

# ***Newcastle Graduate School of Business***

**Faculty of Business & Law**

***Guanxi* and sustainable competitive advantage  
in the Malaysian business environment**

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### **Declaration of original authorship**

**I hereby certify that the work embodied in this dissertation project is the result of original research and has not been submitted for a higher degree to any other University or Institution.**

**Signed: .....**

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## Abstract

Achieving a sustainable competitive advantage has been identified as a central tenet of success in a competitive business environment. However, the Chinese traditions of familial networking and building links through *guanxi* have seldom been reviewed within this paradigm. The goal is to provide both research and business with insights into how *guanxi* impacts on competitive advantage and how to successfully manage *guanxi* relationships. Before embarking on investigation of such an interrelationship, the study seeks to explore *guanxi* itself in a relatively under researched domain: Malaysia.

*Guanxi* is seen as an act of reciprocity and is often associated with corruption and bribery by Westerners. Notwithstanding, *guanxi* appears to be an important constituent of the Asian culture and can be seen as a form of relationship investment. It is suggested that if *guanxi* is cultivated it can lead to business success. This thesis suggests that businesses do not have to rely only on low-cost, differentiated or focused strategies to achieve competitive advantage. There is a complementary force – *guanxi*. The study looks empirically at *guanxi* within a newly defined ethical context - *guanxi*(+). More importantly, the study concludes by identifying that *guanxi*(+) and trust plus selected key success factors contribute to a Malaysian firm's sustainable competitive advantage.

The research adds to business knowledge through a deeper understanding of the role of *guanxi*(+) in Malaysian business practice and identifies five key contributions:

- A deeper understanding of *guanxi* in Malaysia;
- A deeper understanding of *guanxi*(+) in Malaysia;
- A deeper understanding of *guanxi*(+) and trust in Malaysia;
- A deeper understanding of *guanxi*(+) as sustainable competitive advantage;  
and
- A deeper understanding of sustainable competitive advantage within the context of its inter-relationship with *guanxi*(+).

*One who acts consistently is in accord with the multitude.*

Sun Tzu – The Art of War (2001, p. 39)

## **1. Introduction**

### **1.1 Background to the research**

Globalisation has increased the opportunity for firms to expand revenues as most markets are now accessible via modern forms of transport and communication (Firoz & Ramin 2004). At the same time it is possible to reduce costs by dispersing the firm's production activities across locations where key inputs are cost effective (Leek, Turnbull & Naudé 2001; Hill 2005; Yin & Chong 2005). The challenge is to formulate and successfully implement appropriate strategies to cope with the contemporary forces facing international business. However, strategy formulation and implementation for managing an international business and a domestic business do differ, particularly in environmental dynamics and operations (Shenkar & Luo 2004). What is similar for all these firms is the identification of the sources of sustainable competitive advantage (Feurer & Chaharbaghi 1997). This study starts such a process by firstly highlighting the problem to be addressed.

### **1.2 Research problem**

Increasingly the literature on Chinese business has identified the importance of a concept called *guanxi*. Much of the literature has portrayed *guanxi* as 'a substitute for formal institutional support' (Xin & Pearce 1996, p. 1642) and 'a continual exchange of favours' (Wood, Wheteley & Zhang 2002, p. 263). However, Yang (1994) suggests that *guanxi* is a type of relationship based on mutuality with some reciprocal benefits. Viewed in this context, it has been implied that *guanxi* influences competitive advantage in the business environment. Accordingly it may be seen as a means of parlaying the bargaining power of suppliers, reducing the threat of new entrants, softening the bargaining power of customers, balancing intense industry rivalry, and keeping customers loyal thus raising entry barriers to new substitutes (Porter 1980). Acknowledging that competitive advantage may be influenced by *guanxi*, the challenge is to empirically explore this relationship. The focus of this study will relate to interpersonal as well as business *guanxi*. The business environment under review is Malaysia. Two overall research questions are investigated:

- 1. How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?**
- 2. What is the role of *guanxi* in gaining competitive advantage in Malaysian business?**

To guide this study towards answering the research questions, an overview of the extant literature on *guanxi* is presented.

### **1.3 Background on *guanxi***

*Guanxi* has been regarded as an inferior construct and an archaic form of favouritism and nepotism (Yeung & Tung 1996). However, recently, *guanxi* has gained recognition as a legitimate socio-cultural construct within various domains such as sociology, social psychology, cultural anthropology, political science and business and management (Hwang 1987; Nee 1992; Björkman & Kock 1995; Xin & Pearce 1996; Luo 1997; Tsui & Farh 1997; Buttery & Leung 1998; Farh, Tsui, Xin & Cheng 1998; Tsang 1998; Chan & Wright 1999; Lovett, Simmons & Kali 1999; Chen & Chen 2004). *Guanxi* is widely practised in modern China (Park & Luo 2001) and can be attributed to the combined influence of:

- Chinese heritage, including Chinese philosophy, political history and religion (Luo 2000)
- Confucianism which fostered the broad cultural aspects of:
  - collectivism manifested in the importance of networks of interpersonal relations (Park & Luo 2001; Chen & Chen 2004);
  - the *wu lun* with its five types of cardinal relationship: ruler and subject, father and son, husband and wife, elder and younger brother, and older friend and younger friend (Luo 2000; Fang 2003; Chen & Chen 2004);
  - filial piety which advocates ancestor worship, and love, respect and compliance of juniors to the wishes and needs of their parents and seniors (Ebrey 1984; Holzman 1998; Fang 2003); and
  - the *yi-ren* or righteous person which encompasses the notion of a person repaying favours and increasing the value of the favour given (Yeung & Tung 1996).
- the degree of structural and formal business practices that exist (Xin & Pearce 1996; Tsang 1998).

*Guanxi* has been extensively researched especially with respect to the importance and role of *guanxi* in China (Nee 1992; Björkman & Kock 1995; Boisot & Child 1996; Xin & Pearce 1996; Tsui & Farh 1997; Buttery & Leung 1998; Wood *et al.* 2002) and is acknowledged as a potential source of strategic advantage in Chinese business dealings (Ying & Walker 2006). *Guanxi* has enabled Chinese ethnics to gain privileged access to entrepreneurial opportunities and to resources (Schaper & Volery 2004). Past studies conclude that *guanxi* leads to higher firm performance, with a stronger impact on market expansion and sales growth than on financial returns (Yeung & Tung 1996; Park & Luo 2001). It applies not only to China but also to the ‘Chinese commonwealth’ (Kao 1993, p. 24), a network of entrepreneurial relationships outside of China bounded by tradition (Yeung & Tung 1996; Luo 1997).

A lack of legal infrastructure and a preference of the Chinese to be governed by ethics rather than law have contributed to the Chinese use of *guanxi* (Yeung & Tung 1996). The exchange of favours with businesspeople and their agents as well as government authorities has become a way of overcoming competitive and resource disadvantages (Park & Luo 2001). From this perspective, *guanxi* is viewed as ‘a method of economic organisation without resorting to law or other formal rules’ (Ying & Walker 2006, p. 2).

Only a few empirical studies have shown that *guanxi* is associated with a SCA and can be used as a tool to help implement an effective business strategy (Vanhonacker 2004). This applies especially to the non-China context. More research is therefore deemed necessary to fill this gap. This accords with Fan’s (2002) suggestion that research is needed to investigate how *guanxi* works in a business context and in this case how *guanxi* influences a firm’s performance. The next section looks at two justifications for this study.

#### **1.4 Justification for the research**

The following factors are presented as justification for the research:

##### **i. The role of *guanxi* as sustainable competitive advantage**

The importance of long-term success is a favourite research topic for many theorists and practitioners. Porter’s (1980) five competitive forces, Prahalad and Hamel’s (1990) core competencies of the corporation, and Wernerfelt’s (1984) resource-based view are seminal works in this area. All three have one thing in common – they seek to maximise the performance of the organisation (Feurer &

Chaharbaghi 1997). However, the issue of intended and achieved strategy appears to be a difficulty for all three (*ibid*). All three concepts cannot lead to success for the organisation when there is disharmony within the members of the organisation, non-cooperation from suppliers, and customers' sentiments are against the organisation. The key is 'close cooperation of people' (Feurer & Chaharbaghi 1997, p. 68).

From these perspectives, relational cooperation is identified as a key aspect contributing to the disparity of intended and achieved strategy (Amason & Mooney 1999; Hausman 2001). It has been argued that success in relationship management is linked to overall corporate success (Leek, Turnbull & Naudé 2001). This contention brings forth the argument that *guanxi* can be used as an organisational approach to bridge the gap between the firm's intended and achieved strategy by promoting relational cooperation among members of the organisation and also with external stakeholders. Accordingly, *guanxi* is treated in this study as one of the factors contributing to the firm's SCA.

## **ii. The importance of *guanxi* for conducting business in Malaysia**

Malaysia is a country of many ethnic groups and is a multi-religious society. It encompasses a large Muslim population and an economically powerful Chinese community. Generally, the population is divided into three main categories; Malay 60%, Chinese 26%, Indian and others 14% (Country profile: Malaysia). The diverse population composition presents a useful research opportunity for investigating - how Chinese Malaysians acting within such diversity use *guanxi* in Malaysian business dealings. The lack of previous research into this issue in the Malaysian context suggests this research endeavour is timely and appropriate. This also concurs with the suggestion of Fontaine and Richardson (2005) that there is a need for within-group studies in Malaysia.

Improving the understanding of *guanxi* in the Malaysian context therefore fills an important gap in the literature. Of particular importance in this study is the additional investigation of competitive advantage. If *guanxi* is operational it is a worthwhile research objective to more fully understand the strategic benefits of its utilisation. Li and Wright (2000, p. 370) offer a fitting summary that '...the research findings on *guanxi* should be beneficial to firms conducting business in all emerging markets...'



## 1.5 Methodology

There are many paths for seeking knowledge (Cavana, Delahaye & Sekaran 2001, p. 34), and subsequently there is 'no single philosophical approach that fits all circumstances' (Kriz 2002, p. 79). The 'paradigm incommensurability' theory supports the view that researchers must choose the rules under which they do research (Minger 2001). Each type of methodology has its importance and usage (Silverman 2000) with key decisions based on the topic of the research and the research objectives (Cavana *et al.* 2001).

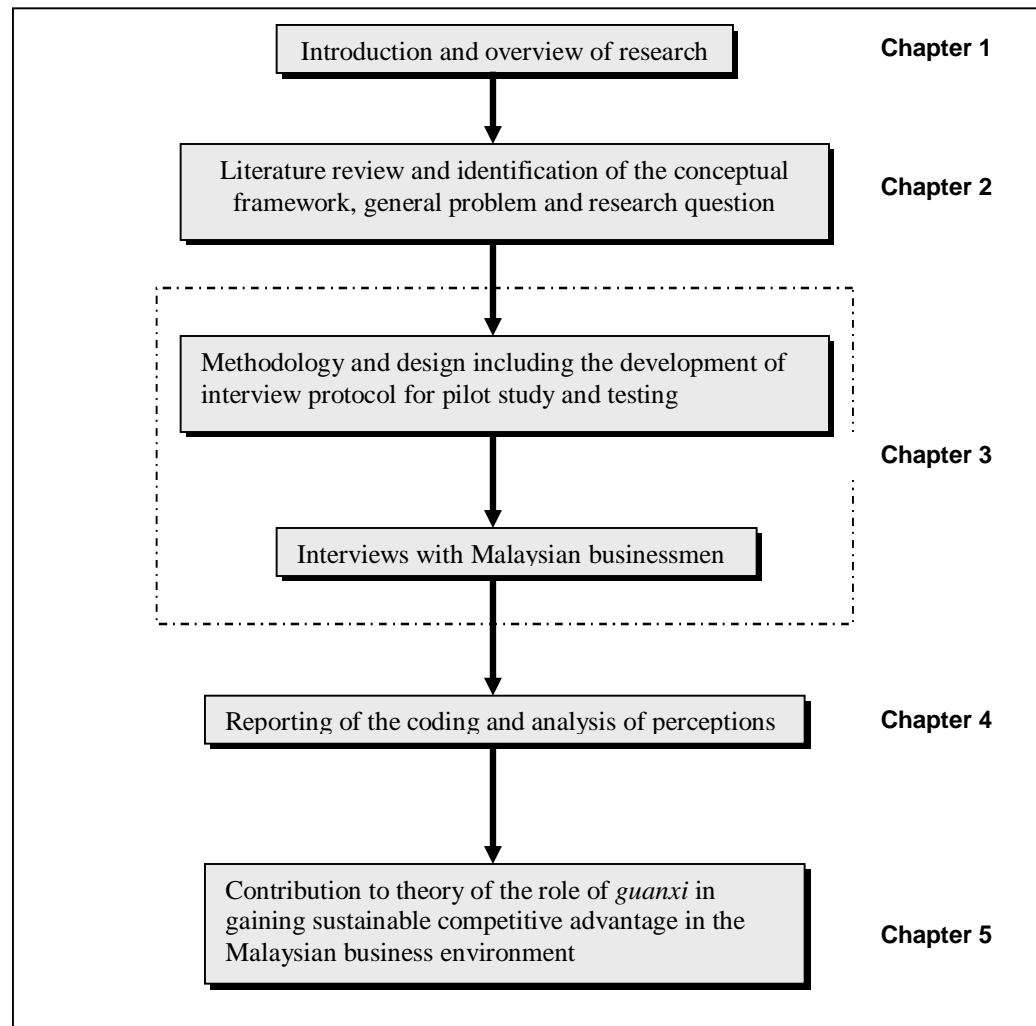
The topic of this research requires the investigation of the impact of social networks in business strategies and involves exploring relationships that may be shared between overlapping social phenomena. Befitting this research approach is the use of qualitative techniques and an in-depth, semi-structured interview method (Rubin & Rubin 1995; Easterby-Smith, Thorpe & Lowe 2003). This study employs an open-ended interview technique which is directed at solving the broad research problem of the role of *guanxi* in gaining SCA in the Malaysian business environment. The interviews begin with participants being asked a general ice breaker: "How do you obtain business?" This general question is then followed by a series of additional items that allows interviewees to bring out issues related to the main research topic (Carson, Gilmore, Perry & Gronhaug 2002).

This research was held in Malaysia and involved a sample of 12 respondents from various managerial functions and a variety of industries. The businesses were selected based on the perceived level of importance of *guanxi* with their customers and the firm's stakeholders. Using such a range reflects the variation sampling maxim as posited by Patton (1987). The aim is to achieve key outcomes from a great deal of program variation. The participants are selected based on their ability to provide in-depth details of their business experiences, opinions and perceptions. They must also be willing to provide sufficient information on the subject matter. Twelve respondents have the potential for achieving saturation and this fits with the recommendation of Lincoln and Guba (1985).

## 1.6 Outline of the research process

This thesis consists of five chapters as identified in Figure 1-1, each presenting a specific stage of the research process (Perry 2002).

FIGURE 1-1  
Outline of the research process and chapter sequencing



Source: Adapted from Perry (2002)

Chapter 1 presents an overview of the research, provides an overview of *guanxi* in Chinese business and discusses the importance of the research problem within the context of globalisation.

Chapter 2 begins with an introduction relating to the importance of social networks which is followed with a comprehensive literature review on *guanxi*. The differences between *guanxi* and *guanxi practice*, comparisons between *guanxi*-type systems and the Western market system, and the difference between *guanxi* and relationship marketing are key aspects discussed. Next, a literature review on sustainable competitive advantage is presented, followed by an examination of the

inter-relationship of *guanxi* and sustainable competitive advantage. A conceptual framework of *guanxi* and sustainable competitive advantage is also introduced.

Chapter 3 discusses the research methodology and design and details the development of an interview protocol, sampling methods, the process of capturing the data and the interviewing of participants.

Chapter 4 details the coding process and analyses the findings of the interviews. This chapter begins with a profile of the respondents. Key respondents' perspectives emerging from the two research questions are discussed in detail.

Chapter 5 discusses the key themes derived from Chapter 4. The chapter details the research findings, presents the summaries, and adds more detailed insight to the initial analysis. Contributions to business theory and practice are also identified. This chapter also presents the limitations and suggests a further research agenda.

Defining key terms is an important step in adding clarity and identifying parameters for the research (Perry 2002). The next section provides the definitions for key terms used in this study.

## **1.7 Definitions**

Listed below are the key definitions for clarifying and removing doubts on underlying assumptions of this research.

### ***Guanxi***

The definitions of *personal guanxi* and *business guanxi* are reviewed in depth in Chapter 2 of this study. Based on this review, *personal guanxi* and *business guanxi* are defined as follows:

*Personal guanxi* is the cultivation of a network of personal relationships (Wong & Tam 2000) that builds through the exchange of gifts and favours to attain mutual benefits (Pearce II & Robinson 2000).

*Business guanxi* is a dynamic process of linking inter-organisational or organisational behaviour with personal networks, and embodies the interaction of trust and loyalty, with a culture of continual exchange of favours (Chow, Holbert, Kelley & Yu 1997; Luo 1997; Fan 2002).

### **Sustainable competitive advantage**

The definition of SCA as posited by Hoffman (2000, p.1) forms the basis of the main understanding of SCA used in this study:

An SCA is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy.

### **Chinese ethnic Malaysian**

For this study, *Chinese ethnic Malaysian* is defined as ‘a social group or category of the population that, in a larger society, is set apart and bound together by common ties of race, language, nationality, or culture’ (Encyclopaedia Britannica) and are descendents of Chinese immigrants who arrived between the 17th and 19th centuries and currently reside in Malaysia.

Having defined the key elements of the study, it is also important to examine the boundaries of this study.

## **1.8 Boundary of the research**

### **Malaysian business environment**

In this research, the term *Malaysian business environment* refers to any business firm which is a legal business entity that operates in Malaysia. The focus in this research is on Malaysia with no intent to generalise the research results to other countries. A broader scope is left to future research.

### **Exploratory study**

The study uses an exploratory approach. Accordingly, qualitative techniques are applied and a small sample is utilised. The aim is depth rather than breadth and there is no attempt to generalise the findings.

## **1.9 Summary**

This chapter has provided a framework and justification for investigating the importance of *guanxi* in gaining SCA in a non-China context. Understanding *guanxi* in the context of gaining SCA is recognised in the literature as being a critical factor in competing in the international arena in the 21<sup>st</sup> century.

Chapter 1 has also provided an overview of the research, briefly described the methodology, defined key terms and established boundaries. The introductory chapter highlighted a gap in the literature on *guanxi* – a gap that exists with respect to

international business and globalisation. Also identified are two overall research questions:

- 1. How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?**
- 2. What is the role of *guanxi* in gaining competitive advantage in Malaysian business?**

*And so one who does not thoroughly know...cannot thoroughly know the advantage...*

Sun Tzu – The Art of War (2001, p. 7)

## **2 LITERATURE SYNTHESIS AND CRITIQUE**

### **2.1 Overview**

This chapter reviews the extant literature relevant to relationships and networks with specific emphasis on *guanxi* (關係) as a means of developing a sustainable competitive advantage (SCA). The literature review considers a number of key areas with the first section reporting on the forms and importance of relationships.

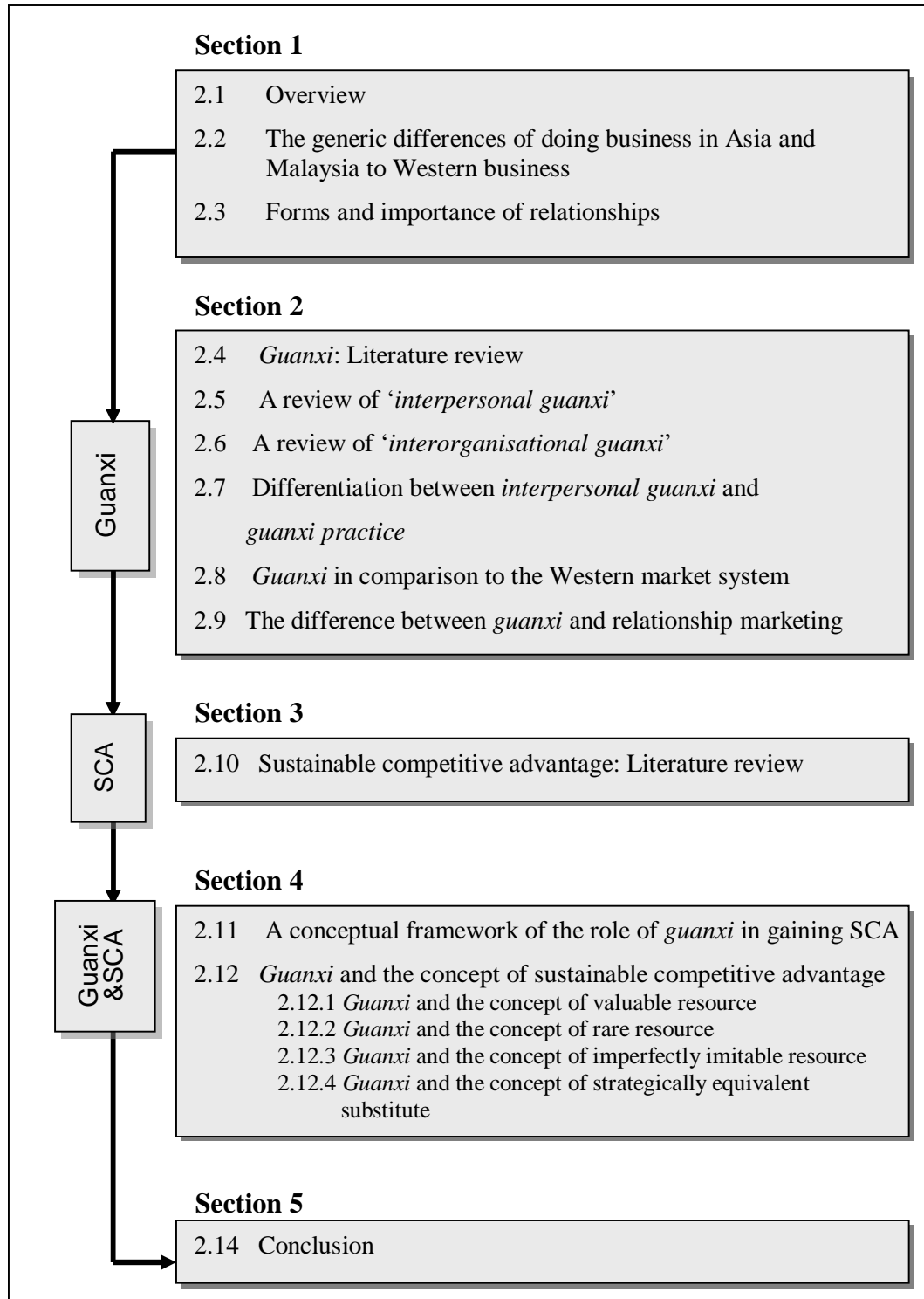
Having reviewed the literature relating to the forms and importance of relationships, the second section reviews the literature on the concept of *guanxi* and also provides a discussion on the differences between *guanxi* and *guanxi practice*; *guanxi* in comparison to the Western market system; and the difference between *guanxi* and relationship marketing.

The third section follows up with an investigation of the concept of SCA. Various research streams of SCA are the initial focus. Section 2.11 introduces a conceptual framework on the role of *guanxi* in gaining SCA. Details of the sources of competitive advantage, the importance of *guanxi* in competitive environment, and issues of strategic market investments are discussed.

Section 2.12 considers the inter-relationship of *guanxi* with SCA. How *guanxi* can be utilised to gain SCA in a competitive business environment is a key aspect of the discussion. Section 4 also synthesises the major issues of the preceding theoretical investigation and provides a discussion on how *guanxi* is viewed in conjunction with its resource-based role. Finally, a summary is presented to outline some important contributions of this chapter.

An overview of Chapter 2 is presented in Figure 2-1. Figure 2-1 incorporates the five sections described above and illustrates the key structure of this chapter, commencing with *guanxi*, moving on to SCA and ending with a linkage of *guanxi* and SCA. This linkage backed by appropriate sub-sections provides a detailed understanding of *guanxi* in gaining sustainable competitive advantage.

FIGURE 2-1  
Overview of Chapter



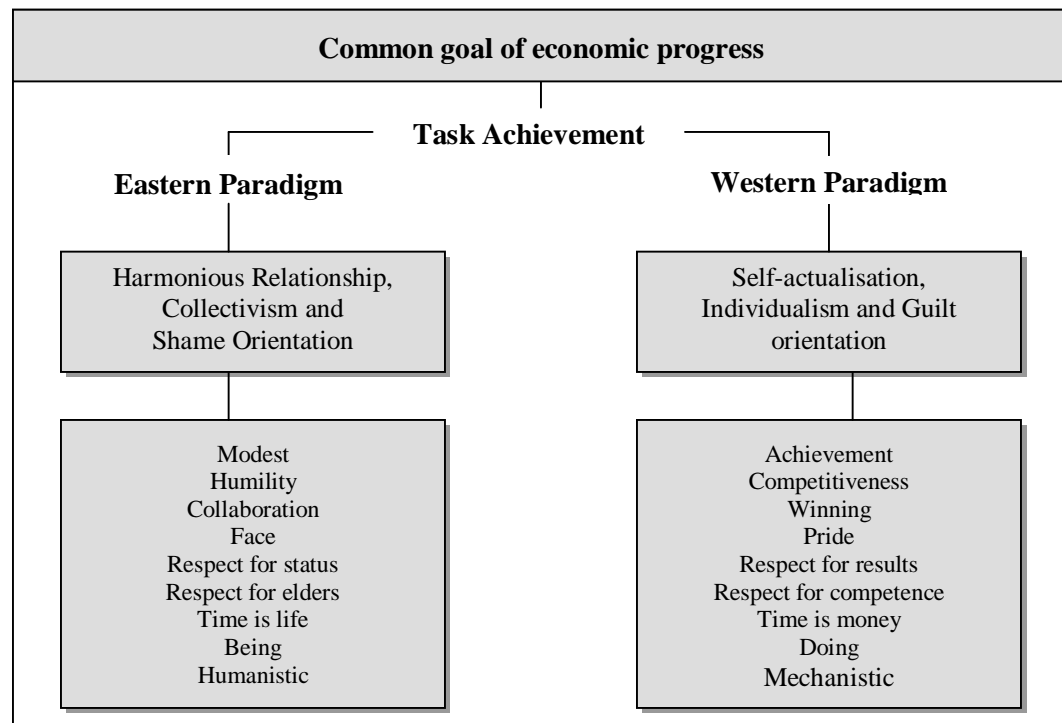
Source: Developed for this study

## 2.2 The generic differences of doing business in Asia and Malaysia to Western business

This section looks at an overview of emerging concepts in the field of cross-cultural business practices. The focus is on building an understanding of how business and management practices in one culture can be transplanted to other cultures and are then embedded (Jacob 2005).

Business practices and the concepts of management differ in many regions of the world (Hofstede 1993). It is argued that ‘the Americans focus on profit, the Germans on product quality, the French on technology leadership and the Japanese on market share’ (Fontaine & Richardson 2005, p. 63). Malaysian managers do differ from their American and Western counterparts on several aspects (Fontaine & Richardson 2005). For example, Malaysian managers view a problematic situation as something which should be tolerated, while American managers often view the same situation as something which should be changed (Jacob 2005). This difference is attributed to the key ethnic values between the Eastern and Western paradigm. This is summarised in Figure 2-2. Figure 2-2 provides a comparison of Eastern and Western paradigm and contains a summary of the elements of each paradigm.

FIGURE 2-2  
Summary of key ethnic values



Source: Asma (2001)



However, recent research suggests that there is little difference between the Asian and the Western style of management. It has been argued that style of management in Asian countries can be explained and described using modern management theories from the West (Low & Leong 2001).

Another stream of argument identifies the complex interplay between culture and management in a constantly evolving dynamic (Jacob 2005). Jacob also identifies that a particular management system may get adopted, yet it may not reflect the cultural preference of the majority. Countries have different cultural mixes and people tend to be 'hybrids' who simultaneously hold membership in different cultural groups (Jacob 2005, p. 515). Hybrid management practices explicitly reflect the culturally heterogeneous context of countries (Jacob 2005). This concurs with the opinion of Fukuyama (1995, p. 6) that 'interaction of different cultures can lead to creative change'. An area affected by this is the emerging concept of *crossvergence* (Jacob 2005), *biculturalism* (Fontaine & Richardson 2003) and *multiculturalism* (Jacob 2005) in the field of management practices.

Crossvergence is about marrying together management practices of two or more cultures, so that a heterogeneous culture forms (Jacob 2005). Biculturalism assumes that one person can have two cultures and transverse between these two cultures, depending on the cultural context (Fontaine & Richardson 2003). Multiculturalism relates to the management of sub-cultures within a nation and may exist within the organisation as a corporate culture reflecting such diversity (Jacob 2005).

From these perspectives, 'cultural diversity can be espoused to exist intranationally or within a single country, as well as across nations' (Jacob 2005, p. 515). Malaysia, with its ethnic groups, language and religious differences, is an appropriate choice for observing possible diverse cultural influences on business practices (Waller & Fam 2000). Supporting this is the argument that if one looks for what Malaysians have in common, one can find limited cultural differences between ethnic groups, but in terms of the differences, there are many cultural variations that exist between and within the ethnic groups (Fontaine & Richardson 2003).

Western management theories go some way to explaining behaviour in the Malaysian workplace. However, they tend to miss the richness of the relationships within and between ethnic groups (Asma 2001). For example, those Chinese who were educated in Malaysian Chinese schools strongly hold on to traditional values, whereas those Chinese that have been educated in Malaysian national schools have a weak

identification with traditional Chinese values. This indicates that the Malaysian Chinese community is split in two (Ong 1993).

Malaysians of various races have more converging than diverging cultural values (Fontaine & Richardson 2005). The cultural perception towards religion stands out as being the only significant difference between the main ethnic groups (Fontaine & Richardson 2005). Though it has been argued that the culture of each ethnic group in Malaysia is actually quite similar (Fontaine & Richardson 2005), there exists the danger of over generalisation especially in cross-cultural studies (Negandhi 1983). Overcoming this issue requires a practical review of both cross-cultural management and business practices. Malaysian managers will benefit by learning the practical aspects of both. Such learning requires an understanding of forms and importance of relationships. This is the focus of the next section.

### **2.3 Forms and importance of relationships**

The issues of relationships, networks and interaction have kept surfacing in the last 30 years in studies of marketing (Gummesson 2002). Market relationships (Anderson & Weitz 1992), co-marketing alliances (Bucklin & Sengupta 1993), buyer/seller relationships (Dwyer, Schurr & Oh 1987; Ganesan 1994), relationship marketing (Heide 1994; Morgan & Hunt 1994), relationship-oriented negotiation (Butler 1995), and relationship management (Leek, Turnbull & Naudé 2001) have all emerged as key management issues. Other researchers have outlined the importance of networks in relationship development and the network economy (Gummesson 2002), and alliance building (Lei & Slocum Jr. 1992; Jagersma 2005). Leek, Turnbull and Naudé (2001) suggest that success in relationship management is linked to overall corporate success. The emphasis on relationships and networks in business is likely to continue (Hitt, Lee & Yucel 2002) however there is a need for more empirical analysis into the precise dynamics of this phenomenon in cross-cultural settings.

The term ‘network organisations’ used by Webster (1992, p. 5) relates to corporate structures that result from multiple relationships, partnerships and strategic alliances. The Japanese have a very-close arrangement in the *keiretsu*. *Keiretsu* is a complex groups of firms with interlinked ownership and trading relationships bound together in long-term relationships based on reciprocity (Webster 1992). The network links the resources and activities of one organisation with those of another (Buttery & Leung 1998). Based on the concept of system dynamics, organisations are like giant

networks of interconnected nodes (Stata 1989; Wickham 2004). Inter-organisational networking may be defined as clusters of business units held together in network fashion by market mechanisms (Zeffane 1994) involving in long-term relationships (Thorelli 1986).

Networks are patterned relationships between individuals, groups and organisations, and refer to the expectation of a long-term relation between parties (Dubini & Aldrich 1991). Zeffane (1995) introduces the concept of the relationship enterprise which is a network of strategic alliances among big firms, spanning different industries and countries, but held together by common goals which encourage them to act almost as a single firm. Dubini and Aldrich (1991) argue that networks contribute to business effectiveness and are a useful tool for entrepreneurs to enlarge their span of action and save time.

Recent empirical studies into Western inter-firm relationships have shown that interactions based on relational exchange are important for business success (Li & Wright 2000). Inter-organisational networks provide opportunities to acquire new technologies and to expand their product/market reach (Park & Luo 2001). Networking is the ability to develop and cultivate a large and diverse group of people. The process encourages continual referrals (Zeffane 1995) and helps overcome a firm's lack of resources (Park & Luo 2001). Networks are equally important to business in Confucian societies such as Japan, Korea, Hong Kong, Taiwan and Singapore (Yeung & Tung 1996).

In fields like sociology, communication, management and marketing there have been significant progresses in understanding group behaviours by using *social network theory* (Hammond & Glenn 2004). *Social network theory* explains how relationships develop in the context of active social groups. It examines self organisation in communal settings and focuses on the flow of information through these relationships. To Western scholars the notion of *social network theory* is new and exciting. However, Eastern intellectual traditions have long understood the importance of social networking, and to the Chinese this concept is more popularly described as *guanxi*. This introduces a key element into the discussion and focuses the critique to a review of *guanxi*.

## 2.4 *Guanxi*: Literature review

The review of the literature on *guanxi* revealed three broad research streams. The first research stream focuses on the need and impact of *guanxi* in China's post-market reform years (1980s) in the so-called 'transition economy'. The transition has enabled areas of bilateral dependency and a shift to transaction costs economics where the emphasis is on a system of formal rules and regulations (Nee 1992; Björkman & Kock 1995; Boisot & Child 1996; Xin & Pearce 1996; Tsui & Farh 1997; Buttery & Leung 1998). Transaction costs have been described by Dahlman (1979, p. 148) to include 'search and information costs, bargaining and decision costs, policing and enforcement costs'.

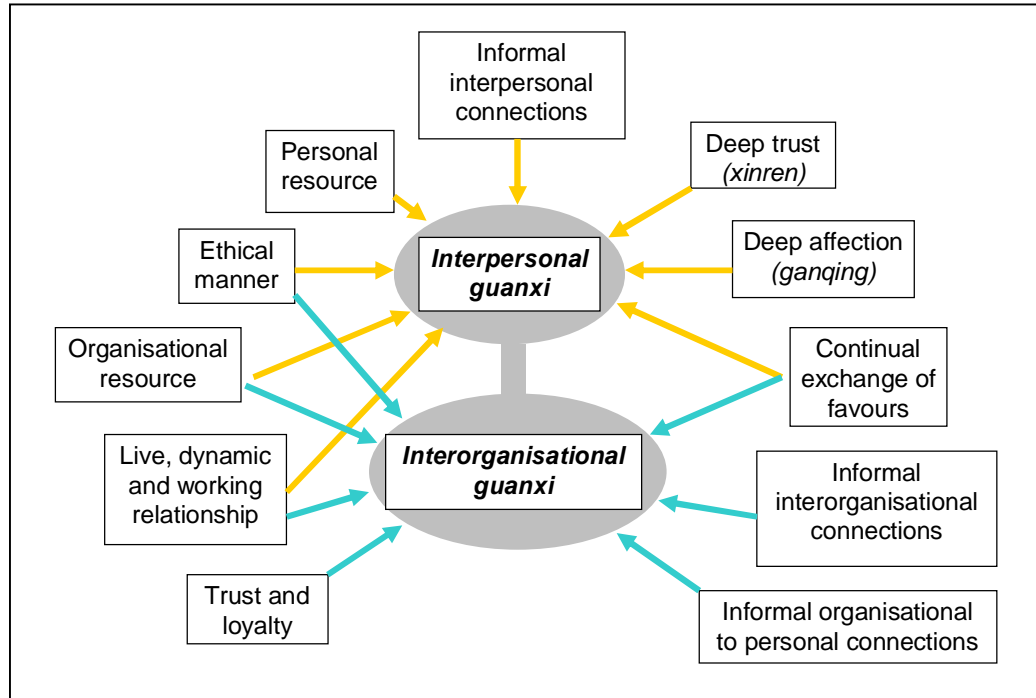
The second stream explores the business implications and benefits of *guanxi* (Yeung & Tung 1996; Chen & Chen 2004) with most of the literature focusing on China. *Guanxi* is a Chinese construct and accordingly China has been the area of most extant *guanxi* research.

The third stream addresses the association between *guanxi* and some Western concepts such as *competitive advantage* (Tsang 1998), the *interaction approach* (Davies, Leung, Luk & Wong 1995), *network approach* (Buttery & Leung 1998; Tung & Worm 2001) and *relationship marketing* (Simmons & Munch 1996; Arias 1998; Lovett, Simmons & Kali 1999; Armstrong & Tan 2000). Within these three streams of literature, researchers have examined values, beliefs, motivations and cognition of *guanxi* across cultures.

The review of the *guanxi* literature has identified the dimensions by which *guanxi* has been investigated. This is illustrated in Figure 2-3 and shows key dimensions of interpersonal *guanxi*, interorganisational *guanxi*, and dimensions common to both types of *guanxi*.

FIGURE 2-3

**A conceptual map of the dimensions of interpersonal *guanxi* and interorganisational *guanxi***



Source: Developed for this study based on the works of Gold (1985), Thorelli (1986), Alston (1989), Dubini & Aldrich (1991), Björkman & Kock (1995), Leung, Wong & Wong (1996), Xin & Pearce (1996), Yeung & Tung (1996), Luo (1995; 1997; 2002), Tong & Yong (1998), Tsui and Farh (1997), Tsang, (1998), Fang (1999), Lovett, Simmons & Kali (1999), Yi & Ellis (2000), Park & Luo (2001), Tung & Worm (2001), Fan (2002), Kriz (2002), Kriz & Fang (2003), Chen & Chen (2004).

This study will first focus on the dimensions of interpersonal *guanxi* to be followed with a focus on the dimensions of interorganisational *guanxi*. Where the dimensions of *guanxi* are common to both interpersonal *guanxi* and interorganisational *guanxi*, they will be discussed simultaneously.

## 2.5 Interpersonal *guanxi*

### 2.5.1 Definition of *guanxi*

Most researchers agree that *guanxi* is fundamentally ‘interpersonal connections’ (Björkman & Kock 1995, p. 524; Leung *et al.* 1996, p. 749; Xin & Pearce 1996, p. 1641; Yeung & Tung 1996, p. 55; Dunfee & Warren 2001 p. 192). Other researchers offer variations such as ‘special relationship’ (Alston 1989, p. 27; Fan 2002, p. 545), ‘particularistic ties between two or more individuals’ (Jacobs 1979, p. 238; Tsui &

Farh 1997, p. 56), 'power relationship' (Gold 1985, p. 660), 'process of social interactions' (Fan, 2002, p. 543), 'a carefully calculated science' (Tsang 1998, p. 64; Yau, Lee, Chow, Sin & Tse 2000, p. 17), 'a secret to corporate success in China' (Luo 1997, p. 52), and 'influence peddling' (Wall 1990, p. 19).

A definition given by Yeung and Tung (1996, p. 55) suggested that *guanxi* is 'a connection and/or relationship between two independent individuals to enable a bilateral flow of personal or social transactions on the basis that both parties must derive benefits from the transaction to ensure the continuation of such a relationship'. However such a definition has three contradictions. Firstly, this definition confines *guanxi* to a bi-lateral relationship which contradicts Bain's (1968) view that *guanxi* relates to networks which involve layer upon layers of interlocking connections. This layering forms a dense net in what is known as the *guanxi base* or *guanxishu* 關係樹 (Fan 2002). Involvement with one person may lead to involvement with a whole network (Tung & Worm 2001). Secondly, the contention by Yeung and Tung that 'both parties must derive benefits' also contradicts the view of Yau *et al.* (2000, p. 17) that 'the process of *guanxi* includes building and maintaining relationships that may not even seem useful and important yet'. Thirdly, Li and Wright (2000) and Chen and Chen (2004) argue that relationships between organisations can be a form of *guanxi*.

