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How Business Guanxi Affects a Firm's Performance: A Study on Chinese Small and Medium Sized Construction Companies

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Abstract

The Chinese term “Guanxi” literally refers to interpersonal relationships which have aroused growing interests among researchers and business practitioners. Common research interests are mainly centered on theoretical study and model building instead of applying them to business practices while this paper is aimed to investigate how business Guanxi works from a practical view, and in particular how business Guanxi affects the performance of small and medium-sized Chinese construction companies. Three independent managers in different regions are chosen as the initiating point to explore how Guanxi works by tracing back their inter-connectivity as well as interactions among different stakeholders. The empirical findings indicate business Guanxi acts as an important source of information and the efficient way to seek financial and technical support, to increase market shares and reduce risks, has a positive effect on to the performance of small and medium-sized Chinese construction firms. Based on the empirical findings, it is further argued that a good business Guanxi is likely to create competitive advantages in supporting Tsang’s arguments. Finally a managerial implication is provided which tries to remind practitioners that business Guanxi is a necessary factor for the survival of Chinese construction enterprises but it is not sufficient. Managers should not solely rely on Guanxi even if two parties have high quality of connections, and the institutional tools are needed in order to secure the health of Guanxi.

Keywords: Business Guanxi, Construction Firms, Stakeholders, Performance, Competitive Advantage

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1. Introduction

1.1 Research Background

Guanxi is a Chinese term used to describe the interpersonal connections with a broad social and cultural construct that reflects the Confucian tradition. It has been deeply rooted in the Chinese culture for thousands of years and has become one of the most important building blocks in constructing the social structure of Chinese society (Zhou, Wu and Luo, 2007). In business context, it refers to the process of finding business solution and getting scarce resources through personal connections (Fan, 2002). It is believed that a good Guanxi network is a necessary factor for business success in China (Tsang, 1998) and it can also as sure a wide range of benefits such as “securing scarce resources, bypassing or short-cutting the bureaucratic maze, obtaining information and privilege” (Fan, 2002).

Due to the growing interests among researchers and business practitioners, the importance and role of business Guanxi have been addressed: Guanxi variables were positively related to the performance of foreign funded enterprises (Luo, 1997); Guanxi was regarded as a source of sustainable competitive advantage (Tsang, 1998; Fock and Woo, 1998); Guanxi was identified as one of the most important key success factors in doing business in China (Yeung and Tung, 1996; Ambramson and Ai, 1999); Guanxi as an opportunity set for inter-firm relationships or as a lubricant to reduce transaction costs (Williamson, 1985); Guanxi was identified as “substitutes for formal institutional support” (Xin and Pearce, 1996). It seems that Guanxi is the nostrum to solve most problems for doing business in China. However, a large number of researchers mainly focus on the theoretical study of Guanxi and model building. The authors identify the need of applying Guanxi theories and models to business practice in so far as certain industry with target focus groups is concerned.

The authors of this report perceive that with the accelerating pace of the structural adjustment of Chinese state-owned enterprises (SOEs) in the past few years, small and medium-sized enterprises (SMEs) have played an important role in the economy, easing employment pressure, boosting non-governmental investment and helping in bringing about market prosperity (Anderson et al., 2003). On the other hand, SMEs are under enormous pressures as China is a relationship-based rather than rule-based economy (Wang, 2007). Moreover, due to the government’s dominant position in the construction industry, and the limited resources and power of small and medium-sized Chinese construction enterprises, these SMEs do not have the edge on SOEs and other large enterprises. It implies that SMEs have to establish a good Guanxi network in which they bound together in order to compete with rivalries. Business Guanxi as a means of information exchange, source of resources and support, should become a vital factor for the business success. That is the reason why the authors decide to conduct a study on small and medium sized Chinese construction firms.

1.2 Research Question and Objective

This study is to explore the impact of Guanxi networks on the performance of small and medium-sized construction enterprises in China. The research question is addressed as:

How does business Guanxi affect the performance of small and medium-sized Chinese construction companies?

A well-performing firm is defined as the one that can effectively implement its strategy and successfully accomplish its objectives (Otley, 1999). Variables that help the firm improve its efficiency and contribute to the development of business could be one of the factors that influence the firm's performance. Three independent managers were chosen in different regions as the initiating point to explore how Guanxi connections work by tracing back their inter-connectivity as well as interactions among different stakeholders. The empirical study of suppliers, clients, competitors and government will be based on four Guanxi variables that are closely related to a firm's performance: 1) Guanxi as source of information (Davies et al., 1995); 2) Guanxi as an effective tool of market expansion (new projects) (Park and Luo, 2001); 3) Guanxi as support (Xin and Pearce, 1996); and 4) Guanxi as a means of risk reduction (Standifird and Marshall, 2000).

The expected contribution of this paper is to clarify how business Guanxi works in construction industry and its impact to a firm's performance. Further arguments are given that under certain circumstances a high quality of Guanxi can help the SMEs create competitive advantage. Hopefully, it can provide more accurate practical information for the construct related practitioners as well as researchers.

This paper firstly introduces Guanxi related theories followed by research question and objectives. Secondly, the authors give a literature review from a broader prospective by claiming that business Guanxi is a sort of social capital, and then the definition, classification and mechanism of Guanxi are provided in order to give a comprehensive understanding to the reader. Followed by explaining Guanxi and its economic value and the relationship with a firm's performance, the topic is gradually sharpened to our research field. Thirdly, methodology is offered to explain how the authors design the research and collect data. Fourthly, the authors combine empirical finding and analysis together by using a stakeholder approach to clarify how business Guanxi affects a firm's performance. Fifthly, the authors argue that competitive advantage can be created during business interactions. Finally, managerial implication suggests that Guanxi is a necessary but not sufficient factor for doing business in China. Conclusion, limitation and further research are provided at the end of this paper.

2. Literature Review

2.1 Social Capital Theory and Guanxi

Traditionally, natural, physical and human capitals constitute the basis for economic development and performance of firms or nations. In recent years, many studies have found out that one important missing aspect is the social capital (e.g., Burt, 1997; Nahapiet and Ghoshal, 1998; Adler and Kwon, 2002). Although various definitions and interpretations of social capital have been provided in previous studies, there is an agreement on its main meaning: social capital consists of networks of relationships and resources inherent in these networks (Bourdieu, 1986; Coleman, 1988).

