Newcastle Graduate School of Business

Faculty of Business & Law

Guanxi and sustainable competitive advantage in the Malaysian business environment

SEE TOW NGAU (MBA)
(Student no: c3036029)

This thesis is presented as part of the requirements for the award of the Degree of Doctor of Business Administration of the University of Newcastle

September 2006
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: .................................
Acknowledgements

A thesis cannot be completed with just a person’s individual or solo effort. Thanks and appreciation must go to those who openly and willingly helped me and also to those who are behind the scenes, and knowingly or unknowingly assisted me in one way or another along my journey to this degree.

First of all, I must thank all the University of Newcastle’s lecturers that I encountered along the path (DBA modules), notably to Mr Richard Croome (International Business), Mr David Meacheam (Knowledge Management), Ms Suzanne Ryan (Advance Topics in General Management), Dr Ali Quazi (Global Corporate Governance and Social Responsibility), A/Professor Julia Connell (Managing Organisational Change and Research Proposal), Dr David Gilbert (Asian Entrepreneurship), Dr Richard Denniss (Literature Review), Ms Deirdre Howard (Research Methods 1), and Dr Margo Poole (Research Methods ll).

Many thanks also go to the Malaysian local facilitators who sacrificed many weekends to provide guidance to the student cohort who grappled their way to educational excellence. Thank you to Dr. Nik Rahimah, Dr Halimah Zaman, Dr Leo J. Fredericks, Dr Edmund Gomez, Dr Selavaraj Nadarajah and Mohamed Dahlan Ibrahim.

In any dissertation, the final journey is the writing and completion of the dissertation. This would not be possible without the excellent guidance of my supervisor, Dr Anton Kriz. My deepest thanks go to him for being patient and for inspiring me throughout this whole process.

Finally, I would like to thank my wife and children for being patient with me during my stressful periodic outbursts. Their continued support and encouragement during my times of study burnout were sobering. Without them, I would not have started this DBA program, and without them, I would not be able to complete it. I love you all. Thank you.

The DBA has been the most interesting journey of my life and one that I truly enjoyed.
# Table of contents

DECLARATION OF ORIGINAL AUTHORSHIP i

ACKNOWLEDGEMENTS ii

ABSTRACT xi

1 INTRODUCTION 1

1.1 Background to the research 1
1.2 Research problem 1
1.3 Background on guanxi 2
1.4 Justification for the research 3
1.5 Methodology 5
1.6 Outline of the research process 5
1.7 Definitions 7
1.8 Boundary of the research 8
1.9 Summary 8

2 LITERATURE SYNTHESIS AND CRITIQUE 10

2.1 Overview 10
2.2 The generic differences of doing business in Asia and Malaysia to Western business 12
2.3 Forms and importance of relationships 14
2.4 Guanxi 16
2.5 Interpersonal guanxi 17
2.5.1 Definition of guanxi 17
2.5.2 Guanxi networks 18
2.5.3 The dimensions of guanxi 20
2.5.3.1 Trustworthiness 20
2.5.3.2 Deep affection or ganqing 21
2.5.3.3 Reciprocity 22
2.5.3.4 Face 23
2.5.3.5 Ethics 24
2.5.4 The benefits of interpersonal guanxi 25
2.5.4.1 A form of social investment 25
2.5.4.2 A form of social capital 26
2.5.4.3 A form of organisational resource 27
2.6 Business guanxi and interorganisational guanxi

2.7 The difference between interpersonal guanxi and guanxi practice

2.8 Guanxi in comparison to a Western market system

2.9 The difference between interpersonal guanxi and relationship marketing

2.10 Sustainable competitive advantage

2.11 A conceptual framework of the role of guanxi in gaining SCA
  2.11.1 Sources of competitive advantage
  2.11.2 Positional advantages
  2.11.3 The importance of guanxi in competitive environments
    2.11.3.1 Guanxi and customers
    2.11.3.2 Guanxi and suppliers
    2.11.3.3 Guanxi and competitors
    2.11.3.4 Guanxi and new entrant
    2.11.3.5 Threat of Substitutes
  2.11.4 Strategic market investments

2.12 Guanxi and the concept of sustainable competitive advantage
  2.12.1 Guanxi and the concept of valuable resource
  2.12.2 Guanxi and the concept of rare resource
  2.12.3 Guanxi and the concept of imperfectly imitable resource
  2.12.4 Guanxi and the concept of strategically equivalent substitutes

2.13 Summary

3. RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction

3.2 Research philosophy and paradigm

3.3 The virtues of qualitative research

3.4 Methods
  3.4.1 Alternative data collection methods
    3.4.1.1 Case study
    3.4.1.2 Focus group interview
    3.4.1.3 Grounded theory
    3.4.1.4 Game theory
    3.4.1.5 In-depth, semi-structured interview

