Similarly to Fan’s (2002) argument all senior managers in this study recognised that business *guanxi* cultivation by their employees contributes to their employees’ personal value enhancement, which is similar to the notion of the investment into social capital (Luo, 1997a; Tsui & Farh, 1997; Nahapiet & Ghoshal, 1998; Fan, 2002). Moreover, some of the SMEs were identified as evaluating potential employees as to whether they possess any necessary *guanxi* connections before hiring. Consequently, *guanxi* can be perceived as an important attribute of the human resource.

Secondly, *guanxi* was also identified as an organisational resource, which is different to Fan’s (2002) argument that *guanxi* is solely personal in nature and cannot be transferred to or sustained on the organisational level. This study strengthened the position of Park and Luo (2001) and Standifird (2006) that *guanxi* can be an organisational resource when it is utilised for the purpose of the organisational goal achievement or as a way of finding business solutions. All of the participating SMEs encouraged their staff to utilise their personal *guanxi*. Some of the companies even provided incentives to their employees for establishing important *guanxi* connections with the potential to generate revenue. The encouragement of the employees to establish more *guanxi* connections may increase the potential to get exposed to more opportunities for exchange and thus increase the value of the human resources and the company.

Luo (1997a) considered business *guanxi* to be an *organisational strategic resource*. Similarly, *guanxi* was identified, on the one hand, as playing an important strategic role in identifying and approaching potential customers (Davies et al, 1995; Yeung & Tung, 1996; Luo, 1997b; Luo & Chen, 1997; Fock & Woo, 1998; Yi & Ellis, 2000; Park & Luo, 2001). As *guanxi* connections to customers play an important role, some of the SMEs in China also establish formal budgets for establishing and maintaining this kind of strategically important *guanxi*. *Guanxi* connections to suppliers play also a strategic role. Some of the small-sized companies rely heavily on *guanxi* connections in order to achieve flexible agreements with suppliers in order to secure a safe supply of goods despite a high minimum order quantity required by suppliers. This kind of *guanxi* reliance may also be interpreted as back-door facilitation through creating flexible agreements, long-term cooperation and surpassing arms’ length dealings (Ambler, 1994; Xin & Pearce, 1996; Su et al, 2003).

b. Guanxi as a heterogeneous organisational resource: Similar to Park and Luo’s (2001)
findings, this study revealed that *guanxi* application is situationally dependent, heterogeneous across firms and depends on the institutional, strategic, and organisational settings of each firm (Hunt, 1997; Park & Luo, 2001). For instance, *guanxi* with government officials will be differently approached than *guanxi* with suppliers or customers. *Guanxi* in different departments is utilised for different purposes.

c. *Guanxi as an imperfectly mobile organisational resource:* Fan (2002) argued that *guanxi* is mobile in nature and does not fulfil the RBV requirement. Yet, *guanxi* in this study was identified as possessing the characteristic of being imperfectly mobile when the personal *guanxi* connections are transferred to the organisational level. All companies participating in this study have established a similar approach described initially by Tsang (1998). By involving multiple employees in the *guanxi* process, *guanxi* relationships are transferred from the single *guanxi* ‘gate keeper’ towards multiple ‘gate keepers’ within the company. Consequently, when the ‘gate keeper’, who initially brought the *guanxi* connection into the firm, departs, the *guanxi* connection or the access to it can still remain within the organisation. For strategically important *guanxi* connections, it is usually not enough to transfer the *guanxi* to other staff. Rather top management and, in case of SMEs, even the owners of the company usually engage with the *guanxi* process in order to secure the connection by asking the particular employee to introduce the important *guanxi* contact to him/her and anchor the important *guanxi* connection within the company.