Social capital theory claims that networking relationships provide value to actors by allowing them to tap into the resources embedded in such relationships for their benefits (Bourdieu, 1986; Lin, 1999). It is believed that the actors have three levels and may have different influences within different levels. At the individual level, social capital influences career success (Burt, 1992; Gabbay and Zuckerman, 1998) and the creation of intellectual capital (Coleman, 1988; Hargadon and Sutton, 1997; Nahapiet and Ghoshal, 1998). At the inter- and intra-firm level, social capital can facilitate inter-unit resource (including information) exchange and the innovation of the organization. Many studies found that social capital may reduce transaction costs (Robins and Atuahene-Gima, 2003), enhance cooperation (Uzzi, 1997, 1999), facilitate entrepreneurship and formation of start-up companies, and strengthen supplier relations, regional production networks, and inter-firm learning (Dore, 1983; Gerlach, 1992; Chong and Gibbons, 1997; Gabbay and Zuckerman, 1998; Hansen, 1998; Tsai and Ghoshal, 1998). At the national level, social capital is one of the important factors affecting economic development and growth (Putnam, 1993; Zhang, 1999; Knack and Keefer, 1997). Despite the three levels of social capital, the focus in this research is on the inter-firm level.

The idea of social capital in the Chinese context captures the indigenous social phenomenon called Guanxi. Guanxi and social capital are similar concepts, and the overlap of the two concepts is apparently reflected in the origins of social capital that advanced Coleman's (1988, 1990) theory. Moreover, some researchers have gone to the extreme to mention that Guanxi is a form of social capital (e.g., Luo, 2000; Wang, 2000) and Guanxi is the Chinese version of social networks and networking (King, 1991). Indeed, social capital and Guanxi do have something in common but it does not mean that social capital is equal to Guanxi, or Guanxi is another term for social capital. Therefore, the following section will be used to define the concept of Guanxi according to research purpose of the paper by reviewing extensive literatures.

2.2 Definition of Guanxi

The term "Guanxi" is commonly explained as special relationship and/or connection between two persons (Alston, 1989; Chen and Chen, 2004; Luo, 1997). It has been deeply embedded in

the Chinese culture for thousands of years and has become one of the most important building blocks in constructing the social structure of Chinese society (Zhou, Wu and Luo, 2007). Yeung and Tung (1996) define Guanxi as constituting a “tight, close-knit network”; Pye (1982) states Guanxi as “friendship with implications of continued exchange of favors”; Gold (1985) argues that “Guanxi is a power relationship as one’s control over a valued good or access to it gives power over others”.

To summarize the literature, many of the researchers use keywords such as “informal”, “special relationship”, “interactive”, “favor” and “reciprocal” to depict the attributes of Guanxi. The definitions are slightly different one from another because different researchers choose to view Guanxi from various perspectives. For example, Luo (1997) defines Guanxi as “the concept of drawing on connections in order to secure favors in personal relations; it is an intricate and pervasive relational network which Chinese cultivate energetically, subtly, and imaginatively”. While Chen and Chen (2004) define it “as an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the social norm of *Guanxi* such as maintaining a long-term relationship, mutual commitment, loyalty, and obligation”.

All these definitions are useful to explain certain phenomena in the Chinese business context. However, the mechanism of how it works and who gets involved and influenced remains unclear. Therefore, the authors use Fan’s process concept to define Guanxi:

“Guanxi is the process of social interactions that initially involve two individuals (A and B). A may or may not have special relationships with B. A asks B for assistance (favour) in finding a solution to a problem. B may have the solution at hand, or more often, has to seek further assistance from other connections, i.e. starts another process” (Fan, 2002).

According to Fan (2002) Guanxi as a connection, it is “live, dynamic and working”. If a person has a connection within a business network, which implicates that he/she has the possibility to access a much wider network of connections. “The more Guanxi (connection) one has, the more doors (opportunities) are opened for interaction privilege” (Fan, 2002). From a resource-based view, the more Guanxi one has also means the more resources one tends to have.

Guanxi as a “special relationship”, Bao and Zhao (2008) summarize the following characteristics that make it different from other kinds of relationship: 1) personal assets (Fan, 2002); 2) invisible (Tsang, 1998); 3) dynamic and transferable (Luo, 1997; Fan, 2002); 4) reciprocal (Alston, 1989) and 5) long-term orientation.

2.3 The Classification of Guanxi

The definition above explains the meaning of Guanxi. This section states the classification of Guanxi, how researchers classify different types of Guanxi according to various Guanxi bases. Jacobs (1979) categorizes Guanxi according to different bases such as relationship by blood, nature and acquired. Tsang (1998) classifies Guanxi by blood base and social base. Hwang (1987) explains Guanxi as “expressive ties”, “instrumental ties” and “mixed ties”. Based on Hwang’s theory, Fan (2002) further classifies Guanxi into three categories “family”, “helper” and “business Guanxi” where family and business Guanxi is similar to Hwang’s as “expressive ties” and “instrumental ties”.

Fei (1947) defines Guanxi dyads as the fundamental units of Guanxi network which mean the connection between two individuals constitutes a basic unit of Guanxi network. His classical model “differentiated order” indicates an ego-centered Guanxi network. Fei (1947) argues that one person categorizes his/her Guanxi network according to the psychological distance from the center (himself/herself). Therefore, a Guanxi network is categorized according to what the person in the center values, for instance, family with regards to blood, friends with values of trust, emotion (feeling) and commitment. The authors prefer Hwang’s (1987) classification with “expressive ties”, “instrumental ties” and “mixed ties”. Because of his categorization involves human feeling during the interaction process while Fan’s classification seems to be utilitarian which does not sometimes tell the emotions involved between two business persons in a transaction. The “expressive tie” is one category of Guanxi driven by emotion and affection. Expressive type of Guanxi mainly exchanges *qingqing* (affection to the loved ones) and *ganqing* (emotion to friends) in order to satisfy one’s need of love, sense of belonging. While the “instrumental tie” is driven by physical benefits, it does not involve *ganqing* (affection). The “mixed tie” is between expressive and instrumental ties. It involves both exchange of *ganqing* (affection) and physical benefits.

