A conceptual framework of the interconnections of key Guanxi constructs: trust, dependency and reciprocity

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Abstract
The concept of relational marketing has recently emerged in the field of international business (Keep et al., 1998). Some studies have tended to focus on China’s dynamic marketplace. Various studies (Ambler 1995; Chen 1995; Davis 1995; Wong 1999) have acknowledged the key dimensions of China’s “Guanxi” business relationships, namely Trust, Dependency and Reciprocity, as considerable representations of the relational marketing concept but not identified the interconnections among these dimensions. The focus for this paper is the identification of key dimensions and their interconnections inherent in Guanxi and their impact on the development of long-term business relationships between Chinese and Western firms in the domain of international strategic alliances. Following this conceptualization, we provide a typology of the two approaches (Chinese and Western). Finally, a conceptual framework of key Guanxi constructs and relationship performance is proposed for these two approaches, together with a future research design as method for testing the interpretation of the framework.
A conceptual framework of the interconnections of key Guanxi constructs: Trust, dependency and reciprocity

Introduction
A number of studies (Blankenburg-Holm et al., 1996; Hakansson and Johanson 1993; Hallen et al., 1991; Wilkinson and Young 1989) have advocated that marketing researchers shift the focus of their research from a transactional approach to the paradigm of relational marketing. Relational marketing theories, such as the Channel Theory (Anderson and Narus 1990) and the Network Approach (Hakansson and Johanson 1993), have been reshaping the field of marketing over the last decade. Research conducted in recent years (Anderson et al. 1994; Blankenburg-Holm et al 1996) has been exploring the benefits of relationships in the areas of consumer marketing (Gronroos 1994), business-to-business marketing (Morgan and Hunt 1994) and other interfirm cooperative dyads such as joint ventures (Hallen et al 1991).

The concept of relational marketing while long prominent in the study of interfirm relations, has recently gained importance in the field of international business (Keep et al., 1998). In particular, studies focusing on relationships in China’s dynamic marketplace have increased. Recent studies (Abramson and Ai 1999; Chen and Chen 1998; Ewing 2000) have acknowledged that the Chinese concept of relational marketing significantly contributes to the long-term overall performance and short-term sales performance of foreign firms in China. Various studies (Ambler 1995; Chen 1995; Davis 1995; Wong 1999) have identified trust, adaptation, dependence and reciprocity as the three key dimensions of China’s “Guanxi” business relationships.

The objective of this paper is to provide clarity for international managers and marketers, of key Guanxi dimensions and how Western firms, and in particular, Australian firms, can and do use Guanxi in their business relationship development to achieve successful business outcomes in China. First, the economic importance of China to Australia’s economic growth and key studies on the importance and nature of Guanxi are reviewed. Second, a typology of Western and Chinese approaches to business relationship
development is proposed. Emerging from this review is a conceptual framework of key Guanxi constructs and relationship performance for these two approaches. In particular, the conceptual framework considers more specifically than previous works, the interrelationships between key aspects of Guanxi and the factors that moderate between relationship development and performance in Chinese strategic alliances. Finally, suggestions are made as to how this framework can be used by managers and for future academic research, in particular in exploring Sino-Australian business relationships.

Australia’s Chinese Environment

In 2001 Australian firms invested $1.6 billion (Australian Department of Foreign Affairs & Trade, 2002) made in 2001. According to the Australian Bureau of Statistics (2002), China is Australia’s fifteenth largest outward investment destination. As at February 2002, there were about three hundred mainstream Australian companies in China, and hundreds of small firms, working on 3,500 investment projects valued at US$5.6 billion (Australian Department of Foreign Affairs & Trade 2002). This signified a substantial inflow of Australian business capital into China, and qualified China as an important investment destination for Australia firms. Two of the key sectors, which have attracted Australian investments into China, are the information technology industry, and the real estate construction industry (Australia China Business Council 2002). These are considered as a microcosm of the issues facing the broader Australian business sector who seek to do business in China.

