

An analysis of the strategical importance of relationships in the implementation of a guanxi-based strategy for doing business in china

ZHAO KUN ¹, DR. ABHIJIT GHOSH ²

PhD Research Scholar in Management, Lincoln University College, Malaysia

Contact details: abhijit@lincoln.edu.my

Abstract

One research topic and two major research questions were formulated after the initial literature review and the initial five to eight field interviews. The researcher claims that first empirical fieldwork shows a robust connection between guanxi development and enterprise competence. Interviewees suggested that without a distinguishing factor, guanxi's potential for fostering business growth is limited. However, guanxi remains an important strategic resource for every organisation that aspires

to improve its market-based competency and maintain great business performance for long-term success. The two concepts—guanxi and core competency—are therefore being investigated jointly. Because of their interdependence, studies of Guanxi business phenomena must take into account the reality of the market. Therefore, the objectives of this study have been met, and two more research questions have been identified.

Keyword: Competence of The Enterprise, Reality of Market

INTRODUCTION

In recent years, the literature has paid greater attention to the impact of guanxi on Chinese market performance. Guanxi as a key business application has been shown by several empirical studies to have distinct effects on achieving successful company conducts. However, there is a dearth of theoretical research in the extant literature area to support the strategic positioning of guanxi as a source of competitive advantage. Guanxi-based business competency is still in its infancy as far as theoretical limitations and background go. As a result of the current state of research in this field, the author felt compelled to carry out this empirical study with the goal of developing a theoretical framework for guanxi-based competency and its associated strategy forms.

As a methodological base, this study proposes to use grounded theory to look into the real social process of guanxi-based company strategic implementations in the Chinese market.. Following the grounded theory process, the research objectives were gradually accomplished

in order to fulfil the defined general study direction that focuses on examining the strategic positioning of guanxi-based competitive advantage.

LITERATURE REVIEW

Considering how heavily the literature has investigated the importance of guanxi in the Chinese market (such as Child and Tse, 2001, Chow and Ng, 2004, Davies et al., 1995), the exploration of theoretical potentials on guanxi-based business strategic implementations is becoming more necessary for more researchers to expand knowledge and comprehend. Xin and Pearce, 1996 However, in the literature, the evolutionary significance of guanxi in Chinese business has received little attention (e.g. Guthrie, 1998).

Over the course of the last 30 years, China's economic structure has shifted from a centrally planned to a market-planned one. As early as the Third Plenary Session of the Eleventh Central Committee in late 1978, China's central government agreed to adopt a preliminary strategy on reforming the state-planned economy and building a legal structure to promote economic growth (Potter, 2004). Since then, the country's economic structure and institutional system have been continually expanded and strengthened in order to speed up and secure the country's economic progress. Reform in China's economic system has been a great success thus far. The procedure may be divided into three key parts (Naughton, 2008; p. 91-135). From 1978 to 1984 a dual pricing system was in place, allowing state-owned firms to sell production over the quota while also ensuring that commodity prices were determined by both the plan and market prices simultaneously. There was confirmation and implementation of the fundamental principles of opening up the economy to foreign investment and permitting a market-based system to make adjustments to the primary structure of central planning. During the second phase (1984-93), government intervention and regulations on privately owned businesses were both reduced. Outstanding success in decentralising state control, allowing provincial leaders to experiment with new methods of boosting economic growth and privatising the public sector (Brandt and Rawski, 2008). The third stage (1993-Present) saw the establishment of new institutions to support the market system, while the reconstruction of older institutions was still ongoing (Qian, 1999).

With the growth of the Chinese market economy and the gradual evolution of institutional structure toward a rule-based system, the current market system has Chinese features. There will be an emphasis on China's most recent market conditions in this particular study setting. Post-reform China has seen significant improvements in market and intuitional development compared to the past. Although transitional changes are still occurring, numerous uncertainties and deficiencies in the system continue to have a substantial impact on company activity in such a merging marketplace.

In a transitional economy, the business uncertainties caused by institutional reforms have been shown to have a major influence on the strategic choices made by firms: whether to be network- or market-based (Peng and Zhou, 2005, Peng and Luo, 2000). There is a historical transition taking place in China's market system from one based on networks to one governed by rules.

The personal network-based social mechanism of guanxi now plays an important role as a lubricant in Chinese commercial operations, politics, and social life, all of which are permeated by it (Luo, 2007). A rule-based market mechanism forces participants to follow the poorly constructed institutional framework, on the other hand. As an alternative to formal institutional backing, guanxi relationships serve to mitigate the risks associated with future institutional shifts (Xin and Pearce, 1996). It is safe to say that in today's economic climate, Chinese companies require both guanxi-based and market-based competencies to succeed long-term. In other words, the goal of this research is to better understand the function of guanxi in strategic implementations and how it fits into a company's overall business strategy.