2.4 The Mechanism of Guanxi

Based on Fan’s (2002) definition and Hwang’s (1987) theory of Guanxi, through a process of social interactions, the petitioner (individual A) will eventually find an allocator (individual B) who are willing to offer assistance (favor) in order to help the petitioner solve a problem or obtain scarce resources. According to Hwang’s (1987) “theoretical model of face and favor in Chinese society”, the allocator firstly evaluate the quality of Guanxi, then use the result as one of the standards which helps the allocator to make appropriate decision whether to accept the plea or not. The other factors that influence allocator’s decision can be equity rule, *renqing* (favor) rule and need rule. If the allocator thought the potential cost is greater than the anticipated repay, the allocator would reject petitioner’s plea and if the potential cost is less than anticipated repay the allocator tends to accept the plea. In order to further reflect the quality of Guanxi, other researchers indicate *ganqing* (affection) and *xinren* (trust) as basic factors that influence the

quality of Guanxi (Jacobs, 1979; Wang, 2007). However, the concept of Guanxi itself as well as ganqing (affection), renqing (favor) and xinren (trust) are abstracted from people's social life. It is difficult to measure Guanxi in terms of a real quantity. To better evaluate the quality of Guanxi, it is necessary to understand the three closely related constructs: ganqing, renqing and xinren (Hwang, 1987; Jacobs, 1979; Wang, 2007).

Ganqing reflects the human feelings in the process of social interaction. It exists among parties within Guanxi network (Wang, 2007) and carries the similar meaning as affection and emotion. Chen and Chen (2004) explain:

“Ganqing refers to the degree of emotional understanding, connections and the sharing of feelings of happiness and fears alike. Additionally, it refers to a sense of loyalty and solidarity, the willingness to take care of each other under all circumstances.”

In Chinese context, the phrase ganqing is usually used to describe the quality of a relationship between two parties. Notice the fact that in Chinese society, the pure “instrumental ties” among parties within Guanxi network normally are very weak. And they are easy to break and last very short time period. So usually the pure instrumental ties among people are less important than the expressive ties and mixed ties. The previous literature has already indicated that these two categories of tie more or less involve emotion and affection. Therefore, “ganqing is strongly associated with the quality of Guanxi, and it is often used as an indicator of Guanxi” (D.A. Yen et al., 2011). Hence, a deep or good ganqing can somehow reflect a good quality of Guanxi.

Renqing refers to humanized obligation such as gift or favor (Kipnis, 1997). It has similar meaning in English as owing a favor (Wong and Leung, 2001). Wong and Leung define renqing as:

“The special treatment of an individual, the allocation of resources to another party as a ‘gift’ in the process of a market transaction, to tighten up the bonds between parties” (Wong and Leung, 2001).

Renqing can be given or received. The individual who gives renqing (favor) is expecting the receiver pay back in the future once circumstances permit (Yen et al., 2011). This idea is based on the fact that Chinese people believe that they need a favor in the future, if one does a favor for someone else and the payback will come in the future. Therefore, usually renqing is reciprocal for both parties, in order to secure healthy Guanxi, and a high value is placed on the obligation of reciprocation by the Chinese people (Wang, 2007). Non-repayment is regarded as immoral (Luo, 2001). The person who is not willing to pay back renqing will lose his/her mianzi (face, reputation). Such person will then lose Guanxi with other people in the network, as a result, life

tends to be difficult for him/her because there are less people willing to help or cooperate with him/her. Renqing is reciprocity and empathy and it is practiced through the exchange of favors (Hwang, 1987; Luo, 2001). The greater the exchange of favors there is, the closer the two parties are knitted together (Yen et al., 2011). That is why renqing could reflect partly the quality of Guanxi.

Xinren generally means trust. It implicates the degree of commitment and confidence that one party is willing to put stock in, to rely on, to place (or put) dependence on and to give credit to the other party within the Guanxi network. Throughout a long-term interaction between two parties, they gradually create xinyong (credibility), the higher credibility one has, the higher degree of commitment the counterparty will have. In China, nobody is willing to do business with one he/she does not trust. So xinren in the process of social interaction between two parties is very important. The higher degree of xinren, the stronger ties between two parties, thus the better Guanxi they may have.

Based on the concept of ganqing, renqing and xinren, Yen et al. (2011) posits and examines a measurement of GRX scale which assign different score to each of these factors for measuring Guanxi. It provides a clearer and more accurate measurement of Guanxi. There are other invisible factors (ganqing, renqing and xinren) being exchanged beyond the transaction itself when people do business. Theoretically, a deeper ganqing, more renqing one party did for the other and higher degree of xinren tend to strengthen the tie between two parties thus more valuable for the further business activities.

2.5 Business Guanxi and its Economic Value

Business Guanxi is the process of finding business (rather than *personal*) solutions through *personal* connections (Fan, 2002). It can be further divided into two categories in terms of different parties involved. The B2G Guanxi involves a party of business person and the other a government official while the B2B Guanxi implies that both parties are business persons. According to Acquaah (2007), the top managers of an organization can develop social capital through a variety of personal, social, and economic relationships with their constituencies that can be used for the benefit of their organizations. The literatures also suggest that the social capital embedded in managerial ties may be more important in imperfect competition characterized by weak institutional support and distorted information. Thus, this managerial tie (in Chinese context is Guanxi) is often transferred from the individual level to the corporate level to facilitate inter-firm exchanges (Peng and Heath, 1996).

Specifically, top managers cultivate two types of ties in China (Luo and Chen, 1997; Peng, 1997). The first type is with executives at other firms, such as suppliers, buyers, and competitors (Dubini and Aldrich, 1991). These ties can be regarded as an opportunity set for inter-firm relationships or as a lubricant to reduce transaction costs (Williamson, 1985). In addition to tie

with other firms, a unique type of ties that executives in transition economies such as China have to cultivate are those with government officials (Luo and Chen, 1997). Currently, the economy in China is developing without a parallel process of political openness. Firms face an environment in which the Chinese government still exerts a strong influence on economic decision making (Peng and Luo, 2000). It is naturally for the top manager to maintain a “disproportionately greater contact” with government officials (Child, 1994).

Fan (2002) argues that the petitioner takes advantage of his/her personal connections with government officials in order to bypass laws and regulations and to obtain special treatment or scarce resources. Davies et al. (1995) believe a good Guanxi can help the business obtain information on government policies, market trends and business opportunities. Researchers also refer Guanxi network improves efficiency by reducing the transaction costs (Davies et al., 1995; Lovett, Simmons and Kali, 1999). Xin and Pearce (1996) identify “connections as substitutes for formal institutional support”. The institutional support has not been well developed so that the potential risk and cost have been raised. Enterprises have to find informal substitutes in order to survive in competition.