5.1.2 *Guanxi as a valuable resource*

According to the RBV theory, company attributes must be valuable in order to be considered strategically important (Barney, 1991; Yang, 2008). In consensus with the academic literature the most cited valuable attribute of business *guanxi* is its function for the attainment of valuable information, e.g. information about the market, potential business opportunities, customers, suppliers, competitors etc., which can result in a first mover advantage if the information is acquired at the right time (Davies et al, 1995; Yi & Ellis, 2000). *Guanxi* connections were also confirmed to be useful in gaining important information about suppliers as they serve as an important and reliable source of information (Luo, 1997a; Millington et al, 2006). Secondly, another important benefit refers to its potential to enhance business in terms of gaining access to new deals and maintaining existing ones (Yeung & Tung, 1996; Luo, 1997b; Luo & Chen, 1997; Park & Luo, 2001; Gu et al, 2008). Further, similar to Standifird and Marshall (2000) the evidence from this study indicates that having the appropriate *guanxi* could reduce opportunistic behaviour. SME suppliers in China are also unable to secure their
position once the personnel changes at customer companies. Having the appropriate upper level guanxi, was shown to help prevent a sudden loss of business to competitors. Moreover, this study also confirmed that guanxi has the potential to reduce transaction costs (Standifird & Marshall, 2000; Park & Luo, 2001; Millington et al, 2006), a smoothing effect on transaction arrangements between the buying and supplying firms (Davies et al, 1995; Leung et al, 1996; Nassimbeni & Sartor, 2006; Lee & Humphreys, 2007; Humphreys et al, 2011), a potential to enhance corporate reputation through guanxi networks (Davies et al, 1995; Yi & Ellis, 2000; Standifird, 2006; Fan, 2007), and the capacity to provide access to resources in general terms (Davies et al, 1995; Xin & Pearce, 1996; Pearce & Robinson, 2000; Yi & Ellis, 2000; Su et al, 2003).

Nonetheless, guanxi processes were also identified to have opposing costs such as time input, financial cost, personal effort, the returning of favours, and the bearing of uncertainty about the outcomes and timespan of the return favour (Luo & Chen, 1997; Fock & Woo, 1998; Yi & Ellis, 2000; Fan, 2002). Most participants perceived these opposing costs as an investment rather than expenditure, yielding more advantages than the financial outlay. The opportunity cost of not having particular guanxi connections to buying or supplying firms were perceived to be high. The common impression was that if one does not go the guanxi way, the competition will and gain the guanxi-based advantages, thereby eroding one’s potential success factor for a thriving business in China. All in all, guanxi was revealed to have the potential to be a strategically important organisational resource with valuable attributes for Chinese SMEs.

5.2 Research question 2: When is the guanxi-based competitive advantage sustainable?

The RBV theory proposes three criteria; resource rareness, imperfect imitability and imperfect substitutability, all of which need to be fulfilled in order to prove the sustainability character (Dierickx & Cool, 1989; Barney, 1991; Yang, 2008).

5.2.1 Guanxi as a rare resource

The majority of managers in this study perceived a lack of necessary guanxi relationships which is in analogy with Park and Luo’s (2001) point that guanxi processes in Chinese society can be found in every corner of daily social life, businesses and that organisations have diverse needs and capacities for cultivating their guanxi relationships. Even an experienced managing director (F) with 25 years of work experience in China expressed the lack of necessary business guanxi connections.

The difficulty lies in identifying and establishing guanxi connections with the ‘gate-
keeper’ of the particular business guanxi with the necessary relational resources (Yeung & Tung, 1996; Dyer & Sign, 1998; Wong & Chan, 1999). Having guanxi with the right decision maker usually requires access to upper level guanxi, which is very difficult to achieve (Tsang, 1998). Some study participants stated that it is also necessary to have guanxi connections at lower levels, especially to the operations area; decisions in this area can have an impact on the flow of goods between supplying and buying firms. On top of that, even in cases where the guanxi ‘gate-keeper’ was identified a difficulty persists, especially regarding the establishment of a guanxi relationship to a person one never knew or met before (Fock & Woo, 1998). Moreover, the difficulty of establishing new and influential guanxi can also be traced back to the guanxi competition, which might have an existing, stronger and higher ‘quality’ guanxi to the same key decision makers (Fock & Woo 1998; Yi & Ellis, 2000).

5.2.2 Guanxi as an imperfectly imitable resource

Imperfect imitability might exist if the resource is shaped by a unique historical path, social complexity or casual ambiguity (Barney, 1991).

a. Historical path dependence: The interview findings accentuated the long-term nature of guanxi relationships. Some of the guanxi connections may even exist from the foundation of the company or, in case of friendship, before that. Consequently, this long-term nature may be subject to what Barney (1991) termed as historical path dependencies. Competitors may face the challenging barrier to replicate this kind of historical path, e.g. sharing the same experiences, feelings and long lasting mutual benefits, in order to establish the same ‘quality’ guanxi.

b. Social complexity: Establishing a high ‘quality’ guanxi was also confirmed to be a socially complex process which requires continuous communication, face-to-face interaction and a high degree of sociability in order to strengthen the connections and establish the required ganqing as well as mutual trust (Yeung & Tung, 1996; Fan, 2002; Ramasamy et al, 2006; Wong et al, 2007; Humphreys et al, 2011).