China’s software and application development services are expected to grow from the current US$850 million in 2002 to US$27 billion in 2006 (ChinaBiz 2002). The substantial growth in the software sector is made possible by over 6,000 software companies in China (ChinaBiz 2002), including Sino-Australian cooperative ventures. During China’s transition to a market economy, the Chinese government has encouraged participation from foreign companies to expand its software market (ChinaBiz 2002). The influx of Australian investment into China’s software market took advantage of the low labor costs and access to the local information technology industry that drives software development (ChinaBiz 2002). Likewise, China's real estate sector has
maintained steady growth since early 2002, attributed to increases in real estate investment, and land and housing development (China Economic Information Network 2002). To date, foreign and local real estate developers have invested a total of US$65.4 billion, an increase of thirty percent from the previous year (China Economic Information Network 2002).

Unstable or unpredictable environments have an important impact on business ventures, and China is not exempt from this reality. Despite the abundant opportunities in China’s real estate and software technology sectors, the competitive business climate has created uncertain market conditions (Tan and Litschert 1994), from which foreign companies have commonly experienced apprehension and distrust when conducting business with their Chinese counterparts (Davies et al 1995). China’s unfamiliar environment makes it difficult for foreign firms to predict their Chinese partner’s motivation and actions. While there is increasing understanding by potential investors of a business culture in China that differs from Western norms and awareness that the personal connections of Guanxi play an important role in business success, there is still limited understanding of the nature of these important types of relationships and implications of this for marketers.

**Relational Marketing in China and the Significance of Guanxi**

Relational marketing has grown in importance throughout the 1980s and 1990s and looks set to continue as an important paradigm in marketing well into the new Millennium. Buyer-seller exchange is conceptualized as a largely cooperative process (Wilkinson and Young 2002) where a mutual exchange and fulfillment of promises takes place in a network of sellers, consumers, stakeholders and competitors (Gronroos 1994). This is particularly apt in a Chinese context where, it is argued, business relationship development is paramount and Guanxi based (Rodrigo 1998; Amber 1995; Wong and Chan 1999; Chen 1995; Davis 1995).

Literally translated, Guanxi means “personal relationships” (Standifird 2000). Chen (1995) defined Guanxi as, personal relationships with implications of a continual exchange of favours. Guanxi also refers to the concept of drawing on broader
connections or networks in order to secure favors in personal or business relationships (Luo 1997). *Guanxi* can be envisaged as the glue that holds networks together; the social interactions within the network place its members in the equivalent of an infinitely repeated game with a set of people they know (Davis 1995).

Business literature comments extensively on the functional benefits of these personal connections:

“…Chinese businesspeople believe that it is essential to establish a good relationship before committing to business transactions…” (Amber and Styles, 2000, p.494).

“… Given China’s unique culture and the systems, to enter the Chinese markets is by no means as simple as a set of market entry strategies, such as export, licensing, equity joint ventures, or wholly owned subsidiaries. Essentially, these market entry strategies overlooked the importance of relationships in doing business and are irrelevant for entering Guanxi, which should be given the first priority in Chinese business circles…”

(Su and Littlefield, 2001, p.199)

However, *Guanxi* plays a much wider role than merely the way in which Chinese markets should first be breached. It guides the fundamental orientation of relationships. A *Guanxi* relationship is personal and beneficial to both parties in multiple contexts, rather than being just as a tool for facilitating transactions (Yau et al., 2000). It is the fundamental safeguard of a relationship. For example, where *Guanxi* is strong, a contract may be drawn up at a much later date, but not considered as important or necessary (Yau et al., 2000).

