GUANXI-BASED STRATEGY AND COMPETITIVE ADVANTAGE: AN EXPLORATORY STUDY

A thesis submitted to the University of Manchester for the degree of Doctor of Philosophy in the Faculty of Humanities

2011

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The University of Manchester, Bo Guan
Degree of Doctor of Philosophy in Management
An Exploratory Study of Guanxi-Based Competence, October 2010

ABSTRACT

The influence of guanxi on business performance in Chinese market attracts increasing attentions from the literature. Many empirical evidences proved that guanxi as important business implementation deliver unique impacts to achieve successful business conducts. However, the strategic positioning of guanxi as an impetus to generate competitive advantage is lack of theoretical study from the existing literature field. Moreover, the theoretical boundaries and background for guanxi-based business competence are at an explorative stage. Due to the research situation in this area, the author is motivated to conduct this empirical study with the purpose of theory building in order to portrait a theoretical outlook for guanxi-based competence and its related strategy forms.

This study adopts grounded theory approach as a methodological foundation to investigate the real social process of guanxi-based business strategic implementations in Chinese market. Followed with the procedure of grounded theory, the research objectives were gradually achieved to complete the identified general research direction which is focused on exploring the strategic positioning of ‘guanxi-based competitive advantage’.

Firstly, this study explored the fact that guanxi is interdependent with firm’s core competence development. The supporting role of guanxi in business strategic implementations can be identified as a source of generating ‘quasi-competitive advantage’ which assists the firm to enhance its market-based core competence.

Secondly, guanxi is critically in a position of generating indirect impetus on improving firm’s business performance due to three major business realties, namely ‘cultural embeddedness’, ‘business necessity’ and ‘institutional influence’. Thus, guanxi-based business strategic paradigm is as important as market-based strategic paradigm in Chinese market. The author propose that the functionality of guanxi-based business strategy should be clearly defined as exploiting guanxi advantage to cope with the development of firm’s market-based competitive advantage.

Thirdly, the interdependent nature of guanxi and core competence is summarised into an evolving process of firm’s ‘co-development of guanxi-based and market-based competence’. In a word, the firm enhances its controlling power on guanxi management from ‘reliant guanxi’ to ‘dominant guanxi’ along with the development of its market-based competence and market bargaining power.

The new developed insight of ‘quasi-competitive advantage’ is originated from this grounded theory study. This theoretical outcome provides a breakthrough perspective for other researchers to extend the understanding of guanxi in business phenomena. Further development of academic and business knowledge on this theory may also contribute to the relevant studies on investigating strategic management issues in a transitional economic market.
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DEDICATED TO MY FUTURE
ACKNOWLEDGEMENT

I am very grateful to my supervisor Dr. Hong Liu, not only for sharing his academic expertise, but also for the patience and professional and paternal support he has generously provided over the past four years. I strongly appreciate the academic freedom I was afforded by him.

I am indebted to my family. This thesis is dedicated to them. Thanks for supporting me all through my studies. Without their support this thesis could not be completed.

Finally, I would like to express my gratitude to all my friends who helped me during my fieldwork and studies. You guys are my greatest wealth of life.

Bo Guan
Manchester
October 2010
CHAPTER 1 INTRODUCTION

1.1 Background

Since *guanxi* importance in the Chinese market has been heavily investigated from various aspects in the literature (such as: Child and Tse, 2001, Chow and Ng, 2004, Davies et al., 1995, Lee and Dawes, 2005, Luo and Chen, 1997, Park and Luo, 2001, Pearce and Robinson, 2000, Xin and Pearce, 1996), the exploration of the theoretical potentials on *guanxi*-based business strategic implementations becomes more necessary for more researchers to extend the knowledge and understanding related to this field. However, insufficient attentions have been paid to the evolutionary role of *guanxi* in China business from the literature (e.g. Guthrie, 1998).

Chinese economic reform from central planned to a market planned system has been carried out over 30 years. This program began in late 1978, the central government of China reached the general agreement on implementing tentative policy about the need to reform the state-planned economy and build a legal system that would support economic growth at the Third Plenary Session of the Eleventh Central Committee (Potter, 2004). Since then, both of the economic structure and institutional regime were constantly developed and improved for the purpose of accelerating and securing the economic growth of the country. So far, the path of Chinese economic reform has been a success. In general, there are three major stages can be traced from the process (Naughton, 2008; p. 91-135). In the first stage (1978-84), dual price system was introduced which the state-owned companies were allowed to sell the production above the plan quota, and the price of commodities were set according to both plan and market prices. The principle policies of opening the gate to foreign investment and allowing market-based system to adjust the main body of central planned economy, were confirmed and implemented. In the second stage (1984-93), the controls on private-owned business and the government intervention were continued to decrease. A remarkable achievement on the decentralisation of state control, leaving the power of autonomy to local provincial leaders in order to experiment the ways to increase economic growth and privatisate the sate sector (Brandt and Rawski, 2008). In the third stage (1993-Present), new institutions on supporting a market system were being established, but the reconstruction of old institutions were still carrying on (Qian, 1999).
Nowadays, the market system with Chinese characteristics based on market economy has been successfully developed and the development of institutional structure incrementally evolves toward a rule-based system. The specific research setting will focus on the latest market environment in China. In the era of post-reform China, the market and intuitional development have achieved remarkable progresses compare to the old days. However, as the transitional changes are continued to take place, many uncertainties and shortages of the system are still make significant influences on business activities under such a merging market environment.

It has been proven that the business uncertainties that arise from the institutional reforms in a transitional economy have significant impacts on firm’s business strategic choices: network-based or market-based (Peng and Zhou, 2005, Peng and Luo, 2000). Today, the market system in China is at a historical reforming stage of transforming from a network-based market system to a rule-based market system. At this point, guanxi as a personal network-based social mechanism plays a major role as a lubricant which is permeating everywhere in Chinese business activities, political and social life (Luo, 2007). On one hand, the imperfectly developed institutional system maintains certain rule-based market mechanism forcing players to obey. On the other hand, guanxi connections play as substitutes for formal institutional support to compensate the risks caused by potential institutional changes (Xin and Pearce, 1996). In nowadays, the business reality in China can be concluded as both guanxi-based and market-based capabilities are needed and necessary for the firm to sustain a long-term development. Thus, this study is intended to extend the theoretical understanding of the role of guanxi in strategic implementations and its strategic positioning in a firm’s business plans.

Basically, current researches in this area acknowledge the role of guanxi as an important strategic element which affects organisational outcomes from an individual level (Luo and Chen, 1996, Zhang and Zhang, 2006). Much empirical evidence from the area shows that guanxi is used as a business instrument to deliver some unique impacts on the improvement of operational efficiency and capability of risk avoidance (Xin and Pearce, 1996, Luo and Chen, 1997, Lovett et al., 1999, Standifird and Marshall, 2000). Since guanxi’s strategic role has been identified, some empirical studies try to explore more on how guanxi-based strategy works and provide some relevant implications for management practice (Fock and Woo, 1998, Luo and Chen, 1996). Other scholars also
intend to make efforts on developing models which interpreting the dynamic of guanxi as a kind of personal interactive mechanism in the context of business (such as: Lee et al., 2001, Wood et al., 2002, Wong et al., 2007). Nevertheless, the importance of guanxi at a strategic level has not been researched sufficiently. The broad empirical understanding and recognition of guanxi could be considered as a kind of ‘competitive advantage’, is insufficient to extend the knowledge of guanxi-based strategic implementations from a theoretical perspective. Therefore, the arising question is ‘how’ guanxi works as an important strategic resource to assist business development. For example, Tsang (1998) examined the strategic status of guanxi resource from a resource-based view and indicated that guanxi-based competence is difficult to be sustained. However, the theoretical boundaries and background related to ‘guanxi-based competence’ is ambiguous and still at an exploratory stage. The limitation of existing literatures in this field evokes more exploratory studies to enrich the theoretical background with more conceptualised understanding of guanxi-based competitive advantage from a strategic perspective. Thus, given the fact that there is insufficient literature explaining the issue concerning how guanxi importance influences business strategic implementations and planning, the author initiated this study in an attempt to outline a theoretical outlook for this area.

The grounded theory approach (Glaser and Strauss, 1967) was selected as the methodology to conduct this theory-building qualitative study. Moreover, grounded theory enables researchers to develop conceptual understanding of the realities which are focused in their studies through a set of inductive research activities (Holstein and Gubrium, 2003). The flexibility of research strategies and the rigours of verifying the emergent theory at a highly abstracted level from grounded theory approach (Glaser and Strauss, 1967) maximise the researcher’s theory-building freedom and enhance the capability of conceptualising empirical data in order to develop credible mid-range theories. In this case, it is necessary to have a grounded theory study on this topic of ‘guanxi-based competence’ in order to develop a new insight for extend the theoretical understanding of this business phenomenon. Compare to the methodology of using case study to build theory (Eisendardt, 1989), grounded theory is recognised as the most direct forward methodological approach in theory-building based on its well developed comparative method (Glaser and Strauss, 1967, Creswell, 2007, Corbin and Strauss, 2008, Charmaz, 2006). Not all research objectives are suitable for conducting grounded
theory studies (Charmaz, 1995). In this study, the author’s research focus was allocated on the social process of guanxi-based business implementations and the nature of participants interactions. Thus, grounded theory approach is well fitted in this research situation. Furthermore, unlike conventional methodological research principles, grounded theory has certain advantages for conceptualising and integrating emergent theoretical concepts in a substantive area, thus is regarded as an appropriate method for this research project.

In this study, empirical fieldwork and literature analysis (Glaser, 1992) are collaboratively used in the manner of comparative analysis (with the guidance of a grounded theory approach) in order to allow the abstraction and conceptualisation of substantive data to emerge in a natural way. The general purpose of this study is to try to theoretically interpret a real social process of guanxi-based strategic implementations. It is different from a conventional qualitative research manner which is initiated by an identifiable literature gap and pre-determined research framework. As a result, in this study, the author’s research interest and focus were gradually refined in accordance with the procedure of conducting the substantive fieldwork. Therefore, the research problems and questions were actually identified by the participants from their real social experiences.

To summarise, the author will attempt to explore the strategic positioning of ‘guanxi-based competitive advantage’ in this study. Followed by this emergent main research focus, the author finally outlined three main constructs as the theoretical outcomes of this study, namely guanxi as a ‘quasi-competitive advantage’, re-interpretation of ‘guanxi-based business strategy’, and three evolving stages of ‘guanxi-based and market-based competence co-development’. All related research issues and theoretical outcomes will be represented in the following chapters of this thesis.
1.2 Research Objectives

In accordance with the identified general research direction for exploring the strategic positioning of ‘guanxi-based competitive advantage’, the main objectives of this research are outlined below:

1. Explore the role of ‘guanxi’ in business strategic implementations.
2. Identify the theoretical boundaries of guanxi-based business strategy from a traditional view of strategy.
3. Extend the theoretical understanding of ‘guanxi’ as a competitive advantage.
4. Explore the rationale of the interdependence between guanxi and a firm’s core competence development.

1.3 Emergent Research Problem and Questions

In this grounded theory study, one research problem and two related core research questions finally emerged based upon the initial literature review and the first, five to eight interviews from the field. During the first round of empirical fieldwork, the author observed the fact that there was a close linkage between guanxi and a firms’ competence development. In fact, the interviewees implied that without certain well-developed competitive advantages ‘guanxi’ can be regarded as a useless element for business development. Nevertheless, once a firm intends to improve its market-based competence and sustain superior business performance for long-term development, ‘guanxi’ is still recognised as an essential strategic element, even a critical resource for business development. Due to this fact, the research emphasis is concentrated on the area of interdependence of guanxi and core competence. Moreover, the investigation of ‘guanxi business phenomena’ cannot be isolated from the market-based reality. Thus, this emergent research problem combined with both of these concerns, serve the objectives of this study.

**Emergent Research Problem:**

How does guanxi-based business strategy assist firms’ competence development?
**Emergent Core Research Questions:**

How does *guanxi*-based business strategy work?

How do *guanxi* development and firms’ competence development affect each other?

### 1.4 Structure of this Thesis

Chapter 1 is an introduction of the research background, objectives and emergent research problem and related core research questions. It explained that the purpose of this study is a grounded theory based, exploratory research, for theory building. The emphasis of this study is to try to explore the strategic position of *guanxi* as a competitive advantage in the Chinese Market in a general direction. As a result, three theoretical constructs were finally developed and the outcomes are represented in the following chapters.

Chapter 2 is an initial literature review. At the outset of this study, it was essential that the initial understanding and interest in the subject was conducted with an open mind, and must be critically conducted in order to make sure that the researcher’s direction would not be affected by any pre-determined theoretical framework generated from the literature. Therefore, a summary of briefly reviewed literature confirmed the fact that there is a lack of theoretical exploration on the topic in focus: *guanxi*-based strategy. Furthermore, a critical review of the existing literature revealed the necessity for conducting such an empirical study on *guanxi* phenomena.

Chapter 3 is the methodology section which includes a detailed description of how grounded theory is used in this empirical work. The methodological issues related to selection of the method, epistemological foundation and the principles of grounded theory are represented. Moreover, the process of conducting this fieldwork and emergence of the research problem and related questions are illustrated in this chapter. In addition, the data analysis procedure and emergent core concepts with its related core categories are exemplified. Finally, based on the theoretical integration of emergent core concepts an emergent theoretical framework was represented.
Chapter 4 is a comparative literature analysis which will provide a post-fieldwork literature analytical review in order to make conceptual comparison and integration of the substantive concepts that emerged from the fieldwork. As a result, guanxi-based competitive advantage and market-based competitive advantage are comparatively reviewed at the end.

Chapter 5 is the findings and discussion section. This chapter is a comprehensive interpretation of the theoretical outcomes which emerged from this grounded theory study. This chapter will provide a theoretical elaboration on the emergent theory of ‘quasi-competitive advantage’ and its related theoretical constructs: ‘guanxi-based business strategy’ and ‘co-development of guanxi-based and market-based competences’. Some theoretical models are developed as well to extend the understanding of guanxi in tactical situations. Furthermore, some practical implications are summarised based on the empirical fieldwork.

Chapter 6 is the conclusion. This chapter aims to provide a comprehensive conclusion to this study. Based on these considerations, the research outcomes, contributions, limitations and further research recommendations are outlined to finalise this thesis.
2.2 Introduction

Glaser (1992; p. 32) suggests that the researcher applying grounded theory should avoid a literature review before entering the field in order to ensure that the emergent theory is grounded from the data, rather than being forced to fit some preconceived theory. The reason is that the literature review may not only yield insufficient information, but also contaminate the researcher’s mind by making inaccurate assumptions (Glaser, 1992, Hickey, 1997). However, Bulmer (1979) and Dey (1999) argued that the researcher cannot be viewed as a tabula rasa. Actually, a pure empty mind open to the knowledge related to the field is impossible. Henwood and Pidgeon (2003) claim that ‘theoretical agnosticism’ only provides a useful stance to take throughout the research process. This perspective is congruent with Glaser’s (1978) standpoint that the researcher should keep a critical stance towards the earlier theories. Thus, the initial literature review in this study provides the researcher with an opportunity to have a general glance at the relevant knowledge without having any interest in the established research problem. By doing so, the researcher should not allow any preconceived constructs and hypotheses to guide the data collection from the onset (Shah and Corley, 2006).

In this study, the author started his research project related to the topic of ‘guanxi’ to a broad extent. Thus, the general interest was identified as ‘guanxi and business strategy’. After a brief literature review related to this general area of interest, the author found that there are a limited number of studies related to this area and a lack of theoretical contributions. As a result of insufficient literature and a lack of theoretical background this study is suitable for a grounded theory methodology (Glaser and Strauss, 1967, Glaser, 1978, Glaser, 1992). One reason is that it is difficult for the researcher to be influenced (Glaser, 1992; p. 33) by preconceived theoretical frameworks before developing his own theory from data. Also from a grounded theory perspective, the focussed social phenomena of business strategic management under the guanxi context is regarded as a ‘basic structural social process’ according to Glaser (1978; p. 93). Thus, the grounded theory method is confirmed as a legitimate research approach for this study by the initial literature review from the beginning. Therefore, the remainder of the
initial literature review is guided by grounded theory principles which require the researcher to critically use the literature without making any predetermined research problem and framework.

In this chapter, a number of key themes from the literature are provided in Section 2.3 and 2.4. On one hand, ‘guanxi’ as the key concept was carefully reviewed in the literature which can be categorised into three mainstream studies: (1) Explanation of guanxi as a social dynamic in China; (2) Exploration of the influences of guanxi in a business context; (3) Debate of the ethical issues of business guanxi in practice. On the other hand, the other key themes are related to strategic management perspectives which provide the researcher with a critical viewpoint for developing the new theoretical insight of the guanxi-based strategy. Furthermore, a critical reflection in Section 2.5 provides the identified limitations of the existing literature. As a result, the deficiency of theoretical background in the area of ‘guanxi influences on business strategy’ evokes the necessity for conducting such a study. Thus, the grounded new insight of a ‘guanxi-based strategy’ from this study may clarify the ambiguous area of guanxi.

2.3 Guanxi Perspectives

2.3.1 Guanxi as a Social Dynamic in China

Definition of Guanxi

Guanxi (interpersonal relationship) is one of the major dynamics of Chinese society (Dunning and Kim, 2007). The concept has no exact western counterpart (Wood et al., 2002). Yeung and Tung (1996) suggest that guanxi best relates to the ‘who you know not what you know’ concept in the West.

Bian (1994) states that guanxi in the Chinese language has multiple meanings: (a) the existence of a relationship between people who share a group status or are related to a common person, (b) actual connections with and frequent contact between people, and (c) a contact person with little direct interaction. In general, guanxi is literally defined as interpersonal connections that facilitate exchanges of favours between people with the
implications of continual favour exchanges, mutual commitments, loyalty and obligation (1997, Chen and Chen, 2004, Dunning and Kim, 2007). Wong (1998) defined *guanxi* as a special type of relationship which contains *trust*, *favour*, *dependence* and *adaptation*. Despite various definitions by scholars, *guanxi* is regarded as a kind of relationship, but relationships do not necessarily produce *guanxi* (Fan, 2002a). Fan (2002a) offers a summary of *guanxi* definitions from literature as shown in Table 1. These definitions illustrate *guanxi* as a dynamic process in practice.

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship</td>
<td>A special relationship between two persons (Alston, 1989)</td>
</tr>
<tr>
<td>Particularistic ties</td>
<td>Particularistic ties based on shared attributes i.e. <em>guanxi</em> base (Jacobs, 1979)</td>
</tr>
<tr>
<td>Friendship</td>
<td>With implications of continued exchange of favours (Pye, 1982)</td>
</tr>
<tr>
<td>Connection</td>
<td>Actual connections with and frequent contact between people (Bian, 1994)</td>
</tr>
<tr>
<td>Exchange</td>
<td>Reciprocal exchange between two people: petitioner and allocator (Hwang, 1987)</td>
</tr>
<tr>
<td>Resource</td>
<td>A form of social investment or social capital (Butterfield, 1983)</td>
</tr>
<tr>
<td>Process</td>
<td>As a single process, refers to personal interactions between two individuals (Fan, 2002b)</td>
</tr>
<tr>
<td>Network</td>
<td>As multiple processes, refers to a network of social connections (Fan, 2002a)</td>
</tr>
</tbody>
</table>

**Cultural Origin of Guanxi**

*Guanxi* has a heritage of ancient Confucian philosophies (Confucius, 1915) which can be traced back to 2500 years ago. The influences of Confucianism still have a significant impact on many facets of Chinese life (Jacobs et al., 1995). King (1991) indicates that *guanxi* is instead of *lun* in Confucianism classics. *Lun* primarily stands for important human relationships for ancient Chinese people. The philosophy of *lun* means an individual exists in relation to others. Confucianism identified the five most important relationships for a humankind, social being called the ‘five cardinal relationships (*wu lun*)’ which include *ruler to subject, father to son, husband to wife, elder brother to younger brother and friend to friend* (King, 1991). These five Cardinal Relationships established the relationship orientated social nature in Chinese culture as the origin of the *guanxi* dynamic (Chen and Chen, 2004, Redding and Wong, 1986).

Moreover, *lun* is also regarded as the social order (Chen and Chen, 2004). This social order expresses the ego-nature of the Chinese *guanxi* network which Fei (1992) defined
as the ‘differentiate order’. Each actor owns a personal guanxi network in Chinese society. Within each network guanxi quality is differentiated by the ‘distance between where the guanxi partner is located in the psychological guanxi net space and the center in which the self is located’ (Chen and Chen, 2004). That means the more inner circle, the better the guanxi quality is (see Figure 1 below). According to this classic model, the guanxi network can be interpreted hierarchically and horizontally. Based on the differentiated social order and its stability, lun refers to moral principles which established the operational foundation for guanxi behaviour.

![Figure 1 The Ego-Centred Nature of the Chinese Guanxi Network (Fei, 1992)](image)

**Guanxi Principles**

Luo (2007, Luo, 1997a) identified several principles underlying guanxi cultivation, utilisation and maintenance according to the philosophies of Confucianism. These principles (Luo, 1997a) are helpful for understanding the rationale of guanxi in practice and are acknowledged by many other scholars (e.g. Ramasamy et al., 2006, Chan et al., 2002, Wright et al., 2002, Millington et al., 2005, Zhang and Zhang, 2006). Seven principles have been summarised below (Luo, 1997a):

Firstly, guanxi is **personal**. Guanxi can only be established by individuals, even if the connection is based at an organisational level the guanxi resource can only be reserved
Secondly, *guanxi* is **long-term oriented**. In the Chinese social context, *guanxi* is regarded as a kind of stock and reserved by people in times of plenty, but brought out in times of need. The cultivation and reinforcement of the *guanxi* relationship takes a long time through the continued interactions. The basis of *guanxi* contains emotional attachment (Wong et al., 2007). In contrast to social transactions in the western context, which are seen as isolated occurrences, emphasis is on immediate gains from interaction (Luo, 2007). Without long-term cultivation of the *guanxi* foundation, the strength of *guanxi* is weak.

Thirdly, *guanxi* is **intangible**. That means *guanxi* is maintained by unspoken commitments. As a moral mechanism, the commitment is secured by an invisible unwritten code of reciprocity and equity. Disregarding this commitment can seriously damage one’s social reputation and lead to a further loss of credibility in his *guanxi* network.

Fourthly, *guanxi* is **utilitarian** rather than emotional. And *guanxi* is purposefully driven by personal interests. Therefore *guanxi* can bond two persons through the exchange of favours so that utilitarian *guanxi* does not have to involve friendship all the time (Luo, 2007). However, utilitarian *guanxi* relations are easily broken once the mutual exchange is terminated.

Fifthly, *guanxi* is **reciprocal**. An individual’s reputation is tied up with reciprocal obligations. That means someone who receives favours from others has to pay them back at the first opportunity. Otherwise, the person may lose face in his *guanxi* relationship. Face is regarded as ‘*mianzi*’ which reserves credibility for a particular *guanxi* relationship (Tsang, 1998, Wong et al., 2007). However, the reciprocal favours do not have to be equally repaid (Alston, 1989). This social norm of reciprocal behaviour can be expressed by the following Chinese proverb ‘*if you have received a drop of beneficence from other people, you should return to them a fountain of beneficence*’ (Hwang, 1987).
Sixthly, *guanxi* is **transferable** through a third party as a referral. The success of transferability depends on the quality of the referral as a bridge. It is the most efficient way to establish a *guanxi* connection through an intermediary who shares a common *guanxi* base with both sides (Chen and Chen, 2004). In a business context, the problem solver is not always the direct *guanxi* contact (Fan, 2002b).

Finally, *guanxi* is **contextual**. It involves interactive conduits between people. Because the *guanxi* development is contextual, some behaviour such as banquets and gift giving become part of the culture. However, sometimes overuse of those behaviours to obtain unique benefits might be considered as unethical bribery.

**Guanxi Classifications**

*Guanxi* is a complex social construct with many variations (Fan, 2002a). Different dimensions are applied to classify the types of *guanxi* according to their nature and purpose (see Table 2). Despite the different typologies of *guanxi* from literature, Yang (2001) argues that all types of *guanxi* with its natural functions involves the exchange of both materials and feelings. This argument is supported by many other scholars with the assertion that *guanxi* is basically reciprocal or utilitarian rather than emotional (e.g. Ang and Leong, 2000, Leung et al., 1996, Millington et al., 2005, Park and Luo, 2001, Su et al., 2003, Yeung and Tung, 1996).

Subsequently, Zhang and Zhang (2006) developed a new standpoint to investigate *guanxi* using three types: **the obligatory type**, **the reciprocal type** and **the utilitarian type**. **The obligatory type** of *guanxi* exists exclusively among family members, close clan members and in-laws. The loyalty to family members and organisations are emphasised in this type of *guanxi*, and mutual trust among *guanxi* members is also rooted in this type of *guanxi* (Chow and Ng, 2004, Yang, 1994).

**The reciprocal type** is a wider relationship in Chinese society. This type of *guanxi* is based on the reciprocal exchange of favours (Hwang, 1987, Lee et al., 2001). The failure to repay favour could result in damaging one’s social prestige (Su and Littlefield, 2001, Su et al., 2003).
The third type is *the utilitarian guanxi*. This type of *guanxi* is the relationship with general acquaintances. This type of relationship is more likely to be called ‘Business *Guanxi*’ which has a purely utilitarian nature (Fan, 2002b). The utilitarian type of *guanxi* is usually temporal and casual and may only exist in one transaction (Fan, 2002a, Yeung and Tung, 1996).

### Table 2 A Summary of Guanxi Classification (Zhang and Zhang, 2006)

<table>
<thead>
<tr>
<th>Guanxi’s categories</th>
<th>Guanxi’s scope</th>
<th>Guanxi’s key characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hwang (1987)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Expressive tie</td>
<td>1. Family members and relatives</td>
<td>1. Permanent and stable relationships based on obligation</td>
</tr>
<tr>
<td>2. Instrumental tie</td>
<td>2. Purely strangers</td>
<td>2. Unstable and temporary relationships</td>
</tr>
<tr>
<td>3. Mixed tie</td>
<td>3. Between both of the above</td>
<td>3. Between both of the above</td>
</tr>
<tr>
<td>Yang (1993)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. <strong>Jia-ren Guanxi</strong></td>
<td>1. Family members</td>
<td>1. Obeying the obligation rule</td>
</tr>
<tr>
<td>2. <strong>Qingi Guanxi</strong></td>
<td>2. Relatives</td>
<td>2. Emphasizing more obligation than reciprocity</td>
</tr>
<tr>
<td>3. <strong>Pengyou Guanxi</strong></td>
<td>3. Friends, neighbours, colleagues, classmates, etc.</td>
<td>3. Emphasizing more reciprocity than obligation</td>
</tr>
<tr>
<td>4. <strong>Shen-ren Guanxi</strong></td>
<td>4. Mere acquaintances or strangers</td>
<td>4. Obeying the instrumentality rules</td>
</tr>
<tr>
<td>Tsang (1998)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Blood Guanxi</td>
<td>1. Family members, relatives, members of the same clan</td>
<td>1. Trust and mutually dependent</td>
</tr>
<tr>
<td>2. Social Guanxi</td>
<td>2. Members in a same organization</td>
<td>2. General social interaction</td>
</tr>
<tr>
<td>Su and Littlefield (2001)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Favouring-seeking Guanxi</td>
<td></td>
<td>1. Culturally rooted</td>
</tr>
<tr>
<td>2. Rent-seeking Guanxi</td>
<td></td>
<td>2. Institutionally defined</td>
</tr>
<tr>
<td>Fan (2002b, Fan, 2002a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Family Guanxi</td>
<td>1. Emotional and instrumental</td>
<td>1. Emotional and instrumental</td>
</tr>
<tr>
<td>2. Helper Guanxi</td>
<td>2. Instrumental or utilitarian</td>
<td>2. Instrumental or utilitarian</td>
</tr>
<tr>
<td>Chen and Chen (2004)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Family Guanxi</td>
<td>1. Family members, relatives</td>
<td>1. Emotional and instrumental</td>
</tr>
<tr>
<td>2. Familiar Guanxi</td>
<td>2. Former classmates, colleagues, etc</td>
<td>2. Instrumental or utilitarian</td>
</tr>
</tbody>
</table>

**Guanxi Development Process**

In the process of *guanxi* development, individuals are bonded together by sharing common *guanxi* bases. *Guanxi* bases are basically divided into two general ties as
preordained versus voluntary (King, 1991). The preordained ties such as family and kinship are fixed by a stable relationship based on obligation (Hwang, 1987). Thus, the development of guanxi emphasises voluntary ties.

Three main types of guanxi base are identified by Chen and Chen (2004) in developing voluntary ties. The first type of guanxi base constitutes common social identities (Jacobs, 1982) such as classmates, workmates, fellow townsmen. This type of guanxi base can be continually extended by personal experiences. The second type is a common third party. Through the introduction by an intermediary as a third party, two individuals who have no guanxi base can be easily connected to each other. However, a connection of guanxi does not mean the strength of the bond is strong. Because it requires a series of interactions to further develop the mutual trust and relationship quality. The third type is anticipatory bases. Chen and Chen (2004; p. 311) described these types of bases as ‘in social and business interactions, individuals who do not share common social identification can still initiate a guanxi by creating future bases through expressing an intention or even a promise to engage in future exchanges, collaborations, or joint ventures’. Although, three types of guanxi base are distinguished, they are not mutually exclusive in the real situation. It is very common that one guanxi relationship shares different types of bases.

Thus, the guanxi building process can be differentiated into three sequential stages: initiating, building and using guanxi (Chen and Chen, 2004). Table 3 provides a general view of the process of guanxi development.

<table>
<thead>
<tr>
<th>Guanxi Stages</th>
<th>Guanxi Objectives</th>
<th>Interactive activities</th>
<th>Operating principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiating</td>
<td>Setting up bases</td>
<td>Familiarizing</td>
<td>Mutual self-disclosure</td>
</tr>
<tr>
<td>Building</td>
<td>Enhancing quality</td>
<td>Expressive &amp; instrumental transactions</td>
<td>Dynamic reciprocity</td>
</tr>
<tr>
<td>Using</td>
<td>Getting benefits re-evaluating guanxi quality</td>
<td>Exchanging favours</td>
<td>Long-term equity</td>
</tr>
</tbody>
</table>

Table 3 Three Stages of Guanxi Development (Chen and Chen, 2004)
2.3.2 Guanxi in a Business Context

Guanxi has become embedded in Chinese people’s social lives and business activities for the last few centuries. Any business in China inevitably faces guanxi dynamics (Luo, 2007). The guanxi dynamic often leads to insider-based decision making in the business world. The guanxi relationship can turn into highly complex networks in business. Wilpert & Scharpf (1990) described this complex network as a ‘highly differentiated intricate system of overt or covert, as well as formal and informal social subsets governed by unwritten laws of reciprocity’. Moreover, it can be used as an effective marketing tool, being ‘significantly and positively’ related to business and marketing performance (Luo and Chen, 1997). In addition, since more western business people are increasingly involved in non-western systems and the rise of Chinese economic importance, it is rational to believe that western business practices will increasingly move towards the direction of guanxi-type systems. The growing interest in ‘relationship marketing’ and ‘virtual integration’ are the signs of the trend (Lovett et al., 1999).

Guanxi vs. Western Relationship

Basically, Chinese social values rely more on morality thus they are opposite to the western values which operate on a basis of legality (Wee, 1994). For example, for the Chinese, a business is not just a business, it is also a social interaction which involves favour exchanges and the giving of face amongst insiders of a guanxi network (Wang, 2007). Moreover, guanxi and western relationships can be distinguished from a marketing perspective as shown in Table 4 (Wang, 2007, Yau et al., 2000).

Table 4 A Comparison of Western Relationships and Guanxi (Wang, 2007)

<table>
<thead>
<tr>
<th>Universalistic vs. Particularistic Relationship</th>
<th>Guanxi Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship Marketing</td>
<td>- An exclusive circle of members, highly network-specific</td>
</tr>
<tr>
<td></td>
<td>- Written contracts are unnecessary</td>
</tr>
<tr>
<td></td>
<td>- Open to any exchange partners as long as one plays by the rules of the game</td>
</tr>
<tr>
<td></td>
<td>- Written contracts are necessary</td>
</tr>
</tbody>
</table>

Impersonal vs. Personal Relationship
Fukuyama (1995) claims that relationship marketing has a universalistic nature thus the network is relatively open to any exchange partners who play by the rules of the game. Therefore, written contracts are necessary to ensure that the exchanging partners follow the rules. However, written contracts are unnecessary if the exchange partner is considered as a fully trustworthy insider in a particularistic relationship such as the guanxi network.

Ganqing refers to the feelings and emotional attachment among members of guanxi. It is often an indicator of closeness of guanxi (Wang, 2007). In the Chinese context, business people treat each other with ganqing, more like friends than just business partners. Therefore, a business-to-business relationship cannot be easily imitated by competitors, and, to exchange, the partners need to know what appeals to their partners first (Yau et al., 2000). Chinese business people rely more on those who have ganqing with them in order to protect them in times of difficulty (Jacobs, 1982). The reason is that the closer the guanxi relationship, the more trust can be developed.

From a western perspective, Abramson and Ai (1997) have identified shared values or goals as some of the key aspects of relationship marketing. In the western context, the two parties’ cooperation started with desired common goals. Most westerners are ambiguous about what a relationship exactly is in the Chinese context. Yau et al. (2000) have summarised the four dimensions of relationship marketing in China (see Table 5). They claimed that ‘shared values and goals are not necessary conditions. A true, healthy and lasting relationship among the Chinese requires trust, bonding, reciprocity and empathy. These are the interrelated constructs for building holistic relationships’ (Yau et al., 2000).
Table 5 Four Dimensions of Relationship Marketing (Yau et al., 2000)

<table>
<thead>
<tr>
<th></th>
<th>Westerner</th>
<th>Chinese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonding</td>
<td>- Between consumers and suppliers</td>
<td>- Blood bases and social bases</td>
</tr>
<tr>
<td></td>
<td>- For a desired goal</td>
<td>- For social control and business behaviour</td>
</tr>
<tr>
<td>Trust</td>
<td>- People with promised integrity</td>
<td>- Kinship or in-group members</td>
</tr>
<tr>
<td></td>
<td>- Build transaction first, relationship may follow</td>
<td>- Build trust first, transaction may follow</td>
</tr>
<tr>
<td></td>
<td>- Based on ‘System Trust’ (Luhmann, 1979)</td>
<td>- Based on ‘Personal Agreement’</td>
</tr>
<tr>
<td>Reciprocity</td>
<td>- Expect value to be returned in short-term</td>
<td>- Value is returned at a time both giver and recipient will benefit</td>
</tr>
<tr>
<td></td>
<td>- With specific intention</td>
<td>- No specific intention</td>
</tr>
<tr>
<td></td>
<td>- Converged value</td>
<td>- Increased value</td>
</tr>
<tr>
<td>Empathy</td>
<td>- Sender-centered communication</td>
<td>- Receiver-centered communication</td>
</tr>
</tbody>
</table>

Chinese society is a low-trust culture (Atuahene-Gima and Li, 2002), to develop guanxi involves building trust in the exchange partner and transforming from an outsider into an insider in order to secure a long-term close relationship. Entering such a network could ensure trust building, decision-making, and competitive advantages for network members (Haley et al., 1998). Empathy is the ability to see a situation from another person’s perspective. The rule of empathy is guided by the Confucianism principle of forgiveness.

**Contextual Importance of Guanxi**

In fact, guanxi as a key element of business is always accounted for as a business strategic choice. In certain circumstances, guanxi even plays the most important role in achieving business goals. The nature and pattern of economic transformation in China also stimulates the companies to develop guanxi-based business connections (Luo, 1995, Peng and Zhou, 2005, Peng and Heath, 1996). This economy is characterised by an undeveloped market structure, poorly specified property rights, and institutional instability which makes market exchanges uncertain and costly (Nee, 1992). Furthermore, Yeung and Tung (1996) revealed that guanxi and long-term business success are moderated by the nationality of the firm, years of experience, firm size and industry types. There are some factors that are derived from the literature which may shed a light on why guanxi plays an important role in the Chinese market:
**Lack of the formal developed information system**

This includes codified and diffused public information (Bjorkman and Kock, 1995). Thus, *guanxi* becomes one of the most efficient and reliable ways to share information among business people and government officials (Davies et al., 1995, Leung et al., 1996). *Guanxi* is not only a way of propagating business signals, but also an essential instrument for probing the underlying opportunities.