3.5 Qualitative research design issues

3.6 Units of analysis

3.7 Data gathering techniques
  3.7.1 Interview design and location
3.7.2 Sampling method 61

3.8 Administration methods 63
3.8.1 Interview protocol 63
3.8.2 Respondents selection 63

3.9 Reflections on all interviews 65

3.10 Data analysis methods 66
3.10.1 Recording and transcription 66
3.10.2 Analysis of qualitative data 67
3.10.3 Report writing 68

3.11 Validity and reliability 68
3.11.1 Credibility 69
3.11.2 Transferability 70
3.11.3 Dependability 70
3.11.4 Confirmability 71
3.11.5 Triangulation 71

3.12 Ethical considerations 72

3.13 Limitations and key assumptions of research methodology and design 72

3.14 Summary 73

4 ANALYSIS OF DATA 74

4.1 Introduction 74

4.2 Development of a system of codes 76

4.3 Data analysis process 77

4.4 Nomenclature 77

4.5 Importance of interpersonal relationships in Malaysia 78
4.5.1 Importance of interpersonal relationships in securing business 79
4.5.2 Investigation of respondents’ definitions and perceptions of guanxi 81
4.5.3 Investigation of how guanxi(+) is built 83
4.5.4 Investigation on the perceptions and importance of guanxi(+) networks 85
4.5.5 Investigation of the benefits of guanxi(+) 87
4.5.6 Relationship between guanxi(+) and exchange of favours 89
4.5.7 Perception between interpersonal relationship and interorganisational relationship 90
4.5.8 Importance of trust in Malaysian business 92
4.5.9 Definitions and perceptions of trust 94
4.5.10 Relationship between guanxi(+) and trust 95
4.6 Connections, relationships and reconciling guanxi(+), trust and sustainable competitive advantage

4.6.1 Guanxi(+) as a unique value creating strategy and as a valuable resource 98
4.6.2 Guanxi(+) and the concept of imperfectly imitable resource 100
4.6.3 Guanxi(+) and the concept of rare resource 102
4.6.4 Guanxi(+) and the concept of strategically equivalent substitutes 103

4.7 Connections, relationships and reconciling guanxi(+), trust and Porter’s Five Forces 104

4.7.1 Guanxi(+) and customers 104
4.7.2 Guanxi(+) and suppliers 105
4.7.3 Guanxi(+) and competitors 107
4.7.4 Guanxi(+) and new entrants 108
4.7.5 Guanxi(+) and substitutes 109
4.7.6 Guanxi(+) and staff 110

4.8 Guanxi(+), trust and business key success factors 111

4.8.1 Perceptions on key success factors 111

4.9 Guanxi(+) and Westerners 113

4.10 Guanxi(+) and non-Chinese in Malaysia 114

4.11 Perceptions on guanxi(+), trust and the implications for business 115

4.12 Summary 117

5 DISCUSSION AND EXPLORATORY OUTCOMES 118

5.1 Introduction 118

5.2 Contributions and implications for theory 120

5.2.1 Contribution 1 - A deeper understanding of guanxi and guanxi(+), 120
5.2.2 Contribution 2 - A deeper understanding of guanxi(+) in Malaysian business 123

5.2.2.1 Patterns and theme - guanxi(+) in Malaysia 123
5.2.2.2 Patterns and theme - guanxi(+) as informal personal connections 124
5.2.2.3 Patterns and theme - guanxi(+) as personal resource 125
5.2.2.4 Patterns and theme - guanxi(+) as organisational resource 126
5.2.2.5 Patterns and theme - guanxi(+) as live, dynamic and working relationship 127
5.2.2.6 Pattern and theme - guanxi(+) and deep affection 128
5.2.2.7 Themes on guanxi(+) and reciprocity of favours 129

5.2.3 Contribution 3 - A deeper understanding of guanxi(+) and trust in Malaysian business 130
5.2.3.1 Themes on guanxi(+) and trust

5.2.4 Contribution 4 - A deeper understanding of guanxi(+) as sustainable competitive advantage in Malaysian business

5.2.4.1 Patterns and theme - guanxi(+) as a unique value-creating strategy and as a valuable resource

5.2.4.2 Patterns and theme - guanxi(+) and the concept of imperfectly imitable resource

5.2.4.3 Patterns and theme - guanxi(+) and the concept of rare resource

5.2.4.4 Patterns and theme - guanxi(+) and the concept of strategically equivalent substitutes

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

5.3 Linking sustainable competitive advantage and Chinese philosophy

5.4 Limitations

5.5 Implications for business policy and practice

5.6 Implications for further research

5.6.1 Research on the ‘right person’

5.6.2 Variations on methodology

5.6.2.1 A comparison study of the respondents’ perception between Kriz (2002) and this study

5.6.3 Measurement of guanxi(+)

5.7 Summary

List of references

Appendices

Appendix A A conceptual framework of guanxi and sustainable competitive advantage – the complete expanded version