*Guanxi* fulfills social, economic and legal functions (Wong and Chan 1999). The *social perspective* suggests *Guanxi* relationships are made up of instrumental, as well as expressive ties. Expressive ties exist among the members of an extended family and close friends, in whom the allocation of limited resources is determined by individual
need rather than individual contribution. Instrumental ties involve allocating resources to outsiders or strangers based on individual contribution. A direct refusal to do so could cause disrespect to the receiving party. From an economic perspective, the informality of Guanxi relationships reduces transaction costs by making business deals in China more effective and efficient (Wong 1999). Finally, the legal perspective suggests that Chinese businesspeople use informal rather than formal sanctions. Contracts become a consequence of mutual trust rather than a mechanism within which it can be built (Wong 1999). This contrasts with a Western view that a contract should be finalized before any formal cooperation is undertaken (Williams et al. 1997). Sanctions are built within the expressive family ties, as well as instrumental ties within business environment (Wong 1999). This view of relationships is not entirely compatible with the approaches of (Western) relationship marketing. As Figure 1 indicates, while personal relationships are seen as fundamental in Guanxi to develop a future business relationship, relationship marketing does not view personal relationships as important at this early stage (Williams et al. 1997). In a Western context, a relational marketing plan starts by defining its network of channels, business contacts and key influence agents (Gronroos 1994) rather than the network of influence and trust to which one has access.

*Figure 1: Typology of Relationship Building*
Adapted from: Williams et al., 1997; Yau et al., 2000

Figure 1 indicates that there is a two-stage process of relationship building in a Western context where businesspeople build transactions first and, if they are successful, a personal relationship will follow (Williams et al., 1997). In contrast, the literature suggests that Chinese business relationship building is a continuous process that commences with building Guanxi prior to business commencing and where Guanxi building continues throughout the process (Keep et al., 1998; Rodrigo 1998; Yau et al., 2000). Such approaches are not entirely limited to Chinese or Asian firms. Interestingly, Nicholas et al.,’s study (1999) indicates that Australian firms are adopting a Chinese rather than Western approach to relationship building.

Guanxi, as one of the key success factors in conducting business in China, is highlighted by numerous authors, who make assertions such as:

“...Success requires an understanding of China's unique business environment... (the) most striking feature and the one that is most likely to undermine the efforts of foreign managers is Guanxi” (Pearce and Robinson 2000, p.37-38).

The importance of Guanxi is supported by a number of studies (e.g. Abramson and Ai 1999; Chen and Chen 1998; Luo 1997; Wong 1999; Wong 1998). The link between Guanxi and performance has been explored in varied contexts. Ewing (2000) explored the benefits of Guanxi for Singapore firms trading in China, identifying it as a key success factor for Singaporean firms that it has have successfully cultivated social and business networks in China. Abramson and Ai (1999) identified effective Guanxi relationships as the most important factor affecting the sales and overall performance for Canadian companies doing business in China, stating:

“...Canadians firms and their Chinese counterparts developed platforms of interdependent goals that can only be achieved by working together rather than expecting all parties to consistently work towards identical goals at all times…” (p.8).
However there are a number of limitations associated with this work. Their conclusions are not easily generalisable. Hence these studies tell us something of the experiences of the (largely) ethnic Chinese Singaporians and the Anglo-Celtic Canadians, but it is difficult to generalize these findings to different contexts (Abramson and Ai 1999). This might be particularly problematic for Australian firms where there is a highly diverse cultural environment rather than a high concentration of a particular culture. The validity and methodologies of these studies must also be called into question. For example, Abramson and Ai (1999) conceptualized the key constructs of *Guanxi* as shared goals (i.e. responding to each other’s needs) and trust. This may not entirely capture the nature of what *Guanxi* is. Their constructs were tested quantitatively so that feedback on the validity of the measures was not obtained. Only Canadian managers were surveyed, thereby ignoring the relational components of *Guanxi* generally and the cross-cultural aspects of this situation particularly.

We conclude that despite recognition of its central role, there are significant gaps in the research on *Guanxi*. As late as 1999, Wong study identified that:

> “Although extensive research on relationship marketing has been carried out in recent years, there has been no definite understanding of complex concepts of Guanxi relationships in a Chinese society...” (Wong 1999).