**Relatively laggard market institutional system against rapid economy growth**

The unparalleled development chaos creates stronger personal influence on economical activities, which is observed as a characteristic in any transitional economy (Michailova and Worm, 2003, Redding, 1990, Zucker, 1986). Xin & Pearce (1996) and Ambler (1994) argued that *guanxi* may function as a substitute for formal institutional support in China. They claimed that *guanxi* could help executives to obtain resources and protection not otherwise available. In order to sustain the long-term business success, *guanxi* becomes a crucial strategic resource for providing external support to where the legal system cannot reach (Alston, 1989, Davies et al., 1995, Leung et al., 1996, Redding and Ng, 1982). Thus, to have the power of mobilising local government support is regarded as a significant competitive advantage for any company in a localised market.

**Guanxi has been embedded into interpersonal relationships as a social norm**

It is the most prominent cultural characteristic that has strong implications for social networking dynamics (Buckley et al., 2006, Xin and Pearce, 1996, Yeung and Tung, 1996). Zhang & Zhang (2006) noted that “it is foremost a cultural concept that implies interpersonal connections, but its underlying philosophy has dominated people’s social and economic lives for a long time”. Other scholars also indicated that mutual obligations and reciprocal favour exchanges are two most important traits of *guanxi* (Lee et al., 2001, Lovett et al., 1999, Park and Luo, 2001). Chinese business behaviours are driven by *guanxi* ideology.

**Organisational trust building is established upon guanxi**

Wang (2007) and Fukuyama (1995) argued that western business networks have a universalistic nature which are relatively open to any exchange partners who follow the rules, thus the written contracts are necessary. In contrast, *guanxi* networks are
constituted by an exclusive circle of members, which are highly network-specific. Therefore, written contracts are unnecessary. Chinese business people prefer to cooperate with those who have cultivated *guanxi*, in order to protect them in times of difficulty (Jacobs et al., 1995). Moreover, a business-to-business relationship is often based on contacts or bonds with specific individuals, not among organisations (Davies et al., 1995). Chinese society is regarded as a low-trust culture (Atuahene-Gima and Li, 2002), that means the closer the *guanxi* relationship, the more trust can be developed. Furthermore, Yau et al. (2000) noted that Chinese businessmen build trust based on ‘personal agreement’ in contrast to westerner’s ‘system trust’ (Luhmann, 1979). Chinese businessmen always consider using *guanxi* to solve conflicts in the first instance, instead of fully relying on signed contracts in law.

*The Benefits of Guanxi*

The *guanxi* advantages are largely recognised by the literature. *Guanxi* is the lubricant to cope with the turbulent market environment, the dynamic *guanxi* network even acts as a substitute for a legal system in some circumstances (Xin and Pearce, 1996). Cultivating *guanxi* is important for foreign companies to protect their corporate interests in China as well (Luo and Chen, 1997, Yau et al., 2000). Overall, in Chinese business contexts *guanxi* implies ‘preferential treatment to exchange partners in the forms of easy access to limited resources, increased accessibility to controlled information, preferential terms including the granting of credit and protection from external competitors’ (Lee et al., 2001). The benefits of *guanxi* can be summarised from several main aspects according to antecedent researchers (e.g. Davies et al., 1995, Fock and Woo, 1998, Leung et al., 1996, Luo and Chen, 1997):

*Exchange of Information:* The information includes government policies, market trends and business opportunities. Moreover, *guanxi* is probably the only way to probe your competitor’s *guanxi* status. It is critical to evaluate your opponent’s *guanxi* background in the competition.

*Risk Avoidance:* In an economic transformation, the external business environment is unstable and risky without a well defined legal framework. In such a situation, the company inevitably faces unethical opportunistic behaviours and high transaction costs
(Luo, 2007). As a result, guanxi involves preferential treatment to an exchange partner as an insider provides crisis resolutions when a company meets difficulties. Thus, the company is more likely to adopt a network-based (guanxi-based) strategy to cope with the volatility and unpredictability of the environment (Shenkar and Von Glinow, 1994).

**Powerful Marketing Tool:** It helps entering a new market, establishing distribution channels (Luo, 1997a) enhancing sales capability and increasing the sales volume.

**Reducing Transaction Costs** (Standifird and Marshall, 2000): It helps improves operational efficiency, saves time and enhances the procurement quality (e.g. government approval, the utilitarian resource exchanges with local partners).

**Enhancing the Company’s Bargaining Power:** A good guanxi with higher ranking cadres can enhance the bargaining advantage when dealing with the hierarchical bureaucracies. This power is very important for a company to achieve business goals such as accessing scarce resources, attaining financial support, obtaining authority approval. Furthermore, guanxi bargaining power is also helpful when building a company image. For example, certain guanxi connections can serve as the critical competitive advantage in some situations.

**The Pitfalls of Guanxi**

On the other hand, some scholars questioned the effectiveness of guanxi. They claim that guanxi even has a negative effect on business performance. Braendle et al. (2005) indicated that guanxi is a double-edged sword which especially harms the corporate governance system when a company is in a business-to-government relationship (B2G) in such a weak legal system. The survey from Li and Athuahence-Gima (2001) revealed that B2G guanxi played no role in new technology ventures’ product innovation strategy except to drain the finances of the firm as a result of expensive cultivation activities. Also, Tsang (1998) argued that guanxi resources are difficult to sustain before they can be used as a competitive advantage to gain certain benefits, because it is known as valuable, rare and imperfectly imitable. Moreover, Fan (2002b) and Guthries (1998) concluded that the role of guanxi is diminishing due to Chinese market innovations and economical growth.
Two main reasons why the significance of *guanxi* is declining are identified by Guthries (1998). In the first place, the increasing importance of China’s emerging legal system is one reason for the diminishing importance of guanxi practice. The fate of *guanxi practice* in China is outlined from three aspects. On one hand, guanxi practice is still an important institutional system, shaping the decisions and practices of the organisational actors. On the other hand, although guanxi practice is still prevalent, its importance is decreasing in China. Additionally, the major force in the diminishing importance of guanxi practice is the rational-legal system being constructed at state level and local level.

In the second place, the pressures from the competitive market environment are causing the economic and political actors to focus on quality and service rather than the importance of *guanxi practice*, because *guanxi practice* has limited functional capabilities to improve core competitive advantage from a market-based perspective such as product/service quality, operational efficiency and speed of production.

### 2.3.3 Business *Guanxi* and Its Ethical Issues

In order to further explore the strategic value of *guanxi*, it is important to distinguish *guanxi* from bribery. Is *guanxi* ethical or not? Zhang and Zhang (2006) perceived that a major research orientation from the literature consists of the arguments on *guanxi*’s ethical status. Lovett et al. (1999) observed that westerners often view *guanxi* as simple corruption, and even the opinions are mixed among Chinese researchers. George (1993) criticised that there are no universal ethical standards. He argued that *guanxi* is based on eastern principles which are not as ethical as any western ones. This is a relativism view on moral standards. However, some other researchers emphasised the rationale of ethical *guanxi* and unethical *guanxi* and it is recognised that using *guanxi* is contextualised. However, in some circumstances it can be problematic from an ethical perspective (Dunfee and Warren, 2001). Moreover, Su, Mitchell and Sirgy (2007) investigated literature related to *guanxi* from the *Journal of Business Ethics (JBE)* which published within a decade, the research line had been clearly drawn between *guanxi* and bribery since Su and Littlefield (2001) differentiated *guanxi* between favour-seeking and rent-seeking. And *guanxi* is relation-focused which is not the same as
corruption and bribery which is transaction-based (Vanhonacker, 2004). A more analytical view is provided by Yang (1994). Three distinctions are made to distinguish healthy guanxi and bribery:

1. A utilitarian gain-and-loss calculation dominates the bribery behaviours. In contrast, it plays a much weaker role in guanxi.
2. Bribery seeks immediate payback for a specific purpose. However, guanxi is more focused on the long-term relationship and the purpose is diffuse.
3. Guanxi contains certain levels of emotional content or affection. But it is not so with bribery.

Therefore, the legitimacy of guanxi is supported by different views. Firstly, the influence of Confucian cultural values does not only take place in China. There are more developed Confucian societies with advanced institutional systems, such as Japan, South Korea, Singapore and Hong Kong, proving that relationship-based moral principles such as guanxi are still reliable (Alston, 1989, Vanhonacker, 2004, Yeung and Tung, 1996). Secondly, relationships and networks are also important in the western business world. Buttery and Wong (1999) summarised the differences in relationship studies between western culture and eastern culture. In fact, western relationships are hidden behind the shadow of institutional systems (Yau et al., 2000). Finally, the debate about corruption and guanxi seems considerable. Under the most advanced western market system, corruption is mainly prevented by institutional laws, but it is never completely eliminated (Braendle et al., 2005). In other words, although guanxi is not the parent of corruption or bribery, it could result in unethical consequences depending on how people use it. Lovett et al (1999) has clarified the meaning behind guanxi ethics and efficiency. Their findings unveiled a new economic reality which western and eastern business practices may already be converged toward systems based on more complete models of trust to cope with uncertainty in progress. Thus, it is worth further exploration on how to use guanxi in a more efficient and ethical way from a neutral standpoint.
2.4 Strategic Management Perspectives

2.4.1 Guanxi-Based Business Strategy

Significant progress has been made in defining and measuring the guanxi system in the business field through the existing literature as we mentioned in the previous section. However, the research still lacks a clear understanding of how the element of guanxi is embedded in the theory of business strategy. In order to have a clear view on what is guanxi-based business strategy, it is firstly worth having a brief glimpse at some classic concepts of strategy in business management. Statements from three leading contributors to this area may clarify this issue.

‘The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.’ (Chandler, 1962)

‘The pattern of objectives, purposes, goals, and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is or should be in and what kind of company it should be.’ (Andrews, 1971)

‘The strategic problem is concerned with establishing an ‘impedance match’ between the firm and its environment.’ (Ansoff, 1965)

What these definitions have in common is a firm’s strategic objective which is intended to adapt to the environmental contextual conditions in order to achieve the long term goals. The environment-strategy-performance paradigm became one of the classic foundations in strategic management studies (Aldrich, 1979, Miller and Friesen, 1983, Scherer, 1980). Regardless of the broad interests in environment and strategy literature, Bourgeois (1980) articulated the distinction between strategy process and strategy content. He suggests the question ‘how is strategy enacted?’ should be distinguished from the type of question ‘what is the strategy?’. Therefore, exploring the strategy process under guanxi phenomena rather than the strategy context should be the main objective of this study.
According to Backhaus (1999), there are three types of strategies: corporate strategies, business strategies and functional strategies. Corporate strategy determines the company’s overall direction. However, the formulation of corporate strategy is usually too broad effectively to improve the competitive position. Business strategy is concerned with the relationship between the company and its environment. This type of strategy will be discussed in this study because business strategy describes how a firm plans to respond to its competitors, government authorities, suppliers and customers in the market. Functional strategies are focused on the internal processes which may also affect competitiveness (Besanko et al., 2000).

On one hand, the traditional western business strategy theories are based on the western free market economy. For instance, Bowman and Helfat (2001) have found out that the western corporate strategy theories do influence the real business practice by analysing the variance decomposition literature for up to 40 years. In a product-based strategic domain, the classic five forces model is developed by Porter (1980) for analysing the micro business environment and three types of competitive strategies (cost leadership, differentiation and focus) are introduced. Later on, the development of a relational-based strategic domain gives rise to the reconsideration of a dominant strategic paradigm based on the typical 4Ps: product, price, place and promotion (Ford, 1980, Gronroos, 1994, Hakansson, 1982, IMP-Group, 1982). The relational exchange between business partners receives more attention from the academic field (Peteraf and Barney, 2003). Barney (1991) pointed out that the firm resources can generate sustainable competitive advantages by four empirical indicators (Value, Rareness, Imitability and Sustainability).

On the other hand, the Chinese market is undergoing a transition of its economical environment and in such a volatile market environment, guanxi provides the lubricant for any firm to conduct its business (Luo, 2007). Thus, the relational-based strategic paradigm is more appropriate for explaining guanxi business phenomena. In this circumstance, guanxi as a fundamental web of interpersonal relations is pervading Chinese societies and business environments. Guanxi-based business practices can reduce uncertainty, lower recruitment and other transaction costs, provide usable resources and a sense of connectedness (Wellman et al., 2002).
Based on some typical works related to the Chinese exchange system (e.g. Ahlstrom and Bruton, 2002, Liu, 2003, Walder, 1995), Langenberg (2007) illustrates a mixed exchange system where corporate interaction takes place in a pluralistically mixed system of market economy, *guanxi* exchange, and allocation through Chinese government authorities.

Therefore, a purely market-oriented business strategy without a *guanxi* mechanism is not properly suitable for the Chinese market. Much of the previous literature has proven that the western strategic choices may not be effective and efficient in China because the theoretical foundation does not reflect this mixed environment. In order to achieve an optimal strategic choice *guanxi* exchange has to be formally embedded.

### 2.4.2 Business to Business Relationships

One of the early notions of relationship marketing can be referred to Levy and Zaltman’s (1975) statement that people or groups need to develop patterned relationships with one another, in order to maximise the value of exchange. Morgan and Hunt (1994) indicate that relationship marketing centres on all of the activities directed toward establishing, developing, and maintaining successful exchanges with customers and other parties.

Social exchange theory (e.g. Blau, 1964, Homans, 1958, Macaulay, 1963) provides the theoretical foundation for developing relational factors in relationship marketing. Successful relational exchange is characterised by certain aspects of relationships between exchange partners. The six most cited factors are identified from the literature as (Hunt et al., 2006): Trust, Commitment, Cooperation, Keeping Promises, Shared Values and Communication. Among those factors ‘Trust’ and ‘Commitment’ are identified as two fundamental successful factors (Spekman et al., 2000; p. 20). Without trust and commitment the strategic alliance can not be formed. On one hand, trust is associated with a partner’s reliability, integrity and competence so that a trusted partner can reduce risks associated with relational exchange (Morgan and Hunt, 1994). On the other hand, strong commitment in a business relationship creates a barrier for other firms to enter (Ford, 1980) meanwhile preventing the firm to abandon the relationship (Morgan and Hunt, 1994).
By considering various issues such as cooperation (Parkhe, 1993b, Anderson and Narus, 1990), transaction and switching costs (Klein et al., 1978, Williamson, 1979, Ouchi, 1980), social exchange involving various valuable resources (Dywer et al., 1987), the Industrial Marketing and Purchasing (IMP) group claimed that there is a “network approach” in the business world which believes that business relationships can be seen as an interaction in a network of relationships (IMP-Group, 1982). Ford et al. (2002) from the IMP Group explained the complexity of business networks. According to Tuten and Urban (2001), purchasing managers initially formed partnerships to lower costs, increase services and improve the competitive advantages. Companies can obtain cost reductions or increase revenues through developing close relationships (Ford, 1990). Thus, retaining a firm relationship can be achieved by making the relationship an important part of the transaction to differentiate oneself from one’s competitors, reduce price sensitivity and yield long-term benefits.

In relation to the IMP group’s work, Sheth and Parvatiyar (2000) illustrate the importance and depth of the relationship issue for business-to-business marketing by their “four conceptual cornerstones”. First of all, the relationships between buyers and sellers are built from interaction processes which deal with technical, social and economic issues (Sheth and Parvatiyar, 2000, Wang, 2007). Indeed, as Wang (2007) pointed out, meeting technical requirements, developing social relationships and trust, and creating and maintaining relationships are very important for organisations. Secondly, by a shift from ‘the way the organisation allocates and structures its internal resources’ towards ‘the way that relates its own resources and activities to other parties’ within its context (Hakansson and Snehota, 1995), a business becomes embedded in their partners and this creates change and influence throughout a network of relationships (Sheth and Parvatiyar, 2000). In other words, a firm’s success relies more on the successful resource allocation among its business networks. Furthermore, the relationship as a confrontation between the two parties’ knowledge can affect the deployment and development of resources (Hunt, 2001). Finally, the relationship affects productivity and efficiency, and some opportunities may arise from the exploitation of the interdependence between two organisations (Hunt et al., 2006).

Furthermore, a relationship-orientated marketing strategy is not new. In fact, there are plenty of traditional Chinese business stories which show that guanxi is the form of
relationship marketing in the Chinese way (Yau et al., 2000). Moreover, Butter and Wong (1999) point out that the successful Guanxi driven system reflects the advantages of flexibility, adaptation from a quick reaction within the networks based on trust and promises of reciprocity. Gronroos (1996) used an old Chinese business story to illustrate that there are typical tactics from relationship strategy which were adopted by Chinese businessmen in ancient times such as: 1. seeking direct contact with customers and other stakeholders; 2. building a database covering necessary information about customers and others; 3. developing a customer-oriented system. Since the 1960s the marketing mix management approach dominated the literature and marketing research and practice. However, the development of strategic orientation towards core competences and resources revealed the limitations of the traditional 4P model (Hamel and Prahalad, 1994, Dixon and Blois, 1983). The strategic shift towards relationship marketing is a transition from the product oriented approach to a resource orientated approach (Kotler, 1991).

Finally, using Gronroos’ (1994; p. 11) statement as a conclusion:

‘relationship marketing is to identify and establish, maintain, and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and that this is done by a mutual exchange and fulfilment of promises’.

2.4.3 Stakeholders Perspective

Since Freeman (1984) published his Strategic Management: A Stakeholder Approach, this focus illustrated a new idea that business can be understood as a set of relationships among groups that have a stake in the activities that make up the business. Any party which can affect the actions of the business as a whole will be counted as a stakeholder. From a corporate stakeholder’s perspective, a firm faces two levels of stakeholders which can be identified as internal level (employees, managers and owners) and external level (suppliers, customers, shareholders, societies, government and creditors) (Freeman, 1984). The similar classification of stakeholders is based on the type of relationships they entertain with the firm as: the primary stakeholders refer to employees, suppliers, customers and public agencies engaged in formal business
relationships; the secondary stakeholder groups include actors such as the media and special interest groups, not engaged in formal business transactions (Clarkson, 1995, Savage et al., 1991).

Freeman (1984) claims that the traditional view of strategy has ignored some stakeholder influences on the performance of business strategy. In fact, some marginalised stakeholders consistently trade off interests of others against favoured stakeholder groups. The ignorance of the influence from some stakeholders in strategic management may be appropriate in relatively stable environments, but not in a situation of turbulence (Freeman and McVea, 2005). As the Chinese market is undergoing an economic transition, the interests of any key stakeholders who are related to the business activities must be integrated with the business objective in a strategic fashion. Managing the relationships of stakeholders is critical for business development. This is also an important reason why guanxi has become a vital strategic element in China. Moreover, the stakeholder’s view of strategy integrates both the resource-based and the market-based view, also adding a social political level. Thus, the integrated strategic viewpoint may clarify this empirical study on guanxi phenomena.

In fact, if the marketplace is within the economic, legal and regulatory constraints, the firms should be socially responsible and voluntarily seek ways to satisfy their stakeholders to avoid adverse actions in order to maintain the benefits (Savage et al., 1991). The purpose of stakeholder management is to address the firms’ and stakeholders’ power, intentions and values (Savage et al., 1991), then to devise methods in order to manage the myriad groups and relationships which are influential to the business (Freeman et al., 2007). Because if the firm tries to survive in a turbulent environment, only to optimise its market-based output is not sufficient to adapt to the changes. In order to cope with the uncertainties within the environment, the firm needs to get support from those who can affect the business and understand how the firm will affect others (Freeman and McVea, 2005).

Harrison and St. Johan (1998, 1996) argued that a stakeholder approach can be employed as a framework which allows the integration of perspectives from a variety of traditional models from strategic management, such as industrial organisation economics, resource-based views, cognitive theory and institutional views of a firm.
They divide the environment into the *operating environment* and the *broader environment*. For example, within the *operating environment*, a ‘resource-based view of a firm’ (e.g. Barney, 1991) provides a useful framework to study the relationships of internal stakeholders. Likewise, Porter’s (1980) ‘five forces model’ can be applied to analyse the relationships of external stakeholders such as suppliers and customers. To extend this analytical or descriptive phase, the strategic importance of a stakeholder can be evaluated by three influencing factors (Harrison and St. Johan, 1996; p. 51): 1. Contribution of the stakeholder to the environmental uncertainty facing the firm; 2. Ability of the stakeholder to reduce environmental uncertainty for the firm; 3. Firm strategic choice. Therefore, the firm needs to develop proper strategies to target more valuable stakeholders with high priorities, and to discourage some lower valued partnerships.

In stakeholder management, it requires one not only to understand the firm’s stakeholders in the present, but also the need to manage long term goals (Freeman and McVea, 2005). According to Daft (1992), two basic management approaches can be identified as *buffering* and *bridging*. *Buffering* is the traditional approach which is aimed at containing the effects of the firm’s external stakeholders. Using activities such as market research, public relations and planning to raise the barriers between the firm and its external stakeholders (Harrison and St. Johan, 1998). In contrast, *bridging* is aimed at forming the strategic partnerships (Barringer and Harrison, 2000). The firm needs to set up common goals and lower the barriers around the organisation. This approach suggests that partnering is proactive and builds on interdependence.

2.4.4 Resource-Based View vs. Resource Dependence

First of all, a *resource-based view* is focused more on internal organisational resource. From a *resource-based view*, the firm seeks rare and difficult internal firm resources in order to acquire and maintain its sustainable competitive advantage for development (Barney, 1991, Castanias and Hsi1fat, 1991). Two initial questions the firm faced when forming this strategy was ‘what do we have?’ and ‘what are we capable of?’.

Furthermore, four characteristics of resources and capabilities in terms of *durability*, *transparency*, *transferability* and *replicability*, which are likely to be the particularly important determinants of the sustainability of a firm’s competitive advantage (Grant,
1991) were considered. Similarly, Barney and Clark (2007; p. 57) argue that resource should have four attributes to hold the potential of sustained competitive advantage: (1) it must be valuable, in the sense that it exploits opportunities and neutralises threats in a firm’s environment; (2) it must be rare among a firm’s current and potential competition; (3) it must be imperfectly imitable; (4) it must be able to be exploited by the firm’s organisational processes. Thus, the resources and capabilities set up the foundation of forming business strategy.

In general, there are three influential works with a resource-based view published in the field of strategic management. Wernerfelt (1984) is regarded as the first scholar to contribute the resource-based perspective to the field of strategic management. He (Wernerfelt, 1984) attempted to develop a theory of competitive advantage based on the resources the firm acquired to implement product market strategy to complement Porter’s (1980) theory of competitive advantage based on a product market position. Rumelt (1984) published the second work and suggests that rather than minimising the threat of opportunism in transactions (Williamson, 1975), the firm should use the resources and relationships to generate economic rent. The more unique a resource, the more valuable it is to the firm. Rumelt’s (1984) theory is associated with the resource-based view. For example, the firm can be viewed as a bundle of resources with certain economic value but the value varies with the context to which it is applied. Rumelt (1984) defined the term ‘isolating mechanism’ which is used by the firm to enhance the inimitability of its resources. In the third work, Barney (1986b) suggests that it is possible to develop a theory of persistent superior firm performance based on the attributes of the resources a firm controls. The concept of strategic factor markets is introduced to describe the market where the firm acquires resources to implement its product market strategies. He points out that the acquisition of resources from strategic factor markets is more likely to be the source of economic rent for the firm than those resources that it acquires from external units (Barney, 1986b).

The resource-based view also distinguishes the types of resource. Aaker (1989) indicates that the key to achieve a sustainable competitive advantage is managing both tangible and intangible assets and skills. After making an analysis of resource as the basis for profitability, Grant (1991) distinguishes between tangible and intangible resources in a firm. The nature of intangible resource can be classified as ‘assets’, which
enjoy legal protection such as property rights, contracts, trade secrets and so forth, or ‘skills’, which include the know-how of employees, suppliers, distributors and the organisational culture which enables it to cope with change, put the customer first etc. (Hall, 1992). Other scholars also provided classifications of resources from different perspectives. For example, Barney (1991) distinguishes resources between physical capital, human capital and organisational capital. Emphasis on the uniqueness of the resource, Miller and Shamsie (1996) argue that resources are either property-based or knowledge-based. On one hand property-based resources are protected by legal confidentiality so that other firms are unable to use this kind of resource without permission of the owner. On the other hand, knowledge-based resources such as technical expertise or good relationships with external stakeholders, are not protected by law, but may still be difficult for other firms to access.

In contrast, the resource dependence perspective argues that organisations must engage in exchanges with their environment to obtain resources (Scott, 1987a). Resource dependence theory focuses on resources that must be obtained from external sources for an organisation to survive or prosper (Barringer and Harrison, 2000).

Resource dependence is regarded as a theoretical foundation of inter-organisation relationship management. The dependencies between organisation and outside units are created by the need to acquire resources for survival. There is a variety of outside units in a firm’s external environment such as suppliers, customers, competitors and governmental agencies. In order to manage these dependencies successfully, scholars (Pfeffer and Salancik, 1978b, Thorelli, 1986, Barringer and Harrison, 2000) argued that organisations must make the effort to control over critical resources to decrease dependency on other units, and acquire control over resources in order to increase its power relative to other organisations in its relevant environment. Thus, forming an alliance with other firms to obtain necessary resources becomes the most practical alternative (Mitchell and Singh, 1996).
2.5 Critical Reflection on Existing Literature

Despite repeated emphasis on the benefits of guanxi, the literature lacks a comprehensive framework to provide a theoretical understanding of how guanxi works. Wong and his colleagues (Lee et al., 2001, Wong and Chan, 1999, Wong and Leung, 2001, Wong et al., 2007) conducted a series of studies focussed on developing a guanxi theoretical model intended to provide a conceptualised understanding of guanxi in business from a relationship perspective. On the one hand, scholars try to deepen the understanding of what forms guanxi relationship in business. For example, some influential factors such as decision-making uncertainty, opportunism and perceived similarity are identified as antecedents to guanxi, which have a positive impact on business performance mediated by relationship quality and interdependence (Lee et al., 2001). On the other hand, some scholars tried to portray a map on how to build a guanxi relationship. For instance, Wong and Tam (2000) explored the dynamic of a guanxi relationship and provided an integrative implementation of a relationship building strategy.

Although a plethora of literature has covered the relevant issues of guanxi as a key influential factor impacting on business performance, the depth of investigation is limited on reflecting on the content of the significance of guanxi (e.g. Luo, 1997b, Luo and Chen, 1996, Luo and Chen, 1997, Ramasamy et al., 2006, Standifird and Marshall, 2000, Su et al., 2007, Xin and Pearce, 1996). Moreover, most of the exploratory findings are conducted in a quantitative paradigm (e.g. Luo and Chen, 1997, Park and Luo, 2001, Warren et al., 2004, Davies et al., 1995). Furthermore, the studies based on a qualitative approach are mostly in a descriptive manner (e.g. Millington et al., 2005, Millington et al., 2006, Buckley et al., 2006, Bjorkman and Kock, 1995, Wood et al., 2002). As a result, without well defined frameworks relying on hypotheses and implications, they are not sufficient to construct a well developed theoretical foundation for guanxi study at this explorative stage for Chinese management. Thus, the lack of theoretical contributions in the literature evokes the need to conduct more exploratory qualitative studies with the purpose of building theory on guanxi phenomena.

Also, there is an ambiguous identification of the role of guanxi as a successful key element. As there are many scholars who have written about cultivating viable guanxi
networks which could secure the acquisition of status, power and resources in China (Bian, 1994, Gold, 1985, Yang, 1986, Walder, 1995, Park and Luo, 2001), the question is what role *guanxi* should play in an organisation. Although *guanxi* is widely recognised as a source of sustained competitive advantage for doing business, this view is difficult to support due to its lack of theoretical basis. Tsang (1998) attempts to examine whether *guanxi* can generate sustainable competitive advantage from a resource-based view. He (Tsang, 1998) argued that *guanxi* can be difficult to sustain even if it can bring certain advantages to a firm. The reason is that as an informal personal relationship *guanxi* can be easily disrupted by something like staff mobility. Thus, the question arises ‘if *guanxi* is not a real source of sustainable competitive advantage what kind of resource is *guanxi* and how does it work?’. However, the existing literature is limited in answering this question.

Furthermore, *guanxi* as an important strategic impetus is rarely studied from a strategic perspective. Reid and Jallat (2006) revealed this limitation by conducting a comprehensive literature analysis. They searched through top qualified published journals held on electronic database resources, and the result is that there were 115 published articles related to *guanxi* but only 12 papers attempted to cope with it as a strategy. Existing literature still lacks the theoretical depth to integrate *guanxi* and strategy (Langenberg, 2007). Thus, it is useful to make an attempt to extend the conceptualised understanding of *guanxi* phenomena and explore further what strategic role *guanxi* plays in business.

### 2.6 Summary

In conclusion, according to a grounded theory approach (Glaser, 1998) the purpose of doing an initial literature review is to help the researcher have a general understanding of the subject. There is no intention to pre-establish any conceptual framework in order to guide the follow up research process. However, by conducting such an initial literature review several limitations of the existing literature have been identified. Therefore, the fact that there is a lack of empirical research for the purpose of building theory in a focussed area encouraged the researcher to continue this study by using a grounded theory approach. Although the research purpose is confirmed as theory
building, the research problem and questions are not developed yet. Because as a grounded theory researcher we only discover the real problems that the participants face in reality, rather than forming any pre-determined ones before entering the field (Glaser, 1992). In contrast, a comparative literature analysis in Chapter 4 conceptually integrates any emergent data findings from the fieldwork and the relevant literature, driven by the emergent theoretical framework (Glaser, 1998).
CHAPTER 3 METHODOLOGY

3.1 Introduction

Given the nature of our research interest, which focuses on the ‘how’ and ‘why’ of a particular social phenomenon, a qualitative research domain is applied in this study (Yin, 1984). Eisenhardt (1989) clarified the process of building theory from cases by a comprehensive analysis to existing literature. The validity of building theory based on empirical reality has been supported by various scholars (e.g. Eisendardt, 1989, Glaser and Strauss, 1967). Although, some active researchers developed their own techniques for building theory from cases (e.g., Bourgeois and Eisendardt, 1988, Pettigrew, 1988, Sutton and Callahan, 1997), grounded theory is the most direct forward methodological approach in theory building based on its well developed comparative method, which relies on constant comparison of data and the emergence of theoretical categories from evidence and an incremental approach to case selection and data gathering (Charmaz, 2006, Corbin and Strauss, 2008, Glaser and Strauss, 1967, Creswell, 2007).

Suddaby (2006; p. 634) claimed that grounded theory is only appropriate for certain research questions, and is most ‘suited to efforts to understand the process by which actors construct meaning out of intersubjective experience’. Moreover, grounded theory enables researchers to develop conceptual understanding of the realities which are focused in their studies through a set of inductive research activities (Holstein and Gubrium, 2003). Essentially, the founders of grounded theory (Glaser and Strauss, 1967) aimed to develop middle-range theories from qualitative data, employing flexible strategies for focusing and expediting qualitative data collection and analysis.

Furthermore, Charmaz (1995) elaborated that grounded theory is suitable for studying individual processes, interpersonal relations and the reciprocal effects between individuals and larger social processes. All these applications fit in with our research subject of guanxi in business. First of all, guanxi is initiated by individuals and the process is embedded in people’s social lives. Secondly, interpersonal relationship interaction is the mechanism of guanxi. Finally, guanxi is engaged through the process of the reciprocal effects between individuals from different organisations. Therefore,
grounded theory is the most appropriate methodological approach for building theory on
the business phenomenon of guanxi in China (Charmaz, 2006, Corbin and Strauss, 2008,

Consequently, the research strategy used here involves an exploratory qualitative design
which is under the guidance of the grounded theory methodological approach in order to
probe the richness and width of emergent theory. Thus, the theory is emergent
automatically from saturated categories. Then, a comparative literature analysis is used
to verify the emerging theory, which is grounded in the data, and to make connections
to existing literatures (Glaser and Strauss, 1967, Strauss and Corbin, 1997).

3.2 Quantitative vs. Qualitative Research Paradigms

Basically, one of the critical decisions that need to be made in designing the study, is
within which research paradigm the researcher is best to situate his work (Maxwell,
2005). Maxwell (2005; p. 36) further explained that the term ‘paradigm’ refers to ‘a set
of very general philosophical assumptions about the nature of the world (ontology) and
how we can understand it (epistemology), assumptions that tend to be shared by
researchers working in a specific field or tradition’. At the outset of the discussion on
the choice of research paradigm in this study, it is necessary to have a general
understanding of the major themes between quantitative and qualitative research
approaches.

According to Thorpe (2005; p. 11), at the early stage of business and management
studies, the methods were mainly based on natural science principles and adopted
experimental designs. Quantitative methods were traditionally regarded as the popular
image of more ‘scientific’ and structured approach with ‘hard’ numbers derived from
statistic data clusters (Ghauri and Gronhaug, 2002). Consequently, quantitative methods
of analysis and model building were dominate academic research in many business
schools till today, such as finance, marketing, operations research and organisational
behaviours (Thorpe, 2005, Neuman, 2007, Buckley and Chapman, 1996, Zalan and
Lewis, 2004). During the 1960s researchers developed the view that the most effective
management ability is to take decisions, particularly under conditions of uncertainty
(Cyert and March, 1963). As a result, the developed research focus evokes the researchers to adopt new and different methods. For example, Roethlisberger and Dickson (1939) in the study of groups and relationships at work used participants observers. In order to adopt the ‘best fit’ approach, researchers used both quantitative and qualitative under different research circumstances as the methods. Gradually, the common recognition can be reached is that the positivist methods which emphasis on objectivity such as quantitative research approach, is not always appropriate for all kinds of the research questions (Thorpe, 2005). From this perspective, rather than conflict to each other, either quantitative (e.g. Balnaves and Caputi, 2001, Singh, 2007) or qualitative (e.g. Belk, 2006, Yin, 1994, Miles and Huberman, 1984) approach contains its internal divisions with well-developed research manners and analysis techniques as methodological applications situated for different research objectives. Maxwell and Loomis (2002) add that quantitative and qualitative methods have different strengths and logics, and often best used to address different kinds of questions and goals. Furthermore, some scholars even make the cohesion of the two methods as the mixed research approach in order to make good use of each approach’s advantages and avoid the shortages for the purpose of ‘best fit’ the focused research situations (Creswell, 2003, Newman and Benz, 1998, Tashakkori and Teddlie, 2003, Lee, 1991).

The distinct differences between quantitative and qualitative methods can be identified from a number of important ways. In general, ‘quantitative research specifies numerical assignment to phenomena under study, whereas qualitative research produces narrative or textual descriptions of phenomena under study’ (VanderStoep and Johnston, 2009; p. 7). Maxwell (2005; p. 23) explained that quantitative researchers’ concern is focused on to what extend variance in x causes variance in y, on the other hand qualitative researchers are more interested in how x plays a role in causing y and what the process is that connects x and y. The contrasting nature of the two methods is actually refer to the underpin differences of the epistemological beliefs grounded in each approach (Bryman, 2008). Moreover, the epistemological differences determine the different ways of the researcher to explore the world, quantitative researcher more likely as an ‘outsider’ who keeps a distant from the subject under study, in contrast with qualitative researcher who acts as an ‘insider’ in relation to the subject (Bryman, 2005).
3.3 Epistemological Foundations

Neuman (2007; p. 41-44) summarised three fundamental epistemological approaches used in social science, which have been recognised by scholars for over 150 years. Namely as *positivism*, *interpretivism*, and the third approach *critical social science* which is less common. In fact, scholars who adhere to one approach always disagree with the other approaches as they consider them less valuable or less ‘scientific’. Despite the debate, it is important for a researcher to understand the different standpoints on doing a research project from the ontological, epistemological and methodological aspects (Crotty, 1998). In this way, it helps the researcher to justify methodological choice and understand how the philosophical basis works through the subsequent methods of data collection, analysis and interpretations (Zalan and Lewis, 2004). The interpretations here will focus on the first two mainstream approaches: *positivism* and *interpretivism*.

The differences between *positive* and *interpretive* approaches can be identified from a large number of organisational and management literature. These two approaches always seem opposed. Morey and Luthans (1984) observed a number of different ways of viewing these two approaches: objective versus subjective (Burrell and Morgan, 1979), nomothetic versus idiographic (Luthans and Davis, 1982), quantitative versus qualitative (Van Maanen, 1979), outsider versus insider (Evered and Louis, 1981), and etic versus emic (Morey and Luthans, 1984).