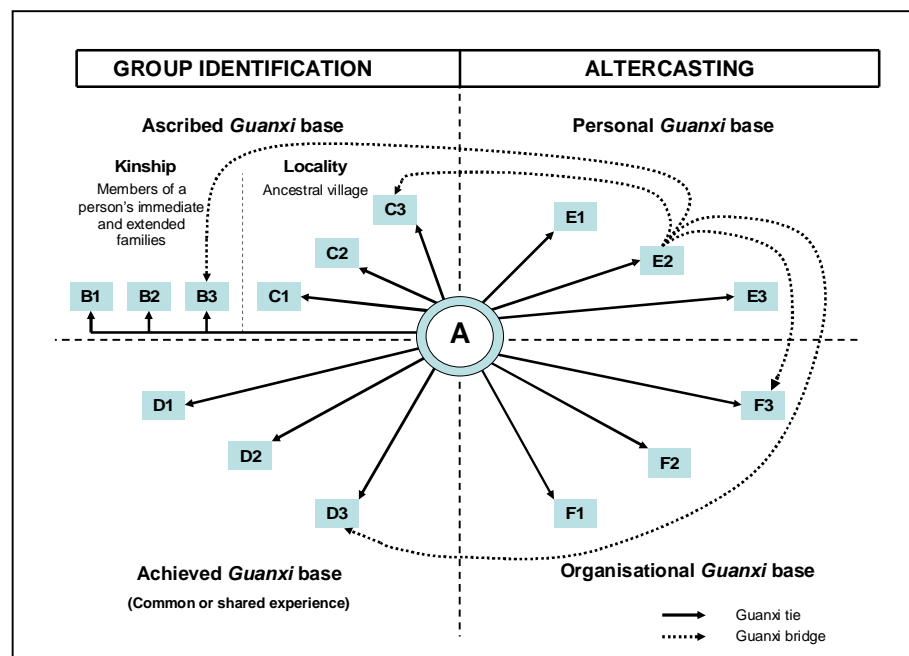
### **2.5.2 *Guanxi* networks (*guanxishu* 關係樹)**

As a connection, *guanxi* is active, alive, dynamic and working (Fan 2002). This contrasts with a relationship between two parties which might be static, remote or cold. *Guanxi* includes building and maintaining relationships that may not seem useful or important (Yau *et al.* 2000). The social relationship is often a prerequisite for a business relationship and information exchange (Björkman & Kock 1995).

*Guanxi* is described as 'the process of social interactions that initially involve two individuals' (Fan 2002, p. 543). It is not necessary for two people to share a *guanxi* base to commence the *guanxi* process (Fan 2002). Tsui and Farh (1997) further indicate that the process can be between a few individuals. These forms of informal interpersonal connections (Gold 1985; Xin & Pearce 1996; Lovett, Simmons & Kali 1999; Ambler & Styles 2000; Chen & Chen 2004) can be depicted diagrammatically as shown in Figure 2-4. Figure 2-4 divides the various forms of *guanxishu* into four categories.

- Ascribed *guanxi* base – locality/dialect; fictive kinship (organised clans based on common surnames); kinship (family, relatives - affinal and agnatic)
- Achieved *guanxi* base – classmates (*tongban-tongxue* 同班同學); trade associations; social clubs; work place (years of working together)
- Personal *guanxi* base – close friends;
- Organisational *guanxi* base – inter-firm relationships.

FIGURE 2-4  
***Guanxi* networks**



Source: Developed for study based on the works of Granovetter (1973), Yeung & Tung (1996), Tong & Yong (1998), Fan (2002) and Chen & Chen (2004)

As depicted in Figure 2-4, individual E2 has *guanxi* tie with individual A. Individual E2 may or may not have a special relationship with individual B3, C3, D3, and organisation F3. However, individual E2 asks individual A for assistance (favour) in finding a solution to a problem. Individual A may have the solution at hand, or more often, has to seek further assistance from other connections. This starts another process (Fan 2002) and through the *guanxishu* of A, E2 may have involvement with the whole network (Tung & Worm 2001). Thus, E2 can be connected through A to individuals B3, C3, D3, and organisation F3. This process is described by Yeung and Tung as

altercasting; the establishment of *guanxi* between two individuals attained through a mutual friend of both parties. Through an individual *guanxishu*, an individual can be linked to someone not known to him but to his friends.

There is a difference between this form of *guanxi* altercasting and the common notion of networking. In the process of *guanxi* altercasting, A serves as a third party guarantor or enforcer of the agreement between E2 and whoever A introduces to E2 (Ying & Walker 2006). Also, with respect to reciprocity, A expects some favours to be returned by E2 eventually.

Asset mass efficiencies in the perspective of the *guanxishu* can be looked upon as the extent and quality of the *guanxishu* and is dependent on the current *guanxishu* that one is having. This means that a wide and strong *guanxishu* is a barrier to imitation by competitors and provides access to the resources of other network members (Davies, Leung, Luk & Wong 1995). This process of asset mass efficiencies (Dierickx & Cool 1989, p. 1507) is a powerful feature of *guanxi*. Fan (2002) suggests that one should build more *guanxi* (connection) to reap the benefits of having more doors (opportunities) open for interactive privilege.

The *guanxishu* as a complex interpersonal relationship network is a source of early-mover advantage as time compression diseconomies can and do develop (Dierickx & Cool 1989, p. 1507). Based on the examples given by Dierickx and Cool, time compression diseconomies mean that the quality of interpersonal relationships developed over short periods of time will be inferior to those developed over longer periods.

Connections between individuals do not necessarily produce *guanxi* (Fan 2002). Development of *guanxi* depends on relational outcomes and future intentions. The next section looks at the importance of deep trust (*xinren*) and individual credibility in the development of a *guanxi* relationship.

### **2.5.3 The dimensions of *guanxi***

#### **2.5.3.1 Trustworthiness (*xinyong* 信用)**

Trust and credibility are two other important elements of *guanxi* (Yeung & Tung 1996; Tsang 1998). A description of a quality *guanxi* (*lianghaoguanxi* 良好關係) offered by Chen and Chen (2004) emphasises the presence of mutual trust and feeling between the two parties through numerous interactions following the self-disclosure, dynamic



reciprocity and long-term dyadic equity. Thus, interpersonal trust is essential in building a quality *guanxi*. The higher the level of trust between two individuals, the better the *guanxi* quality will be between two people (Chen & Chen 2004).

According to Dubini and Aldrich (1991) trust is an important component of business dealings. Trust has been defined as ‘a willingness to rely on an exchange partner in whom one has confidence’ (Moorman, Zaltman & Deshpande 1992, p. 315). Trust means having the confidence that the other party can and will perform a particular action important to the trustor (Deutsch 1958) and most importantly the relationship is mutually satisfying (Thorelli 1986). Trust requires personal relationships that transcend individual contact and is reinforced by a feeling that there is a good chance of dealing with each other again (Dubini & Aldrich 1991). Studies of networks emphasise the notion of ‘expanding one’s circle of trust’ between network members (Dubini & Aldrich 1991, p. 308) as a prelude to future interactions (Thorelli 1986).

Trust is not a necessary condition for cooperation (Mayer, Davis & Schoorman 1995) but a necessity for quality *guanxi* to occur (Kriz & Fang 2003). Trust involves expectations in relation to for cooperation and planning (Dwyer, Schurr & Oh 1987) and requires taking steps, over time, to create tightly linked connections between business parties (Arias 1998).

Trustworthiness (*xinyong* 信用) refers primarily to sincerity (*cheng xin cheng yi* 称心称意) rather than the ability of the person. Since *guanxi* quality is an overall judgment of relational strength between two individuals, sincerity-based trust may carry a heavier weight than ability-based trust in developing quality *guanxi* (Chen & Chen 2004). Cunningham (1995) posits that *guanxi* entails the heavy use of a network of trusted relatives and associates. When trust is high, the Chinese will do business as a gentleman (Kriz & Fang 2003). Sullivan and Peterson (1982) echo this sentiment by stating that: ‘...where the parties have trust in one another, then there will be ways by which the two parties can work out difficulties such as power conflict, low profitability, and so forth.’ The next section looks at the importance of deep affection for a *guanxi* process to commence.

### 2.5.3.2 Deep affection or *ganqing* (感情)

*Ganqing* (感情) or deep affection is a measure of emotional commitment between parties (Tsang 1998). The degree of closeness between parties is an important dimension of *guanxi* (Gold 1985), whether blood or social. *Ganqing* is built through shared experiences and interaction such as living, working or studying together (Tsang 1998).

If two persons have an interpersonal relationship but no *ganqing*, the *guanxi* will not be strong, dependable or valuable (Tong & Yong 1998). For instance, individuals could work together in a firm for a short period of time but their relationship may not have developed to a stage where they have deep affection. For a strengthening of quality *guanxi*, both have to invest time to cultivate *ganqing* (Tsang 1998). Clash of personalities could be another factor affecting the development of *ganqing* (Tsang 1998).

It can be argued that *guanxi* is cemented on *ganqing* and on a reciprocal obligation to respond to requests for assistance (Lovett, Simmons & Kali 1999; Pearce II & Robinson 2000). According to Tong and Yong (1998, p. 80), 'The chances of securing a favour will depend, in part, on the closeness of the *guanxi* and *ganqing*.'

Numerous researchers suggest that the core idea of *guanxi* involves relationships between or among individuals creating obligations for the continued exchange of favours (Björkman & Kock 1995; Lovett, Simmons & Kali 1999; Dunfee & Warren 2001). This guides the discussion toward an understanding of reciprocity and the value of *guanxi*.

### 2.5.3.3 Reciprocity (互惠主义)

The value of *guanxi* takes the form of an unspoken code of reciprocity (互惠主义) and equity (Hwang 1987; Luo 1997). That is, if an exchange partner receives a favour based on humanised obligation (*renqing*人情), the other partner is obliged to return the favour at some time in the future. This reciprocity is socially binding and without time specification (Pearce II & Robinson 2000).

In a *guanxi* network, favours are banked and create an obligation and promise of reciprocity. Although obligations are recognised by both parties, the relationship may never become balanced (Arias 1998). The general principle of reciprocity states that

people should help those who have helped them, and people should not injure those who have helped them (Gouldner 1960; Fang 1999). Chinese characteristics of reciprocity (互惠主义) emphasise a long-term orientation where repayment of a favour is temporally non-specific (Michailova & Worm 2003). Reciprocity may include unequal exchange in which ‘both sides will practice trying to do more, improving with every new effort, in a system of escalating favours’ (Hampden-Turner & Trompenaars 1997, cited in Chen & Chen 2004, p. 317). The extension of the time for repayment symbolises both the intimacy of *guanxi* and a willingness to continue. The return has to be generous and must be of great value to the receiver. Generous returns help sustain *guanxi* by showing that one is sincere and by inducing greater feeling of gratitude and indebtedness in the other party. These forms of reciprocity make the relationship dynamic and ongoing. One important driver in the equation of reciprocity is the issue of face (*mianzi* 面子).

#### **2.5.3.4 Face (*mianzi* 面子).**

Face (*mianzi*) implies more than reputation (Yeung & Tung 1996). Face is an individual’s public image, gained by performing one or more specific social roles that are well recognised by others (Tsang 1998). It involves a reciprocal relationship of courtesy and respect to and from the other party involved (Buttery & Leung 1998). Failure to honour this commitment can seriously damage one’s social reputation, resulting in a humiliating loss of prestige or face (*diumianzi* 丢面子) (Luo 1997; Leek *et al.* 2001). Thus, *mianzi* is viewed as an intangible form of social currency and personal status (Park & Luo 2001). The concept of *mianzi* is complex and carries expectations that, sometimes, favours will be returned and what is exchanged is *qingqing* (affection to the loved ones 情情), *ganqing* (emotion to friends 感情) and *renqing*/favour (human debt to acquaintances 人情) (Fan 2002). For the Chinese, loss of face (*diumianzi* 丢面子) is compared to the physical mutilation of an eye, the nose or the mouth (Park & Luo 2001).

There is extreme social stigma associated with a loss of face within an interpersonal network (Yeung & Tung 1996). Thus, saving face (*mianzi*) rather than losing it becomes a primary objective in Chinese society (Hwang 1987). Alternatively a

strong *mianzi* can be manipulated to alter the dynamics within a *guanxi* network (Park & Luo 2001). The preservation of face and the accumulation of favours owed (*renqing*) are the key drivers underlying the concept of *guanxi* (Yi & Ellis 2000). Exchange of favours have ethical implications, accordingly the next section addresses the role of ethics in the context of exchange of favours.

### 2.5.3.5 Ethics

*Guanxi* is portrayed as a backward or old fashioned way of doing business (Hammond & Glenn 2004) and/or equivalent to corruption (Dunfee & Warren 2001). This seems an unfair observation of Chinese tradition. Corruption can be found in any country or economic system (Fan 2002) and is a ‘ubiquitous phenomenon and historical constant, regardless of political system, economic organisation, or level of development’ (Josephs 2000, p. 277). Notwithstanding, the country manager for the Shanghai office of Kroll Worldwide (Atkinson 2004) observes that internal fraud and corruption also known as ‘parallel operations’ is a massive problem in China to the extent that it constitutes normality (Fan 2002; McCusker 2004).

Such negative implications have caused *guanxi* to be associated with terms such as ‘corruption’ and ‘ethically questionable’ (Fan 2002, p. 543). It is possible the misunderstanding emanates from confusion between ‘business *guanxi*’ and ‘business network’ (Fan 2002, p. 556). In a society with a long tradition of ‘rule by man’ instead of law, good *guanxi* with officials has always been the norm (Fan 2002). As advocated by Vogel (1992), different countries have different legal and cultural contexts for business ethics.

*Guanxi* is relationship-focused whereas corruption is transaction-focused. However, the relational ethic of *guanxi* implies that it cannot be bought (Vanhonacker, 2004). *Guanxi* means relationship building, while bribery is simply an illicit transaction (Lovett *et al.* 1999). This is affirmed by Fan (2002) who suggests *guanxi* is merely a matchmaker for binding two parties as illustrated:

$$\text{Money} \leftarrow \textbf{Guanxi} \rightarrow \text{Power} \rightarrow \text{Corruption}$$

Thus, corruption is not *guanxi* (Ying & Walker 2006). Cheung (1996) contended that there is corruption even without using *guanxi*. Cheung suggested that corruption in China is due to government regulations and controls, and that all politicians and government officials are constrained self-maximisers (1996). The weakness in the

market structure and legal system, combined with a lack of transparency due to the absence of political opposition and media scrutiny, have allowed *guanxi* to contribute greatly to China's 2005 Corruption Index score of 3.2 (Transparency International). Corruption in China exists as a means to offset the inefficiencies of a communist or hierarchical system and thus corruption would exist with or without *guanxi*. In other words, *guanxi* does not always result in corruption albeit it may be used as a facilitator (Tung & Worm 2001). Thus, it is the pre-eminence of *guanxi* (McCusker 2004) and not the indispensability of *guanxi* that supports and perpetuates corruption in China.

The negative aspects of *guanxi* which include associated corrupt behaviours such as favouritism and nepotism (Dunfee & Warren 2001; Leek *et al.* 2001) may make some Westerners think that giving bribes is a quick way to establish *guanxi*. However, true *guanxi* cannot be established merely through the one time payment of a bribe (Dunfee & Warren 2001). Outright bribery may be good enough to get a business transaction done on a one-off basis, but it cannot buy *ganqing* (Fan 2002). In this respect, there exists in the practical world 'ethical *guanxi*' or 'good *guanxi*.' This is supported by Lovett *et al.* (1999, p. 234) who suggest that '*guanxi* is based on Eastern principles and can be as ethical as any Western system'. Business ethics must be viewed in the context of actions (Dunfee & Warren 2001). Thus, a specific act of *guanxi* may or may not be ethically problematic depending on whether it is consistent with the authentic norms of the local majority and simultaneously manifest in more universal ethical principles (Dunfee & Warren 2001).

In consideration of the above discussion, the benefits of interpersonal *guanxi* are discussed in the next section.

## **2.5.4 The benefits of interpersonal *guanxi***

### **2.5.4.1 A form of social investment**

*Guanxi* is utilised to get things done (Gold 1985) and is a form of social investment (Luo 1995) or social capital, and an important resource that a person can tap into in times of need and trouble (Yeung & Tung 1996). The stronger the network, the more demands can be imposed. The Chinese refer to this as the 'hardness' of a *guanxi* relationship (Michailova & Worm 2003, p. 511). As posited by Rosabeth Moss Kanter (cited in Yeung & Tung 1996), an extensive web of worldwide connections is one of the most important factors for establishing a world class organisation. Thus, *guanxi* can be viewed as a form of social investment and social capital. This is explained below.

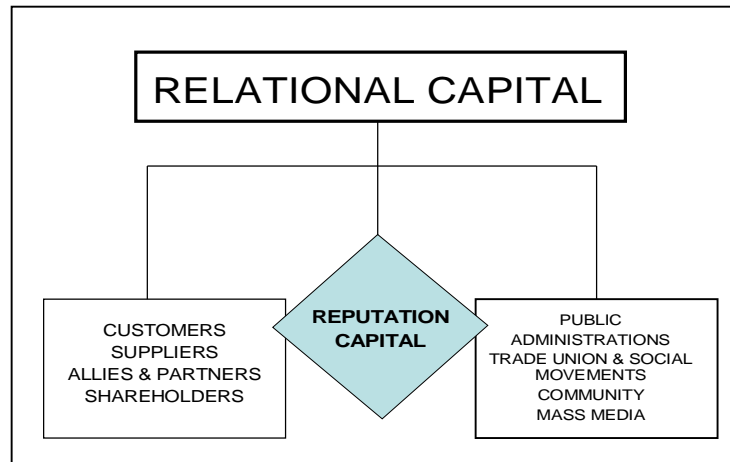
Developing, cultivating and expanding one's *guanxi* has become a form of social investment (Luo 1995). A *guanxi* relationship is private, informal and mainly non-business orientated. It is a special relationship based on family or shared context for the purpose of favourable exchange (Wilson & Brennan 2003).

*Guanxi equity* is a set of assets and liabilities linked to a *guanxi* relationship. Each *guanxi* transaction or exchange of favour will add or subtract the balance of favour. Some studies have drawn on resource-based theory by taking *guanxi* as a kind of organisational resource and capability that not only affects firm performance but can create competitive advantages (Xin & Pearce 1996; Luo 1997; Tsang 1998).

#### **2.5.4.2 A form of social capital**

The importance of social capital is clearly illustrated by Coleman (1988) who highlights the potential advantage of being embedded in a network of ties. The humanised obligation (*renqing*) is a form of social capital that can provide leverage during interpersonal exchanges (Luo 1999). The term social capital is defined by Nahapiet and Ghoshal (1998, p. 243) as 'the sum of the actual and potential resources embedded within, available through, and derived by an individual or social unit'. According to Nahapiet and Ghoshal, the fundamental proposition of social capital is that network ties provide access to resources. Marti (2004) put this in a more simplistic way, saying that social capital is the sum of the resources and capabilities that belong to the network of organisations that the intelligent enterprise has built in order to successfully compete. Thus, social capital can be seen like human and cultural capital to facilitate an individual's success in market exchange (Michailova & Worm 2003). Adding relational advantage with relational capital is a key factor that firms can use to compete. *Relational capital* can be defined as 'the value of the relations that an organisation maintains with the different agents of its environment' (Euroforum 1998 cited in de Castro *et al.* 2004, p. 577). Figure 2-5 illustrates that reputation capital is key ingredient to achieving relational capital with company stakeholders.

FIGURE 2-5  
Model of Relational Advantages



Source: Adapted from de Castro, Sáez & López (2004)

The discussion of *guanxi* as personal resources allows a further discussion of whether *guanxi* can act as an organisational resource. The next section discusses this issue.

#### 2.5.4.3 A form of organisational resource

Recent business publications applauded multinational corporations who have skilfully utilised *guanxi* to enter the Chinese market (Tanzer 1993). Some regarded *guanxi* so highly that they advised organisations to consider *guanxi* as a strategic resource and recommended *guanxi* audits (Wall 1990; Luo 1997; Tsang 1998). Egan (2001) posits that customer-supplier relationships frequently continue despite the loss of any organisational personnel initially involved. Irrespective of this, Barney (1991) advises that the best remedy is to increase staff retention to prevent rivals from quickly and costlessly expropriating the value of the human capital.

Li and Wright (2000) argue that *business guanxi* is more valuable to Western firms than *interpersonal guanxi*. Their contention is that the all-important relationships are not lost once the expatriate managers depart. In an article in the Financial Times, (27/11/00 cited in Fan 2002), deep customer loyalty to a company even when the CEO has left the company is construed as *business guanxi*. Further discussion on the issue of *guanxi* as a source of valuable organisational resource is provided in Section 2.12.1. The next section explores *business guanxi* in more details.

## 2.6 Business *guanxi* and interorganisational *guanxi*

Li and Wright (2000) discuss the implications of the existence of firm-to-firm *guanxi*. The research result from Li and Wright's (2000) interviews of 43 Chinese managers confirm that *guanxi* in China refers also to inter-organisational relationships. A new term derived from *guanxi*, *guanxihu* or 'partner firm' is presented by Luo (1997, p. 55). This refers to firms that maintain extensive *guanxi* with one another and give each other preferential treatment irrespective of market rationality (Luo 1997). Strutton and Pelton (1997) cite the example of Microsoft sharing portions of its proprietary technology with some strategic tie-ups among government ministries, local computer makers, and universities to build long-term relationships.

While Buttery and Wong (1999, p. 152) are adamant that there is no such thing as '*business guanxi*', Chen and Chen (2004) are positive that *guanxi* can be with an individual or an organisation, and that *guanxi* operates in different life spheres (family-, friendship-, political-, and business *guanxi*). Chow, Holbert, Kelley and Yu (1997, p. 449) make an attempt to define '*business guanxi*' as "... a relationship between ... organisations containing implicit mutual obligation, assurances, and understanding governing ... attitudes towards long-term social and business relationships." These perspectives seem to concur with Fan's definition (2002, p. 551) of '*business guanxi*' as the process of finding business rather than *personal* solutions through *personal* connections. *Business guanxi* can lead to long-lasting relationships that pave the way for continued success in one of the world's most demanding business environments (Li & Wright 2000). *Business guanxi* can become a strong force that helps offset the external hazards derived largely from market incompleteness (Luo 2002). Discussions are presented below on the various dimensions of *business guanxi*.

*Business guanxi* is a process that firms undertake to develop and maintain *guanxi* at the business organisation level (Li & Wright 2000). Senior managers must recognise institutional *guanxi*-building skills and develop rewards for those who practice this craft successfully, so that building firm-to-firm *guanxi* becomes a practical dimension of the career enhancement process (Li & Wright 2000). Four distinct dynamic processes characterise network membership (Thorelli 1986):

Entry → positioning → repositioning → exit

The establishment of networks of trust relationships is often a lengthy, complex, time consuming effort (Thorelli 1986). Elements crucial for the success of



organisations in global networking are the creation of mutual trust and understanding that underpin successful networks and finding mechanisms for improving the flow of information (Zeffane 1995; Boisot & Child 1996). Another is the process itself, since its very existence needs to be constantly nurtured through various types of interaction between network members (Li 1998). *Guanxi* through its relationship function is said to be the 'glue' that holds the business network together (Wickham 2004). It expands information and resource access by linking complementary assets in other organisations (Park & Luo 2001). One of the factors that can enhance this effect is trust (信).

Long-lasting trust is a fundamental prerequisite to any successful networking arrangement (Zeffane 1995). Trust can be a potent ingredient to a firm's success, particularly in the early stages of the venture (Wickham 2004). Tong and Yong (1998) record a shift especially by the younger English-educated Chinese towards systems trust. However, when considering the issue of trust in connection with an organisation, companies need to be mindful that business relationships generally do not have deep trust or *xinren* 感情 (Kriz 2002).

The next section takes a look at the difference between interpersonal *guanxi* and *guanxi* practice, and *guanxi* system in comparison to Western market system.

## **2.7 The difference between interpersonal *guanxi* and *guanxi* practice**

The economic and structural environments that make *guanxi* important in doing business in China are changing. In particular, certain controlled resources are increasingly subject to market forces (Arias 1998). Some argue that as China marches towards an open market system, *guanxi*'s role in business will eventually diminish (Fan 2002).

Guthrie (1998) argues that the above contention applies more specifically to *guanxi* practice. Thus, an understanding of the difference between interpersonal *guanxi* and *guanxi* practice would enhance this discussion.

According to Gomez and Hsiao (2004), there are basically two types of *guanxi*. The first is social obligations based on social value such as trust, dependability, reciprocity and preservation of 'face' and are associated with reducing transaction costs, increasing informational efficiency and business opportunities. The second evolves out of social relationships between businessmen and government officials

encompassing exchanges of rights and privileges for personal gains. The consequences are usually cronyism, corruption and nepotism (Gomez & Hsiao 2004).

Guthrie (1998, p. 255) classifies the first type as interpersonal *guanxi* which is 'establishing good business relations' and the second type to be *guanxi* practice which is 'backdoor' (*zouhoumen* 走後門) practice and usually involves corrupt practices. *Guanxi* practice is often used as 'a shortcut around or a coping strategy for dealing with bureaucratic power' (Guthrie 1998, p. 257) allowing individuals to bypass the inefficiencies ingrained in a communist bureaucracy (Xin & Pearce 1996). In China, interpersonal *guanxi* is often viewed as a necessary part of the market reforms and business transactions in a market economy, as contrast to *guanxi* practice which lies in conflict to the state-level, rational legal system (Guthrie 1998).

Based on this differentiation, Guthrie (1998) contends that it is *guanxi* practice that is diminishing in importance due to both increasing competition and legalism. This lends support to the perspectives of other researchers, that despite the changing market environment, interpersonal *guanxi* as a social construct can be expected to last (Arias 1998). A look at Hong Kong or Taiwan offers evidence that interpersonal *guanxi* survives in modern, rule-of-law societies (Vanhonacker 2004). This leads to the discussion on how interpersonal *guanxi* is viewed compared to the Western market system.

## **2.8 *Guanxi* in comparison to a Western market system**

The economic value of interpersonal *guanxi* is best explained by comparing the Western market system and *guanxi* system. In the Western market system, an expensive and relatively inflexible legal system is used to enforce contracts. Interpersonal *guanxi*-type system, on the other hand, depends on reputation and trust between individuals that reduces the potential gains from opportunistic behaviour (Lovett *et al.* 1999). The overall benefit is reduced transaction cost resulting from a flexible but relatively permanent network that is based on more complete models of trust (Lovett *et al.* 1999).

The interpersonal *guanxi* system as practiced in China offers a legitimate alternative to the Western market system (Lovett *et al.* 1999). This argument stems from observations that suggest most of the non-western world does business in a style similar to interpersonal *guanxi* and such a system under certain circumstances is more

efficient (Lovett *et al.* 1999). It has been observed that Western economies are evolving towards a new economic system and the convergence may result in each other embracing the most effective aspects of the other (Lovett *et al.* 1999). However, in order to achieve optimal efficiency and effectiveness, personal networks need to be managed differently in different countries (Michailova & Worm 2003). U.S. politics has many similarities to the Chinese operation of *guanxi* (Josephs 2000). It relies extensively on family members and subordinates to perform business and distance officials from compromising situations (Josephs 2000).

Western business practice is expected to move increasingly in the direction of an interpersonal *guanxi* style of social system (Lovett *et al.* 1999). It is argued that a relationship orientation like interpersonal *guanxi* provides a more effective means of conveying trust than the formal, expensive and relatively inflexible Western legal system to enforce contracts. Lovett *et al.* (1999) predict that Western businesses which are able to conduct transactions through trust-based agreements and long-term networks of relationships will increasingly out-compete those using traditional contracting methods.

Imperfect Western analogues of interpersonal *guanxi* include networking, reciprocity and nepotism (Dunfee & Warren 2001). Some authors (Björkman & Kock 1995; Dunfee & Warren 2001) suggest that interpersonal *guanxi* represents a traditional form of relationship marketing. This requires an investigation of whether interpersonal *guanxi* is indeed relationship marketing as practiced in the Western market.

## **2.9 The difference between interpersonal *guanxi* and relationship marketing**

The definition of relationship marketing proposed by Morgan and Hunt (1994, p. 22) is used to assist in the understanding of whether interpersonal *guanxi* is indeed relationship marketing:

*“Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges.”*

This definition highlights the different approach to relationships by Western and Eastern entrepreneurs and firms. Asian companies believe that relationships come first (Michailova & Worm 2003; Schaper & Volery 2004) and long-term relationships are the priority (Chen & Chen 2004). If the relationship is positive, transactions will follow. The Westerners, on the other hand, build transactions first; if they are

successful, a relationship follows (Ambler 1995). Another difference relates to the strength of networks and strategic alliances (Li & Wright 2000). Westerners see interpersonal *guanxi* as using others. As posited by Vanhonor (2004), according to Western morality, this is unethical. To most Chinese, interpersonal *guanxi* has its own moral code and serves as a necessary social function. But in China, using a relationship means an obligation to do something at a later date. When that obligation is eventually fulfilled, the person is considered ethical. The ethical dimension separates an interpersonal *guanxi* relationship from money-based or commodified transactions (Vanhonor 2004).

Relationship marketing has some similarity to interpersonal *guanxi*. Relationship marketing, like interpersonal *guanxi*, has trust and commitment as two key factors (Grönroos 1994; Morgan & Hunt 1994). These two elements determine how a relationship is established, maintained and enhanced. Yet the similarity seems to end here. The following discussion provides key differences between relationship marketing and interpersonal *guanxi*.

Relationship marketing promotes the building and management of relationships in a business context. However, in relationship marketing, relationships need not necessarily always be long term (Grönroos 1994). The end result focuses on a conclusion to each transaction (Grönroos 1994).

Value and exchange have an instrumental purpose. The interaction between buyers and sellers is not about interpersonal relationships *per se* (Egan 2001) but in profitability based on intelligent relationship building and management (Grönroos 1994).

Relationship marketing is not only created by people in organisations, but also by symbols, images and brands (Gummesson 1996). However, an interpersonal *guanxi* perspective is limited to social relationships which cannot be embedded in a brand name because of their personal nature (Arias 1998). Effectively, relationship marketing is a marketing approach (Rao & Perry 2002) whereas interpersonal *guanxi* is a relational approach.

Interpersonal *guanxi* and relationship marketing have another important variation. In relationship marketing, the 'voice of the customer is absent' (Buttle 1996) whereas in interpersonal *guanxi*, the interaction is inherently two-sided.

The above discussion sets the boundary that interpersonal *guanxi* is not the same as relationship marketing, although there are some aspects which are common factors

such as trust and commitments. This brings the paper to the discussion of the sustainable competitive advantage.

## **2.10 Sustainable competitive advantage**

Competition is about winning (Porter 1985). To win and to achieve superior performance, a firm has to create, exploit and sustain its competitive advantages (Porter 1980; Coyne 1986; Slater 1996; Ma 1999; Passemard & BKleiner 2000). Gaining competitive advantage is associated with a challenge to provide effective services in a cost-efficient way (Vandermerv, Lovelock & Taishoff 1994). SCA focuses on factors such as delivery time, maintenance, education, training, billing error minimization, continuous information exchange, innovation, responsiveness, trust, know-how and quality, and durability of personal contacts (Matthyssens & Vandenbempt 1998).

The concept of competitive advantage is often used to describe situations where organisations service customers better than competitors (Porter 1985; Chaharbaghi & Lynch 1999; Ma 1999). The focus is to outperform others or hold an advantage over competitors in the same industry or product market (Porter 1980; Coyne 1986; Day & Wensley 1988; Wickham 2004) by developing and implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors (Barney 1991) or through superior execution of the same strategy as competitors (Day & Wensley 1988).

A body of literature has emerged which addresses the content of SCA. Day & Wensley's (1988) approach is on a market orientation focus with an emphasis on superior skills and superior resources. Prahalad and Hamel (1990) posit that when resources and skills are combined, they become the firm's core competencies. Barney (1991) enhances the concept by proposing that the skills and resources must be rare, valuable, and unable to be imitated or substituted. Market orientation employing intangible resources such as organisational and informational resources serve as a solid source of SCA (Hunt & Morgan 1995).

A number of studies have explored the conditions under which a business's competitive advantage is sustainable. The first stream looks at the *Industrial Organisational Approach* which is targeted at isolating a firm's opportunities and threats based on Porter's five forces model (Porter 1980; 1985) with due emphasis on gaining superior market position (Bain 1968). This approach posits that after analysing the industry and market position, a review of resources is required.

The second stream takes the route of the *resource-based view* which analyses a firm's strengths and weaknesses (Barney 1991) with some researchers investigating the value of the firm's core competencies (Prahalad & Hamel 1990; Hamel & Prahalad 1994). This approach differs from the *Industrial Organisational Approach* by first assessing which distinctive competencies are available and then considering market opportunities. Some researchers of SCA focus on defensive strategies based on existing resource strengths (Chaharbaghi & Lynch 1999). These resource strengths include i) *positional* advantages such as superior endowments (managerial talents, skilled and dedicated employees, superior corporate culture) (Barney 1991), size-based advantages (market power, economy of scale and economy of experience) (Ghemawat 1986), and owning industry's technological standard (Hill 1997); ii) *kinetic* advantages (Ma 1999) such as knowledge, competence based skill, entrepreneurial capabilities, technical capabilities that enhance a firm's business process, organisational capabilities and strategic capabilities; and iii) *relational* advantages such as trusted cooperator or collaborator (Morgan & Hunt 1994).

The third stream is the *structural-fit approach* that focuses on analysing both the market's environment and the firm's resources perspectives. By matching and analysing the firm's situation from this approach, strategic options can be chosen for better results (Barney 1991; Leavy 2003). This approach proposes that the firm focus concurrently on market positioning and building core competencies designed to exploit current market positions while exploring for new ones (Markides 1999).

A recent stream of research, however, portends major changes in strategic management theory and practice. This is the paradigm shift in Western countries towards a relationship orientation (Yau *et al.* 2000) based on more complete models of trust (Lovett *et al.* 1999). The next section introduces a conceptual framework of the role of *guanxi* in gaining SCA.

## **2.11 A conceptual framework of the role of *guanxi* in gaining SCA**

Sustainability is achieved when the competitive advantage resists erosion by competitor behaviour (Porter 1985; Aaker 1989; Barney 1991). *Sustainable* means protecting attributes and resources over some usually undefined period of time (Day & Wensley 1988). Within this context, *sustainable* can assume a number of meanings depending on the frame of reference through which it is viewed. It can be interpreted to mean 'endurable, defensible, bearable, tolerable, liveable, supportable, passable,

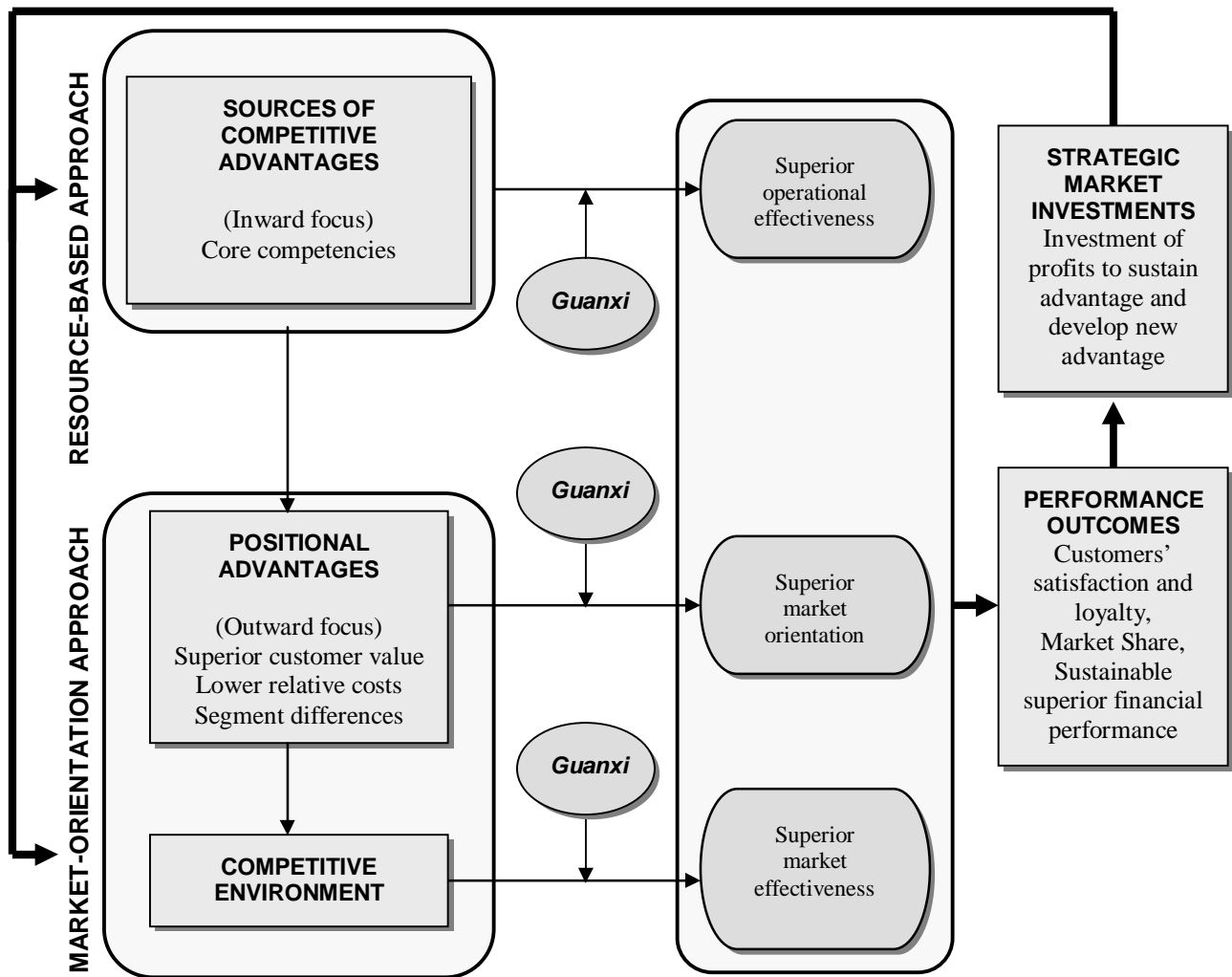
acceptable, justifiable, negotiable, and penetrable' (Chaharbaghi & Lynch 1999, p. 45). The sustainability of competitive advantage would depend on the ability *and speed* to adapt to changes and influence key buying criteria (Hamel & Prahalad 1991; Treacy & Wiersema 1995; italics – author's addition). A firm that better serves the customers or has more value and is superior to rivals is the industry winner (Porter 1996).

In Porter's focus strategy (1980), the emphasis is on serving a small cluster of buyers very well. *Guanxi* strategy differs in that there is no boundary to the customer segment to be served.

A conceptual framework showing the link between *guanxi* and SCA, adapted from the work of Day and Wensley (1988) and developed on the work of Coyne (1986), Dierickx and Cool (1989), Barney (1991) and Hoffman (2000) is presented in Figure 2-6. The conceptual framework proposes that a firm's *superior operational effectiveness*, *superior market orientation*, and *superior market effectiveness* are viewed as SCA and this is necessary for a firm to achieve superior sustainable financial performance. The framework suggests that *guanxi* is necessary to achieve superior operational effectiveness, superior market orientation and superior market effectiveness. Reinvestment of profits is necessary to sustain and develop new forms of competitive advantage (Bharadwaj *et al.* 1993).

FIGURE 2-6

A conceptual framework of the role of *guanxi* in gaining sustainable competitive advantage



Source: Adapted from Day and Wensley (1988) and developed on the works of Coyne (1986), Dierickx and Cool (1989), Barney (1991) and Hoffman (2000)

A detailed discussion of constructs central to the framework and the proposed links follows.

### 2.11.1 Sources of competitive advantage

*Core competencies* are defined as a central set of problem-defining and problem-solving insights that enable the firm to create potentially idiosyncratic strategic growth options (Lei, Hitt & Bettis 1996). Implementation to achieve core competencies is



through operational effectiveness which is the production of the right goods, at the right time, with the right quality at the right cost (James 2005). Operational effectiveness to achieve core competencies is dependent on interrelationships between people, routines and technologies (Lei *et al.* 1996)

However, in turbulent and often chaotic environments, and where there are in-house operational problems, SCA based on operational effectiveness and core competencies is not guaranteed (Coyne 1986). Firms with 'functional silos' (a situation where there is no collaboration between the firm's interfunctional departments) operating dysfunctionally (Slater 1996, p. 84) can be constituted as a form of competitive disadvantage.

Another aspect is the transfer of best practice within organisations. The existence of arduous relations between the source and the recipient has been cited as an important barrier to achieving core competency (Szulanski 1996). This affects the recipient's ability to acquire knowledge when needed.