Yeung and Tung (1996) identify Guanxi as one of the most important key success factors in doing business in China. Tsang (1998) states that Guanxi is a source of sustainable competitive advantage based on the assumption that enterprise can transfer personal Guanxi to organizational Guanxi in the form of contract, regulation and so on. However, Fan (2002) argues that Guanxi as a personal asset cannot be a source of competitive advantage. Because the asset is owned by an individual and working only at personal level. Whether the firm can use the Guanxi asset of its employee depends on the person himself. At the same time the high cost and time-consuming to maintain Guanxi network has become one of the major disadvantages (Yi and Ellis, 2000).

Based on the debate above, Fan (2002) continues the arguments and concludes that “Guanxi as competitive advantage is a fallacy” because 1) Guanxi asset may become worthless or even turn into a liability if one party (typically, a government official) loses power or is implicated in corruption; 2) Guanxi does bring its owner certain advantages, and these advantages are not strategic but tactical and temporary; 3) The majority of Guanxi relationships is not exclusive and can be copied (Fan, 2002).

The authors have a slightly different opinion in this paper. People are living in a social structure comprised by various Guanxi networks. It costs money and time to establish Guanxi with people even if the manager does not try to build up and maintain Guanxi with government officials. Because as a business leader, he/she has to have certain Guanxi in order to survive in competition especially for those SMEs who have limited resources. The manager is seeking profit, so he/she has the standards to establish and maintain certain Guanxi. The managers should

anticipate repay when they are exchanging physical benefits, when the cost is much larger than the anticipated revenue, nobody would continue the exchange.

Fan argues that a Guanxi asset may become worthless or negatively impact the company once the official loses power but to what degree? Does it necessarily mean when a connection with a government official is lost it would make a person's whole network worthless? The reason why Fan reviews a Guanxi asset may become worthless is that she overestimates the possibility of the power loss of certain government officials. And the loss of one certain connection does not necessarily mean the collapse of the whole network. The authors agree that a Guanxi with government official brings advantages that are mainly tactical and temporary. However, a company does not frequently need Guanxi to solve problems or obtain scarce resources. It simply needs certain help at a particular moment. Based on this fact, it is argued that a business Guanxi can create competitive advantage under certain circumstances. This will be discussed in the later part of the paper.

The majority of the Guanxi literature seems to be focused on B2G Guanxi partly due to the fact that B2G Guanxi "appears to be the predominant form of business Guanxi in China" (Fan, 2002). However, it is identified that business-to-business (B2B) Guanxi is also an important factor for doing business in China. It is an important source of business information, also helps SMEs get financial support through temporary partnership and technical support from connections, Guanxi is also the major source where the construction company usually get new project. Since the research purpose of the paper is to investigate how business Guanxi works in an inter-firm context in particular how Guanxi affects the firm's performance, this paper will take business Guanxi as a whole to explore the interaction among various stakeholders.

The term "stakeholder" has been defined by Freeman in 1984. He describes the concept as any group or individual who can affect, or is affected by, the achievement of a corporation's purpose. However, Freeman's (1984) definition is viewed as being broad, because it merits all to be stakeholders. If everyone is a stakeholder of everyone else there is little value-added in the use of the stakeholder concept (Phillips, 2003; Sternberg, 1997; and Mitchell et al., 1997). Therefore, it is necessary to understand the stakeholders of the construction enterprises. The object of this study is the construction enterprises, which are responsible for implementing the physical works of a construction project. Thus, according to PMI (2004) construction project stakeholders are individuals and organizations that are actively involved in the project or whose interests may be affected as a result of project execution or project completion. Combined with the current situation of construction industry in China, four main stakeholders are defined in this paper. They are suppliers, competitors, clients and government.

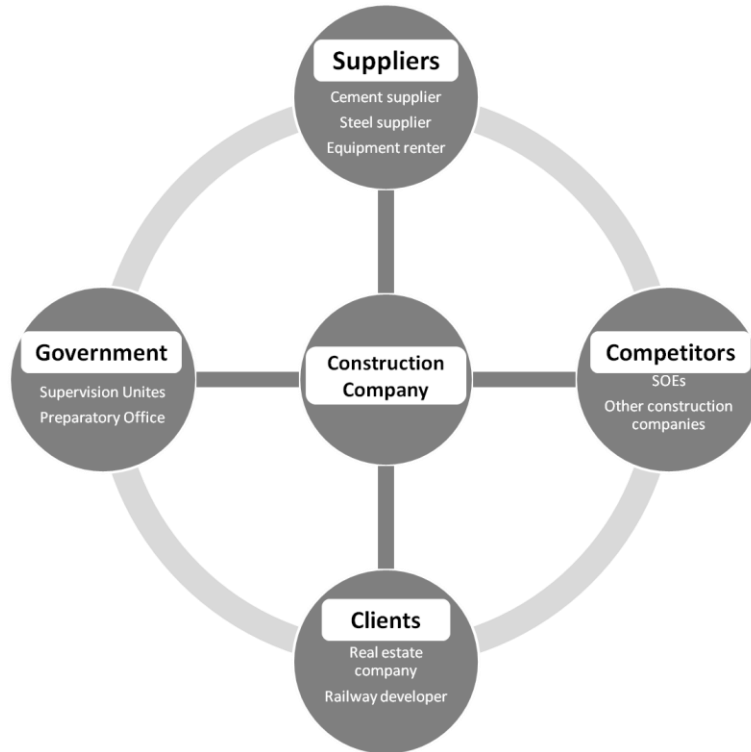


Fig. 1 Stakeholders of A Construction Company

2.6 Guanxi and Firm Performance

A wide variety of definitions of firm performance have been proposed in the literature (Barney, 2002). But the term “performance” itself is ambiguous, and there is no simple definition and measurement to evaluate the performance of a firm (Otley, 1999). Since the purpose of this thesis is to explore how Guanxi networks influence the firm performance, the definition of firm performance should be put into the related areas.