Positivist researchers’ basic tenet is that the methods of nature science constitute the only legitimate methods for use in social science (Hempel, 1969, Kolakowski, 1968). This approach has been explicitly recognised and advocated as the ‘nature-science model’ of social-science research (Lee, 1991). As a result, they assume social reality is made up of objective facts that value-free researchers can precisely measure and use statistics to test causal theories (Neuman, 2007; p. 42). The belief is that the different observers investigating the same facts will get the same results under the condition of carefully specified ideas, precisely measured facts and objective research standards. For this reason, the ‘hard’ numbers and nomothetic law-like principles favoured the researchers to pursue achievement of natural science in explanation, prediction and control (Lee, 1991, Neuman, 2007, Luthans and Davis, 1982, Bryman, 2008). Thus,
positivism put great value on replication and the ultimate test of knowledge (Neuman, 2007; p. 42). Moreover, the value of neutrality, measurement, and quantitative of observable events can be accounted as strengths of positivist research (Seale, 1999).

On the other hand, the interpretive approach can be traced to Weber’s (1864-1920) verstehen (understanding) approach (Crotty, 1998; p. 67), which he claimed social researchers should be aware of the concern with the interpretive understanding of human being. Weber argued that ‘understanding’ in social science is inherently different from ‘explanation’ in the natural science (Holloway, 1997; p. 93). In contrast to positivist approach, interpretive approach claims that people create and attach their own meanings to the world around them and to the behaviour that they manifest in that world (Schutz, 1973; p. 59). The interpretive school of thought believes that no counterpart in the physical reality of natural science is adequate to explain the world of intersubjectively created meaning (Lee, 1991). Thus, interpretive researchers prefer to spend considerable time in direct personal contact with the participants from the field in order to discover the meaning that is socially constructed by human actors (Holloway, 1997).

In essence, the different epistemological positions between positivist and interpretive approaches also lead to the different means of building and testing theory, namely inductive and deductive approaches (Trochim and Donnelly, 2006). Lee (1991; p. 343) pointed out that ‘the positivist approach involves the manipulation of theoretical propositions using the rules of formal logic and the rules of hypothetico-deductive logic, so that the theoretical propositions satisfy the four requirements of falsifiability, logical consistency, relative explanatory power, and survival’. On the other hand, interpretive researcher with the nature of exploratory, always start with specific data, then, comes with tentative conclusions in order to develop new theoretical concepts and propositions (David and Sutton, 2004, Schut, 2006). In conclusion, inductive research aims to establish limited generalisations about the ‘distribution of and patterns of association amongst, observed or measured characteristics of individuals and social phenomena’, while deductive research focus on ‘why’ questions in order to explain patterns through testing proposed theories which can be established by inductive research (Blaikie, 2009; p. 85).
Finally, Lee (1991) argued that rather than mutually exclusive, positive and interpretive approaches actually can be mutually supportive. Either positivist researchers or interpretive researcher can stand on a common ground to make each approach plays an active role in strengthening the other in a truly collaborative research effort.

3.4 Qualitative Research Paradigm

First of all, the general research interest emerged from the initial literature analysis. Reid and Jallat (2006) have conducted a literature search based on electronic database resources, and revealed that there are 115 published articles on guanxi, only 12 of which attempted to cope it with strategy. Given the absence of any established theory on guanxi-based strategy, an inductive qualitative approach is applied. Due to the fact there is a lack of well established theories or empirical findings, the specific variables and hypotheses cannot be developed feasibly (Creswell, 2003; p. 105-118). Moreover, Ghauri and Gronhaug (2002) point out that the researcher’s choice of quantitative or qualitative paradigm should be determined by the nature of the research problem or research question, and not by personal preference. Therefore, an exploratory qualitative research paradigm seems more suitable to complete this research project, and is well-positioned to developing a framework of theoretical understanding of guanxi-based business strategy.

With regards to different strengths and logics, qualitative and quantitative methods are not simply different ways of doing research. In fact, they are used to address different kinds of questions and goals (Maxwell and Loomis, 2002). Maxwell (2005) indicates that the strengths of qualitative research derive from its inductive approach, which emphasises on studying specific situations or people based on words rather than numbers. Maxwell (2005, p.23) goes on to say that ‘quantitative researchers tend to be interested in whether and to what extent variance in x causes variance in y. qualitative researchers, on the other hand, tend to ask how x plays a role in causing y, what the process is that connect x and y’. Qualitative approaches emphasise on understanding processes and mechanisms, rather than demonstrating regularities in the relationships between variables (Maxwell, 2004).
Thus, qualitative studies are suited for five intellectual goals, and there are three practical goals to which these intellectual goals can substantially contribute (Maxwell, 2005; p. 22-25). In the first place, a qualitative study is suitable for understanding the meaning of social phenomena. In this situation, the researcher is always referred to as the ‘participant’ perspective. That means to the perceived events, situations, experiences and actions, in which the participant is involved, the researcher is required not to assess in terms of truth or falsity, all the ‘meanings’ encompassed (Menzel, 1978, Maxwell, 1992). In other words, the researcher should be part of the reality that you attempt to understand. In the second place, the qualitative researcher studies a relatively small number of individuals or situations in order to understand the particular context within which the participants act and the influence that this context has on their actions. Thirdly, qualitative research has an inherent openness and flexibility that allows the researcher to modify design and focus during the research in order to discover and identify unanticipated phenomena and influences. Therefore, the new ‘grounded’ theories can be generated in the end. Fourthly, the interest of a qualitative study is in process rather than outcomes (Merriam, 1988). This means that qualitative research is adapted to understanding the process by which events and actions take place. Qualitative researchers emphasise on studying how and why this process could lead to these outcomes. Finally, Miles and Huberman (1984) argue that qualitative studies can develop causal explanations as well, which is traditionally considered as the domain of quantitative methods. In fact, qualitative research can not only develop explanations to causality, but can also reveal the actual events and processes that led to specific outcomes. Thus, the five particular intellectual goals show some advantages that qualitative studies can provide to certain research focuses more than quantitative approach can do.

Furthermore, the intellectual goals and inductive open-ended strategy offer qualitative research a particular advantage to address three practical goals (Maxwell, 2005). Firstly, qualitative studies generate understandable results and theories which are experientially credible. Secondly, qualitative studies help to conduct formative evaluations intended to improve existing practice rather than simply assessing the value of the programme or product being evaluated (Scriven, 1967). Thirdly, the nature of focusing on particular contexts and the meanings for the participants in these contexts make qualitative
research more suitable for collaborative or action research with practitioners or research participants (Reason, 1994, Tolman and Brydon-Miller, 2001).

3.4.1 Choice of Grounded Theory Approach

The first methodology-related question facing researchers is ‘why choose one methodological approach over others’. The question here is why grounded theory approach is more appropriate than other qualitative research approaches in conducting my research. Again, the research problem should shape the methods you choose (Charmaz, 2006). Creswell (2007) sketches an overall structure of the five approaches to illustrate the fundamental differences among these types of qualitative research. The focus and the primary objectives of the study may differ according to the five qualitative approaches, as shown in Table 6 below.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Focus</th>
<th>Type of Problem Best Suited for Design</th>
</tr>
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<tbody>
<tr>
<td>Narrative Research</td>
<td>Exploring the life of an individual</td>
<td>Needing to tell stories of individual experiences</td>
</tr>
<tr>
<td>Phenomenology</td>
<td>Understanding the essence of the experience</td>
<td>Needing to describe the essence of a lived phenomenon</td>
</tr>
<tr>
<td>Grounded Theory</td>
<td>Developing a theory grounded in data from the field</td>
<td>Grounding a theory in the views of participants</td>
</tr>
<tr>
<td>Ethnography</td>
<td>Describing and interpreting a culture-sharing group</td>
<td>Describing and interpreting the shared patterns of culture of a group</td>
</tr>
<tr>
<td>Case Study</td>
<td>Developing an in-depth description and analysis of a case or multiple cases</td>
<td>Providing an in-depth understanding of a case or cases</td>
</tr>
</tbody>
</table>

Table 6 Fundamental Differences of the Five Qualitative Approaches (Creswell, 2007)

Grounded theory is a general inductive method that is useful for generating new theory that interprets conceptualised understanding of a social process occurring in the field of study (Glaser and Holton, 2005, Glaser, 1978). According to Gibbons et al. (1994), there are two models of knowledge production. Traditionally, knowledge is generated in a context of established institutions and disciplines. In contrast, the other model of knowledge production is created in a context of application, which involves transdisciplinary cooperation. In the field of management, this knowledge-production
system mostly functions through the second model, which brings the academic (universities) and practical (businesses) sides together. The effectiveness of the whole system depends on a rapid interplay between management theory and practice (Tranfield and Starkey, 1998). Partington (2000) indicated that there is a trend of interdependent theorists and practitioners in organisational studies. On one side, theorists use empirical data to build theories which are useful, relevant and up-to-date. On the other side, active managers intend to improve performance by studying management theories. Underlying this practical concern, some scholars (such as, Burrel, 1996, Eisendardt, 1989, Mintzberg, 1979, Parkhe, 1993a) advocate researchers to put more effort into building new theories from empirical data on those undeveloped and evolving areas.

The qualitative research paradigm is especially suitable for the core objective of this study, namely to build theory. Guanxi itself as a critical cultural variable can be applied to different social meanings contextually. Therefore, a study on guanxi should emphasise on the dynamic processes under different contextual experiences. On the one hand, the author is able to conduct formative evaluations by investigating the participants’ experiences under a particular guanxi phenomenon, which are intended to improve the guanxi practice from a theoretical perspective. On the other hand, the flexibility and open-ended exploratory strategy enables the author to generate credible theories which are not only relevant to practice, but also new to the existing literatures.

With regards to theoretical functions of research, grounded theory is applicable for its specialised focus on discovering theories from data systematically obtained from social research (Glaser and Strauss, 1967). The co-founders of grounded theory, Glaser and Strauss (1967; p. 29), claimed that the basic position of generating grounded theory is a way of arriving at theory suited to its supposed uses, in contrast to the way of generating theory by logical deduction from a priori assumptions. Brown (1973) and Trend (1978) suggest that grounded theory is most appropriate when dealing with qualitative data gathered from participant observation, from the observation of face-to-face interaction, from semi-structured or unstructured interviews, from case study materials or from certain kinks of documentary sources. Given the tenets of ‘constant comparison’ and ‘theoretical sampling’ since 1967, when grounded theory was first published in their book (Glaser and Strauss, 1967), grounded theory has been developed and upgraded to a

3.4.2 Issues of Validity

The issue of validity is a very important component to be considered before carrying out any actions. In reality, no methods can guarantee the findings are completely valid. Brinberg and McGrath (1985) pointed out that validity cannot be fully assured by any methods and techniques. Maxwell (2005, p.105) adds that ‘validity is a goal rather than a product; it is never something that can be proven or taken for granted. Validity is also relative: It has to be assessed in relationship to the purposes and circumstances of the research, rather than being a context-independent property of methods or conclusions’. In fact, validity threats arise more from evidence than the methods. Methods are only instruments to help the researcher familiarise him/herself with the evidence and to collect data from it. Well designed research methods can help to reduce the risk of validity threats. ‘How do you know your conclusion is valid?’ is a common question that should be asked throughout the research. Researchers adopt certain strategies that can be used to identify and rule out the threats of validity. It is also worth noting that validity does not mean any invariable ‘objective truth’ can be applied to justify your conclusions (Maxwell, 2005; p. 106). In this aspect, validity provides researchers a ground for their studies and findings, in terms of usefulness, credibility and believability. Campbell (1988) argued that there is no observer-independent ‘gold standard’ that can be applied to determine whether our accounts are valid or not. Critically, researchers have to make validity a distinct component of qualitative design.

Moreover, qualitative researchers always need to deal with validity threats as particular events or processes may lead to invalid conclusions (Maxwell, 2005; p.108-114). Other than some generic variables, which can be controlled in quantitative studies, qualitative researchers need to test the validity of their conclusions by looking for evidence throughout the process. Thus, improvements can be made to correct perceived challenges to the researcher’s conclusions or to avoid some potential threats that cause implausibility (Campbell, 1988, Maxwell, 2005).
‘Bias’ and ‘Reactivity’ are considered as the two broad validity issues in qualitative studies (Maxwell, 2005; p. 108). On one hand, qualitative researchers’ backgrounds, including their theories, beliefs, and experiences, can lead to a perceptual subjectivity. However, it is impossible to eliminate the subjective value that the researchers bring into the study. In this case, variance in values and expectations may be different depending on the researchers involved. Maybe the best way is to understand how these different values and expectations influence the conduct and conclusions of the study (Maxwell, 2005). In this case, the researcher can avoid the negative consequences purposefully. On the other hand, the influence of the researcher on the settings or participants involved in the study is known as ‘reactivity’ effect in qualitative studies. Given the fact that the researchers are part of the world they study, it is impossible to eliminate the actual influence of the researchers, and the informants’ responses are always influenced by the interviewer and the interview situation (Hammersely and Atkinson, 1995). Rather than make efforts to eliminate this influence, it is preferable for qualitative researchers to better understand this side effect and to use it productively. Maxwell (2005) further explained that understanding how the researcher can influence what the informant says helps him/her to test the validity of the inferences that can be drawn from the interview. By knowing these validity issues in qualitative research, there are some things one can do to prevent these undesirable consequences from arising. For example, in this study, the author designed open-ended questions in order to avoid the risk of leading answers.

Campbell (1988) suggested that operating validity testing strategies cannot verify one’s conclusions, but may help to test the validity of conclusions and the existence of potential threats to those conclusions. Creswell (2003) claims that validity testing strategies are used by researchers to check the accuracy of their findings in a qualitative study. These strategies help researchers verify the research process in order to avoid the risks of validity threats. Although those testing methods and procedures cannot guarantee validity, they are essential to the process of eliminating validity threats and increasing credibility of the conclusions (Maxwell, 2005). For this reason, many scholars developed validity checking strategies which can be used for this purpose (e.g. Maxwell, 2005, Miles and Huberman, 1994, Creswell, 2003, Lincoln and Guba, 1985, Patton, 1990, Becker, 1970). However, not every strategy will be suitable for a given study. Given, for example, time constraints, it might be difficult for the researcher to use
all these strategies efficiently (Maxwell, 2005). Therefore, the author will offer a brief discussion on some relevant evaluation strategies and criteria associated with grounded theory approach that have been employed in this study.

First of all, some of the most frequently used qualitative evaluation strategies are summarised by Creswell (2003, p.196), and some of these are applied to enhance the credibility of this study:

1. Triangulation of data is applied as the first technique. Data were collected through multiple sources: interviews, observations, informal materials which include participants’ word-of-mouth stories, private business documents and media reviews.

2. With regards to the ‘reactivity’ (Maxwell, 2005) issue, it is critical to build a trustworthy situation in order to let the participants tell the truth in a natural way. The credible intermediators were employed to help the researcher gain access to the interviewees. The main reason for this is that guanxi utilisation in business is considered confidential, and thus the topic is sensitive and is usually not discussed openly without a pre-established foundation of trust. Actually, the interviewee only accepts to join the interview with a credible intermediary’s recommendation. After the initial introduction by the intermediary, the researcher sent a friendly interview invitation to explain the academic privacy policy and the research purpose by email. The main purpose here was to try to make the interviewees feel more comfortable by eliminating their privacy worries in advance. The next step involved making arrangements, such as date and time of interview, by telephone. This was also the first time that the researcher had engaged in direct talks with the interviewees. Overall, these steps were helpful in making the first impression seem friendly and in creating a relaxed atmosphere before the meeting.

3. It is also important that the researcher spend a prolonged time in the field. The fieldwork lasted 10 months in order to maximise depth and width. On the one hand, a long-term observation in the field enables the researcher to develop an in-depth understanding of the phenomenon under study. On the other hand, repeated observations enable the researcher to capture the richness of the phenomenon under study. In this way, theoretical saturation cannot be reached until ‘fresh data no
longer sparks new theoretical insights’ (Charmaz, 2006, p.113), and credibility can be lent to a narrative account as well.

4. Member-checking is another technique that was used in this study. Creswell (2003) explained that taking the final report or specific descriptions or themes back to participants, and letting the participants feel whether they are accurate, can improve the accuracy of qualitative findings. In this study, grounded theory approach offers the researcher a constant comparative method, which involves making comparisons during each stage of the analysis (Glaser and Strauss, 1967, Glaser, 1978). The tenet of ‘constant comparison’ increases the analytical power of the researcher during the process (Charmaz, 1995, Glaser and Strauss, 1967, Glaser, 1992, Bigus et al., 1994). As a result, any emergent tentative concepts and theories need to be verified by participants following the progression of the fieldwork. Meanwhile, the researcher is able to modify the findings flexibly according to the member-checking feedbacks. In this way, the accuracy of the conclusions is plausible.

5. Researchers must also minimise any ‘bias’ that they could bring to the study. Grounded theory approach requires the researcher to conduct a literature review after developing an independent analysis (e.g. Charmaz, 2006, Glaser and Strauss, 1967). In this way, the researcher can enter the field without any pre-determined hypotheses or propositions. This tenet allows the participants to define their own problems without the researcher’s assumptions.

Secondly, the evaluation of grounded theory adopts some unique criteria. An adequate discussion on criteria of grounded theory is provided in section 3.5.3. According to Maxwell (2005), the researcher needs to firstly think about the specific validity threats, and then to select what strategies are best able to deal with these. Corbin and Strauss (2008) claimed that to evaluate the quality of a qualitative research, one should address both ‘scientific’ (Morse, 1999) aspects and creative aspects. Quality and validity are not synonymous, because quality findings should also include an innovative, thoughtful and creative component (Corbin and Strauss, 2008). Based on a brief literature review on how to evaluate the quality of qualitative research findings, Corbin and Strauss (2008) argued that the term ‘credibility’ (Glaser and Strauss, 1967, Lincoln and Guba, 1985), as opposed to ‘validity’, is more appropriate in qualitative research.
‘If the research findings are ‘credible’; that is, believable or plausible and ‘applicable’ in the sense that findings can be readily used because the findings provide insight, understanding, and work with diverse populations and situations to bring about desired change, then it seems to me all this philosophic debate about ‘truth’, ‘validity’, and ‘reliability’ is superfluous.”

(Corbin and Strauss, 2008, p.301)

Despite different grounded theorists’ versions of evaluation criteria (e.g. Charmaz, 2006, Corbin and Strauss, 2008, Glaser and Strauss, 1967, Goulding, 2002), Glaser and Strauss (1971) offered the four criteria of fit, work, relevance and modifiability. Theories must satisfy these criteria in order to be considered useful, as they would fit the real world; they would work across a range of contexts; they would be relevant to people concerned; and they would be readily modifiable (Glaser, 1978, Glaser and Strauss, 1971).

3.5 Emergence of Research Problem and Questions

The primary motivation of conducting this research is triggered by an interest in how guanxi, as a supplement of strategic resource, enhances firm performance. My initial literature review, which is presented in Chapter 2, highlighted a number of previous studies on guanxi and several theoretical streams on strategic management. As a departure point of study, constructing a preliminary learning of literature provided the researcher initial guiding interests and disciplinary perspectives to develop, rather than limit ideas (Charmaz, 1995). However, from a qualitative perspective (Maxwell, 2005), it is impossible for researchers to enter the field without certain goals and preconceived questions, because, with a substantial base of experience and theoretical knowledge, certain research problems or issues are inevitably highlighted.

With regards to the specific data analysis method of grounded theory, ‘constant comparison’ (Glaser and Strauss, 1967; p. 101-115), which means simultaneous collection and analysis of data (Suddaby, 2006), provides not only a tool for data analysis, but also a compass which directs the researcher closer to the essence of the problem they face by exploring and solving emergent problems. Charmaz (2006)
mentioned that the logic of grounded theory guides one’s methods of data-gathering as well as of theoretical development. The purpose of adopting methods is to advance the researcher’s emerging ideas. In fact, in grounded theory studies, the research problem and questions gradually emerge as the research process develops. Moreover, innovation can occur at any point during the research (Charmaz, 2006). This means that researchers are able to continuously refine the initial focus of the problem in a process of learning until the essence is reached during the research process (Strauss and Corbin, 1997, Charmaz, 2006, Glaser, 1992). Sometimes, during the early stages of the research, the researcher may not even realise what the real research problem they face actually is. Glaser (1992; p. 21) explained that there should only be one core research problem, or two at the very most. Many research questions, which are actually not related to the core research problem, may appear as quasi-research problems distracting the researcher’s sight. In this case, researchers need to be patient until the real core research problem emerges from participants’ viewpoints, where the real social process has occurred (Glaser, 1992; p. 23).

From a traditional grounded theory perspective, the researcher is best entering the field without any preconceived impressions, as Glaser (1998, p. 122) asserted:

“The first step in grounded theory is to enter the substantive field for research without knowing the problem. This requires suspending your knowledge, especially of the literature, and your experience. The researcher must take a ‘no preconceive interest’ approach and not ask questions that might be on his mind.”

In addition, it is very important to have a clear understanding of the classification of research problem and research questions before introducing the problem emergence procedure of this study. Although this is a critical starting point for the initial passage in any study, the research problem is often confused with the research questions. In fact, the investigator would like his/her research questions to be answered in order to understand or explain the research problem (Creswell, 2003).

According to McCallin (2003), the nature of the unknown research problem is given by a broad understanding of the literature, and this general focus on guanxi and business
strategy formulated my preliminary research interest. In reality, without any previous industrial or academic research background, the researcher was not able to pre-empt the research problem, which can be largely influenced by a rooted pre-conceptualised understanding of knowledge and experience in the field. However, given the researcher’s cultural background (a Chinese citizen), he is familiar with the cultural variable ‘guanxi’. In general, guanxi is regarded as the most significant social mechanism in China (Luo, 2007). The significance of guanxi in Chinese business attracted the author’s attention and triggered his motivation to study this business phenomenon from a strategic perspective.

At the beginning of this study, the research problem and objective was somewhat ambiguous. After conducting an initial literature review, two main problems appeared. In the first place, there was a lack of theoretical background on guanxi and business strategy from existing literature. It seems that the whole area of guanxi studies in business is still largely in the exploratory stage. However, existing literature roughly sketches a picture on what guanxi is and how guanxi works. This is helpful as it enabled the researcher to clarify that this study should emphasise the meaning of guanxi as a social phenomenon (e.g. Davies et al., 1995, Dunning and Kim, 2007). Also, some of these studies evoke more conceptualised perspectives on guanxi in order to contribute a deeper and more comprehensive understanding of guanxi consequences (e.g. Chen and Chen, 2004). A qualitative research problem can be understood by exploring a concept or phenomenon. Qualitative research is best adapted to exploratory studies where the variables and theory base are unknown (Creswell, 2003). Morse (1991a, p. 120) states this:

“Characteristics of a qualitative research problem are: (a) the concept is ‘immature’ due to a conspicuous lack of theory and previous research; (b) a notion that the available theory may be inaccurate, inappropriate, incorrect, or biased; (c) a need exists to explore and describe the phenomena and to develop theory; or (d) the nature of the phenomenon may not be suited to quantitative measures.”

Therefore, the general research problem is adapted to qualitative approaches without the specific focuses having been outlined in detail at this stage.
Secondly, it becomes clear that the study of *guanxi* as an abstract problem, which is embedded in a specific social cultural circumstance, represents a social process. Thus, the objective of this theory building research is to conceptualise the understanding of *guanxi* consequences from a strategic perspective. Glaser (1992; p. 18-19) claims that grounded theory, which is the study of abstract problems and their processes, is different from descriptive studies such as survey and case studies, which focus on the units. Glaser (1978; p. 109) further explained that social process is the opposite of structural units, such as persons, groups, organisations etc. For this reason, grounded theory approach is more appropriate for the present research, and therefore, the core focus of *guanxi* in this research is investigated as a social process. In addition, given the focus on social process, the research results, which express the abstract conceptual understanding of the reality, can be applied beyond the units where it generates.

Along with the exploratory investigation, which has been carried out into a further stage, the research problem and questions emerged from the process of data collection and analysis (Glaser and Strauss, 1967, Glaser, 1992). Moreover, the research questions are formulated so as to enhance flexibility and freedom for researchers to explore the phenomenon in depth, because researchers are not able to perceive the real matters as the participants do in any events. As the investigation goes on, the research questions may even change, for example, during the data collection (Glaser, 1978). McCallin (2003; p. 203) added that “grounded theory explains what actually happened in practical life, rather than describing what should be going on”. Furthermore, and this is not exclusive to grounded theory approach, the research focus and questions should be formulated through a process of interaction between empirical fieldwork and conceptualised literature analysis. Maxwell (2005; p. 65) noted that in qualitative research, an eventual research question usually emerges after the researcher has done a certain amount of data collection and analysis. Thus, to use the other components of the research design is a feasible way to explore the core research problem. In this case, qualitative researchers can make sure they are not locked into any predetermined theoretical and methodological commitments and options, and can avoid the danger of answering the wrong question (Maxwell, 2005; p. 67-68). Therefore, it is important that the process of problem emergence receives detailed explanation for its critical position in the realisation of the real research problem (see Figure 2).
The figure illustrates the process of research problem emergence. With regards to the methodological issues of grounded theory, the researcher tries to discover the real problem from the participants’ perspectives. In grounded theory, research problem emerges and the related questions, which will direct the theoretical sampling, also emerge automatically (Glaser, 1992). In this study, the researcher entered the field to conduct the first 5-8 interviews without any pre-conceptualised research questions having been proposed. In order to keep close to the focused social process, the researcher allowed the participants to describe real-life experiences on how guanxi problems had arisen and how they had responded to resolving these problems. This
allows the researcher to be close to the phenomenon and to investigate the ongoing social process from the participants’ perspectives. In other words, the researcher keeps faith in seeing through the participants’ eyes, which is critical for exploring the real problem they face from the ongoing social process, instead of a biased pre-proposed problem from the researcher’s assumption.

Instead of simply describing the process of research problem emergence, the author will develop some important discussions to explain the unique rationale of problem emergence in grounded theory approach.

Firstly, it is essential to understand more about the fundamental logic behind grounded theory methodology. Then, we can make a further explanation on how the research problem and questions emerged in this study. Despite the tenet of emergence, Glaser (1992) further states that the purpose of grounded theory is to study the abstract problems and their processes, not units (e.g. persons, groups, organisations, etc), which are focused in descriptive studies such as case studies and surveys. Therefore, grounded theory especially generates properties of process, which is in contrast to other types of studies on units (Glaser and Holton, 2005). Focusing on social processes and following the rule of natural emergence are two of the distinguishing features of grounded theory compared to other qualitative research methodologies. Suddaby (2006) added that ‘it (grounded theory) is more appropriate to do so when you want to make knowledge claims about how individuals interpret reality’. Thus, in this study, all efforts made by the researcher are for the purpose of letting the problem and questions emerge automatically in a natural way as shown in Figure 2.

Secondly, the research problem and questions continue to ‘emerge’ by ensuring that the interview direction and structure remain open, rather than ‘forcing’ them into predefined categories (Glaser, 1992, Goulding, 2002). The whole process of reaching the final emergence of the problem and a tentative grounded approach involves five sequential stages: general interest, broad focus, refined focus, emerged questions and new insight. This process is adapted to the tenet of ‘emerging’ in grounded theory. Initially, the researcher was motivated by a general interest in cultural factors influencing firm performance. This stage of the investigation was then followed up by conducting a set of unstructured open-ended interviews and an initial literature review. The purpose of
entering the field without any specific direction is to help the researcher refine the focus by understanding more about the real social process from the participants who are involved. As a result, the researcher noticed that ‘guanxi’ acts as the vital cultural concept, which drives Chinese social mechanisms, and is irreplaceable for firms to achieve business success. This broad focus was generated from the participants’ perspectives during the interviews. The participants’ experiences unveiled their practical intention of planning and using guanxi resources as a business necessity for long-term consideration, which evokes the empirical development of guanxi-based business strategy. Thus, a refined focus was generated as to how guanxi-based business strategy enhances performance. At this stage, an emerged research focus was refined and abstracted into a new level.

This new emerged focus directs further data collection. In this way, ‘theoretical sampling’ in research as the tenet is designed for verification and description purposes (Glaser and Strauss, 1967; p. 45). The emerging theory guides the next step of data collection. In this case, the researcher should continue to undertake a series of constant comparison and simultaneous data collection and analysis, with some tentative emerging concepts and theories being built up and refined by the empirical evidence from interviews until a real conceptualised core research problem arises which can be linked to most other emergent questions. Glaser and Strauss (1967; p. 45-77) actually noted that all kinds of emerged concepts provide an initial foothold to conduct the research, even if the researcher does not know the relevance of these concepts to his real research problem which must emerge.

The last two stages, i.e. emerged questions and new insights, as clearly shown in Figure 2, illustrate the process of leading problems reaching a more abstract level. During the stage of emerged questions, the questions and tentative answers emerged from the participants’ empirical experiences, rather than being developed or proposed according to the perceptions of the researcher. It should be noticed that the emerged questions are not exactly the same as the so-called research questions from the researcher’s perspective. By contrast, these emerged questions are actually real problems that the participants faced in the real social process. In other words, the researcher’s efforts are to summarise the problem-solving experiences from the participants’ viewpoints, so that new empirical problems emerge from the empirical experiences of participants. From
this viewpoint, the process of problem emergence leads to a continuous discovering of the emergent empirical problems and questions based on the data, and analysing the data will lead the next collection – a process that continues until the core research problem finally emerges. In other words, grounded theory method is an iterative process in which data and emergent concepts are cyclically analysed in conjunction with one another in order to reach theoretical saturation. As noted by Corbin and Strauss (2008, p. 144):

“Unlike conventional methods of sampling, the researcher does not go out and collect the entire set of data before beginning the analysis. Analysis begins after the first day of data gathering. Data collection leads to analysis. Analysis leads to concepts. Concepts generate questions. Questions lead to more data collection so that the researcher might learn more about those concepts. This circular process continues until the research reaches the point of saturation; that is, the point in the research when all the concepts are well defined and explained.”

Given the fact that the participants always mentioned competence development when discussing guanxi, the researcher allocated related issues into two conceptual categories, ‘guanxi-based business strategy’ and ‘firm’s competence development’, after analysing the data. From this, a new insight emerged, namely ‘core competence development can be improved by guanxi utilisation, but guanxi is not a real competitive advantage’. Meanwhile, a grounded concept, used to describe guanxi advantage, is named as ‘a quasi-competitive advantage’. However, this was a tentative core concept that needed to be verified as the research progressed. Finally, through a series of iterative processes involving data collection and analysis, the research problem and questions emerged as below:

**Emergent Research Problem:**
How does guanxi-based business strategy assist firms’ competence development?

**Emergent Core Research Questions:**
How does guanxi-based business strategy work?
How do guanxi development and firms’ competence development affect each other?
3.6 The Interpretive Research Perspective

First of all, there are four fundamental elements, *methods, methodology, theoretical perspective, and epistemology* (as shown in Figure 3), that inform one another and construct the research design (Crotty, 1998, p. 4). According to Crotty (1998), the researcher needs to answer two questions before designing a particular social research. One is what methodologies and methods the researcher proposes to employ, while the other is how the researcher could justify the choice and use of methodologies and methods.

![Figure 3 Four Fundamental Elements of Research Design (Crotty, 1998, p. 4)](image)

As Crotty (1998) indicated in the linkage of four elements in Figure 3, methods are the techniques or procedures used to gather and analyse data. Methodology is the strategy of design or the plan of action which guides the researcher in choosing methods to reach desired outcomes. Theoretical perspective is the philosophical stance informing the methodology. Epistemology is embedded in the theoretical perspective and thereby also in the methodology. Epistemology is a way of understanding and explaining *how we know what we know*. The methodological framework of this study is shown in Figure 4. After 40 years development of grounded theory, well defined theoretical and philosophical underpinings have been established, thus showing the health and vigour of this methodology (Becker, 1993, Bryant and Charmaz, 2007).
Social constructionism as the fundamental epistemological background of interpretivism is removed from objectivism found in the positivist stance (Crotty, 1998). According to constructionism, meaning is not discovered but constructed. Meanings are constructed by human beings as they engage with the world they are interpreting. Crotty (1998, p.42) stated that constructionism ‘is the view that all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world, and developed and transmitted within an essentially social context’. Constructionism claims that we do not create meanings, but we construct meanings from reality. Constructivists believe that the world is obdurate and ever-changing, but diverse local worlds and multiple realities do exist. In this case, how people’s actions will affect their local and larger worlds should be addressed by constructivists, because ‘those who take a constructivist approach aim to show the complexities of particular worlds, views, and actions (Charmaz, 2006, p.132)’.

Moreover, the differences in perspectives could lead to different views on definition of theory. Charmaz (2006; p. 130) argued that the definition of theory in interpretivism emphasises on understanding, rather than explaining and predicting. Essentially, a brief review on the meanings of theory from different theoretical perspectives is developed in order to cultivate a deeper understanding of the theory building objective. This review echoes some epistemological underpinnings, which construct the meanings and directions of grounded theory, for the researcher before going into action. Firstly, interpretivism, in contrast to positivism, has distinctive research traditions (Sarantakos,
1998). The distinctions between these two research perspectives are summarised in Table 7 below. Charmaz (2006) then provided a perspicuous explanation that ‘positivist theory seeks causes, favours deterministic explanations, and emphasises generality and universality... interpretive theory calls for the imaginative understanding of the studied phenomenon. This type of theory assumes emergent, multiple realities; indeterminacy; facts and values as linked; truth as provisional; and social life as processual. (Charmaz, 2006, p.126)’. Flick (2002) pointed out that the principle concept of the interpretive perspective is the social construction of reality.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Positivism</th>
<th>Interpretivism</th>
</tr>
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<tbody>
<tr>
<td>Reality is…</td>
<td>-objective, ‘out there’, to be ‘found’</td>
<td>-subjective, in people’s mind</td>
</tr>
<tr>
<td></td>
<td>-perceived through the senses</td>
<td>-created, not found, interpreted differently by people</td>
</tr>
<tr>
<td></td>
<td>-perceived uniformly by all</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-governed by universal laws</td>
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<tr>
<td></td>
<td>-based on integration</td>
<td></td>
</tr>
<tr>
<td>Human beings are…</td>
<td>-rational individuals</td>
<td>-creators of their world</td>
</tr>
<tr>
<td></td>
<td>-obeying external laws</td>
<td>-making sense of their world</td>
</tr>
<tr>
<td></td>
<td>-without free will</td>
<td>-not restricted by external laws</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-creating systems of meanings</td>
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<tr>
<td>Science is …</td>
<td>-based on strict rules and procedures</td>
<td>-based on common sense</td>
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<td>-relying on sense impressions</td>
<td>-relying on interpretations</td>
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<td></td>
<td>-value free</td>
<td>-not value free</td>
</tr>
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<td>Purpose of Research</td>
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<td>-to interpret social life</td>
</tr>
<tr>
<td></td>
<td>-to predict course of events</td>
<td>-to understand social life</td>
</tr>
<tr>
<td></td>
<td>-to discover the laws of social life</td>
<td>-to discover people’s meanings</td>
</tr>
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</table>

Table 7 Theoretical Perspectives: Positivism vs. Interpretivism (Sarantakos, 1998, p.40)

In fact, theories are not only constructed by the interpretive work that the participants do, but also by the resulting theory emerging from the researcher’s own interpretation (Bryant, 2002, Charmaz, 2000). Thus, the theory depends on the researcher’s epistemological views; for example, constructivist grounded theory lies squarely in the interpretive tradition. However, the meaning can neither be simply described as ‘objective’, nor ‘subjective’. Given the fact that both data and analyses are socially constructed by researchers and research participants’ interpretation of meanings and actions, constructivist grounded theorists always take a reflexive stance toward the research process and products (Charmaz, 2000, Bryant, 2002, Hall and Callery, 2001). From this point of view, any analysis is contextually situated in time, place, culture and
situation (Charmaz, 2006). Strauss and Corbin (1998) claimed that grounded theory investigators do not create data, they create theory out of data.

Maxwell (2005, p. 22) explained that ‘in a qualitative study, you are interested not only in the physical events and behaviour that are taking place, but also in how the participants in your study make sense of these, and how their understanding influences their behaviour’. This focus on ‘meaning’ in qualitative studies is regarded as the ‘interpretive’ approach to social science (Bredo and Feinberg, 1982, Geetz, 1974, Rabinow and Sullivan, 1979). As a result, there is a range of methodologies suitable for interpretive researchers to conduct their studies, such as case study, ethnography, grounded theory, focus groups and so on. Grounded theory, which is employed in this study, emphasises on the social construction of reality (Goulding, 1998). Meaning is interpreted by a researcher’s understanding of the events as related by participants, and analysis involves interpretation (Blumer, 1969, Denzin, 1998). Grounded theory takes an interpretive perspective and analyses ‘the actual production of meanings and concepts used by social actors in real settings’ (Rynes and Gephart, 2004, p. 457), hence providing a practical method for social researchers who wish to study and interpret social processes (Glaser and Strauss, 1967, Suddaby, 2006).