Overcoming the above stated competitive disadvantages and deficiencies requires intimacy of relationships between the organisational members (Szulanski 1996). This is important in top management as evidenced by the argument of Hambrick (1987) that the strategic success of a business depends with not only on one person but also on the entire top management team. The organisation's positive relationship between members of top management as well as employees is a specific source of competitive advantage (Wickham 2004).

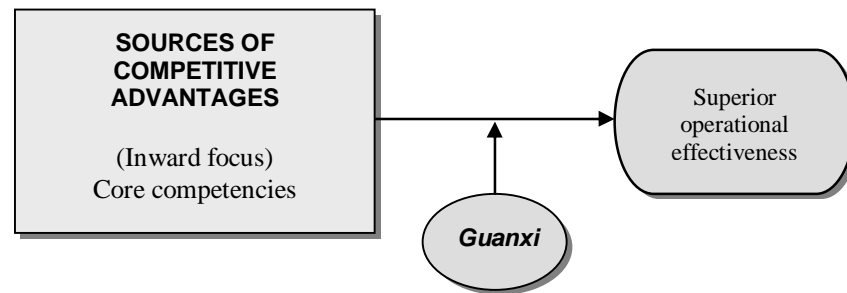
It can be argued that *guanxi* (關係) as a live, dynamic and informal interpersonal connection which embodies interactions of deep trust (*xinren* 信任) and deep affection (*ganqing* 感情) serves as a conduit for intimacy of overall members' relationships within the organisation. This situation effectively leads to superior operational efficiency. Superior operational efficiency refers to the ability of the firm to increase the efficiency of existing operations through continual improvements to achieve strong interfunctional coordination and cooperation (adapted from Park & Luo 2001). This translates into a capability gap over its competitors (Coyne 1986) which is a valuable and rare organisational resource/skill. The superior operational efficiency is a source of SCA since:

- i) firms that do not possess this resource cannot obtain it easily - the capability gap (Coyne 1986),

- ii) this critical resource is unique and imperfectly imitable (Coyne 1986; Barney 1986a; 1991).

FIGURE 2-7

***Guanxi* as a possible construct in gaining superior operational effectiveness**



*Source: Adapted from Day and Wensley (1988) and developed on the works of Coyne (1986), Dierickx and Cool (1989), Barney (1991) and Hoffman (2000)*

Figure 2-7 illustrates that *guanxi* is a possible construct for building superior operational effectiveness. *Guanxi* builds productive relationships with employees who deliver the actions which convert the firm's vision into reality through exploiting the core competencies (Wickham 2004).

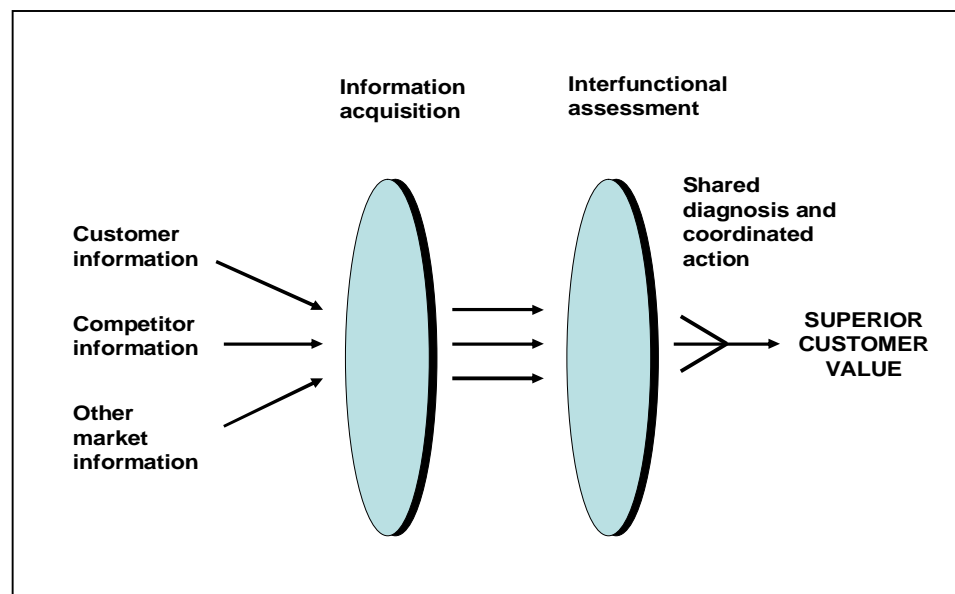
### **2.11.2 Positional Advantages**

Competitive positional advantages can be broadly construed as cost leadership and differentiation advantages (Bharadwaj, Varadarajan & Fahy 1993). Positional superiority is attained when there is provision for superior customer value or the achievement of lower relative costs which result in increased market share and profitable performance (Day & Wensley 1988). A customer-oriented approach has the advantage of competing based on customers' needs and perceptions of superiority (Day & Wensley 1988). Customers' orientation refers to the firm's effort to satisfy the customers' expressed wants by focusing on understanding the expressed desires of the customers in their served markets and on developing products and services that satisfy those desires (Slater & Narver 1998). This effort may develop into closer relationships with important customers to gain deeper insight into those customers' desires (*ibid*).

However, a warning is provided by Slater and Narver (1998) that being customer-led can be disadvantageous in situations of disruptive technology. It provides

insufficient stimulus for innovation that discontinuous change often demands. In such a situation a more market-oriented approach is required which recognises that different types of customers provide different types of stimulus and information (*ibid*). Market-oriented in this case refers to a long-term commitment to understanding customer needs – both expressed and latent – and to developing innovative solutions that produce superior customer value (Slater & Narver 1998). Figure 2-8 illustrates the broader complexity of such a market orientation. The figure identifies that such an approach requires: the systematic gathering of information on customers and competitors, both present and potential; the systematic analysis of the information for the purpose of developing market knowledge; and the systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation and modification (Hunt & Morgan 1995).

**FIGURE 2-8**  
**Market orientation**

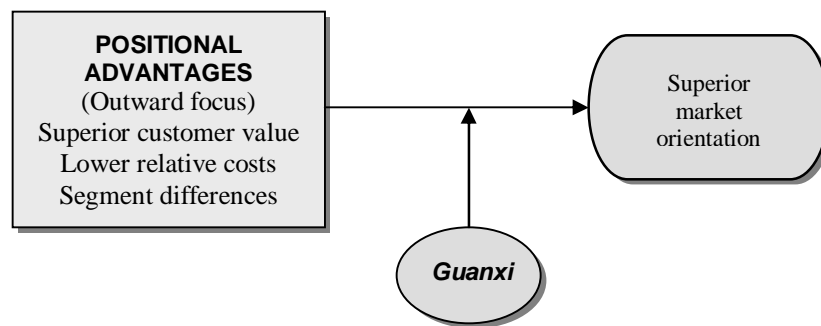


*Source: Slater & Narver, 1994*

According to Day (1994, p. 37), ‘companies that are better equipped to respond to market requirements and anticipate changing conditions are expected to enjoy long-run competitive advantage and superior profitability.’ This is achieved through anticipating market requirements ahead of competitors and creating durable relationships with customers, channel members and suppliers (*ibid*). Williams (1992, p. 36) cites the example of Goldman Sachs and Salomon Brothers in using ‘private’

relationships with clients to reap extraordinary fees. Christensen and Bower's (1996) research shows that the impetus from customers enables established firms to successfully lead their industries in developing competencies for sustaining technological change and where technological competencies exist, to commercialise these aspects. This could be achieved through superior market orientation as depicted in Figure 2-9. Figure 2-9 illustrates that *guanxi* is a possible construct for a firm to achieve superior market orientation.

FIGURE 2-9  
***Guanxi* as a possible construct in gaining superior market orientation**



*Source: Adapted from Day and Wensley (1988) and developed on the works of Coyne (1986), Dierickx and Cool (1989), Barney (1991) and Hoffman (2000)*

Superior market orientation is achieved through positive relationships (*guanxi*) with customers who provide market intelligence (Hult & Ketchen Jr. 2001). The firm gains positional advantages based on innovative offerings, cost containment and superior customer service (Day & Nedungadi 1994; Hult & Ketchen Jr. 2001). Superior market orientation allows superior market sensing, customer linking and channel bonding capabilities ahead of competitors (Day 1994). The utilisation of *guanxi* - with customers - to gain market insight results in the firm being able to provide superior value. Superior value is defined by Slater (1996) as values that competitors cannot replicate. When competitors are not able to imitate these values, then the firm is said to have sustainable superior value.

### **2.11.3 The importance of *guanxi* in competitive environments**

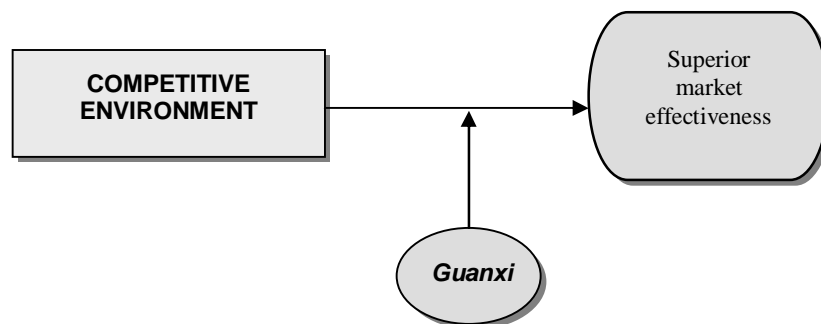
Recent empirical studies into inter-firm relationships have shown business *guanxi* to be important for business success (Li & Wright 2000). Some of the potential benefits of

business *guanxi* are the creation and sharing of information (Boisot & Child 1996), the facilitation of problem solving, the stimulus for innovation, assisting management with change, and the potential for cooperation and synergy (Barham 1991, cited in Zeffane 1995).

The competitive forces approach (Porter 1980) puts emphasis on the intensity of competition in the industry that is instrumental in determining profit potential (Day 1994). Capable competitors offer a real threat to any firm (Hill 1997). For example, competitors can vary their marketing mix (such as increasing promotion and advertising) in response to a threat (Yau *et al.* 2000). Treacy and Wiersema (1993, p. 85) posit that when all firms are without any opportunity to ‘be different’, operational efficiency will be the only determinant of competitive advantage. Wickham (2004) suggests another possibility; through building a stronger network of relationships. This paper proposes that when products and prices are similar among competitors, the relationship factor is the factor that makes the difference.

Wickham (2004) suggests that relationship with stakeholders is the key to enjoying long-term success in any business environment. The importance is manifested in gaining investors’ capital and confidence, suppliers’ support, employees’ commitment and loyalty, and customers’ orders. In all these situations, the relationship is sustained not only by economic self-interest but also by friendship and trust (*guanxi*) (Wickham 2004).

FIGURE 2-10  
***Guanxi* as a possible construct in gaining superior market effectiveness**



*Source: Adapted from Day & Wensley (1988) and developed on the works of Coyne (1986), Dierickx & Cool (1989), Barney (1991) and Hoffman (2000)*

Therefore *guanxi* has specific characteristics that provide firms with a substantial competitive edge. It is argued that *guanxi* can determine which firm ends up in the advantage to the extent that relational exchange contributes to product differentiation and creates barriers to switching (Day & Wensley 1983). Despite such potential, firms commonly fail to see the necessity of managing their relationships with the firm's stakeholders (Dwyer, Schurr & Oh 1987). Nahapiet and Ghoshal (1998) suggest that differences between firms, including differences in performance, may represent differences in their ability to create and exploit social capital.

Organisational sustainability is based on the interrelationships that develop over time between a company, its customers and its competitors (Williams 1992). This in essence requires superior organisational commitment with a reliance on interpersonal resources that are durable, untradeable and specialised (Williams 1992). The end result is a firm that achieves superior market effectiveness through building a *guanxi* network (adapted from Park & Luo 2001).

### **2.11.3.1 *Guanxi* and customers**

The paradigm shift in organizational buying behaviour from a transaction-centred to a relational-centred philosophy gives rise to the importance of *guanxi* in business transactions (Sheth 1996). *Guanxi* recognises that for businesses, there is lifetime value from a well treated customer. Positive opinions far exceed any single transactional benefit (Ambler 1994). Western marketers have now introduced measurements such as customer lifetime value to identify with such a relational orientation. However, as indicated, the relationship marketing literature is still focused on the instrumental value. *Guanxi* with buyers may spur customer loyalty and increase sales by minimising transaction costs and business uncertainties (Park & Luo 2001). Achieving loyalty requires businesses to commit to a long-term undertaking to understand customer expectations and change (Slater 1996). This means maintaining *guanxi* with the customers *before* and after the sales (Slater 1996; *italic* – author's emphasis). According to Ma (2004), firms which can successfully co-opt the customers into long-term *guanxi* relationship gain competitive advantage. Grönroos (1994) concludes that from a profitability point of view, intelligent relationship building and management make sense. Philip Kotler (1992, cited in Grönroos 1994) concludes that companies must move from a short-term transaction-oriented goal to long-term relationship-building. A conclusion from Ganesan's (1994) research is that customers with a long-

term orientation are not likely to change suppliers and their accounts are likely to be attractive to the supplier.

#### **2.11.3.2 *Guanxi* and suppliers**

*Guanxi* implies preferential treatment to exchange partners (Wong & Tam 2000) in the forms of easy access to limited resources; to receive good service and timely deliveries (Buttery & Wong 1999); increased accessibility to controlled information (Ganesan 1994; Ambler & Styles 2000); preferential terms including the granting of credit (Luo 1995; Yi & Ellis 2000); protection from external competitors (Luo 1997); and helping the firm to acquire quality materials (Xin & Pearce 1996; Luo & Chen 1997; Wong 1998; Dickson & Zhang 2004). These factors are so important that firms such as Ikea and Wal-Mart are operating on a cooperative model which emphasises closer and more collaborative relationships to seek advantage through total quality improvement and reduced time to market (Day 1994). General Motors, Xerox, Black and Decker, and Neiman-Marcus are further examples of Multi-National Corporations seeking the cooperation of their suppliers to help achieve stronger competitive positioning (Ganesan 1994). This is also evident in the Japanese industry where enduring relationships between suppliers and manufacturers encourage cooperation and result in innovation (Porter 1990). The advantages include obtaining information on best-selling products and competitive activity; inclusion in co-operative advertising; the allotment of special displays for their merchandise; obtaining merchandise in short supply; reviewing information on new products and competitive activity; and being offered the best allowable prices and mark-downs (Ganesan 1994). Despite these critical benefits, Ganesan (1994) asserts that most firms overlook that sustainable competitive advantage can be created through long-term relationships.

#### **2.11.3.3 *Guanxi* and competitors**

Firms often gain advantages through cooperative strategies (Ma 1999). However, according to Strutton and Pelton (1997), effective cooperation is only possible if trusting relationships exist between the parties involved.

*Guanxi* with competitors provides an environment for mutual forbearance, softening their rivalry and providing an opportunity to collectively punish other rivals who do not play by their rules (Gulati 1998; Ma 2004). Such interfirm collaboration offers the possible advantage of facilitating resource sharing and implicit collusion

which help mitigate competitive costs and operational variability (Park & Luo 2001). Ma (2004) suggests that competitors could compete vigorously on one dimension of the game while tacitly colluding on other dimensions so as to maintain a reasonable competitive infrastructure and a healthy profit margin. Coopetition on this level has benefits for all parties within their network.

#### **2.11.3.4 *Guanxi* and new entrant**

Researchers view *guanxi* as an entry barrier that reduces the risks from competition and new entrants (Tsang 1998; Wong & Tam 2000). When a strong *guanxi* relationship exists, reciprocal obligation can be used to exert pressure on a competitor or a new entrant (Tsang 1998). *Guanxi* in this context is used as a defensive measure (Xin & Pearce 1996) to achieve protected market positions (Powell 2001).

Empirically, far-sighted MNCs have employed collaborative footholds and built reservoirs of goodwill in targeted countries which also translate into competitive advantage over latecomers (Farh *et al.* 1998). *Guanxi* has also been used by Japanese businessmen as a barrier against foreign competitors especially in telecommunications (office switching equipment), financial services (investment banking) and health care (physician services) industries (Williams 1992).

#### **2.11.3.5 Threat of Substitutes**

Threat of imitation is a more apt terminology to be used with SCA and *guanxi*. This refers to a firm's competitors trying to develop *guanxi* with parties similar to, or even stronger than the firm's partners (Tsang 1998). The test is on the strength of the *guanxi*. Success breeds success, and historical success translates into a favourable accumulation of strategic asset stocks; an argument that is put forth by the resource-based theory concept of asset efficiencies (Dierickx & Cool 1989). Tsang (1998) identifies that it takes time to develop *ganqing*, which is a key determinant of the quality of *guanxi*. The intricacy of interpersonal chemistry makes *guanxi* a socially complex resource. This kind of imitation is considered as resource substitution in Barney (1991); that is, the firm's competitors try to establish similar *guanxi* that can substitute for a firm's existing *guanxi*.

Day and Wensley (1988) posit that barriers to imitation are subject to erosion and a firm must continually invest to sustain or improve the advantage. This is discussed next.



#### 2.11.4 Strategic market investments

Firms that continue to invest and upgrade their competencies are able to create new strategic growth alternatives (Lei *et al.* 1996). Wal-Mart provides a suitable example. Although Wal-Mart redefined the discount retail industry with its competitive advantage on logistics and information technology, it has sustained its competitive advantage through continued incremental investments and improvements in the system (Stalk, Evans & Shulman 1992). This is known as strategic market investments.

Strategic market investments (see Figure 2-6) are all forms of market-related outlays on all aspects of networking (Thorelli 1986) for the purpose of sustaining advantage and developing new advantage. For such companies, the question becomes the choice of investments. This means that organisations need to learn from the market on what to invest. However, the rate at which organisations learn is just as important and may become the only sustainable source of competitive advantage (Stata 1989). To reap this benefit, a business must integrate market-driven learning into its culture (Slater 1996). A learning culture provides that organisations anticipate and proactively confront dynamic market conditions.

A firm may enjoy a SCA if it knows things that its competitors do not (Wickham 2004). Thus, superior information is one of the factors that contribute to quasi-rents and market power (Dierickx & Cool 1989). The key question is how to obtain such information, for example, about up-coming purchasing decisions, how to establish and nurture relationships to potential buyers (Björkman & Kock 1995), and on what to invest to sustain existing competencies and to build new competencies.

The importance of *guanxi* for information acquisition in marketing has been emphasised by Davies *et al.* (1995). This is further supported by Boisot and Child (1996) and Davies *et al.* (1995) that a *guanxi* network can be an important source of information and business opportunities. The essence of a *guanxi* network is not only the identity of the members of a network but also the pattern of ties among them (Gulati 1998). Gulati (1998) observes that many new opportunities for alliances were presented to firms through their existing sets of alliance partners. In summary, to obtain information and other resources for their businesses, people have to build relationships or *guanxi* first before making any deals (Chen & Chen 2004).

The next section discusses the gap in the literature with regards to *guanxi* and sustainable competitive advantage. This is followed by an in-depth examination of

Barney's (1991) four essential requirements for sustainable competitive advantage to exist in relation to *guanxi*.

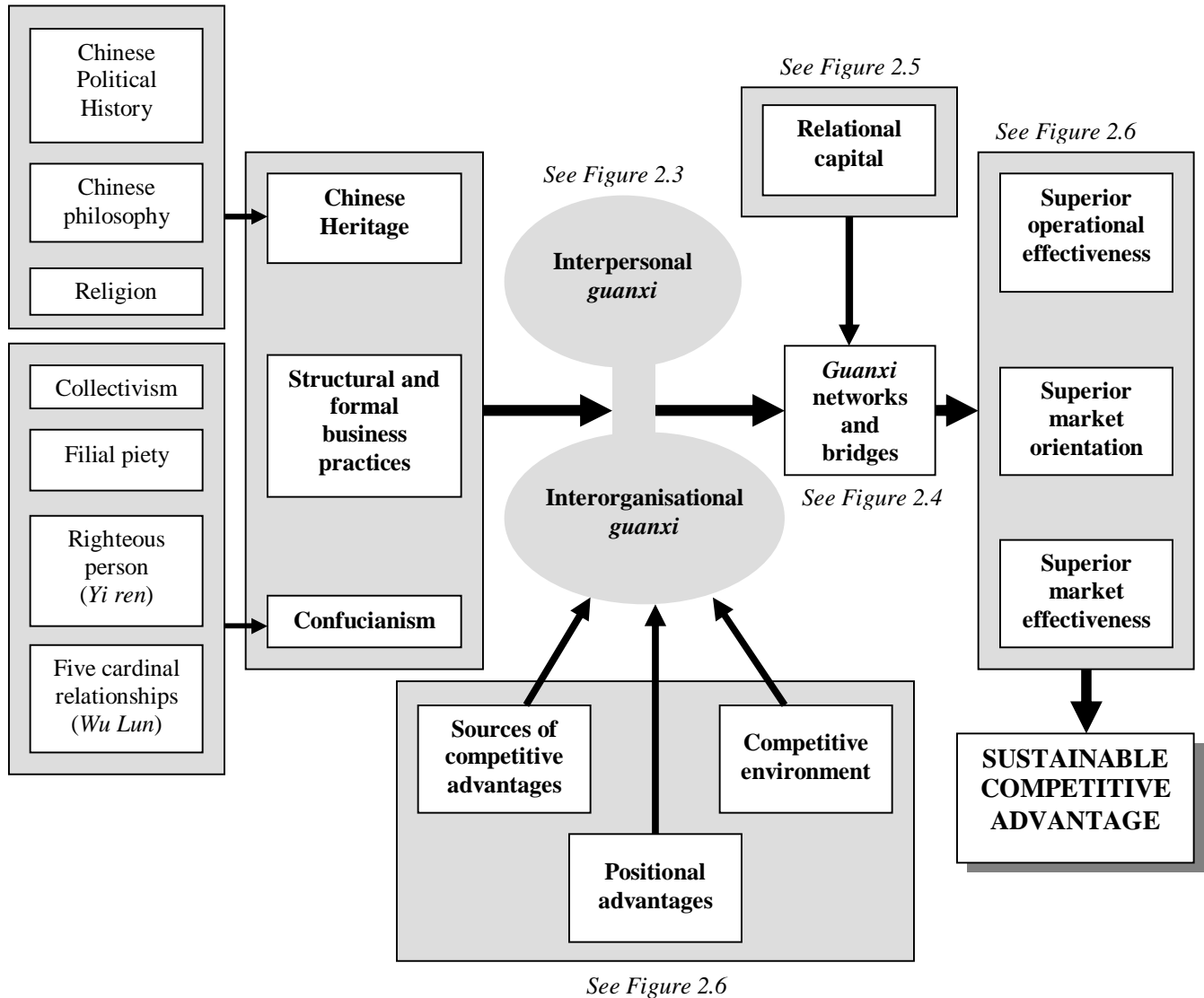
## **2.12 *Guanxi* and the concept of sustainable competitive advantage**

Few empirical studies have shown that *guanxi* is associated with sustainable competitive advantage. These studies have suggested that *guanxi* can be used as a tool to help implement a business strategy effectively (Vanhonacker 2004). More research is therefore deemed necessary to fill this gap particularly in a non-China context. This concurs with Fan's (2002) suggestion that research is needed to investigate how *guanxi* works in a business context. In particular, the present research focuses on how *guanxi* influences a firm's performance.

Chapter 2 argues that *guanxi* is a valuable and rare resource, imperfectly imitable and that there is no strategically equivalent substitute. For this purpose, a conceptual framework (Figure 2-11) linking *guanxi* to sustainable competitive advantage is proposed. This framework expands on the earlier framework (Figure 2-6) which focuses on the role of *guanxi* in gaining sustainable competitive advantage, and links Figure 2-3 (Dimensions of interpersonal *guanxi* and interorganisational *guanxi*), Figure 2-4 (*Guanxi* networks) and Figure 2-5 (Relational capital) to argue that *guanxi* is a valuable and rare resource, imperfectly imitable and that there is no strategically equivalent substitute. The conceptual framework commences on the left with the identification of the origins of *guanxi* and concludes at the right with sustainable competitive advantage. An expanded version is attached in Appendix A.

FIGURE 2-11

**A conceptual framework of *guanxi* and sustainable competitive advantage**  
(For a complete expanded version, see Appendix A)



Source: Developed for this study based on the works of Coyne (1986), Day and Wensley (1988), Dierickx and Cool (1989), Björkman & Kock, (1995), Boisot & Child (1996), Yeung & Tung (1996), Xin & Pearce (1996), Tsui & Farh (1997), Buttery & Leung (1998), Tsang (1998), Fang (2003), and Chen & Chen (2004).

### 2.12.1 *Guanxi* and the concept of valuable resource

Firm resources and skills are considered valuable when there is a 'strategic fit' that ameliorates efficiency and effectiveness (Porter 1980; Barney 1986a; Aaker 1989). Networks built on trust and confidence are valuable because they minimise transaction costs (Wickham 2004).

At the organisational level, companies will enjoy competitive advantage in building *guanxi* with various stakeholders (Chen & Chen 2004; Wickham 2004). For example, Nike's cost advantage stems from its relationship with partners (Ma 1999). In this context, the *guanxi* relationship that Nike has with its suppliers impacts on competing firms offering Nike a competitive advantage while denying others. Understanding that *guanxi* creates differential treatment among competing firms enables a firm to use *guanxi* as a weapon to protect the future value of an asset from competitive forces (Day & Wensley 1988). Through purposeful strategising, *guanxi* can be a competitive advantage, 'enlarging the differential between rival firms on a particular dimension that allows a firm to better create customer value than others' (Ma 1999, p. 714).

Operational effectiveness means performing similar activities better than rivals (Porter 1996). According to James (2005), operational effectiveness is the producing of the right goods, at the right time, with the right quality at the right cost. This could be achieved through a market orientation which encompasses 'the systematic gathering of information on customers and competitors, both present and potential' (Hunt & Morgan 1995, p. 11). The importance of *guanxi* for information acquisition is suggested by Davies *et al.* (1995). This is further emphasised by Boisot and Child (1996) that a *guanxi* network can be an important source of information and business opportunities.

*Guanxi* enhances business and can serve as an advantage in increasingly competitive markets (Guthrie 1998). This offers a potential explanation as to why a customer buys from a particular firm when there are competitors who may be superior in size, strength, product quality or distribution power (Coyne 1986). Thus, *guanxi* can be concluded to be a valuable asset of the firm.

### **2.12.2 *Guanxi* and the concept of rare resource**

Resources and skills possessed by a large number of present or potential competitors cannot be a source of SCA (Barney 1991; Porter 1996). This definition implies that not every competitor possesses superior resources or skills in a given product or market segment. These competitors are competing from a handicapped position (Coyne 1986). To compete in such circumstances, managers should capitalise on improving relations to enhance long term viability of the business exchange (Armstrong & Tan 2000). With

relational constructs playing a critical role in the satisfaction process, *guanxi* can be an SCA.

Taken in the light of ‘time compression diseconomies’ as conceptualised by Dierickx and Cool (1989, p. 1507), the *guanxi base* in the complex interpersonal relationship is a source of early-mover advantage and thus qualifies to be an SCA. Williams (1992, p. 36) posits that ‘In the lexicon of strategy, first mover advantage is highly sustainable; such advantages, once obtained, are sticky.’ This is understandable as relationships require structural consideration and take more time to nurture and sustain (Yau *et al.* 2000).

According to Ghemawat (1986) and Day and Wensley (1988), sustainability is greatest when based on several kinds of advantages and key success factors. *Guanxi* plays a critical role in the satisfaction process and the existence of a strong *guanxishu* or *guanxi base* (see Section 2.5.2) seems to transform *guanxi* into a rare resource of the firm.

### **2.12.3 *Guanxi* and the concept of imperfectly imitable resource**

Central to the concept of SCA is the notion of durability or non-imitability (Barney, 1991). An argument is posited by Lippman and Rumelt (1982) that sometimes, a firm’s success cannot be explained. It could be an issue of causal ambiguity (Dierickx & Cool 1989; Barney 1991). Potential ambiguity exists concerning the causal connections between actions and results (Lippman & Rumelt 1982; Barney 1991). Coyne (1986) posits that firms may not know whether a SCA is present or potentially present in their firm. Barriers to imitation are even greater when causal ambiguity exists over the factors responsible for a business's superior performance (Dierickx & Cool 1989; Barney 1991).

Overlapping conceptualisations of barriers to imitation have been proposed by various researchers. The research focuses on a capability gap (Coyne 1986), uncertain imitability (Lippman & Rumelt 1982), differential advantage (Thwaites, Walley & Foots 1996) and causal ambiguity (Dierickx & Cool 1989; Reed & DeFillipi 1990; Barney 1991). Discussions on strategic asset stocks by Dierickx and Cool (1989) and strategic factor markets (Barney 1986b) provide additional insights into the operation of barriers to imitation.

It is argued that knowing and understanding that certain firms have good *guanxi* with another firm does not necessarily imply that firms without these attributes can

engage in systematic efforts to create them (Barney 1986b; Dierickx & Cool 1989). The complex and ambiguous nature of *guanxi* cultivation and the time required for successful quality *guanxi* to occur may be beyond the capabilities of most firms (Tsang 1998). *Guanxi*, as a firm-bound advantage, is by definition socially complex, less mobile and difficult to duplicate (Barney 1991). Personal relationships embodying shared inner feelings or personal secrets with the partners cannot be readily imitated by others (Yeung & Tung 1996). In such capacity, rivals cannot quickly or costlessly imitate or substitute for the value of firm-specific human capital (Hatch & Dyer 2004).

*Guanxi* is also a firm's competitive advantage through its virtual-bound attribute, whereby the advantage lies outside of the firm's boundary and resides in certain networks, relationships and other entities firms can access (Ma 1999). An example is Dell's network of suppliers. Dell's *guanxi* with these suppliers ensures that no other firms are able to imitate on a large scale Dell's low-cost competitive advantage.

The more *guanxi* (connection) one has, the more doors (opportunities) that seem to open (Fan 2002). This process of asset mass efficiencies (Dierickx & Cool 1989) is a powerful feature of *guanxi* that acts as a barrier to imitation by competitors and provides access to the resources of other network members (Davies *et al.* 1995).

From the above discussions on personal relationships embodying shared inner feelings or personal secrets, the complex and ambiguous nature of *guanxi* cultivation, the time required for successful quality *guanxi* to occur, and *guanxi* with its asset mass efficiencies attributes, *guanxi* is argued to be an imperfectly imitable resource.

#### **2.12.4 *Guanxi* and the concept of strategically equivalent substitute**

The final requirement for a resource or skill to be a source of SCA is that the resource or skill be nonsubstitutable (Barney 1991). Substitution threatens to render the original asset stocks obsolete because they no longer create value to the buyer (Dierickx & Cool 1989). Substitutability can be in the form of similar or very different resources or skills (Barney 1991). Section 2.11.3.5 highlights that strategic substitutes could see competitors trying to develop *guanxi* with parties similar to, or even stronger than the firm's partners (Tsang 1998).

For firms competing head to head, serving all types of customers, offering the same array of technologies, investing heavily in the same new equipment, running their machines faster and reducing crew sizes (Porter 1996), such competitive scenarios become a race down identical paths that no one can win. Henderson (1989) posits that

in the absence of counterbalancing forces, only one of any pair will survive. However, in real-life business environments, firms do indeed survive. This concurs with John Nash's fundamental concept of equilibrium point: a collection of strategies by the various players such that no one can improve his outcome by changing only his own strategy (Milnor 1998).

Day and Wensley (1988) propose that competitive advantage is achieved through the relational exchange that contributes to product differentiation and creates barriers to switching. When products and prices are similar among competitors, *guanxi* is the factor that determines which firm has a negotiable advantage and is a plausible explanation of the firm's success.

*Guanxi* is therefore seen as valuable, rare and a difficult-to-imitate capability which potential competitors find hard to replicate (Barney 1991).

## **2.13 Summary**

This chapter begins with a brief discussion on the generic differences of doing business in Asia and the West. Although the Asian and Malaysian cultures are different to Western culture, there is little difference in the management style. Culture and management are constantly evolving and in this context give rise to emerging concept of crossvergence, biculturalism and multiculturalism in the field of management practices.

Forms and importance of relationships are discussed next with the main contention that social networking is important for business. It was highlighted that the Chinese have long practised social networking through the construct of *guanxi*. This is the first important contribution of this paper.

*Guanxi* is a complex social construct. Reviews of extant literature conclude that *guanxi* is a necessity for doing business in China. This chapter provides discussion on the differences between interpersonal *guanxi* and *guanxi* practice, *guanxi* system and also the subtle difference between interpersonal *guanxi* and relationship marketing. This chapter also examines the various definitions of interpersonal and business *guanxi*. Implicit and explicit aspects of *guanxi* are researched and this provides a clearer understanding of the *guanxi* concept in relation to the context of non-China business environment. This is the second important contribution of this chapter.

The concept of sustainable competitive advantage has been reviewed and relational advantages explored. The third important contribution of the paper is to

provide a clear understanding on how *guanxi* contributes to sustainable competitive advantage through the introduction of two conceptual frameworks; one focussing on the role of *guanxi* in gaining SCA (see Figure 2-6) and the other linking *guanxi* to SCA (see Figure 2-11). These conceptual frameworks are developed to provide answers to the two important research questions:

- 1. How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?**
- 2. What is the role of *guanxi* in gaining competitive advantage in Malaysian business?**

Chapter 3 progresses to the methodology and research design developed for this study. Data gathering techniques, administration methods, data analysis methods and report writing are discussed. Chapter 3 also includes discussion on the limitations and key assumptions of research methodology and design.



*There are many paths to the goal of fundamental knowledge.*

Cavana, Delahaye and Sekaran (2001, p. 34)

### **3 RESEARCH METHODOLOGY AND DESIGN**

#### **3.1 Introduction**

Chapter 3 outlines the methodology and research design developed for this dissertation. Methodology is the way in which one makes sense of the object of enquiry (Murphy 1995) and how one goes about studying any phenomenon (Silverman 2000). Research design refers to the overall structure and orientation of an investigation (Zikmund 2003). This chapter begins with a presentation of the research philosophy and paradigm, followed by a brief discussion on the virtues of qualitative research. This is followed by a review of qualitative methods, alternative data collection techniques, qualitative research design issues and units of analysis. Data gathering techniques, administration methods, data analysis and report writing are then discussed before presenting the issue of validity and reliability. Chapter 3 also includes discussion on the limitations and key assumptions of the research methodology and design. Figure 3-1 illustrates an overview of Chapter 3 as described above.

FIGURE 3-1  
**Overview of Chapter**

3.1	Overview
3.2	Research philosophy and paradigm
3.3	The virtues of qualitative research
3.4	Methods
3.4.1	Alternative data collection methods
3.5	Qualitative research design issues
3.6	Units of analysis
3.7	Data gathering techniques
3.7.1	Interview design
3.7.2	Sampling method
3.8	Administration methods
3.8.1	Interview protocol
3.8.2	Respondents selection
3.9	Reflections on all interviews
3.10	Data analysis methods
3.10.1	Recording and transcription
3.10.2	Analysis of qualitative data
3.10.3	Research writing
3.11	Validity and reliability
3.11.1	Credibility
3.11.2	Transferability
3.11.3	Dependability
3.11.4	Confirmability
3.11.5	Triangulation
3.12	Ethical consideration
3.13	Limitations and key assumptions of research methodology and design
3.14	Conclusion

*Source: Developed for this study*

### 3.2 Research philosophy and paradigm

According to Tesch (1992), there is only one requirement for research: that others can be persuaded that this is a credible piece of discovery worthy of note. The pursuit of worthwhile knowledge therefore guides the researcher in this particular process.

Social science research is concerned with subjective, human values (Baker 2001) and requires a research philosophy that is fit for the purpose and takes into consideration the research phenomena of interest (Carson, Gilmore, Perry & Gronhaug 2002). The complexities inherent in social relationships and the context-specific processes typical of social networks (Dubini & Aldrich 1991) dictate an interpretivist approach. This is appropriate to understand the 'hows' and 'whys' of under-researched phenomena (Carson *et al.* 2002). The interpretivism paradigm appears appropriate where the focus is on *guanxi* and how it affects a firm's performance.

The research is based on the ontological perspective that reality is socially constructed (Carson *et al.* 2002). This perspective suggests that individuals do not have direct access to the real world and their knowledge of this perceived world can only be understood through careful use of appropriate interpretivist methods (*ibid*). The challenge is on discovering how social experience is created and given meaning (Denzin & Lincoln 1994).

Where the purpose is discovery, *inductive theory building* is appropriate, rather than theory testing (*ibid*). However, since some prior theory is also involved, this research can thus be classified as inductive with 'a blend of deductive process' (Carson *et al.* 2002, p. 110). From this perspective and based on the focus of this research which is on the complex social construct of *guanxi*, a qualitative research methodology is proposed.

### 3.3 The virtues of qualitative research

Since the 1980s, there has been a rise in popularity in qualitative research methods (Tesch 1992; Huberman & Miles 2002; Travers 2002; and Padgett 2004) with many books describing and extolling its virtues in social sciences, management studies and in the marketing domain (Carson *et al.* 2002). Padgett (2004) suggests that the acceptance of qualitative research methodology by experienced quantitative researchers has contributed to the dramatic upsurge.

Qualitative methodology is the most appropriate method in new areas where current theories appear inadequate (Eisenhardt 1989) and in areas of socio-cultural life

not amenable to collecting quantitative data (Glaser & Strauss 1967). Qualitative methods facilitate the study of complex and in-depth issues (Patton 2002). Qualitative research is a utility empowering the analyst to present complex scenarios in a meaningful way. Qualitative research uncovers the meaning of relationships in terms of experiences, influences and actions (Murphy 1995). The emphasis in qualitative research is on richness and depth rather than breadth (Easterby-Smith, Thorpe & Lowe 2003).

Positivist researchers see ‘good’ research as objective, precise, measurable, statistically testable and containing verifiable truth (Cavana *et al.* 2001). Alternatively, qualitative researchers take the view that humans are complex, somewhat unpredictable and that true meanings are best discovered by a rich, multifarious investigation of human thoughts and behaviour (Silverman 2000).

The main contrast between quantitative and qualitative research is on the involvement of the researcher. The former pursues the philosophical view that the researcher should remain independent from phenomena being investigated, while the latter argues that social phenomena are continually changing rather than static (Easterby-Smith *et al.* 2003). The quantitative approach promotes ‘detachment and distance’ to attain objectivity and to reduce bias (Patton 1987, p. 16). In contrast, qualitative researchers take the stand that a lot can be learned through the person-to-person interaction (Easterby-Smith *et al.* 2003). Patton defends qualitative approaches by arguing that ‘closeness does not make bias and loss of perspective inevitable; distance is no guarantee of objectivity’ (1987, p. 17).

The success of a qualitative research largely depends on the selection of the right research method. The choice of method stems from a comprehensive understanding of the research problem, its conceptual underpinnings and ultimately the research question(s).

### **3.4 Methods**

Methods are the way in which one examines the object of enquiry using specific research techniques (Silverman 2000). Researchers using the qualitative approach need to adopt methods that allow them to ‘get close’ to respondents. It’s about penetrating internal logic and interpreting the subjects understanding of reality (Shaw 1999, p. 60). Probing for opinions and responses in an effort to reach the core is a key part of such methods (Murphy 1995). Thus, the essence of the qualitative approach is around

naturalistic inquiry, where subjects and situations are investigated in order to understand the realities and minutiae of daily life (Patton 1987).

According to Zinkhan and Hirschheim (1992, p. 81) ‘Science uses whatever tools, techniques, and approaches that are considered appropriate for the particular subject matter under study.’ Case studies, focus group interviews, grounded theory, game theory and in-depth interviews are some popular tools that have increasingly gained acceptance in this pursuit of science (Bryman 1984). The next section takes a brief look at each of these.

### **3.4.1 Alternative data collection methods**

The purpose of this research is to undertake a cross-sectional, exploratory, interpretive, qualitative study using in-depth, semi-structured interviews of the role of *guanxi* in gaining sustainable competitive advantage in the Malaysian business environment. Such an approach aims ‘to generate descriptions, insights, and explanations of events so that the system of interpretations and meaning, and the structuring and organising processes, are revealed’ (Gioia & Pitre 1990, p. 588).

As indicated above, in qualitative research, there are a number of data collection methods that can be employed. Justification for using or not using some of these methods is discussed below.

#### **3.4.1.1 Case study**

The case study is a research strategy which focuses on understanding the dynamics present within single settings (Eisenhardt 1989) and to obtain information from one or more situations that are indicative of the overall “state of play” (Zikmund 2003). Case studies can involve either single or multiple cases, and numerous levels of analysis (Yin 2003). They typically combine data collection methods such as archives, interviews, questionnaires and observation.