There is growing evidence that guanxi plays a significant strategic role in organisational results at the individual level (Luo and Chen, 1996, Zhang and Zhang, 2006). Many studies have shown that guanxi may be utilised as a business tool to increase operational efficiency and reduce risk in a variety of ways (Xin and Pearce, 1996, Luo and Chen, 1997, Lovett et al., 1999, Standifird and Marshall, 2000). Given that guanxi plays a strategic role, some empirical research are looking at how guanxi-based strategy works and what lessons can be learned for management practise from these findings (Fock and Woo, 1998, Luo and Chen, 1996). Various other academics are also aim to work on building models that understand guanxi's dynamic as a personal interaction mechanism in business (such as: Lee et al., 2001, Wood et al., 2002, Wong et al., 2007). Despite this, little is known about the strategic significance of guanxi. Although guanxi may be viewed as a form of competitive advantage, the current level of empirical understanding and recognition isn't sufficient to further theoretical understanding of guanxi-based strategic implementations. This raises the question of how guanxi functions as a strategic resource to help businesses flourish. According to Tsang (1998), guanxi-based competency is difficult to maintain when looking at the strategic state from a resource-based perspective. In terms of guanxi-based competency, however, the theoretical bounds and context are unclear. More exploratory research are needed because of the scarcity of relevant literature in this area, which necessitates a deeper understanding of the strategic implications of guanxi-based competitive advantage. On this reason, the author has undertaken this study in an effort to provide an overview of a theoretical viewpoint for the topic of how guanxi relevance impacts company strategy implementations and planning.

This theory-building qualitative study used the grounded theory technique (Glaser and Strauss, 1967) as its methodology. A collection of inductive research practises based on grounded theory helps researchers build conceptual knowledge of the reality they study (Holstein and Gubrium, 2003). A researcher's freedom to create theories and the capacity to conceptualise empirical facts are maximised when research techniques are flexible and rigorous in validating emerging ideas at a highly abstracted level from grounded theory approaches (Glaser and Strauss, 1967). A solid theoretical research on the issue of guanxi-based competency is required in this instance in order to get fresh insights and broaden our understanding of this commercial phenomena. Grounded theory is recognised as the most direct methodological technique in theory-building due to its well-developed comparative methodology when compared to the methodology of employing case studies to create theory (Eisendardt, 1989). (Glaser and Strauss, 1967, Creswell, 2007, Corbin and Strauss, 2008, Charmaz, 2006). It is not feasible to

undertake grounded research for all research aims theoretical investigations (Charmaz, 1995). According to the findings of this study, the author's research focused on the social process of guanxi-based business implementations and the character of participants' relationships. As a result, the grounded theory technique is a good fit for the current research. Ground theory offers certain benefits for conceptualising and integrating emerging theoretical notions in a substantive domain, therefore it is considered an acceptable approach for this research endeavour, contrary to standard methodological norms.”

Statement of the Problem

Based on the first assessment of the literature and the first five to eight field interviews, a research problem and two key research questions ultimately developed in this grounded theory study. First-round empirical research revealed a strong correlation between the development of a firm's competency and guanxi. Many of those interviewed stated that guanxi isn't useful for business success since it isn't paired with specific well-developed competitive advantages. There is no doubt that "guanxi" is a vital strategic resource for the development of a company's market-based competency and superior business performance over the long run for long-term growth. Thus, the focus is on the interdependence of guanxi and core competency in the study of entrepreneurship. The study of guanxi business phenomena cannot be separated from the market-based reality, which it must take into consideration. As a result, the emerging research topic and these two issues contribute to the study's goals.

Objective of the Study

- To explore the rationale of the interdependence between guanxi and a firm's core competence development.

Research Questions

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

Research Methodology

We're interested in the how and why of social phenomena, therefore we used a qualitative research approach for this project (Yin, 1984). This method of developing theory from actual instances was explained by Eisenhardt (1989) through an examination of all the relevant literature at the time. Several academics have endorsed the value of constructing theories from actual fact (e.g. Eisenhardt, 1989, Glaser and Strauss, 1967). Some researchers have developed their own techniques for building theories from cases (e.g. Bourgeois and Eisenhardt, 1988, Pettigrew, 1988, Sutton and Callahan, 1997), but grounded theory is by far the most direct methodological approach to building theories based on its well-developed comparative method, which relies on constant data comparison and the emergence from evidence of theoretical categories and an incremental approach to case selection and data gathering (Charmaz, 2006, Corbin and Strauss, 2008, Glaser and Strauss, 1967, Creswell, 2007).