3.7 Grounded Theory Methodology

Glaser and Strauss (1967) developed the grounded theory approach, which emphasises on a general method of comparative analysis. The essence of grounded theory is the inductive-deductive interplay, set out of the research under the studied situation without any hypothesis (McGhee et al., 2007). Therefore, grounded theory is adapted to generate new theories when the researcher aims to explain a process from studying the social interactions or experiences (Lingard et al., 2008). Researchers are required to start a topic only with a general interest, with relevant ideas and real research problems emerging from data collection. Doing this ensures that data are not ignored by the researcher’s preconceived notions of fit. Nevertheless, data collection and data analysis simultaneously take place throughout the whole process (Duchscher and Morgan, 2004). Also, any ideas and tentative theories are modifiable until the core categories are saturated. In this way, ideas and tentative theories, which are inductively derived from
the data, can be confirmed or refuted by subsequent theoretically selected samples. In this case, grounded theory approach guides the researcher to discover the emergent theory from a studied phenomenon through an iterative process, rather than using a linear process to verify the preconceived hypotheses. In short, grounded theory is fundamentally driven by two tenets, *theoretical sampling*, whereby the process of data collection is controlled by the emerging theory, together with the *constant comparison* method of simultaneously coding and analysing data (Partington, 2000).

Since their co-creation of grounded theory approach in 1967 (Glaser and Strauss, 1967), Glaser and Strauss have taken significant divergence in further developing and evolving the pragmatic use of grounded theory, which is characterised as ‘Glaserian’ and ‘Straussian’ respectively (Stern, 1994, Duchscher and Morgan, 2004). Scholars have debated that Glaser and Strauss’s primary variants in the theory’s degree of groundedness lies in their epistemological emphases (Duchscher and Morgan, 2004). Glaser (1992) insists on his orthodoxy of grounded theory by ‘trying the theory tightly to the data over and over again’ (p. 32). On the other hand, Strauss (Strauss and Corbin, 1998) claimed that while the researcher ‘allows the theory to emerge from the data... analysis is the interplay between researchers and data... procedures provide some standardization and rigor to the process’ (p. 13). Furthermore, Charmaz (2000) suggested that grounded theory, from a constructivist perspective, requires that the theorist ‘recognises the mutual creation of knowledge by the viewer and the viewed and aims toward interpretive understanding of subjects’ meanings’ (p. 510). Over four decades of development, the grounded theory approach has evolved into a rigorous methodological system for analysing and interpreting research data with developed epistemological underpinnings. Regardless of the divergent philosophical orientations chosen by researchers, grounded theory approach is widely used as a general method, both in the qualitative and quantitative domains. However, most grounded theorists are still committed to the original grounded theory framework developed in 1967 (Duchscher and Morgan, 2004, Glaser and Strauss, 1967).

In order to present a more detailed description of using grounded theory, the *principles*, *procedures* and *criteria* of grounded theory methodology are elaborated in the following parts. At the same time, some evidence from the empirical research is provided to explain the procedure. With grounded theory as the guidance, a specific research
scheme is developed and the researcher must enter the actual environment, in which the actions take place (Baszanger, 1998). Thus, 10 months of fieldwork was carried out in five cities in northern China. This enabled the researcher to immerse himself as much as possible in the participants’ natural working environment, thus allowing him to analytically interpret the data from the participants’ perspectives. These efforts helped maximise the prospect of discovering the emergent theoretical findings.

Furthermore, grounded theory approach is a creative methodology. Strauss and Corbin (1994) stipulated that theory is not the formulation of a pre-existing reality ‘out there’, and therefore, the interpretation should be developed in a high degree of abstraction in order to interpret the studied reality. Nevertheless, these abstract efforts rely on the researcher’s sensitivity, which is in contrast to objectivity (Strauss and Corbin, 1998). Sensitivity means ‘having insight, being tuned in to, being able to pick up on relevant issues, events, and happenings in data’ (Corbin and Strauss, 2008; p. 32). The reason is that different researchers have different perspectives, trainings, knowledge and biases, and all these aspects will shape the particular paradigms that will be brought into the research situations by the researchers (Guba and Lincoln, 1998). The researchers draw upon accumulated knowledge while analysing the data (Dey, 1993). This is inevitable in qualitative data analysis. In fact, sensitivity not only helps to abstract concepts from data, but also enables the researchers to see the connections between concepts. To sum up, from substantive theory to formal theory, the outcomes of grounded theory may be represented in different forms depending on the researcher’s sensitive characteristic. However, the differences in formation of grounded theory should not affect the credibility of the research if the research procedure is valid and efficient.

3.7.1 Principles of Grounded Theory

3.7.1.1 Constant Comparison

Comparative analysis is a general method, and, just like other experimental and statistical methods, is used for analysing social units (Glaser and Strauss, 1967). Traditional comparative analysis is mostly restricted to a large scale of social units such as particular organisations, nations, institutions and large regions. However, grounded
theory developed comparative analysis as a strategic method for generating theory, which can be applied to any size of units. The purpose of constant comparative method of joint coding and analysis is to generate theory more systematically than the traditional theory building qualitative approach. Glaser (1965) argued that traditionally, the analyst merely inspects his data for new properties of his theoretical categories, because the explicit coding is burdensome and treated as a separate operation in the process. Although the researcher can constantly redesign and reintegrate his theoretical notions by reviewing materials (Becker and Geer, 1960, Becker, 1958), the unnecessary procedure of analysis after a coding operation can interfere with the original purpose of the research. As a result, preconceived research categories or frameworks restrict the researcher’s creativity and sensitivity. Thus, the constant comparative method in grounded theory approach is designed to aid the researcher by bringing these abilities into play in generating a theory which is integrated, consistent, plausible, and close to the date (Glaser, 1965). It should be noted that the method cannot guarantee the same achievements of research findings that different researchers working on the same data independently would reach. In contrast, constant comparative method allows some of the vagueness and flexibility with certain discipline, in order to assure the plausibility and credibility of new theory (Glaser, 1965).

Glaser and Strauss (1967) indicated the purposes of using comparative analysis as a tenet in grounded theory approach. Firstly, evidence collected from other comparative groups can be used to check the accuracy of evidence abstracted from initial groups. The accuracy of emerged conceptual categories or concepts may unnecessarily be verified in generalisation, but the discovered theoretical abstraction about what is going on in the studied field is indubitable. Moreover, concepts should not changed even if the evidence changes, because concepts only have their meanings re-specified when other theoretical and research purposes have evolved (Glaser and Strauss, 1967). The second use of comparative analysis is to establish the generality of the fact. In actual fact, the scale of empirical study limits the new theory’s boundaries of applicability. Thus, comparative analysis to other evidences helps to broaden the discovered theory’s application at a general level. Meanwhile, the explanatory and predictive power of the theory is enhanced. The third use is to help the researcher specify a concept. The comparisons in study will offer the researcher distinctive elements or nature of the case that he studied. Fourth, any tentative theories or categories that emerge during the study
are best tested from the evidences. Thus, the researcher continually checks out his theory as the new data pour in. This is a way to verify the variations of the theory under different conditions and to enable the analyst to modify the theory, which is grounded in the data, at any time (Blauner, 1964, Merton, 1957). Finally, a grounded theory can be applicably used as a test of the existing logical-deductive theory in the same area by a comparison of both theories. Regardless of whether there is a previous speculative theory, a discovered grounded theory is fit and workable in a substantive or formal area (Glaser and Strauss, 1967). Although further testing, clarification, or formulation is still necessary, a grounded theory, which has been derived from data, demonstrates the researcher’s own new insights to the studied area. This is not a deductive method that provides certain accurate descriptive propositions or logical assumptions. Indeed, accurate evidence is not so crucial for generating theory – even a single case can indicate a general conceptual category or property. The importance of generating theory by comparative analysis is that a multitude of comparisons among more carefully selected cases, and those emerged tentative conceptual ideas, will finally concrete the new theoretical notions. The outcomes of this constant comparative method are grounded in the data, not speculated by perceived assumptions.

Glaser (1965) further elaborated the four stages of the constant comparative method in grounded theory approach: 1. comparing incidents applicable to each category; 2. integrating categories and properties; 3. delimiting the theory; and 4. writing the theory. These four stages illustrate the core idea of the theory building process in grounded theory method. The relevant research tactics and strategy are developed for the purpose of coping with this comparative process, which leads to the discovery of new theory. Some specific research techniques are developed according to this comparative tenet, such as data coding, memo writing and comparative literature analysis. In a word, constant comparison is the pillar of grounded theory, which directs the whole research process of generating theory from data. From data collection to data analysis, empirical evidence to abstracted notions, substantive theory to formal theory, comparison is everywhere throughout the whole research.
3.7.1.2 Theoretical Sampling

The idea of theoretical sampling is a method of collecting data based on concepts derived from data. The purpose of theoretical sampling is to maximise opportunities to develop concepts, in terms of properties and dimensions, uncover variations and identify relationships between concepts (Corbin and Strauss, 2008). This constitutes a different motivation that maximises the openness and flexibility of sampling. This is in contrast to the conventional way of establishing a sample scope before the research commences. Basically, grounded theory is only serving the purpose of generating new theory from data, so that theoretical sampling is responsive to the data in order to enlarge the flexibility and possibility of discovering relevant concepts and their properties and dimensions (Pidgeon, 1996, Glaser and Strauss, 1967). This is different from the conventional method of sampling, which is largely used to verify or test hypotheses about concepts.

Glaser and Strauss (1967) described theoretical sampling as the process of data collection whereby the ongoing joint activities of collection, coding and analysis assist with the purpose of generating theory. The researcher could then decide the next step of data selection depending on the purpose of developing his theory as it emerges. Glaser (1992) specifically announced that this process of data collection is controlled by the emerging theory, which is discovered in a natural way. It is a process of emerging, rather than forcing, until the categories are saturated, and where no additional properties or dimensions can be allocated into the theoretical categories by comparison of emerging data. It is essential that the principle of emergence is obeyed because data collection according to a pre-planned schedule is more likely to force the researcher into irrelevant directions or harmful pitfalls (Glaser and Strauss, 1967). In other words, the researcher may lose his theoretical sensitivity, which is very important for generating theory, once he meets some unanticipated incidents or notions. Given the fact that a pre-determined research framework can easily influence the researcher’s analysing capability, he is restricted to focusing on abstracting relevant properties in order to fulfil the anticipated categories. As a result, theoretical sampling enables the researcher to keep his theoretical sensitivity sufficiently throughout the whole research process for theory building purpose.
As two fundamental commitments of grounded theory, the method of *constant comparison* is associated with *theoretical sampling*, thus making the building of new theory an iterative process (Charmaz, 1990, Charmaz, 2006, Pidgeon, 1996). The logic of theoretical sampling is elaborated by Charmaz (2006; p.102): ‘*starting with data, constructing tentative ideas about the data, and then examining these ideas through further empirical inquiry*’. The researcher continues this process, whereby codes become categories, and compares the new emergent properties to the old categories, thus enabling himself to elaborate and refine the old categories (Charmaz, 2006) or to verify the credibility of emergent conceptual notions. Hence, memo-writing becomes the most effective instrument during the research process, as it leads directly to theoretical sampling (Charmaz, 2006, Corbin and Strauss, 2008). All kinds of emerging properties or notions can be recorded and organised to help the researcher to conduct his theoretical categories, and to refine these according to the reality that is reflected from the data. More importantly, the researcher can learn about how his theoretical abstraction process develops and changes as the research moves forward (Charmaz, 1995, Charmaz, 2006, Glaser, 1992). By reviewing the memos, the researcher can occasionally be inspired to discover some new theoretical ideas. Thus, theoretical sampling offers data that help fill out the properties of the categories by maximising theoretical sensitivity and creativity.

Furthermore, it seems that all sampling in qualitative research that includes selective sampling, purposeful sampling and theoretical sampling, is purposeful according to the needs of the study (Morse, 1991b, Patton, 1990, Glaser and Strauss, 1967). It is clear that theoretical sampling is complex, and is dictated by the data and the emerging theory (Coyne, 1997). Also, theoretical sampling is closely linked to constant comparative analysis and theoretical saturation, which are regarded as the distinctive commitments of grounded theory. Although purposeful sampling is sometimes perceived as theoretical sampling, there are fundamental distinctions (Glaser and Strauss, 1967, Glaser, 1978, Patton, 1990, Sandelowski, 1995). Coyne (1997) summarised the characteristics of theoretical sampling as follows: 1. Data collection and analysis are carried out concurrently, and thus the full range and variations are sought to guide the formation of emerging theoretical categories. 2. Meanwhile, the emerging theoretical category requires more data before it can achieve the theoretical saturation. In this way, data control the collection process iteratively. 3. Theoretical sampling is the purposeful
selection of a sample according to the developing theory and emerging theory. 4. The initial motivation of sample selection is to focus on a general subject of a problem area, not on a preconceived theoretical framework. The purpose of theoretical sampling is to stick to the theoretical purpose and relevance, not to structural circumstances (Glaser and Strauss, 1967; p. 48).

In addition, Glaser (1978; p. 37) indicated that the decision of selective sampling is made according to a preconceived but reasonable initial set of dimensions, which are precisely developed in advance for a study, because the analyst who uses theoretical sampling cannot know precisely what to sample and where it could lead him in advance.

To sum up, an explicit elaboration of Glaser’s description and demonstration on how theoretical sampling is controlled by the emerging theory is offered by Chenitz and Swanson (1986; p. 9):

‘Theoretical sampling is based on the need to collect more data to examine categories and their relationships and to assure that representativeness in the category exists. Simultaneous data collection and analysis are critical element. The full range and variation in a category is sought to guide the emerging theory. Each category needs to be tested against incoming data as a full range in a category is sought. Sampling proceeds to produce this range. Sampling to test, elaborate, and refine a category is done for verification or to test the validity of a category. Further sampling is done to develop the categories and their relationships and interrelationships’

3.7.1.3 Use of Literature

In qualitative research, the purpose of using literature varies considerably. Nevertheless, the chief objective of an exploratory study is never changed. Setting this objective as a core, using literature represents three main concerns depending on the study types: 1. The literature is used to frame the problem in the introduction to the study; 2. The literature is presented in a separate section as a review of the literature; 3. The literature is presented in the end of the study as a basis for comparing and contrasting findings of the qualitative study (Creswell, 1994). Unlike most approaches to research, grounded
theory is applied to the third situation, so that researcher can use the literature to compare and contrast with the results that emerge from the study. Most research contexts require the researcher to be guided by an initial literature review in order to develop the understanding of the topic, highlight the gaps and inconsistencies in a focused area, to be aware of the accumulated knowledge accounts in the field, and to demonstrate a way of investigation that is rigorous and competent (Hart, 1998, Hickey, 1997, Machi and McEvoy, 2008, Cooper, 1998). Normally, the pre-study of the literature is crucial to form and refine a research problem (Hickey, 1997).

However, using literature in grounded theory is the most debatable issue for the users of this approach (Charmaz, 2000, Charmaz, 2006, Corbin and Strauss, 2008, Glaser, 1978, Glaser, 1992, McGhee et al., 2007, Strauss and Corbin, 1998). One fundamental issue in grounded theory is to determine when the literature should be consulted. Glaser (1992; p. 31) stresses that ‘there is a need not to review any of the literature in the substantive area under study’. In order to capture some prior understandings, the review should be focused on a very general problem area, and reading a wide range of literature, in order to avoid sensitising any concepts. Glaser (1978; p. 3) explained that learning not to know is crucial to maintaining sensitivity to data. This dictum of grounded theory is advocated by Glaser, and is very different from other research approaches. The initial concern is to make sure that the researcher would not be ‘contaminated’ or ‘constrained’ by any prior reading of the literature, otherwise those preconceived conceptual notions would ‘inhibit’ or ‘stifle’ the efforts of generating categories and properties from the data that truly fit the real-life situation (Glaser, 1992; p. 31). Avoiding a literature review at the beginning of the study is more likely to keep the emerging theory ‘grounded’ in the data, which is well documented by scholars (Cutcliffe, 2000, Glaser, 1992, Hickey, 1997, Lincoln and Guba, 1985, Stern, 1994, Strauss and Corbin, 1994). The risk of following an initial literature review is that the researcher’s focus may be attracted to the area highlighted by the literature, rather than the emerging data. Hickey (1997) suggests more focused reading only occurs when emergent theory is sufficiently developed, so that literature can be used as additional data. Furthermore, over use of the prior literature review could potentially undermine the construction of grounded theory (McGhee et al., 2007).
In contrast to Glaser, other grounded theorists advocate using literature as an initial starting point for a grounded study. Strauss and Corbin (1998) suggest using literature as the study progresses for five reasons: 1. this can stimulate theoretical sensitivity as the literature can provide concepts and relationships that can be checked against actual data; 2. the literature can provide secondary sources of data; 3. it can stimulate questions; 4. it can lead to direct theoretical sampling; and 5. it can act as supplementary validation, as the researcher can verify the accuracy of findings according to the appropriate literature. This viewpoint is also supported by Hutchinson (1993), who claims that the literature should be used to proceed data collection and analysis in grounded theory. From Hutchinson’s (1993) perspective, the literature is helpful for identifying the current gaps in knowledge and for providing a rationale for the proposed research, because the researcher needs to have a brief view on ‘what do we know about this phenomenon’ at the starting point. Moreover, Smith and Biley (1997; p. 20) claimed that a comprehensive literature review is not the first step in grounded theory, but some prior readings may be helpful for the researcher. They state that ‘general reading of the literature maybe carried out to obtain a feel for the issues at work in the subject area, and identify any gaps to be filled in using grounded theory... but it is important that the reading is not too extensive’. Charmaz (2006) added that how exhaustive the literature review needs to be depends on the requirements of one’s tasks.

Cutcliffe (2000) clarified these two basic arguments related to the use of literature in grounded theory. Only when the researcher can identify an absence of knowledge in a focused area, can grounded theory approach be selected as the most appropriate methodology. Delaying a literature review is not an excuse for careless coverage (Charmaz, 2006). Moreover, as the researcher is not a tabula rasa, he should take a critical stance toward earlier theories, thus using a focused initial literature review, which means going across fields and disciplines (Henwood and Pidgeon, 2003, Charmaz, 2006, Bulmer, 1979, Dey, 1999, Baszanger, 1998, Clark, 1998, Clark, 2005). However, others have argued (Stern et al., 1984, Lincoln and Guba, 1985, Stern, 1994) that ‘choosing grounded theory because we already recognised that there is a distinct dearth or even absence of knowledge concerning the phenomenon’ is plausible. Both of the arguments are cogent and do not contradict one another (Cutcliffe, 2000).
In this research, the author adapts to the situation by starting with an initial literature review, before entering the substantive study field. On the one hand, as a doctoral researcher, the author is required to follow a standard rigid format. From a conventional perspective, a literature review can be highly beneficial for the researcher. However, Charmaz (2006) noted that using an initial literature review should not stifle one’s creativity or strangle their development of grounded theory. On the other hand, an initial literature review offers the researcher an opportunity to set up a stage which critically addresses some of the most significant works in the focused area (Charmaz, 2006). Although these previous works may provide some helpful background knowledge, the researcher has to be aware of the extent of the previewed literature’s content. The reason is that the researcher may easily become entangled in a situation whereby he constructs tentative conceptual and theoretical links before approaching the substantive field (Cutcliffe, 2000). Thus, in grounded theory, conducting an initial literature review not only requires the researcher to keep an open mind, but also to control the scope of literature in order to make sure that the pre-perceived knowledge is not too ‘extensive’. Glaser and Strauss (1967) implied that the researcher would perhaps be unwise to use an initial literature review that provides him with anything more than a partial framework of local concepts, which designate a few principal or gross features of the situations that he will study.

3.7.1.4 Emergence

Since the term ‘symbolic interactionism’ (Blumer, 1937) was invented, the development of the interactionist approach, together with naturalistic inquiry, became a key influence on grounded theory (Heath and Cowley, 2004). Blumer (1956) further stressed the role of concepts that are sensitising rather than definitive, whereby the utility and significance are gained from patterned relationships rather than quantifiable correlations. According to Blumer’s (1956) inquiry, conceptualisation involves the comparison of cases to develop the features of each case, the production of emergent meaning, and ongoing refinement of the characteristics of the relationship (Hammersley, 1989). Parallel with grounded theory, constant comparison and following of the emergence process clearly become the essence of this approach.
As discussed previously, particular attention has been paid to the formulation of research problems and research questions in grounded theory studies. The Discovery of Grounded Theory (Glaser and Strauss, 1967) has clearly indicated the emergent nature of developing grounded theory as it emerges from data. Moreover, grounded theory procedures such as open coding, theoretical sampling, and constant comparison embrace the focus of emergence (Glaser, 1992). Using grounded theory requires that the researcher possesses certain ability and skills on making conceptualisations from data. The involvement of emergence in grounded theory actually stands for an aspect of using data, whereby the researcher should respect the data at all times in order to get as close as possible to the reality of the studied phenomenon. Meanwhile, it is necessary to ensure that the quality of the discovered theory is emergent from the participants’ real lives, rather than forcing the researcher’s own problem or professional interest upon those being researched (Glaser, 1998). Glaser (1992; p. 11-12) has clarified this concern of analytic distance and concepts emergence. He writes: ‘The requisite conceptual skills for doing grounded theory are to absorb the data as data, to be able to step back or distance oneself from it, and then to abstractly conceptualise the data...it requires the ability to maintain analytic distance, while at the same time drawing upon theoretical knowledge and astute powers of assimilation of data which allow concepts to emerge that patterns of data indicate’.

Thus, ‘keep(ing) an analytic distance’ becomes a guideline for grounded theorists to achieve the purpose of emergence. Being open-minded to the participants’ real problems, by being sufficiently aware of the emerging data, constitutes the most significant quality of grounded theory (Charmaz, 1995). Consequently, some distinctive features of grounded theory approach demonstrate this quality. For example, Smith and Biley (1997) suggest that the research question must be flexible, broad, and open-ended enough to allow the theory to develop from a multi-faceted investigation of a phenomenon. Coyne (1997) delineates theoretical sampling is an integral part of the process of grounded theory, whereby the sampling is guided by the emergent theory. This is different from purposeful sampling in a conventional way, which involves calculated decisions to satisfy the preconceived but reasonable set of dimensions. Whatever the technique used, the essence of emergence is to strive to get as close as possible to the reality, avoiding any preconceptions that may mislead one’s discovery of theory from the data. We end this discussion with the following statement from Glaser
(1992; p. 14-15): ‘A theoretical rendition of the realities of an action area is no less a reality provided (1) it is grounded systematically in the data and (2) it is neither forced nor reified (concepts which relate to no data)’.

3.7.1.5 Conceptualisation & Social Process Analysis

In principle, grounded theory analysis of empirical problems, which focuses on the social process, is at the most abstract, conceptual and integrated level (Charmaz, 1995, Glaser, 1992). This contains two levels of meaning: 1. grounded theory is all about the generation of emergent conceptualisations into integrated patterns, which are denoted by categories and their properties (Glaser, 2002); 2. grounded theory’s aim is to explore basic social processes and to understand the multiplicity of interactions that produces variation in that process (Hammersley, 1989). The author here will offer further explanations on this in the following paragraphs.

First of all, the goal of grounded theory is to generate new concepts and theories, which occurs around a core category, rather than to produce description and verification (Glaser, 1978). Building theory cannot be accomplished by using raw data, which are obtained directly from actual research activities as observed or reported. In this case, the theorist should work with conceptualisations of data, whereas concepts are the basic units of analysis (Corbin and Strauss, 1990). Glaser (2002) claims that grounded theory provides researchers a systematic way to conceptualise the latent patterns carefully. Therefore, in this study, the outcome of the grounded theory is ‘Quasi-Competitive Advantage’. Also, the core grounded concept of ‘Quasi-Competitive Advantage’ is abstract, conceptual and non-context specific. Moreover, it presents a core category which integrates all sub-categories together.

Furthermore, the two most important properties of conceptualisation for generating grounded theory are (Glaser, 2002): 1. The concept is an abstract of time, place and people, which is regarded as the most important property of conceptualisation. This is because, in grounded theory, conceptual hypotheses are generated to apply any relevant time, place and people with emergent fit, which are then modified by constant comparison with new incoming data. 2. The concepts have ‘endure grab’, which means that they should have lasting interest and meaning. Grounded theory makes sure that the
concepts are right and organised appropriately as they are grounded, as opposed to conjectured, from data.

Next, grounded theory is the study of abstract problems and their processes, not units as in descriptive studies such as surveys and case studies (Glaser, 1992). Given the special emphasis on social process, the focus of analysis is to generate properties of process rather than units (Glaser, 1978, Glaser and Holton, 2005). Moreover, Glaser (1978; p. 109-13) made further elaborations on the comparative advantages in the transcending nature of basic social process analysis in terms of focus, generalisibility, durability, transferability, sampling, coverage, accuracy, historicity, research impact, relationability etc. (see Appendix ). Thus, the grounded theory of ‘Quasi-Competitive Advantage’ in this study describes the social process of guanxi utilisation in business. Also, ‘Quasi-Competitive Advantage’ is developed as the core category in this study which integrates several subcategories and is associated with dimensions and properties in a coherent theoretical family grounded in the empirical evidence (Langley, 1999). Although it is generated from units (i.e. business firms, organisations), the emergent properties are quite generalisable, as the focus on social process transcends the boundaries on any one unit. In other words, this grounded theory may apply to all units.

In addition, ‘Basic Social Process’ (BSP) includes both ‘Basic Social Psychological Process’ (BSPP) and ‘Basic Social Structural Process’ (BSSP) (Glaser and Holton, 2005; p. 10). According to (Glaser, 1978), BSPP refers to social psychological processes such as becoming, highlighting, personalising and so forth. A BSSP refers to a social structure in process such as bureaucratisation, reutilisation, centralization and so forth. Glaser (1978; p. 103) claims that an analysis can emphasise both BSPP or BSSP, and can even mix the two, depending on which type of process emerges as more relevant to the situation under study. Generally, the notion of conceptualisation of latent patterns is consistent with the focus on social process analysis so that grounded theory is transcendent on describing the reciprocal effects between units and larger social process under the studied phenomenon (Charmaz, 1995, Glaser, 2002, Langley, 1999).
3.7.1.6 All Is Data

As a whole methodology deeply rooted in the data, it is worth understanding the assertion of ‘all is data’ in the grounded theory perspective (Glaser, 2001). This intention of flexibly using data was conceived in the original version of *The Discovery of Grounded Theory* (Glaser and Strauss, 1967). From a grounded theorist’s perspective, data exist everywhere, and are not only restricted to the interview transcripts. Instead, any useful material can be viewed as data, including literatures, publications, news, personal experiences and any perspectives from both participants and researchers and so forth. Constant comparison should take place anywhere once the data are related to the researcher’s substantive area of study, with the goal being to generate theories (Glaser, 1998). Glaser (1965) claims that ‘the universe of data used in the constant comparative method is based on the reduction of the theory and the delimitation and saturation of categories’. With regards to the principle ‘all is data’, the author’s coding, analysis, and comparison involved an extended variety of sources beyond the substantive interview data, i.e. organisational documents, personal experiences, and both professional and non-professional literatures relevant to the substantive field (Glaser, 1992; p. 31-37). Moreover, notions of conceptualisation of latent patterns can be inspired by extending the analytical review area. The research experience shows that using various data sources offers an extended view of the intricate interactions between focused units and the social process in the phenomenon, such that it improves the researcher’s theoretical sensitivity and the ability of conceptualisation. Finally, it is very important to make sure that the researcher keeps a proper pace of using external data sources with the development of grounded theory, so that the generation of concepts and theory cannot be contaminated by preconceived notions (Glaser, 1978; p. 18).
3.7.2 Research Procedures in This Study

The author has outlined the principles of grounded theory methodology (see section 3.5.1). Nevertheless, simply understanding ‘what grounded theory is’ is not enough to use it sufficiently and effectively. There are some key items from the procedures that need to be acknowledged in order to adapt it to the researcher’s own topic. Turner (1981) reminds us that inexperienced researchers, who are perhaps less familiar with using grounded theory, could end up developing indefensible arguments from their data. Grounded theory contains a systematic set of methods which are intertwined with the research process. As a result, understanding the quality of the final product arising from this kind of work directly depends upon the quality of understanding of the research procedures during the course of investigation (Glaser, 1978).

Turner (1981) extracted a schematic overview of the procedures in grounded theory from the original version (Glaser and Strauss, 1967) (as shown in Table 8). Given this schematic overview as an exemplification, and also combining the real research situation confronting the author, the procedures of developing grounded theory in this study will be illustrated and elaborated in the following paragraphs. In addition, despite the divergences in grounded theory (e.g. Charmaz, 1995, Glaser and Strauss, 1967, Glaser, 1992, Goulding, 2002, Strauss and Corbin, 1998), the Glaserian approach is adopted as the methodological polestar directing this study.

The coding and analysis procedures in this study are as follows: The researcher worked on the substantive data directly through open coding for the emergence of a core category and related concepts. Subsequently, combined with theoretical sampling, the researcher used selective coding to saturate the core and related concepts theoretically. Theoretical saturation was achieved by constant comparison of incidents in the data. This constant comparison of incidents continued until there were no new properties, dimensions or variations (Corbin and Strauss, 1990) emerging from continued comparison of the data. At this point, the concepts had achieved theoretical saturation and the researcher shifted his attention from a substantive focus to a theoretical one. Thus, the researcher used theoretical coding to conceptualise how the substantive codes may integrate together to achieve a theoretical framework for the potential theory.
Memoing occurred throughout the coding process, proceeding from an initial substantive coding level to a higher level of conceptual abstraction.

Table 8 Schematic List of the Stages in the Development of Grounded Theory

<table>
<thead>
<tr>
<th>Stage</th>
<th>Main Activity</th>
<th>Comment</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Develop categories</td>
<td>Use the data available to develop labelled categories which fit the data closely.</td>
</tr>
<tr>
<td>2.</td>
<td>Saturate categories</td>
<td>Accumulate examples of a given category until it is clear what future instances would be located in this category.</td>
</tr>
<tr>
<td>3.</td>
<td>Abstract definitions</td>
<td>Abstract a definition of the category by stating in a general form the criteria for putting further instances into this category.</td>
</tr>
<tr>
<td>4.</td>
<td>Use the definitions</td>
<td>Use the definitions as a guide to emerging features of importance in further fieldwork, and as a stimulus to theoretical reflection.</td>
</tr>
<tr>
<td>5.</td>
<td>Exploit the category fully</td>
<td>Be aware of additional categories suggested by those you have produce, their inverse, their opposite, more specific and more general instances.</td>
</tr>
<tr>
<td>6.</td>
<td>Note, develop and follow-up links between categories</td>
<td>Begin to note relationships and develop hypotheses about the links between the categories.</td>
</tr>
<tr>
<td>7.</td>
<td>Consider the conditions under which the links hold</td>
<td>Examine any apparent or hypothesised relationships and try to specific the conditions.</td>
</tr>
<tr>
<td>8.</td>
<td>Make connections, where relevant, to existing theory</td>
<td>Build bridges to existing work at this stage, rather than at the outset of the research.</td>
</tr>
<tr>
<td>9.</td>
<td>Use extreme comparisons to the maximum to test emerging relationships</td>
<td>Identify the key variables and dimensions and see whether the relationship holds at the extremes of these variables.</td>
</tr>
</tbody>
</table>


3.7.2.1 Participant Information

Overall, the procedures of data collection were guided by the principle of theoretical sampling. The researcher made the decision of initially choosing interviewees based
only on a broad knowledge of the topic (Morse, 1991b). The emergent concepts and tentative theories led to the subsequent stages of data collection. In this study, the empirical fieldwork was mainly comprised of 40 unstructured in-depth interviews from participants. Consequently, theoretical saturation was reached after 15 interviews during the first round of data collection. Following this, a tentative preliminary theoretical framework emerged. The second round included the remaining 25 interviews, which were used as an opportunity to affirm, modify, add, clarify and elaborate on the emerged framework and theory (Chiovitti and Piran, 2003).

A description of participants is helpful for the reader to have a comprehensive view on this study. Unlike conventional ways of conducting qualitative sample collection, there are no pre-determined selection criteria that need to be met prior to conducting fieldwork in grounded theory. However, a general interest could offer the researcher some ideas to assist him with finding which group of participants is considered the most suitable one for this study. As a PhD student of Chinese origin, the author has real-life personal experience of *guanxi* dynamics, and the phenomenon of *guanxi* in business attracted his research attentions. After doing an initial background study, ‘*guanxi* and strategic management’ was identified as the author’s general interest (in section 3.3).

There was no clear, pre-defined research problem at the outset. Based on this general interest, business participants at the managerial level were considered the most suitable group for this study. The reason is that with the research emphasis being at the business to business level, it was imperative to select participants in managerial positions who were heavily involved in their firm’s strategic management activities. Moreover, the researcher’s personal experience and knowledge implied that higher-level managers play the most important role in the utilisation of *guanxi*. In other words, those managers with *guanxi*-driven working experience were considered the most appropriate participants for the substantive area under study. This empirical consideration was verified by the later fieldwork.

Bearing this broad focus in mind, the researcher then entered the substantive field to carry out the face-to-face interview project. First of all, 37 of the participants have worked as professional managers in business organisations for at least 10 years, and three of them are experienced government officials. Moreover, the organisational types can be categorised as state-owned firm, private-owned firm, and government institution
(as shown in Table 9), thus representing the mainstream business form in the domestic market.

<table>
<thead>
<tr>
<th>State-Owned</th>
<th>13 (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>3 (3)</td>
</tr>
<tr>
<td>Private-Owned</td>
<td>24 (3)</td>
</tr>
<tr>
<td>Total</td>
<td>40 (11)</td>
</tr>
</tbody>
</table>

Note: number in ( ) stands for how many participants with government working experiences (See. Appendix)

In addition, this study focuses on the particular business phenomenon of Chinese domestic firms, and therefore, foreign invested organisations are excluded. However, the outcome of grounded theory in this study is not limited to domestic firms as the grounded theory is developed upon the social process of guanxi phenomenon (Glaser, 1978). Indeed, it is worth noting that 11 participants have experience of working in the government sector. This particular fact also responds to some concerns from existing literature that business guanxi practice is closely linked to institutional authorities (e.g. Xin and Pearce, 1996). The participants with multiple professional working experiences also provided additional various latent patterns for the researcher to investigate. Also, the richness in data enabled more potential theoretical ideas to sufficiently emerge from the substantive area, thus allowing the researcher to use them to achieve saturation and to make further developments in grounded theory.

3.7.2.2 Conducting the Fieldwork

Given the fact that guanxi involves personal privacy, it is sensitive for participants to talk publicly. Taking this critical concern into account, the author made confidential agreements with each of the informants in order to protect their personal privacy and eliminate their worries. In practice, personal guanxi was used to obtain trust through an intermediary as the first contact, and was followed up with a face-to-face interview. Connecting participants in this way is a good example of using guanxi.
All of the interview data were gathered from four cities in northern China (see Table 10). On one hand, the emergent research questions and findings arose concerning guanxi phenomenon, which may vary with the localised market environment during the process of theoretical sampling. On the other hand, the selection of particular cities should not affect the credibility of emergent data because the researcher, in this study, attempts to discover the substantive theory, which could interpret the focused basic social process (guanxi and strategic implementations) at a highly abstracted level. According to Glaser (1978), the credible theoretical outcome of grounded theory should be free of place, people or time. Moreover, the extension of the fieldwork range enabled the researcher to verify the generalisability and credibility of the emergent tentative theories. Furthermore, the diversification of participants involved in different environmental contexts offered the researcher a fruitful comparative source to develop new ideas and achieve theoretical saturation.