Nowadays, firms seldom survive and prosper only through their individual efforts. The performance of a firm depends upon the activities and performance of others which have the direct and indirect relationships with it. And the performance of this firm also depends upon the nature and quality of the relationships the firm develops with its counterparts (Wilkinson and Young, 2002).

Recently, western management literature has reflected that networking is now believed to enhance a firm’s competitive advantage by providing access to the resources of other network members. It is used to bridge the gap between business people of different nations and cultures, stimulating trade that might not otherwise occur (Pearce and Robinson, 2000). A great deal of empirical evidence shows that inter-organizational ties improve performance for the whole group

(Van de Ven and Walker, 1984). Firms use networks to overcome the uncertainty and distrust that plague economic transactions (Galaskiewicz and Wasserman, 1989).

Guanxi is uniquely embedded in the cultural background of the Chinese business networks. From the sociological view, Guanxi has a significant and positive impact on the efficiency and effectiveness of firms operating in China. Kao (1993) provides a convincing argument that Guanxi has a positive impact on market expansion and sales growth of Chinese firms as they use these connections. The impact is affected by resource sharing and social, economic, and political contexts in inter-firm transactions. Moreover, executives' interpersonal Guanxi makes contribution to the sales growth of their organizations and to their personal financial gains and career promotions.

Park and Luo (2001) indicate that Guanxi contributes to firm growth in terms of market expansion, but not in terms of improving net profit. This implies that Guanxi is more important in establishing external relations and legitimacy and positioning competitively in the market than in improving internal operations. And their findings also reflect potential synergy gains in Guanxi from resource complementarity and lower transaction costs.

To summarize the literature, in a transition economy with ambiguous property rights and weak legal constraints on market competition, Guanxi provides an opportunity to enhance market share through improved competitive positioning and other applications of collaboration with competitors and government authorities. Guanxi with buyers may have positive effect on customer loyalty and increases sales by lowering transaction costs and business uncertainties. Guanxi with suppliers helps the firm to acquire quality materials, and to receive good service and timely deliveries. Also, Guanxi with competitors facilitates possible inter-firm collaboration for resource sharing and implicit collusion, which help mitigate competitive costs and operational variability.

The performance of a firm normally represents how well the firm accomplishes its job by utilizing its available resources. There are many other factors such as employee cooperation and management functioning that influences the quality of a firm fulfilling its target. Despite the fact that Guanxi has an impact on business profitability, the term is too broad to measure the correlation between each other because of many other unclear factors. Therefore, the authors cannot use Guanxi as the only variable that influences the profitability of a firm. More narrow variables are needed here to identify how Guanxi affects a firm's performance.

Based on the arguments above, the authors define that a well performing firm is the one that effectively implements its strategy and successfully accomplishes its objectives (Otley, 1999). Variables that help the firm improve its efficiency and contribute to the development of business could be one of the factors that influence the firm's performance. The authors assume that

Guanxi plays an important role in the following dimensions: 1) Guanxi as source of information (Davies et al., 1995); 2) Guanxi as an effective tool of market expansion (new projects) (Park and Luo, 2001); 3) Guanxi as support (Xin and Pearce, 1996); and 4) Guanxi as a means of risk reduction (Standifird and Marshall, 2000). The authors will illustrate later in this paper how Guanxi works in business context and how it affects the firm's performance from the perspectives of relevant stakeholders thus competitors, suppliers, clients and government.

3. Research Methodology

3.1 Research Strategy

Guanxi is a complicated process of social interactions involving a series of human behavioral and psychological activities. Determined by its nature (e.g. inter-connectivity) Guanxi cannot be solely represented by number and statistics in most cases. Therefore, the authors decided to use qualitative approach as our primary research method. The previous researchers' theories and models the authors discussed above will be the foundation to support our discovery of new findings. Based on our qualitative research approach, the authors intend to provide some supplements in this field of study.

3.2 Research Process

The research process starts with the question on how Guanxi influences the performance of Chinese SMEs in the construction industry. In order to understand the mechanism of Guanxi, we summarized the related Guanxi theories and models and gradually sharpen them to our research field of business Guanxi. Four variables that closely related to a firm's performance and Guanxi are identified: 1) Guanxi as source of information (Davies et al., 1995); 2) Guanxi as an effective tool of market expansion (new projects) (Park and Luo, 2001); 3) Guanxi as support (Xin and Pearce, 1996); and 4) Guanxi as a means of risk reduction (Standifird and Marshall, 2000). Then, the authors conducted a series of interviews to gain primary data. Interview questions mainly revolve around the four variables. Additional questions such as managers' definition about Guanxi, the importance of Guanxi and value of Guanxi are also included in order to get a clear understanding in business practice. Finally, by extracting the related main points from the interviewees, the authors summarize these key words and managers' important comments consolidate with Guanxi related theories and models. The analysis part is conducted by understanding the business practical concepts about Guanxi, the role of Guanxi and how Guanxi variables affect a firm externally. The stakeholder approach is adopted in order to analyze the inter-connectivity and interaction between business Guanxi and construction firms' performance. It bridges a construction company's core stakeholders and the Guanxi network developed base on a firm's business activities which may provide a closer look at Guanxi.

3.3 Sample and Data collection

In order to achieve the research objective, nine in-depth personal interviews were conducted to collect qualitative data. Since the Guanxi network is a personal asset (Fan, 2002), the authors take the manager as a proxy of the firm. In China, it is difficult to get executives, especially those still in office, to talk openly about the topic of business Guanxi. To overcome this problem the authors adopted snowball sampling for data collection. As Biernacki and Waldorf (1981) argue, this method is well suited for a number of research purposes and is particularly applicable when the focus of study is on a sensitive issue, possibly concerning a relatively private matter. It has also been shown that the snowball sampling technique could ensure good quality of the sample in small business research (Curran and Blackburn, 2001).

The researchers drew the sample from their own connections of three close relatives who are executives of the construction firms in Sichuan, Xinjiang and Shanghai respectively. Since all businesses in one of the three particular regions had close connections with local businesses, the authors asked the manager of each company to give us five further sampling targets based on his/her Guanxi networks, which may be friends or business partners of the central company's manager. Because all the other sampling targets are provided by the central company, it's better for the authors to understand the inter-connectivity, how businesses establish and maintain Guanxi network, how Guanxi works, and in what perspectives it helps the businesses improve performance.