### The Dimensions of *Guanxi*

With the growing economic power of China combined with its cultural characteristics in management and marketing, the concept of *Guanxi* plays an important role in the study of relational marketing. Due to its complexity and subjectivity, *Guanxi* has been associated with various dimensions. We here focus on Wong’s (1998) conceptual model - Figure 2 below - of *Guanxi* and its interaction with relationship performance for two reasons. First, it presents as a fairly comprehensive range of *Guanxi* dimensions, identifying mutual trust, adaptation, dependence, and reciprocal favours as foundations of *Guanxi* relationships. Second, it considers a comprehensive range of relational performance outcomes of *Guanxi*. 
As indicated by Figure 2, dependence, exchange of favours, adaptation and trust are all postulated to have a direct effect on the quality of relationships. However while trust and adaptation are postulated to have direct and strong effects of sales performance, mutual dependence and reciprocating favours are thought to have an indirect and less significant effect and to be instead related to termination costs (Wong 1998). The following sections further explore these connections by considering in turn the nature and importance of these postulated factors of Guanxi, before presenting a conceptual framework of key Guanxi constructs and relationship performance for these two approaches, Sino and Western, identified in our typology in Figure 1 above.

**Trust/Adaptation**
Abramson and Ai (1999), found that Canadian firms regarded trust as the most important element in their successful Guanxi relationships with Chinese partners. Trust is often defined as a willingness to rely on an exchange partner in whom one has confidence (Moorman et al. 1993). In other words, to trust another person to act beneficially, an individual must have confidence that the other person has the ability and intention to act so. A trustworthy party in a business relationship is believed to be reliable and is
associated with high integrity, as well as consistent, competent, honest, fair, responsible, helpful and benevolent qualities (Morgan and Hunt 1994). Trust is an important factor for cooperation and planning in a relational contract (Wong 1998). Sullivan and Peterson (1982) found that when business parties trust each other, difficulties such as power conflict and low profitability can be resolved without the need for a written contract. When relational exchanges take place in an atmosphere of trust and shared goals, business transactions are less costly to complete. Potential transaction cost reduction can be translated into economic performance benefits (Young and Wilkinson 1989). Factors that have been identified as influencing the presence of trust are summarized in Table 1.

Table 1: Factors Influencing the Presence of Trust

<table>
<thead>
<tr>
<th>Duration of Relationship</th>
<th>Partners expecting an ongoing relationship will behave more cooperatively than those expecting a single transactional encounter.</th>
</tr>
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<tbody>
<tr>
<td>Relative Power of Partners</td>
<td>A partner is more likely to trust another if the other party has nothing to gain from untrustworthy or opportunistic behavior.</td>
</tr>
<tr>
<td>Presence of Cooperation</td>
<td>Presence of cooperation implies the precondition of trust. Partners trust each other sufficiently to cooperate</td>
</tr>
<tr>
<td>Environment Factors</td>
<td>Degree of direct competition. Firms with less bargaining power were less confident of the trustworthiness of partners as they see themselves as easily replaceable by substantial competition.</td>
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<tr>
<td></td>
<td>Demand condition. When future demand changes substantially, the level of trust between partners declines in anticipation</td>
</tr>
<tr>
<td></td>
<td>Level of conflict. While cooperation existed irrespective of level of conflict, the level of trust seemed to be generally lower when conflict was present</td>
</tr>
</tbody>
</table>