<table>
<thead>
<tr>
<th>City</th>
<th>Administrative Level</th>
<th>Economy Status</th>
<th>Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>Capital of China</td>
<td>Economic Centre</td>
<td>10</td>
</tr>
<tr>
<td>Hohhot</td>
<td>Provincial Capital City</td>
<td>Regional Economic Centre</td>
<td>14</td>
</tr>
<tr>
<td>Ordos</td>
<td>Second-Tier City</td>
<td>Provincial Economic Star</td>
<td>9</td>
</tr>
<tr>
<td>TangShan</td>
<td>Second-Tier City</td>
<td>Provincial Economic Star</td>
<td>7</td>
</tr>
</tbody>
</table>

During the interview process, there is no predetermined questions were constructed beforehand. In the fieldwork, the researcher conducted unstructured interviews to explore the real life experiences from the participants’ perspectives. The initial questions were formulated on a broad research interest. Some kinds of general questions were used to start with the interview. For example, ‘how do you think about guanxi in your business experiences?’, ‘why guanxi is considered as a necessary element in Chinese business?’ or ‘Can you show me your opinions on the topic of guanxi and business in China? It could be anything you concern with.’ Such general questions aim to bring out the interviewees’ real life feelings without constraining them in preset-topics. Then, the following up questions could be flexibly generated with certain specific focuses enable the researcher to explore more on the participants’ real experiences cope with the emergent theoretical interests. Some particular questions
were outlined here to make an example, ‘Can you tell more stories about how do you maintain your business guanxi?’, ‘That's interesting, so how do you finally solved that problem?’, ‘How do you established that guanxi before you entering the market?’

In addition, data collection and analysis were carried out simultaneously. Developing grounded theory is an iterative cyclic process which has been explained in previous sections. Research memos were also used to record any ideas that emerged from the data analysis. Data analysis was carried out immediately following data collection, with data being coded, categorised, and conceptualised for further analysis. Emergent ideas and theories were brought into the next interview by the researcher. Gradually, more emergent categories with properties were shaped and integrated by constant comparison. Consequently, this fieldwork took longer than the conventional process of data collection. A total of 10 months were spent in the substantive field to complete this fieldwork. Although interview data was regarded as the most important empirical source for analysis, some non-professional literature related to the substantive area, including business documents, articles, news, reports, personal stories and so forth, was used as well. Glaser (1992) suggests using non-professional literature as data at any stage of the research. Non-professional literature can be considered as supplementary to the field study, and thus, in this study, more data were constantly compared for generating categories and properties. Moreover, the researcher was invited to join various business meetings and to visit several sites as an observer. This kind of participative experience broadened the researcher’s view and understanding of the research setting, while also allowing him to get as close as possible to the real social process being studied.

Finally, it was important to consider some potential problems that may arise for researchers during the data collection phase of a study, including a lack of working knowledge, organisational secrecy, and trust (Rosen, 1991). First of all, the researcher paid several informal visits to firms as an observer before conducting interviews. The initial working knowledge obtained from these site visits in advance improved the understanding of the substantive field. Secondly, guanxi related documents are regarded as organisational secrets, and therefore, the researcher was only permitted to view them under the supervision of the manager, and under time constraint. Thirdly, it is well known that managers never talk openly about guanxi with someone unfamiliar to them, and thus building trust is a key issue that needs to be handled carefully. Despite the use
of intermediaries, brief introductions, and confidential agreements, it was possible that interviewees may still have felt uncomfortable talking freely for a number of reasons, for example, perceptions about the researcher based on his appearance (e.g. his age) (Saunders et al., 2009). Thus, the researcher immediately needed to feel out any anxiety the interviewee may have had, and, if necessary, to resolve it in a friendly way. For example, the use of a recorder during the conversation had to be approved beforehand, so as to demonstrate the researcher’s openness to the interviewee, and to ensure that his responses are as close to the truth as possible. In this fieldwork, three interviewees refused to be recorded in the conversation, thus forcing the researcher to abandon the use of the recorder.

3.7.2.3 Open and Selective Coding in the Substantive Area

Charmaz (2006; p. 45) states that ‘grounded theory coding generates the bones of your analysis’. As a pivotal link, coding connects the substantive data with developing an emergent theory, in order to explain these data. In other words, coding fosters the study’s actions and processes. Unlike conventional methods that apply preconceived categories or codes to the data, grounded coding follows the mandate: *study your emerging data* (Charmaz, 2006, Glaser, 1978). In this study, all coding has been developed upon what the researcher discovered from the data.

Glaser and Strauss (1967) claimed that grounded theory methodology is used to generate formal theory from substantive area. In grounded theory, the researcher makes conceptual abstractions of data and reintegrates them as theory through coding. Generally, there are two types of coding in a classic grounded theory study, namely *substantive coding* and *theoretical coding* (Glaser, 1978). Before the formal grounded theory elicits from the empirical data, there is a process of conceptualising the empirical substance of the area under study (Holton, 2007). This process is achieved by substantive coding, which includes both *open coding* and *selective coding* (Glaser, 1978).

On one hand, open coding is the initial stage for the analyst to generate an emergent set of categories and their properties which fit, work, and are relevant for integrating them into a theory (Glaser, 1978; p. 56). Glaser (1992; p. 38) claims that, in open coding, the
analyst starts with conceptualising nothing (which means that no concepts are involved at this stage of coding), and remains entirely open to the data. Charmaz (2006; p. 48) added that ‘the openness of initial coding should spark your thinking and allow new ideas to emerge’. It is very important to analyse one’s data line by line in order to ensure a full theoretical coverage. Glaser (1978; p. 57) summarised three types of questions which must be kept in mind through the coding and analysis process: 1. ‘What is this data a study of?’ 2. ‘What category does this incident indicate?’ 3. ‘What is actually happening in the data?’ In addition, open coding is characterised by its verification, correction and saturation phenomenon (Glaser, 1978; p. 60). As the process moves forward, the iterative reflection of what has been coded is compared with new data (Douglas, 2003), until all emerging incidents can be subsumed into some categories, at which point, saturation occurs.

On the other hand, selective coding means that the researcher ‘delimits his coding to only those variables that relate to the core variable in sufficiently significant ways to be used in a parsimonious theory’ (Glaser, 1978; p. 61). At this stage, the further theoretical sampling and data analysis are guided by the core variable. By focusing on the identified core variable and relevant categories, which are generated by constant comparison among initial codes, the researcher only needs to saturate those selected categories that form the basis of the emerging theory (Holton, 2007). Therefore, subsequent data collection becomes quicker as there are fewer field notes to be captured and analysed.

In this study, open coding was used from the initial stage of data analysis. Line-by-line coding for the transcripts involved 15 interviews initially. Substantive codes were generated, compared and integrated. This initial substantive coding process continued until a set of substantive codes emerged which could explain the social process effectively. Thus, new emerging incidents from the data related to these codes were further identified and coded for the purpose of saturation. In the second stage, selective coding assisted the researcher in identifying the core variable and delimiting the coding, which only focused on those variables that were related to this core variable. This core variable was further developed as the core concept: ‘Quasi-Competitive Advantage’, through constant comparison and theoretical sampling. At a later stage, related
categories were saturated, and *theoretical coding* integrated them into the theoretical framework which explained the studied social process.

### 3.7.2.4 Constant Comparison

For the purpose of generating grounded theory, Glaser (1978; p. 49-52) claims that four steps of constant comparison are used in data analysis: 1. the *incident to incident* comparison establishes the underlining uniformity and its varying conditions; 2. the *concept to more incidents* comparison generates new theoretical properties of the concept and more hypotheses; 3. the *concept to concept* comparison enables the researcher to integrate the concepts that share a set of indicators together and form the theory; 4. the *experiential incidents* comparison happens after the discovered framework is stabilised, which involves outside comparison with, for example, literature, anecdotes and stories.

Research memos were constantly used in the fieldwork, which allowed the researcher to instantly record any emerging ideas and comparison findings. Moreover, transcripts and some of the out field materials were kept in their original Chinese format. Also, some substantive codes were developed in Chinese and then translated into proper English. However, the integration of the core concept and its related categories was developed in English. One reason for keeping the data originally in Chinese was that it delivered the best understanding of the social process for the researcher at the initial analysis stage. The other reason concerned the issue of confidential agreements between the researcher and his informants. In this confidential agreement, the author promised not to disclose any private information to any third party, including personal status, company information, and conversation transcripts. Figure 5 below exemplifies how the constant comparison developed substantive codes towards integration and conceptualisation at a more abstract level in this study.
Coding for conceptual ideas and constant comparison among substantive codes set free the analyst from the empirical bond of the data (Glaser, 1978; P. 56). In fact, all the properties and categories are derived from substantive codes. During the process of comparative coding, more and more substantive codes were gradually subsumed to related categories, which are more abstracted conceptual codes extracted from the data. Subsequently, a tentative core category emerged, which could integrate the emergent categories together. The researcher needs to be aware of the fact that a tentative core category is not a real core category unless it can be verified by theoretical saturation. As the constant comparison continues to take place, different categories emerge. New tentative core categories can then integrate them together. This iterative comparative process continues until all tentative core categories can be integrated with a real core category at the level of saturation. In order to make a clear view on how conceptualisation was achieved in terms of Concept, Category, Property and Coding, it is useful to review some of the key items which are defined by Glaser (1992; p. 38).
Concept: The underlying, meaning, uniformity and/or pattern within a set of descriptive incidents.

Category: A type of concept. Usually used for a higher level of abstraction.

Property: A type of concept that is a conceptual characteristic of a category, thus at a lesser level of abstraction than a category. A property is a concept of a concept.

Coding: Conceptualising data by constant comparison of incident with incident, and incident with concept to emerge more categories and their properties.

3.7.2.5 Theoretical Saturation

Theoretical saturation happens when no additional data are being found which can be used to develop properties of the category (Glaser and Strauss, 1967; P. 61). As new incidents from data are constantly compared with similar instances, the researcher becomes empirically confident that a category is saturated. However, with one category saturated, the researcher should move on to new groups of data for other categories. Furthermore, category building through constant comparison forms the backbone of developing grounded theory (Kelle, 2007). In The Discovery of Grounded Theory (Glaser and Strauss, 1967), the two most basic rules given for building the category are: 1. Categories must not be forced on the data, they should emerge instead in the ongoing process. 2. Theoretical sensitivity should be employed in the analysis process, which means the analyst is able to see relevant data and to reflect upon empirical data material with the help of theoretical terms. The researcher should bear this in mind while building his saturated categories rationally.

Furthermore, theoretical saturation is not only a boundary for indicating whether the category is fulfilled with related properties, but also a strategy that should be employed in comparative analysis in coping with the problem of delimiting the list of categories for coding, identifying new emergent categories and verifying incidents that were not reordered (Glaser, 1965).
3.7.2.6 Theoretical Coding & Emergent Theoretical Framework

Once the theoretical saturation has been achieved, theoretical coding is used to integrate emergent categories and concepts altogether to form the potential theory. An integrated theoretical framework can be developed for the overall grounded theory (Holton, 2007). Glaser (1978; p. 72) offered the following description of this procedure: ‘they (theoretical codes), like substantive codes, they weave the fractured story back together again’. However, theoretical codes are empty abstractions without substantive codes. Theoretical coding not only conceptualises how one’s substantive codes are integrated, but also moves the analytical work towards a theoretical direction (Charmaz, 2006).

As a result, the core concept of ‘quasi-competitive advantage’ finally integrated related categories together as a theoretical family to explain the social process of guanxi-based strategic management (see Figure 6). Furthermore, these three related categories are regarded as the most significant influential contexts which stimulate firms to adopt guanxi-based business strategy for achieving sustained business success.

![Figure 6 Theoretical Integration: Core Concept and Its Related Categories](image)

To elaborate this emergent core concept (‘quasi-competitive advantage’) from the perspective of classic strategic paradigm of ‘environment-strategy-performance’ (Aldrich, 1979, Miles and Snow, 1978), a new insight of the constitution of corporate strategy is outlined here. This theoretical framework of substantive findings is shown in Figure 7. In this theoretical framework, the conceptual ideas are integrated, which are based on the emergent categories through theoretical coding. Furthermore, a substantive theory illustrated here at certain conceptual level will become a step stone for the researcher to make further development to the formal theory at a more advanced abstract level (Glaser and Strauss, 1967). However, in this study, our research objective
is to build an advanced substantive theory at a higher abstraction level. In this case, we try to build an adequate theoretical basis for the substantive study of *guanxi* strategy. For further development of the theory, it may require more comparative studies, which involve different substantive groups, to refine the abstraction and conceptualisation level, thus the emergent theory can evolve from a substantive level to a formal level (Glaser and Strauss, 1967).

![Diagram](image.png)

**Figure 7 Theoretical Framework of Substantive Findings**

3.7.2.7 Memoing and Sorting

‘*Memos are the theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding*’ (Glaser, 1978; p. 83). Charmaz (2006) states that writing successive memos throughout the research process keeps the researcher involved in the analysis and helps to increase the abstraction level of the emergent ideas. A vital rule for coding is to always ‘*interrupt coding to memo the idea*’ (Glaser, 1978; p. 58). This dictum also shows that memo-writing constitutes a crucial method in grounded theory. The basic goal of memoing is ‘*to theoretically develop ideas (codes), with complete freedom into a memo fund, that is highly sortible*’ (Glaser, 1978; p. 83).

According to Glaser (1998; p. 177), using memos serves four functions: first, it provides continuity in the analysis of substantive data and leads to theoretical sampling; second, it captures and keeps track of the emerging theory; third, it enables the ideas and insights arising from the act of writing to be totally free and emergent; fourth, sorting the accumulated memos after reaching the saturation point gives the researcher the substance of integrating the draft of the theory.
Therefore, in this study, memo writing played a very important role in assisting the researcher to make conceptualisation of substantive data and integrate the abstracted concepts and categories into the form of theory along with the whole research carried out. At the initial stage of the fieldwork, memos mainly serve the objective of organising emergent ideas and modified research focuses. In this way, the researcher enabled to go deeper inside of the substantive field. Then, a refined research insight was developed to modify the researcher’s research focus on interested area. At the later stage of the research, theoretical memos from fieldwork lay the ground for the researcher to make further endeavours on drafting the theory.

3.7.3 Criteria of Grounded Theory

Glaser (1992) defends the criteria of fit, work, relevance, and modifiability, which were provided in *The Discovery of Grounded Theory* (Glaser and Strauss, 1967) and *Theoretical Sensitivity* (Glaser, 1978), as orthodoxy for judging a grounded theory. This argument goes directly against Strauss and Corbin’s (1998) version of using reproducibility, generalisability, the research process, and the empirical grounding of the study as criteria. Glaser (1992; p. 116) argues Strauss and Corbin’s (1998) criteria misleads readers to wrestling with the cannons for judging quantitative method research, which are inappropriately applied to grounded theory. The achievement of parsimony and scope in explanatory power along with the Glaserian judging criteria are totally ignored. Stern (1994) argued that the debate between the ‘emerging’ or ‘forcing’ of theory is the fundamental difference between Glaser and Strauss. Glaser focuses his attention on the data to allow them to tell the story. By contrast, the later view of Strauss advocates the use of any possible contingency to examine the data, regardless of whether or not it appears from the data.

In this study, the researcher is convinced by the approach of Glaser’s grounded theory (Glaser and Strauss, 1967, Glaser, 1978, Glaser, 1992). Thus, the grounded theory must satisfy four basic criteria in order to be considered useful, namely that: they would fit the real world; they would work across a range of contexts; they would be relevant to the people concerned; and they would be readily modifiable (Partington, 2000).
Fit is regarded as the first request property, which means that the theory must closely fit the substantive area (Glaser and Strauss, 1967). In other words, the categories of theory must fit the data, and the core category should be applied to the studied social problem so that a grounded theory is workable to explain or predict a basic social process (Glaser, 1978). Glaser (1978; p. 4) further elaborates that there are two vital properties to fit: First, emergent categories must constantly refit the data as the research proceeds. Second, there is no need to continually discover new categories as emergent fit happens between the data and the generated categories as data emerges.

‘Work and relevant are defined as the relevance of the core category to the data and the ability of the core category to work the other concepts and their properties so that most of them are related to the core category’ (Hall and Callery, 2001; p. 259).

Secondly, Glaser explains that a theory should be able to ‘explain what happened, predict what will happen and interpret what is happening in an area of substantive or formal inquiry (Glaser, 1978; p. 4)’. Moreover, preconceived theories are employed by the researcher to deduce new relevant theories of his focused substantive area. By doing this, relevance is often missed automatically. In contrast, ‘grounded theory arrives at relevance, because it allows core problems and processes to emerge (1978; p. 5)’.

Finally, by means of modification, the theory is allowed to be modified as the variation and relevance of the basic social processes are ever changing in our world (Glaser, 1978; p. 5). There is no right or wrong, nor better or worse study on a temporal scale of a study (Glaser, 2001), and thus the ability of a theory to work the data is changeable, depending on the changes in the substantive area. Therefore, a theory needs to be constantly modified in order to explain surprising or new variations (Glaser, 1978).
3.8 Summary

In this chapter, the author provided a detailed demonstration of how grounded theory methodological approach is applied to this study. As a reality, grounded theory is rarely used in business management studies. Because this methodological approach is only suitable for a very limited research objectives (Charmaz, 2006, Glaser, 1998). Concerned with this issue, the author offered detailed explanations on the relevant methodological issues which are related to the methodology of grounded theory. In order to make a clear understanding of how grounded theory is applied to a real research situation in business management, the author exemplified his empirical research process in this chapter. Therefore, the methodological foundation and particular research techniques of this empirical study are integrated.
CHAPTER 4 COMPARATIVE LITERATURE ANALYSIS

4.1 Introduction

In deference to the previous chapter of the initial literature review, this chapter is providing a post-fieldwork literature analytical review in order to make a conceptual comparison and integration of the substantive concepts that emerged from the fieldwork. In the early stages of the study, the initial literature review provides an opportunity for the researcher to obtain some pre-fieldwork knowledge on the interested subject without a particular focus. In contrast, the comparative literature analysis aims to compare how and where this study fits in with the literature upon completion of the conceptual analysis of the data (Charmaz, 1995). Thus, literature in this chapter is used to compare and contrast with the results that emerged from the study (Creswell, 1994).

In this study, the empirical findings are constructed upon an emergent conceptual framework which includes one core concept: guanxi as a quasi-competitive advantage and three related sub-categories: social cultural embeddedness; business necessity; and institutional influences (see Chapter 3). This conceptual integration establishes the fundamental basis of the grounded theoretical implications of guanxi-based business strategy in this study. In line with the existing findings from the literature related to guanxi study, the structure of the comparative discussions is based on the emergent conceptual framework. Firstly, in Section 4.2 the cultural embeddedness of guanxi as a social mechanism in Chinese business is discussed. Guanxi is inextricably linked to multifaceted dimensions of social life and remains in modern Chinese society as a relationship orientation (Redding and Wong, 1986). Secondly, Section 4.3 emphasises the influences of guanxi as an effective business instrument, that is positively linked with the firm’s performance (Luo and Chen, 1996, Luo and Chen, 1997). In the third part, Section 4.4 focuses on the institutional influences as one of the most significant impetuses on a firm’s strategic choice in a transitional economic environment (Peng, 2003) cause the business organisation to choose a guanxi-based strategy as part of the corporate strategy for sustaining long term development in China. Finally, in comparison with a resource-based view (Barney, 1991) the more abstract concept of
'quasi-competitive advantage' is developed to cope with the characteristic of guanxi advantage. This new insight will be discussed in Section 4.5.

4.2 Cultural Embeddedness as a Social Mechanism in Business

The importance of guanxi in Chinese culture is not only related to the combined influence of Chinese cultural heritage which includes political history, religion and philosophical underpinnings (Bond, 1986), but also related to the degree of structural and formal business practice (Xin and Pearce, 1996). Under the change of the transitional economy, the western management style clashes with traditional Chinese cultural values. The mechanism of business in the Chinese way is a compound of guanxi and market orientated performance. With regards to the cultural and political differences in the early stages of China opening its market, the common belief among managers tended to believe that a pure western management style was not appropriate in China. Wong and Maher (1997) pointed out that the western management principles based on healthy competition tactics are mostly compatible with the Chinese market, but the cultural conflicts do also exist. For example, the blind use of western style management skills may not be easily accepted in a country where the Confucian dynamic of harmony is heavily emphasised. Such a consideration is also responded to by Wood et al.’s (Wood et al., 2002) findings, in which they argued that the complex influence of key cultural concepts is better explained contextually. For example, guanxi is used as a vehicle to deal with the changes in China where transitions take place on almost every front.

Characteristics of Guanxi

Despite the focus on economic efficiency, the cultural characteristics of guanxi as the social mechanism are embedded in Chinese business behaviours. The traits of guanxi, which include utilitarian, reciprocal, transferable, personal, long-term orientated, and intangible, have been classified by scholars based on prior studies from the literature (Luo, 1997a, Fan, 2002b, Wang, 2007, Dunning and Kim, 2007). These traits are regarded as a heritage of Confucian legacy rooted in the phenomenon of guanxi which can only be understood within a special social, cultural, institutional context (Dunning
and Kim, 2007). Standifird and Marshall (2000) argued that the historical roots of guanxi extend over 2000 years and still dominate a guanxi-based exchange in the twentieth century. All these arguments affirm guanxi’s cultural persistence. On the other hand, guanxi can be viewed differently by Chinese and western businessmen because of the different contexts of ethics and morality (Chan et al., 2002, Lovett et al., 1999). Warren et al. (2004) claim that guanxi just like a ‘double-edged sword’ contains both a beneficial side and a harmful side. Moreover, Su and Littlefield (2001) distinguish guanxi in business into two forms as favour-seeking guanxi which is rooted in the culture and rent-seeking guanxi which is institutionally defined. The former represents the beneficial social behaviour which can be fitted in to an ethical standard while the latter is regarded as the unethical business practices leading to corruption.

Guanxi utilisation can be very flexible in forms of practice in order to cope with the uncertainties of most changeable situations. Thus, it is difficult to clearly explain this complex dynamic in a unified set of principles. Both empirical and theoretical studies in the field try to portray the guanxi dynamic from multi-dimensional aspects in order to deepen the understanding (e.g. Standifird and Marshall, 2000, Tai, 1988, Wang, 2007, Warren et al., 2004, Wood et al., 2002, Wright et al., 2002, Yang, 1986, Yang, 1994). Given the fact that the differences in cultural values may impact on the effectiveness of the management application in the contexts (Hofstede, 1992), the traits of guanxi may clarify the rationale of guanxi utilisation in business practice for researchers. Actually, the cultural influence of guanxi is significant. Standifird and Marshall (2000) indicate that in contrast to the western business network which relies heavily on contract-based agreements, gradually developed guanxi networks rely on personal-based interaction which will provide more benefits from cultivating long-term partnerships. Hence, it is always crucial for any business to learn how to interact successfully with partners in the Chinese style.

Cultural Importance of Guanxi

For any kind of study related to Chinese management, the cultural importance of guanxi must be recognised in the first instance. Harrigan (1985) argued that the failure of international alliances is caused by the bad performance of operating managers, not by poorly written contracts. Tung (1994; p. 821) found that ‘a major cause for expatriate
failure is the lack of human relational skills’. After conducting his empirical study, Wang (2007) provides several managerial implications on how managers get used to the guanxi dynamic as the essential application of counteracting the effect of Chinese social cultural influence. Firstly, a guanxi network distinguishes ‘insider’ and ‘outsider’ as a natural barrier of trust perception. This is referred to as a form of favouritism for the in-group by Tsui and Farth (1997). Yin and Ellis (2000) has examined the differences of the perceived advantages and benefits between insiders and outsiders of guanxi networks. Moreover, in a low-trust society doing business with someone in the network is more trustworthy than those who are outside the networks. Since guanxi has been a way of life, China is often portrayed as a ‘relational society’ (Styles and Ambler, 2003). Therefore, rather than applying achievements of a general business nature, to obtain a ‘membership’ of guanxi networks would generate more practical value for a firm. Secondly, business is not just business for Chinese managers, it is also a social interaction in which a favourable (renqing) exchange takes place amongst members of guanxi networks. In such circumstances, gift giving or favour exchanging contains special emotional attachment (ganqing) which is more important in the long run (Millington et al., 2005). A long term orientated ganqing base is recognised as the most important emotional indicator of guanxi (Chen, 1994, Chen and Chen, 2004). Without a ganqing foundation a guanxi advantage can be easily imitated by competitors (Tsang, 1998). In the third place, Davies et al. (1995) argues that Chinese managers establish business to business relationships often based on contacts or bonds with specific individuals, which is different from the western style of judging business partners according to the corporate image and brand from an organisational perspective. In this case, guanxi networks at a personal level are especially important to the business relations at an organisational level. Fourthly, guanxi members are connected through an invisible and unwritten code of reciprocity. Luo (1997a) identified this character of guanxi as ‘intangible’. Chinese managers are more likely to do business with those who respect the unspoken rule of face-giving.

Reflection on Empirical Findings

From the literature, some main streams of empirical studies can be traced, which are in line with the cultural influences of guanxi on business. Initially, guanxi is essentially utilitarian, and implies reciprocity in the exchange of favours (Dunning and Kim, 2007).
Nevertheless, guanxi is not necessarily equally reciprocal: the exchange tends to favour the weaker ones (Alston, 1989). Bian (1994) identified that the rationale for guanxi networks is the satisfaction of personal interest through an exchange of mutually beneficial favours. Besides, mianzi (face) as an equally important concept in Chinese culture is a key component in the dynamic of guanxi (Sherriff et al., 1999). The term mianzi can be defined as the recognition by others of an individual’s social standing and position (Lockett, 1988). Saving mianzi (face saving) is regarded as a shortcut for the Chinese to build their guanxi network and tap into other’s social resources (Buckley et al., 2006). For instance, all parties involved in a business relationship must show respect to each other in order to save mianzi for further usage in a guanxi transaction. Guanxi and mianzi both operate on a reciprocal basis. From this standpoint, a guanxi mechanism is driven by an intangible reciprocal rule with utilitarian purposes, which copes with the Chinese cultural context. Thus, it is important to be aware of the intangible cultural differences because the behaviour of managers can be influenced by national culture, and cause potential conflicts with partners (Brannen and Salk, 2000, Kogut and Singh, 1988). Furthermore, Durlabhji (2004) points out that the behaviour of guanxi is also heavily influenced by the Taoist principles of ‘yin and yang’, which is one of the most influential philosophies rooted in Chinese culture. According to his work (Durlabhji, 2004), the ideology of yin and yang can be applied to guanxi as eagerness, aggressiveness and outcome orientation (yang) which must be balanced by long-termness, coordination and people orientation (yin) in the process of trust building. Therefore, a disregard for the balancing of the two sides of a relationship will easily lead to a destruction of trust.

According to Millington et al. (2005), three significant characteristics of guanxi can be identified as the cultural norm, which can be integrated with other’s empirical findings from the literature. Firstly, there is a hierarchy of guanxi, whereby the individual’s favour exchange is inclined to be with those with whom they have strong ties rather than those with weak ties (Alston, 1989). Fock and Woo (1998; p. 39) concluded their empirical findings and implied that ‘guanxi is dynamic and not a once-forever relationship. Continuous effort is required to ensure the strength and closeness of guanxi between business partners and to maintain or improve one’s position in the guanxi-competition-continuum’.
Secondly, *guanxi* can refer to two types: direct-*guanxi* ‘actual connections or contact between people’ and indirect-*guanxi* ‘existence of a relationship between people’ (Bian, 1994; p. 974-975). Nevertheless, *guanxi* fundamentally relies on mutual trustworthiness (Yang, 1994). Moreover, *guanxi* is individually rooted (Luo, 1997a), has no group connotation. That means *guanxi* bonds are personal rather than inter-organisational or inter-group (Alston, 1989). Thus, personal *ganqing* (refers to emotional affection), which is the most influential component and is positively related to the quality of *guanxi*, providing the essential trust basis for sustaining mutual exchanges over a long lifetime (Wang, 2007, Lee and Dawes, 2005, Luk et al., 1998, Kipnis, 1997). Furthermore, Wong and Tam (2000) carried out interviews with business people in Hong Kong, and discovered the route of how a *guanxi* relationship evolves from outsider to insider. Their findings imply that establishing a stable basis for friendship is time consuming, and the relationship could possibly be enhanced by interactivities. Thus, *guanxi* building must be carried out beforehand in order to ensure the reliability and utilisability when needed.

On the other hand, Park and Luo (2001; p. 459) argued that ‘*guanxi* becomes an asset at the organisational level as personal relationships are dedicated to and used by the organisation’. However, the root of *guanxi* is ‘virtually personal’ (Luo, 1997a; p. 44) that means even the individual is part of the organisation so *guanxi* networks can still move with the owner once he leaves (Tsang, 1998, Tung and Worm, 2001).

Thirdly, ‘and perhaps the most important characteristic of *guanxi* is reciprocal obligation’ (Bian, 1997; p. 369). Hwang (1987) indicated that the rules of reciprocal favour require certain social behaviour in Chinese culture. Basically, failure to reciprocate may undermine one’s reputation which may result in a further loss of the whole network and the multiple resources embedded in it (Millington et al., 2005).

### 4.3 Guanxi Implementation as Business Necessity

*Guanxi* is particularly important in the context of impersonal business dealings within a weak legal and regulatory environment (Xin and Pearce, 1996, Peng, 2003). In the virtual absence of commercial law, the trustworthy relationships and bonds embedded in *guanxi* assured honourable, long-term exchanges (Nair and Stafford, 1998). In the
Chinese business system, *guanxi* is regarded as the lubricant, which can increase efficiency and effectiveness (Luo and Chen, 1997). Similar conclusions can be found from the earlier empirical findings from the literature (e.g. Davies et al., 1995, Leung et al., 1996, Yeung and Tung, 1996, Xin and Pearce, 1996). Thus, any business inevitably faces the *guanxi* dynamic in China (Luo, 2007).

In this study, ‘*guanxi* as business necessity’ emerged as one of the three main categories which construct the core concept of ‘Quasi-Competitive Advantage’. The relevant theoretical integration and implications will be provided in the next chapter. Discussions herein are aiming to combine this emergent conceptual category with some previous empirical findings from the literature.

*The Role of Guanxi in a Business Context*

Davies (1995) summarised ‘three important roles of *guanxi*’, which give a brief description to the important operational reality of *guanxi* utilisation in business:

1. Individuals with or without ‘expressive ties’ can build ‘instrumental ties’ with reciprocal obligation (Hwang, 1987).
2. *Guanxi* compensates for systematic inefficiency and institutional weaknesses.
3. *Guanxi* is a device used by individuals for personal gain in a communist system.

The ‘three roles of *guanxi*’ (Davies, 1995) is employed by the author to combine some of our empirical impressions with other literary evidence from the focused area. Thus, it enables the author to formulate a more concentrated comparative review to the substantive field of literature.

Firstly, *guanxi* utilisation is only initiated and operated at a personal level with the basis of reciprocal obligation. Fan (2002b) described this as ‘*guanxi* is a personal possession’. On one hand, as the *guanxi* exchange system co-exists with a market exchange system as the main institution of resource allocation (Langenberg, 2007), any business only relying on a market institution is inadequate for sustaining good performance. Although *guanxi* purposefully serves organisational goals, the practices only occur at personal level (Tsang, 1998, Luo and Chen, 1997). On the other hand, as *guanxi* development is
utilitarian and driven by reciprocal obligation it refers to the level of mutual benefits perceived by each side. Yang (1994) described the ‘cumulative effect’ involved in enlarging a guanxi network – the more connections one has, the more opportunities for connections one finds. Thus, in a practical situation, as the number of established ‘instrumental ties’ increases, a guanxi network will be enlarged following the expansion of the business. As a result, dealing with guanxi related managerial issues become routine business activities for managers (Wood et al., 2002). For example, the behaviours such as gift giving, favour exchanging, and banquet invitations, are regarded as necessary instruments for managing guanxi (Yang, 1994).

Secondly, systemic inefficiency and institutional weaknesses are regarded as the most significant impetus for adapting guanxi-based business practices (Peng, 2003, Xin and Pearce, 1996). An appropriate guanxi management system provides speed and flexibility to enhance the firm’s capability of quickly taking advantage of new opportunities, or to avoid losses in the face of dramatic environmental changes (Lovett et al., 1999). Moreover, the absence of institutional regulations and protection for business leads to an increase of stakeholders’ capability to intervene in the decision making process at a personal level due to the lack of efficient power, supervision and authority. For example, a superior has the absolute power to influence the subordinate’s decision making in a hierarchical bureaucratic system. Thus, choosing a particular business partner may simply be based on personal preference. Fan (2002a) pointed out that the two parties engaged in guanxi exchanges are more likely to be a business to government type rather than a buyer and seller type. Given the fact that a guanxi connection with government is especially important in China, Fan (2002b; p. 338) argued that the particular importance of a business to government guanxi connection is ‘a product of China’s political and socio-economic systems: imperfect legal system and underdeveloped market structure’.

Thirdly, guanxi is a device used by individuals for personal gain. As guanxi is personally possessed (Fan, 2002b). The insiders are regarded as close friends whom one can do business with and trust to mutually help each other in many other situations (Buttery and Wong, 1999). Thus, building guanxi is initially motivated by pursuing personal interests from a social cultural perspective. However, the guanxi benefits can be expanded to an organisational level from a strategic perspective. In fact, instrumental
guanxi connections cannot exist without a utilitarian favour exchange (Luo, 1997a). Therefore, behaviours, such as gift giving, dinners, and helping each other, represent the personal expectations of the benefits of guanxi networks (Millington et al., 2005, Szeto et al., 2006, Yang, 1994). On the other hand, the level of personal interest that is involved in a business guanxi transaction is always a debatable issue for scholars from a business ethical aspect (e.g. Dunfee and Warren, 2001, Fan, 2002b, Fan, 2002a, Lovett et al., 1999). Threshold (1990) defined ‘corruption’ as ‘the illegal use of public office for private gain’. In this case, favouritism, which is embedded in guanxi interactions, appears to encourage corrupt behaviour (Wong and Chan, 1999). Thus, as favours vary, obtaining personal gain at certain levels is acceptable. However, the over use of guanxi, which intends to break or bend the law or regulations, is unacceptable behaviour as it challenges social justice, and is dangerous for business because unethical use of guanxi will turn the good guanxi in to a bad one (Warren et al., 2004, Fan, 2002a).

Reforming Era & Business Difficulties

Guanxi offered businessmen an effective network-orientated strategic implementation to compensate for the systematic inefficiency and institutional weaknesses (Davies, 1995). Given the fact that, during the early stages of the emerging economy, uncertainties caused by institutional transitions shaped the firm’s strategic choice towards the network-orientated types in order to adapt to the volatile external business environment (Peng, 2003). In fact, the market reformation from a centre-planned to a market-planned paradigm has been carried out since 1978 and is still continued today. Under such changeable circumstances, institutional transitions impact on most facets of business in this market. In order to further explain why guanxi can provide efficiency and effectiveness for business operations, the first question that should be asked is ‘what is the difficulty of doing business in China?’ Then, we can come up with the question ‘how can guanxi help with the problem?’ Therefore, we could obtain a picture of the real situation of guanxi in business.

Despite the discussion of the difficulties caused by cultural differences, as we have discussed in previous sections as one of our core categories, in this section our discussion will concentrate on the operational issues of guanxi in business. In 1992, the Fourteenth Party Congress confirmed that the commitment to market-based reform
would be maintained, and thereby China’s market-based institutional transformation was carried out dramatically and the economy was confident with a continuous, rapid growth rate (Davies et al., 1995). However, before the institutional transitions were accelerated by the central government, many early studies reported that foreign managers were discouraged by the complex bureaucratic system and time-consuming process (Davidson, 1987, Lindsay and Dempsey, 1983). It can be viewed as an extreme condition where everything in the market just ‘woke up’ and started to ‘find its way’. For some political reasons, the Chinese market economy is not a simple duplicate of the western one. Thus, changes and uncertainties arose from this transition process. Frankenstein (1986) mentioned that the length of negotiations caused by bureaucratic delays and difficulty of identifying the real decision-makers dismayed the foreign companies. For example, a business development manager from Australia has estimated that the completion of all the paperwork for their joint venture company took 18 months of effort (Zhang, 1995). Western scholars have interpreted some daunting experiences into two different approaches. On one hand, the negotiation process in China is slow and inefficient. Scholars attribute inefficiency to structural constraints, poor administration, management incompetence, ideological rigidities, and policy factors (Eiteman, 1990, Frankenstein, 1986, Hendryx, 1986). On the other hand, others (Brunner et al., 1989) recognised that the establishment of personal trust through networks is particularly crucial to the conduct of business in China. The way of network-building, in an oriental cultural context, was recognised as taking a longer time to invest in relationships than western managers were used to (Thorelli, 1986).