Appendix B Interview Protocol

Appendix B1 Letter of Invitation (Organisation)

Appendix B2 Consent Form (Organisation)

Appendix B3 Letter of Invitation (Individual)

Appendix B4 Consent Form (Organisation)

Appendix B5 Contact Summary Form

Appendix C Ethics Approval

Appendix D Dissertation Timeline
List of figures

<table>
<thead>
<tr>
<th>FIGURE</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIGURE 1-1</td>
<td>Outline of the research process and chapter sequencing</td>
<td>6</td>
</tr>
<tr>
<td>FIGURE 2-1</td>
<td>Overview of Chapter 2</td>
<td>11</td>
</tr>
<tr>
<td>FIGURE 2-2</td>
<td>Summary of key ethnic values</td>
<td>12</td>
</tr>
<tr>
<td>FIGURE 2-3</td>
<td>A conceptual map of the dimensions of interpersonal <em>guanxi</em> and interorganisational <em>guanxi</em></td>
<td>17</td>
</tr>
<tr>
<td>FIGURE 2-4</td>
<td><em>Guanxi</em> networks</td>
<td>19</td>
</tr>
<tr>
<td>FIGURE 2-5</td>
<td>Model of Relational Advantages</td>
<td>27</td>
</tr>
<tr>
<td>FIGURE 2-6</td>
<td>A conceptual framework of the role of <em>guanxi</em> in gaining sustainable competitive advantage</td>
<td>36</td>
</tr>
<tr>
<td>FIGURE 2-7</td>
<td><em>Guanxi</em> as a possible construct in gaining superior operational effectiveness</td>
<td>38</td>
</tr>
<tr>
<td>FIGURE 2-8</td>
<td>Market orientation</td>
<td>39</td>
</tr>
<tr>
<td>FIGURE 2-9</td>
<td><em>Guanxi</em> as a possible construct in gaining superior market orientation</td>
<td>40</td>
</tr>
<tr>
<td>FIGURE 2-10</td>
<td><em>Guanxi</em> as a possible construct in gaining superior market effectiveness</td>
<td>41</td>
</tr>
<tr>
<td>FIGURE 2-11</td>
<td>A conceptual framework of <em>guanxi</em> and sustainable competitive advantage</td>
<td>47</td>
</tr>
<tr>
<td>FIGURE 3-1</td>
<td>Overview of Chapter 3</td>
<td>54</td>
</tr>
<tr>
<td>FIGURE 3-2</td>
<td>A targeted purposive sampling approach</td>
<td>62</td>
</tr>
<tr>
<td>FIGURE 3-3</td>
<td>Collection and analysis of data</td>
<td>66</td>
</tr>
<tr>
<td>FIGURE 4-1</td>
<td>Overview of Chapter 4</td>
<td>75</td>
</tr>
<tr>
<td>FIGURE 4-2</td>
<td>Output coding map based on protocol</td>
<td>76</td>
</tr>
<tr>
<td>FIGURE 4-3</td>
<td>Data analysis process</td>
<td>77</td>
</tr>
<tr>
<td>FIGURE 5-1</td>
<td>Thematic map based on analysis and contributions</td>
<td>119</td>
</tr>
<tr>
<td>FIGURE 5-2</td>
<td>Types of <em>Guanxi</em></td>
<td>121</td>
</tr>
<tr>
<td>FIGURE 5-3</td>
<td><em>Guanxi</em> Practice (Zouhoumen)</td>
<td>122</td>
</tr>
<tr>
<td>FIGURE 5-4</td>
<td>A sustainable competitive advantage model for Chinese Malaysians (SCAMM)</td>
<td>137</td>
</tr>
<tr>
<td>FIGURE 5-5</td>
<td>The Yin and Yang principle</td>
<td>139</td>
</tr>
</tbody>
</table>
## List of tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TABLE 3-1</td>
<td>Key characteristics of the respondents</td>
<td>64</td>
</tr>
<tr>
<td>TABLE 3-2</td>
<td>Relationship between medium of education and the term ‘guanxi’</td>
<td>65</td>
</tr>
<tr>
<td>TABLE 4-1</td>
<td>Nomenclature used to describe assessed frequency of respondents’ perceptions</td>
<td>78</td>
</tr>
<tr>
<td>TABLE 4-2</td>
<td>Importance of relationships</td>
<td>80</td>
</tr>
<tr>
<td>TABLE 4-3</td>
<td>Respondents’ definitions and perceptions of guanxi</td>
<td>82</td>
</tr>
<tr>
<td>TABLE 4-4</td>
<td>How guanxi(+) is built</td>
<td>84</td>
</tr>
<tr>
<td>TABLE 4-5</td>
<td>Perceptions of guanxi(+) networks</td>
<td>87</td>