Market development in China was gradual and uneven because reformers favored coastal and southern regions (Jefferson and Xu, 1991). Additionally, problems of representativeness and the quality of the data which limits the validity of the sample are the primary concerns of in recent snowball sampling research (Van Meter, 1990; Kaplan et al, 1987). At present, a statistical formalization of snowball sample biases is not available (Van Meter, 1990). However, the authors tried to enlarge sample size and select representative areas in China to reduce the bias. An invitation email was sent to these fifteen managers individually to state our research purpose. But only nine interviews were arranged in the end, five from Sichuan province, two from Xinjiang province and two from Shanghai. These three different places represent three different levels of economic development in contemporary China. Therefore, Shanghai represents well developed, Xinjiang province on northwest part of China is relatively less developed and Sichuan province is the representative of medium developed situation. In doing so, the authors intend to balance the development inequality and get more accrete data. However, due to the limited time and resources available, the authors cannot go back to China in order to get face-to-face interviews and a larger sample size from various regions. Consequently, the data reliability and validity tend to influence the final results.



Fig. 2 Samples in Three Different Regions in CHINA

According to the division standard of small and medium sized enterprises, an enterprise whose annual revenue is below 800,000 thousand yuan or the total asset is below 800,000 thousand yuan is considered a small and medium-sized enterprise in China's construction industry (National Bureau of Statistics of China, 2011). The medium-sized enterprise normally have a number of employees between 3,000 and 600, small-sized enterprise has a number below 600 employees (National Bureau of Statistics of China, 2003). Due to the fact that construction firms frequently hire temporary workers, the number of employees varies from time to time depends on the project's character and company needs. In this research, nine construction-related companies involved in the in-depth interviews are eligible.

Interviewee	Position	Company profile
Mr. TANG	Owner of a construction firm in Sichuan	Small-sized, employee number from 20 to few hundreds, annual turnover 5 to 15 million
Mr. YING	General manager of a real estate company in Sichuan	Small-sized, 30 to few hundred employees annual turnover 10 to 20 million
Mr. TIAN	Owner of a construction firm in Sichuan	Small-sized, 10 to few hundred employees, annual turnover at the peak 5 million
Mr. LI	Manager of a construction equipment rental firm in Sichuan	Small-sized, 10 to 20 employees, average annual turnover 1 million
Mr. SU	Executive of a construction firm in Sichuan	Medium-sized, 50 to hundreds employees, average annual turnover 500 million
Mr. GAO	Owner of a small-sized construction firm in Xinjiang	Small-sized, 180 employees, register revenues 6 million
Mr. LI	Owner of a small-sized construction firm in Xinjiang	Small-sized, 163 employees, register revenues 5 million
Mr. ZHAO	Owner of a construction material supplier in Shanghai	Small-sized, 60 employees, register revenues 4.5 million
Mr. ZHANG	Manager of a construction firm in Shanghai	Medium-sized, 520 employees, register revenues 31.4 million

Fig. 3 Information of Interviewees

The authors of this report developed an interview orientation intended to facilitate the interviews. It is a common way to ensure consistency between interviewers and interviewees. Thus it will help to increase the reliability of the findings. In line with Brislin's (1986) recommendations, the interview orientation was translated into Chinese and back-translated into English. In order to ensure accuracy of the translation and the questions involved in the interview are dedicated to the purpose of this study, the authors tested the interview orientation on two business graduates. The interview structure included topics such as the definition of Guanxi, how to build this kind of networks, what is its impact on the performance a firm and how to maintain the networks. Since the samples the authors choose are SMEs in China, the entire interview was conducted in Chinese through Internet phone call. Each interview lasted 60 to 90 minutes.

4. Results and Analysis: A Stakeholder Approach

This section introduces a conceptual framework based on the literature and subsequent discussions with academics and practitioners (see Fig.5). The framework will be used to explore how business Guanxi works in practice, in particular how business Guanxi affects the performance of small and medium-sized Chinese construction enterprises. From a stakeholder approach, four key relevant stakeholders are defined in this framework: suppliers, competitors, government and clients. To evaluate the quality of Guanxi between the construction firms and stakeholders, Ganqing, Renqing and Xinren, three constructs are involved in analysis. In the conceptual model, the manager is proxy of the construction firm and business Guanxi is transferred from the individual level to the corporate level. The model indicated that four factors help the firm improve its efficiency and contribute to the development of business.