Case studies begin with a construction of the preliminary theory related to the topic area (Yin 2003). Since the focus of this research is in exploring the situational factors so as to understand the characteristics of the phenomena of interest and not on the contextual analyses of similar situations in other organisations (Cavana *et al.* 2001), the case study method is considered inappropriate.

#### **3.4.1.2 Focus group interview**

Focus groups are normally used to generate rich insights for solving company problems. Data is collected via intensive group interaction (Carson *et al.* 2002). Focus group research concentrates on ‘gaining insights into meaningful constructs of phenomena which emerge out of sharing and discussing issues, exchanging opinions, revising perceptions and highlighting commonalities and differences’ (Carson *et al.* 2002, p. 115). It is not considered an appropriate technique for this research due to the limited generalisability of the findings and the sensitivity and confidentiality of the phenomena of interest (Carson *et al.* 2002).

#### **3.4.1.3 Grounded theory**

Grounded theory is a qualitative method that uses a systematic set of procedures to develop an inductively derived understanding of a phenomenon (Carson & Coviello 1996). As outlined by Glaser and Strauss (1967), the grounded theory approach enables the researcher to systematically begin with an area of study and allows the relevance to emerge during the course of the research, rather than begin with a theory and then prove it. The researcher also needs to develop reliable concepts and constructs from the data (Carson & Coviello 1996). Grounded theory relies on intense interpretation of data beginning with rich, naturalistic inquiry (Eisenhardt 1989). However, much literature and conceptual development already exists on *guanxi* and on sustainable competitive advantage. What is needed is not more theories on *guanxi* and sustainable competitive advantage but a specific understanding of how *guanxi* contributes to sustainable competitive advantage in the Malaysian business environment. In this respect, grounded theory is deemed inappropriate for this research.

#### **3.4.1.4 Game theory**

The Prisoner’s Dilemma is an often-cited concept based around predicting potential outcomes for relatively simplistic scenarios (Oskamp & Perlman 1965). Players in the game use either cooperative or competitive moves to obtain payoffs. The outcome depends not only on one’s own strategies and market conditions, but also directly on the strategies chosen by others (McCain 2005).

According to McCain, there are some key issues with game theory that make it inappropriate for many researchers. One main issue relates to the ‘two-person game’ which does not replicate the actual business world of a multi-person interaction.

Another critical issue is the lack of communication in the game. It is argued that with interpersonal communication leading to coordinated strategies, the outcome may be quite different. Game theory aims to link a “rational” set of strategies to ideal numerical options. However, the Chinese and Malaysian business environments are far more dynamic and complex. In this respect, game theory is deemed inappropriate for this research.

#### **3.4.1.5 In-depth, semi-structured interview**

Face-to-face, in-depth interviews with open-ended and semi-structured questions are an alternative for qualitative inquiry (Easterby-Smith *et al.* 2003). The theoretical orientation of qualitative research means it is often more concerned with data that depicts ‘reality’ rather than surface level, survey style interpretations (Silverman 2000, p. 128). In-depth interviews offer deeper insights for interviewers. Conducted in an appropriate manner, such an approach allows for meaning and encourages a truer view of a respondent’s reality within the context of the research topic. As summarised by Patton (1987, p. 108), in-depth interviewing ‘probes beneath the surface, soliciting detail and providing a holistic understanding of the interviewee’s point of view’ that are based on personal experience and perspective. Additional questions can also be introduced if a particular issue worthy of exploration surfaces (Patton 1987; Wickham 2004). As indicated earlier, in-depth, semi-structured interviews are deemed most appropriate for this study.

### **3.5 Qualitative research design issues**

The research design represents a logical set of statements that links the data collection, analysis and conclusions (Yin 2003). In any research, considerations must be given to:

- i) the relationship between the researcher and the situation,
- ii) the relationship between research methods and the situation, and
- iii) the relationship between the researcher and the methodology (Mingers 2001)

The research design for this research was based on a threefold aim:

- i) appropriateness for the specific situation (Patton 1987);
- ii) addresses problems inherent in understanding the meaning of human behaviour and the social-cultural context of social interaction (Patton 1987), and
- iii) establishes an audit trail (Denscombe 2002)

The research design involves using the most appropriate tools for tackling the critical issues of the study. Key aspects to be addressed include: identifying the purpose of the study (exploratory, descriptive or case study), the most appropriate study setting, the extent of researcher interference, the temporal aspects, the unit of analysis, type of sampling design, data collection methods, how the variables will be measured, and how the concepts and variables will be analysed (Cavana *et al.* 2001).

### **3.6 Units of analysis**

Deciding on the unit of analysis is important as it focuses on the interpretation (Boyatzis 1998) and forms the basis for targeting the right samples for the research (Easterby-Smith, Thorpe & Lowe 2003). For this research, the unit of analysis is ethnic Chinese businesspeople residing in Malaysia. These individuals interact at various levels, including: i) within the organisation, ii) the organisation and the customers, iii) the organisation and the suppliers, iv) the organisation and the competitors, and v) the organisation with other organisations.

### **3.7 Data gathering techniques**

As identified the study incorporates in-depth, semi-structured interviews with open-ended and semi-structured questions (Easterby-Smith *et al.* 2003). The interviews began with respondents being asked one broad research question: “How do you obtain business?” This allowed the interviewees to bring out issues related to the main research topic (Carson *et al.* 2002). The fluid and flexible approach of semi-structured interviews with no pre-scripted questions but with the interviewer taking cues from the on-going dialogue provided the opportunity for follow up probing (Mason 2002). Notwithstanding, an interview guide was also utilised. The guide or protocol was carefully formulated prior to the field work. It ensured all the respondents discussed similar material (Patton 1987). The two key research questions “How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?” and “What is the role of *guanxi* in gaining competitive advantage in Malaysian business?” and their more direct nuances were not initially discussed. Rather, the respondents were informed that the research was broadly focussing on “A study of the Malaysian business practices”. This indirect questioning avoids “putting words in respondent’s mouths” and subsequently minimises the potential for respondent bias.



The issues of *guanxi* and sustainable competitive advantage were introduced later when the opportunity arose.

### **3.7.1 Interview design and location**

The less threatening conversational style relies on spontaneity and a natural flow (Patton 1987). Conversational interviewing *per se*, as suggested, was not applied to the whole research. The interview protocol that was used is attached in Appendix B. As discussed, it was used to ensure the interviewer is covering the same material for all respondents (Patton 1987). Such a method allows easier data analysis and greater transparency and replicability. In essence, the interview protocol serves as an audit trail for future researchers.

A few dyadic or group interviews (Easterby-Smith *et al.* 2003, p. 105) were expected in this style of Chinese cultural setting. Group interviews allows for a comprehensive exchange of views whereby all respondents are able to speak their minds and to respond to the ideas of others (Walker 1988). The main advantage in this method is that respondents get to listen to each other responses and this allows for more informed discussion (Patton 1987).

For the in-depth, semi-structured interviews, the interviews and discussions were held in surroundings such as the researcher's home or the respondents' offices within which the respondents felt relaxed and unthreatened (Easterby-Smith *et al.* 2003). The interviews were conducted in English. The line of research was based on eliciting the subject's perceptions and experiences using 'words' and not observation.

### **3.7.2 Sampling method**

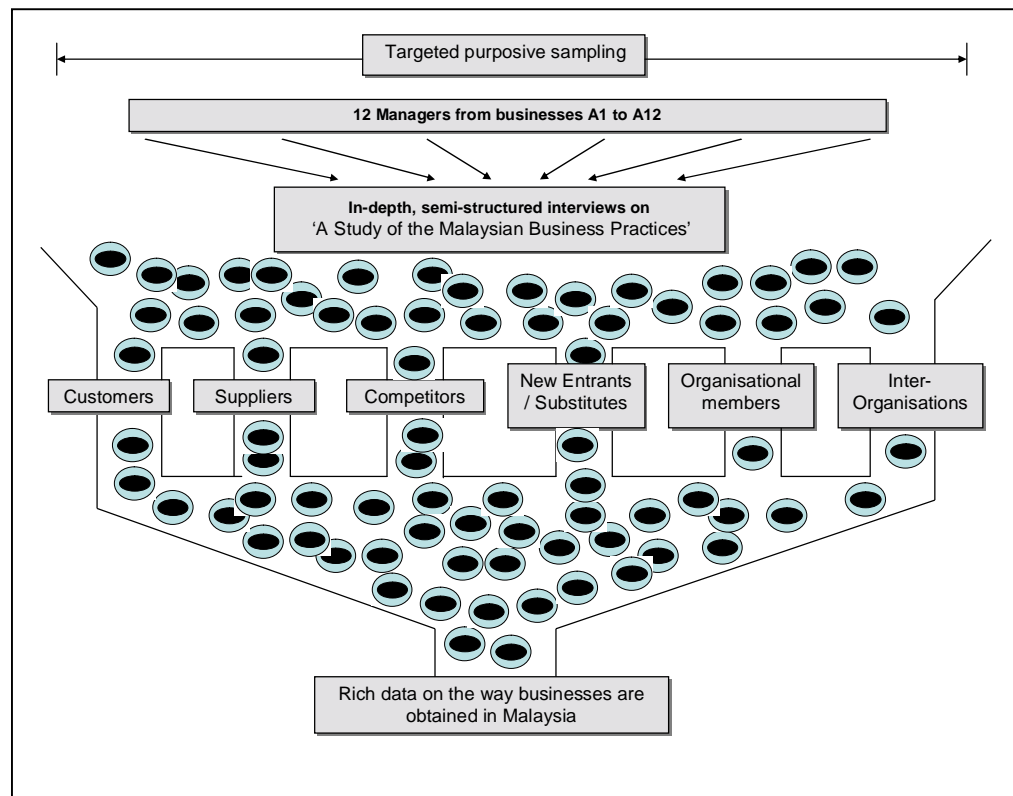
This research adopts the selective sampling approach which is a 'calculated decision to sample a specific type of interviewees according to a preconceived but reasonable initial set of dimensions' (Strauss 1987, p. 39) These were worked out in advance and on the basis of their relevance to the research question (Mason 2002).

In view of the above perspective, *targeted purposive sampling* was used. *Targeted purposive sampling* requires targeting appropriate respondents who are deemed ideal and relevant to the research topic (Silverman 2000). The emphasis is on getting respondents who are able to provide rich data for the purpose of learning much about the core issues of the research (Patton 2002). Twelve respondents were initially

being targeted and they were chosen on the basis that they provided a cross-section of businesspeople, entrepreneurs, and managerial level personnel.

The 12 respondents were not from a particular industry and thus reflect the maximum variation sampling maxim as posited by Patton (1987). This aims to achieve principal outcomes from a great deal of program variation. The total of 12 respondents accords with the recommendation of Lincoln and Guba (1985) that, if properly selected, the number exhausts the amount of consistent information possible. This is referred to by Morse (1994, p. 230) as the saturation stage where there is 'repetition in the information obtained and confirmation of previously collected data'.

FIGURE 3-2  
**A targeted purposive sampling approach**



*Source: Developed for this study*

This is a non-probability sampling technique and as such it is exploratory and makes no claim about being representative or generalisable.

### **3.8 Administration methods**

#### **3.8.1 Interview protocol**

Social relationships between the researcher and the respondents are an equally important issue of 'getting on' and 'getting in' (Yeung 1995, p. 317). In all circumstances, there is an important need to ensure that participation is voluntary (Cavana *et al.* 2001). It is vital for the researcher to establish trust, rapport, and authentic communication patterns with respondents (Janesick 1994). In an endeavour to develop a positive feeling about the research and researcher (Yeung 1995) the interviewer provided respondents with a pre-understanding of the focus, objectives and potential value of the study (Carson *et al.* 2002). This was achieved through a detailed explanation in the Letter of Invitation that was sent to selected organisations (see Appendix B – Interview Protocol).

Those organisations that agreed to participate were requested to sign a consent form and to nominate individuals for interviews. Those nominated were also given Letters of Invitation. This enabled them to also peruse details of the study and the extent of their involvement. The organisations and individuals were given 7-days to decide whether to participate or decline the invitation. Non-response to the invitation at the end of the 7-day period was interpreted as disinterest. The individuals who indicated their willingness to participate were requested to sign a consent form prior to interview. Obtaining the respondents cooperation and trust was a critical step in the interview process.

#### **3.8.2 Respondents selection**

Targeted respondents needed to be able to discuss and explain elements of the research agenda under investigation, and be willing to provide sufficient detail on the subject matter (Rubin & Rubin 1995; Kriz 2002). There was no constraint with respect to gender, age, education levels and firm type.

However, the Malaysians (of Chinese ethnic origin) selected for the interviews had to have the following attributes:

- experience in day-to-day Malaysian business practices
- hold a managerial position in their company
- be of Chinese ethnicity
- capable and willing to discuss the interview material utilised in the research
- be English speaking

- obtain organisational consent and also personally give their consent.

Fourteen invitations were distributed to potential respondents. Twelve businesspeople responded positively to the interviews. One declined citing 'I am out of touch with the business world' and another confirmed that he was unable to obtain consent from his organisation. Since the target of 12 respondents was achieved at this stage, no additional invitations were sent out.

Table 3-1 provides information on the interviews conducted including gender, interview date, length of the interviews, venue, the type of business, nationality and the ethnicity of the respondents.

**TABLE 3-1**  
**Key characteristics of the respondents**

No	G	Interview date	Interview length (mins)	Interview locations	Type of Business	Ethnicity	Race	Venue
1	1	27/5/06	27	Kuala Lumpur	Manufacturing	Malaysian	Chinese	Respondent's office
2	1	28/5/06	32	Kuala Lumpur	Trading	Malaysian	Chinese	Respondent's office
3	1	29/5/06	46	Kuala Lumpur	Manufacturing	Malaysian	Chinese	Respondent's office
4	1	30/5/06	43	Kuala Lumpur	Manufacturing	Malaysian	Chinese	Interviewer's home
5	1	2/6/06	41	Kuala Lumpur	Trading	Malaysian	Chinese	Interviewer's home
6	1	2/6/06	58	Kuala Lumpur	Manufacturing	Malaysian	Chinese	Interviewer's home
7	1	3/6/06	34	Kuala Lumpur	Services	Malaysian	Chinese	Respondent's office
8	1	3/6/06	35	Kuala Lumpur	Services	Malaysian	Chinese	Interviewer's home
9	1	4/6/06	56	Kuala Lumpur	Services	Malaysian	Chinese	Friend's home
10	1	5/6/06	30	Kuala Lumpur	Manufacturing	Malaysian	Chinese	Respondent's office
11	1	6/6/06	39	Kuala Lumpur	Services	Malaysian	Chinese	Respondent's office
12	1	14/6/06	31	Kuala Lumpur	Construction	Malaysian	Chinese	Respondent's office

Key: G refers to gender: 1= male, 2 = female

*Source: Interview data*

Table 3-2 provides an overview of each respondent when asked whether they have heard or know about *guanxi*. All seven respondents with a Chinese education

background confirmed they had heard of *guanxi*. Two respondents with non-Chinese education also acknowledged that they had heard the term *guanxi* before. Three of the respondents without a Chinese education background had not heard about *guanxi*. This corresponds with Section 2.2 of this paper that ‘those Chinese who were educated in Malaysian Chinese schools strongly hold on to traditional values, whereas those Chinese that have been educated in Malaysian national schools have a weak identification with traditional Chinese values.’

TABLE 3-2

**Relationship between medium of education and the term ‘*guanxi*’**

No	Medium of Education during Primary School	Recognition of the term ‘ <i>guanxi</i> ’
2	English	No
4	English	No
8	English	No
7	English	Yes
9	English	Yes
1	Chinese	Yes
3	Chinese	Yes
5	Chinese	Yes
6	Chinese	Yes
10	Chinese	Yes
11	Chinese	Yes
12	Chinese	Yes

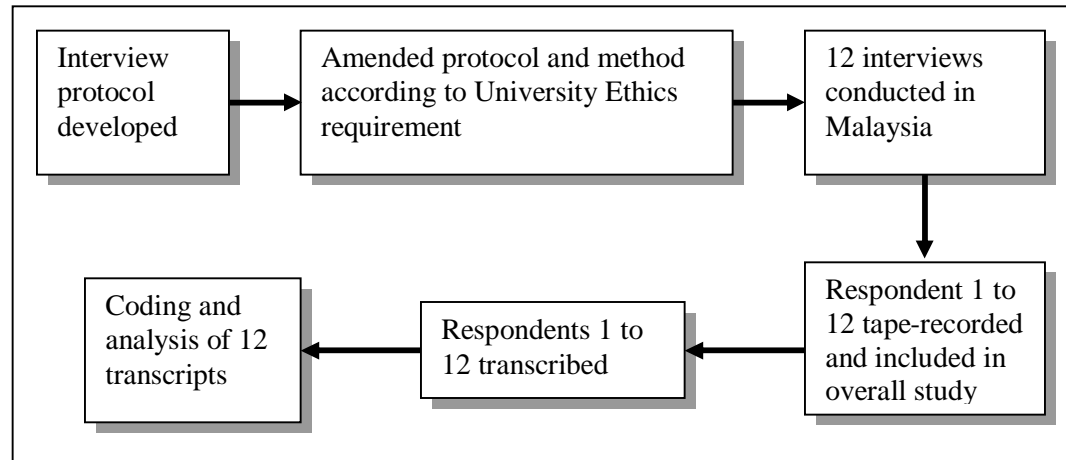
*Source: Interview data*

### 3.9 Reflections on all interviews

Figure 3-3 provides an overview of the in-depth semi-structured interview process. The process commenced with a research proposal. Amendments were made as necessary in compliance with the University’s ethics requirements. Upon receipt of the University’s ethics approval, the interviews were then conducted, transcribed, and finally coded and analysed.

FIGURE 3-3

**Collection and analysis of data**



*Source: Adapted from Kriz (2002)*

All interviews were conducted with individuals with the exception of Interview 3 where the researcher had the opportunity to interview two individuals from the same company. The researcher observed that in the group interview, the responses for the questions were dominated by one individual (the second individual mostly agreeing with the responses). This is not unexpected given that one of his comments was ‘Yes, it’s correct, because we both work together, I think...almost ten years. Our principle is almost same.’

Another feature worthy of note was the duration and venue of the interviews. Those interviews held in the researcher’s home tended to last longer. Although the sample size for this research is small and accordingly generalisation is not possible, the above observation suggests that interviews should be held away from the respondent’s office. Future research is proposed to determine the correlation on the response time for interviews held in different venues.

### **3.10 Data analysis methods**

#### **3.10.1 Recording and transcription**

Another important aspect is the taking of field notes to describe what is observed and what has transpired during the interviews. Patton (1987) highlights that the recording of basic information is an important part of the interview process and should include the place of interviews, who is present, what social interactions have transpired, the

activities that took place, the condition of the physical setting, the researcher's own feelings, experiences and reflections, and other descriptive information. This was achieved through the filling in of the Contact Summary Form (see Appendix B5) as soon as the researcher reached home.

A key problem of in-depth interviewing is the recall error. Tape-recorded interviews offer the advantage of allowing the researcher to return to the data in its original form (Silverman 2000). Following the recommendation of Patton (2002), the researcher sought permission from each respondent to use a high-quality voice recorder for the interviews. No objection for the use of a voice recorder was received from any of the respondents and accordingly a voice recorder was used during the interview process.

The actual quotations spoken by the interviewees are the raw data of an in-depth interview (Patton 2002). After the interview process, transcribing was undertaken to capture interviewees' comments. Transcription normally commenced within 24 hours after interviews. It is accepted that transcripts are never totally accurate (Kriz 2002). The researcher attempted to minimise inaccuracies through the following steps:

- Each interview was played back a minimum of three times.
- Inaudible words were omitted from the analysis.
- After the coding and analysis process, the voice recorder was played at a reduced speed at relevant coded sections.

### **3.10.2 Analysis of qualitative data**

After collecting qualitative data in an unstructured format, the next stage is the analysis and interpretation processes. Although analysis and interpretation are conceptually separate processes, there is no precise point for such a division (Patton 1987). The first step in the process is the reading of transcribed interviews in full, in order to first gain a sense of the whole picture (Goulding 2005). Key steps then include reflecting on the transcribed rich data, interacting with the data and commenting on it, identifying key themes and coding, extracting from the codes 'gold dust' quotes to be used when writing up. Linking ideas from different transcripts, identifying contradictions in arguments, comparing dissimilarities in transcripts, and building an argument from the transcribed rich data are all relevant aspects of this complex process (di Gregorio 2000, p. 2). Researchers generally conduct three steps - coding, classifying and connecting

(Murphy 1995) - to determine whether certain research objectives are substantiated (Cavana *et al.* 2001).

Content analysis is 'sense-making' through searching text for patterns or themes (Patton 2002). In this research, coding was structured around a set of themes focusing on relationships, trust and elements of competitive advantage. Analysis in the interpretive research approach typically uses selective coding procedures (Strauss 1987) to discern key patterns so that descriptive codes, categories, taxonomies and/or interpretive schemes can be established (Gioia & Pitre 1990). This means that researchers need to examine how the coded data are linked (Silverman 2000) to produce patterns and themes (Mason 2002).

Manual coding using Microsoft Word software was utilised for the 12 transcribed interviews. Manual coding is suitable where there is a small sample size and an intimate personal knowledge of the data, so that appropriate trigger codes and responses can be inserted at the outset (Carson & Coviello 1996). Generating the richness of interpretive understanding means that the researcher must have intimate appreciation of the inherent nuances of meaning (Carson & Coviello 1996). The researcher attempted to achieve these two criteria by being personally involved in the entire process, from data collection through to analysis.

### **3.10.3 Report writing**

This process begins by describing the research program thoroughly and carefully, and includes describing the activities that take place in the research program, the people who participated, and the meaning of what was observed (Patton 1987). The intent of this process is to allow users and readers of the report to comprehend what occurred and how it occurred. For this research, the reporting was done through matrix development and verbatim citation. Themes that emerged were identified and are fundamental to any of the conceptual models derived from the research.

### **3.11 Validity and reliability**

Validity and reliability are two criteria through which any research study can be assessed for integrity (Silverman 2000). Validity relates to the data and the analysis used in the research and concerns the accuracy of the questions asked, the data collected and the explanations offered (Denscombe 2002). In qualitative research, validity can be viewed from the standpoint of data generation, interpretation and



explanation (Janesick 1994; Mason 2002). Reliability is concerned with the methods and techniques used to collect the data, specifically looking at the ‘consistency and accuracy of the findings’ (Denscombe 2002, p. 100).

Yeung (1995, p.314) advocates that the beauty of the qualitative interview lies in its validity with respect to ‘dealing directly with decision makers and the richness of information collected’, and reliability with respect to being ‘replicable in practice’. The goal of and strategy for validity in qualitative research is not the same as in quantitative research (Giorgi 2002).

A suitable term that is usually used in place of validity and reliability is trustworthiness (Denzin & Lincoln 1994; Kincheloe & McLaren, 1994). In qualitative research, trustworthiness consists of four components: *credibility*, *transferability*, *dependability*, and *confirmability*. These four components are used in place of the traditional positivist criteria of *internal* and *external validity*, *reliability*, and *objectivity* (Denzin & Lincoln 1994).

### **3.11.1 Credibility**

Credibility in qualitative research demonstrates that the research is conducted in such a manner as to ensure that the subject was accurately identified and described (Marshall & Rossman 1995). Credibility is a trustworthiness criterion and is satisfied when the respondents find the reconstructions credible (Lincoln & Guba 1985). Lincoln and Guba (1985) posit that trustworthiness means obtaining audience acceptance. This research provides a level of research credibility by:

- Having activities that increase the probability that credible findings have been produced. The researcher was conscious of a need for a comprehensive pre-understanding on *guanxi* and sustainable competitive advantage. The conceptual framework and commensurate guide were a result of a search for background knowledge (see Figure 2-11). The outcome of the study suggests that this pre-understanding was reflective of the respondents views;
- Having minimal disclosure to respondents. At the beginning of interviews, the issues of *guanxi* and sustainable competitive advantage were not disclosed to the respondents. This is a form of an indirect data collection;
- Having ensured that the study was not confined to any particular firm, industry, gender, or age. A cross-section of respondents in a daily business decision

making and negotiations environment was targeted to achieve a cross-section of views;

- Provision of a referential adequacy check. The interviews were recorded using a digital voice recorder and transcribed. Both records are kept and could be used to test for adequacy;
- Incorporating the technique of ‘member check’. Transcripts were sent to participants to affirm the actual discussion that transpired during the interviews. This also allowed the participant to recall additional things that were not mentioned in the actual interview.

### **3.11.2 Transferability**

There is a distinction between the notions of generalisability and transferability. Generalisability is often associated with quantitative research and refers to the quality of the findings that are measurable, testable and checkable (Denscombe 2002). Transferability is a more intuitive process and relates to the provision of ‘thick description necessary to enable someone interested in making a transfer to reach a conclusion about whether transfer can be contemplated as a possibility’ (Lincoln & Guba 1985, p. 316). This research argues for transferability in the following areas:

- The logic of the study can be used by other studies (Kriz 2002);
- By investigating a range of diverse industries, some implications may be warranted for similar industries in other countries.

One main method to achieve transferability for this research is the employment of in-depth interviews. This approach allows for thick description which is necessary to support the transferability contention (Lincoln & Guba 1985).

### **3.11.3 Dependability**

Dependability can be achieved through the establishment of an audit trail on the process of the research design, the interviews conducted, and the data, findings, interpretations, and recommendations (Lincoln & Guba 1985). This includes leaving ‘adequate amount of evidence that interested parties can reconstruct the process by which the researchers reached the conclusion’ (Morse 1994, p. 230; Denscombe 2002). Steps taken to ensure dependability in this research include:

- Use of an interview protocol (Yin 2003);

- Questions frequently repeated during the interviews to ensure that meanings were understood, and that answers were interpreted correctly by the researcher.

#### **3.11.4 Confirmability**

Confirmability refers to the potential for support through repetition. For example, the analysis and subsequent findings can be tested under the scrutiny of an independent reviewer (Lincoln & Guba 1985). Confirmability is established in this research through:

- A supervisor and associate supervisor acting as ‘devil’s advocate’ who critically reviewed and questioned the researcher’s analysis (Marshall & Rossman 1995, p. 145);
- An audit trail was established for future researcher to follow (Lincoln & Guba 1985);
- Triangulation (see section 3.11.5);
- Verification of the transcripts by the respective respondents (Lincoln & Guba 1985); and
- The use of a reflective journal in the form of a Contact Summary Form. This was to record information on the reflections of the researcher for each of the interviews. Included were also the various methodological decisions made including the reasons for making them (Lincoln & Guba 1985).

#### **3.11.5 Triangulation**

In traditional quantitative research, a triangulation approach, comprising a number of methods executed under various circumstances is usually used (Murphy 1995). Triangulation improves the ability of researchers to draw accurate conclusions from their studies (Scandura & Williams 2000). This is a powerful solution to problems of bias and validity (Patton 1987). However, in this research, there was limited potential for triangulation. Methodological triangulation was not present as only in-depth interviews were used. Data triangulation for this research was arguably achieved through the utilisation of a cross-section of businesses. Investigator triangulation was not achieved as the author was the sole researcher.

### **3.12 Ethical considerations**

In any qualitative research, there is the inherent question of ethics impinging upon a study due to the research intensity and necessity for close cooperation and active involvement (Silverman 2000). An important procedure to resolve this problem is to seek informed consent (Mason 2002) and whenever necessary to seek further consent especially on data utilisation (Silverman 2000; Carson *et al.* 2002). Efforts were made to ensure the respondents were accorded absolute confidentiality and were protected from physical, psychological and legal harm (Cavana *et al.* 2001, p. 23).

The researcher exerted care to ensure that ethical issues were considered throughout the interview process. This was achieved by ensuring that data were obtained correctly and were accurately analysed and that explanations produced were morally appropriate on the basis that there was no inappropriate or misleading generalisations (Mason 2002).

No interviews were conducted until ethics clearance was received from the ethics review panel of the University of Newcastle. A copy of this clearance is appended as Appendix C.

### **3.13 Limitations and key assumptions of research methodology and design**

Qualitative social research commonly generates large amounts of data in non-standard format, thus presenting severe problems of data handling and data analysis (Turner 1983). Critiques of qualitative research claim that such analysis is little more than a form of imaginative linkage and thus considered too subjective (Cavana *et al.* 2001). Notwithstanding it has been argued that a qualitative approach typically generates a wealth of detailed data about a smaller number of people and cases (Patton 1987). Qualitative research supports the generation of data without leading or self-constructing the data (Murphy 1995) and pursues the notions of validity and reliability.

Another limitation is the skill of the researcher in conducting in-depth interviews (Jones 1986 cited in Easterby-Smith *et al.* 2003). The researcher therefore acknowledges his own limitations and is cognisant that the interview exchange is likely to be sub-optimal. Finally, this research makes no attempt to achieve empirical generalisability. Based on the sampling method and the small sample size of 12 respondents, what is achieved is a snapshot of selected Chinese ethnic individuals working in the Malaysian business.

### **3.14 Summary**

This chapter describes the methodology and research design for the study. A qualitative research methodology using in-depth, semi-structured interviews has been adopted. Various steps to achieve credibility, transferability, dependability and confirmability in support of validity and reliability have been outlined. Issues of respondent selection, ethical considerations, recording and transcription, data analysis methods and report writing have also been discussed. Finally, limitations and key assumptions of the proposed research methodology and design have been listed and debated. Chapter 4 presents the analysis process and results from the in-depth interviews.

*Science uses whatever tools, techniques and approaches that are considered appropriate for the particular subject matter under study.*

Zinkhan & Hirschheim (1992, p. 81)

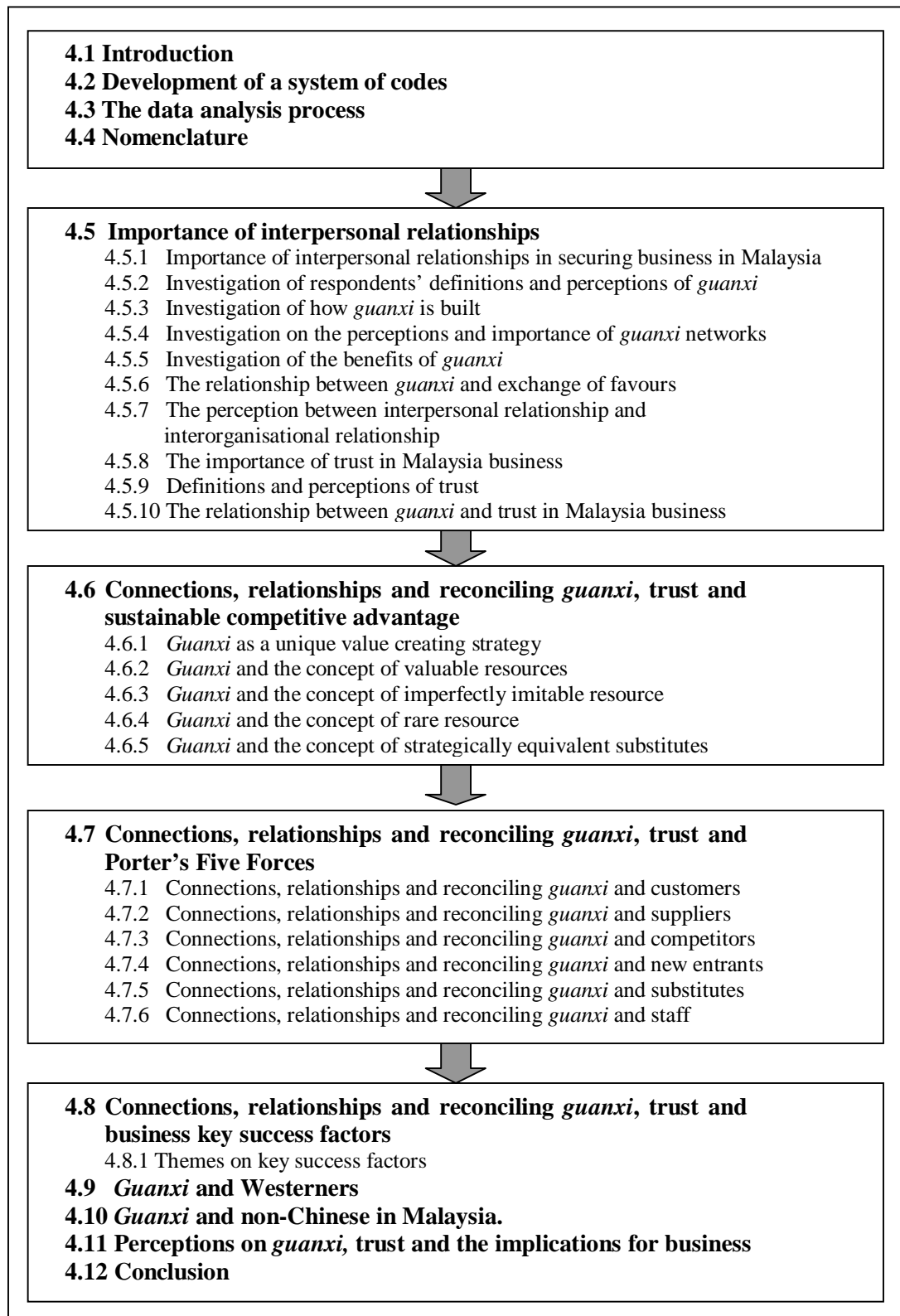
## **4 ANALYSIS OF DATA**

### **4.1 Introduction**

Chapter 4 analyses the data collected from the in-depth, semi-structured interviews conducted with the 12 respondents. A key aspect of this chapter is the presentation of patterns and themes derived from the transcripts and the summary of the analysis with respect to their relevance to the research questions identified in Chapters 1 and 2: **“How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?”** and **“What is the role of *guanxi* in gaining competitive advantage in Malaysian business?”**

Chapter 4 begins with an output coding map developed from the interview protocol. The output coding map identifies the key inputs relevant to interpersonal as well as interorganisational relationships and also the key outputs relevant to the two key research questions. This is followed by an explanation on the nomenclature. The data analysis commences with Section 4.5 and its sub-sections which focus on the importance of interpersonal relationship and trust in Malaysian business. Following this, Section 4.6 and its sub-sections discuss connections, relationships and reconciling *guanxi*, trust and SCA. Section 4.7 and its sub-sections concentrate on the connections, relationships and reconciling *guanxi*, trust and Porter’s Five Forces. Section 4.8 presents the connections, relationships and reconciling *guanxi*, trust, and business key success factors. This is followed by Section 4.9 which discusses *guanxi* and Westerners while Section 4.10 discusses *guanxi* and non-Chinese in Malaysia. Before concluding this chapter, Section 4.11 presents some insights on *guanxi*, trust and the implications for business. Figure 4-1 illustrates the various sections of chapter 4.

FIGURE 4-1  
Overview of Chapter



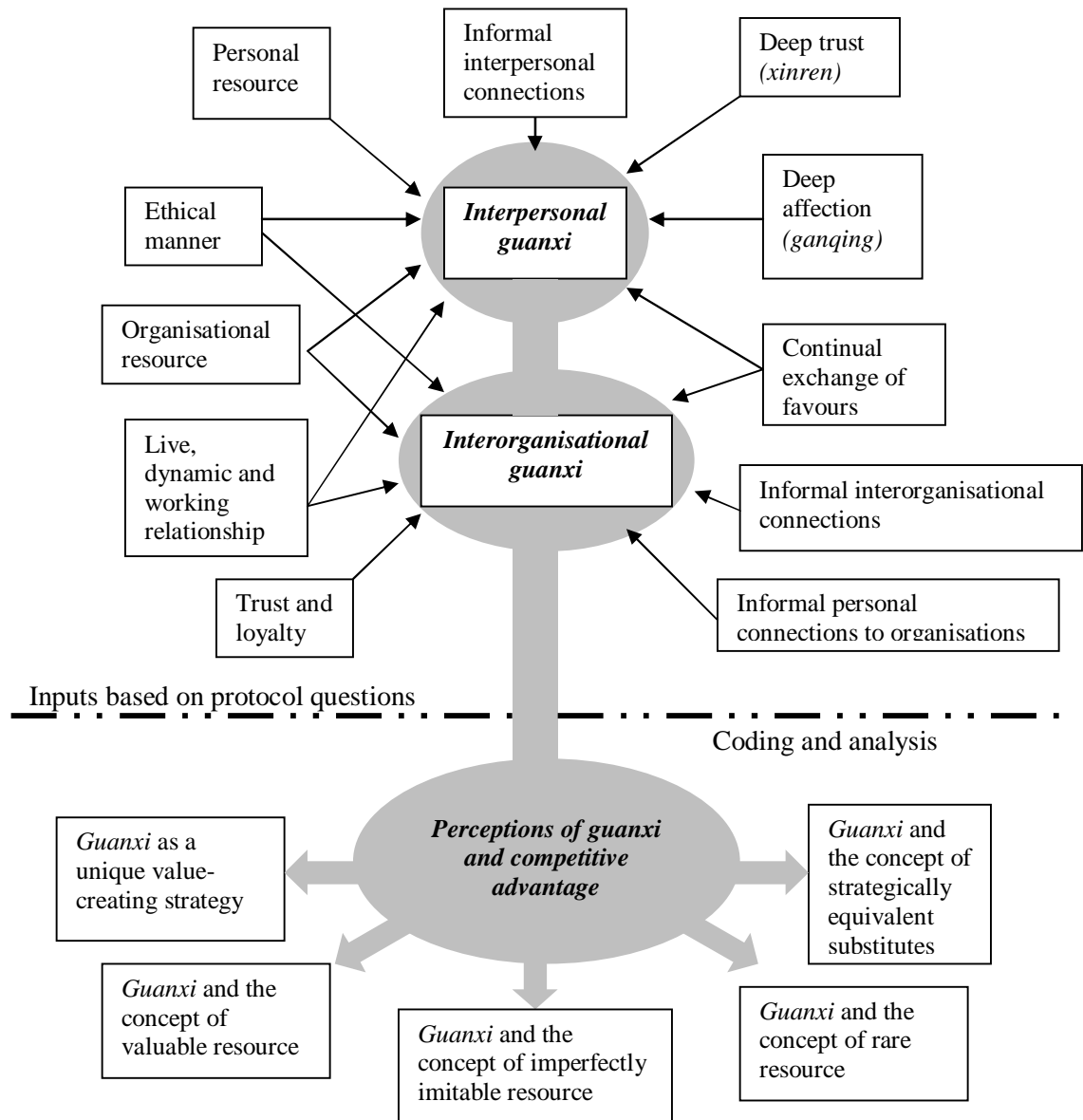
Source: Developed for this study

## 4.2 Development of a system of codes

Figure 4-2 provides an overview of the structure of Chapter 4. The top portion of the map is related to research question 1 and the bottom portion is related to the research question 2. Based on inputs from the protocol questions and results from the coding and analysis process, the map configuration indicates i) the importance of interpersonal relationships in business dealings between Malaysian Chinese ethnics, and ii) that *guanxi* can be a competitive advantage when combined with a firm's key success factors

FIGURE 4-2

### Output coding map based on protocol



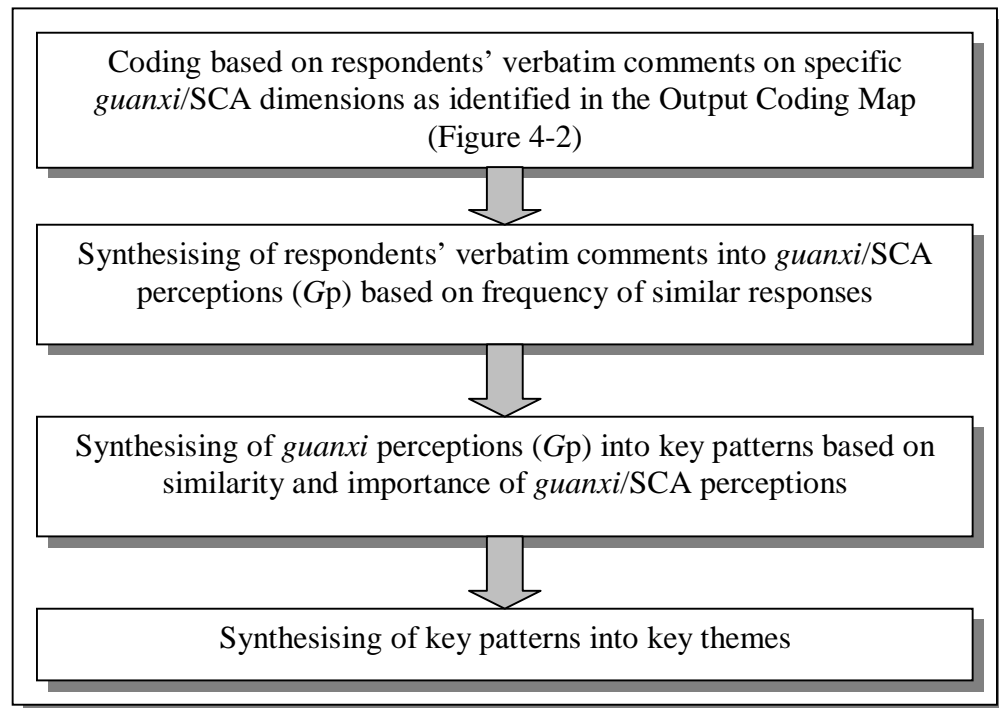
Source: Modified from Kriz (2002) and developed from nodes and data coding



### 4.3 Data analysis process

The coding of the data was carried out in a four-stage process. First, the data was coded according to the respondents' verbatim responses on specific *guanxi* dimensions as identified in the output coding map (Figure 4-2). Coded responses were synthesised into various *guanxi* perceptions (Gp) based on frequency of similar responses. These *guanxi* perceptions were then synthesised into key patterns based on similarity and importance of *guanxi* perceptions. Finally, these key patterns were synthesised into main themes related to *guanxi* and SCA. Figure 4-3 illustrates this process.