Today, market institutional transitions in China towards a market-based economy have been carried out for over 30 years, since 1978, and will continue to be. Especially, since China joined the WTO (World Trade Organisation) in 2001, the institutional reform has been put on a more intensive schedule to shape the market transformation towards a more open and rule-based paradigm in order to cope with the rise in global competition. In the late 90s, plenty of studies, which targeted ‘guanxi phenomena’ as a particular combination of cultural dynamics and an operational lubricant, were conducted by different scholars in the literary field (such as: Yang, 1994, Luo, 1997a, Millington et al., 2006, Kipnis, 1997, Bian, 1994). Although guanxi in business was viewed as a deep-seated cultural fact of Chinese society (e.g. Bian, 1994, Yeung and Tung, 1996), Guthrie (1998; p. 225) offered a different view which indicates ‘guanxi is an
in institutionally defined system – i.e. a system that depends on the institutional structure of society rather than on culture – that is changing in stride with the institutional changes of the reform era’. In this case, institutional impacts are still regarded as the most significant influential context for guanxi utilisation in business activities. Thus, the motivation of conducting guanxi-based business strategy today is perhaps still attributed to the influences of institutional transitions.

On the other hand, the significance of guanxi in business transactions varies with the conditions of the market in which the business is involved. The importance of guanxi in different contexts has been specifically examined. For example, some empirical evidence shows that the importance of guanxi varies with the firm’s position in the state administrative hierarchy (Walder, 1995). Also, the way of guanxi utilisation may vary with the attitudes of managers from different professional backgrounds. Fock and Woo (1998) indicated that the different perceptions of how to use guanxi depends on the status of the executives involved. Firstly, younger and less-experienced executives may treat guanxi acts as a traditional cultural norm fostering trust in a personal context to supplement the weak institutional supports and to improve the efficiency and effectiveness of business operations. Secondly, for experienced and more competent executives, guanxi is regarded as a strategic marketing instrument complementary to the western marketing mix approach. Guanxi networks as their strategic resources are utilised instrumentally to give them a competitive edge in achieving business objectives (Fock and Woo, 1998). Yeung and Tung’s (1996) findings also support this view that less experienced managers gave higher priority to guanxi, and small and medium-sized firms tended to place greater emphasis on guanxi.

Based on the different perspectives of viewing guanxi importance, Guthrie (1998; p. 256) came up with a conclusion that two types of guanxi shape action in China: The first type is namely guanxi practice, which refers to the counteraction of the negative outcomes caused by conflict with the rational-legal system emerging at the state level (i.e. formal laws, policies and rational procedures) (also see, Xin and Pearce, 1996). The other type is namely guanxi, which is more broadly conceived as a necessary part of the market reforms and business transactions in a market economy (also see, Luo and Chen, 1997).
'Understanding how the system of guanxi interacts with the rational-legal system at the state level and formal rational bureaucratic structures that are emerging at the firm level is important for understanding how this system is changing in the reform era, and it is important for understanding the reforms more generally.' (Guthrie, 1998; p. 256)

In fact, Guthrie’s (1998) distinction of guanxi types imply that although the root of guanxi is from the Confucian ethics of interpersonal kinship relations historically, the usage of guanxi in a modern context is based on a broader vision of interpersonal relations independent of state-defined formal organisational structure. Especially, in business, guanxi becomes instrumentally manipulated by those related components such as renqing, ganqing, and manzi. The stride of social and economic transitions reshaped the institution of guanxi. Thus, it is important to investigate guanxi-based business performance as part of the big picture of China’s reform era.

**Achieving Business Efficiency and Effectiveness**

First of all, guanxi as a key success factor is attributed to the ambiguity of Chinese legislation in the past two decades, thus Chinese business laws have remained vague in some particular areas until now (Yeung and Tung, 1996). On one hand, the absence of explicit guidelines makes the directives and policies openly interpretable by those who occupy positions of authority and power. On the other hand, firms have to struggle with the inefficiency caused by the bureaucratic administrative system (Guthrie, 1998).

The benefits of guanxi have been examined by a main stream of business studies (Fan, 2002b). Typically, cultivating personal relationships (guanxi) can provide four main groups of benefits, which include: 1. it provides the smooth running of routine business operations and improves the transaction efficiency; 2. it helps business partners to reduce uncertainties through obtaining valuable information about government policies, market trends, and business opportunities; 3. it is a receipt of administrative approvals and helps the firm to access some scarce resources; 4. it also helps in other areas, such as company image building, logistics and payment collection (Davies et al., 1995, Leung et al., 1996, Standifird and Marshall, 2000).
More empirical studies identified the significance of *guanxi* in improving business efficiency and effectiveness from the literature. For instance, Ambler (1994) pointed out that efficient transactions can be achieved by the establishment of successful *guanxi*. Moreover, Davies *et al.* (1995) implied that smooth operations that are derived from good *guanxi* are beneficial to secure the information and resources for business. Standifird and Marshall’s (2000) study affirms that *guanxi*-based exchange, as a structural alternative to markets, hierarchies, and the hybrid form, can effectively lower the transaction costs. The transaction cost advantage of *guanxi*-based exchange is accomplished by a specific manner of *guanxi* in dealing with governance problems associated with bounded rationality and opportunism. Other perspectives include *guanxi* as a supplement to formal institutional support due to the fact that the legal system in China is far from fully developed (Luo, 1997a, Wong and Chan, 1999, Xin and Pearce, 1996, Yeung and Tung, 1996). Given the fact that China’s commercial law has historically been underdeveloped, relying on personal contacts and friendly discussions to resolve commercial disputes are regarded as the unique Chinese way of resolving business conflicts (Pearce and Robinson, 2000, Yau *et al*., 2000).

Furthermore, some empirical studies examined *guanxi* performance under different business contextual situations, which is linked to the effectiveness and importance level of *guanxi*. For example, Millington *et al.* (2006) examined *guanxi* and supplier search mechanisms in China. Given the fact that the importance of traditional forms of *guanxi* have been reduced by the progression of industrialisation and modernisation, social network-based information exchanging channels are still regarded as important and as the most effective source of information. Buckley and his colleagues (Buckley *et al*., 2006) examined the cultural awareness in knowledge transfer to China. They suggested that government support and a shared mindset can only be secured when mutual trust is established. The role of *guanxi* and *mianzi* lay at the heart of interactions with local stakeholders. Luo and Chen (1997) have confirmed that *guanxi* is positively related to a firm’s performance in China.

**Guanxi-Based Organisational Performance**

In addition, fewer empirical studies attempted to integrate the *guanxi* institution with organisational strategic implementation. With regards to the fact that there is a lack of
theoretical explorations in this area, it evokes more studies to attempt to build a theoretical basis for exploring guanxi-based organisational performance at a strategic level.

Guanxi dynamic, as an important concept (Wu, 1967), is an important construct in studying the organisational outcomes in mainland China (Alston, 1989, Wall, 1990). Guanxi resources are possessed by individuals, as a special implement, which are employed by the company to build its competitive advantage which can affect the performance outcome on an organisational level. Therefore, a firm’s guanxi-based strategy must be developed and implemented with particular orientation which is associated with its market-based strategic planning. Zhang and Zhang (2006) examined how guanxi can shift from the individual level to the organisational level and how it affects the organisation’s dynamics at organisational level. Guanxi is a very important strategic element, which can affect the firm’s performance from the individual level both inside and outside the company. In recent years, networks and relationship building have been considered as the vital factors for the success and survival of organisations (Park and Luo, 2001). An effective transformation of the guanxi networks from the individual level to the organisational level could enhance the survival and capabilities of organisations by providing opportunities for shared learning, the transfer of technical knowledge, legitimacy, and resource exchange (Oliver, 1990, Galaskiewicz and Wasserman, 1989, Nohria and Eccles, 1992, Pfeffer and Salancik, 1978a).

4.4 Adaptation of Institutional Influences

Guanxi is Coercive When Used

In a transitional economy, the institutional system is weak and unstable as a result of the businessmen being more likely to rely on the system of social exchange at a personal level in order to survive in such a changeable environment. Moreover, inept bureaucracy and inadequate middle management are identified as twin problems in China (Drucker and Nakauchi, 1998). The stakeholders, including government authorities, institutional regulators, employees, and local partners, must be treated carefully in order to secure the operational efficiency and effectiveness. Personal
connections such as *guanxi* are particularly important to executives in countries without a stable legal and regulatory environment that allows for impersonal business dealings (Redding, 1990, Zucker, 1986). Nair and Stafford (1998; p. 142) described that ‘granting favours stems from China's authoritarian and bureaucratic society structure: *guanxi* facilitates working through the system’. For example, research conducted by Buckley et al. (2006) revealed that the concepts of *guanxi* and *mianzi* are at the heart of interactions with local stakeholders in order to build trust. Notably, the government support and a shared mindset can only be secured when mutual trust is established by long-term engagement with the key actors. Also, Chu and Ju (1993) conducted a questionnaire survey with a focus on Chinese managers, and found that the majority of 2000 Chinese respondents affirmed the importance of *guanxi*. Over 70 per cent preferred to use *guanxi* over normal bureaucratic channels to advance personal interests and to solve problems.

Although, all social exchange involves unspecified obligations (Blau, 1964), Warren et al. (2004) argued that a lack of alternatives can make *guanxi* coercive. Blau (1964) further explained this phenomenon from a social exchange perspective as:

*‘The power of an individual over another depends entirely on the social alternatives or lack of alternatives of the subjected individual, and this fact, as well as some others, makes it mandatory to examine power relations in a wider context than the isolated pair.’* (Blau, 1964; p. 32)

In fact, weak legal institutions allow for more problematic requests in a transitional economic environment (Warren et al., 2004). Some empirical studies can support this argument. *Guanxi* practices can involve forms of extortion and provide a form of protection against abuse (Xin and Pearce, 1996, Ahlstrom et al., 2000). For example, a manager saved his privately owned company from an unanticipated tax audition by minimising the amount of punishment for fraud income tax accounting, through making a payment to the auditor facilitated by a social tie (from Xin and Pearce, 1996). To rethink this case critically, two distinctive indications can be traced, which represents the real situation in practice. On one hand, the imperfect tax auditing system encourages businessmen to exercise opportunistic behaviours to take advantage of the legal loopholes whenever there is an opportunity. On the other hand, the reality is that the
auditors are flexible enough to deal with the problems caused by the inefficient institutional system. And because of the flexibility in supervision, they (officials) obtain personal gains either consciously or subconsciously. The interviewees (Xin and Pearce, 1996; p. 1653) summarised that “the only way we can protect ourselves is through personal connections, trust, and being flexible”. In this case, enforcement problems and the power of local authorities means that the business manager has to cultivate guanxi with government officials in order to protect their business from institutional extortion and abuse.

_Guanxi is a Rational Strategic Choice_

From an institutional perspective, the organisational structure is viewed as an adaptive vehicle shaped in reaction to the characteristics and commitments of participants as well as to the influences and constraints from the external environment (Scott, 1987b). Selznick (1957; p. 17) argued that ‘to institutionalise’ is to ‘infuse with value beyond the technical requirements of the task at hand’. There is an important body of literature which is particularly focused on network strategies in emerging economies (e.g. Peng and Luo, 2000, Boisot and Child, 1996, Xin and Pearce, 1996, Park and Luo, 2001, Peng and Heath, 1996, Tsang, 1996, Yao et al., 2004). Also, scholars have examined that the institutional conditions may impact on shaping the relative costs and benefits of a firm’s strategic choices (Child and Lu, 1996, Peng, 2000, Peng, 2003). In fact, ‘institutional transitions’ is the most significant feature permeating emerging economies. Peng (2003; p. 275) explained that ‘fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players’. Moreover, our respondents provided a similar viewpoint as ‘guanxi-based business implementation is compulsively chosen to cope with the reality of institutional inefficiency’, because in a period of reformation, nothing is reliable, the only rule is ‘be flexible’ to any changes. Therefore, personal ties such as guanxi provide the kind of solution that allows the firm to have the capability to bypass the constraints of irrational formal rules in some situations. Thus, ‘institutional transition’ is the most influential context behind the firm’s strategic choices.

Peng (2003) developed a two-phase model of dynamic fit between institutions and strategies in emerging economies. This model integrates the two streams of research on
network strategies and institutional transitions. His model illustrated a process of business strategic choices evolving through two stages of institutional development. During the early stages of institutional transition, given the fact that a formal rule-based market system had not been well established, a firm’s strategic choices would have been network-centred, relying heavily on strong personal ties (Peng and Heath, 1996). During the late stages, a relatively well established market system, with more mature formal rules, would have driven the firm’s strategic choices towards market-centred types as the costs of network strategies may have gradually exceeded their benefits (Peng et al., 2005).

It seems that when a market evolves to the second phase, the impersonal, rule-based strategies based on arm’s-length exchanges will be pervasive. However, extensive research suggested that even in developed economies, firms are still permeated by numerous relationship networks, some of which may drive their strategies and performance (Gulati, 1995, Granovetter, 1973, Rowley et al., 2000). In fact a combination of deeply embedded strong ties and loosely affiliated weak ties has been featured in the firm’s networks (Uzzi, 1996). In developed economies, some researchers find that those weak ties are more likely to support firms with business growth (Hite and Hesterly, 2001), exploring new opportunities (Rowley et al., 2000), and achieving market success (Mizruchi and Stearns, 2001). Thus, Peng (2003) argued that rather than expecting to evolve into a pure competitive driven strategic paradigm, it is more realistic to view the firm’s strategic choices to transform from strong-tie-based network strategies towards weak-tie-based network strategies.

4.5 Resource-Based Views & New Insights on Guanxi Advantage

On one hand, the firm is viewed as a nexus of resources and capabilities that are not freely mobilised through transactions in a spot market (Wernerfelt, 1984, Rumelt, 1984, Conner, 1991). According to Lado and Wilson (1994), from a resource-based perspective, these firm-specific resources and capabilities are considered as the source of yielding economic benefits for the firm, and cannot be perfectly duplicated by competitors, thus they may generate a sustained competitive advantage (Barney, 1991, Dierickx and Cool, 1989, Amit and Schoemaker, 1993, Barney, 1992).
On the other hand, the term ‘guanxi’ is a highly abstract concept rooted in the Chinese social dynamic and cultural background. As a conceptual definition, ‘guanxi’ has no practical meaning in business. Essentially, most of the studies on guanxi utilisation in business emphasise the outcomes of the ‘guanxi dynamic’ or ‘guanxi institution’ as the influential impetus permeating particular social processes (e.g. business processes). In this case, it is difficult to create a study which isolates guanxi phenomena from the relevant social processes. As a result, plenty of empirical evidence from previous studies has proved that guanxi is closely related to business performance in China in several aspects.

However, how business organisations understand and deal with guanxi as a practical implement has become an attractive topic for many scholars in recent years (e.g. Xin and Pearce, 1996, Zhang and Zhang, 2006, Standifird and Marshall, 2000, Tsang, 1998). Although guanxi is stressed as an individually rooted network resource, and its natural mobility is difficult to control at the organisational level (Luo, 1997a, Zhang and Zhang, 2006, Tung and Worm, 2001), at the same time some empirical data shows that most managers perceive guanxi as an organisational asset (Millington et al., 2006, Park and Luo, 2001). Nevertheless, guanxi is initially treated as a resource of social capital (Hwang, 1987) possessed by individuals (Bian, 1994, Luo, 1997a), but has not been clearly defined in its strategic position in relation to strategic management.

It is important to clarify the fact that guanxi is utilitarian rather than emotional in a business context (Park and Luo, 2001). The reason is that the maximisation of economic efficiency is always the core position for any business. In this case, guanxi is adopted as an effective instrument for achieving business success. Thus, researchers should pay attention to the performance and effectiveness of instrumental guanxi in a firm’s tactic and strategic environment. Consequently, considering guanxi as a kind of organisational resource enables the managers to strategically plan and use it. Some studies stress this issue, and provide some strategic implications for transforming personal guanxi into an organisational asset (Pearce and Robinson, 2000, Tsang, 1998, Vanhonacker, 2004). Furthermore, Tsang (1998) has addressed the deficiency from existing studies on guanxi management, and there is a lack of theoretical depth needed to answer the question ‘can guanxi be a source of sustainable competitive advantage?’.
To avoid possible confusion, three emergent concepts namely *guanxi* resource, *guanxi* advantage and *quasi*-competitive advantage are comparatively defined and explained within a resource-based perspective in this section. These three concepts construct the foundation for developing new insight into *guanxi*-based business strategy. The resource-based view offers an appropriate theoretical logic to support the author to re-recognise the strategic value and tactical function of *guanxi* in this study.

**Firm Resource vs. Guanxi Resource**

From a traditional strategic perspective, the term ‘firm resources’ are controlled by the firm, that is used to conceive and implement strategies that improve business efficiency and effectiveness (Porter, 1981, Learned et al., 1969). According to Barney (1991), firm resources can be classified into three categories: physical capital resources (Williamson, 1975), human capital resources (Becker, 1964), and organisational capital resources (Tomer, 1987). Physical capital resources include plants and equipment, geographic locations, physical technology used in a firm and its access to raw materials. Human capital resources include training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in a firm. Organisational capital resources include a firm’s formal reporting structure, formal and informal planning, controlling, coordinating systems, and informal relations among groups within a firm and between a firm and those in its environment. However, not all aspects of firm resources are positive in generating value-creation strategies. In some situations, firm resources can even prevent a firm from generating value-creation strategies (Barney, 1986a).

Similar to conventional understandings of firm resources, Itami’s (1987) theory of accumulating and managing invisible assets provides a new insight into firm resources. Invisible assets are information-based resources which include technology, customer trust, brand image, and control of distribution, corporate culture, and management skills (Itami, 1987; p. 12). Physical assets are visibly present in order for business operations to take place. In contrast, invisible assets are necessary for competitive success. From Itami’s perspective, invisible assets are the real sources of competitive power and adaptability. The reason is that invisible assets are hard and time-consuming to accumulate, can be used in multiple ways simultaneously, and are both inputs and
outputs of business activity. Itami (1987) specifically identified ‘people’ as both accumulators and producers of invisible assets.

Moreover, Yang (1994) describes the ‘cumulative effect’ that is involved in the enlargement of guanxi networks as the essential storage base. It is time-consuming to establish a reliable guanxi base which involves other initial components, such as qianqing, mianzi etc., which have been discussed previously.

Consequently, with regards to the definitions of firm resources from a resource based view, we propose guanxi as a source of invisible assets which are possessed by ‘people’ within the organisation. In other words, it is different with other kinds of invisible firm assets, as guanxi resources particularly refer to ‘individuals’ who own specific instrumental relationships or contacts which are crucial for building a firm’s competitive advantage. Once the boundary of guanxi resources is defined, the study of guanxi-based business strategy can move on to some specific operational issues, such as how to make one guanxi resource more superior than others in a paradigm of guanxi competition.

*Competitive Advantage vs. Guanxi Advantage*

As we have clearly defined the term ‘guanxi resources’, which specifically refers to ‘individuals’ who possess essential guanxi contacts, it is necessary to make another attempt to reiterate the term ‘guanxi advantage’. Guanxi advantage is one of the two fundamental concepts which formulate the system of ‘guanxi-based strategy’. In this part, we will hold a comparative discussion in order to explore the differences between a firm’s competitive advantage and guanxi advantage.

Firstly, understanding sources of sustained competitive advantage in a firm has become a major area of strategic management (Rumelt, 1984, Porter, 1985). A firm’s competitive advantage can be understood from different perspectives. The classic organisational framework includes strength, weakness, opportunities and threats which structured much of this research (Andrews, 1971, Ansoff, 1965, Hofer and Schendel, 1978). Barney (1991) argued that this framework contains both the internal analysis of strengths and weaknesses and external analysis of opportunities and threats perceived
from the environment. Hence, the competitive advantage can be viewed from two angles as a resource-based model focused on internal analysis and an environmental model (e.g. ‘five forces model’) focused on external analysis (Porter, 1980, Caves and Porter, 1977). However, Barney (1991) argued that the environmental model of competitive advantage assumes two pre-conditions that firms within an industry are identical in terms of the strategic resources they control and the strategies they pursue (Porter, 1981, Rumelt, 1984, Scherer, 1980), and the resource heterogeneity is short lived because the resources that the firms used to implement their strategies are highly mobile (i.e. can be bought or sold in a factor market) (Hirshliefer, 1980). By contrast, a resource-based view of competitive advantage is established upon two alternative assumptions. Firstly, firms within an industry are heterogeneous with respect to the strategic resources they control. Secondly, these resources may not be perfectly mobile across firms, and thus heterogeneity can be sustained (Barney, 1991).

From a resource-based perspective, the firm’s competitive advantage must meet four conditions in order to enjoy sustainable above-normal returns. According to Peteraf (1993; p. 185), resource heterogeneity creates monopoly rents. Ex post limits to competition prevent the rents from being lost through competition. Imperfect factor mobility ensures that valuable factors remain with the firm and that the rents are shared. Ex ante limits to competition keep costs from offsetting the rents. Furthermore, Barney (1995) claims that a firm’s competitive advantage potentially depends on the value, rareness, and imitability of its resources and capabilities.

Guanxi is often identified as a source of sustained competitive advantage in the Chinese market (e.g. Tsang, 1998, Standifird and Marshall, 2000). However, there is little theoretical basis for this view. Most of the literature identified the business significance of guanxi (e.g. Davies et al., 1995, Hwang, 1987, Leung et al., 2005, Tai, 1988, Warren et al., 2004, Wong and Tam, 2000). In this study, we suggest considering the competitive advantage and guanxi advantage separately in order to distinguish the different business objectives between guanxi-based and market-based strategic paradigms. Thus, the researcher is only able to go one step further to explore the content of guanxi-based strategy within a specified conceptual boundary.
Initially, the researcher proposes that guanxi advantage in this study is directly related to guanxi performance in the paradigm of guanxi-based strategic implementation. And guanxi performance is regarded as an impetus of a firm’s performance which exists in the system of corporate strategy. In contrast, competitive advantage directly contributes to a firm’s performance. On the other hand, guanxi advantage is developed to ensure guanxi performance at a certain level, and then to assist with building competitive advantage for a firm at a market-based level. Therefore, guanxi advantage indirectly contributes to the building of a firm’s market-based competitive advantage in order to generate sustainable above-average performance. Notably, guanxi can only impact on a personal level informally (e.g. influence the decision maker) while, at an organisational level, a business firm has to complete the formal procedures as required by the rule-based institutional regulations. Although guanxi utilisation is not necessary in every case, its importance of improving operational efficiency is still significant in most situations due to the imperfect institutional system. For example, good guanxi enables the firm to access certain scarce resources (e.g. restricted license, state-controlled lands) more easily. Valuable resources can not be developed as a real source of generating competitive advantage unless the firm can take control of them. In this case, guanxi actually acts more like an instrument rather than an invisible resource, which enables the firm to take control of intended strategic resources. Furthermore, given the fact that a guanxi-based paradigm and market-based paradigm have strategic differences in functionality, it is better to distinguish the meaning of guanxi resources from the general view of firm resources.

Moreover, the evaluation of guanxi advantage varies with the quality of the competitors’ guanxi resources depending on the transaction situation. For this reason, guanxi advantage is more appropriately described as a kind of ‘relative competitive advantage’. Guanxi is featured as a socially complex resource (Barney, 1995), the advantage of someone’s guanxi resources is actually generated from the intricacy of interpersonal chemistry. In order to create a deeper understanding of the term of ‘relative competitive advantage’ in guanxi phenomena, a conceptual explanation of the guanxi mechanism is essential, to lay the foundations for further discussion. Chen and Chen (2004) offered a comprehensive conclusion on guanxi and its quality which implicate the rooted mechanism and performance reality in guanxi phenomena.
'We view guanxi as an indigenous Chinese construct and define it as an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the social norm of guanxi such as maintaining a long-term relationship, mutual commitment, loyalty, and obligation.

A quality guanxi is also characterized by the mutual trust and feeling developed between the two parties through numerous interactions following the self-disclosure, dynamic reciprocity, and long-term equity principles.'

(Chen and Chen, 2004; p. 306)

Since guanxi utilisation can only take place at a personal level as an informal alternative solution for securing effective business transactions, guanxi quality and its effectiveness are heavily affected by personal interests. For example, a good guanxi partner, who is bonded with a strong ganqing foundation, may not help in some cases. It does not mean that the guanxi connection with this partner broken. The situation could be explained using a stronger guanxi competitor (e.g. a superior’s guanxi) who breaks into an existing relationship, and forces the guanxi partner to be partial to the other competitor. In this particular case, one’s guanxi advantage is weaker than the competitor’s who has joined in. However, this particular guanxi tie can still be used for the other transactions which may require involvement with relatively weaker guanxi competitors.

Guanxi as a ‘Quasi-Competitive Advantage’

In contrast to a rule-based market system which is relatively restricted by an inflexible legal system to enforce contracts, a guanxi-based system is built upon a basis of reputations and trust between individuals, and reduces transaction costs because these transactions occur within a flexible, but relatively permanent network, that reduces the potential gains from opportunistic behaviour (Lovett et al., 1999). In a word, the most significant advantage of a guanxi-based system is ‘flexible’. However, two fundamental disadvantages of a guanxi-based system are that building a reputation is time-consuming (ganqing foundation) and constant investment for guanxi maintenance is required (Lovett et al., 1999, Yang, 1994, Pearce and Robinson, 2000, Tsang, 1998, Jacobs, 1979).
Tsang (1998) indicates that guanxi is featured as an imperfect inimitable resource, which can provide individuals and firms with distinct competitive advantage over others in the competition. However, superior profits can be earned by the firm through the accumulation of valuable and rare guanxi resources, which will create strong incentives for imitations. Thus, the firm’s competitors will try to develop guanxi with the same parties. The ability of developing guanxi is a key factor which determines the firm’s capability of preventing imitations (Tsang, 1998). From a resource-based theory, the concept of ‘asset mass efficiencies’ (Dierickx and Cool, 1989) argues that success breeds success. In other words, the ‘historical success will translate into a factorable initial stock position of a resource, which in turn facilitates further resources accumulation’ (Tsang, 1998; p. 69). Similarly, guanxi imitation ability relies heavily on the capacity of the historical accumulation of guanxi resources (Lee and Dawes, 2005, Yi and Ellis, 2000). An example of this point is that a good friend of ten years will receive more respect than a friend of five years in a guanxi relationship. In this case, guanxi advantage is changeable and the situation involves a trade off with competitors’ guanxi strength. Furthermore, the nature of ‘mobility’ makes guanxi advantage difficult to sustain (Tsang, 1998). The only way to reduce the side effect caused by individual absence is to increase the number of contacts in order to build the multi-connected relationships with a vital guanxi actor. In this way, guanxi resource may convert from an individual level to an organisational level (Zhang and Zhang, 2006). Therefore, guanxi cannot be regarded as a real source of sustained competitive advantage.

Guanxi alone is insufficient in providing sustainable competitive advantage for a firm for long term superior performance. We proposed a new insight for guanxi as a ‘quasi-competitive advantage’ based on our empirical findings. There are two levels of meaning which apply to this concept. At the first level, from a guanxi-based strategic paradigm, guanxi resource is re-defined as a source of generating ‘quasi-competitive advantage’. This is in contrast to the term of ‘competitive advantage’ in a market-based strategic paradigm. At the second level, the utilisation of guanxi resource is not isolated from the market paradigm. Thus, ‘quasi-competitive advantage’ is meaningful only when it can be used to build a firm’s substantive ‘competitive advantage’. Otherwise, guanxi advantage is worthless. It is vital to keep a clear mind that in business economic efficiency always comes first, and guanxi comes second. Without a convincing market
performance, *guanxi* can do nothing for business today as the market is gradually being developed for regularisation.

Thus, with clearly redefined boundaries of *guanxi* resource and *guanxi* advantage from a strategic implementation perspective, the researcher is able to focus on how *guanxi*-based strategy is formulated to exploit the particular advantage of *guanxi*.

### 4.6 Summary

Ambler (1994) points out that if *guanxi* as the relational paradigm takes place first, thus strategy comes second. Strategic lessons come from the last 2200 years of Chinese military history, which are still impacting on business today. Sun Zi’s *The Art of War* has been embedded into Chinese business thinking. Similar to Michael Porter (1980) who has a strategy analysis of ‘Five Forces’, ‘Five Working Fundamentals’ from Sun Zi has also explained the thought of carefully studying the strengths and weaknesses of the opponent and calculating competitive advantage. In other words, *guanxi* is a natural strategic element for Chinese managers.

By doing this comparative literature review, some limitations of the literature were identified. The prevalent literature emphasises *guanxi* performance at an operational level. There is a lack of studies on *guanxi* implementation at a strategic level. Although *guanxi* can influence organisational performance which has been confirmed (Luo and Chen, 1997; Zhang and Zhang, 2006), there is still a lack of studies on exploring its specific strategic position in business strategy. Since managers in China have treated *guanxi* as strategic implementation, it is necessary to illustrate *guanxi*-based business strategy in a theoretical perspective.

As a result, the author has comparatively reviewed the three emergent core categories and one concept combined with the literature. This comparative analysis of literature verified our emergent theoretical construct of *guanxi*-based strategy. To this extent, the *guanxi*-based paradigm is closely related to the market-based paradigm in business strategy planning. Moreover, a resource-based view provides an appropriate breakthrough angle for the researcher to explore *guanxi*-based strategy with a well
developed theoretical background. On one hand, in order to have a clear understanding of the performance of guanxi-based strategy, it is necessary to treat guanxi resource separately from conventional types of firm resources when investigating guanxi phenomena. On the other hand, guanxi is instrumentally used to earn superior business benefits. For this reason, it is important for the researcher to also link the initiatives and outcomes of guanxi utilisation with market-based business necessity. Moreover, guanxi is rooted in Chinese culture. Other than emotional affiliation with individuals, guanxi is more instrumentally used in the business context. Guanxi can not only bring certain advantages to businesses which provide essential operational support, but can also act as the most efficient and effective implementation for trading off the side effects caused by an imperfect institutional market system during this economic transition period.
CHAPTER 5 FINDINGS AND DISCUSSION

5.1 Introduction

First of all, theory-building is the core objective of this research as explained in Chapter 3. Rather than fully presenting and describing the substantive findings obtained from the fieldwork, the purpose of writing this chapter is to make a theoretical elaboration on the emergent grounded theory of ‘quasi-competitive advantage’ and its related theoretical constructs. The conceptualisations and theoretical integration of empirical findings in this study, allow the researcher to interpret the focus of the social processes (e.g. guanxi strategic implementation) that have durability and are independent of time and place (Glaser, 1978; p. 129).

In this study, the author gradually refined his research to focus on investigating guanxi-based strategic implementations which are interpreted by participants. Bearing the dictum of ‘emergence’ in mind (Glaser, 1992), the author followed the procedure of grounded theory (Chapter 3) in order to make sure the theory reflects the reality of the actual social process. The core objective of this study is to endeavour to build a new substantive theory on guanxi and business strategy planning. As a result, the abstracted core concept of ‘quasi-competitive advantage’ will become the stepping stone which allows the researcher to advance the theory from a substantive level to a formative level (Glaser and Strauss, 1967; p. 79). However, in this chapter the author extends the previous results of theoretical sorting from Chapter 3, so that an advanced substantive theory can be illustrated as the final outcome of this study.

![Figure 8 Theory of Quasi-Competitive Advantage & Its Theoretical Constructs](image-url)
We have previously introduced three emergent core categories (Chapter 3 & Chapter 4) which are closely related to the core concept at the substantive level. In this chapter, we attempt to re-organise all conceptual ideas which have been kept in memos throughout the whole research process. In addition, combined with the implications which have been obtained from the comparative literature analysis and other forms of supplementary data, all types of theoretical components are able to be re-integrated at a higher level of conceptualisation (Glaser and Strauss, 1967). As shown in Figure 8, the outcome of this grounded theory includes three major constructs: ‘guanxi as quasi-competitive advantage’ in section 5.3 is the fundamental core concept of this study, ‘guanxi-based business strategy’ in section 5.2 and ‘co-development of guanxi and core competence’ in section 5.4 are developed based on this core concept. Furthermore, relevant practical implications derived from this empirical study are offered in section 5.5 and a critical review of this research outcome is provided in section 5.6.

5.2 Guanxi-Based Business Strategy

At the beginning of the discussion, it is important to clarify the ethical stance of generating this theoretical constructs, in this study, which is related to the findings and discussions on guanxi-based competence and business strategy. In response to the discussions in Section 2.3.3 in Chapter 2 – Initial Literature Review, the common consensus has been reached from the literature, that utilisation of guanxi is different from the unethical behaviour of corruption and bribery. In this study, we advocate to explore and develop the firm’s capability of guanxi management in a healthy way. In real business activities, morally utilise guanxi at certain level, which the bottom line is not breaking the law, is accepted in Chinese business environment. However, any unethical behaviours of utilising guanxi to damage the fair competition and break the rules are unacceptable. It has proven that the unhealthy way of using guanxi for gaining personal interests is risky and unhelpful to sustain a firm’s long-term development.

Core Concepts in Guanxi Operational Contexts:

In order to further elaborate on the grounded guanxi-based business strategy in this study, it is necessary to explain, in advance, three substantive concepts which are
abstracted from the focussed *guanxi* operational environment. In the first place, *guanxi* resources are conserved in clusters of different social networks which are owned by managers. Just like the concept of social networks (Scott, 1987b), *guanxi* can be understood as a type of ‘embedded resource’ (Lin, 1999) or ‘social capital’ (Park and Luo, 2001). Each actor in the network, as a ‘node point’, possesses his own *guanxi* network which may not be shared with others. Moreover, within each network *guanxi* quality is differentiated by ‘*distance between where the guanxi partner is located in the psychological guanxi net space and the center in which the self is located*’ (Chen and Chen, 2004). That means the more inner circle, the better the *guanxi* quality is. We employed the classic model from Fei (1992) to illustrate the egotistic-nature of the Chinese *guanxi* network (Figure 9). It is worth noting that the psychological distance is dynamically changeable, and is driven by external contextual impetuses. Therefore, the fundamental rationale of complexity and the nature of changeability is perceivable in *guanxi* management.

![Figure 9 the Ego-Centred Nature of the Chinese Guanxi Network (Fei, 1992)](image)

In the second place, because each important *guanxi* actor represents a node on the network, a refined concept of the ‘*node effect*’ is used to indicate the effectiveness of *guanxi* in a tactical situation. There are two levels of meaning in relation to the ‘*node effect*’ on *guanxi* practice. At the first level, the purpose of using *guanxi* is to actually make direct personal impact on the solution provider, which is regarded as an informal instrument. However, pre-owned *guanxi* connections may not always be able to sufficiently influence the solution provider directly. At the second level, in most cases, managers use direct-*guanxi* as an intermediary to influence or build a relationship with a
targeted final solution provider. In other words, guanxi strategy is used to maximise a firm’s guanxi performance for accomplishing certain business goals through exploiting the guanxi ‘node effect’. Therefore, the capacity of a network will determine the quality and quantity of the solution providers for the firm when facing a focal problem. In fact, if the manager possesses more influential central-levelled guanxi actors from different social backgrounds, he has more opportunities to establish new guanxi when needed, that means he is more capable to use supplemental guanxi to recover the absent ‘node point’ in order to secure the advanced position in guanxi competition.

A manager from a privately-owned company shared his experience on managing his business guanxi network as below:

‘...normally we will target one key decision maker and several potential influencers as our guanxi development objectives. The main reason for doing this is to make continuity of guanxi connection with this critical position...it sounds instrumental, but I have to say that guanxi competition is equally intensive as the market competition... for example if you only cultivated a good guanxi relationship with current key decision makers, you can only keep your guanxi advantage with this person in the short-run, once the targeted decision maker leaves his position, the new candidate may not take care of you anymore as he has his own friends...so be his friend before he becomes the one in charge’

In the third place, ‘guanxi importance’ is regarded as an indicator which allows the firm to evaluate how much guanxi influence will affect the business in a contextual situation.