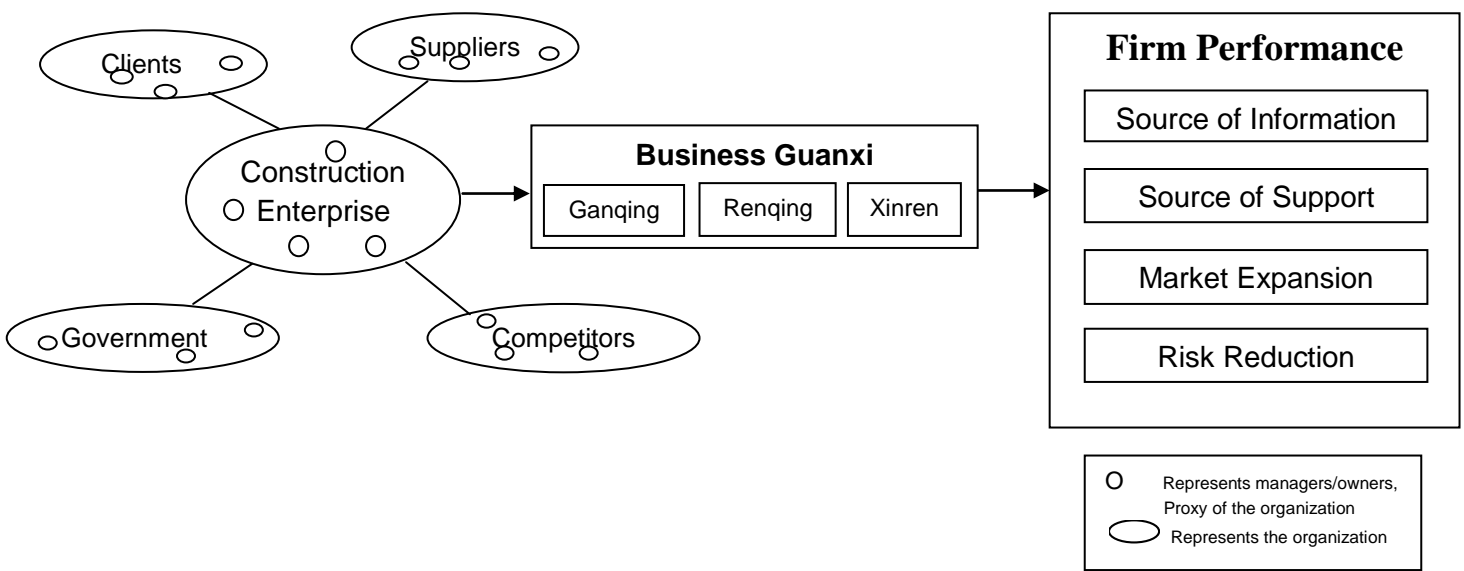


Fig. 4 Conceptual Framework based on Literatures and Empirical Findings

4.1 Suppliers

The construction industry is heavily dependent on suppliers of building materials. Statistical figures show that, in relative terms, main contractors have been purchasing increasing amounts of labor and material. It means that these represent about 75% of main contractors' turnover (Scholman, 1997). The interviews demonstrated that the manager of a construction firm is paying more attention to the relationship with a supplier. As Mr. ZHANG recalled:

“In the past, cost was the major factor I would take into account when choosing a supplier. With the growth of my experiences and the accumulation of Guanxi in the industry, I prefer the one whom I have known for decades and I am familiar with as my project’s supplier. And the bigger of this project, the more careful I will be to choose supplier and more willing to choose previous sellers with great Guanxi. ”

One feature of this phenomenon in the literature review is “short-term focus on efficiency in the individual transaction needs to be replaced with longer-term-oriented relational exchanges based on close buyer-seller relationships. The benefits of these constellations are obtained partly from better use of individual suppliers, partly from network effects derived out of the combined efforts of a number of suppliers (Hakansson and Snehota, 1995).” Although, the interviews correspond with this previous finding, it cannot be denied that the basis of their business transaction is still beneficial.

Furthermore, the authors questioned closely the reason why the interviewees prefer Guanxi as a factor to choose a supplier. The authors find that there are four main reasons. First of all, it is a way to reduce the influence of informational asymmetries. During the business transaction, informational asymmetries made it difficult for firms to evaluate the needs, competencies and reliability of potential trade partners. Specifically, most of construction projects use the trade means to invite public bidding. In order to select the best suppliers, the construction enterprises tend to retain the appropriate information to prevent suppliers from raising prices. At the meantime, the supplier will retain its own information in the bidding process. Therefore, by strengthening Guanxi with suppliers, construction companies will have to establish long-term and stable relationship with some of the key materials suppliers. Secondly, the interviewees believe that Guanxi is a kind of quality guarantee. To control the quality of materials is a key process for construction enterprises. Based on good Guanxi, the supplier would like to sell qualified materials cater to the needs of purchasing firm, both in terms of technical content and physical features. Thirdly, a good Guanxi can ensure smooth and easy information flow and materials flow between the suppliers and the construction companies. Finally, it can be an efficient way to cut procurement cost. The quality of construction materials in the market is quite different. Since, construction material costs are very high, generally about 40-60% of the total project cost and some even much higher than this percentage in China, it is obvious that

construction companies can save a lot for when looking for suppliers then negotiating with them. Moreover, the interviewees point out that the suppliers with good Guanxi will provide a kind of optimal discount treatment to them.

The most frequent keyword in this section is *Xinren*. According to the interviews, *Xinren* is created throughout a long-term interaction between the construction enterprises and the supplier. The construction enterprises are willing to cooperate with the suppliers whom they trust. And the higher degree of *Xinren* between them, the better Guanxi they will have. Nevertheless, one participant pointed out directly that *Xinren* is strongly associated with *Ganqing*. People will not trust others without the foundation of *ganqing*, especially in business context in which profit is the end itself.

4.2 Competitors

Three interviewees mentioned that business Guanxi with other construction enterprises have helped them to get new projects and explore new markets. For instance, Mr. GAO stated:

“Once, I found a very interesting construction project but I have been never engaged in such kind of project. Then I went to talk with an old friend, who also a manager in another company and familiar with this project. Since he was interested in the same project, we completed this project together. After this experience, I opened up a new area which might have been difficult for me to explore by myself.”

Therefore, the good business Guanxi they built previously makes it possible for the company to expand the market while maintaining the market they already possessed. Moreover, the business Guanxi between construction firms can protect firms from regional rivalry. By using business Guanxi with other firms, the two former competitors become partners to develop one project together. The interviews also demonstrated that it is much easier to win the bidding based on this partnership than without the relationship. Turning a rival into a partner to counter other competitors in the bidding is a win-win strategy for both companies in the partnership. In this scenario, the authors can also find that it is this business Guanxi that makes the two companies share information and technology with each other.

Nevertheless, not all kinds of business Guanxi which the firm owns will develop to partner relationship. Several interviewees pointed out they prefer to build this kind of partnership with the one who has been involved in long term business Guanxi and has strong *ganqing* with them. On the basis of literature reviews, this kind of relationship corresponds to mixed ties proposed by Hwang (1987). Instrumental and affectionate are two important components in this classification. Since the pure instrumental tie is weak, the construction enterprises involved in in-depth

interviews all show great willingness to strengthen business relationship by expressive ties. One participator exemplified:

“I have approximately 20 years’ experiences in the construction industry. At the very beginning of my career, there were not so many choices for me when I had to find a partner to complete one program. Therefore, I chose the one who will be certainly beneficial for me. After several years, we build great Guanxi with each other, not only in business but also in daily life. I found that if his company needs my help, I would like to try my best to help. ” (Mr. LI)

Interestingly, the frequency of the keyword *ganqing* appears a little bit more than *renqing* in this part of conversation. This result indicates that when the interviewees measure the level of the business Guanxi between different construction companies, they prefer to use the word of *ganqing* rather than *renqing*. The stronger *ganqing* they have with the other construction enterprise, the better Guanxi they have. But according to the research, whether *ganqing* is the deeper level of *renqing* and what kind of *renqing* can develop into *ganqing* is unclear.

4.3 Government

The market economy in China remains immature. Both local and central governments are constantly introducing a wide range of contingencies and amending policies in order to control the economy. To enhance the construction industry, the Chinese Government enacted a number of legislative regulations during the early 1990s and several organizations such as Preparatory Office and Supervision Unites representing the government substantially affect construction business transactions.