Source: Young and Wilkinson 1989

In Young’s and Wilkinson (1989) exploratory study of interfirm relations in marketing channels, trust emerged as an attitude or feeling that Australian managers have about their trading partners. Subsequent work by Young (Young and Albaum 1999, Young 2000 and Young and Daniel 2003) indicates that this is a powerful conceptualization. Acceptance of a feelings-based conceptualization of trust moves consideration into the arena of emotions which are argued to be comparable, and not culturally specific, hence allowing effective comparison of the trust of Chinese and Western businessmen (Young and Albaum 1999, Young 2000 and Young and Daniel 2003).
This approach to trust is also valuable because it recognizes that trust is embedded in an evolving/adapting relationship (Wilkinson and Young 2002, Young 2000, Young and Daniel 2003). Young and Wilkinson’s studies of trust and cooperation (1989, 1994, 1997) support Pruitt’s (1981) findings, in which the older a relationship is, the greater is the likelihood it has been through a critical “shakeout” period of conflict occurrences by both exchange parties. If the dyad survives this period, the foundation is created for personal trust and a good working relationship. As such, the better acquainted that business partners are, the higher the level of trust and the easier it is for them to predict each other’s reactions (Anderson and Weitz 1989).

**Dependence**

Wong’s (1998) study showed that dependence is positively linked to relationship quality. Similarly in Svensson (2002), mutual dependence is also found to be an important element to building successful business relationships. It is argued that mutual dependence is an important element in the dynamic process of relationship building in the Chinese business environment. Dependence takes a number of forms. Business partners often rely on members of their *Guanxi* network for information and resources (Davies et al 1995; Wu 1996).

The degree to which firms are dependant upon each other is influenced by both parties’ perception of themselves in relationship to the other in a specific dyadic business relationship. A number of proposed bases or dimensions of dependence are as presented in Table 2. However, there is little consensus as to how other firms develop dependency and which dimensions are more important for explaining this concept (Svensson 2002) and there are mixed results as to the importance of relative dependence in explaining trust, reciprocity and commitment (Young and Wilkinson 1994, 1997).
### Table 2: Proposed Dimension of Dependence

<table>
<thead>
<tr>
<th>Bases/Dimensions</th>
<th>Definitions</th>
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</thead>
<tbody>
<tr>
<td>Technical</td>
<td>Exists when two firms use compatible equipment and adapt their business activities to each other in a technical sense</td>
</tr>
<tr>
<td>Time-based</td>
<td>Exists when two firms need to synchronize their business activities</td>
</tr>
<tr>
<td>Knowledge-based</td>
<td>Exists when two firms learn, through interaction, about each other's strengths and weaknesses and ability to solve problems</td>
</tr>
<tr>
<td>Social</td>
<td>Exist when the interaction between two firms is based on personal relationships</td>
</tr>
<tr>
<td>Economic and juridical</td>
<td>Exists when two firms are formally dependent upon each other, perhaps through a written agreement</td>
</tr>
</tbody>
</table>

Source: Svensson (2002)

**Reciprocity/favour**

The process of exchanging personal favours is termed as *Reciprocity* (Su and Littlefield 2001). Reciprocity is fundamental to the achievement of long-term cooperation because of its potential to reward and penalize behavior among the transacting partners (Kogut 1989). An example of reciprocity in a joint venture relationship is where a firm provides new technology or low prices in return for future business from its partner. In return, the business partner may assist the firm by handling government bureaucracies. In Wong’s (1998) study, reciprocity was positively related to the quality and cost of relationships and reciprocity is found to be one of the key dimensions of *Guanxi* in other studies (Su and Littlefield 2001; Wu 1996).

It is argued that reciprocity is somewhat different in *Guanxi*-based relationships as distinct from other exchange relationships. In the main, whenever a favour is obtained, an obligation to return the favour is created. However, while in some contexts the norm of reciprocity creates an obligation on the part of the beneficiary towards the benefactor to repay the favour sooner rather than later, *Guanxi* relationships do not practice repayment immediately. Rather, continuing obligations are a framework in which relationships are enhanced and strengthened (Su and Littlefield 2001). In line with the subtle reciprocity
code present in Chinese businesses, Chinese partners who received favours will be very likely to positively respond by exchanging resources, which in a relational sense, is conducive to a formal relationship or friendship (Su and Littlefield 2001). Guanxi is maintained through this reciprocating of benefits (Wu 1996).