</tr>
<tr>
<td>TABLE 4-6</td>
<td>Benefits of guanxi (+)</td>
<td>88</td>
</tr>
<tr>
<td>TABLE 4-7</td>
<td>Relationship between guanxi(+) and exchange of favours</td>
<td>90</td>
</tr>
<tr>
<td>TABLE 4-8</td>
<td>Perception between interpersonal relationships and interorganisational relationships</td>
<td>91</td>
</tr>
<tr>
<td>TABLE 4-9</td>
<td>Importance of trust in Malaysian business</td>
<td>93</td>
</tr>
<tr>
<td>TABLE 4-10</td>
<td>Respondents’ definitions and perceptions of trust</td>
<td>95</td>
</tr>
<tr>
<td>TABLE 4-11</td>
<td>Relationship between guanxi and trust</td>
<td>97</td>
</tr>
<tr>
<td>TABLE 4-12</td>
<td>Guanxi(+) and the concept of valuable resources</td>
<td>100</td>
</tr>
<tr>
<td>TABLE 4-13</td>
<td>Guanxi(+) and the concept of imperfectly imitable resource</td>
<td>101</td>
</tr>
<tr>
<td>TABLE 4-14</td>
<td>Guanxi(+) and the concept of rare resource</td>
<td>102</td>
</tr>
<tr>
<td>TABLE 4-15</td>
<td>Guanxi(+) and the concept of strategically equivalent substitutes</td>
<td>103</td>
</tr>
<tr>
<td>TABLE 4-16</td>
<td>Benefits of guanxi(+) relationship with customers</td>
<td>105</td>
</tr>
<tr>
<td>TABLE 4-17</td>
<td>Benefits of guanxi(+) relationship with suppliers</td>
<td>106</td>
</tr>
<tr>
<td>TABLE 4-18</td>
<td>Interaction between the firm and competitors</td>
<td>108</td>
</tr>
<tr>
<td>TABLE 4-19</td>
<td>Connections between the firm and new entrants</td>
<td>109</td>
</tr>
<tr>
<td>TABLE 4-20</td>
<td>Connections between the firm and staff</td>
<td>110</td>
</tr>
<tr>
<td>TABLE 4-21</td>
<td>Connections between guanxi(+) in the context of key success factors</td>
<td>112</td>
</tr>
<tr>
<td>TABLE 4-22</td>
<td>Connections between guanxi(+) and non-Chinese</td>
<td>114</td>
</tr>
<tr>
<td>TABLE 5-1</td>
<td>Patterns on guanxi(+) in Malaysia</td>
<td>124</td>
</tr>
<tr>
<td>TABLE 5-2</td>
<td>Patterns on guanxi as informal personal relationships in Malaysian organisations</td>
<td>125</td>
</tr>
<tr>
<td>TABLE 5-3</td>
<td>Patterns on guanxi(+) as personal resource</td>
<td>126</td>
</tr>
<tr>
<td>TABLE 5-4</td>
<td>Patterns on guanxi(+) as organisational resource</td>
<td>127</td>
</tr>
<tr>
<td>TABLE 5-5</td>
<td>Patterns on guanxi(+) as live, dynamic and working relationship</td>
<td>128</td>
</tr>
<tr>
<td>TABLE 5-6</td>
<td>Pattern on guanxi(+) and deep affection</td>
<td>128</td>
</tr>
<tr>
<td>TABLE 5-7</td>
<td>Patterns on guanxi(+) and reciprocity of favours</td>
<td>129</td>
</tr>
<tr>
<td>TABLE 5-8</td>
<td>Patterns on <em>guanxi</em> (+) and trust</td>
<td>131</td>
</tr>
<tr>
<td>TABLE 5-9</td>
<td>Patterns on <em>guanxi</em> (+) as a unique value-creating strategy and as a valuable resource</td>
<td>133</td>
</tr>
<tr>
<td>TABLE 5-10</td>
<td>Pattern on <em>guanxi</em> (+) and the concept of imperfectly imitable resource</td>
<td>134</td>
</tr>
<tr>
<td>TABLE 5-11</td>
<td>Patterns on <em>guanxi</em> (+) and the concept of rare resource</td>
<td>134</td>
</tr>
<tr>
<td>TABLE 5-12</td>
<td>Patterns on <em>guanxi</em> (+) and the concept of strategically equivalent substitutes</td>
<td>135</td>
</tr>
<tr>
<td>TABLE 5-13</td>
<td>Pattern on <em>guanxi</em> (+) and sustainable competitive advantage</td>
<td>136</td>
</tr>
<tr>
<td>TABLE 5-14</td>
<td>Summary of similarities of research findings between Kriz 2002 and this study</td>
<td>141</td>
</tr>
</tbody>
</table>
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(+).