FIGURE 4-3  
**Data analysis process**



Source: Developed from this research

### 4.4 Nomenclature

A nomenclature was developed to identify and report consistent codes, patterns and themes derived from the coding and analysis process. The nomenclature is a systematic approach for processing words which account for frequency of respondents' perceptions and also cater for low and contrasting responses. In doing so, the

nomenclature is allowing key issues to emerge irrespective of whether they are predominant or in isolation. The nomenclature is shown in Table 4-1.

TABLE 4-1

**Nomenclature used to describe assessed frequency of respondents' perceptions**

<b>Nomenclature</b>	<b>Percentage of interviews</b>
None	0%
Few	> 0% and < 40%
Often	≥ 40% and less than 60%
Very often	≥ 60%

*Source: Adapted from Purchase (1999) and Kriz (2002)*

The above nomenclature starts from *none* to *very often* and indicates the frequency of responses from interviewees. The nomenclature reports the findings of consistent patterns and themes derived from the coding and analysis process. It is therefore not a statistical tool and no references whatsoever should be used for quantification in future research (Kriz 2002).

At the end of each relevant section, the perceptions with their frequency (for example *few*) are provided. An example is shown below:

***Guanxi perception (Gp): Few cited – Westerners also practise guanxi.***

Whenever the frequency is used in the body of the text, the frequency is shown in bold and italicised.

In total, 51 perceptions emerged from the analysis of *guanxi*, trust, *guanxi* and trust, *guanxi* and key success factors, *guanxi* and Porter's five forces model, and *guanxi* and sustainable competitive advantage.

#### **4.5 Importance of interpersonal relationships in Malaysia**

This section reports the patterns of data for each research question related to the importance of interpersonal relationships.

#### 4.5.1 Importance of interpersonal relationships in securing business

This section traces the importance of interpersonal relationships to Malaysian business practices. When asked the broad introduction question: “How do you secure business in Malaysia”, respondents *very often* cited relationships as an important contributory factor. The immediate response from Respondent 3 (manufacturing) was:

From...previous contact...through friends.

Respondent 3 went on to illustrate the importance of relationships in small business.

When you are small you need to depend on somebody so you need the relation. Bandaraya (*City Council*) plants a small tree...you need to put a bamboo stick to hold the tree. Until the tree is fully rooted, fully established in size...it can stand big wind, big draught, and need not be so dependent on the relationship.

Respondents 4 and 7 believed that success in business is an issue of ‘who you know which is more important than what you know.’ Respondent 7 elaborated on this issue in further depth, “...you need to connect with the right people...you need to be with the right people, at the right time, at the right place...and that’s where one can be successful. You need friends...friends who are willing to give a helping hand.”

Respondent 5 gave a comparison of relationships with customers against other business success factors.

Some business success...30% will be your luck or hardworking or worth doing, 70% will be relationship with the customer.

Respondent 6 offered an insight, “I think to anywhere (in the world)...relationship also very important.”

Respondent 11 introduced the concept of *guanxi* in answering the broad interview question. He believed *guanxi* is a necessity to doing business.

Ah...you can’t succeed without *guanxi*...you have to have *guanxi* because you need to talk to the right people first and people must want to listen to you first. If people don’t even want to listen to you, how are you going to sell to that person...your services?

Table 4-2 offered a cross-section of respondents’ comments on the importance of interpersonal relationships in Malaysian business practices.

TABLE 4-2

**Importance of relationships**

<b>Resp.</b>	<b>Comments</b>
1	<i>(Relationship)</i> ...is quite important... <i>(in Malaysian business)</i> . In our this industry...is not just the quality of work-lah...so like what you say...the <i>guanxi</i> is very important.
2	It's very important.
3	It's forever we have to keep cultivating your relationship...non-stop...
4	Er...very important.
5	<i>(We have)</i> more than 20 years past experience since we have set-up the company, <i>(and we)</i> have the relationship of the customers. And the suppliers...bankers support us.
6	Of course, we have to <i>(have the)</i> know-how... <i>(know)</i> the people...ok...then to get in touch <i>(with)</i> all the peoples...like the developers, consultants, architects, and be nice with them...
7	When we started...we relied on friends-lah. Friends, relatives, ex-colleagues and all this things...so mainly based on referral or based on contacts-lah. Our old boys network...so they introduce cases to us-lah.
8	Oh, definitely, I think is one of the most important <i>(relationship)</i> . My projects are basically... recommendations.
9	It is very important-lah...relationship comes into play very much. One is networking-lah.
10	Mostly through friends to recommend.
12	Maybe the friends or other company's director or what, they will recommend. Er...relationship is very important.

*Source: Developed from a content analysis of interview transcripts*

Though there is a strong perception that interpersonal relationships are a very important contributory factor for the success of business, Respondent 3 recognised that there is a limit to the number of close relationships that one can have.

We cannot afford to keep so many people as good buddies, because of our limitation of time...

In conclusion, this section reinforces the idea that interpersonal relationships are a necessity to conducting business in Malaysia.

***Guanxi* perception (Gp 1): Very often cited – *Guanxi* is very important for conducting business in Malaysia.**

**Gp 2 : Very often cited – In the business context, friends play a key role in introducing businesses (more often than relatives).**

**Gp 3 : Often cited – To achieve success, *guanxi* needs to be with the right people, at the right time, and at the right place.**

**Gp 4 : Few cited – *Guanxi* is more important for small business than for big business.**

**Gp 5 : Few cited – There is a limit to the number of *guanxi* relationships that one can have.**

#### **4.5.2 Investigation of respondents' definitions and perceptions of *guanxi***

This section investigates the definitions and perceptions of *guanxi* offered by the respondents. Interestingly, two respondents had identified the concept of *guanxi* in question one. Respondents *often* mentioned that *guanxi* is about connections with the right people, and that *guanxi* is a trustworthy relationship. Respondent 3 suggested that there are many forms of *guanxi* and that one may have *guanxi* with somebody but need not necessarily be able to work with him. On the other hand, one may not like somebody but is able to work with that person.

You may have a good working relationship with him but personally you don't like him. I don't like this guy, his attitude is very bad but we can work together. That called...good (*guanxi*). Some people you cannot work with him but you can be his friend...everyday and drink with him. Very good buddy, go out *makan* (*eat - Malay language*), *minum* (*drink - Malay language*), ok but work cannot. Some people you can trust, you can put money in his pocket...but he won't run away. But you cannot ask him to do work for you. So...*guanxi* can be expressed in many forms. So, if you sub divide them into tiny thing, funny thing ...hobby *guanxi*, maybe working *guanxi*, maybe blood *guanxi*. He's my "brother" so no matter how also I will back him. He failed me ten times, I will help him the eleventh time. That's the "brother" relationship. Hopefully, the eleventh time, he will be successful...then I am happy (*laugh*).

Respondent 6 compared two dimensions of the *guanxi* factor. One is based strictly on pure relationship (*guanxi(+)*), while the other has elements of corruption (*guanxi(p)*).

*Guanxi(+)*

Mostly once you have *guanxi*, it means both must be very comfortable and talk all things.

*Guanxi (p)*

So if they really (*have*) confidence in you, they will talk to you for the project. So with all this *guanxi* then talked very direct, in terms of dollars and cents. *Guanxi(p)* means for the project at least they have either commission (backdoor payment),...or either the agent to organise all the things. So, they will know when is the right time to talk to you. You may not even know who is this person.

Respondent 6 added that *guanxi(p)* is a short-term arrangement and is on a project-to-project basis. The *guanxi(p)* corresponds to *guanxi practice* (*zouhoumen*

走後門) and *guanxi*(+) corresponds to interpersonal *guanxi* discussed in Section 2.7. Based on this and the literature review (Section 2.7), wherever *guanxi*(+) is mentioned in the discussion henceforth, it shall refer to the type of *guanxi* associated with trust, dependability, reciprocity and preservation of ‘face’. Where *guanxi* is mentioned, it shall refer to types of *guanxi* in general.

Table 4-3 is a summary of the respondents’ definitions and perceptions of *guanxi*.

TABLE 4-3

**Respondents’ definitions and perceptions of *guanxi***

Resp.	Comments
1	<i>Guanxi</i> (+) is relationship...very good <i>guanxi</i> (+) means you can get help...preference.
2	(Compared to pricing, qualities services...relationship) is equally important...relationship is for you to hook on the phone, establish the communication and relationship.
3	I think you need a trustworthy relationship and working relationship...and personal relationship. So relation <i>guanxi</i> (+) is expressed in many forms...is expressed in many forms.
5	<i>Guanxi</i> (+) like a relationship. And the relationship...they trust me and I trust you.
6	<i>Guanxi</i> (+) can be said to be a connection with a group of people.
9	Relationship... one to one...it’s also what level of people you know. Of course if you know people in very high places, it means you have a very strong <i>guanxi</i> (+), ok...it can help you to do a lot of things...name-dropping or asking the person to refer you to someone else...that will help very much. It’s easy to open the door that way-lah. So it’s who you know in high places and also the one to one relationship you have with your clients...with your associates...networking-lah... how you deal with people...
10	<i>Guanxi</i> (+) is like relationship...that means you know them quite well, first of all, you know. Secondly, they know that you really can work...can trust...confidence in you, that’s a <i>guanxi</i> (+) relationship
11	<i>Guanxi</i> (+) is to know people and to know the right people. Getting to know people is important, definitely to know the right people is important.

Source: Developed from a content analysis of interview transcripts

This section suggests that there are many forms of *guanxi*. The two most common perceptions on *guanxi*(+) are that it is a relationship with the right people and that it is a trustworthy relationship.

**Gp 6: Often cited - Interpersonal *guanxi*(+) is a relationship with the right people.**

**Gp 7: Often cited - Interpersonal *guanxi*(+) is only important if one knows the right people.**

**Gp 8: Often cited – Interpersonal *guanxi*(+) is a trustworthy relationship.**

**Gp 9: Few cited – *Guanxi practice* encompasses exchanges of rights and privileges for personal gains and is constituted as a corrupt practice.**

#### **4.5.3 Investigation of how *guanxi*(+) is built**

This section offers an insight on how *interpersonal guanxi*(+) is built. Respondents *very often* noted that interpersonal *guanxi*(+) is built over a period of time. Respondent 3 provided a step-by-step illustration of the process of how relationships are formed.

When you work in some company, you might know them, directly or indirectly. So now I start on my own, this supplier and consultant know me in person and as well know me in the past, my role in the past. So from there, we slowly...we tell them that we are on our own now...so we start off small, slowly, slowly, go to the site. As more time progresses and more evidences of our ability are given to them, more work have delivered to them...so they begin know us.

Respondent 5 concurred with this view that time is essential in building a close relationship. Respondents *very often* cited that trust is crucial to building a good *guanxi*(+) relationship. Respondent 6 offered that trust is a key to enabling a small company to become one of the market leaders.

We are...(thinking hard) how to say...we get trust from them...so with the trust then we can work out a lot of things...so for example like projects, we start from small work with them...so couple of thousand...end up more than...(Malaysian Ringgit) 10 million.

Respondent 7 offered a main vignette on how to build rapport.

Regular contact, not necessary always formal...it can be an informal function. Let's say your children have a birthday, you can invite them over. Occasionally, probably your wife will cook a special meal and then you develop certain close relationship with them. I think we are all human beings and we appreciate this kind of hospitality.

Respondent 11 explained that *guanxi*(+) is built through communication.

*Guanxi*...it's talking to the people involved... and understanding his problem.

Respondent 12 offered a personalised way of building a relationship.

Ok, you can talk about other topics, we can talk as a friend, we talk about health or we can talk about family, can bring us more closer, you see. When you talk about family life, we can understand each other, you see. We can talk about other things, we can talk about food, ok...we enjoyed food also and we

enjoy fish ok...where we can eat good fish. First is...if we go for businesses first, that day is the business. From there they get trust from you...so from there we go deep into other thing, or food, or other coffee thing...so from there our relationship is not only on business...we are very, very good friends.

A cross-section of respondents' views on how *guanxi*(+) is built is provided in Table 4-4.

TABLE 4-4

**How *guanxi*(+) is built**

Resp.	Comments
1	Other than this going for dinner, we still do other things-lah, like outing or we travel together or do something common or some hobby.
2	You invite the person that you know and he happened to bring along a few other person you do not know...then we go out a few times, so we become friends.
3	Don't betray, be trustworthy, as frequent contact as possible.
5	We may be long time in the ( <i>business</i> ), so everybody will know us and that...already...how to say...natural already...when they ordered glass, they will call us.
6	We also work with them...so in between there's a lot of trust, means ok...whatever projects they passed to us we will deliver. Ok. We will deliver it, everything. Ok, so without complaints, without arguments, everything, so we work on that possibility...so that'll get all the trust and all the support...supporting from the HQ...
7	We are in the service industry, we have to frequently get in touch with the client...it is not so much of just sending birthday cards like some people do or new year greeting cards or seasonal greetings. The human element is important, emotional element...getting contact...connect with the person, to engage the client. Of course is not just any client-lah, I am referring to...if I based on the pareto principle, a 20:80 principle...I would probably concentrate 80% of my time on 20 very influential clients, clients who are good paymaster, clients who understand you, clients who do not unnecessarily demand your time.
9	Because unless the person is comfortable with you...the person trust you...and when it comes to doing...getting someone to do their work, they must be...to a certain extent-lah, think that you're proficient enough-lah...you're good enough at what you do-lah. It's based on knowing the person...knowing whether he's credible or not.
11	I think that is very important, social interaction. I think, we have company trips...and our social interaction is also made possible by the way we design our office. We have a lot of like coffee shop settings, where people can sit down and talk...a lot of sofa, so people can talk and chat and all that.
12	Because the director knows you well already and you have proven your capability in your service, from there you have a better relationship. He knows that when he sees you, things can be solved...so this is how to build the relationship. It's all the ways, the time, the work, we have to perform.

*Source: Developed from a content analysis of interview transcripts*



**Gp 10: Very often cited – Trust is crucial in building a good interpersonal *guanxi*(+) relationship.**

**Gp 11: Very often cited – Proving your capability is important for a weak *guanxi*(+) relationship to progress to a strong *guanxi*(+) relationship.**

**Gp 12: Very often cited – There must be interaction on a personal basis for a *guanxi*(+) relationship to be built.**

**Gp 13: Often cited – There must be two-way communication for a *guanxi*(+) relationship to be built.**

#### **4.5.4 Investigation on the perceptions and importance of *guanxi*(+) networks**

The previous section implies that trust, capability, personal interaction and communication are all very important elements of the *guanxi*(+) building process. This section investigates the importance of *guanxi*(+) networks.

Section 4.4.1 highlighted that it is difficult to have a large interpersonal *guanxi*(+) network due to time limitations. On the other hand, Respondent 5 attributed the difficulty to a small customer network.

So many times...or maybe the customer network was not so wide.

An investigation on the type and extent of *guanxi*(+) networks seems appropriate. Type and extent of *guanxi*(+) networks were discussed in Section 2.5 (see also Figure 2-4).

Respondent 6 suggested that network building sometimes begins with no business relations.

So earlier, we also...play golf with them, no business relation, no problem.  
Then one day, so with all these connections, it's easy to discuss.

An insight was offered by Respondent 6 with regards to an ascribed network base.

In Malaysia, we have a lot of company (*association*) because of the dialect...dialect. Example is like the Hok Chiu (*clan*). The Hok Chiu...when they get a project, definitely they will go back to the Hok Chiu people. This is one of the Malaysia cultures. They were very, very helping them. Only Hok Chiu, they are very united...

Respondent 7 suggested that networking can be built through spreading one's influence, which corresponds to building a personal *guanxi*(+) base.

By spreading your influence...you can offer your services to the communities, you can offer your services to the association, and you can offer your services to the club...societies. You can also rekindle your friendship with your old boys' network. The networking is important.

Respondent 7 further suggested additional ways to extend *guanxi*(+) networks.

I am the one who likes to use either telephone calls or meet them personally. So other than that you can keep in touch, if you want to grow your business, you can create, you can conduct a special seminar for them. Maybe for example, if there are new cases in the banking industry, you may set-up a half day seminar to upgrade your client, your banking client on the development in the banking sector...tell them about their case, what's the implication of the case and what they can do to...or maybe to avoid falling into that particular trap...or certain pro-active action they can take in future. So...by seminars, by meeting them, regular meetings...kind of a PR job.

Respondent 2 suggested that one way to get to consultants is through friends who introduce such consultants.

Unless you have somebody who knows this consultant...through a telephone or whatsoever...maybe he'll give them some faces...he might see me, you see. So once they see me, then we have good chance-lah (*of getting the business*).

Respondent 8 mentioned that his business is mainly through recommendations.

It's always being recommendation from one client who is happy with my job...and goes to his friends, and then his friends' friends and some people I don't even know...who says do you know this fellow...I also don't know that fellow (*laugh*)...

Respondent 9 is also of the view that going to the social circle is a way of widening the network base.

But golf is...or sport for that matter is one way where you're given a chance to mix around...and then when you know them, they'll introduce their friends to you. So your circle of friends become wider...you are now more well-known to them and if there's any issues relating to what you practice...they might one day just call you up. So in that sense it's quite similar to what other people do as well-lah...right...going to the social circle...basically meeting people-lah.

Table 4-5 summarises some of the respondents' perceptions of *guanxi*(+) networks and how it is built.

TABLE 4-5

**Respondents' perceptions of *guanxi*(+) networks**

<b>Resp.</b>	<b>Comments</b>
1	Now everybody is using their own...like what you say...cable. So with his <i>guanxi</i> (+) and their <i>guanxi</i> (+)...with the help of this...what you call...middle-man, you know, the middle-man may be <i>guanxi</i> (+)...
2	Maybe through friends or maybe through contractors who introduce ( <i>us</i> ).
3	Through dinner we get to know him...then clicked on, get along, then after a few dinners, maybe he knows what you are doing, and then he finds that you are a nice person, through friends' of mine also saying that this guy can deliver things, trustworthy. So from there we work on.
4	At times it's through recommendation from other friends...highly recommended from friends and all...then that's where you...you start-off a relation.
5	Some relationship is through friends recommending to friends...
6	Through a friend or through a game...or we also mix around with a group of people. Try to get to know them.
7	So <i>guanxi</i> (+) is something we...look upon as a relationship whether it's by blood, maybe it's a sibling or through your uncle who is in business or through marriage or through your classmate or your former colleagues. So these groups that surround you, this group and your relationship with them, your connections with them, so I see it as a <i>guanxi</i> (+).
8	It's like, you know, businesses just grow, it's an organic growth and from recommendations...you know...business...one door leads to another five doors, I believe, you know.
9	You need to go there because you need to get...associates from other countries...because the clients in those countries don't come to you directly. So you have to get to know lawyers from the other countries that specialise in the field. The conference is one way of meeting them-lah, and after that you come back...you keep in touch with them.
11	We...ya...of course...referrals ( <i>intermediary or third party</i> ) in the way like friend-lah, you know.

*Source: Developed from a content analysis of interview transcripts*

**Gp 14: Very often cited – Interpersonal *guanxi*(+) base is the most important form of *guanxi*(+) networking.**

**Gp 15: Few cited – Ascribed *guanxi*(+) base based on dialect plays a role in *guanxi*(+) networking but only in certain dialect clans.**

#### **4.5.5 Investigation of the benefits of *guanxi*(+)**

This sections looks at the benefits of *guanxi*(+) and how it contributes to a firm's success. Respondents *very often* cited that a strong *guanxi*(+) relationship reaps the benefit of the ease of getting assistance for any matters. Specifically, respondents *very often* cited that a strong *guanxi*(+) relationship is a key to getting crucial information

which may dictate the success of a business deal. Respondent 3 suggested that the benefits are higher based on the closeness to your customers.

I think...sometime it becomes a very...how close you are with him, how good you are with him. The better the closer... if you got anything good, of course you share with your next best friends-lah, next kin-lah...

Respondent 4 explained that the benefit of a close relationship is in the way one can get assistance from the person involved.

Preferably these people...they are really hands-on (*on the project*). (*They*) do not look into commercial terms from you but are willing to assist you all the way, that is to guide you into the project and secure the project for you.

Other than this, Respondent 4 also highlighted that the key benefit of a close relationship is getting more business.

The relationship...this has benefits for the company...basically from here you...you actually bring in more business so that you will grow...basically, it's this.

Table 4-6 provides a cross-section view of the benefits of *guanxi*(+) in the business environment.

TABLE 4-6

**Benefits of *guanxi*(+)**

Resp.	Comments
1	...with some connections and main information...these allow us to secure the job with better pricing-lah. ...recruit( <i>ing</i> ) the good people...some also through friends and recommendations.
2	The consultant specified my product...that means I have got a very good chance doing the business. That's why I say we have to build up the relationship, you know
3	The sealed envelope...supposed to be confidential...becomes your tip ( <i>laugh</i> ). They pay me promptly...they treat me well...and they don't squeeze me out of business.
4	We will have information from consultants' friends and also owners' representatives. They will also call us and tell us about their up and coming project, what they are going to do. They will feed us information.
5	The relationship will be very important for our work, otherwise you have something like I say...a point that cannot be settled. With a relationship, it will be very easy to clarify the point.
6	I think very important is connection, so with the connection ...get more information to make the project...successful.
8	The minimum that I expect is the remuneration that we agreed upon. But hopefully, the next job, they will give it to me-lah, you see. They paid me promptly... extra things they give back to me-lah... like giving me the next job by not negotiating with me on the price.

10	If friends recommend, it's better than you advertise...you know. If a friend says one word, you would be very confident that you can, you know...marketing your projects or sell your project.
12	So whenever they have a new project or anything, priority they will give to me. So the relationship like I say is very important and a (good) past record looks good to people because I do few projects, is because of relationship. Mega projects, big projects, we got it through relationship.

*Source: Developed from a content analysis of interview transcripts*

**Gp 16: Very often cited – The benefit of a strong *guanxi*(+) relationship is attracting more businesses.**

**Gp 17: Often cited – Getting crucial information through a strong *guanxi*(+) relationship is important for successful business deals.**

**Gp 18: Often cited – In a *guanxi*(+) relationship, the benefits are higher the closer you are to your customers.**

#### **4.5.6 Relationship between *guanxi*(+) and exchange of favours**

This section investigates the Chinese characteristics of reciprocity. According to Respondent 4, business is about doing favours for each other.

...you are actually supporting them. I think it's more of the support you gave them. In return they have to support you back with trust and integrity.

Respondent 8 strongly believed in doing favours with a belief that there will be some form of return of favours from these people in the future.

So from the beginning I have this concept, that if I help people, maybe 20% will help me back, you know.

Respondent 9 concurred with Respondent 8 by detailing this vignette.

Favour...sometimes lawyer...actually lawyers always do thing in the last minute and if something comes up, he may not be able to do what they supposed to do. So the person may say...give me another week...and sometimes you say yes, because it's the first time the person is asking...although your client may be very angry...you know...how come you are giving another week. If you help that person this time, the next time, you may need help, the same help, right...so you try and help-lah.

Respondent 10 offered a philosophical insight in discussing the issue of returning favours.

We try to help each other and then when the good time...(becomes) bad, people will help you out, somebody will help you, I was think of that, someone will help you back...not that it means if you help people, (*the same*) people will come back to you...no. Somebody will be...help you back.

A cross-section of respondents' comments on the relationship between *guanxi*(+) and reciprocity of favours is summarised in Table 4-7.

TABLE 4-7

**Relationship between *guanxi*(+) and exchange of favours**

Resp.	Comments
2	Sometimes-lah, you know...do them a small favour, you get, you see. As...it's always there-lah. I mean you do somebody a favour, sure somebody will repay you something-lah, you know. In fact, in my hobby, I have contractor, you see. Sometimes I do a favour for them by doing their bonsai. And then, in return, they want this product and they buy from me. Even at a higher price...you see.
8	Yes, correct...help them to help me.
9	Of course...whether they give you work or not, is based on reciprocity...reciprocity-lah, right...because if they always give you works and you don't return any...after a while, of course they will search for associates which are more useful-lah.
10	Both of us return the favour-lah.

*Source: Developed from a content analysis of interview transcripts*

**Gp 19: Very often cited – In a *guanxi*(+) relationship, reciprocity of favours is not time-specific.**

**Gp 20: Very often cited – In a *guanxi*(+) relationship, reciprocity of favours is based on two-way traffic.**

**Gp 21: Few cited – In a *guanxi*(+) relationship, reciprocity of favours does not necessarily have to be of equal value.**

**Gp 22: Few cited – Non-reciprocity of favours is a cause for weakening a *guanxi*(+) relationship.**

#### **4.5.7 Perception between interpersonal relationship and interorganisational relationship**

This section attempts to differentiate between interpersonal and interorganisational relationships.

Respondent 4 acknowledged that relationships are important with people rather than organisations.

The company plays a part but I will say, not a very big part. It's more the people that are operating there, the people that are actually running the day to day...of this operation that is very important. That is very influential.

Respondent 7 emphasised that in the service industry, relationships are mostly developed on a person-to-person basis.

It's a very personal basis...service industry, you see. Because the person or whether the director or the chairman who does... or some are just Technical Managers, you know. Your direct contact is with them and they only know how good you are...the person who you deal with.

Interestingly, Respondent 10 has a different viewpoint and believed that *guanxi*(+) can be both with individuals and with organisations. He suggested that there is a relationship between the company and the individual. The relationship exists in the sense that the individual record is with the company and that the individual is the one with whom you are dealing.

Ah....both. I think relationship can be two...I mean one is between...you know...as a client, as a lawyer...right...and then the client could be the company...you have a track record because you have done so much work with that company.

Table 4-8 provides a cross-section of the respondents' perceptions of interpersonal and interorganisational relationships.

TABLE 4-8

**Perception between interpersonal relationship and interorganisational relationship**

<b>Resp.</b>	<b>Comments</b>
1	...more on the individual
3	We are the directors and we are the master of the company...so our personal image is the company image.
4	In our trade, it's more...it's more of person friendship than from company to company. Like it or not in this trade they follow a person, rather than follow the company.
6	Mostly it's people...mostly it's people.
8	Yes, most of it is person-to-person.
9	Sometimes individual relationships would be even more important.
10	In my case it's person-to-person relationships...it's not the company
11	It's...it's professional and personal, I think, because advertising is sometimes very personal, you know.

*Source: Developed from a content analysis of interview transcripts*

**Gp 23: Very often cited – A *guanxi*(+) relationship is between individuals.**

**Gp 24: Few cited – A *guanxi*(+) relationship can be between the individual and the organisation.**

**Gp 25: Non cited – A *guanxi*(+) relationship is organisation-to-organisation.**

Gp 25 can arguably be attributed to the small number of respondents and also the type of business. This is a limitation of this study.

#### **4.5.8 Importance of trust in Malaysian business**

Section 4.4.1 established that *guanxi*(+) is very important for conducting business in Malaysia (Gp 1). Section 4.4.3 highlighted that trust is crucial in building a good interpersonal *guanxi*(+) relationship (Gp 10). This section reports that respondents ***very often*** believe that trust is very important in Malaysian business practices. Respondent 4 offered an insight on the importance of trust in Malaysian business.

Actually in this construction business, trust is very important. Most of this contracting...so called contractors or even owners...and also consultant, they will feel...better and they will feel good if they really can read you and trust you. And then they will open up to you.

Respondent 4 added that trust and performance lead to repeat business.

Performing means that in our service trade, you must actually perform good enough to gain their trust to award or to recall you for their next job...next project.

Respondent 4 elaborated that trust can help a company survive through some difficult times.

Trust, we build it up with the supplier. Say an example, a project is put on hold, ok put on hold, the material we had ordered. So the supplier says no problem, means they will produce all the material, ok. So this (*the materials*) is put waiting for the project another 6 months to go ahead, no problem, means a kind of trust. Means they really support our company.

Respondent 6 suggested that to succeed in business, one has to keep building a reputation that is extremely trustworthy.

So we build up trust. The most important thing is to build trust with many people.

Respondent 7 highlighted that in the service industry, trust is very important.

It's not as if you are buying a product...product you have reputation...you have brand name, so you just buy...let's say, you are familiar with Coca-Cola...you just buy a bottle, right. Whereas to engage a professional service, you probably ask around...ask around...so usually a person engaged a lawyer would also ask his friends, his networks...do you know of any lawyer that can handle this particular matter. So this networking is important-lah. Or I should say it's a *guanxi*(+), relationship whether is through blood or social ties-lah.

Respondent 11 highlighted that trust is usually taken for granted when discussing business practice or relationship building.



Ya...because it's taken for granted (*laugh*). So, if you can't trust a person...you can't trust a person, it doesn't even start. Nothing starts until you trust...that's the basic criteria.

A cross-section of respondents' perceptions on the importance of trust is summarised in Table 4-9.

TABLE 4-9

**Importance of trust in Malaysian business**

<b>Resp.</b>	<b>Comments</b>
1	The key...key factor-lah. Owners, consultant and the trust you give. In Chinese business, trust is most important.
2	Yes, of course, trust is also important-lah ( <i>with the dealers</i> )
3	The reason is we have a good relationship with them, we do our job satisfying...satisfaction...to them...and most importantly...we have build up the trustworthiness and credit-worthiness.
4	So that is also very important...to get yourself established, you know...you actually have to perform to gain their trust and friendship. Hmm...I think it all boils down to...to me...I look at it, it all boils down to trust. It all boils down to trust...trust and performance.
5	This is very important...trust.
6	Definitely need trust. If the person has no trust in the market for this, they also won't talk to you. That's why this one, trust is also very important, so they will come to you and talk to you
7	Usually, it's their trust-lah. Because sometimes, they do handle transaction involving millions of dollars so...if you do not know of a particular lawyer and you want to let that particular lawyer to handle that kind of transaction...involving millions of dollars...you must have the element of trust-lah.
8	Yes, to me trust is very important.
9	In my profession or the trade I am doing...trust is very important.
10	First of all...very important is trust. Trust is our capital...is not money...is our capital...and responsibility.
11	Oh, very important. I think trust is important everywhere-lah, you know. If there is no trust, there's nothing-lah.
12	Yes, trust is very important. I think trust is the asset already. You got trust, you got the asset already. It is very important for every business.

*Source: Developed from a content analysis of interview transcripts*

**Gp 26: Very often cited – Trust is very important in the Malaysian business environment.**

**Gp 28: Often cited – Trust is associated with performance.**

**Gp 28: Few cited – When there is interpersonal *guanxi*(+), trust is taken for granted.**

#### 4.5.9 Definitions and perceptions of trust

The section looks at the definitions and perceptions of trust from the respondents' viewpoints. Respondents *very often* noted that trust is all about delivering what one promises. Respondent 3 offered this analogy when discussing the importance of trust.

We are selling something in the future. Trust is the number one important. We are not selling something physical on the desk. But we are dealing something just like marriage, two years down the future, I will deliver what I promised.

Respondent 3 added that trust is all about delivering what one promises.

Whatever you promise, you deliver. That is trustworthiness and it goes through time first time, second time, consistently delivering, delivering of promises equal to trustworthiness.

Respondent 4 identified that building trust is a long term process.

Time, time must be given. You must work your way, you must prove yourself... to them in terms of principle...ethical...all this is also important.

Respondent 4 went on to discuss the trust building process.

It has to have a kickstart...it has to start from one project-lah. Then from there, as I say again, it must be from trust and what you can deliver, what you have committed and you must deliver. Then it leads on from project to project...then you just go on.

Respondent 2 emphasised that trust is easily broken if one does not fulfil one's promises.

If once I trust them, if they don't fulfil their promises, next time no more.

Respondent 3 was blunt in this aspect.

You screw me one time, don't expect me...to be good buddies with you. So you screw him few more times, I doubt...he still want to keep *guanxi*(+) with you. Even if you are his brother also, sometimes the brother *fan mean* ('*uprising*' – *Cantonese*) just because one time, two times, three times you betray him. Betrayal is a negative side of *guanxi*(+).

Respondent 12 summarised the elements involved in building trust.

The time, delivery, quality, this is how we build up the trust.

Table 4-10 provides a cross-section of respondents' views on the definitions and perceptions of trust.

TABLE 4-10

**Respondents' definitions and perceptions of trust**

<b>Resp.</b>	<b>Comments</b>
1	...say you mention one word, say you're going to do this, do this, you honour it. ( <i>Hesitation</i> ) So it has to build on trust...talk of trust.
2	...you also have to build up your reputation-lah...for supplying good quality.
3	When you are talking credit business, the no 1 is creditworthiness...trustworthiness. Creditworthiness more on financial terms, trustworthiness more on personal ( <i>emphasise</i> ) as well as financial term. Trustworthiness...somebody you can trust.
4	Firstly, as I say, you need to perform. Because they also would like to give their project to...not to anybody but to a person that can perform for them and that can deliver. So as I say, trust is very important because importantly...the project that we have done for them, we have delivered.
5	That I say...(prompt) payments, service, every time in time, everything in time, then the trust will be carried on.
6	One is of course your competency, if you have competence in that particular area, you might have develop certain reputation that you can perform competently and competitively...and you can deliver the service on time and by virtue of your reputation...your credibility.
7	First is doing the right things at the right time...not just doing the things right. Doing the right thing is important...I think if we are able to anticipate what roughly the client wants...as I say we try to exceed even the expectation. And you must be sincere, very sincere, that there is no ulterior motive.
8	I deliver what I promise. That is one of the keys to building trust to me and as I say being...being sincere, we don't twist and turn.
9	No hanky-panky...sufficiently straight. We are not selling anything, no product...nothing. It's whatever I say, you must believe me. You must take my advice.
10	Whatever you promise, you fulfil it
11	It's keeping to your promise. If you can't keep your promise, then there's no trust.
12	...when he sees you he feels very comfortable.

Source: Developed from a content analysis of interview transcripts

**Gp 29: Very often cited – Trust means honouring what one promises.**

**Gp 30: Few cited – Betrayal is the negative side of *guanxi*(+).**

#### **4.5.10 Relationship between *guanxi*(+) and trust**

This section discusses the relationship between *guanxi*(+) and trust in the Malaysian business environment. Respondents *very often* cited that *guanxi*(+) and trust must go hand in hand to achieve success in the Malaysian business environments. Respondent 5

provided evidence of this by re-affirming that ‘trust and the connection is very important for the business.’

(*With guanxi(+) but no trust*) no, cannot, cannot (*do business*)...that will be 50/50. (*If a lot trust but you don't have guanxi(+)*)...this can...maybe our business is not so big.

Respondent 3 offered an analogy of *guanxi(+)* and trust in business.

Just like a cable without current, so your motor does not run. So the same things have to come together...like a pipe and water have to come together.

Respondents *often* cited that when one has *guanxi*, one must then proceed to build trust to transform that *guanxi* to *guanxi(+)*. On the other hand, when one gained the trust of a new customer, one can proceed to establish the *guanxi(+)* relationship. Respondent 7 provided support on trust and *guanxi(+)* in the context of doing business in Malaysia.

The trust...you may have a lot of connections...people must also believes that you must be able to deliver it. Trust is firstly...first aspect is to secure the contract, secure the job but you also must deliver it, it does a quality...and cost...and time.

In our line...the service industry, we need people, we need connections. The right connection...the connection that comes, whether they are bankers or developers, where this...where there are more lucrative packages, alright...so this is connection to right people. (*We need*) the people who can make a decision.

Respondent 11 noted that it is difficult to do business with *guanxi* but without trust.

Ya, because...if that...let's say we start with *guanxi* first, you get to know this person, you know that person well, you talk to that person, the person becomes comfortable with you, so he trusts you with his business. But if after he trusted you with his business, you let him down...yah, so he won't...that's the end already because trust...*guanxi* comes first then trust.

Respondent 10 deduced that *guanxi* must coexist with trust but that trust need not coexist with *guanxi* in the business environment.

*Guanxi* with no trust...that means got *guanxi*, that mean no trust...that mean is no *guanxi* already (*laugh*). Trust with *no guanxi*, yes (*can do business*), to me trust.

Respondent 1 noted that it is difficult to get help or assistance from people they know unless there is some trust.

So they don't trust you...there is a *guanxi* there, but they won't help you even though you know them very well.

The following two statements from Respondent 9 clarified the importance of trust to succeed but it is *guanxi*(+) that enables a company to have fast growth.

We can't (*succeed in business*)...I mean to have *guanxi* and someone else knows that you are not trustable at all, trustworthy at all....now that *guanxi* won't be very, very strong. It cannot be...it must go hand-in-hand.

Ah...it's very hard to say that you have trust and you cannot build up *guanxi*(+), you know. I mean you have trust and you have no *guanxi*(+). I would say that you would not 100% fail. Because...let's say when you deal with client...at arms length, you are very trustworthy...you do the work well...people will still come to you. Just that your expansion would not be as fast or your growth would not be as fast...but people will still come to you.

Respondent 4 was of the same view.

We can't say that...if there's no connection one cannot do business. They'll have...still have a business but maybe not so successful, or not a...very big job to contract or other things.

Table 4-11 is a cross-section of respondents' views on the relationship between *guanxi*(+) and trust.

TABLE 4-11

**Relationship between *guanxi* and trust**

Resp.	Comments
1	Trust, the quality...and then the consultant also has to recommend you. <i>Guanxi</i> has to be trust...and honour your word. If no trust, no honour...there is no <i>guanxi</i> . <i>Guanxi</i> and trust must...marry.
2	Sometimes, I also release ( <i>the goods to the dealers even when they have exceeded their credit limit or slow payments</i> ) because I trust them already.
4	Er...you actually must blend, blend these two together. It must be together...then only you can...you can deliver. You must be committed so you can deliver. So these two must blend together.
5	50/50...if <i>guanxi</i> , trust will be added in...easier to get to trust him also.
6	Yes ( <i>you can do business in Malaysia without connection</i> ). We have to build up the relationship from the projects...(we) have to do a lot of relationship ( <i>building</i> ) with all the people once you get the projects.
7	No ( <i>your firm cannot be successful with just guanxi and no trust</i> ).
8	I think trust with a new client is not there. So you have to build trust. That's why to me, my principle is...how do I build trust with them...I delivered for them, you know...
11	<i>Guanxi</i> is getting to know, getting together and then from <i>guanxi</i> , you know this person...then you begin to trust this person, then you start your business-lah. I think it is basically that-lah. <i>Guanxi</i> is the beginning, I think-lah, is the beginning, it's getting to talk to the right channel. So from there, trust comes in and after you get to know this person...trust comes in and then you do business.
12	( <i>do business with guanxi but without trust</i> ) Cannot. When there's no trust,

	no relationship already. If anything in general when there's no trust there's no relationship already.
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*Source: Developed from a content analysis of interview transcripts*

**Gp 31: Very often cited – Trust and *guanxi* must go hand-in-hand to achieve success in business.**

**Gp 32: Often cited – When *guanxi* exists first, trust should then be built.**

**Gp 33: Often cited – When trust exists first, *guanxi*(+) should then be built.**

**Gp 34: Often cited – One cannot do long-term business when there is *guanxi* but no trust.**

**Gp 35: Often cited – One cannot have fast growth in business when there is trust but no *guanxi*.**

#### **4.6 Connections, relationships and reconciling *guanxi*(+), trust and sustainable competitive advantage**

This section takes the issue of interpersonal relationships and investigates whether it can be considered as a source of competitive advantage.