When participating in a connected network via a Guanxi relationship, foreign firms are also expected to take on reciprocal obligations by “repaying” favours to their partners in the future (Hwang 1987). It has been argued that Western businesspeople have often under performed with respect to reciprocity in their Guanxi relationships (Davies et al 1995). However survey findings from the Australia Centre for International Business (Nicholas et al 1999) evidenced reciprocal behaviors by Australian firms in China. This survey of Sino-Chinese joint ventures indicated that the payment schedule of sales-based royalties, share of profits and combined fee royalty were powerful incentives for encouraging on-going cooperation.

Proposed Conceptual Framework

The conceptual framework presented in Figure 3 typifies a number of aspects of the preceding work on effective Guanxi. Trust, dependence and reciprocity have been conceptualized as that which constitutes the distinctiveness of a Guanxi relationship and have been operationalised and used as such in studies of business relationships including Guanxi, e.g. Wong et al (2001) and Mavondo and Rodrigo (2001). The focus of such study often has been on one Guanxi aspect, e.g. trust. For example, Håkansson and Johanson (1993) and Svensson (2002) have considered the centrality of and the links of dependence, as have Chen and Boggs (1998) and Child and Mollering (2001) of trust and Keister (1999) and Su and Littlefield (2001) of reciprocity.

Limited work has considered how the various aspects of Guanxi are interconnected within successful business relationships. In Mavondo and Rodrigo’s (2001) and Wong and Chen’s (1999) studies, their models assumed each Guanxi construct operated independently. Thus, the dynamic role of Guanxi in business relationships remained largely unknown (Ying 2002). This is contrary to much of the IMP work that has
considered the relationship atmosphere, of which *Guanxi* would certainly be a part, as a richly interconnected whole. Other studies have sought links and have identified that:

- Dimensions of dependency promote reciprocity (Keister 1999)
- Trust can be established by reciprocal exchanges (Child and Mollering 2001)
- Reciprocity is influenced by the degree of trust (Su and Littlefield 2001)

Mavondo and Rodrigo’s (2001) and Wong and Chen’s (1999) studies also fail to consider the extent to which the characteristics of the firms participating in exchange impact on the performance of the relationship, despite the findings of a number of studies that indicate the impact of relationships in overseas operations and on the need for effective relationships is considerable, particularly for small firms. Studies of Western business (e.g. Gomes-Casseres 1997; Kohn 1997) have found that when firms are small relative to their rivals and markets, network connections are utilized to gain economies of scale and scope, as well as to obtain logistical support, market information, and technological assistance to support their overseas operations. Chen and Chen’s (1998) Asian-based study highlighted the importance of network connections for small Taiwanese firms in China’s electronics industry. Since small Taiwanese firms are known to be weak organizations linked by strong networks (Redding 1996), network connections enabled these small Taiwanese firms to accelerate their internationalization process into China without the experience of less risky entry-modes such as exporting or licensing. While large firms rely upon their own reputation, market position, technological superiority and firm-specific capabilities to access local networks, small firms are more inclined to use the information flows of their partners to overcome entry barriers into China (Chen and Chen 1998). Therefore, they concluded that it is imperative for small foreign firms lacking marketing experience, distinctive competencies, or distribution channels to cultivate *Guanxi* to compensate for their deficiencies (Luo 1997). With the use of *Guanxi* networks, small firms may overcome their size-related constraints, and thus their limited size and resources may be irrelevant in China (Buckley 1989).
therefore propose that firm size and resource are important moderating variables among the interactions of key Guanxi constructs.

Such findings are of particular relevance for Australian marketing managers. According to the Australia Bureau of Statistics (2002), most Australian firms investing in China are small organizations, consisting of non-manufacturing businesses employing less than twenty people, or manufacturing businesses employing less than a hundred people. These small Australian firms, which were identified in Nicholas et al’s (1999) survey, have the propensity to rely on forming network connections with their Chinese counterparts. However, there has been limited investigation on the effects of Australian small firm size and how it affects the interconnectivity of key Guanxi constructs in the Chinese business environment.