When it comes to understanding the process by which actors create meaning from intersubjective experience, grounded theory is most suited, according to Suddaby (2006) (p. 634) (Suddaby, 2006). A collection of inductive research practises based on grounded theory helps researchers build conceptual knowledge of the reality they study (Holstein and Gubrium, 2003). For the most part, the pioneers of grounded theory (Glaser and Strauss, 1967) intended to construct middle-range theories from qualitative data by adopting flexible techniques for concentrating and speeding up the gathering and processing of qualitative data.

Also Charmaz (1995) demonstrated that grounded theory is appropriate for analysing individual processes, interpersonal connections and the reciprocal impacts between people and wider societal processes. Charmaz (1995). All of these uses are relevant to our study of corporate guanxi. To begin, guanxi is a self-initiated process that is deeply ingrained in people's social interactions. Second, guanxi is based on the interaction between people in intimate relationships. Last but not least, guanxi is activated by the reciprocal impacts between individuals from various organisations.. A theoretical approach based on grounded data is therefore the most suited way for studying China's guanxi phenomenon (Charmaz, 2006, Corbin and Strauss, 2008, Glaser and Strauss, 1967).

RESEARCH DESIGN

An exploratory qualitative methodology is utilised here, guided by a grounded theory methodological approach, to investigate the depth and breadth of emergent theories. As a result, the hypothesis just sprang into existence on its own. To check the emergent theory, which is based on facts, and to draw linkages to existing literatures, an analysis of comparative literature is then utilised to be used (Glaser and Strauss, 1967, Strauss and Corbin, 1997).

DATA ANALYSIS

Given that guanxi-related "quasi-competitive advantage" is insufficient for businesses to maintain a sustainable competitive advantage, market-based competence must be strategically developed in order to cope with the actual situation of business reality in the market. This is because the market is constantly changing. The truth can be comprehended by considering two extreme cases at once. If a company conducts all of its commercial dealings based only on guanxi connections, on the other hand, it runs the risk of progressively losing its market-based competitive capacity and strengths. The reason for this is that although guanxi-based commercial privilege may be beneficial to the company in the short term, in the long run it will cause more damage to its substantial business capabilities. On the other hand, in order to do away of guanxi-based competency entirely, the company might not even be able to thrive in an atmosphere that is so permeated with guanxi. The primary reason for this is that in such an economically developing environment, the company cannot function smoothly without the lubricant of guanxi. In addition, because the market is not completely established in rule-based operating systems, the company lacks the capability to cope with uncertainties without possessing a specific level of guanxi competence. In order to achieve sustainable success in business over the long term, it is necessary to simultaneously build up one's guanxi-based and market-based competencies.

YOUNG PERFORMERS ON A LOCAL STAGE:

During the immature phase, a company plans to rely on guanxi in order to overcome the shortages caused by the market rivalry and the uncertainties caused by the environment. This is due to the economic shortage and the lack of competencies in the company. The most urgent requirement for a business that has just been founded is to quicken the process of capital acquisition. In order to swiftly expand, a company has to have access to crucial resources and boost its sales in order to generate a profit. Guanxi plays an important role in the accomplishment of this goal by making up for some deficiencies in market-based competence. A company in its early stages, however, has limited guanxi negotiating strength and controlling capabilities since it does not yet have a competitive edge and is unable to fully capitalise on market opportunities. As a result, the majority of the company's reliance, in terms of the sorts of guanxi, is placed on members of the family as well as close friends who share a solid ganqing basis. Because of this, the company's capacity for market diversification is severely constrained due to the few forms of guanxi that it possesses. When a strong background in guanxi that is backed by the government is present, a company has the benefit of being able to join some industries that are institutionally forbidden. A friend of the mayor in another city extended an invitation to one of the informants to participate in an investment plan that was being run by that city's municipal government. This is an illustration that highlights how effectively guanxi may create attractive possibilities for some companies that have limited competence advantage. Therefore, the manager should evaluate the growth of an industry and the business environment from a market perspective first, then anticipate the specific necessity of guanxi for a firm's development and to plan the guanxi-oriented tactics. In conclusion, the manager should evaluate the growth of an industry and the business environment from a market perspective.