##### **4.6.1 *Guanxi*(+) as a unique value creating strategy and as a valuable resource**

This section argues from the respondents' viewpoints that *guanxi*(+) can be used as a unique value creating strategy and can be a valuable resource.

Respondent 2 commented that *guanxi*(+) is used as a strategy to access consultants and facilitates the use and approval of the company's products. Respondent 2 maintained throughout the interview that relationships with consultants for projects are keys to getting orders eventually from main contractors and possibly for achieving a higher price for products.

Similarly, the strategy of Respondent 7 is to become his clients' preferred lawyer. Respondent 7 elaborated further on this issue.

When they have that problem they must...uppermost in their mind is that...they will look for you. So the only way you can...is imbed it in their mind that you become a preferred...their preferred lawyer is to have regular contact with them.

Respondents *very often* cited that *guanxi*(+) is used as a strategy to obtain business of a higher value than competitors. This is confirmed by Respondent 4.

Yes (*getting orders at a higher price*) so that's why I mentioned that connection...relationship is very important.

Respondent 8 shared the same view.

Ya. Most of the time actually (*securing business at a higher price than what the competitors quoted*).

Section 4.4.1 established that *guanxi*(+) needs to be with the right people, at the right time, and at the right place (Gp3). Respondent 6 applied this strategy in his business practice by locating friends who are able to assist him to be linked to the ‘right’ people.

Because this friend has a very good connection with the boss. So in business, we know...we know which friend is close to who...start from all these connections...

Respondent 11 provided the notion that *guanxi*(+) is used as an indirect strategy to solve problems and to enhance team spirit.

Social interaction definitely is important. When people are good friends...it is easier to solve a problem...then they don’t become too selfish, you know. So this interaction will make them understand each other better and the team spirit will be stronger.

Respondent 12 was of the opinion that *guanxi*(+) can provide an extra edge by achieving priority status in business dealings.

With a relationship you have a special priority with somebody, you see. You have more advantage on this. This relationship will give you more pick...priority, priority to you.

Respondents **very often** cited that *guanxi*(+) is a valuable resource in the context of helping the firm to obtain business. Respondent 3 provides a support to this contention by stating, ‘If he doesn’t have relationship, he...he might not even get the job at all.’ Respondent 10 went on to state that, ‘If your relationship with the company or the individual is not as strong as the competitor, then you definitely lose (*in getting the business*).’

*Guanxi*(+) is viewed as a valuable resource. Respondent 11 suggested, ‘...a lot of time, clients don’t like to change, because once they start working with you, they feel comfortable.’ As posited by Respondent 7, if the person is established through relationship as the ‘preferred lawyer’ the business will remain with the firm.

The relationship part is this...in your potential client mind...you must...you must have create such impression on them that...you are the preferred lawyer, in that particular matter.

Table 4-12 is a summary of the respondents' views of *guanxi*(+) as a unique value creating strategy and as a valuable resource.

TABLE 4-12

***Guanxi*(+) and the concept of valuable resources**

<b>Resp.</b>	<b>Comments</b>
1	...from the relationship, you get important information especially the price of other people...
2	Once you know them, once you have the relationship with the consultant, you know they will call you up when they are doing a new job. Who is the new contractor... they will inform us, you see.
3	Er...pay me money...and give me extra jobs...more jobs in time.
4	It also depends on project-to-project, some projects yes...talk to client, they'll give you...financial assistance which is like L/C, for procurement of material and all. Other times they come in handy also, they can come in to assist you...if there is any so called problems that have encountered on the project, they can come in, to give a word to help you...not only on financial-lah.
5	Yes...if we have <i>guanxi</i> (+), the chances (of getting the business) will be made higher...the percentage.
6	So in Malaysia...actually without connection, the chance to get the thing ( <i>business</i> ) is very, very slim.
7	I see it ( <i>guanxi</i> (+)) as something significant because you develop your strength through this group.
9	If the person is comfortable with you, the client is comfortable...they will oversee it...they will overlook it...or they will tell you...eh, something is wrong, you should have rectified it...before anything drastic will happen-lah.
10	Normally...is trust, then followed-up by a contract...when a job is finished ( <i>laugh</i> )
11	Some of the clients that have worked with us before, when they changed companies, and had a good experience with us, then they use us as their reference-lah.
12	So I know...with <i>guanxi</i> (+)...my payment is there. Ok, I can sit down with the boss...the director to sit down to discuss.

*Source: Developed from a content analysis of interview transcripts*

**Gp 36: Often cited – *Guanxi*(+) can provide an extra edge in business when used as a unique value creating strategy.**

**Gp 37: Often cited – *Guanxi*(+) can be a valuable resource in business.**

#### **4.6.2 *Guanxi*(+) and the concept of an imperfectly imitable resource**

Respondent 2 acknowledged that close relationships is one of the reasons for him not being able to secure some businesses. This is attributed to his competitors having a



better relationship with the consultants. It suggests that once strong *guanxi*(+) is established with a customer, it is highly unlikely that a competitor can use other strategies to steal business. Respondent 4 noted that when one knows the person and has that person's trust one has the advantage of deciding whether or not to accept a particular business order.

*Guanxi*(+) in the context of being an imperfectly imitable resource is illustrated through a vignette from Respondent 5.

Like recently our company has (*bought*) a sputtering machine. This machine we take it from a glass manufacturer but because they don't have the labour...so (*through*) the connections we take it over...and it's a good price and a good market so it helps our company, to succeed and to do more business. The main thing is the relationship. They don't sell it to overseas or some my competitors.

Respondent 6 is also of the opinion that it is not easy for competitors to build the same level of *guanxi*(+) with the same customer.

Connections are very important, trust very important, it (*takes*) time to time to build up...the first one to build the connection and trust, the company will be a good chance...because the customer still remembers you...trust you.

Table 4-13 provides a cross-section of respondents' views on *guanxi*(+) as an imperfectly imitable resource.

TABLE 4-13

***Guanxi*(+) and the concept of imperfectly imitable resource**

Resp.	Comments
2	Maybe the consultant has a better relationship with the other supplier.
4	Of course, of course, you have to know the people...that actually has...that actually trust.
5	Hmmm, no, depends, ( <i>if</i> ) the customer is sincerely supporting your company, they will know how...to give you ( <i>the business</i> ) back to your company.
6	Dialect of the people 'Hok Chui' to 'Hok Chui'. No matter how we try, cannot get. Ok, it's not because of cost, costing, it's because of dialect.
9	So when they go to the next job, ok...they will refer the same work to you...different company-lah but more or less the same work-lah.
10	The <i>guanxi</i> will trust you that this is the job which you can perform. Even though they ( <i>the competitor</i> ) bring down the price, they ( <i>the client</i> ) never, to give them the job because they are new to them. They don't know how they will perform.

Source: Developed from a content analysis of interview transcripts

**Gp 38: Often cited – *Guanxi*(+) can be an imperfectly imitable resource in business.**

#### 4.6.3 *Guanxi*(+) and the concept of rare resource

*Guanxi*(+) as a rare resource was highlighted by Respondent 2. It is important in achieving sales at a higher price than the competitors and also to secure business even though the product is slightly inferior to that of competitors.

A summary of respondents' views of *guanxi*(+) as a rare resource is summarised in Table 4-14.

TABLE 4-14

#### *Guanxi*(+) and the concept of rare resource

Resp.	Comments
2	They are at the higher price. And moreover, their product is not as good as ours.
4	Actually, the reason behind this is quite simple. Every company have their own so called supporters...and among those so called supporters of yours, they have their own competitors, so each of them will have to, sort of divide themselves to support different companies, I believe that.
5	So that will be more often visiting customer to...relationship to get it back the business, like I say, can...open heart, see what is the price to negotiate. Some my customer will be don't mind to give me small higher price to get back the business because the relationship is there.
6	Connection, they have different categories. To...like we directly know the actual... means the boss, ok. Whatever all the people submission...everything, so...definitely is for show only...ok. So anyhow, finally ( <i>the business</i> ) will go back to the person ( <i>that</i> ) the big boss likes...ok. So...these are the connections. If you don't know the big boss, you can submit all the things but ( <i>the big boss will</i> ) make sure you can't get the ( <i>the business</i> ).
7	So if you are approachable ( <i>through guanxi</i> (+)), you will have upper-hand, you will have a leverage over the others...so you developed that.
10	Advance payment, not prompt payment... got the trust and <i>guanxi</i> (+), you know, our payment is no problem,
12	Definitely the giant companies will want to grab this project but for me I do not need. I just go to the office and talk to the boss...I want to do this project. So the boss will automatically give it to me.

Source: Developed from a content analysis of interview transcripts

**Gp 39: Often cited – *Guanxi*(+) can be a rare resource in business.**

#### 4.6.4 Guanxi(+) and the concept of strategically equivalent substitutes

When there is strong *guanxi*(+) and trust, getting business through the traditional low cost, differentiation or focus strategy may not always work. It is only when a competitor, that has strong *guanxi*(+) and trust with a potential client, relinquishes the project, that another firm can secure that business. Respondent 3 provided an explanation of this situation.

Chance of opening is very slim. Happen that the guy is over “fed”. So then, he said I’ve got no time to do it...maybe then the second guy has got the chance.

Respondent 6 affirmed that they were not able to achieve a business transaction through any means when the competitor has a strong relationship with the customer. This implies that there is no strategically equivalent substitute for the *guanxi*(+) factor.

We were following 100% according to tender procedure, and we also submit a very competitive price...ended up still cannot be successful.

Table 4-15 provides a cross-section of respondents’ views on *guanxi*(+) acting as a barrier against strategically equivalent substitutes.

TABLE 4-15

#### *Guanxi*(+) and the concept of strategically equivalent substitutes

Resp.	Comments
1	There is a project ( <i>that we lost</i> ) where we have less connection...
3	We know very well that we are just the...we are just the participant, that’s all. Forever we remain the participant...outsider. No chance of getting it ( <i>the business</i> ).
6	We try many but zero.
8	Those that I have developed very close relationship ( <i>competitors can never steal the client away</i> ).

Source: Developed from a content analysis of interview transcripts

**Gp 40: Often cited – There is no strategically equivalent substitute in business for *guanxi*(+).**

## 4.7 Connections, relationships and reconciling *guanxi*(+), trust and Porter's Five Forces

### 4.7.1 *Guanxi*(+) and customers

Respondent 6 suggested building a relationship with a customer means working together at an early stage of project development.

Of course we have...a lot of the relationship with some developers, so those developers...work together with us...means from an earlier stage...Ok. So with them, they have all the consultants everything, we also work with, closely all the consultants like the architects ok...so...we get all the information from the developer. Ok so...they want a building, what is the external cladding, all the things, then we work together.

Respondent 5 added that a good relationship with the customers means a referral to more business.

Customers will be very happy to...how to say, to recommend your products...and they help you by recommending customers to buy this product.

Respondent 2 viewed the relationship factor as a constant for business.

Business is always...I feel that the relationship is very important, Once you have a relationship with the customer or the consultant...I mean...the business is always there, ok.

Respondent 9 went on to discuss the benefits of a good relationship with a customer.

Yes, it helps a lot if you have a relationship with them (*the customers*)...because end of the day, this company...they pay their supplier, sometimes takes longer, sometimes take a shorter period of time but it's always who they know better or who approaches them more often, you know. Having a good relationship, is like can you help me? Can you settle my invoice?...cash flow problems? So it helps a lot especially with a very problematic company.

However, Respondent 12 is of the opinion that successful business relationships are based on two-way traffic.

Both parties are very important.

Respondent 4 discussed the *guanxi*(+) aspect in relation to customers and formed the opinion that only companies that have connections and that can perform will eventually succeed.

Every project, all competitors do have their own connections. But connections itself, do play a part but not...not most of the time, a big part of it-lah. Most importantly...the client also...of course there are also people who also approach the client. But the client also has to really look through it and see for themselves...look.

Respondent 11 summed the relationship factor with customers in a simple statement.

It's just that if my friend can do it and do it just as well, I will give it to my friend.

A cross-section of respondents' comments on the benefits of a *guanxi*(+) relationship with customers is summarised in Table 4-16.

TABLE 4-16

**Benefits of *guanxi*(+) relationship with customers**

Resp.	Comments
1	I would say relationship with customers is quite important. With some connection...can let us secure the job with the competitive pricing-lah.
2	We will get information from the main-contractor...
3	( <i>We keep getting repeat business</i> )...the reason is we have good relationship with them.
4	They will feed us information.
5	Customer will be very happy to...how to say, to recommend your products...
7	( <i>We get business</i> ) mainly based on referral or base on contacts-lah
8	I never go out to canvas job...it's always being recommendation from one client who is happy with my job...and goes to his friends, and then his friends' friends and some people I don't even know...
9	You have to build up, possibly... some long term relationship...but up to a certain stage only they start to give you business...
10	He really, really, and I am also surprised that he...the way he helps me out, you know. He brings me along to the government's office you know... he's very well-known from bottom to top...(and arrange) express the payment direct to us.
11	...is important also that the client and us know each other as human beings...as friend...as human being...as real people so that...in an environment where we are more opened and where things are more conducive...where we can understand each other better.
12	I have a very long-term customer...because my client...I can say it's almost ten years already I have been doing business with them...all are big projects.

*Source: Developed from a content analysis of interview transcripts*

**Gp 41: Often cited – *Guanxi*(+) with customers is beneficial for both parties.**

**4.7.2 *Guanxi*(+) and suppliers**

Respondent 3 stated that suppliers are an important stakeholder of the company. The suppliers are just as keen to deal with a good company.

They also wanted to keep a good, trustworthy purchaser so that their...their investment is well ...their sales, their collection is well taken care.

Respondent 3 added that relationship with the suppliers is two-way traffic.

So not for one time, consistently, so...and they expect us to return the same to them, so that is where the relationship is both-sides.

Respondent 4 added that it is only through the working relationship and trust that a company can be given preferential treatment.

Again, this is through so called working relations that you have gained the trust through the years and then you have this type of preference.

Respondent 4 detailed some of the support that suppliers can give to a firm.

They also give you a special price, because to a certain amount that you purchase, you fully support each other. They will support you continuously with a special price so that you also can...you know, helps you to actually secure your so called tender. But apart from that, they will also give you better terms. And better terms...like payment terms...they will give you better facilities in terms of ...more...from facility in terms of the amount...which actually will ease off your finance also. And other than that they will actually put you on priority because in contracting, time factor is there. Anytime they will assist you.

Respondent 12 believed in having a long-term relationship with the suppliers.

I believe one thing...long term business. You see all my suppliers, up till now it is ten years already...they insist...any one project, they want to do business.

According to Respondent 12, there are definite benefits in approaching business this way.

They give me a very good preferential treatment. I can say they give me very good support on the supplies.

A cross-section of respondents' comments on the benefits of a *guanxi*(+) relationship with suppliers is summarised in Table 4-17.

TABLE 4-17

**Benefits of *guanxi*(+) relationship with suppliers**

Resp.	Comments
1	Some suppliers...they will give their friends better pricing...
2	Benefits like...you know, in price, quantities, discount... no delays.
3	Good in the sense of quality, quantities...long run. Delivery, services, pricing, competitiveness, then their goods are not inferior, no sub-standard

	goods, deliver as what they promise in time, in quality and in price.
4	They will give you things like facilities. Facilities play a very important part...they will ease your financial constraint and also the commitment to you, where they deliver to you, you get delivered. This is very important.
6	So the supplier we work with is more than 20 years, ok. They are also monitoring our projects. Ok, we are also close with the supplier and ( <i>there are</i> ) many discussions, ok. Say example, we want to tender this project, so we will discuss all the items. Ok, so finally, we will talk to the supplier, this is the price we want, please support me. So, the supplier is willing to do that.
10	First of all...the price will be very competitive. Secondly, their service. Thirdly, if you really need urgent things, they will run 24 hours for us
11	We have a few...certain suppliers that we are comfortable with. We get special rates, they become more flexible

*Source: Developed from a content analysis of interview transcripts*

**Gp 42: Often cited – *Guanxi*(+) with suppliers is beneficial for both parties.**

**4.7.3 *Guanxi*(+) and competitors**

According to Ma (2004, p. 919), '*guanxi* with rivals will prove to be a better cause for competitive advantage than perhaps cut-throat competitive moves'. Respondent 2 did not see a need to interact with competitors. However, Respondent 3 is of the view that "a lone ranger cannot win a war" and at times they may need the help of the competitors.

Why we need to keep a gang because sometimes we have too much...too many jobs, we, we need them to help us. Sometimes we don't have enough job, they need us to help them. So competitors have to team up also.

Respondent 4 went on to explain that cooperation with competitors is usually with respect to certain aspects that a firm lacks.

Sometimes, because of certain things that you specialise in...or they specialise in, then you have so-called exchange...machineries that you have, they don't have, so basically it's about working with that.

Respondent 5 believed that there is serious disadvantage in cooperating with competitors.

...the connection maybe not very clear...we are scared that any news (*will leak out*).

Respondent 6 acknowledged that interaction with competitors is not common in Malaysia. Respondent 12 highlighted that cooperation between competitors is difficult.

In business-lah, I don't think they want to cooperate because every person is fighting for business...they want to get the job, I want to get the job and he also wants to get the job, everyone want to get the job...so how to cooperate? So nobody can cooperate, I believe-lah.

Table 4-18 provides a cross-section of respondents' comments on the interaction or non-interaction between the firm and competitors.

TABLE 4-18

**Interaction between the firm and competitors**

Resp.	Comments
1	We do have some lunches...we don't fight really like...like enemies...
3	Er...(thinking)...not really, unless a few in a close-circuit-lah. We call it a clique or gang... Because a lone ranger cannot fight a war. A lone ranger cannot win a war. So you need a group or army.
4	Yes, at times, yes.
5	Seldom...no ( <i>immediate response</i> )
6	Not. Not very good (interaction) because it's a different company, different set up. Ya...definitely cannot sit down to discuss all the things.
8	Er...no direct interaction actually.
9	Interaction...yes, but not on the social kind of a basis-lah.
10	We are actually...I don't have any competitors at all ( <i>laugh</i> ). Normally they have their own customers, I have my own customer.
11	Not much...not much interaction.

*Source: Developed from a content analysis of interview transcripts*

**Gp 43: Often cited – Guanxi(+) with competitors is seldom for both parties.**

**4.7.4 Guanxi(+) and new entrants**

Section 2.11.3.4 identifies that *guanxi* is viewed as an entry barrier that reduces risks from competition and new entrants (Tsang 1998; Wong & Tam 2000). The respondents in this study indicated that they seldom apply their *guanxi* relationships to hinder new entrants from conducting business.

Table 4-19 examines a cross-section of respondents' comments on the connections between the firm and new entrants into the Malaysian market.



TABLE 4-19

**Connections between the firm and new entrants**

<b>Resp.</b>	<b>Comments</b>
1	...to me, everybody has a chance. Normally we don't disturb them. ...we let them come into the market...we have our way of doing...we use our trust, our reputation, our ways of working, our service, to win the customer.
3	First, we must see what we are good at. If they are good at pricing, we will let them crashed. If they are good at relationships...they cannot be good for every person, they might...they may be good in one or two. Then if they are really good, there is nothing much you can do. If they have weakness here and there, then we try to exploit the weakness. See how we can overcome him.
4	Realistically...I think you asked me, realistically, I think none. But of course there are people who are trying, ( <i>but</i> ) the market is big enough that no matter whether you prevent them from securing the big one, then they will go for the smaller one.
5	Same business...then we will be very careful...see what's the range...the customers...how many percent to rush out ( <i>laugh</i> ). You must be very interested to see...the movement.
8	Actually, I can...I think I can...actually prevent it, which I did in some previous projects. I can always drop my price to his price. But for me, it wasn't worth it-lah. So I leave it to him because he's at the lower end. I have enough businesses...you know.

*Source: Developed from a content analysis of interview transcripts*

**Gp 44: Often cited – *Guanxi*(+) is not used as a weapon against the new entrants in the business.**

#### **4.7.5 *Guanxi*(+) and substitutes**

There were some discussions that pricing can be a substitute for *guanxi*(+) in gaining business. Respondent 4 suggested:

At this market is also pricing...pricing.

However, he qualified himself that:

But with pricing you also must ensure yourself that with that price you can perform and deliver.

**Gp 45: Few cited – With a strong *guanxi*(+) relationship, there is unlikely to be any impact from substitutes.**

#### 4.7.6 *Guanxi*(+) and staff

According to Day (1994), building interfunctional *guanxi* is inclusive of all levels of the organisation. Respondent 4 concurs with this view by highlighting the importance of relationship with staff of the company.

Staff is a part of your company. Staff are the ones that generate your so-called income for you. Staff are the ones actually deliver for you.

Respondent 6 suggested that the staff should be treated as a family.

Oh! That's very important. Ya...work as a family, work as a family.

Respondent 6 offered an insight on how relationship with the staff can be built.

We also planned some trips with the staff...all...make a relationship...so they understand our management, we also understand their family and all the things.

Respondent 12 suggested that building a relationship with the staff is about being friendly to them.

When we come to meeting, they don't treat me as a boss, they all can say anything they like, don't treat me a boss. So when I talk to them we are very friendly.

According to Respondent 12, actions gain the trust of key staff.

When the market is bad, you know, a lot of companies retrench staff, I don't retrench my staff... talk reason through with the staff... not going to penalise them.

Table 4-20 provides a cross-section of respondents' views on the connections between the firm and the staff.

TABLE 4-20

#### Connections between the firm and staff

Resp.	Comments
1	We have to take care of them... we help them... we give them chance
3	First, the person who hold a key post, important post has to be somebody like your relative or somebody which you have...close relationship like shareholders, which you signed a bank guarantee together. If you want to destroy it then let's die together. Relatives hold the important post where if he betrays you he cannot go back to his father and mother because his father is your cousin or uncle. Then for those people who hire from outside, certainly a very secret thing, just cannot let go...
4	The staff, yes ( <i>louder voice</i> ). Staff, yes, staff is very important.

6	...so the staff would be working closely, ok...and on my management, we also work hand-in-hand with the staff.
10	Relationship ( <i>with the staff</i> )...we never act like a boss, you know. A boss, whatever is it, we are very close to them, you know. We have to work with them...work with them together, you know. Even if they work overnight, we stay back. Emotionally, we support them, you know. Even though no work to do, we go down, to try to help them...the minor things which they do everyday, overtime or holiday, we come back...emotionally, you know, to support them to run.
11	There are...there are a few levels of people that you need to take care of now. Of course, there is the management level, the higher level-lah. In the management level, I think what you need to do is...important...you must listen to them...listen to them...and you must trust them, basically that.
12	So always I maintain ...my staff, are my key people, my good staff, I maintain them until today.

*Source: Developed from a content analysis of interview transcripts*

**Gp 46: Often cited – A strong *guanxi*(+) relationship with the firm's staff is beneficial to the firm.**

## **4.8 *Guanxi*(+), trust and business key success factors**

### **4.8.1 Perceptions on key success factors**

This section explores the various respondents' perceptions on the key success factors (KSF) of a firm before proceeding to attempt to integrate KSF with *guanxi*(+).

Respondent 3 offered an insight that no one company can be the best in all that they do:

We cannot score all the best in every field that we mentioned. But we have to score...must score above average on every aspect. In terms of pricing, we have to have the lowest rate. In terms of quality, we have to be among the top three. In terms of relationship, we must be the best. In terms of record, we have no problem, zero black spots.

Respondent 4 suggested that focus is an aspect not to be neglected.

Actually, in our trade most important is...the focus on it. The main thing is you must be focused on the project...only then you can deliver. That's the way I looked at it. Of course, besides that...financially you must be there...to perform.

Respondent 6 noted the importance of implementation.

This is all basic, this is all basic...ok, so...to get a project and deliver of course is between...there's still a lot of things you have to organise, in term of human resources...to get a project and delivery is two different things.

Respondent 7 suggested a new element to achieve business success.

One is of course your visibility is important. Visibility means you have a saying that 'out of sight, out of mind'.

Respondent 7 further explained:

So sometimes you visit your friends or your clients or your customers...you visit them. So when you visit them...ah, they will say, I got this matter, I thought of contacting a lawyer. Now since you are here, I want to ask you...that means you are there, so sometimes it's not so much of your ability. Even if you have the ability...if you are not available, it doesn't serve a purpose. Ya...we called that visible...being visible...being available to the particular client. This is where the networking comes in...this is where you build rapport.

Other perceptions of KSF as commented by respondents are summarised in Table 4-21.

TABLE 4-21

**Connections between *guanxi*(+) in the context of key success factors**

Resp.	Comments
1	i) We have to maintain a very good company reputation. ii) ...public relation, marketing and a very good team. iii) ... more focused and we are personally involved.
2	i) You know they believe in our products. ii) Because of qualities and prices.
3	Er...responsiveness, so try give an answer to all the problems immediately. Second thing is we don't mislead people, betray people, honest-lah, we are honest, then our overhead is low and I think efficiency is the most important thing. Efficiency and trustworthiness
4	Yes, the reputation of the company...in term of course...firstly, finance and performance...and what you call, delivery, you know. It's very important because...in contracting it's all teamwork. It is very important...from factory to site, everywhere...every department is important.
5	Service, quality, relationship, price
6	The company in the market means the reputation, ok. Of course from the project we are doing, from the project previously we are doing...so already step by step improve my company to become a better situation...the projects we successfully completed...so to bring our company...is another level.
7	Base on our experience or competency or capability...we know what roughly is required...and also we focus on certain area of our specialisation.
8	I concentrate on providing good service and something value added.
9	Ok...the turn-around time, that's the most important for me. The next thing is of course to do the work well-lah. ( <i>Giving the client</i> ) better returns or giving them better services. The fees must be reasonable-lah.
10	My philosophy always...responsibility, trust and service is our capital.
11	You must be able to do what the clients want.

12	The service and quality is very important... the reputation important, the reputation...the name you build in the market
----	--

*Source: Developed from a content analysis of interview transcripts*

**Gp 47: Very often cited – *Guanxi*(+) and key success factors are important for competitive advantage in business success.**

#### **4.9 *Guanxi*(+) and Westerners**

Section 2.8 discussed *guanxi*(+) in comparison to the Western market system. According to Lovett *et al.* (1999) Western economies are evolving towards a similar relational approach and the convergence may result in each embracing the most effective aspects of the other. This concurs with Respondent 9's belief of the differences between the East and West type of relationship.

I still think that in the West, it exists...just to what extent and to what degree. Maybe in the West...well in the East, the people are more...well if you...for lack of a better word...they value friendship more...or they have a strong...they have stronger feelings towards friendships. So if you were to ask someone to help based on friendship in the East...you may have a better chance. In the West, *guanxi*(+) also exist because end of the day, personal relationship...all those things counts. Just that...they may not get you as far as...what...where they get you in the East. It will help you in the West but the emphasis is not as strong.

An interesting insight from Respondent 8 is in the evolution of mentality of the people from the East.

But I think...as I say there is an evolution of mentality. Where Asian being the lower, you know...less developed, you know...the more developed and well...affluent you are, your sense of fairness, you know...principles will be better. When you are struggling to...like China now, they will just cut cost and blah, blah, blah...just to sell their products. I think it's an evolution, so I think...maybe the businesses...people are more established, then they will have more ethical business practice, I think.

However, Respondent 6 is of the opinion that Malaysians do business in very much the same way as Westerners.

**Gp 48: Few cited – There is a convergence between the Western and Eastern relationship system resulting in each other embracing the most effective aspects of the other.**

#### 4.10 *Guanxi*(+) and non-Chinese in Malaysia.

Respondent 2 informed that in his type of business, he has no dealers of other races other than Chinese in Malaysia.

So far no...in our kind of business, so far no...

However, Respondent 2 did come into contact with Malay consultants.

Starting of course, we don't know each other, maybe by calling them, or giving them a courtesy call here or there, you know...just to introduce our products. From then we get a relationship slowly-lah. Maybe they don't have a project yet, we still give them a call-lah, you know, just to say hello-lah. At least to...the relationship will get better and better, you know. And then sometimes, called them up for lunch, and all these things, you see. So, this is how we build the relationship-lah.

Respondent 3 further expanded this issue to non-Chinese.

*Guanxi*(+) also comes to play in other race. Any...anybody, even you, foreigner. You have been with him together for so long, work in the consultancy. Now he comes back to Malaysia. You write a letter to him that you want to open certain services. He wants to come to Malaysia, and the first person he looks for is you. Anything he brings along...the good piece of cake also offer to you. So any good business he brings along, I think you are the first one who...who...who taste it. So you are...definitely, this is definitely *guanxi*(+). What, what does it mean? He must bring along the best piece of cake? Right from the airport, you pick him up, he gives it to you.

Respondent 8 stated categorically that he practiced the same principle (*guanxi*(+) *building*) with the other races. However, the other races do not necessarily reciprocate the same practice, 'You know Indians...are a little bit tricky, right...but I find that the European are very professional.'

Table 4-22 provides a cross-section of respondents' views on the connections between the *guanxi*(+) and non-Chinese.

TABLE 4-22

#### Connections between *guanxi*(+) and non-Chinese

Resp.	Comments
1	...use <i>guanxi</i> (+) with other races...yes, yes, yes ( <i>without hesitation</i> ). Non-Chinese-lah. They also use this <i>guanxi</i> (+) thing.
2	No, there are Malays, they have Chinese, you know. Of course, we have to build up the relationship-lah. Both are more or less the same-lah, ( <i>laugh</i> ) same-lah, you see ( <i>relationship building</i> ).
3	Other race...(yes but) not as close as the Chinese.
5	Yes, always, but only for the Muslim Malay, they don't drink liquor so we only have coffee only-lah or other type.

6	With other races.
8	Most are Chinese-lah. But I have clients from Indian, Muslim...all races.
9	With all races...especially Malays. In fact, I will rate Malays in Malaysia...in term of <i>guanxi</i> (+)...if your friends and or you have done something for them, they would return the favour...in my experience-lah...even more than Chinese. They are very indebted to you. So my <i>guanxi</i> (+) in Malaysia is always a lot more with the Malays but then of course...it's because I deal with a lot of government agencies as well...and they are mostly Malay. And when I...because of friendship they all always...never let me down.
11	We have...we have, we need to know high level people, ya...we mixed around with all sorts of people...all different races, yah. In Malaysia, your decision doesn't rest on one race-lah.

*Source: Developed from a content analysis of interview transcripts*

**Gp 49: Often cited – The Chinese ethnic Malaysian practised *guanxi*(+) not only with their counterparts but also with the other races in Malaysia, particularly with the Malays.**

**Gp 50: Few cited – Malays also practise *guanxi*(+) not only with their counterparts but also with the other races in Malaysia, particularly with the Chinese.**

#### **4.11 Perceptions on *guanxi*(+), trust and the implications for business**

Respondent 3 highlighted that competition is tough in any business.

When the hungry dog tries to fight with you, you can hardly get any bones to eat. Don't hope for any meat...cannot get.

According to Respondent 2, success in business relies on all the following three factors:

Number 1 is the pricing-lah, you know. Number 2, you must see your product, whether it's up to specification or not-lah, you see. Number 3 is the close connection with the consultant.

Respondent 3 included the factor of supply and demand into his consideration:

Just like you meet a hungry dog, you can't even get bones. If you meet a well-fed dog, you still can have some meat

In hindsight, he added:

Just because you know a few good friends, doesn't make you rich. They give you a chance to step in.

Respondent 4 reported that teamwork is also a key success factor for business.

It must be...teamwork.

Respondent 11 was frank and confirmed that it was *guanxi* that helped his business when it was first started.

We have *guanxi*(+) (*laugh*). We have *guanxi*(+) and we know people and then the people trust us and then we delivered and then from there we grow and we grow.

However, Respondent 3 made clear that with *guanxi*(+) and trust but without the essential fundamentals and key success factors, the situation is closer to a social environment than a business.

Just like another one-lah...*chow yoke pang yau, yam zhao sek siew yoke* (*wine and meat friends, drink and eat pork meat only - Cantonese*) a full house but there's no working relationship. It's ok if you do that kind of business to enhance your society, your *zou chun ziong* (*village chief - Cantonese*), ok, fine, they are not for business, purely social, you can go this way. So you have got a lot people say, oh...you are number 1, very *dai fong* (*very generous - Cantonese*)...very good care...so *dai kor-lah* (*big brother - Cantonese*). But *dai kor* is normally bad business...underground business. Or you want to run for election, with political interest. They must have interest to keep a whole bunch of people eating and drinking...right? If you want to keep the whole bunch of people eating and drinking, you must have some interest...political...social...business...or...personal.

Respondent 3 summarised the issue of *guanxi*(+) in the context of sustainable competitive advantage as follows:

Since you are using the word *guanxi*(+)...*guanxi*(+) is one of the elements of success. One of the elements...but not the only element. Fundamentals of course (*are required*), what we learn from books, what we learn from experience, that's fundamental. Good quality, good delivery, good service, good pricing, that is fundamental, everybody knows it. *Guanxi*(+) is how well you can get along with the people, your employees, your clients, your outsiders...so that you have fewer enemies along the way.

Respondent 4 went on to add, '...in any department if you have lack of some support, you cannot do it. Nobody alone can do it himself. Other parties...other ...can even be supplier or even to the extent of workers, you know. It's called teamwork.'

Respondent 6 supported this view by adding, '...must work as a team in this business. You cannot work alone, must work as a team...with all...all the technical support...only this can be successful.'

Respondent 6 further added, 'so without...without one step...also very difficult for our industry. That's why what we are more concerned is total control...total control means we have all the setup...everything. We need all...we need all.'

Respondent 7 added:

You become very visible, you become prominent...so that's how people come to know you in the first place. Then of course, you must have the necessary



credentials to back your services. You must have the appropriate qualifications...and ultimately you must, of course, be able to deliver.

Respondent 8 reported that success in business is also dependent on several factors:

Because a lot of people, not many people can execute well-lah. I think that's the key issue from vision to success. I believe the most important is vision, the second is execution and the third, I think is you need to take risk.

Respondents *often cited* that all elements of key success factors including *guanxi* and trust must be combined for achieving business success. Respondent 11 reiterated that one cannot succeed in business with just *guanxi*(+) and trust without basic fundamentals.

In this business, cannot. Even with *guanxi*(+), even with trust, you can't deliver because trust means also delivering. That means the person you *guanxi*(+) with, trust you with their business. And then you can't deliver...is the end already. Yah, so you must be able to deliver all...everything ready, then it works.

Respondent 11 concluded by presenting that there is no one single factor that can ensure success in business. To succeed in business, 'It's *guanxi*(+), it's trust, it's delivering, it's the work, it's everything.'

I think in doing business, you need to have relationship with people, you know. You must know people, you must know people in the right place, to be able to sell to them. So you must make sure that they listen to you. They listen to you and then after that when they trust you...then you must deliver-lah. And that's the way business is done.

**Gp 51: Often cited – *Guanxi*(+), trust, essential business fundamentals and key success factors are important elements of sustainable competitive advantage.**

#### **4.12 Summary**

Chapter 4 has identified that Malaysian business people of Chinese ethnic origin place high value on *guanxi*(+). Malaysian business people also perceive trust to be equally important in the Malaysian business environment. This chapter has identified that respondents place high value on the combination of *guanxi*(+) and trust and believe these elements play a key role in gaining competitive advantage in Malaysian business. Finally, this chapter noted that *guanxi*(+), trust, essential business fundamentals and key success factors are important elements of sustainable competitive advantage.

Chapter 5 presents the conclusions, additional models, insights and discusses the contributions and implications to business practice and policy.

*Everything of importance has been said before by somebody who did not discover it.*

Alfred North Whitehead  
English mathematician & philosopher (1861 - 1947)

## 5 DISCUSSION AND EXPLORATORY OUTCOMES

### 5.1 Introduction

Chapter 1 presented an overview of the research, introduced the research problem and highlighted the two main research questions.

- 1. How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?**
- 2. What is the role of *guanxi* in gaining competitive advantage in Malaysian business?**

Chapter 2 presented the literature review, a conceptual framework and the extant literature related to the two main research questions. In Chapter 3, the researcher identified the methodology and the protocol used. Chapter 4 presented the analysis and results on *guanxi*(+), trust, *guanxi*(+) and trust, *guanxi*(+) and key success factors, *guanxi*(+) and Porter's five forces model, and *guanxi*(+) and SCA.

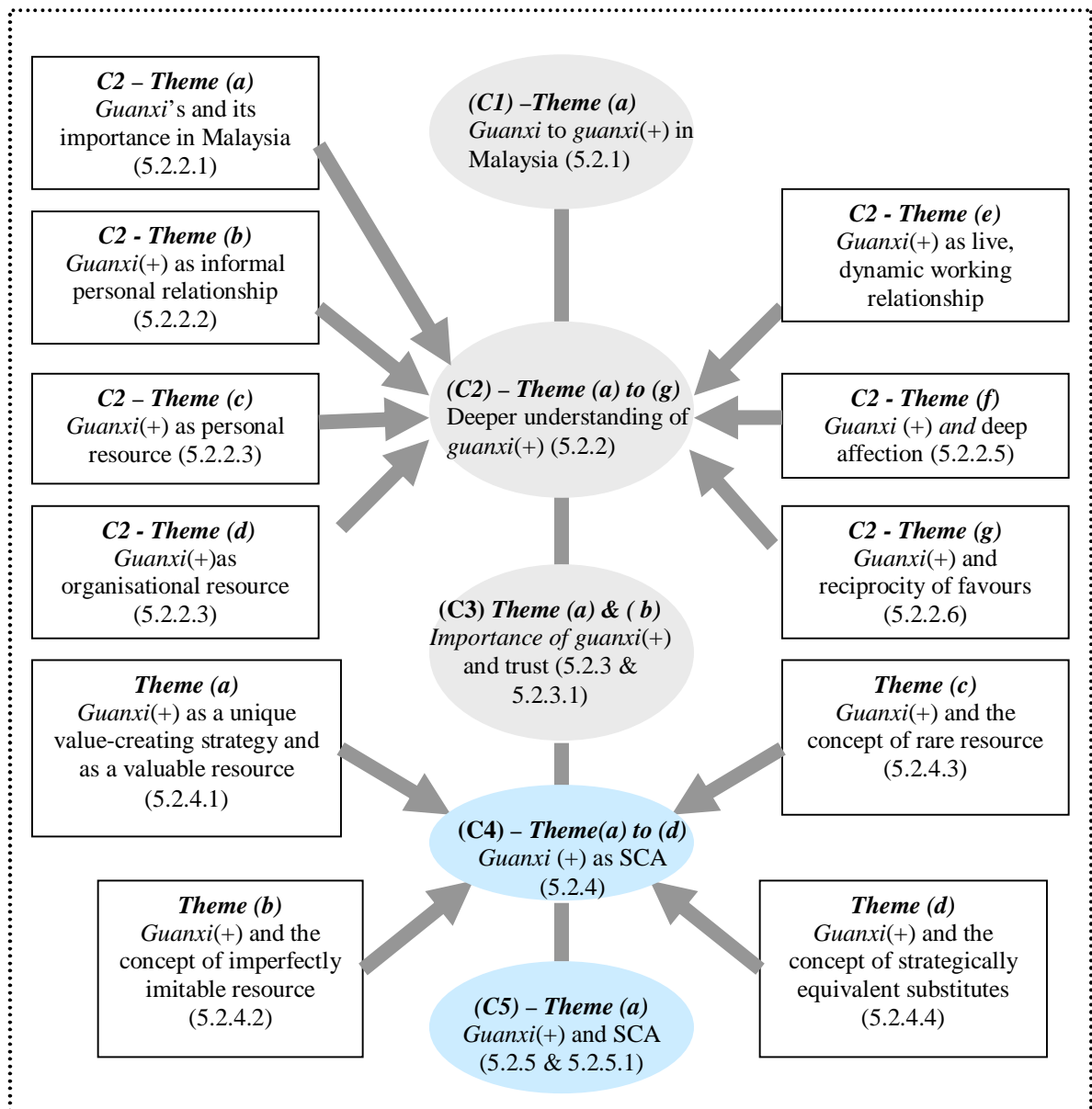
Chapter 5 progresses to the research findings based on perceptions, patterns and themes emerging from Chapter 4. This chapter presents the conclusions and outlines the insights gleaned from this research. Discussion in this chapter focuses on contributions and implications to business practice and policy. Chapter 5 begins with Figure 5-1 which is a Thematic Map based on perceptions, patterns and the subsequent development of identifiable contributions. This is an adaption from Figure 4-1 and is the culmination of a systematic approach to the coding and analysis in Chapter 4. The contributions and themes are the outcome of a thorough investigation of the perceptions of respondents.