The benefits that guanxi could bring to the business are summarised by scholars (e.g. Yi and Ellis, 2000, Yeung and Tung, 1996, Li et al., 2008, Davies et al., 1995). However, our findings further explain the importance of guanxi and how it may vary with the task environment. The power of guanxi is always evaluated by managers according to the task environment they face. Here we quote two informants’ personal experiences to illustrate the fact that guanxi is not an isolated strategic element in practice.
One informant indicated that:

‘...guanxi is not a kind of substantive productivity to generate business interests, but it can be transformed in some ways, and then it becomes powerful productivity for your business...guanxi is not isolated business impetus...for example, your company has to be qualified to join the bidding...sometimes if your company is much better than your competitors, you don’t even need guanxi support... ’

Another informant also added that:

‘...the power (of guanxi) is restricted by regulations, so normally one targeted guanxi only affects one task...in most cases, decision makers have certain freedom to decide what should be done, officially name it as ‘discretion’...this makes guanxi an influential impetus to obtain certain advantage...if there is a lack of supervision on powerful position, guanxi abuse is as unacceptable as bribery...but in most situations guanxi utilisation is at an acceptable level, guanxi actors just like nodes surrounding your task, you have to untie all the nodes before you can finally accomplish the goal smoothly... ’

These two viewpoints reflect the most noted considerations of how guanxi works in a task environment from managers’ experiences. Notably, ‘guanxi importance’ must be evaluated contextually. Three influential factors have been abstracted from the task environment by the author according to the empirical data, which are demonstrated in the model for the evaluation of guanxi importance as shown in Figure 10. Firstly, an abstracted concept namely ‘guanxi freedom’ is constructed to explain the level of guanxi effect on a particular node position. The meaning of this conceptual term can be understood on two levels. On one hand, in the firm’s position, the firm needs to figure out how much priority treatment can be gained from personal interaction. Thus, the calculation of guanxi quality will create a benchmark for the firm to compare perceived guanxi advantage with other guanxi competitors. In this case, if superior guanxi advantage was established antecedently, priority treatments can be received in this task situation. On the other hand, in the guanxi actor’s position, the actor has to follow certain rule-based regulations when assisting his guanxi related firm to gain advantage.
For example, if the regulation system strictly limits the actor’s freedom at his ‘discretion’, we assume ‘guanxi freedom’ at this point is low. In other words, guanxi is not an important influential factor for winning the competition in this case.

Therefore, the second influential factor namely ‘regulatory restriction’ is regarded as the most important factor which restricts guanxi behaviour through implementing rule-based institutional regulations (Peng and Zhou, 2005, Xin and Pearce, 1996, Davies et al., 1995). From such a viewpoint, guanxi importance can be investigated as a compromise for developing a rule-based market system and utilitarian guanxi practice. In order to create further understanding of the real situation in a guanxi operational environment today, we propose two extreme market situations according to Peng (2003).

Under a well developed institutional market environment, business is operated on a rule-based system where the influence of personal guanxi is diminished by legitimate transactional processes. In contrast, if the rule-based market institutional system is underdeveloped, legitimate transactional processes can not be secured by institutional systems so that guanxi at a personal level is more flexible in overcoming the uncertainties of the environment. However, the market situation in China is actually mid-way in evolving towards a rule-based market system. As a result, guanxi can only assist with gaining advantage under certain conditions, where the ‘bottom line’ is not to break the pre-defined game rules or overuse power to challenge the legitimate institutional regulations. On the other hand, market-based competitive advantage is accounted for in this model, because reaching certain market requirements is the entry barrier for using guanxi in most situations. Sometimes, the unique competence advantage may offset the guanxi influences and reduce guanxi importance for the firm. For example, a firm with patent technology may offset its guanxi shortages in competition. In addition, a well developed market-based competitive advantage is also helpful to gain guanxi advantage.
Thus, ‘guanxi importance’ can be evaluated from three aspects: ‘guanxi freedom’, ‘regulatory restriction’ and ‘competence advantage’, which reflect the business reality in a task situation. On the one hand, from practical perspective the effective evaluation of ‘guanxi importance’ determine how necessary the firm needs to implement proper guanxi-based strategy to address the facing problems in order to build certain advantage beforehand. In other word, it can be understood as the initial stage of strategic preparation. In this case, the model (see Figure 10) represents three critical criteria for the manager to identify the status of guanxi situation. Moreover, these three influential contexts interact with each other, and guanxi importance is a compound of their outcomes. In a tactical situation based on this evaluation, a task manager could make judgements on whether guanxi is vital at a particular point and how important a specific guanxi is in influencing the business outcome. On the other hand, from a theoretical perspective, this model is a conceptual integration of emergent concepts related to the issue of evaluating guanxi importance. To be noted that ‘guanxi importance’ as a core concept is allocated at a central position which connects the other relevant sub-categories of initial concepts and contextual factors for carrying on the development of guanxi-based strategy. As shown in Figure 11, this conceptual map illustrate how ‘guanxi importance’ and other relevant core concepts are related to the theoretical constructs of guanxi-based strategy. The theoretical foundation is to be considered like that guanxi-based strategy only becomes important when guanxi takes place as a major influential context to the business. Otherwise, the operational mechanism would mainly apply to the market-based competition paradigm. In this situation, over relying on guanxi-based competition paradigm would generate negative impacts on the business and restrict the further development.
In addition, the researcher summarised and re-organised the abstracted ideas which came from participants’ empirical experiences. A quotation extracted from the interview is shown below, as an example, to demonstrate the original *guanxi* evaluation process.

‘...different types of business have different levels of dependence on *guanxi*, meanwhile *guanxi* importance is dependent on your task...whatever, you have to know the rules of the game (regulatory restriction) at first...no one can bypass the fixed regulation...what *guanxi* actually helps is to maximise your priority under the construct of restricted regulations...*guanxi* could bring you more opportunities, but your company must have a convincing performance (competence) for running the business...at this stage, we can talk about *guanxi* (guanxi freedom)....’

(Quotation from an informant)

*Guanxi-Oriented Business Strategy:*

According to Liu and Roos (2006), there are two paradigms of strategic planning in China: *guanxi*-driven and competition-driven. Therefore, a firm’s corporate strategy normally includes *guanxi* orientated and competition orientated goals for allocating resources to adapt the business environment. One informant also indicates that ‘*the way of doing business in China is actually the way of doing *guanxi*’*. These two types of strategic orientation should serve one core business objective which is making profits...
and achieving business growth. In fact, the competition orientated strategy plays a major role from a marketing perspective. Alternatively, functionality of guanxi-orientated business strategy should be clearly defined as exploiting guanxi as an intangible resource in order to develop a firm’s market-based competitive advantage according to a resource based view (Caves, 1980, Wernerfelt, 1984) (Figure 12).

In this study, the author refined the definition of guanxi-orientation business strategy in order to make improvement on clarification of the theoretical understanding as below:

‘Guanxi-orientated business strategy aims to effectively exploit guanxi, during the process of business development, in order to maximise the utilitarian value of ‘guanxi advantage’ and deal with the uncertainties.

By doing so, guanxi-orientated business strategy assists the firm on achieving business goals and developing its market-based competence.’

![Figure 12 A Model of Business Strategy in China](image)

The model above (Figure 12) represents the constitution of corporate business strategy in China. On one hand, because business is inevitably involved in the guanxi dynamic, firms have to deal with guanxi for securing achievements. From an operational perspective, guanxi-oriented business strategy actually focuses on providing problem-solving solutions. Bourgeois (1980) distinguished domains of the ‘general’ and ‘task’ environment for ‘corporate’ and ‘business’ strategy in his conceptual model based on his comprehensive literature reviews. He defined ‘corporate strategy’ as a selection of product markets or industries, and allocation of resources among a general environment. In contrast, ‘business strategy’ is developed as a competitive weapon used to give an organisation ‘distinctive competence’ according to the task environment characteristics.
Thus, it is meaningful to understand the *guanxi*-based strategy through investigating its task environment.

On the other hand, *guanxi* strategy is all about interpersonal relationships. Chang (1976) and Yang (1959) have labelled the Chinese system of management as that of the management of people. Hui and Lin (1996) also argued that the *guanxi*-based management system is the management of interpersonal relationships. That means all kinds of stakeholders who can affect business achievement must be targeted at a strategic level. Especially in a transitional economy where institutional legitimacy is weak, the *guanxi* dynamic acts as a supplement (Xin and Pearce, 1996). Therefore, a particular actor in charge of a critical position could directly influence the outcome of a business achievement. The A, B, C, D characters presented in Figure 12 stands for the actual 'node actor' in *guanxi* networks who determine the outcomes of the *guanxi* effect. The number of ‘node actors’ varies according to the different task situations. Managers try to sustain a superior *guanxi* performance with these node actors (such as A, B, C, D) by cultivating good *guanxi*. In this case, once *guanxi* is involved in the competition, *guanxi* advantage must be calculated by the manager, and then precise tactics can be implemented in order to assist a firm in winning the competition. In fact, *guanxi* utilisation is not purely used in competitive circumstances, it serves other maintenance purposes which ensure that the business is running smoothly, such as trust-building, information exchanging, substitutes to the undeveloped legal system, obtaining financial support, improving transaction efficiency and so on (Ambler, 1994, Davies et al., 1995, Leung et al., 1996, Wilpert and Scharpf, 1990, Xin and Pearce, 1996). The discussion on *guanxi* and core competence will take place in the next section.

*Guanxi and Core Competence:*

According to Yang (1994), *guanxi* involves cultivating personal relationships through the exchange of favours and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence and creating a sense of obligation and indebtedness. On one hand, the motivation of *guanxi* utilisation is engaged by the fundamental institutional ideology of the Chinese political economy (Peng and Zhou, 2005). The significance of bureaucratic hierarchy in decision making systems spans the
continuum from formal SOEs (state-owned enterprises) to the other types of POEs (privately owned enterprises) (Nee, 1992, Tan and Li, 1996).

In other words, as one informant indicates:

‘...the leader’s personal behaviour actually represents the organisational behaviour no matter whether he is in a government department or business organisation...it is really ambiguous between entrepreneur and enterprise...good guanxi with those in charge means you can easily have a good business relationship with that person’s organisation...’.

On the other hand, some empirical evidence shows that guanxi alone is not enough to guarantee long-term success and the significance of guanxi may decrease once the operation is established under a more developed rule-based market economy (Tsang, 1998, Yeung and Tung, 1996). Other conditions must be met to secure the business achievement, and of these conditions, market-based competence is most important. Thus, guanxi is not an isolated strategic element for any business, to generate superior performance it must be linked with a firm’s core competence. The researcher here argues that although guanxi can be viewed as an intangible resource for the firm, it does not form a firm’s competitive advantage directly. The advantage that is generated by guanxi can be viewed as a guanxi advantage which is different from a market-based competitive advantage.

Peteraf (1993) states four cornerstones of competitive advantage from a resource-based view. In summary, he illustrated the causal relationships on how these four conditions can bring sustained above-average returns to the firm. Firstly, resource should be heterogeneous in order to create rents. Secondly, ex post limits to competition prevent the rents from being forfeited. Thirdly, imperfect factor mobility ensures that valuable factors remain with the firm and that the rents are shared. Fourthly, ex ante limits to competition keep costs from offsetting the rents. Therefore, a strategic resource needs to be rare, valuable, imperfectly imitable and can be exploited by a firm’s organisational processes (Barney, 1991). Thus, it is worthwhile to examine the value of guanxi as a strategic resource from a resource-based view. Tsang (1998) also offers a similar analysis which indicates that guanxi can be valuable, rare, and difficult to be imitated as
accumulated through historical processes, however it is still difficult to sustain. The reason is that *guanxi* advantage can be easily disrupted by something as simple as staff mobility.

Whether *guanxi* can be treated as a competitive advantage is ambiguous from the literature. For example, Fan (2002b) questioned the viewpoint that *guanxi* creates competitive advantages (Xin and Pearce, 1996, Luo, 1997b, Tsang, 1998) from two aspects. The first one, *guanxi* as an asset owned by an individual cannot be transferred to an organisational level. The second one, to be a source of competitive advantage the resource has to be rare and relatively immobile. However, *guanxi* can be easily broken by a better connected competitor. Thus, the author suggests a way of investigating *guanxi* and market-based competitive advantage separately. By doing so, the researcher is able to have new insight to study how *guanxi* advantage, as a *quasi*-advantage, participates in business competition.

![Figure 13 A Model of Guanxi Advantage in Competition](image)

Figure 13 demonstrates a conceptual model of cost-benefit analysis which is adopted by the manager to calculate perceived *guanxi*-advantage before formulating *guanxi*-based strategy. From our empirical findings, managers normally evaluate *guanxi* advantage based on three factors: ‘business value provided’, ‘*guanxi* quality’, and ‘the risks and costs’. In the following paragraphs, the author will further explain how correspondence with the three factors constitutes an evaluation of *guanxi* advantage.
A firm’s core competence helps to generate above-average performance for business development. Prahalad and Hamel (1990) identified core competence which should be applied in at least three tests. Firstly, core competence provides potential access to a wide variety of markets. Secondly, core competence should make a significant contribution to the perceived customer benefits of the end product. Finally, core competence should be difficult for competitors to imitate.

Initially, the author suggests that *guanxi* can be viewed as a source of generating *quasi*-competence. For example, *guanxi* is the most efficient way to provide bureaucratic efficiency (Xin and Pearce, 1996). Also, *guanxi* secures collaboration efficiency through personal involvement. For example, well established *guanxi* can minimise switching costs by making an informal commitment in advance. A successful collaboration experience will enhance business *guanxi* quality. Chinese businessmen regard *guanxi* as a very important managerial resource which can bring more opportunities from a long-term perspective. An informant added that ‘*guanxi network can be expanded unlimitedly throughout your professional life, just like the lifeblood for businesses’*. Thus, *guanxi* offers the firm a kind of advantage which improves the performance such as having privileges to access certain restricted resources, saving time and improving procurement efficiency (Standifird and Marshall, 2000).

Based on Prahalad and Hamel’s (1990) fundamental identification of a firm’s core competence, the author argues that *guanxi* can not be identified purely as a core competence, but *guanxi* is vital for building core competence. To apply the first test, *guanxi* may be crucial to release a firm’s potential capability of accessing a wide variety of markets, even for the purpose of market expansion. However, beyond the supportive effects, *guanxi* is unlikely to generate any substantive market-based core competitive advantage. To apply the second test, though *guanxi* can provide some added value to the end customers by personal obligation, the utilitarian calculation of personal gain involved in *guanxi* interactions may harm organisational interests in some instances (Fan, 2002a). In fact, *guanxi* does not produce any substantive end products from a market-based perspective, thus it is unlikely to be recognised for making any contribution to the perceived benefits of the end product. To apply the third test, we have explained that *guanxi* resource is rare and inimitable in some instances, but it is difficult to sustain the advantage (Tsang, 1998).
On one hand, because *guanxi* is fulfilled with personal emotional affiliation, the value of emotional affiliation is added into the business transaction. It is not only about what you are, but more importantly, who you are. As the cultivation of *ganqing* foundation (emotional affiliation) is time-consuming in a good *guanxi* connection, other competitors find it difficult to imitate a particular *guanxi* advantage in a short time period. Even if *guanxi* advantage is diminished by a better connection in one case as Fan (2002b) questioned, the incident does not affect *guanxi* quality in the long run. One informant explained his *guanxi* relationship with one important customer as ‘*good guanxi doesn’t mean my friend will fulfil my requirements all the time, I can understand that he has requirements from other friends and sometimes the pressure just comes from his superior directly…but he will let me know the situation, then I just quit the bidding. In this way he helps me with saving my costs’*. In addition, the added value that *guanxi* interaction provides to the business can be understood as the credit added to the process of developing *guanxi* further. On the other hand, the *guanxi* counterpart is also pleased to have a reliable partner with good business performance and well cultivated *ganqing* foundation. In most cases, *guanxi* quality is as a determinant for building *guanxi* advantage. However, the precondition is that the market-performance and the value of the end-product must reach a basic requirement for entering the competition. Otherwise, *guanxi* can be ruined after having a bad business experience.

Finally, the costs such as time and financial investment need to be calculated in total. On the business side, the calculation is straight forward for the economic balance calculation. On the *guanxi* side, the costs may involve different parties, such as problem solvers and intermediators, who are participating in the *guanxi* practice. Time and financial investment are only a part of the costs of *guanxi* management. Especially, as *guanxi* is the intricacy of interpersonal chemistry, which makes *guanxi* a socially complex resource (Tsang, 1998). Thus, the managers normally continue to put effort into sustaining *guanxi* quality and continuity as their routine strategic plan. They should also be aware of the potential risks of using *guanxi*. The mechanism of reciprocal favour exchange in *guanxi* utilisation, enables the party to enjoy the benefits as an insider, meanwhile a debt is restored. That means you have to repay the favour when it is needed. It is important to notice that the favour exchange can be asymmetric. Therefore, a manager always needs to consider whether the costs are outweighed by the interests obtained from particular *guanxi* advantage.
5.3 *Quasi*-Competitive Advantage

*Guanxi* as a ‘*quasi*-competitive advantage’ emerged as the core concept of this grounded theory study. The theoretical outcomes of this study are actually established upon this core concept. Since this core concept emerged, three saturated sub-categories were integrated (Chapter 3). Later emergent empirical data from substantive areas saturated these categories so that the richness and reliability of our theoretical integration was extended and verified. As the empirical fieldwork was completed, a comparative literature analysis focussed on the meaning of *guanxi* related competence and resourced-based competence was conducted at the end of Chapter 4 from a theoretical perspective. As a result, a conceptualised re-interpretation of the meaning of *guanxi* related competence was given. In this section, the author emphasises a more practical perspective in order to offer a further elaboration of the emergent theory of ‘*quasi*-competitive advantage’, thus it is possible to deepen the understanding of how the role of *guanxi* as a ‘*quasi*-competitive advantage’ works in a strategic implementation context. In this case, to link the abstracted concept back with the real social processes, which take place in the substantive area, will extend the theoretical understanding of *guanxi*-based strategy.

Given the fact that *guanxi* is recognised as a key strategic factor of firm performance (Luo and Chen, 1997, Hitt et al., 2002), the benefits of *guanxi* can also correspond with the description from networking management literature, which can be summarised as: business networks provide the critical access to a variety of resources which include both tangible and intangible forms (Thorelli, 1986, Andersson, 1992). Moreover, some early empirical studies revealed that it is imperative for firms which are lacking in market experiences or distinctive competences to build *guanxi* networks to compensate for their deficiencies (Chen, 1994, Xin and Pearce, 1996, Tai, 1988, Punnett and Yu, 1990). Luo and Chen (1997; p. 4) claimed that ‘*in essence, this network (guanxi) constitutes a firm’s core competence and distinctive competitive advantage that can lead to high performance*’. Alternatively, Tsang (1998) and Guthrie (1998) questioned the effectiveness of *guanxi* as a core competence from two main perspectives; that *guanxi* related competitive advantage is difficult to sustain and *guanxi* itself is
insufficient for the long-term development of a business. Many other scholars provided different views related to these two typical arguments (e.g. Zhang and Zhang, 2006, Pearce and Robinson, 2000, Park and Luo, 2001, Millington et al., 2006, Millington et al., 2005, Lovett et al., 1999, Dunfee and Warren, 2001, Abramson and Ai, 1997). The recognition of guanxi as substantive competence for the firm is ambiguous in the literature. As a result, we argue that the conceptual boundary of how guanxi generates an impetus that enhances business performance should be clarified.

First of all, it is essential to review the emergent conceptual definition of ‘quasi-competitive advantage’ at a theoretical level. The author has analytically defined two levels of meaning of ‘quasi-competitive advantage’ in Chapter 4. On one hand, the business orientation of generating ‘quasi-competitive advantage’ is aimed at assisting the firm in developing market-based ‘competitive advantage’. On the other hand, guanxi-based strategic implementation can not be analysed separately from a market-based paradigm because business market-based economic efficiency always comes first, and guanxi comes second. Therefore, in the following paragraphs, the author is going to elaborate further on the emergent new concept of guanxi as a ‘quasi-competitive advantage’ combined with some practical viewpoints from the participants’ experiences. By doing so, the author endeavours to identify connections with some empirical understandings of this theory so that the strategic role of guanxi can be represented in a practical manner.

Initially, guanxi as a ‘quasi-competitive advantage’ enables the firm to generate indirect impetus into its substantive business performance as discussed in section 5.2. Rather than considering whether guanxi provides substantive impetus to the business development, it is more realistic to consider that guanxi actually clears the way for the business to emphasise the development of market-based competence. In reality, business in China is inevitably involved in an environment which is mixed with the guanxi dynamic and transitional economic movements, thus guanxi plays the central role in business activities, which are compounded with adaptations of the social dynamic and network-based strategic implementations (Peng and Zhou, 2005, Peng, 2003), for the firm to fulfil its business necessities. One of our informants offered a proper conclusion on this reality as below:
‘...in fact, every business is related to guanxi somehow, the difference is how much your business relies on guanxi...in some industries guanxi is vitally important, but in some others guanxi may not be that important...so you have to keep a clear mind that guanxi is more like a software for your company to sustain a stable operational environment, then it will be much easier for your company to build the hardcore competence steadily in order to secure your long-term success...’

Secondly, guanxi-based business advantage is unstable and can only be evaluated depending on the contextual situation. Moreover, guanxi quality is easily influenced by the quality of interpersonal relationships. Also, most business guanxi are instrumentally cultivated and maintained so that the quality of business guanxi varies with the frequency of instrumental interactions. A utilitarian guanxi can easily become useless without interpersonal exchanges (Fan, 2002b). Fan (2002b) further argued that guanxi as a competitive advantage is mobile and volatile because as a personal asset guanxi advantage is more tactical and temporary rather than strategic. In this case, ‘guanxi advantage’, in a real situation, can not be regarded as an absolute competence. Whether a specific guanxi can be transformed into a ‘quasi-competitive advantage’ must be evaluated in relation to other competitors’ guanxi capability and the task conditions. One informant described a case of vulnerable guanxi advantage in a business bidding situation.

‘...once I was invited to join a business bidding, after the first round of selection, my company was selected as one of the final candidates...at this stage, the issuing party normally chose the partner who has a good guanxi with them...because they know each other well and the further partnership seems more reliable...the team leader from the issuing party is actually my old friend...we had some good business experiences before...but one day he called me privately before the formal bidding result was announced, and told me that one of my competitors found a more powerful guanxi which he can’t refuse...the result is that my competitor won this bidding finally...this is a typical case as you mentioned the kind of guanxi advantage...at least I’m at a more competitive position than the others in this case, but this kind of
advantage is vulnerable in my opinion...really depends on who your competitors are…”

Finally, as guanxi resources expand with the business development, guanxi networks are regarded as ‘intangible’ and ‘complicated’ to manage. The fact is that guanxi is intangible in formal business procedures. Managers informally exercise guanxi utilisation behaviours in a personal manner thus certain critical guanxi networks become complicated and are possessed by individuals (e.g. top managers). The firm has to rely on some important individuals as managers to handle guanxi resources. In this case, if the manager is incapable of managing the expanded and upgraded guanxi resources properly, those who obtained guanxi-based competitive advantage could be turned into the liabilities of the firm. For example, the cost of guanxi maintenance increases and just offsets the interests. In addition, our empirical evidence also revealed that guanxi management may become more efficient and effective if the company owns adequate market bargaining power. At this point, guanxi advantage is regarded as ‘quasi-advantage’ because the management capability of guanxi can not be duplicated as the core capability of the organisation. This is not a kind of human resource capability which can be duplicated by training. Examples from our informants who explain this difficulty in practical circumstances are as below:

‘...my experience about managing guanxi is like this...I categorise my contacts from most important to less important levels...by doing so, I can always keep an eye on the most influential actors related to my business...I need to engage in their lives in order to keep familiar with them...for example invite their families to join some leisure activities...I spend 10 years to set up my current guanxi networks for my company...but the problem is arising now, most of my guanxi partners assist my company (privately owned) only because I’m the manager... and as we are getting older, some of my friends will be retired...business is becoming difficult now…’

‘...our business has expanded dramatically since 2000, now we are regarded as a typical corporate star nationwide...in fact, outsiders are more interested to have guanxi with us...the situation can be expressed as winner-takes-all...we hired some influential actors as our top level managers to manage those top
level guanxi networks...actually, at this stage, market performance will determine everything...'

Furthermore, the personally orientated guanxi connections with strong ganqing (emotional) bonds could establish certain entry barriers for the existing relationships to prevent competitors’ imitating behaviour, while this also creates entry barriers for imitating other guanxi connections. In other words, managing guanxi resources and implementing guanxi tactics should be strategically planned beforehand. All of our informants agreed with this viewpoint, that it is optimal to create strategic exploitation of guanxi resources. Thus, it is worthwhile to study and develop guanxi-based strategy from both academic and practitioner’s perspectives.
Table 11 Guanxi & Business Competence Co-Development

<table>
<thead>
<tr>
<th></th>
<th>Young &amp; Small Stage</th>
<th>Growth &amp; Expansion Stage</th>
<th>Mature &amp; Large Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guanxi Strategic Orientation</strong></td>
<td>Accelerate profit growth; Enlarge guanxi networks</td>
<td>Enhance competency; Overcome guanxi constraints</td>
<td>Sustain business growth; Emphasis on political guanxi</td>
</tr>
<tr>
<td><strong>Guanxi Dependency</strong></td>
<td>Rely on guanxi to overcome competitive shortages</td>
<td>Reform guanxi networks Resolve guanxi constraints</td>
<td>Dominate guanxi to enhance advantages</td>
</tr>
<tr>
<td><strong>Guanxi Resource Structure</strong></td>
<td>Specific actors; Strong-tie-based</td>
<td>Diversified networks Mixed-tie-based</td>
<td>Complex networks Weak-tie-based</td>
</tr>
<tr>
<td><strong>Guanxi Bonded Motivation</strong></td>
<td>Mainly emotional incentives; Few rational incentives; Limited mutual benefits</td>
<td>Mixture of emotional &amp; rational incentives; Moderate mutual benefits</td>
<td>More rational incentives; Less emotional incentives; Significant mutual benefits</td>
</tr>
<tr>
<td><strong>Guanxi Bargaining Power</strong></td>
<td>Weak &amp; Passive</td>
<td>Medium &amp; Negotiable</td>
<td>Strong &amp; Active</td>
</tr>
</tbody>
</table>
5.4 Co-Development of Guanxi-Based & Market-Based Competence

Given the fact that guanxi related ‘quasi-competitive advantage’ is insufficient for business to keep a sustainable competitive advantage, market-based competence must be strategically developed to cope with the actual situation of business reality in the market. The reality can be understood in two extreme scenarios. On one hand, purely relying on guanxi to do business may cause the firm to gradually lose its market-based competitive capability and strengths. The reason is that guanxi-based business privilege may benefit the firm in the short-run, but cause more damage to its substantive business capability in the long-run. On the other hand, to purely get rid of guanxi-based competence, the business may not even be able to survive in such a guanxi permeating environment. The main reason is that without guanxi, as the lubricant, the business can not operate smoothly in such an economic emerging environment. Also, as the market is not fully established in rule-based operating systems, the firm has a lack of ability to deal with uncertainties without certain guanxi competence. Therefore, guanxi-based and market-based competence must be co-established and developed in seeking long-term business success (see Table 11).

Young & Small Stage:

During the immature period, due to the economic shortage and lack of competences, a firm intends to rely on guanxi in order to overcome the shortages from the market competition and uncertainties from the environment. To accelerate capital accumulation is the most pressing need for a newly established company. A firm needs to access strategic resources and increase sales to make profit in order to rapidly expand. Guanxi helps to achieve this objective by compensating some shortages of market-based competence. However, due to the lack of competitive advantage and the market capability, a firm at the early stage is constrained in guanxi bargaining power and controlling capability (see Figure 15). Therefore, in terms of guanxi types, the firm mainly relies on family members and good friends who are bonded with a strong ganqing foundation. Thus, the nature of limited guanxi types and capacity restrict the firm’s market diversification capability. In some cases, with a strong government supported guanxi background the firm has the advantage to enter some institutionally
restricted industries. One informant was invited by his mayoral friend to join an investment scheme which was held by the local government in another city. This is an example which demonstrates how well *guanxi* provides good opportunities for some firms with limited competence advantage. Therefore, the manager should evaluate the growth of an industry and the business environment from a market perspective in the first place, then anticipate the specific necessity of *guanxi* for a firm’s development and to plan the *guanxi*-orientated tactics.

**Growth & Expansion Stage:**

At the expansion stage, a firm has built up its core competence and conserved certain *guanxi* resources from early accumulations. The *guanxi* bargaining power tends to be dominated by the firm, while the need for expansion requires more engaging and diversified *guanxi* resources. There are two levels of meaning which demonstrate the situation of *guanxi* and business co-development.

Firstly, the fundamental *guanxi* is enhanced in order to assist business operations. As the business operational activities are highly interactive with this kind of working *guanxi*, the quality and strength are enhanced through a certain period of interactions. In this case, the firm improved its capability to dominate its critical *guanxi* resources, the strategic orientation transferred to market-orientated competitive advantage developments in order to enhance its market influential power in the competition.

Secondly, as the business scale grows bigger, more *guanxi* is involved with the accomplishment of business goals, such as accessing resources, entering new markets and developing sales channels. Meanwhile the firm can clearly define its *guanxi* orientations to cope with the business development goals in strategic planning. Therefore, the firm can implement its *guanxi* strategy with more clearly pre-defined purposes. Following the improvement of the *guanxi* dominating capability, a firm intends to develop more potential *guanxi* as security for the future. In the meantime, a firm needs to adjust current *guanxi* investments, such as reducing investment in certain *guanxi* which has become less important. It does not imply the immediate termination of *guanxi*, but the reduction of costs in an acceptable way. For example, reduced interaction frequency will gradually release *guanxi* strength.
At this stage, if the firm can not successfully release its productivity from a guanxi orientated business model, the less developed core competence can magnify the constraints of guanxi. The reason is that a firm may lose its dominant capability in the guanxi bargaining game (See Figure 14).

**Mature & Large Stage:**

Once the business enters the mature stage, a firm’s business core competence and advantages have been successfully established. Influential bargaining power can be created by its leading competitive advantages. Moreover, the guanxi resources become more complex and diversified as the firm’s economic scale is enlarged. With mature controlling power, the firm dominates guanxi bargaining power in most cases. The managers become more positive in guanxi negotiations. There are two characteristics of changes in guanxi orientation at this stage.

The first characteristic is the selective orientation in guanxi development. Because advanced market competence generates more value to guanxi counterparts, more outsiders prefer to cultivate guanxi with the firm for business exchange. Therefore, guanxi with more potential value is engaged. With dominant guanxi bargaining power, the firm becomes more positive in utilising guanxi and its problem solving capability is largely enhanced.

The second characteristic is represented as ‘top level leadership orientation’ in guanxi management. In order to handle the enlarged complex guanxi networks, a firm targets more top ranked officials and managers. The reason is that the top leaders are located in the centre of each organisational network. Thus, they are the most influential actor in a hierarchical structure. However, the choice comes from both sides; the mutual benefits should satisfy each party so that guanxi can be established. Therefore, business development is a pre-condition in upgrading a firm’s guanxi network to a more advanced level.

In addition, as the firm is more influential in a local market and economy, the intervening power from local government authorities becomes critical. Government guanxi is the most important guanxi to market leaders in this context. On one hand, the
business operation is on track and political influences have more impact on a firm’s strategic orientation. Guanxi strategy should assist businesses to follow the government’s guidelines. On the other hand, enormous resources and financial support are needed to maintain business success. As the firm becomes a regional ‘corporate star’, the public relations become increasingly important at this stage. For this reason, whether the firm can get guanxi support from the government is critical for sustaining its market leader position, thus government guanxi (B2G) becomes the core of guanxi strategy at this stage.

According to our empirical findings, the summary table demonstrates the key issues of guanxi and core competence co-development (see Table 11.).

5.5 Practical Implications

Combined with the emergent theoretical findings and the summary of participants’ practical experiences from the field, some practical implications are concluded here. These implications may shed a light on the issues of effective strategic guanxi management in real business circumstances for managers. Also, It is important for theoretical researchers to extend their substantive understanding of guanxi phenomenon by viewing from a practical perspective.

*Principle of dynamic changeability:*

Based on our findings, guanxi management is a dynamic process of maintaining and improving connections with partners. Continuous effort is required to ensure certain strength and closeness between those connections. Fock and Woo (1998) implied that guanxi is dynamic and not a ‘once forever’ relationship. We observed the most influential factors which determine guanxi quality in business: **Interaction Frequency, Reciprocity Benefits** and **Ganqing Foundation.** Because guanxi is instrumentally targeted to cope with the business development necessities, the importance of a particular guanxi varies with the critical level of current interests. Of course, it is impossible to frequently keep in touch with all guanxi, as a firm always need to treat the most influential guanxi carefully and invest more in the most vital guanxi. As a result,
some business guanxi with low interactive frequency becomes distant; however a firm needs to observe these dynamic changes in order to get things under control.

![Business Guanxi Quality Diagram](image)

The changes in guanxi quality can be perceived from two aspects. Firstly, the changes come from the firm itself. Along with the changes of business objectives, some close guanxi relationships may share lower reciprocity benefits which become less important in comparison with new strategic targets. As the firm’s emphasis may be on having more interactions with current guanxi targets in order to enhance the quality, the old guanxi can become estranged due to less contact. However, a firm can control this change through the overall planning of guanxi interaction frequency and the sharing of mutual benefits to maintain quality.

Secondly, changes come from guanxi counterparts. The reason is basically constituted from two aspects. The first one can be understood as the guanxi focus shifts its lead to a reduction of interaction frequencies. The other reason can be understood as there are less reciprocity benefits which can be exchanged. In addition, it may simply be caused by job mobility. For example, the official leaves the position or moves to another department. The firm has to anticipate this kind of change in advance and use guanxi to connect the newcomer as the replacement to secure the guanxi continuity. Furthermore, if certain influential guanxi is strongly bonded with ganqing, a firm can use this as an advantage to enter a new market or new industry. For example, one informant mentioned that he moved his company into a new city and developed his business in a new industry as his old friend had become the mayor.
Principle of Relative Dependency:

_Guanxi_ is not omnipotent magic but can make a company grow larger and stronger. The only way is through market competition. Therefore, fully relying on _guanxi_ effects can constrain the development of core competence. In other words, when the firm is enjoying the vested benefits provided by _guanxi_, it is likely to lose long-term sight of developing core competence. Once the company loses bargaining power from its competence advantages, the protection of _guanxi_ is easily diminished.

One informant shared his experience of losing competence advantages as the company relies on _guanxi_ to make profits:

‘...Nearly all my business life is working on managing all kinds of guanxi, I feel quite tired now. But I have no other way. It becomes more difficult for my company to have business and make profit, because we have more competitive rivals and the regulations are getting strict in our industry. Actually, my company is one of the earliest companies in the market 15 years ago...But my company is still a middle size with limited competitive advantages, we had lost the golden period of developing our core competence. You know, my company was quite profitable and grew quickly at the beginning, because of my friendship with some officials in government. It’s very important to have that. Now I realise that business guanxi is not only personal friendship, the company has to enhance its business capability. It adds important bargaining power for the firm to control its business guanxi resources...’

In contrast, another informant showed the successful experience of developing core competence and dominating _guanxi_ resources:

‘...we entered this market 10 years ago, at that time there was a big brand in the market and now our brand is the most influential brand in China...of course, at the beginning we relied on guanxi to make production, even to get financial support from our friends as the bank thought we were worthless...but we grew up quickly because we emphasised developing good products and gradually extended our distribution channel...once your company is influential enough,
guanxi is not a problem. The reason is that you can provide much more mutual benefits to your guanxi counterparts...the bargaining power comes from your core competence...'

According to our empirical findings, we propose it is a game of power between guanxi dependency and core competence development. A firm could increase its guanxi bargaining power by enhancing its market influential power. We propose that ‘reliant guanxi’ and ‘dominant guanxi’ are two extreme statuses of guanxi bargaining power in a task situation. In general, the stronger market influential power the firm owns, the more effective guanxi-orientated strategy can be formulated in a practical situation (Figure 15).

![Figure 15 Model of Power Game of Guanxi & Core Competence](image)

Principle of Network Effectiveness:

Fan (2002b) described that guanxi works through network transferring effects which begin with two persons but may involve more parties at a later stage. In most cases, guanxi is triggered by favour exchanges and are completed by the actor who provides the solution. It involves a series of activities mostly pre-planned. In this case, it will be helpful if the firm can treat its guanxi partner as a router in his network.

There are three perceived implications. Firstly, business guanxi resources can be extended by mining others’ networks, as one manager mentioned ‘it is important to understand who your friend’s friends are’. The best way to connect with the potential guanxi and cultivate ganqing is from personal interactivities without a kind of utilitarian purpose. Secondly, it is important to overcome the influences caused by guanxi changes on a particular node point. Network effectiveness is the most efficient mechanism to
connect new guanxi and keep the continuity of sustaining certain guanxi advantage. As an informant concluded from his experience that ‘...business guanxi development in one area that must be connected in form of a network, because the network offers you the best cover, and enables you to overcome the uncertainty. Once the loophole appears as the manager you must reconnect with it immediately...’ Thirdly, the firm heavily relies on the networks to access information. Because sharing information through informal personal connections is more valuable and reliable than other channels, for example, you can have direct interactive communication with insiders, guanxi related messages, and quicker responses. Such benefits are valuable for businesses to analyse the substantive task environment and react quickly when making decisions.