Mature & Large Stage:

When a company has reached the level where it can be considered mature, it has effectively developed its core competencies as well as its competitive advantages. It is possible to generate significant negotiating power by utilising its key competitive advantages. In addition, when the economic scale of the company grows larger, the company's guanxi resources become more intricate and diverse. Because of the company's developed dominating power, it has an overwhelming advantage in the majority of guanxi negotiation situations. During the course of the guanxi discussions, the management become increasingly optimistic. There are two distinguishing features associated with shifts in the direction of guanxi at this stage.

The first distinguishing feature is the presence of a selected orientation in guanxi formation. Greater people from outside the company seek to nurture their guanxi with the company in order to conduct business with it. This is because enhanced market competency produces more value for guanxi equivalents. Because of this, guanxi that has a greater potential value is engaged. Because of the firm's dominating guanxi negotiating power, the company becomes more optimistic about utilising guanxi, and its capacity to solve problems is much improved.

In guanxi management, the second feature is referred to as "top level leadership orientation." A company will recruit more top-ranked officials and managers in order to successfully

navigate the expanded and more complex guanxi networks. The reason for this is because the most senior executives of any organisation are always situated in the hub of their own organisational networks. As a result, they are the most powerful player in a system organised in a hierarchical fashion. However, the decision must be made by both parties; in order to develop guanxi, both parties must feel that they have gained something from the relationship. As a result, the expansion of the company's business is a prerequisite for advancing the guanxi network to a higher degree of sophistication.

In addition, when the company's influence grows within the local market and economy, the power of intervention from the authorities in charge of the local government becomes increasingly important. Guanxi with the government is the most valuable type of guanxi for market leaders to have in this situation. On the one hand, the operation of the business is proceeding as planned, and political forces have a greater impact on the strategic orientation of a company. The use of guanxi in business should make it easier for companies to comply with regulations set forth by the government. On the other side, sustaining a successful firm requires massive amounts of resources and financial assistance. At this point, public relations are becoming increasingly vital as the company moves closer and closer to becoming a regional "business star." For this reason, whether the company can acquire guanxi assistance from the government is important for maintaining its market leader position. As a result, government guanxi (also known as B2G guanxi) forms the foundation of guanxi strategy at this point.

According to the results of our empirical research, the following summary table highlights the primary concerns about the co-development of core competencies and guanxi.

CONCLUSION

The author has provided a comprehensive explanation of how the grounded theory methodological approach has been utilised to this research in this particular portion of the article. In the field of business management studies, grounded theory is utilised by students only infrequently. Due to the fact that this methodological technique is only appropriate for a small number of different study goals (Charmaz, 2006, Glaser, 1998). As a result of the author's preoccupation with this matter, numerous in-depth explanations were provided on the pertinent methodological issues that are associated with the methodology of grounded theory. In order to provide a better knowledge of how grounded theory is applied to a genuine research scenario in business management, the author of this study showed his empirical research procedure. This was done so that the reader may have a clearer understanding of how grounded theory is used. Because of this, the methodological basis and specific research procedures of this empirical investigation have been combined.

LIMITATIONS OF THE STUDY

This study has a lot of flaws that future researchers should be aware of. Research findings may help define theoretical bounds for guanxi-based strategy analysis, but they must be put to the test in diverse substantive settings before their validity can be confirmed. This novel theory's legitimacy can be proven and strengthened by more empirical research. The authors

of this paper also propose the performance of more empirical research to further the present theoretical understandings related to the newly created idea of „quasi-competitive advantage.

In light of the new emerging theory of quasi-competitive advantage, the underlying social process of guanxi-based strategic implementations has been abstracted. However, the scope of this empirical study was restricted to domestic businesses, which are thought to be deeply entangled in guanxi dynamics in Chinese business circles. It's also interesting looking at how multinational corporations (MNEs) in China use their strategic behaviour. It's fascinating to see how multinational corporations and local companies with the same guanxi dynamics compare when it comes to managerial behaviour in guanxi management. For those foreign managers from entirely different cultural backgrounds, cross-cultural participation might be a key influencing element. If multi-national corporations effectively implement their guanxi-based business strategy while dealing with guanxi issues in China, further study might focus on this, as well as the differences between multi-national corporations and local companies in guanxi-based strategic management.

This study adopts the resource-based view (Barney, 1991) as a theoretical breakthrough point since the more refined research focuses were suitable for implementing this method. This fundamental conceptualised category shows that guanxi is a valuable strategic resource based on the emerging empirical data. On the one hand, a well-defined research focus gives the researcher the opportunity to examine a wide range of topics in depth. However, this research only uncovered a small portion of the dynamic social process of guanxi-based strategic implementation.

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