The 51 perceptions identified in Chapter 4 flowed from the interview protocol. A further analysis by the researcher of the perceptions has resulted in a total of 47 patterns emerging. These patterns stem from a comprehensive analytical process (review of the literature, research questions, interview protocol, interviews, coding process and ultimately the respondents' perceptions). The number of patterns is less than perceptions as there was no interest by respondents in some of the anticipated

elements (interview protocol). For example, a major change for Figure 5-1 from the original coding map (Figure 4-2) is the omission of interorganisational *guanxi*. This is based on the result of Gp 25 which reports no orientation by respondents to interorganisational *guanxi*. The pattern reduction (from perceptions) is minor and indicates a robust interview protocol which appears to be a reasonable reflection of the respondents' "reality".

FIGURE 5-1

**Thematic map based on analysis and contributions**



Source: Developed from Chapter 4 nodes coding and analysis

The majority of Chapter 5 is dedicated to contributions and implications for theory and incorporates a discussion of the various key themes (Section 5.2.1 to 5.2.4). Section 5.2 therefore attempts to relate the findings back to the literature, the research questions and the conceptual framework. The 47 patterns have also been finally reduced to themes and subsequent contributions. Edward O. Wilson (1998) has identified that science without reduction is not really science (art). Qualitative research relies on interpretation but it too needs such reduction. Thematic development is a systematic attempt to synthesise the theory, concepts and interpretations conveyed to the researcher via the literature and respondents. It is based on research interpretations but has been developed in a way that it is replicable, parsimonious and an accurate reflection of this research.

Section 5.5 and 5.6 provides a discussion of the implications for business and for further research. Chapter 5 ends with a summary of the importance of *guanxi*(+) in gaining SCA in Malaysian business practice.

## **5.2 Contributions and implications for theory**

Based on the analysis from Chapter 4, this research identifies five contributions to an understanding of how Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment and the role of *guanxi* in gaining competitive advantage. As outlined in Figure 5.1, the five contributions are:

- (C1) - A deeper understanding of *guanxi* in Malaysia (5.2.1)
- (C2) - A deeper understanding of *guanxi*(+) in Malaysia (5.2.2);
- (C3) - A deeper understanding of *guanxi*(+) and trust in Malaysia( 5.2.3);
- (C4) - A deeper understanding of *guanxi*(+) as sustainable competitive advantage (5.2.4); and
- (C5) - A deeper understanding of sustainable competitive advantage within the context of its inter-relationship with *guanxi*(+) (5.2.5).

These are discussed in the following sections.

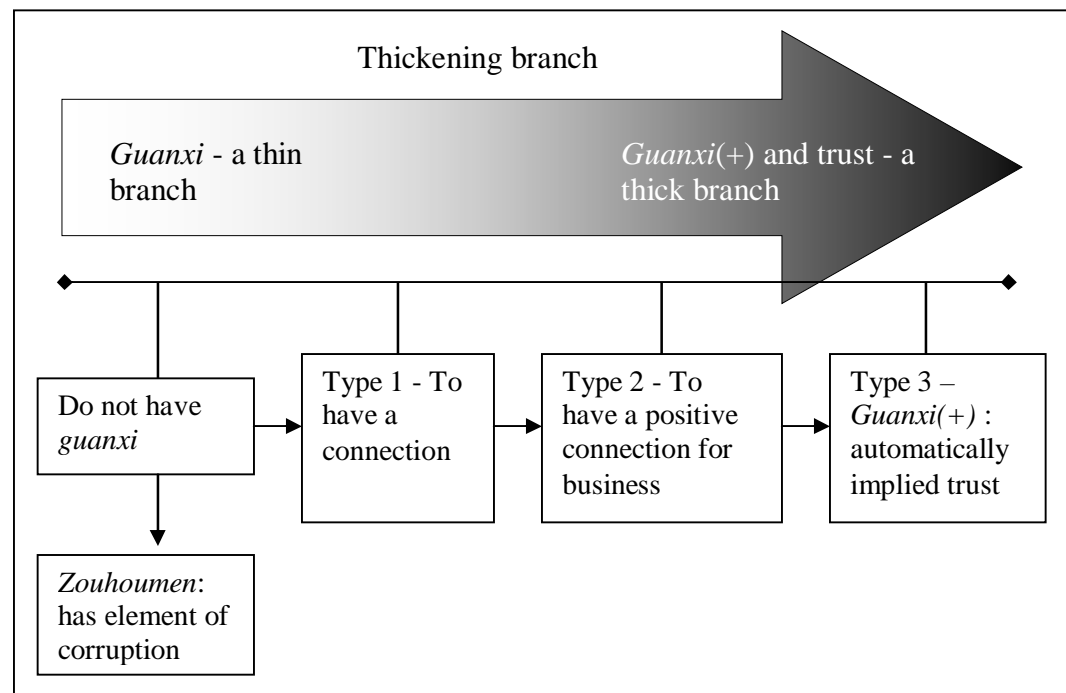
### **5.2.1 Contribution 1 - A deeper understanding of *guanxi* and *guanxi*(+)**

According to Kriz (2002), '*guanxi* is contextual, and is interpreted by individuals in different ways, depending on their experience'. In Malaysia, respondents reported that two forms of *guanxi* are generally practised. The one based strictly on pure relationship

corresponds to interpersonal *guanxi*(+) (Type 1 to 3 – see Figure 5-2), which recognises the need to establish business relations based on social value such as trust, dependability, reciprocity and preservation of ‘face’ (Gomez & Hsiao 2004), while the other has elements of corruption which fits Guthrie’s (1998) description of *guanxi* practice or *zouhoumen* 走後門.

Figure 5-2 identifies three layers of *guanxi*. Type 1 refers to a simple connection, Type 2 to positive connections and Type 3 to ‘an old friend status when business can be transacted quickly and flexibly on the basis of trust’ (Buttery & Wong 1999, p.152). The negative aspects of *guanxi* practice identified in Figure 5-2 include associated corrupt behaviours such as favouritism and nepotism (Dunfee & Warren 2001; Lee *et al.* 2001). Kriz (2002) uses the metaphor of a tree and its branches and roots to describe the interrelationship between *guanxi* and *xinren* (deep trust). As in Figure 5-2 a thick branch represents a trusted relationship (*guanxi* plus *xinren*), whereas a thin branch represents a connection (*guanxi*).

FIGURE 5-2  
Types of *Guanxi*

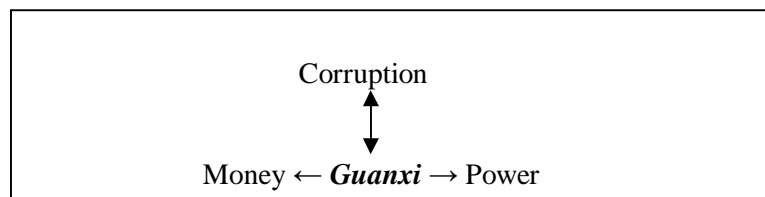


Source: Adapted from Kriz (2002) and developed for this study

*Guanxi* practice or *zouhoumen* is described by Fan (2002) as a means of matchmaking and for illegally binding two parties through illegal monetary exchange. It is a low order connection (Figure 5-2) but has binding qualities due to its relationship to corrupt behaviour, power and bribery as illustrated in Figure 5-3. Pattern 6 (Table 5-1) identifies this negative aspect of *guanxi* as *guanxi* practice which involves exchange of rights and privileges for personal gains.

FIGURE 5-3

***Guanxi* practice (Zouhoumen)**



Source: Adapted from Fan 2002

Figure 5-3 suggests *guanxi* practice or *zouhoumen* can be used by those who are not able to develop a weak *guanxi(t)* (a thin branch) into a strong *guanxi(+)* (a thick branch). *Guanxi* practice or *zouhoumen* is a short term arrangement that normally cannot reach the strength of strong *guanxi(+)*.

According to Dunfee and Warren (2001), *guanxi(+)* cannot be established merely through a one time payment (bribe). *Guanxi(+)* involves proving one's capability (Pattern 7) and as identified by Respondent 4, building *guanxi(+)* and trust is a long term process.

Time, time must be given. You must work your way, you must prove yourself... to them in terms of principle...ethical...all this is also important.

In this respect, Patterns 1 to 6 (Table 5-1) imply that businesspeople need to differentiate the two types of *guanxi*, but use only *guanxi(+)* to achieve long-term benefits for the firm. Section 4.5.2 summed up the respondents' perceptions of *guanxi* in relation to corrupt behaviour. They identified that this behaviour may be classified as *guanxi* but that is inappropriate. As a result this study adopts a new approach and redefines *guanxi* for the Malaysian environment. Chapter 5 adopts this convention and therefore focuses only on positive and legal aspects of connections called ***guanxi (+)***.

**C1 - Theme a:**

***Guanxi* in this study refers to *guanxi*(+) which is a positive form of *guanxi* without the connotations of corrupt practices.**

**5.2.2 Contribution 2 - A deeper understanding of *guanxi*(+) in Malaysian business**

“How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment” is central to the overall research topic “*Guanxi*(+) and sustainable competitive advantage in Malaysian business”. Themes and patterns derived from Chapter 4 and references to Chapter 2 literature review are used to provide such understandings. *Guanxi* is widely practised in modern China (Park & Luo 2001). This has prompted extensive research on the importance and role of *guanxi* specifically in China (Nee 1992; Björkman & Kock 1995; Boisot & Child 1996; Xin & Pearce 1996; Tsui & Farh 1997; Buttery & Leung 1998; Wood *et al.* 2002). It was established in Chapter 1 that more research is required into the role of *guanxi* in countries other than China, particularly in the context of *guanxi*'s potential link to competitive advantage.

**5.2.2.1 Patterns and theme - *guanxi*(+) in Malaysia**

Malaysia being a multi-cultural country is deemed ideal for this study. It investigates Chinese but in a different setting where Chinese are interspersed with Malays and Indians. The study establishes that respondents view *guanxi* to be widely practised amongst the Chinese ethnic Malaysians and to a certain extent Malays also. This knowledge is of significant importance especially since Malaysia is a country which encompasses a large Muslim population and an economically powerful Chinese community. Further research is proposed to investigate the extent of *guanxi*(+) being practised by Malays and Indians.

Table 5-1 presents the seven patterns identified on *guanxi*(+) in Malaysia. As the patterns identify, *guanxi* is actively used in Malaysia between individuals. This highlights that on an exploratory level *guanxi* is a function of Malaysian business life and such a result begins answering the first research question: **How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?**

TABLE 5-1

**Patterns on *guanxi* in Malaysia**

Pattern 1	<i>Guanxi</i> (+) is very important for conducting business in Malaysia.
Pattern 2	A <i>guanxi</i> (+) relationship is between individuals.
Pattern 3	Interpersonal <i>guanxi</i> (+) is the most important form of <i>guanxi</i> (+) networking.
Pattern 4	The Chinese ethnic Malaysian practised <i>guanxi</i> (+) not only with their counterparts but also with other races in Malaysia, particularly with the Malays.
Pattern 5	Malays also practised <i>guanxi</i> (+) not only with their counterparts but also with the other races in Malaysia, particularly with the Chinese.
Pattern 6	<i>Guanxi practice</i> encompassing exchanges of rights and privileges for personal gain is considered as a corrupt practice.
Pattern 7	Proving your capability is important for a weak <i>guanxi</i> (+) relationship to progress to a strong <i>guanxi</i> (+) relationship.

*Source: Developed from Chapter 4 nodes coding and analysis*

C2 - Theme (a) represents a synthesis of the seven patterns (Table 5-1) on *guanxi* in Malaysia. Theme (a) is the first of seven themes that derive Contribution 2 or a deeper understanding of *guanxi*(+) in Malaysia. C2 - Theme (a) highlights that *guanxi* is generally between individuals, is based around positive practices and is not exclusive only to business people of Chinese ethnic decent. According to the respondents' Chinese ethnic origin, *guanxi* does play an important role in doing business in Malaysia.

**C2 - Theme a:**

***Guanxi*(+) is a relationship between individuals and is very important for conducting business in Malaysia not only between the Chinese but also with other non-Chinese.**

**5.2.2.2 Patterns and theme - *guanxi*(+) as informal personal connections**

Most respondents agreed that *guanxi*(+) is based on interpersonal relationships (Björkman & Kock 1995; Leung *et al.* 1996; Xin & Pearce 1996; Yeung & Tung 1996; Dunfee & Warren 2001). However, a few respondents mentioned that a *guanxi*(+) relationship can be between the individual and the organisation (Pattern 8). The basis of Respondent 10's argument that *guanxi*(+) exists with the organisation revolves



around the presumption that the company or organisation is a separate entity. The individual therefore acts as a fiduciary of the Company and not for themselves.

However, other respondents believed it was the individual and sometimes their collective views that are crucial in the relationship maintenance. Respondent 6 reported:

We also worked with them...so in between there's a lot of trust, means ok...whatever projects they passed to us we will deliver it. Ok. We will deliver it, everything. Ok, so without complaints, without arguments, everything, so we work on that possibility...so that'll get all the trust from all the support...from the HQ.

This implies that businesspeople need to build trust and *guanxi*(+) with the organisation if there is to be continued business between both parties. As respondents' noted, the organisation has to exchange with individuals. Table 5-2 presents the patterns on *guanxi* in terms of the link between informal personal relationships and the organisation.

TABLE 5-2

**Patterns on *guanxi* as informal personal relationships in Malaysian organisations.**

Pattern 2	A <i>guanxi</i> (+) relationship is between individuals.
Pattern 3	Interpersonal <i>guanxi</i> (+) is the most important form of <i>guanxi</i> (+) networking.
Pattern 8	A <i>guanxi</i> (+) relationship can be between the individual and the organisation.

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (b) represents a synthesis of these three patterns on *guanxi* in Malaysia. It reinforces the notion that *guanxi* is an informal personal relationship. However, it also highlights that there are links to organisations even if they are the byproduct of person-to-person exchange. Theme (b) is the second of seven characteristics that make-up Contribution 2.

**C2 - Theme b:**

**A *guanxi*(+) relationship is an informal personal relationship and can be between the individual and the organisation.**

**5.2.2.3 Patterns and theme - *guanxi*(+) as personal resource**

Most respondents indicated that *guanxi*(+) is used to bring business to the firm (Pattern 9 and 10). However, respondents also highlighted that *guanxi*(+) is useful for knowing the right people (Pattern 11 and 12). Coupled with the insight from Respondent 3 that there is a limit to the number of close relationships, there is an implication that business people need to be selective about the people with whom they start a relationship.

Table 5-3 presents the patterns on *guanxi*(+) as personal resource developed from respondents' perceptions.

TABLE 5-3

**Patterns on *guanxi*(+) as personal resource**

Pattern 9	In the business context, friends more than relatives play a key role in introducing business.
Pattern 10	The benefit of a strong <i>guanxi</i> (+) relationship is in acquiring more businesses.
Pattern 11	Interpersonal <i>guanxi</i> (+) is a relationship with the right people.
Pattern 12	Interpersonal <i>guanxi</i> (+) is only important if one knows the right people.

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (c) represents a synthesis of the four patterns on *guanxi* in Malaysia (Table 5-3). There are values in adopting *guanxi*(+) as a business strategy as this exploratory study shows. However, the real power of *guanxi* is inextricably linked with choosing the right connections and making associations with the right people.

**C2 - Theme c:**

**The benefit of a strong *guanxi*(+) relationship is in acquiring more businesses through knowing the right people.**

**5.2.2.4 Patterns and theme - *guanxi*(+) as organisational resource**

Finding mechanisms for improving the flow of information appears crucial for the success of organisations in global networks (Zeffane 1995; Boisot & Child 1996). Pattern 13 identifies that a strong *guanxi*(+) relationship provides a means for accessing crucial information. Pattern 14 highlights that the quality and amount of information is dependent on the level of relationship between two parties to an exchange. Pattern 15 highlights another important aspect within the context of *guanxi*(+) and an organisation. *Guanxi*(+) has more significance to small business than it does to big business. The implication for Patterns 13 to 15 is that business people should be aware

of the organisational dynamics of *guanxi*(+), and depending on the context *guanxi* can be used as an important lever for accessing organisational resources.

Table 5-4 presents the patterns on *guanxi* as an organisational resource.

TABLE 5-4

**Patterns on *guanxi*(+) as organisational resource**

Pattern 13	Getting crucial information through a strong <i>guanxi</i> (+) relationship is important for successful business deals.
Pattern 14	In a <i>guanxi</i> (+) relationship, the benefits are higher the closer you are to your customers.
Pattern 15	<i>Guanxi</i> (+) is more important for small business than for big business.

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (d) represents a synthesis of the three patterns on *guanxi* in Malaysia. It highlights some important organisational dynamics in the context of *guanxi*, such as the size of the business, access to pertinent information and closeness to customers. The notion of *guanxi*(+) as an organisational resource is supported in this exploratory study.

**C2 - Theme d:**

**In a *guanxi*(+) relationship, the benefits are higher the closer you are to your customers and are more important for small business than for big business.**

**5.2.2.5 Patterns and theme - *guanxi*(+) as a live, dynamic and working relationship**

According to Fan (2002), *guanxi*(+) is active, alive, dynamic and working. It includes building and maintaining relationships that seem on a surface level to be useless and unimportant (Yau *et al.* 2000). Pattern 16 introduces the element of luck and talks about being in the right place at the right time. Respondent 3 also sees chance as a reason for the failures of some firms.

*Guanxi*(+) as a live, dynamic and working relationship implies dealing with the human element as posited by Respondent 7:

The human element is important, emotional element...getting contact...connect with the person, to engage the client.

*Guanxi* also requires businesspeople to engage in two-way communication (Pattern 17) and to interact on a personal level (Pattern 18).

Table 5-5 presents the patterns on *guanxi*(+) as live, dynamic and working relationship developed from respondents' perceptions.

TABLE 5-5

**Patterns on *guanxi*(+) as live, dynamic and working relationship**

Pattern16	To achieve success, <i>guanxi</i> (+) needs to be with the right people, at the right time, and at the right place.
Pattern 17	There must be two-way communication for a <i>guanxi</i> (+) relationship to be built.
Pattern 18	There must be interaction on a personal basis for a <i>guanxi</i> (+) relationship to be built.

*Source: Developed from Chapter 4 nodes coding and analysis*

Contribution 2, theme (e) represents a synthesis of the three patterns on *guanxi* in Malaysia. This exploratory study shows that a successful *guanxi*(+) relationship is a live, dynamic and working relationship based on two-way interpersonal communication and is about knowing the right people at the right time and place.

**C2 - Theme e:**

**To achieve success, there must be a two-way interpersonal communication with the right people, at the right time, and at the right place.**

**5.2.2.6 Pattern and theme - *guanxi*(+) and deep affection**

Section 2.11.1 identifies that relationships with deep affection (*ganqing*) serve as a conduit for ‘intimacy of overall members’ relationships’ and an organisation with such intimacy has superior operational efficiency. The Hok Chiu dialect clan is a prime example of deep affection between linked individuals. Respondent 6 provided a short vignette on the depth of such links. He was unsuccessful in some projects because the targeted business person ultimately resorted to a Hok Chiu member irrespective of performance and whatever strategy he adopted. This implies that some businesspeople are reaping vast benefits from affective ties.

Table 5-6 presents the patterns on *guanxi*(+) and deep affection developed from respondents’ perceptions.

TABLE 5-6

**Pattern on *guanxi*(+) and deep affection**

Pattern 19	Ascribed <i>guanxi</i> (+) based on dialect plays a role in <i>guanxi</i> (+) networking but only in certain dialect clans.
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*Source: Developed from Chapter 4 nodes coding and analysis*

Contribution 2, theme (f) provides support that the ‘deep affection’ dimension of *guanxi*(+) are more prominent for certain *guanxi* bases.

## **C2 - Theme f:**

**Ascribed *guanxi*(+) based on dialect plays a role in *guanxi*(+) networks but only for certain clans.**

### **5.2.2.7 Patterns and theme - *guanxi*(+) and reciprocity of favours**

Section 1.2 identified *guanxi*(+) as a type of relationship based on mutuality and some reciprocal benefit (Yang 1994). It is the unspoken code of reciprocity and equity that gives *guanxi* its value (Hwang 1987; Luo 1997). Pattern 20 suggests that in a *guanxi*(+) relationship, reciprocity of favours is not time specific. Pattern 21 moves on to identify that there must be a give-and-take situation for a *guanxi*(+) relationship to be successful. Pattern 22 purports that reciprocity need not be of equal value. However, Pattern 23 identifies a potential downside of a *guanxi*(+). Such connections need adequate attention and can be weakened through non-reciprocity of favours. These four patterns imply that *guanxi* is dependent on tit-for-tat exchange and suggests that overtime *guanxi*(+) can lead to win-win outcomes.

Table 5-7 presents the patterns on *guanxi* and reciprocity of favours developed from respondents’ perceptions.

TABLE 5-7

#### **Patterns on *guanxi*(+) and reciprocity of favours**

Pattern 20	In a <i>guanxi</i> (+) relationship, reciprocity of favours is not time-specific.
Pattern 21	In a <i>guanxi</i> (+) relationship, reciprocity of favours is two-way.
Pattern 22	In a <i>guanxi</i> (+) relationship, reciprocity of favours is not necessarily of equal value.
Pattern 23	Non-reciprocity of favours is a cause for weakening a <i>guanxi</i> (+) relationship.

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (g) represents a synthesis of the four patterns on *guanxi* in Malaysia. Theme (g) is the final characteristic linked to Contribution 2. Reciprocity of favours between individuals over a period of time is very important as this exploratory study shows.

**C2 – Theme g:**

**In a *guanxi*(+) relationship, reciprocity of favours is a two-way traffic, not time-specific and is not necessarily to be of equal value. Non-reciprocity of favours is a cause for weakening a *guanxi*(+) relationship**

C2 - themes (a) to (g) have provided solid support for the influence of *guanxi*(+) in Malaysia. These themes and their patterns and characteristics have been instrumental in identifying a deeper understanding of *guanxi* in Malaysia (Contribution 2). A key issue that emerged in the interviews was an important link between *guanxi* and trust. This link relates to the next contribution (C3) of the study.

**5.2.3 Contribution 3 - A deeper understanding of *guanxi*(+) and trust in Malaysian business**

**5.2.3.1 Patterns and themes - *guanxi*(+) and trust**

Patterns 24 and 29 emphasise that trust and credibility are two important elements of *guanxi*(+) (Yeung & Tung 1996; Tsang 1998). According to Pattern 25, trust is a necessity for quality *guanxi* to occur (Kriz & Fang 2003). As confirmed by Pattern 35 ‘betrayal is the negative side of *guanxi*(+)’. Pattern 28 identifies that trust is very important in the Malaysian business environment. This is congruent with Ying and Walker’s (2006, p. 17) statement that ‘the magic behind *guanxi* is trust.’ The association between *guanxi*(+) and trust is also identified in Patterns 27, 30 to 35. The conclusion from these Patterns is that trust and *guanxi*(+) must go hand-in-hand to achieve success in business.

Pattern 33 suggests that a long-term strategy for firms is the expanding of one’s circle of trust between network members (Dubini & Aldrich 1991). Such trustworthiness appears a prelude to long-term business (Thorelli 1986). These Patterns support the view of Zeffane (1995) that long-lasting trust is a fundamental prerequisite to any successful business arrangement. Long-lasting trust is defined by Pattern 26 as ‘honouring what one promises’. Trust is based on key values such as sincerity and is summed up ideally by Respondent 7, ‘And you must be sincere, very sincere...that

there is no ulterior motive.’ In this respect, businesspeople should always be sincere in their business dealings which leads to *guanxi*(+) and trust (Kriz 2002).

Table 5-8 presents the patterns on *guanxi*(+) and trust developed from respondents’ perceptions.

TABLE 5-8

**Patterns on *guanxi*(+) and trust**

Pattern 24	Trust is very important in the Malaysian business environment.
Pattern 25	Trust is crucial in building a good interpersonal <i>guanxi</i> (+) relationship.
Pattern 26	Interpersonal <i>guanxi</i> (+) is a trustworthy relationship.
Pattern 27	Trust means honouring what one promises.
Pattern 28	When there is interpersonal <i>guanxi</i> (+), trust is taken for granted.
Pattern 29	Trust is associated with performance.
Pattern 30	Trust and <i>guanxi</i> (+) must go hand-in-hand to achieve success in business.
Pattern 31	When <i>guanxi</i> (+) exists first, trust must then be built.
Pattern 32	When trust exists first, <i>guanxi</i> (+) must then be built.
Pattern 33	One cannot do long-term business when there is <i>guanxi</i> (+) but no trust.
Pattern 34	One cannot have fast growth in business when there is trust but no <i>guanxi</i> (+).
Pattern 35	Betrayal is the negative side of <i>guanxi</i> (+).

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (a) and (b) represent a synthesis of the twelve patterns on *guanxi* in Malaysia. Together these themes derive the third contribution of the study. Theme (a) highlights the importance of trust and its components whereas theme (b) suggests that success is built around both *guanxi*(+) and trust.

**C3 - Theme a:**

**Stronger interpersonal *guanxi*(+) encompasses a relationship where trust is taken for granted and entails honouring promises and is built on performance.**

**C3 - Theme b:**

**Trust and *guanxi*(+) must go hand-in-hand to achieve success in business.**

#### **5.2.4 Contribution 4 - A deeper understanding of *guanxi*(+) as sustainable competitive advantage in Malaysian business**

This section looks at *guanxi*(+) from the perspective of its role in contributing to a firm's competitive advantage. The criteria for competitive advantage from Barney (1991) are used as the basis to evaluate *guanxi*(+). The criteria suggest that the skills and resources must be rare and valuable and are unable to be imitated and substituted. Sustainability is achieved when competitive advantage resists erosion by competitors and is sustained over a period of time (Porter 1985; Aaker 1989; Barney 1991).

##### **5.2.4.1 Patterns and theme - *guanxi*(+) as a unique value-creating strategy and as a valuable resource**

Section 5.2.3 and 5.2.4 have identified that *guanxi*(+) can be a valuable personal and organisational resource. These sections argue that *guanxi*(+) can be associated with a unique value-creating strategy and a valuable resource.

Building *guanxi*(+) with various stakeholders has benefits and can result in competitive advantages (Chen & Chen 2004; Wickham 2004). This is explicitly expressed in Pattern 36 which notes that *guanxi*(+) can provide an extra edge in business. This is manifested in favoured individuals receiving preferential treatment (Wong & Tam 2000). Respondent 1 suggested that it is important to have frequent contact with senior people in a customer firm.

Pattern 37 identifies that a strong *guanxi*(+) relationship with staff is beneficial to a firm. Respondent 4 reinforced this issue with the following contention:

Staff are part of your company. Staff are the ones that will generate your so-called income for you. Staff are the ones that actually deliver for you.

Barney (1991) advises that the best remedy to prevent rivals from quickly and costlessly expropriating the value of the human capital is to have strategies in place that helps retain staff. *Guanxi*(+) has been identified as one such strategy. Respondent 6 suggested that the staff should be treated as family and Respondent 12 suggested being friendly and gaining trust with key staff through positive actions.

Chapter 2 discusses customer orientation and the firm's effort to satisfy customer wants by focusing on understanding their expressed desires. The result is customer loyalty and increase sales (Park & Luo 2001). Other benefits are minimised transaction costs and reduced business uncertainties. Pattern 39 implies that businesspeople should develop a close relationship with important customers (Slater & Narver 1998).



Ganesan (1994) advocates that most firms overlook that SCA can be created through long-term relationships with suppliers. Pattern 40 identifies that businesspeople developing *guanxi*(+) with suppliers are beneficial for both parties.

*Guanxi*(+) is a source of early-mover advantage as ‘time compression diseconomies’ can and do develop (Dierickx & Cool 1989, p. 1507). Respondent 1 mentioned that the inability to secure certain projects was due to an early-mover advantage of their competitors. The competitors use *guanxi*(+) with key decision makers to out-flank their rivals.

In summary, *guanxi*(+) is seen as a unique value-creating strategy (Pattern 36) that provides a valuable resource to the organisation (Pattern 38).

Table 5-9 presents patterns on *guanxi* as a unique value-creating strategy and a valuable resource.

TABLE 5-9

**Patterns on *guanxi*(+) as a unique value-creating strategy and valuable resource**

Pattern 36	<i>Guanxi</i> (+) can provide an extra edge in business when used as a unique value creating strategy.
Pattern 37	A strong <i>guanxi</i> (+) relationship with the firm’s staff is beneficial to the firm.
Pattern 38	<i>Guanxi</i> (+) can be a valuable resource in business.
Pattern 39	<i>Guanxi</i> (+) with customers is beneficial for both parties.
Pattern 40	<i>Guanxi</i> (+) with suppliers is beneficial for both parties.

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (a) of Contribution 4 represents a synthesis of these five patterns on *guanxi* in terms of value creation and as a valuable resource in Malaysia.

**C4 - theme a:**

***Guanxi*(+) provides an extra edge and valuable resource in business when used as a unique value creating strategy. This is manifested in a strong *guanxi*(+) relationship with the firm’s staff, customers and suppliers.**

**5.2.4.2 Patterns and theme - *guanxi*(+) and the concept of imperfectly imitable resource**

Fan (2002) suggests that businesspeople should build more *guanxi*(+) to enable more doors to open (opportunities) and to prevent rivals from penetrating relational goodwill.

This process of ‘asset mass efficiencies’ (Dierickx & Cool 1989, p. 1507) is a powerful feature of *guanxi*(+). It presents a barrier to competitors and simultaneously provides access to the resources of other network members (Davies, Leung, Luk & Wong 1995). In this sense, *guanxi*(+) is viewed to be an imperfectly imitable resource (Pattern 41).

Table 5-10 presents the patterns on *guanxi* and the concept of imperfectly imitable resource developed from respondents’ perceptions.

TABLE 5-10

**Pattern on *guanxi*(+) and the concept of imperfectly imitable resource**

Pattern 41	<i>Guanxi</i> (+) can be an imperfectly imitable resource in business.
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*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (b) of Contribution 4 represents the views of respondents and identifies that *guanxi*(+) cannot be easily imitated by competitors. Accordingly, this pattern and theme reinforces the strength of *guanxi* as SCA.

**C4 - theme b:**

***Guanxi*(+) can be a difficult resource to imitate in business.**

**5.2.4.3 Patterns and theme - *guanxi*(+) and the concept of rare resource**

Relationships require structural consideration and take more time to nurture and sustain (Yau *et al.* 2000). Pattern 42 suggests that time is a rare resource and that building a strong relationship and trust has a temporal underpinning. *Guanxi*(+), as highlighted through the perceptions in Chapter 4, can thus be viewed as a rare resource in business (Pattern 43).

Table 5-11 presents the patterns on *guanxi* and the concept of rare resource developed from these respondents’ perceptions.

TABLE 5-11

**Patterns on *guanxi*(+) and the concept of rare resource**

Pattern 42	There is a limit to the number of <i>guanxi</i> (+) relationships that one can have.
Pattern 43	<i>Guanxi</i> (+) is a rare resource in business.

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (c) represents the third key characteristic of Contribution 4. Theme (c) identifies that *guanxi*(+) is deemed a rare resource in Malaysia and there is a natural limit to the number of such relationships a person can maintain.

**C4 - theme c:**

***Guanxi*(+) is a rare resource in business and there is a limit to the number of *guanxi*(+) relationships that one can maintain.**

**5.2.4.4 Patterns and theme - *guanxi*(+) and the concept of strategically equivalent substitutes**

The complex and ambiguous nature of *guanxi*(+) cultivation and the time required for successful quality *guanxi*(+) to occur may be beyond the capabilities of most firms (Tsang 1998). *Guanxi*(+), is by definition socially complex, less mobile, and difficult to duplicate (Barney 1991). In this capacity, rivals cannot quickly or costlessly imitate or substitute for the value of firm-specific human capital (Hatch & Dyer 2004) (Pattern 45). *Guanxi*(+) as a ‘close cooperation of people’ (Feurer & Chaharbaghi 1997, p. 68) has no strategically equivalent substitutes (Pattern 44).

Table 5-12 presents the patterns on *guanxi* and the concept of strategically equivalent substitutes developed from respondents’ perceptions.

TABLE 5-12

**Patterns on *guanxi*(+) and the concept of strategically equivalent substitutes**

Pattern 44	There are no strategically equivalent substitutes in business for <i>guanxi</i> (+).
Pattern 45	With a strong <i>guanxi</i> (+) relationship, there is unlikely to be any substitutes.
Pattern 46	Key success factors are important for business success.

*Source: Developed from Chapter 4 nodes coding and analysis*

Theme (d) is the final theme linked to the role *guanxi* has in terms of SCA (Contribution 4). Theme (d) represents a synthesis of the three patterns (Pattern 44-46) on *guanxi* in Malaysia. This exploratory study supports the views from Chapter 2 that there is unlikely to be any strategically equivalent substitutes in business for strong *guanxi*(+) when combined with a firm’s key success factors. As outlined in the

perceptions in Chapter 4, these success factors include performance, reputation, quality and competitive pricing.

**C4 - theme d:**

**Key success factors such as performance, reputation, quality and competitive pricing are important for business success. Combined with a strong *guanxi*(+) relationship, there is unlikely to be any strategically equivalent substitutes.**

Pattern 46 identifies the importance of key success factors for business success. This section argues that although key success factors are important for a firm's success, it cannot be a substitute for a *guanxi*(+) relationship, and vice versa. *Guanxi*(+) in combination with a firm's key success factors become the firm's SCA. This is discussed next.

**5.2.5 Contribution 5 - A deeper understanding of sustainable competitive advantage within the context of its inter-relationship with *guanxi*(+)**

**5.2.5.1 Patterns and theme - *guanxi*(+) and sustainable competitive advantage**

Section 2.10 highlighted that competition is about winning (Porter 1985). Success in this respect means that a firm has to create, exploit, and sustain its competitive advantages *vis-à-vis* rivals to win and to achieve superior performance. (Porter 1980; Coyne 1986; Slater 1996; Ma 1999; Passemard & BKleiner 2000).

Table 5-13 presents the patterns on *guanxi* and SCA in Malaysian business. As the pattern identifies, *guanxi*(+), trust, essential business fundamentals and key success factors are important elements of SCA in Malaysia. Such a result helps answer the second research question: **What is the role of *guanxi* in gaining competitive advantage in Malaysian business?**

TABLE 5-13

**Pattern on *guanxi*(+) and sustainable competitive advantage**

Pattern 47	<i>Guanxi</i> (+), trust, and key success factors are important business fundamentals to sustainable competitive advantage.
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*Source: Developed from Chapter 4 nodes coding and analysis*

Contribution 5, theme (a) represents the key outcome of the analysis in Section 4.11. It identifies that *guanxi*(+) can be a sustainable competitive advantage in Malaysia. In this respect, businesses in Malaysia should seek to harness the values of *guanxi*(+) and trust in conjunction with aspects such as quality, price, performance and reputation.

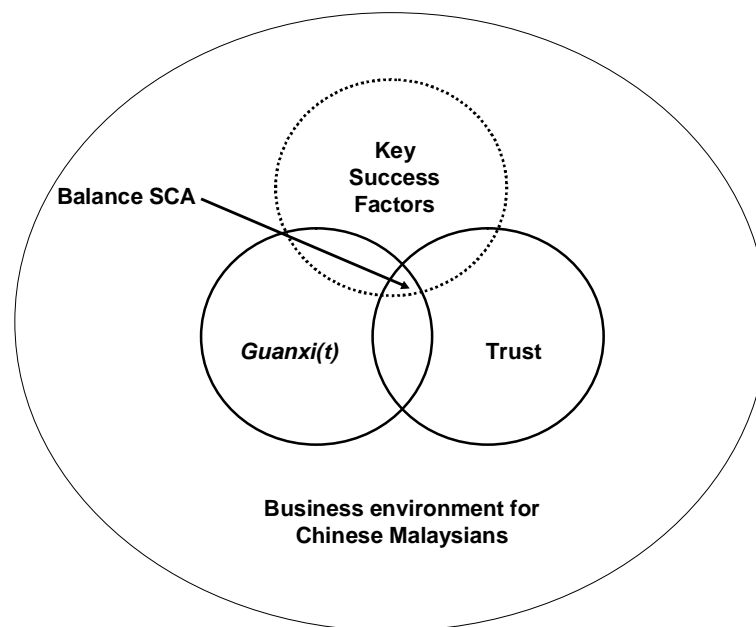
**C5 – theme a:**

***Guanxi*(+), trust and key success factors are important elements of sustainable competitive advantage for Malaysian businesspeople of Chinese ethnic origin.**

Theme (a) identifies that SCA is greatest when based on several kinds of advantages and key success factors rather than one (Ghemawat 1986; Day & Wensley 1988). This finding accords with Chaharbaghi and Lynch's (1999) view that it is the dynamism of management together with the ability to put in place effective resource-based strategies that are ultimately sources of SCA. A sustainable competitive advantage model for Chinese Malaysians (SCAMM) is derived from theme (a). The framework in Figure 5-4 highlights that *guanxi*, trust and key success factors are not mutually exclusive but work in harmony to produce a strong point of difference and SCA.

FIGURE 5-4

**A sustainable competitive advantage model for Chinese Malaysians (SCAMM)**



*Source: Developed from this research*

The sustainable competitive advantage model for Chinese Malaysians (SCAMM) identifies that sustainable competitive advantage for any firm is not derived from just any one factors but a combination of factors. Such fundamentals are presented as the basic requirement of any firm. *Guanxi*(+) and trust are shown as interconnected representing that they must both be available and that one without the other is of low benefit to the firm. Key success factors are also interconnected with a dotted line representing that without its existence, a firm could probably be successful. However, with success factors added to trust and *guanxi*(+) the firm is in balance strategically and reaps superior SCA. Balance and harmony are critical ingredients in Chinese philosophy, so it is appropriate to explore this contribution in more detail.

### **5.3 Linking sustainable competitive advantage and Chinese philosophy**

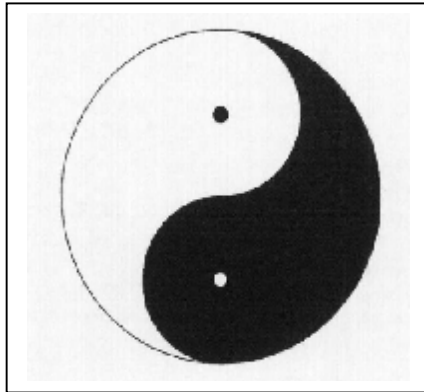
Yin-Yang is a Taoist philosophical principle of dualism representing the paired nature of related dimensions (Fang 2006). According to Fang (2006), Yin represents female elements such as moon, night, water, weakness, darkness, mystery, softness and passivity while Yang represents male elements such as sun, day, fire, strength, brightness, clearness, hardness and activity.

Yin and Yang are dependent rather than opposing forces with Ying-Yang existing side-by-side, and giving birth to each other, and each being prominent at different points in time (Fang 2006). Stated in the business sense, the Yin Yang philosophy posits that human beings, organisations and cultures intrinsically crave variation and harmony for their sheer existence and healthy development. In the context of this research and the SCAMM framework, it is suggested from repondents' perceptions, patterns and themes that trust and *guanxi*(+), *guanxi*(+) and key success factors, and trust and key success factors have similar qualities.

Figure 5-4 conforms to Fang's (2003) concept of 'both/and' instead of 'either/or'. In this case there are three factors operating to create three separate dualisms. The business environment has many Yin and Yang, feminine and masculine, long-term and short-term, individualistic and collectivistic dualisms depending on situation, context and time (Fang 2003). No one element can ever be attributed to a

firm's success but it is a holistic combination that also encompasses chance or luck (Porter 1980). In essence, it is the context, time and chance that dictates a firm overall success. Figure 5-5 shows the classic symbol of the Yin and Yang principle.

FIGURE 5-5  
**The Yin and Yang principle**



*Source: Adapted from Fang (2003)*

The Yin-Yang is also arguably an appropriate metaphor for relational-to-transactional orientations identified in the literature review (Chapter 2) and the empirical research of this study. The Chinese Malaysians have identified *guanxi*(+) and trust as key elements of what can be described as a relational orientation (Yin). Yet Chinese Malaysians also realise that performance, quality, price and reputation are important in what can be described as a transaction orientation (Yang). This concludes the key contributions of the study. Before closing it is important to analyse other important outcomes of the study beginning with limitations.