Social and cultural complexity can also be seen in the common perception that the word ‘relationship’ by far does not capture the complexity and the obligatory power of guanxi as well as the various social attributes such as face giving, personal trust but also mutual ganqing (affection), which includes the feelings and emotions of the exchange partners (Tong & Yong, 1998; Yau et al, 2000; Fan, 2002). These social attributes make it difficult to distinguish between where business purpose tends to play a role and where friendship starts to emerge.
Usually, while business purposes tend to be subconsciously present, the time during which guanxi maintenance is taking place is more considered to be a friend-to-friend interaction. Thus, in the case of long-term guanxi relationships the boundaries between a business relationship and friendship tend to be blurred.

The notion of time compression diseconomies embodies the idea that the ‘quality’ of a one-year guanxi relationship will be inferior to the ‘quality’ of a ten-year relationship (Dierickx & Cool, 1989; Barney, 1991; Tsang, 1998). Analogically, the research results proposed that the ‘quality’ of guanxi tends to influence the guanxi-based exchange outcome. The existence of a mutual ganqing tends to contribute to the a positive achievement of business objectives. If ganqing is developed, the guanxi relationship becomes closer, more dependable and valuable for both parties (Tong & Yong, 1998). Ultimately, strong and high ‘quality’ guanxi tends also to serve as a barrier for competitors to establish the same high ‘quality’ guanxi and conduct exchange (Yi & Ellis, 2000).

Within the literature, mutual trust was also argued to be a further social barrier mechanism (Dierickx & Cool, 1989; Barney & Hansen, 1994; Humphreys et al, 2011). While new guanxi tends to have no or low trust within the relationship, existing long-term guanxi, with several prior cooperations and interactions, tends to have mutual trust in it (c.f. Tong & Young 1998; Leung et al, 2005; Lee & Dawes, 2005). Thus, according to Dierickx and Cool (1989) trust between guanxi partners, which is cultivated over a longer time period, can be perceived as socially complex.

c. Casual ambiguity: Finally, causal ambiguity exists when the link between organisational guanxi resource and a firm’s sustained competitive advantage is not understood or understood imperfectly (Barney, 1991). We demonstrated above that guanxi application at an organisational level is heterogeneous in nature, situationally dependent and can vary according to different organisational settings. Consequently, the social complexity and situation specific application of guanxi at the organisational level can make it casually ambiguous; it is difficult for competitors to understand all the key factors required for cultivating, nurturing and accumulating high ‘quality’ guanxi with key decision makers.

5.2.3 Guanxi as an imperfectly substitutable resource

Answering the sustainability question also requires analysing whether the organisational guanxi resource is subject to substitution (Barney, 1991). The common perception among the interviewees was that guanxi is deeply ingrained into people’s minds and into Chinese culture as a common practice of doing business for centuries (Luo, 1997a; Park & Luo, 2001). Such
a cultural product is difficult to change or substitute. However, despite this common perception a deeper analysis of potential similar or dissimilar substitutes was conducted. With regards to similar resource substitutes, one could refer to situations when competitors try to develop guanxi with parties similar to or even stronger than the firm’s guanxi partners (Tsang, 1998). Similarly, competition on guanxi was perceived in this study to move towards competing on the strength and ‘quality’ of guanxi that results in a barrier and the ultimate difference to the final outcome of the guanxi exchange. Thus, strong and high ‘quality’ guanxi, especially close guanxi with a high degree of mutual ganqing, tends to have the potential to be imperfectly substitutable and thus sustainable. Weak and distant guanxi, on the other hand, tends to be more easily substitutable through stronger guanxi and thus is less sustainable.