Principle of Long-term Orientation:

Long-term orientation has two strategic implications. The first one means ‘time-consuming’. Ganqing foundation is the most important quality basis in guanxi and it costs time to establish. A firm has to cultivate ganqing with its important guanxi partner in order to enhance the quality and reliability of the relationship. Also, cultivating the well-established ganqing foundation is the best strategy to prevent competitor’s imitation behaviour. In this way, the flexibility of favour exchanges can be increased when dealing with specific guanxi-based business problems. The second one implies ‘potential benefits’ for the future. ‘Long-term futurity’ is one of the conceptual principles of guanxi (Luo, 2007). This principle also adapts to guanxi strategy planning. The calculation of a targeted guanxi’s strategic value should focus on potential benefits from a long-term perspective. Following the gradually increased benefit exchanges between the parties, guanxi quality will be enhanced and guanxi advantage can be exploited for the generation of more substantive value for the business.

Guanxi as an Irreversible Process:

As guanxi heavily involves personal emotional affiliation, this creates barriers for outsiders to enter certain relationships, however if the relationship is broken up it is impossible to recover. Therefore, guanxi-based strategic implementations should be considered carefully in order to avoid the situation of damaging certain relationships. Furthermore, the potential value of particular guanxi must be calculated and taken into
account, even if the investment can not be repaid. Sometimes, the firm is worthy of making such an investment, because getting rid of those established guanxi connections may cause a lose of more guanxi opportunities. To summarise what the informant said, ‘it is always much easier to end up in a guanxi relationship, but it may cause more trouble for your business as you need to invest more on establishing a new one’.

In addition, according to participants’ professional experiences, the author suggests some practical objectives to cope with the strategic guanxi implementations along with three stages of guanxi development:

1. **Guanxi Establishment**:

   By screening out more valuable guanxi in advance, enable the firm to illustrate a draft structure of its related guanxi resources. The key guanxi partners can be identified and the difficulties of connecting to those key stakeholders need to be evaluated in order to guide the further actions. Thus, the preparations for establishing certain guanxi should plan for both short-term and long-term needs. In this way, a series of guanxi establishment activities can be carried out in an orderly manner. It enables the firm to minimise the potential risks caused by a lack of proper intermediators when needing to connect with certain guanxi. Also, this helps the firm to reduce the investment on certain, less important guanxi.

2. **Guanxi Expansion**:

   As the network grows larger and more complex, more overall planning techniques are needed to organise the maintenance of resources and the guanxi selection becomes pertinent. At the expansion stage of guanxi development, the firm prefers to recruit more influential guanxi contact with more power at the upper levels of the administrative hierarchical structure. In this way, the core guanxi resources can be relatively optimised and minimised, however the whole network will ultimately be enlarged. Thus, improving the quality and structure of restored guanxi resources and develop specific managerial techniques, for example the establishment of guanxi actors’ database, will help the firm to improve the management efficiency on implementing guanxi-based business strategy.
3. **Guanxi Management**

Meanwhile, it is important to upgrade the latest status of the network which relates to the core business activities promptly, such as the interactive quality, the focal contact’s position, mobility and so on. A firm needs to enhance its capability on risk management in order to secure the effectiveness and react to the unexpected changes. Using guanxi is also a whole process which includes pre-events preparation, in-events reaction and post-events maintenance behaviours. Finally, according to these ideas three principles can be concluded in order to improve the efficiency of guanxi management: 1. *Ex ante* Pre-arrangement; 2. In-events Effectiveness and 3. *Ex post* Continuity.

### 5.6 Summary

The purpose of this chapter is to demonstrate the integrated theoretical outcomes of this grounded theory study. As a result, the outcomes of grounded theory in this study are a conceptualisation of the real social process of ‘guanxi-based strategic implementation’, and are primarily concerned with the generation of a perspective of perspectives, which is free of place, people or time (Glaser, 1998, Glaser, 1978). In other words, the researcher’s perspective of this social process is developed from the perspectives of others which include the participants and other researchers.

The theoretical constructs, in this study, can be concluded into three main categories, in terms of guanxi as a ‘quasi-competitive advantage’, ‘guanxi-based strategy’ and ‘co-development of guanxi-based and market-based competence’. Moreover, several practical implications were extracted from our empirical data. As all related research outcomes are grounded in the data, the credibility of the final theory can be applied to the substantive area. However, grounded theory can always be modified for further research development (Glaser and Strauss, 1967).

In general, the author argued that guanxi can not be treated as a kind of substantive competitive advantage. To conceptualise the traits of guanxi in a business task situation, the concept of ‘quasi-competitive advantage’ emerged from the abstraction of
substantive data. The term of ‘quasi-competitive advantage’ mainly contains three levels of meaning: 1. Guanxi as a kind of intangible resource generated indirect impetus on building a firm’s market-based substantive competitive advantage. 2. Guanxi-based advantage is vulnerable as guanxi is relatively influential depending on the task situation. 3. Guanxi resources are ‘intangible’ and ‘complicated’ to manage and the capability of managing guanxi is personally allocated which means it is difficult to be duplicate at an organisational level.

Based on this new insight of guanxi-based competence, the researcher then re-defined the theoretical strategic boundaries for guanxi-based business strategy. The author proposed that guanxi-based business strategy constitutes a part of corporate strategy in Chinese business contexts, which is formulated to exploit the potential strategic value of guanxi resource with the purpose of generating indirect impetus on assisting market-based strategy to achieve business efficiency.

In line with these new defined theoretical boundaries, some emergent core concepts and related conceptual models were introduced to illustrate the rationale of guanxi-based strategic paradigm (Figure 12). Basically, the effectiveness of guanxi in business is initiated by the ‘node effect’. In a tactic situation, ‘guanxi freedom’ is employed to indicate how much influence a particular ‘node effect’ can generate. Meanwhile, ‘guanxi freedom’ is restricted by ‘regulatory restriction’ which is mainly affected by institutional uncertainties, and ‘competitive advantage’ which is mainly referred to market-based competence. The outcome as a compound of external influential contexts (Figure 10) actually determine the level of ‘guanxi importance’ in an addressed task situation. Based on the evaluation of ‘guanxi importance’ the necessity of conducting relevant guanxi-based strategy can be formulated (Figure 11). The models of ‘guanxi advantage in competition’ (Figure 13) and ‘power game of guanxi’ (Figure 15) were introduced to exemplify how guanxi works under the theoretical constructs of guanxi-based strategy. Moreover, a table of guanxi and business competence co-development (Table 11) was summarised to extend the understanding of the new emergent concept guanxi as a ‘quasi-competitive advantage’.

To summarise, the author argued that guanxi-based and market-based competences are interdependent. Thus, these two kinds of competence both generate essential impetus
for business development under the current environment which is permeated with *guanxi* dynamic and transitional uncertainties.
CHAPTER 6 CONCLUSION

6.1 Introduction

To summarise, the purpose of this chapter is to draw conclusions in accordance with the overall work of this doctoral research project. At the onset of this study, the initial literature review inspired the researcher as there is a need to conduct such an exploratory qualitative study on ‘guanxi-based business strategic implementations’. According to Zhang and Zhang (2006), interpersonal networking has been receiving increasing attention from western organisational theorists and strategic researchers (e.g. Gulati, 1998, Gulati et al., 2000, Jarillo, 1988, Jarillo and Ricar, 1987, Thorelli, 1986). A guanxi phenomenon in business has been observed by many scholars from various perspectives. Zhang and Zhang (2006) pointed out that the majority of the studies related to guanxi are trying to explore the consequences or implications of guanxi for Chinese society (e.g. Tan and Snell, 2002, Ang and Leong, 2000, Parnell, 2005), its organisational dynamics (e.g. Ramasamy et al., 2006, Braendle et al., 2005, Child and Lu, 1996) and economic efficiency (e.g. Standifird and Marshall, 2000, Luo and Chen, 1996, Xin and Pearce, 1996, Tsang, 1996). As many researchers have concluded that guanxi continues to play an important role in creating long-term orientated business success in China (Millington et al., 2005, Leung et al., 2005, Davies et al., 1995, Yang, 1994, Lovett et al., 1999), many others focused on more detailed issues related to how to manage guanxi in practical circumstances (Chen and Chen, 2004, Leung et al., 1996, Vanhonacker, 2004, Wong and Chan, 1999). Luo (2007; p. 34) argued that it would be worthwhile to conduct more research on investigating how guanxi is used in different practical contexts.

Based on the review of the literature, the author identified the main limitation from the field of ‘guanxi-based business conduct’ as a lack of well-established theoretical boundaries and backgrounds which are related to strategic positioning of ‘guanxi-based competitive advantage’. Although guanxi as a strategic element has been widely recognised by scholars (Luo and Chen, 1996, Tsang, 1998, Davies et al., 1995), the value of guanxi as a kind of ‘competitive advantage’ is still ambiguously defined from a theoretical perspective. Thus, it is essential to lay a theoretical ground for this area,
which is established upon the understanding of the substantive world. Therefore, the present PhD work served as an empirical study which is applied to the grounded theory methodological approach (Glaser and Strauss, 1967), aiming for theory building, which answered the urgent need in this research area.

In the following paragraphs, the entire work of this study will be revisited. The outcomes of this study are summarised in section 6.2 Summary of the Research, which will be linked with the reflection of emergent research problems and questions in Chapter 3. Then, the contributions of the grounded theory are outlined from methodological and theoretical aspects in section 6.3 Contributions. Finally, the limitations of this study are also critically reviewed and some relevant research implications for further studies are provided in the last section 6.4 Limitations & Recommendations.

6.2 Summary of the Research

The final outcome of this study is about the strategic positioning of guanxi-based competitive advantage in the process of a firm’s strategic implementations. The main abstracted category named guanxi as a ‘quasi-competitive advantage’ emerged from our empirical fieldwork as a core concept. Consequently, two related theoretical constructs, in terms of ‘guanxi-based business strategy’ and ‘co-development of guanxi-based and market-based competence’, extended the understanding of this core concept. Three theoretical constructs form our main research outcome. This integrated conceptual outcome answered our initial research aim of conducting a qualitative exploratory study on ‘guanxi-based business conduct’ with the objective of theory-building. However, the initial interest of ‘guanxi-based business conduct’ is a very broad area. According to the principles of the grounded theory approach (Glaser and Strauss, 1967), the author gradually refined his research focus along with carrying out the substantive fieldwork. By doing so, the author was able to explore the real problems from the participants’ perspective as his research focus. Therefore, the conceptualisation of the data is kept at a distance from the researcher’s preconceived ideas. Glaser (1992; p. 11) stressed that ‘the requisite conceptual skills for doing grounded theory are to absorb the data as data,
to be able to step back or distance oneself from it, and to abstractly conceptualise the data’.

As a result, the emergent problem and its related research questions are identified. The theoretical outcomes of this study provide a new insight for researchers to address these relevant research issues.

**Emergent Research Problem:**

How does guanxi-based business strategy assist firms’ competence development?

The author suggests that guanxi is regarded as a ‘quasi-competitive advantage’ which generates substantive ‘competitive advantage’. Thus, guanxi-based strategy is formulated to enhance a firm’s ‘guanxi advantage’ in order to provide an adequate operational environment for a business to develop its market-based competitive advantage in such an environment where it is permeated with the guanxi dynamic and transitional uncertainties.

**Emergent Core Research Questions:**

How does guanxi-based business strategy work?

How do guanxi development and firms’ competence development affect each other?

On one hand, as some former researchers (Liu and Roos, 2006, Langenberg, 2007) have implied the existence of a guanxi-based strategic planning system in China, the author in this study attempts to distinguish the theoretical boundaries between guanxi-based and market-based strategic paradigms from a specifically developed resource-based perspective (Barney, 1991, Wernerfelt, 1984, Tsang, 1998). In this case, combining the empirical findings from the substantive field, it enables the researcher to investigate guanxi-based business strategy with a better-developed theoretical insight. Basically, in this study, the author proposes that guanxi-based and market-based strategies constitute the firm’s corporate strategy. In order to optimise a firm’s strategic planning capability, the firm should consider the functionality of guanxi-based competitive advantage differently from the conventional proposition of market-based ‘competitive advantage’ (Porter, 1985, Prahalad and Hamel, 1990). A guanxi-based business strategy function uses its supporting role in achieving business goals to compensate the shortages which
market-based business performance can not cope with effectively. The necessity of conducting guanxi-based business implementations concluded with three influential contexts which emerged from the data, in terms of guanxi as ‘social cultural embeddedness’, ‘business necessity’, and ‘institutional influence’. To be noted, it is regarded that institutional influence is the most significant context which determines the firm’s strategic choice of guanxi-based paradigm (Peng, 2003). Hence, guanxi-based strategy aims to exploit guanxi resources as a network-based competitive advantage, which generates what the author calls ‘quasi-competitive advantage’, to serve the corporate strategic objective of developing sustainable core competence.

Moreover, guanxi is possessed by individuals and it can be considered as a kind of intangible resource for the firm if the individual can be mobilised (Itami, 1987, Tsang, 1998). Thus, managing guanxi resources is actually managing clusters of established social networks. The social network-based nature of guanxi resource reflects the constraints of guanxi as a competitive advantage with three levels of meaning. Firstly, guanxi can only generate indirect impetus on building a firm’s market-based substantive competitive advantage. Secondly, guanxi-based advantage is vulnerable as guanxi strength varies with the different contextual task situations. Thirdly, gradually expanded guanxi resources are ‘intangible’ and ‘complicated’ to manage and the managing capability of guanxi is personally allocated which means it is difficult to be duplicated and sustained at an organisational level. Therefore, the benefits of guanxi and the value of guanxi-based advantage must be critically evaluated with other influential factors in the task environment which the firm faces. In this case, the definition of ‘quasi-competitive advantage’ which is originated from this study expresses the deep-rooted inter-relative value of guanxi.

On the other hand, with regards to the inter-dependence between guanxi and core competence, guanxi advantage is worthless if the firm does not have convincing market capabilities. In fact, the gradually improved market institutional environment shapes the Chinese market system transformations towards the rule-based system of today. For this reason, the author strategically outlined the three stages of a firm’s co-development of guanxi-based and market-based competence. Basically, this co-development proposition is based on a practical standard that the performed guanxi behaviours are at a certain moral acceptable level which does not exceed the bottom line of unethical competitive
behaviours against laws. Thus, it is optimal and necessary to develop the potential of *guanxi* in order to achieve superior business performance in China. However, *guanxi* management must be developed in a moral and healthy way so that it can help the firm to compensate for certain shortages and difficulties which may arise in a competitive environment. At this point, the author indicates two extreme statuses of *guanxi* in management, which are called ‘reliant *guanxi*’ and ‘dominant *guanxi*’. And the author further illustrated the evolution process of a firm’s *guanxi* management capability and market-based competence according to three stages of company development: *Young & Small Stage, Growth & Expansion Stage* and *Mature & Large Stage*. As *guanxi* development and maintenance are time consuming and require a continuity of financial investments, *guanxi* utilisation must be proactively planned. Thus, the author argues that along with the growth of the business scale and volume, the firm needs to improve its capability of mobilising expanded critical *guanxi* resources in order to cope with the development of a firm’s market-based competence and the need for sustaining good performance.

6.3 Contributions

The main original contribution of this study is to identify the new concept of *guanxi* as a ‘*quasi*-competitive advantage’ which provides indirect impetus to support substantive development in business strategic implementations. This core concept offers a new theoretical boundary for a firm’s competitive advantage. This differs from a traditional resource-based view of a firm’s competitive advantage; ‘*quasi*-competitive advantage’ with its theoretical meaning, which emerged from this grounded theory study, is more appropriate for expressing the characteristics of *guanxi*-based competitive advantage in a firm’s strategic planning. Moreover, similar social dynamics can be traced in different cultural contexts such as ‘blat’ in Russia (Michailova and Worm, 2003), ‘wa’ in Japan and ‘Inhwa’ in Korea (Alston, 1989). This emergent substantive theory of ‘*quasi*-competitive advantage’ has much potential that is compatible with those contextual environments as well.

Moreover, the content identified for a *guanxi*-based and market-based strategic planning paradigm from literature (Liu and Roos, 2006, Langenberg, 2007) was extended by this
empirical study. A clearly defined corporate strategy structure which is constituted by *guanxi*-based and competition-based strategies revealed a theoretical new insight into the supporting role of *guanxi*-based strategic implementations. This theoretical contribution updates the current understanding of *guanxi*’s strategic role and functionality in a task environment. From this perspective, the formulation of *guanxi*-based strategy is related to the evaluation of ‘*guanxi* importance’ in task environment. The necessity of conducting *guanxi*-based strategy has to be cope with the level of ‘*guanxi* importance’. Otherwise, over investment on *guanxi*-based competence could offset the perceived benefits or constraint the development from market-based competition system.

Also, the theoretical outcomes from this study have clearly defined that *guanxi*-based and market-based paradigms interact with each other. Thus, the strategic positioning of *guanxi*-based competitive advantage should be evaluated in relation to market-based core competence which may shed light on the further exploration of the theory of *guanxi*-based strategy for other researchers.

Furthermore, the introduction of newly developed theoretical models, as a part of the research outcomes offer a new perspective for researchers to extend their understanding on the rationale of how the *guanxi* dynamic works in a task situation. Meanwhile, the models can also be used by managers to formulate their *guanxi*-based strategic plan. For instance, the models are applied to the evaluation of ‘*guanxi* importance’ and ‘*guanxi* advantage’. Furthermore, newly summarised table of three growth stages of *guanxi* and business competence co-development (Table 11) expand the existing theoretical understanding of firm’s development stages.

Finally, this study also exemplified the methodological feasibility of a grounded theory approach which is rarely adopted for a business management study. The successful adoption of grounded theory in this study proves grounded theory methodology is a fully-fledged methodology (Glaser, 1978). Several significant advantages of the grounded theory research process can be summarised from the author’s research experience.
Firstly, the ‘relevance’ of doing management research (Watson, 1994, Mintzberg, 2004) is proven by the formulation of the research problem and questions (Glaser, 2003). This differs from conventional methods where the research problem is formulated by identifying literature gaps, but in this grounded theory study the research problem is the participants concern and manages to be resolved (Glaser, 1978). The researcher gradually refined his research focus to let the real research problem and questions emerge from the substantive field in the process of close interaction with participants.

Secondly, the aim of grounded theory is abstract conceptualisation (Glaser, 2001), the research outcomes of this study are a generation of perspectives of perspectives. Thirdly, given the principle of ‘all is data’, the researcher in this study constantly compared all kinds of emergent conceptual ideas including both substantive data and literature data. By doing so, the abstracted concepts are critically verified by triangulating with different sources of data until all the emergent categories are saturated. Fourthly, the combination of using the initial literature review and comparative literature analysis before and after the fieldwork minimised the biased influences from preconceived theoretical propositions.

### 6.4 Limitations & Recommendations

A number of limitations can be identified in this study, which may provide directions for future research. Although the research outcome makes certain contributions to the portrayal of theoretical boundaries for the study of guanxi-based strategy, the outcomes of theoretical constructs from this study still need to be tested and verified in different substantive contexts. Therefore, the credibility of this newly developed theory can be tested and enhanced by conducting more empirical studies. Furthermore, more empirical studies are advocated to be conducted with the purpose of extending the knowledge of this newly developed theory of ‘quasi-competitive advantage’ in order to deepen the current theoretical understandings.

Given the fact that the basic social process of guanxi-based strategic implementations has been interpreted at a abstracted level through the new emerged theory of ‘quasi-competitive advantage’. However, this empirical study was concentrated on the scope of domestic firms which are considered as heavily involved in guanxi dynamics. The
strategic behaviours of those multi national enterprises (MNEs) in China are worthwhile to be investigated as well. It is interesting to move a further step forward on the comparison of the different managerial behaviours in *guanxi* management between multi national enterprises and domestic firms under the same *guanxi* dynamic. The cross-cultural involvement could be considered as a significant influencing factor for those foreign managers with completely different culture backgrounds. For example, the future research focus can be allocated on how multi national enterprises successfully implemented their *guanxi*-based business strategy when dealing with *guanxi* problems in China, and the distinctions between multi national enterprises and domestic firms in *guanxi*-based strategic management.

Moreover, the resource-based view (Barney, 1991) is adopted as a theoretical breakthrough point in this study, because the further refined research focuses were appropriate for applying this approach. Also, the emergent empirical evidences were naturally abstracted and upgraded into a core conceptualised category which indicates *guanxi* as an important strategic resource. On one hand, a specific developed research focus offers the researcher the richness and depth of studying relevant issues. On the other hand, this study only revealed a part of ‘*guanxi*-based strategic implementation’ as a comprehensive dynamic social process.

The author also identified other significant research perspectives which are suitable for investigating ‘*guanxi*-based business strategy’ at a future stage, such as stakeholder’s view (Clarkson, 1995, Freeman, 1984) and institutional view (Ahlstrom and Bruton, 2002, North, 1990). In the first place, stakeholder’s theory in strategic management is basically developed to enhance the firm’s operational efficiency by improving the management of relationships with all critically identified stakeholders, which are associated with the firm’s business activities. This perspective is critically related to *guanxi* dynamic in Chinese business environment. The potential research direction could be focused on investigating how the firm technically improves its capability of *guanxi* management from a stakeholder’s perspective. For example, it is interesting to explore more on how the firm manage to categorise its *guanxi* resources and to what kind of stakeholders that *guanxi* utilisation is heavily involved.
In the second place, the author claimed the reality is that the adaptation of guanxi-based strategies is coercive for the company to compensate the institutional uncertainties in most situations. From an institutional perspective, the organisations must conform to the rules in order to survive in the system. Given the fact that the institutional system has not been well-developed in China, guanxi is regarded as the lubricant for the business to flexibly offset the side effects of some inefficient institutional influences. In this case, some research implications arise to combine with the institutional perspective, such as ‘how does guanxi dynamic can be employed to improve the firm’s institutional efficiency?’ and ‘to investigate the effectiveness of guanxi vary with the different kinds of institutional forces’. Thus, the perspective of institutional theory is worthwhile to be employed as a key breakthrough angle for the further exploration on guanxi-based competence and strategies. Therefore, along with more theory building and testing studies would be carried out from various aspects, the theoretical background and understandings in this area can be incrementally developed and enriched.

Furthermore, as a modest attempt to encourage others to come forward with more constructive contributions, the newly developed theoretical insight of ‘quasi-competitive advantage’ initiates more exploratory studies on ‘guanxi-based business strategy’. Based on this new framework of ‘guanxi-based competitive advantage’, the directions for conducting further researches puts the emphasis on exploring and developing more specified guanxi management techniques and tactical strategies. Moreover, quantitative research can be employed to verify the established theoretical constructs on a further stage. For example, in this study the table of ‘stages of guanxi and business competence co-development’ was abstracted and summarised from a qualitative based mid-range data set. In order to make further verification of its credibility, the large amount of quantitative data cluster is recommended to be employed for testing this theoretical result. By this way, all the new developed conceptual models from this study are encouraged to be tested and improved by further research from both qualitative and quantitative perspectives. Finally, although the concept of ‘quasi-competitive advantage’ was emergent from this study, the content of this theory is still lack of detailed enrichment and supplement. It is worthwhile to make more efforts on making theoretical improvements along with this new generated grounded theory in future studies.
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## APPENDICES

### Appendix A – Units vs. Processes in Grounded Theory Studies

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<tr>
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<th>Units</th>
<th>Processes</th>
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<tr>
<td>1.</td>
<td><strong>Relative Focus</strong></td>
<td>A unit is a place where a process goes on and it provides as set of conditions for its operation. Analysis use properties of unit, not unit itself. Focus is on process as it explains or processes a problem or behaviour pattern.</td>
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<tr>
<td>2.</td>
<td><strong>Freedom from Time and Place</strong></td>
<td>Process is free of unit’s time and place. They are properties of unit that are only varying conditions. Another unit varies process differently.</td>
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<td>3.</td>
<td><strong>Generalizing</strong></td>
<td>Fully generalisable quite easily, as a BSP transcends the boundaries on any one unit by just varying it for another unit’s properties. Thus, the analyst generalises a substantive BSP to a generic BSP. BSP is more general as it may apply to all units</td>
</tr>
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<td>4.</td>
<td><strong>Action</strong></td>
<td>The action of life is always in the process rather than of the unit itself. The unit is actuated by process as it bounds and locates it. The action process is BSPP.</td>
</tr>
<tr>
<td>5.</td>
<td><strong>Freedom from Perspective</strong></td>
<td>BSP’s are a separate perspective, irrespective of the perspective of participant or analyst. BSP’s go on irrespective of bias of analyst. ‘Purging’ is always purging, becoming is always becoming, no matter how perspective the rendition. Bias is one more variable in a multivariate analysis, that varies it.</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Durability</strong></td>
<td>BSP’s are quite durable. As units change, they get modified as they transcend the fallibility of units, while keeping up with its changes.</td>
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<td>7.</td>
<td><strong>Transferability</strong></td>
<td>Since BSP’s are fully general, they transfer easily with modification. Becoming applies to both a nursing school and an academy.</td>
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<td>8.</td>
<td><strong>Consultation based on Transferability</strong></td>
<td>An expert on a process can consult on any unit where process is occurring by just knowing general process and applying it to new conditions.</td>
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<td>9. <strong>Misattribution of Source</strong></td>
<td>To Describe a process as a property of a unit implies that it is uniquely the result of the people in the unit. This is inaccurate. The unit simple uses a general process. Thus, women is karate area trying to neutralise sex status, implies they produced this process, which is inaccurate.</td>
<td>A BSP implies that it is being used by the unit, not a source of it, and the use varies within it. This is accurate. Women in karate use one mode of neutralisation of an otherwise differentiating sex status.</td>
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<td>10. <strong>Learning</strong></td>
<td>Typical unit studies can be boring unless on a deviant or other particularly interesting group. It is hard to remember the plethora of facts, and understanding the unit is often bereft of intrinsic scope of meaning, because of low generality.</td>
<td>BSP’s have much ‘grab’ (they catch interest quickly), because they have high impact in meaning, area easily understandable, and have general ideas which are easiest to remember.</td>
</tr>
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<td>11. <strong>Research Sampling</strong></td>
<td>Random sampling of unit itself is used to the analyst can generalise to a large unit.</td>
<td>Theoretical sampling of properties is used to generate to the theoretical completeness of process.</td>
</tr>
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<td>12. <strong>Research Coverage</strong></td>
<td>Full range of representative factual coverage needed to describe the unit accurately, whether for description or verification.</td>
<td>Theoretical coverage requires only theoretical sampling of that segment of all behaviour needed to generate an explanatory theory of a process. The analyst does not need representative coverage of all behaviour.</td>
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<td>13. <strong>Research Accuracy</strong></td>
<td>Units tend to require accuracy so the descriptions will be considered correct. Statements are facts to be believed, and subject to slight correction.</td>
<td>Not crucial with a BSP, since successive comparisons correct categories and hypotheses. Statements area hypotheses, thus claimed as suggestions to be checked out; they area not claimed as facts.</td>
</tr>
<tr>
<td>14. <strong>Research Reading</strong></td>
<td>Read as accurate description.</td>
<td>Unfortunately BSP theory is still read by many as factual description, not as hypothetical generalisations.</td>
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<td>15. <strong>Historiocity</strong></td>
<td>Unit studies are fixed in time. They are cross-section. They pick up a moment in time, as if forever, but it becomes outdated, thus temporal scope is severely limits. They are static.</td>
<td>A BSP, since it deals with on-going movement, implies both a past and a future which can almost be extrapolated. A BSP has change built into it, as it is modified to incorporate new data. A BSP considers categories as part of larger ongoing process, historical scope. A BSP is in motion, not restricted to time.</td>
</tr>
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<td>16. <strong>Theoretical Impact</strong></td>
<td>Based on the above differences, unit analysis has limited impact and scope.</td>
<td>Based on above differences, a BSP allows for an expansive amount of grounded theorizing about every facet of social life. It has high impact.</td>
</tr>
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<td>17. <strong>New Data</strong></td>
<td>Typically refutes part of unit study.</td>
<td>Generates more BSP theory by comparing it and modifying theory by extension and densification</td>
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<td>18. <strong>Relationability</strong></td>
<td>Units are seen as separate entities with definite boundaries. Theory related to a unit is not theoretically related significantly to other units, except perhaps to larger similar unit which is generalised to. Thus unit studies are non-integrative to social organisation, they make units, which</td>
<td>BSP’s by cutting across and transcending the boundaries of separate units provide ways of relating units to each other through the same process. E.g. cultivating clientele is a way of relating milkmen to lawyers. Thus BSP’s tie social organisation together, they are</td>
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are similar on underlying dimensions, seem separate, which is only arbitrarily so; e.g. normal and deviant studies appear different, not as two dimensions of the same general process. More fundamental patterns are obscured. integrating. BSP’s also relate to each other within units.

Notes: BSP-**Basic Social Process**; BSPP-**Basic Social Psychological Process** and BSSP-**Basic Social Structural Process**

Source: Glaser (1978; p. 109-13)
Appendix B – An Example of Interview Note (Transcribed in English)

2009, 8, 25. XXX Construction Supervision Ltd. Manager, age: 46-47

Interview Note:

External influences in context:

Social Cultural Dynamic & Mechanism
Stakeholder Interests Balance amongst stakeholders
Market competition pushes strategic choice.

Direct Questions:

- Does 'guanxi competition' is caused by emerging economic social system reforms?
  - Why?

- Do you consider that to know your competitor's 'guanxi status/situation' is important for your business?

Emerging Questions:

Note: As a strategic consideration we need to know:

- Objective
  - General Strategy
    - Pre-conditions, Preparations
    - The expectations of conducting a strategy
  - The strategic logic of thinking when plan.

Emergent Concepts:

- 'Guanxi Freedom': very flexible at individual level
  - Success / Failure
    - e.g., punishments, define at certain stages, amount can be more / less

- Transcribed Version in English...
2009年8月25日

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工作

经理有限公司

一、张

（46-47）

外国

利益

市场

竞争者之间关系塑造的过程中企业是发展中的
所面临的主要问题之一？Why?

竞争对手的关联竞争与竞争了
情况

有哪些渠道方式达到目的？

战略思考（当然既然关系是一种战略资源）

目的

条件、准备条件

单向管理关系资源的策略实施目的

思维逻辑
关系灵活度在微观环境下过于灵活，可能造成两种极端情况。第一种是缺乏有效限制和规范，权力分配不合理，容易出现权力斗争和权威缺失。第二种是权力分配过于集中，第一上级是最有效的决策者。利益化的人事制度，企业要适应制度的变化，(有可能关系的自由度变弱)。
Appendix D – An Example of Theoretical Sorting (Transcribed in English)

2009.5.21 XX Insurance Ltd. Manager

Theoretical Sorting Memo

Guans: Implementation (Tactics) ⇀ Influence factors of Guans' efforts

Implications from behaviors:

1. Long-term emotional investment (interaction frequency)
   - The characteristics of Guans: Establishing & Maintaining
     - More frequency in meeting each other to familiarize each other quicker
     - Let the other party interested in you; thus you can be pushed by others to establish a guans network.
     - Honesty, Manzi (face) - Respect each other
     - Social status, Official managerial rank levels must be fitted and equally weight weighted to the core issue; your position of capability in beginning phase.

2. Rush & Plan to (maintain)
   - (Categorise Guans Resources in order to manage & plan)
     - Organise:
       - Make sure the information is updated
     - Emphasis on particular critical guans to make more investments

3. Overlap effects between different Guans Networks
   - Guans Resources are sharing with reliable partners without direct Rival relationship
   - The Pre-condition is "Good Guans" has been established for example friends
   - No benefits lost to each of the sharing party

Transcribed Version in English.
Appendix E – An Example of Theoretical Sorting (Original in Chinese)

5月21日 未考 保险 经理
5月22日 未考

关于战略，
影响关系的因素：利益交换（利益交换）
（利益交换）

1. 大胆感情投入。（重点是频率）

建立频率策略（高频率的互动，加快熟悉认识）
目标：擒拿叔叔，策略（对对方主动认可你，在销售层面）
成功，面子。

2. 重点，突击与长久维系（维持）

关系分类：以便保持特定环境的循环的时效性
重点职能利用关键人物的重点，长久维系。

3. 关系网络资源互惠策略，

竞争不是一种产业的竞争，而是为了互换关系资源
而将自己在高级的管理层介绍给另外一个人组织。
此前提，这两个互换关系资源的组织必须有
互换关系的基础，成为了朋友。

追求不完全自身利益的满足。
4. 联合体关系策略 —— 网络型
在特定情况下，与竞争对手联盟攻守为取利空，对抗网络外的竞争者。
竞争者也与，熟人和生人。

对商业“关系”资源的应用战略可分为以下几个层面进行关注：

- 大战略层面：发展广泛人际关系应用与资源储备战略
  例如：①领导层的商业关系网络开发与资源储备战略

    - 《主动式关系战略》员工层面：竞争优势

    关系网络效果的量化，发挥出最大的作用。

- 同时需要考虑以下几个问题：

  适用性 —— 适用于什么类型的产业？有什么特点？

  优缺点 —— 适用什么样的企业？规模大小对效果有什么影响？

  战略层面 —— 有哪些好的发展适合这样的战略发展？

  需要注意的问题 —— 在关系网络开发的过程中
2. 从市场竞争力的提升、企业自身的实力与规模等方面出发，制定本行业的发展战略。

在这种条件下，企业要想在市场中保持竞争优势，必须不断加强自身的核心竞争力。《<慎独》发展发展战略》为前提的战略。从市场为导向系统管理，

- 企业的选择与企业的市场优势有密切的内在关系。政策优势的，关键是要为了提高运营效率。
- 这样的企业，有时往往已经发展到了向企业网络作为支持，经过了较多年的发展与市场，才能做到这一点。

同时，需要考虑以下几个问题：（同1）

(1) 适应性
(2) 优点
(3) 战术层面的结合

战术应用—行动战略层面：建立与维系人际关系的具化行为

①感情纽带：战略、关系的建立与成熟是以感情的逐步加深为纽带的。

- 社交化、沟通（吃饭、礼品、高频率的互动，加深联系，增进感情）
- 个人层面的沟通（信任），提供对方生活中困难，提供所需的支持，化小里成为朋友
- 为对方考虑，为对方着想，考虑对方的境况，选择的
- 为对方考虑，对对方的处境进行考虑，选择的
- 在信任的基础上，信任的

在信任的过程中，信任的
- 诚实与表的态度；只有同一种层次的人才有交往的前提
- 诚意，需要熟人的中间作用于对方，
② 关系网络维系战略（长期维系战略）

为了维持与关系网络中的重点对象的关系，加强维系互动的延续性，并充分了解和掌握沟通中的信息，从而获得商机。

采用兴趣爱好的活动，如聚会、聚餐等，对这类重点对象携带一些商业信息。

关系网络的作用：商机、信息、个人情况等信息交流的平台

通过熟人引荐（利用现有的关系资源）

④ 通过熟人引荐（利用现有的关系资源）

关系的近疏与亲疏程度是相对的，情况而定，有的时候，还要考虑对方的感受，不能让关系对方难堪。
直接搭建关系。

必须符合市场规则，并有一定的竞争力，才能通过工作商业的手段与对方建立成为可利用的关系。

注意：
- 不能以利诱之饵，只对关键人物热捧，急功近利的关系往往不牢靠。
- 给对方面子，表里如一，可信任的前提。企业领导亲自出面、送礼、请吃饭、投其所好等，建立信任、赢得好感。
- 个人感情和对彼此的信任与欣赏往往可以建立关系。
- 对方付出努力后，及时给予感谢和物质上的回报，利益回报的形式灵活多样。
- 交往过程中，个人需求、身份、社会层次的对等性非常重要。少数优势背景的人往往不易与相对普通者保持平等的交往。
- 感情的升华、关系的加深需要一个过程，往往需要时间的准备。长期投入，不断突击的风险比较大。
- 因此，感情不够深，短期难以实现。
- 对方看似自己的关系已经形成，相对有优势的资源。
- 特定场合、情况下直接的利益交换。

① 关系资源合作互补战略
<table>
<thead>
<tr>
<th>Name</th>
<th>Official Position</th>
<th>Ownership Types</th>
<th>Industrial Types</th>
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<tbody>
<tr>
<td>1</td>
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<td>Construction, Diary</td>
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<td>State-Owned</td>
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<td>Administration</td>
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<td>Government Organ</td>
<td>Commerce</td>
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