#### **5.4 Limitations**

The small sample size and type of samples are an inherent limitation of this study. Although several authorities identify that small samples are helpful for rich description and are “par for the course” in qualitative research, it would be interesting to see how the results extend to the broader Chinese Malaysians community. The interviews achieved a level of saturation (Chapters 3 & 4) and such a finding suggests the results could be indicative of broader perceptions. Nonetheless sample size remains a major limitation of the study.

#### **5.5 Implications for business policy and practice**

This study is part of a program focused on successfully satisfying the components of a Doctor of Business Administration. The study is therefore not solely focused on theory



but also on how such research applies in a practical context (in this case Malaysian business). A summary of the study's implications for business policy and practice are listed below:

- businesspeople need to differentiate between the two types of *guanxi* - it seems prudent for businesspeople to utilise *guanxi*(+) to achieve long-term benefits for the firm and open up more opportunity to use *guanxi* as an organisational resource;
- businesspeople need to build trust and *guanxi*(+) if the desire is continual positive interaction;
- businesspeople need to choose carefully with whom to start a relationship;
- businesspeople need to engage in two-way communication and interaction on a personal basis;
- businesspeople can reap sizable business benefits if deep affection can be developed in the relationship;
- businesspeople should realise that sincerity in their business dealings leads to *guanxi*(+) and trust;
- businesspeople should develop *guanxi*(+) with important suppliers and customers;
- businesspeople need to cultivate *guanxi*(+) in combination with trust and key success factors for the firm to have SCA.

## **5.6 Implications for further research**

Based on the limitations reflected in Section 5.4, there is more to uncover on the subject of *guanxi* and trust in Malaysia. A larger sample size with a variation on the different types of businesses and including all the key races in Malaysia would provide support for Figure 5-1, 5-2 and 5-4. Invariably, different types of business have varying degrees of benefit in terms of employing *guanxi* as a strategy in gaining competitive advantage. Research is recommended to make such differences more explicit. This includes the suggestion from Section 5.2.2.1 that further research be employed to investigate the extent of *guanxi*(+) being practised by Malays and Indians. Additional implications for further research are discussed below.

### 5.6.1 Research on the ‘right person’

Pattern 11 and 12 highlighted that *guanxi*(+) is useful only if one knows the right people. Respondent 7 suggested that the right person could be ‘he can be a driver, he can be an office boy, he can be a clerk...all these people are very important in various ways’. Section 5.2.2.3 identified that businesspeople need to choose with whom to start a relationship. Choice of person with whom to enact *guanxi*(+) seems to be a central issue to developing an effective *guanxi*(+) network. Therefore, further research on how to identify the ‘right people’ and what role they play in each industry would be beneficial for business.

### 5.6.2 Variations on methodology

#### 5.6.2.1 A comparison study of the respondents’ preception between Kriz (2002) and this study

This study has followed on from several key works in the field of *guanxi*. One that has particular relevance was conducted by Kriz in 2002. Although the study by Kriz was predominantly focused on trust and *xinren* it had many findings related to *guanxi*. The methodologies in the two studies are comparable, so it is worth reviewing Kriz’s findings (on other Chinese regions) with this study on Malaysia. Both studies were exploratory and qualitative. Table 5-14 provides a report on 11 similarities related to *guanxi* perceptions in both studies.

TABLE 5-14

#### Summary of similarities of research findings between Kriz 2002 and this study

	This study (Malaysia)	Kriz (2002) - (China, Taiwan, HK & Australia)
Comparison 1	<i>Guanxi</i> is very important for conducting business in Malaysia.	Interpersonal relationships are fundamental to conducting business in China.
Comparison 2	In the business context, friends more than relatives play a key role in introducing business.	A referral from a personal friend, classmate and or close family member gains the referred party at least conditional trust
Comparison 3	To achieve success, <i>guanxi</i> needs to be with the right people, at the right time, and at the right place.	Must know how, when, where, and with whom to develop a connection.
Comparison 4	There is a limit to the number of <i>guanxi</i> relationships that one can	Deep trust or <i>xinren</i> ties seem to be few in number whereas shallow ties

	have.	seem to be numerous
Comparison 5	Interpersonal <i>guanxi</i> (+) is only important if one knows the right people.	Finding the right person to form a personal relationship.
Comparison 6	<i>Guanxi practice</i> encompassing exchanges of rights and privileges for personal gains and is constituted as a corrupt practice.	Some respondents pointed out, <i>guanxi</i> has negative implications in practice
Comparison 7	There must be interaction on a personal basis for a <i>guanxi</i> (+) relationship to be built.	The Chinese believe that <i>xinren</i> is a person-to-person subjective feeling
Comparison 8	Trust is very important in the Malaysian business environment.	The notion of trust appears to the Chinese to be a universal
Comparison 9	When there is interpersonal <i>guanxi</i> (+), trust is taken for granted.	The Chinese believe if you have <i>xinren</i> you inherit <i>guanxi</i> .
Comparison 10	Trust means honouring what one promises.	<i>Xinren</i> is linked to honesty between the two parties.
Comparison 11	When trust exists first, <i>guanxi</i> (+) should then be built.	The Chinese believe you can have good <i>guanxi</i> but at the same time low <i>xinren</i>

*Source: Kriz (2002) and the analysis from this study*

It would be appropriate to build on these studies with further investigations using explanatory techniques. As these studies were exploratory, their needs to be cautioned in applying direct comparisons. However, on a broader level the comparison of the studies does provide some interesting observations and insights.

### **5.6.3 Measurement of *guanxi*(+)**

Quantitative research on the economic value of *guanxi*(+) would provide business with an indepth knowledge of the real value of *guanxi*. Most studies have focused on what constitutes the key characteristics of such an elusive construct but as yet there has been no real attempt to measure *guanxi*. The tree metaphor used by Kriz (2002) goes beyond simply treating *guanxi* as a web or stationary network. Brand equity is not such a dissimilar concept when one identifies an individual as the brand (i.e. Tiger Woods). Yet, to date, there is no equivalent for an individual's own *guanxi*. This proposed further research would provide a possible valuation of a person's worth in terms of their total connections. This has interesting implications for a business looking at hiring or maintaining such a human resource as discussed earlier.

## 5.7 Summary

Relationships, networks and interaction have kept surfacing in the last 30 years in studies of marketing (Gummesson 2002). To western scholars the notion of *social network theory* is relatively new and exciting (Hammond & Glenn 2004). However, eastern intellectual traditions have long understood the importance of social networking, and to the Chinese this concept is more popularly described as *guanxi*.

This study highlights the importance of *guanxi* to Chinese Malaysians. It acknowledges that *guanxi* in its positive form should be renamed: *guanxi(+)*. Further, the study highlights that only few empirical studies have shown that *guanxi(+)* is associated with a SCA and can be used as a tool to help implement an effective business strategy (Vanhonacker 2004). Contribution 4 and 5 add to this knowledge by suggesting that *guanxi(+)* is a source of SCA and in combination with trust and key success factors these aspects become a key strategic “weapon” for business.

Various implications for business policy and practice are derived from the analysis of the respondents’ interviews and can be summed up in one respondent’s pertinent comment, “*Guanxi(+)* is a firm’s asset and capital.” However, as discussed, Chinese see *guanxi* as one aspect of many parts. No one element can ever be attributed to a firm’s success but it’s the sum of many parts (balanced SCA) such as the right mix of *guanxi(+)*, trust, key success factors and chance that lead to business success.

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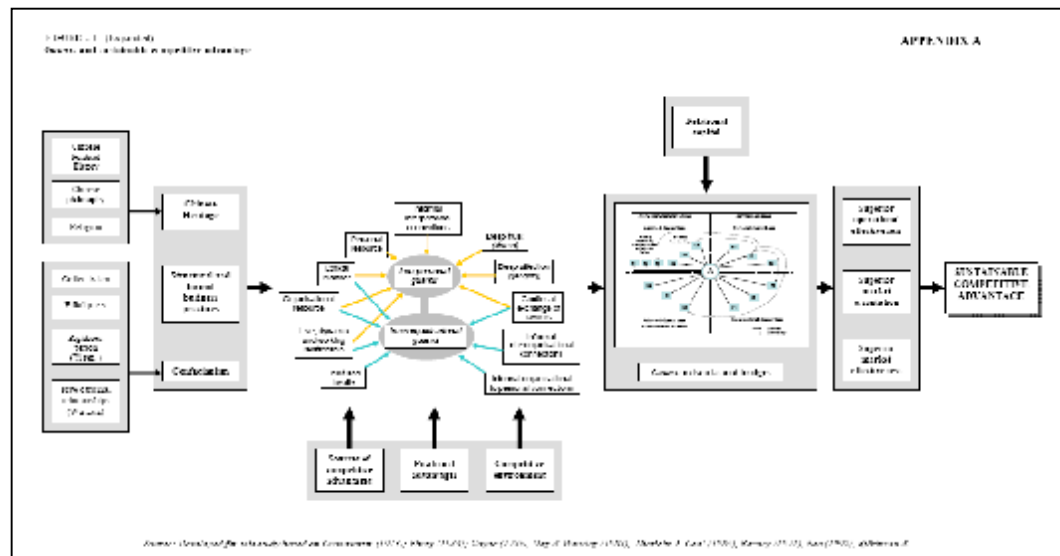
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## **APPENDICES**

## APPENDIX A



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## APPENDIX B

### **A study of *guanxi* and sustainable competitive advantage in the Malaysian business environment**

#### **AN IN-DEPTH INTERVIEW PROTOCOL**

*(Adapted from Miles and Huberman 1994 and Yin 2003)*

#### **A. Introduction to the study and purpose of protocol**

##### **A1 Research question**

A1.1 This study is based on two research questions developed from the literature review.

- 1. How do Malaysians of Chinese ethnic origin perceive *guanxi* operating in the local business environment?**
- 2. What is the role of *guanxi* in gaining competitive advantage in Malaysian business?**

##### **A2 Conceptual Framework**

A2.1 A conceptual framework developed from the literature review is used for this study (see Appendix A).

##### **A3 Role of protocol**

A3.1 This protocol is for the purpose of increasing the reliability of this research and is intended to guide the investigator through the whole process of carrying out the research.

#### **B. Data collection procedures**

##### **B1 Names of sites to be visited, including contact persons**

B1.1 This research is held in Malaysia and will involve a sample of representatives from various managerial functions and of a variety of industries, on the basis of their relevance to the research questions.

B1.2 Twelve (12) participants are targeted for the in-depth, semi-structured interviews based on targeted purposive sampling.

B1.3 A few independent third parties will be sought to contact potential organisations/respondents for consent to be considered for this study via an in-depth, semi-structured interview process. This ensures that the researcher has no relationship whatsoever with the potential or eventual organisations/respondents.

B1.4 No identification of these potential organisations/respondents will be made to the researcher or anyone until consent from the potential organisations/respondents to be considered for this study is obtained.

B1.5 A Letter of Invitation (see Appendix B1) shall then be posted, email or faxed to all the identified organisations/respondents (from the B1.3 and B1.4 process) who have tentatively agreed to participate in the study via an interview process.

B1.6 In the case of organisations, the potential organisations are allocated seven days to accept the invitation to participate and to nominate one or two managerial staff for the in-depth, semi-structured interview. On the expiry of seven days, any potential organisation having not responded is deemed to be not interested to participate in this research. Those organisations who responded positively will be requested to sign a Letter of Consent (see Appendix B2).



B1.7 The nominated potential participants will be asked by their organisation to contact the researcher directly within 7 days if they are agreeable to participate in this research. The organisations are requested not to divulge names of the nominated participants to the researcher. Upon receiving the verbal consent from the nominated participant, the researcher shall forward a Letter of Invitation (see Appendix B3) explaining the research purpose, the requirement to be involved in an in-depth interview of approximately one hour to a maximum of three hours. If within 7-days, there is no contact from the nominated individual, they are deemed not interested to participate in this research.

B1.8 To ensure the potential participants are not affected in any way through issues of participation or non-participation, the organisations will not be informed as to whether the nominated individuals did or did not contact the researcher.

B1.9 Individuals nominated by the organisations for the in-depth interview will be allowed a seven-day period to decide whether to participate or reject the nomination. Non respond to the invitation at the end of the seven-day period would be taken as the individual being not interested to participate in this research. For any potential participants contacting the researcher to confirm their agreement to the in-depth interview, arrangement will be made for them to sign a consent form (see Appendix B4). This will be completed prior to the commencement of the interview.

B1.10 In compliance of the research ethics approval requirement, actual names of organisations to be visited, including contact persons shall not be made known to anyone except the researcher and the supervisors.

B1.11 Codenames shall be used to identify the participants and sites of interviews.

B1.12 Each interview shall be approximately one hour and shall not be more than three hours.

B1.13 Refreshment (mineral water, tea or coffee) shall be served during the interview.

B1.14 No payments/rewards/inducements will be made to the participants.

## **B2 Data collection plan**

B2.1 In-depth interviewing with open-ended and semi-structured questions will be used for this research.

B2.2 The bulk of the interviews will be held among individual participants.

B2.3 Written consent will be sought from all potential participants prior to the commencement of the interviews.

B2.4 Upon receipt of the written consent for the interview to be held, the participant shall be contacted through telephone to be informed of the anticipated date, time and place for the interview to be carried out. This will be arranged to the convenience of the participants.

B2.5 A few dyads and group interviews based on loosely structured 'steered conversations' may also be conducted if the opportunity arises. In these circumstances, each of the participants will be requested to sign a consent form (see Appendix B4) confirming their agreement to the interview. Upon completion of the interviews, each of the individual in the group will be given the opportunity to obtain a copy of the written transcript of the recording to review, edit, or erase their contribution to the discussion.

B2.6 Opportunistic sampling approach based on purposive sampling will be used. The intent is to target appropriate subjects who are deemed ideal and relevant to the research topic. For attaining ‘maximum variation sampling’ it is intended to select a sample of representatives from various managerial functions and of a variety of industries.

B2.7 The in-depth interviews will continue until convergence and theoretical saturation are achieved, a stage where there is zero sum gain from conducting further interviews.

B2.8 There should not be any constraint with respect to gender, race, nationality, age, education levels and firm type so long as the individuals selected are willing to provide sufficient information on the research matter.

B2.9 The interviews and discussions are proposed to be held in surroundings within which the participants will feel relaxed and unthreatened, such as a meeting or conference room, hotel lobby or restaurant.

B2.10 The interviews are expected to be conducted in English.

B2.11 The line of research is based on eliciting the subject’s perceptions and experiences using ‘words’ and not on observation.

### **B3 Expected preparation prior to site visits**

B3.1 Prior to site visits, the followings are to be prepared:

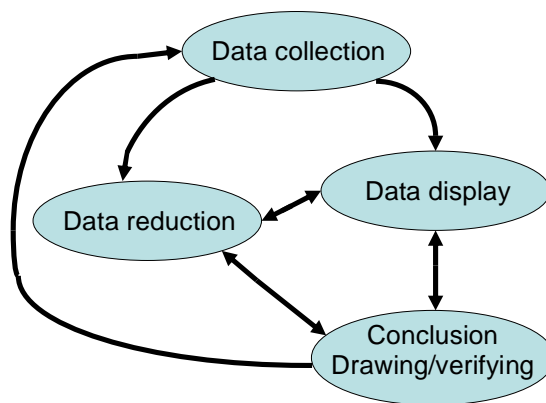
- a. Voice recorder
- b. Spare AAA batteries
- c. Field-notes formatted blank sheets
- d. Contract summary forms
- e. Pens
- f. Refreshment (mineral water)

## C. Outline of study report

### C1 Data analysis methods

C1.1 The analysis and the activity of data collection shall be a continuous interactive cyclical process as per the framework proposed by Miles and Huberman (1994).

**Figure B1:** *Components of Data Analysis: Interactive Model*



**Source:** *Miles and Huberman 1994*

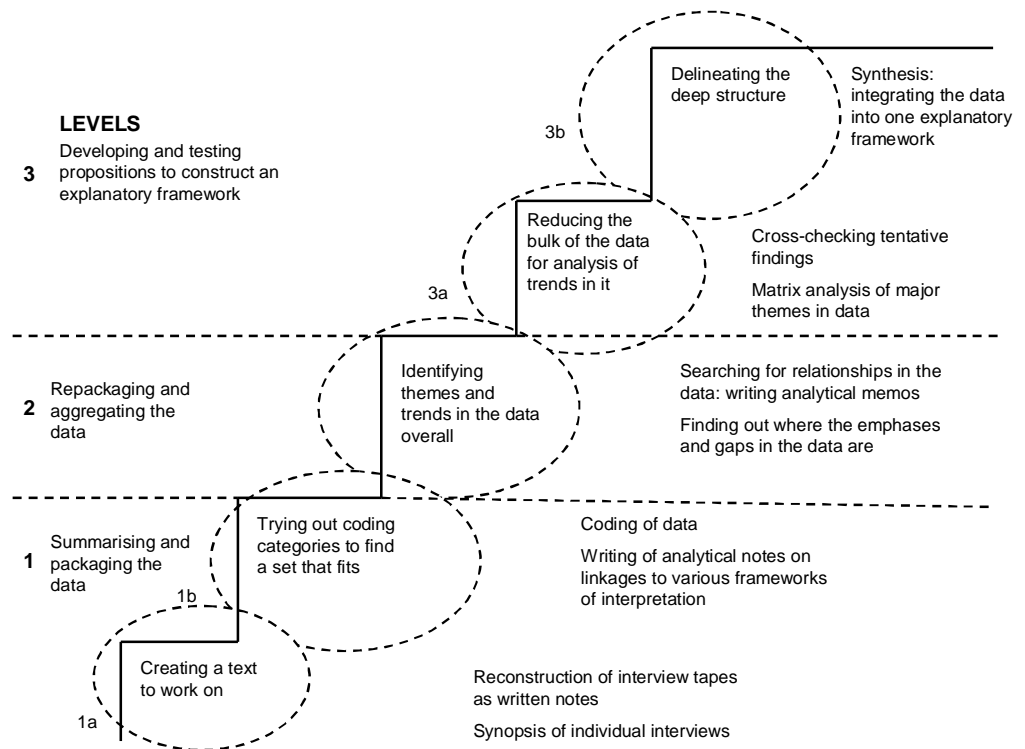
### C2 Contact Summary Form

C2.1 A Contact Summary Form (see Appendix B5) will be used to summarise the written-up field notes to allow the researcher to ponder upon the main Patterns, issues and questions that arises during the interview with the participant (Miles & Huberman 1994).

### C3 Interpretation of findings

C3.1 To achieve valid conclusions to the research questions, the “Ladder of Analytical Abstraction” advocated by Carney (1990 cited in Miles & Huberman 1994 p. 92) forms the basis for this process.

**Figure B2:**  
*The Ladder of Analytical Abstraction*



Source: Carney, 1990 cited in Miles and Huberman 1994

## D. Interview guide and probe questions

### D1 Briefing to the participants

D1.1 Prior to the commencement of the actual interviews, each participant will be briefed as follows:

1. Your name or your company name will not be disclosed to any other party and will only be known to me and my supervisors.
2. No names will be mentioned in the written output of the study.
3. All information given will be treated with the strictest confidentiality.
4. This interview will be recorded using a voice recorder. If you are disagreeable to this, please indicate your disagreement.

5. Although this interview is recorded, you may at anytime ask for the voice recorder to be turned off.
6. Should you wish to stop at any stage of this interview, you may freely do so without any explanation.
7. At the end of the interview, you may request to hear the recording and to review, edit or erase your contribution to the discussion.

## **D2 Opportunity for clarification of any doubt**

D2.1 At the end of this briefing, the participant will be asked as to whether they have any question that they need clarification.

## **D3 The interview broad question**

D3.1 Interviews shall begin with the researcher informing the participant that the research is about “A Study of Malaysian Business Practices”. One broad research question will be used to kick-start the interview:

**Q1 How do you secure business in Malaysia?**

D3.2 Some suggested follow-up questions to the broad research question:

**Q2 What are some of the key aspects of a successful business exchange?**

**Q3 What are some of the key aspects attributed to the failure of your competitors?**

**Q4 How important are relationships in Malaysian business?**

**Q5 How important are relationships with individuals not just the firm?**

## **Interview Guide:**

*Relating to relationship with the customer*

D3.3 The general sequence of events leading to a company not being awarded a contract.

**Q6 Think of a recent contract that your company had lost. Can you recall the general sequence of events leading to your company not been awarded the contract?**

D3.4 Situation and reasons that a company has declined to submit a quotation

**Q7 Are there any tender or enquiry that your company has declined to submit a quotation? Can you list some reasons for this decision?**

D3.5 Some factors as necessary to meeting the customers' needs

**Q8 Within your company, can you indicate some factors that you can describe as necessary to meeting your customers' needs?**

*Relating to relationship with suppliers*

D3.6 Reasons of some of the main suppliers giving the company preferential treatment as compared to the competitors.

**Q9 Think of some of your main suppliers who, in your opinion, are giving your company preferential treatment as compared to your competitors. Can you list some reasons for these suppliers giving preferential treatment to your company?**

D3.7 Reasons of some suppliers not giving a company preferential treatment as compared to their competitors.

**Q10 Think of some of your main suppliers who, in your opinion, are not giving your company preferential treatment as compared to your competitors. Can you list some reasons for these suppliers for not giving preferential treatment to your company?**

D3.8 Benefits of strengths with suppliers.

**Q11 Where do you think is your strength with your suppliers and what benefits do these strengths offer to your company?**

*Relating to relationship with competitors*

D3.9 The best way to cooperate with competitors

**Q12 Do you have any interactions with your competitors?**

**What do you think is the best way to cooperate with your competitors?**

**Q13 Why is this happening or not happening?**

*Relating to relationship with new entrant and new substitutes*

D3.10 Some of the ways one can employ or prevent new entrants from achieving success and to counter new substitutes from penetrating the market

**Q14 In your industry, if you hear of a new entrant to the business, what are some of the ways you can employ to prevent the new entrant from achieving success?**

**Q15 In your line of business, are there threats from substitutes?**

**Q16 If there is a new substitute coming into the market that can affect your product, what are the steps that you think you can take to counter this situation?**

*Relating to staff within the company*

D3.11 Areas within the organisation that one would like to improve on

**Q17 What are the areas in your organisation that you think should be improved for your organisation to have a competitive edge (over your competitors)?**

*Relating to other business organisations*

D3.12 Advantages and disadvantages with cooperation with other organisations

**Q18 What do you think are the advantages of your organisation cooperating with other organisations?**

**Q19 What do you think are the disadvantages of your organisation cooperating with other organisations?**



### **Relating to *guanxi***

If *guanxi* has not been discussed so far then ask some probing questions

**Q20 Have you heard of a concept called *guanxi*?**

**Q21 How do you define and view *guanxi*?**

**Q22 How important is *guanxi* in your industry?**

**Q23 In your opinion, have you used *guanxi* with other Malaysians (races) in the course of conducting your business? Can you give me some examples?**

**Q24 Do you think there is a relationship between *guanxi* and trust?**

**Q25 How important is trust in your industry?**

### **Conclusion of interview**

D3.13 Ask whether respondent has any comments or information that he/she would like to add before we end this interview?

D3.14 Ask whether the respondent would like to hear the recording and to review, edit or erase the discussion.

D3.15 Ask if the respondent would consent to follow up questions and whether he/she would like to review and verify the transcript.

## **E. Evaluation**

### **E1 Transcription**

E1.1 Transcription will commence immediately after each interview, reflected upon and analysed.

E1.2 Where necessary, based on the above process, this interview protocol, conceptual framework, and research interview and probe questions will be amended and upgraded upon completion of each interview. All such revisions shall be recorded and filed for reference.

E1.3 The “ladder of abstraction” as forwarded by Carney (1990 cited in Miles & Huberman, 1994 p. 92) is used as the basis for data transformation.

## **E2 What to store, retrieve from, and retain**

E2.1 To facilitate data management, the following items shall be retained and stored for a period of five (5) year after the completion of the dissertation for usage whenever needed:

1. Raw material: field notes, tapes, site documents
2. Partially processed data: write-ups, transcriptions. Initial version, and subsequent corrected, “cleaned”, “commented-on” versions
3. Coded data: write-ups with specific codes attached
4. The coding scheme or thesaurus, in its successive iterations
5. Memos or other analytic material: the researcher’s reflections on the conceptual meaning of the data
6. Search and retrieval records: information showing which coded chunks or data segments the researcher looked for during analysis, and the retrieved material; records of kinks made among segments
7. Data displays: matrices or networks used to display retrieved information, along with the associated analytic text.
8. Revised versions of these analysis of episodes: documentation of what is done, step by step, to assemble the displays and write the analytic text
9. Report text: successive drafts of what is written on the design, methods and findings of the study
10. General chronological log or documentation of data collection and analysis work
11. Index of all the above material

*(Source: Miles & Huberman, 1994).*

**EXAMPLE ONLY****Appendix B1**

For further information:

Supervisor: Dr Anton Kriz  
Tel: Ph: (+61 2) 4348 4107  
Fax: (+61 2) 4348 4101  
Email: [anton.kriz@newcastle.edu.au](mailto:anton.kriz@newcastle.edu.au)

*Insert Date*

Dear Sir,

**A Study on Malaysian Business Practices**

I am a student in the Faculty of Business and Law at the University of Newcastle, Australia undertaking a Doctorate in Business Administration. As part of my study, I am conducting a research project titled “A Study on Malaysian Business Practices.” The purpose of the project is to identify business practices in Malaysia, specifically focusing on business strategies by Malaysian business people. Previous research has shown that there are three generic strategies, namely, *differentiation*, *low-cost* and *focus* strategy. This research seeks to identify any other strategy or strategies that are used or can be used by Malaysian business people to secure businesses.

Your firm is invited to take part in a student research project identified above, which is being conducted by the undersigned, under the supervision of Dr Anton Kriz. I am seeking participants from various managerial functions who are willing to participate voluntarily in this research and are willing to provide sufficient information on the subject matter. Please read this Information

Statement and be sure you understand its contents before your firm consents to participate.

Participation in this research is **entirely voluntary**. Only those people who give their informed consent will be included in the project. Whether or not your firm decides to participate, will not disadvantage you in any way.

If your firm agrees to participate in this study, please nominate one or two of your managerial staff to participate in an in-depth interview at a time and place convenient to them. Please do not inform me the names of your nominated individuals but to request them to contact me directly if they are agreeable to the interview. Your organisation will not be informed as to whether your nominated staff did or did not contact me.

They may withdraw from the project at any time without giving a reason. If after the interview is completed, they decide to withdraw from the project, the data gathered shall be destroyed. Your organisation will not be informed as to whether your nominated staff did participate in the in-depth interview or withdrawn from this project.

The researcher may withdraw a participant if it is considered in the participant's best interest or it is appropriate to do so for another reason. If this happens, the researcher will explain the reason to the participant for such a decision and advise on any follow-up procedures or alternative arrangements as appropriate. Your organisation will not be informed of this action should it happens.

No personal record of any sort will be requested of your appointed staff, and all information supplied by them will be treated in the strictest confidentiality, without identification in any way. The name of your firm or the participants will not be disclosed to anyone or in any written document, nor would the nature of the business of your company be mentioned in connection with any data from the interviews.

For your information, only I will be present during the interview. During the interview, the respondent shall be referred to by a codename known only to me. The interview will be conducted using a digital voice recorder. Once the information has been analysed and upon the expiry of five year after the completion of this thesis, as required by the university, all digital files and transcripts will be destroyed.

The interview is anticipated to last a minimum of one hour and a maximum of three hours. Once transcribed and upon request, a copy of the interview transcript will be forwarded by hand to the participant involved in the interview for verification and confirmation of the contents.

I cannot promise your firm any benefit from participating in this research. I will be most happy to forward a report of the research findings to you upon request.

The analysis and findings of the research will be presented in my thesis as partial fulfilment of my DBA programme. Names and identity of all individual participants and organisations will not be identified in any reports arising from this project.

Please contact me (handphone no: 012-2337777) if you have any questions or if you need any clarifications.

You may also contact

Ms Iris Cynthia Gomez  
Head of Postgraduate Studies  
Systematic Management Resource Centre  
(SMRC, KL) Sdn Bhd  
Ground Floor, Lee Yan Lian Building,  
Jalan Tun Perak, 50050 Kuala Lumpur  
Tel (D/L): 603-2070 8330  
Fax : 603-2070 8390  
Email: [iris@systematic.edu.my](mailto:iris@systematic.edu.my)

for further information on this project.

If I do not hear from you within seven days from today, I will take the position that your firm do not wish to participate in this research. Thank you for considering this invitation and I look forward to your phone call stating your position on this invitation.

Yours sincerely,

---

See Tow Ngau  
Student no: c3036029  
Handphone no: 012-2337777

Note:

This project has been approved by the University's Human Research Ethics Committee, Approval No: **Bus-Law/SEGi/5-6/22:06A**

Should you have concerns about your rights as a participant in this research, or you have a complaint about the manner in which the research is conducted, you can contact me as the researcher, or, if an independent person is preferred, to the Human Research Ethics Officer, Research Office, The Chancellery, The University of Newcastle, University Drive, Callaghan NSW 2308, telephone (02 49216333, email: [HumanEthics@newcastle.edu.au](mailto:HumanEthics@newcastle.edu.au))

**[To be type on the selected firm's letterhead]**

**EXAMPLE ONLY**

## **Appendix B2**

### **CONSENT FORM FOR THE RESEARCH PROJECT: A Study on Malaysian Business Practices**

Version no: BB1/2006

Date: *To be inserted*

We agree to participate in the above research project and give our consent freely.

We understand we can withdraw from the project at any time and we do not have to give any reason for withdrawing.

We have appointed one/two staff to participate in an in-depth interview focusing on “A Study of Malaysia Business Practices”. We have informed them of our nomination and have requested them to contact you directly if they are agreeable to participate in the in-depth interview. We understand that we will not be informed of their decision.

We understand that all information provided during the interview will be kept confidential and only to be used for inclusion in your thesis purposes.

We have had the opportunity to have questions answered to our satisfaction.

Name:

Signature:

Contact detail

Date:

**EXAMPLE ONLY****Appendix B3**

For further information:

Supervisor: Dr Anton Kriz  
Tel: Ph: (+61 2) 4348 4107  
Fax: (+61 2) 4348 4101  
Email: [anton.kriz@newcastle.edu.au](mailto:anton.kriz@newcastle.edu.au)

*Insert Date*

Dear *(to be filled in by the nominated individual prior to the interview)*,

**A Study on Malaysian Business Practices**

I am a student in the Faculty of Business and Law at the University of Newcastle, Australia undertaking a Doctorate in Business Administration. As part of my study, I am conducting a research project titled “A Study on Malaysian Business Practices.” The purpose of the project is to identify business practices in Malaysia, specifically focusing on business strategies by Malaysian business people. Previous research has shown that there are three generic strategies, namely, *differentiation*, *low-cost* and *focus* strategy. This research seeks to identify any other strategy or strategies that are used or can be used by Malaysian business people to secure businesses.

You have been nominated by your firm to take part in a student research project identified above, which is being conducted by the undersigned, under the supervision of Dr Anton Kriz. I am seeking participants from various managerial functions who are willing to participate voluntarily in this research and are willing to provide sufficient information on the subject matter. Please



read this Information Statement and be sure you understand its contents before you consent to participate.

Participation in this research is **entirely voluntary**. Only those people who give their informed consent will be included in the project. Whether or not you decide to participate, your decision will not disadvantage you in any way.

If you agree to participate in this study, you will be asked to cooperate by participating in an in-depth interview at a time and place convenient to you. You may withdraw from the project at any time without giving a reason. If after the interview is completed, you decide to withdraw from the project, the data gathered from you shall be destroyed. Your organisation will not be informed of whether or not you consented to the in-depth interview or that you have withdrawn from the project after the interview is completed.

The researcher may withdraw a participant if it is considered in the participant's best interest or it is appropriate to do so for another reason. If this happens, the researcher will explain the reason for such a decision and advise on any follow-up procedures or alternative arrangements as appropriate. Your organisation will not be informed of this action.

No personal record of any sort will be requested of you or of your company, and all information supplied by you will be treated in the strictest confidentiality, without you being identified in any way.

The name of your firm and yourself will also not be disclosed to anyone or in any written document, nor would the nature of the business of your company be mentioned in connection with any data from the interview. For your information, only I will be present during the interview. During the interview, you shall be referred to by a codename only known to me.

The interview will be conducted using a digital voice recorder. Once the information has been analysed and upon the expiry of five years after the completion of this thesis, as required by the university, all digital files and

transcripts will be destroyed. Please note the digital files will be sent to the recycle bin then deleted permanently from there. Hard copies of data will be shredded. However, prior to destroying the digital files and transcripts, and if you have indicated that you would like to keep the digital files and transcripts, I shall make arrangement to forward them to you.

The interview is anticipated to last a minimum of one hour and a maximum of three hours. On completion of the interview and upon your request, the recording will be played for you to review, edit, or erase the recording. Once a transcribed, and upon request, a copy of the interview script will be forwarded by hand to you for verification and confirmation of the contents. If I do not hear from you within 7 days from the delivery of a copy of the interview script, I will consider the interview script to be accurate.

I cannot promise you or your firm any benefit from participating in this research. I will be most happy to forward a report of the research findings to you upon request.

The analysis and findings of the research will be presented in my thesis as partial fulfilment of my DBA programme. Names and identity of all individual participants and organisations will not be identified in any reports arising from this project.

Please contact me if you have any questions or if you need any clarifications. If you agree to participate in this study, please call me (handphone no: 012-2337777) to confirm the time, date and place of the interview.

You may also contact

Ms Iris Cynthia Gomez  
Head of Postgraduate Studies  
Systematic Management Resource Centre  
(SMRC, KL) Sdn Bhd  
Ground Floor, Lee Yan Lian Building  
Jalan Tun Perak  
50050 Kuala Lumpur

Tel (D/L): 603-2070 8330  
Fax : 603-2070 8390  
Email: [iris@systematic.edu.my](mailto:iris@systematic.edu.my)

for further information on this project.

If I do not hear from you within seven days from today, I will take the position that you do not wish to participate in this research. Thank you for considering this invitation and I look forward to your phone call stating your position on this invitation.

Yours sincerely,

---

See Tow Ngau  
Student no: c3036029  
Handphone no: 012-2337777

Note:

This project has been approved by the University's Human Research Ethics Committee, Approval No: **Bus-Law/SEGi/5-6/22:06A**

Should you have concerns about your rights as a participant in this research, or you have a complaint about the manner in which the research is conducted, you can contact me as the researcher, or, if an independent person is preferred, to the Human Research Ethics Officer, Research Office, The Chancellery, The University of Newcastle, University Drive, Callaghan NSW 2308, telephone (02 49216333, email: [HumanEthics@newcastle.edu.au](mailto:HumanEthics@newcastle.edu.au)

**EXAMPLE ONLY****Appendix B4****CONSENT FORM FOR THE RESEARCH PROJECT:  
A Study of Malaysian Business Practices**

Version no: AA2/2006

Date: *To be inserted*

I agree to participate in the above research project and give my consent freely.

I understand I can withdraw from the project at any time and I do not have to give any reason for withdrawing.

I consent to participate in an in-depth interview focusing on “A Study of Malaysian Business Practices”. I understand that my personal information will remain confidential to the researcher. All information provided during the interview will be kept confidential and will only be used for inclusion in your thesis purposes.

I have had the opportunity to have questions answered to my satisfaction.

Name:

Signature:

Contact details:

Date:

## Appendix B5

### CONTACT SUMMARY FORM

*(Adapted from Miles and Huberman, 1994)*

Contact type:	Site: .....
Visit: .....	Contact date: .....
Phone: .....	Today's date: .....
(with whom)	Written by: .....

1. What were the main issues or themes that can be observed or derived in this contact?
2. Summarise the information that were obtained (or failed to obtain) on each of the target questions for this contact.
3. List anything else that was seen as salient, interesting, illuminating or important in this contact?
4. What new (or remaining) target questions are to be considered for the next contact?

## Appendix C

### FACULTY OF BUSINESS AND LAW

**Bernadette Ní Beirné**  
**Research Ethics Committee**

*The University of Newcastle*  
*University Drive*  
*Callaghan NSW 2308*

Telephone: 02 4921 6499

Facsimile: 02 4921 6918

Email: [Bus-Law-Ethics@newcastle.edu.au](mailto:Bus-Law-Ethics@newcastle.edu.au)

Website: [www.newcastle.edu.au/faculty/bus-law](http://www.newcastle.edu.au/faculty/bus-law)

24 May 2006

**Application submitted by:** NGAU, See Tow

**Title:** *The importance of guanxi in gaining sustainable competitive advantage in the Malaysian business environment.*

**Application Number:** **BL/SEGi/5-6/22:06**

Dear See Tow,

Thank you for your resubmission in relation to the above application.

I am pleased to advise that your project has been **approved**. The approval number: **Bus-Law/SEGi/5-6/22:06A** should be inserted in the space provided in the complaints clause usually situated at the end of the consent form or information sheet/s.

Should you require further information, please contact me by telephone on 02 4921 6449 or by writing or email at the addresses above.

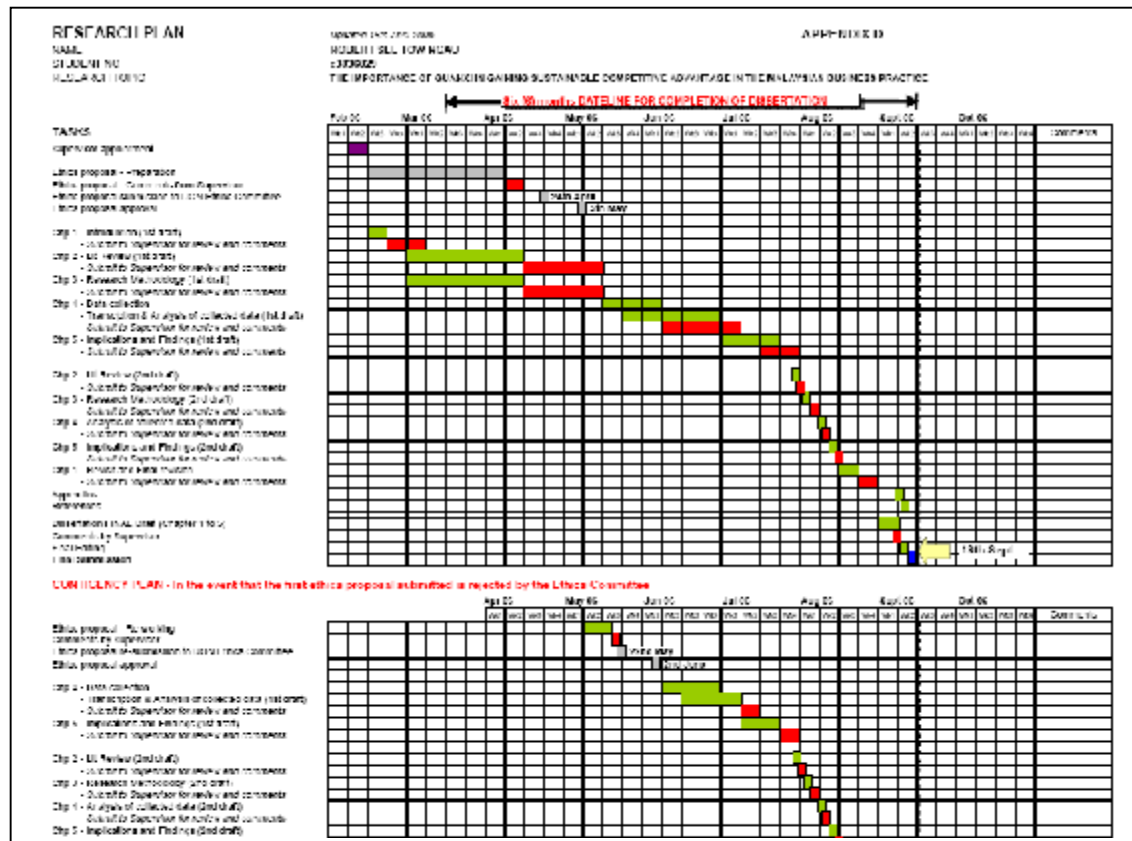
Good luck with your project.

Yours sincerely

Bernadette Ní Beirné  
Research Ethics Committee

cc: Dr Anton Kriz

## Appendix D



**(THIS PAGE TO BE REPLACED WITH A3 SIZE APPENDIX D)**