With respect to dissimilar substitutes, this study highlighted that guanxi alone is not sufficient to bring long-term success. In the end, it is the product or service, which is sold to the customer for a particular price and with a particular quality. Thus, the fair deal, especially the right quality at lowest price, remains the main selection criterion for most customers. Consequently, this study found that even when a supplying company has some guanxi connections to a customer company it still has to deliver a high quality product / service at the right price to satisfy the customer, achieve the customer's trust and secure the contract over the long run. A fair deal could be considered as a dissimilar substitute for guanxi relationships to customers. This point could be analogically linked to Park and Luo’s (2001) argument that firms with superior technological skills might have a stronger bargaining power and less need for guanxi relations. Here superior technological skills could be regarded as a reflection of the ability to deliver products or services at higher quality and lower prices.

Nevertheless, the authors argue that a fair deal should be considered subject to some restrictions in the business environment. A fair deal might be subject to a perfectly transparent business environment where business decisions are made on the merits of objective performance and not subject to any influence through other factors, especially relational factors, such as guanxi. However, as previously mentioned, guanxi relationships in the Chinese business environment have been common practice over the centuries (Luo, 1997a; Park & Luo, 2001). On top of that, where a fair deal might still be considered to substitute the guanxi relationship for the customer company, it still does not substitute the guanxi relationships to the suppliers, which is needed to achieve a safe supply of goods and facilitate back-door access to resources. It also does not substitute guanxi used for other purposes such as gaining valuable information and the resulting potential first mover advantage, or other value adding benefits. Where a fair deal is accompanied by guanxi relationships and is competing against similar deals, with weaker or without any guanxi relationships, the guanxi-based advantage can be
Finally, we acknowledge that both service and manufacturing companies have been included within this research and that the focus of these two groups strategic attentions, in terms of the point of creating business success and competitive advantage, would be different. For example it is possible that the importance of *guanxi* in service providers is different from that in the manufacturing sector; *guanxi* could be more important for service providers and for business start-ups. However, the authors believe that, in identifying the paper as practitioner based and not fully conceptual, it makes a contribution through examining how *guanxi* works as a resource in business activities of SMEs.

6. Conclusions

This paper has enriched the *guanxi* literature with an RBV analysis of the role of *guanxi* in buyer-supplier relations in SMEs with a Mainland Chinese background. The research highlights the ‘how’ question regarding the potential of *guanxi* to be a source of a sustained competitive advantage and also addressed the sustainability question, which previous research failed to address.

Following the theoretical framework of RBV, the discussion revealed that *guanxi* within buyer-supplier relationships can be considered as a strategic organisational resource with valuable attributes and thus as a source of competitive advantage for SMEs in China. However, the *guanxi*-based advantage can only be sustainable under certain conditions. Especially the long-term, strong and high ‘quality’ *guanxi* connections, e.g. close *guanxi*, which is surrounded by mutual *ganqing* (affection), tends to be rare, socially complex and imperfectly substitutable. This kind of *guanxi* serves as an imitation and a substitution barrier for the competition and thus is sustainable in nature. However, a fair deal, e.g. the highest quality at lowest price, might have the potential to substitute *guanxi* with customers for purposes of business enhancement, but not other *guanxi*-based competitive advantages such as information gathering, gaining first mover advantage, reducing transaction costs etc. Thus, the *guanxi*-advantage, in its full extent, can only be sustained over the long term, when it is accompanied by technical capabilities that allow the delivery of a fair deal (e.g. products or services at the right quality and the right price).

*Guanxi* is therefore used in daily business practice, helps implement strategies, and contributes to company success. There are drawbacks and difficulties associated with using *guanxi* and establishing connections to the right decision makers; plus some suppliers/customers do not automatically give preferential treatment. But company employees appear to strive to maintain *guanxi* relations, despite the interesting perceptions around aspects
of trust shown in the table. However, *guanxi* should be not considered as the ultimate business solution for everything; *guanxi* alone does not sell the product or service. Consequently, companies in China need to recognise that firms possessing superior technological skills or capabilities may have a stronger bargaining power (Park & Luo, 2001). Superior technological capabilities can be regarded as a reflection of the ability to deliver products or services at higher quality and at a lower price, which results in a higher potential to achieve a fair deal with the customer. Thus, *guanxi* connections should be considered as one success factor within a portfolio, to create a sustained competitive advantage. Hence, it is the combination of success factors which make the ultimate difference. Table 11 highlights the authors recommendations and potential implications for practitioners. SMEs need to recognise the importance of *guanxi* connections for the success of inter-firm relationships in China.