In addition to firm size and resources, the unique character of the China business environment also impinges on relationship development (Anderson et al 1994, Luo 1997). Factors such as the competitive business climate (Tan and Litschert 1994; Yan and Gray 1994) and China’s external environment (Tan and Litschert 1994; Yan and Gray 1994) have been found to have significant effects on Guanxi dimension. For example, Yan and Gray (1994) have identified changes in China’s foreign investment policies as having a strong effect on the dependency of foreign firms on their Chinese partners’ local connections. The business environment in China is therefore included in the conceptual framework along with firm size and resources as moderating variables.

The consequence of successful Guanxi has been empirically linked to performance (Ewing et al 2000). In relation to managerial implication, Figure 3 considered Guanxi as multi-faceted and its effectiveness as lying in its impact on each of its aspects on one or two business performance dimensions such as sales, formalisation, termination costs and/or overall relationship quality. This is appropriate as it considers aspects of both long and short-term performance. Firms forge business relationships for the purpose of long-term benefits, such as market share, as well as short-term profits (Gronroos 1994). It is argued that Guanxi will provide both types of benefits. While the immediate
pecuniary effects of a successful *Guanxi* relationship can be measured as a sales increase, a long-term benefit might include higher overall performance in the form of enhanced progress in winning contracts, as well as a higher level of reputation and confidence in doing business (Abramson and Ai 1999). Business partners that are successful in *Guanxi* relationships will continue to prosper and expand, and provide long-term pecuniary benefits (Ewing et al 2000).

Mavondo and Rodrigo’s (2001) study suggested that organizational commitment was an additional outcome of a successful *Guanxi* relationship as did Wong’s (1998) study which showed trust and adaptation as positively correlated to overall relationship quality. Commitment as an outcome of a successful business relationship has been used frequently as a dependent variable in Western relationship studies (e.g. Morgan and Hunt 1994), as well as in recent *Guanxi* studies (e.g. Mavondo and Rodrigo 2001). Commitment symbolizes enduring stability at a conceptual level, as well as a reliable surrogate measure of a long-term relationship performance at the operational level (Mavondo and Rodrigo 2001).

However commitment as a dependent variable in preference to performance is inadvisable. Measures of commitment are more subjective than are measures of performance (Mavondo and Rodrigo 2001). While the consequences of commitment are often more easily observed, including behavioral measures such as achievement of strategic objectives and goals, the economic measures of performance are more specific in terms of sales and profitability figures (Cavusgil and Zou 1994). Furthermore, there is a wealth of relational marketing material and studies of commitment that argue that commitment and performance are inextricably linked (e.g. Young and Denize 1995). Therefore both performance and commitment are incorporated as dependent variables in our conceptual framework as illustrated in Figure 3.
Figure 3 reflects the discussion to this point. The conceptual framework explicates proposed relationships between the aspects of Guanxi (Ewing et al. 2000), proposing in line with the preceding discussion that:

- The development of trust is both a cause and consequence of the development of reciprocity;
- The growth in dependence leads to a growth in reciprocity; and
- Mutual dependence, reciprocity and trust combine in what we call Guanxi to foster relationship success.

Figure 3 further proposes that the relationship between Guanxi and commitment and performance are moderated by the size and resources of participating firms and by that part of the business environment of China that applies to its trading partner. However these relationships are ambiguous. While previous discussion has highlighted that small firms benefit from Guanxi, their capabilities to participate in Guanxi-producing activities remains to be determined. It may be that their greater need for strong networks will lead to greater efforts on the part of their members to form the linkages needed to generate
Guanxi and/or those members might be more sharing of their personal Guanxi networks with their firm to enable its success. On the other hand, larger firms will have more potential Guanxi networks to draw upon, given their greater numbers of personnel. Further research is needed to ascertain the probable nature of this link. Similarly the external environment is likely to be important, but the particulars of this will be specific to the time and context of the specific firm seeking to enhance their business in China. This is likely to be problematic, as China is in a state of considerable flux as it enters the environment of Western business, with its WTO entry. Certain changes are likely to have substantial impacts on Guanxi. For example, China’s legal system is undergoing development in ways that may make Guanxi less significant. At present the required ‘trust’ is provided within the Guanxi system. As the legal system changes and provides more effective safeguards, this may be come less necessary and the role and importance of Guanxi could change.