It should be acknowledged that this research faces some limitations commonly found in qualitative studies, and some unique to its setting. Obtaining access to willing respondents proved challenging; gaining their permission to use the data collected was an additional hardship. The small sample size and the lack of a random selection might limit the external validity and generalisability of the research findings. Moreover, the sample was composed of Chinese managers who possessed Western educational experience. This might not apply to the broader population of Chinese managers in SMEs. Finally, SMEs constitute the backbone of the Chinese economy and thus deserve more attention for research. For instance questions such as what is the role of *guanxi* within the corporate culture and how do *guanxi* relations or networks act as an information channel? Furthermore, perhaps there is a change of association between *guanxi* and size (or history) as time passes? Does a dependence on *guanxi* for business decline with the accumulation of business experiences? Is there perhaps a fundamental dynamic change of business process that affects the degree of dependence and importance of *guanxi* by time-series analysis (which is not econometric analysis)? These are still undiscovered areas of research within this fascinating field.

Table 11: Recommendations and implications for practitioners
### Recommendations

1. Recognise the importance of *guanxi* connections in inter-firm relationships.

2. **Create an organisational environment** that encourages the employees to establish and maintain *guanxi* connections within the company and beyond, with customers, suppliers and clients.

3. Focus on identifying the key decision makers on upper levels, but also those on lower levels, such as the operations department. Then focus on establishing and maintaining the *guanxi* connections to them.

4. Aim to establish multiple *guanxi* connections to the same customer or supplier in order to increase the likelihood of customer contract achievement or the safe supply of goods.

5. Focus on the creation of long term oriented and high quality *guanxi* relationships, which involves the development of close *guanxi* surroundings by a mutual and socially complex *ganqing* (affection).

6. Once the strategically important *guanxi* connections or the access to them is established, it is important that they are anchored at the organisational level.

7. *Guanxi* alone does not sell the product or service over the long run. Recognise that firms that possess superior technological skills or capabilities have a stronger bargaining power over the long run.

### Implications

In case a SME fails to recognise the importance, the company is under threat that the competition will gain all the *guanxi*-based advantages and erode one of its potential success factors in China.

This implies that the company might need to communicate the *guanxi* values as part of its corporate culture, and establish mechanisms that encourage the utilisation of personal *guanxi* for the purpose of company’s goal achievement.

The difficult, rare and socially complex nature of the process of building up important *guanxi* connections might imply:

- a considerable input of time,
- a long term attitude regarding establishment and maintenance of strong *guanxi*,
- an attitude regarding the investment of personal effort and resources into *guanxi*, and
- the acceptance of the uncertain nature of *guanxi*.

Transfer important connection from a single *guanxi* ‘gate keeper’ to the multiple *guanxi* ‘gate keepers’ within the company. In case of SMEs, involvement of top management (and owners) for anchoring strategically important connections within the company is required.

Focus on core capabilities. *Guanxi* is one success factor out of a success factor pool.

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Source: Authors
References


APPENDIX – INTERVIEW TOPICS

Guanxi as an organisational resource

1. What does guanxi means to you? When do you feel the need to use your personal guanxi contacts in your daily business practice?
2. Does your company encourage you using your own personal guanxi contacts? How do they encourage you? Could you provide an example?
3. When your company is implementing strategies focusing on approaching customers or suppliers. – What role does guanxi plays in implementing these strategies? Could you provide an example?

Imperfect mobility

4. How do you think your company preserves important guanxi connections within the company beforehand, especially before the employee intends to leave the company?

Valuable attributes

5. How does guanxi with business partners contribute to your company’s success?
6. From your perception, what are the drawbacks associated with using guanxi in business practice?

Sustainability – rareness

7. From your experience, what are the difficulties of establishing a guanxi connection to right decision makers?
8. Have you experienced that you (or your company) are (is) lacking the necessary guanxi relationships? What do you think are the main reasons for it?

Sustainability – imperfect imitability

9. How do you maintain your guanxi relations to business partners?
10. What is the role of trust in your guanxi relationships to business partners?

Sustainability – imperfect substitutability

11. Do you think there are any possible substitutes (or strategies) that can help to achieve the same results in business as with guanxi? If there are any, could you provide some examples?
12. Consider some of your main suppliers (or customers) who, from your viewpoint, are not giving your company preferential treatment as compared to your competitors. Can you state some reasons for these suppliers (or customers) for not giving preferential treatment to your company?