Conclusions and Future Research
Numerous studies suggest that Chinese businesspeople develop Guanxi prior to business negotiations or transactions (Keep et al 1998; Rodrigo 1998; Yau et al 2000). As Western businesspeople begin to interact in Chinese markets they are finding that their model – that of building transactions first and, if they are successful, following up with a personal relationship - is not effective (Williams et al 1997). A review of the literature has determined that the models of this process to date do not entirely capture the phenomena we seek to explore. Thus, we identify two approaches, Western and Chinese, in our typology. We then present our conceptual framework, identifying key Guanxi dimensions for success in business development for Western firms in a Chinese business context. Future research in this area should benefit from our framework, which identifies the linkages and interaction between key Guanxi constructs, which have previously been ignored.

To begin to address these issues, research is needed. We would argue that initial research should be qualitative, in-depth and exploratory considering the workings of Chinese
business networks as they function in business relationships with foreign firms and their members. Future research questions need to focus on:

- The nature of the trust, dependence and reciprocity within the Chinese to Chinese personal relationship, Chinese to Western and Western to Chinese.
- The extent to which trust, dependence and reciprocity reflect *Guanxi*.
- The mutuality of the building of trust, dependence and reciprocity, and to what extent is the building and maintaining of these factors independent, referential, experiential or interdependent.
- The extent to which this varies from Chinese to Chinese personal relationships, Chinese to Western and Western to Chinese.
- The extent to which size and resource bases of interaction firms moderates the relationship between *Guanxi* and relational effectiveness and whether other personal, firm and/or relationship characteristics need to be included as moderators.
- The extent to which this varies between Chinese to Chinese personal relationships, Chinese to Western and Western to Chinese.
- The nature of the relationship between *Guanxi* and commitment and *Guanxi* and performance
- The extent to which this varies between Chinese to Chinese personal relationships, Chinese to Western and Western to Chinese.

To answer these questions, we will undertake exploratory research that considers the functioning of Sino-Australian dyads. Both Chinese and Australian managers will be interviewed to ascertain differences in perspective. Comparative case analysis will be undertaken both within and between industries. This will probably consider Sino-Australian business relationships in China’s real estate and software industries – as these are well developed areas of business endeavor between the two countries and will enable us to focus on ongoing rather than early-stage relationships. We hope to identify both effective and ineffective dyads from which to interview managers. This will better enable evaluation of the nature of the *Guanxi* and performance (or commitment) link.

In the longer term (and assuming validation of our model) we hope to do deeper analysis on the process by which *Guanxi* is developed. Wilkinson and Young (2002) have suggested that a more process-based approach to research better reflects business environments. Understanding of the way(s) in which managers signal, act and interact to
build and harvest the obligations of *Guanxi*\(^1\) would be useful to businesses seeking to enter Chinese markets and develop long-term relationships with local firms. This would also be of value from a public policy perspective. Governments seeking to regulate and administer cross-national business need to do so in harmony with the cultures and customs of potential trading partners. Too often this is considered only at the most macro level but an understanding of the micro processes can facilitate an environment with fewer rather than more barriers to relationship building. In addition to being administratively sensitive to the requirements of Chinese trading partners, understanding of the processes of *Guanxi*, could enable (better) training of firms and individuals seeking to enter China in the skills of reciprocity.

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\(^1\) As distinct from understanding the things that cause it and the outcomes it produces.


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