As Fan (2002) defined, if one party is a business person the other a government official, it is business-to-government Guanxi. And Fan also argued that B2G Guanxi represents a way to bypass laws and regulations through personal connections with government officials and to obtain special treatment or scarce resources. The interviews conducted support this proposition, as one interviewee stated:

“It is very common that we have Guanxi with government officials, especially those in powerful positions. Compared with state-owned construction firms, my company is small in size and weak in capital. But if I have close Guanxi with government, I have an opportunity to access exclusive information and special treatment. I remember there was one person working in the local preparatory office, and we know each other for a long time. He told me one unpublished plan about exploiting a new development zone in suburbs and they can recommend several construction firms to undertake the project. This information is very valuable and my firm was on the list of special bidding.”

In short, the small and medium-sized construction firm is closely embedded in Guanxi with government officials, and they have opportunities to access exclusive information, such as new policies and regulations before arrangements are announced publicly. Consequently, they are able to prepare themselves better in the competitive market and downgrade the firm's economic inefficiency. Additionally, our participants also support that the business Guanxi with government makes it easy for the construction enterprise to keep abreast of changes in policy, and to obtain the necessary licenses, permits and approvals for smooth business operations. The power and influence of government officials on private enterprise entrepreneurs has been well documented in the literature (Peng and Luo, 2000).

4.4 Clients

The majority of the contractors formed an agreement with their clients within the past 5 years (Latham Report, 1994). According to our research, the common situation is similar to this finding in China. Compared with other industries, the cycle of one construction project is quite long. Moreover, Akintola argued that the construction industry is in the nature of an investment service where the customer wields great influence on the final product in relation to its physical aspects (dimensions, application of materials, etc.) and the value of logistic parameters (delivery date, project duration, etc.). From this perspective, the relationship with the client can make the construction activities more efficient. Mr. ZHAO exemplified:

“I feel like that I put lots of time and effort into handling the Guanxi with my clients. Because it is really very important to the construction project, not only to get the project but also to make the process of the project smooth. By using Guanxi, I may easier and earlier access to the project information and I can get ready in advance. And during the project ongoing phase, it is easy to negotiate with good Guanxi client. For example, I can communicate with the client when choosing the materials' suppliers or the client will let me overall in charge of the project. ”

The participants also demonstrated that good business Guanxi with clients can make the construction enterprise benefit from more favorable cash flows. Based on great Guanxi, the client may prepay part of project funds in advance. Therefore, the construction enterprise may reduce the risk of capital chain shortage.

Evidence from other transition economies suggests that as uncertainty about markets increased, managers turned to those they knew to reduce risk. Guanxi networks provide some assurance of exchange-partner behavior (Standifird and Marshall, 2000). Firms often prefer to trade with a known partner, even if it costs more than trading with a potentially opportunistic stranger. Although the interviews conducted also proved this previous finding, the respondents in our in-depth interviews stated that they are still driven by the economic interests.

In this section of interviews, the participants chose Xinren as the keyword to describe their Guanxi with clients. Xinren implicates the degree of commitment and confidence that the construction enterprise is willing to put stock in, to rely on, to place (or put) dependence on and to give credit to the clients within the Guanxi networks. When a transaction is made with a firm of known reputation and capabilities, there is an associated implication that social bonds will guard against trouble (Thorelli, 1986). The interviewees treat Guanxi as a guarantee of the clients' credibility and reliable Guanxi can reduce behavioral uncertainties.

5. Discussion: A Good B2B Guanxi Can Create Competitive Advantage

Guanxi is identified as one of the most important factors for the business success in China (Yeung and Tung, 1996; Ambramson and Ai, 1999) and a source of sustainable competitive advantage (Tsang, 1998; Fock and Woo, 1998). However, Fan (2002) argues that Guanxi as competitive advantage is fallacy. Her arguments are based on the fact that Guanxi is a valuable personal asset but it does not have the strategic value and interpersonal Guanxi cannot transfer to inter-organizational Guanxi. It does not contribute to the organization in terms of valuable, rare and inimitable asset (Barney, 1991). She believes that "only strategic asset can create competitive advantages". Guanxi as personal possession generated by social interaction, and could only affect the interpersonal level. It is said that "Guanxi can be disrupted by something as simple as staff mobility" (Tsang, 1998). Tsang suggests ways for companies protecting their Guanxi in order to solve this issue such as converting interpersonal Guanxi into inter-organizational Guanxi to reduce the mobility.

The finding of this paper appears to support Tsang's (1998) arguments. First of all, the size of a person's Guanxi network is limited. The establishment of Guanxi connections is through human interaction. The interviewees cannot expand their Guanxi network to infinity due to the fact that human interaction is restricted by various Guanxi bases, limited effort, time and location. A single connection point within the Guanxi network can be shared and replicated by many persons at the same time. However, it takes time and money to build up Guanxi connections. There may not be sufficient time for them to establish new connections when firms facing a problem. Even if managers successfully build up a tie with a third person that might help, due to the quality of the Guanxi tie, ganqing (emotion) and xinren (trust), the allocator may not offer a solution to firms' problems. It is not only a manager's Guanxi with some key figures (i.e. government officials) that makes the Guanxi connection valuable and rare, but also the Guanxi network as a whole. Because every person has his/her own Guanxi connections, different Guanxi network has different interconnectivity and characters which makes the Guanxi connection as a whole unique, valuable and inimitable.

According to the interviewees, inside most small and medium-sized construction companies, the owner of a firm acts as the general manager and most important decision maker. Department managers are usually responsible to execute the “orders of boss”. The owner or manager acts as a legal person of a firm, he/she presents the firm and the firm reflects his/her interest. Under this circumstance, the interpersonal Guanxi will eventually lead to inter-organizational Guanxi. Therefore, the transfer of interpersonal Guanxi to inter-organizational Guanxi is possible.

Based on the interviews, B2B Guanxi regarded as competitive advantage to obtain scarce resource, information and to compete with rivalry is frequently seen among Chinese small and medium-sized construction firms. Mr. YING, an owner of a medium-sized Chinese construction firm, who has been involved in construction business for more than twenty years comments that there are two key issues which he deals with in every project:

“Firstly, you have to have the capability to find new construction projects, either from business partners or from the government public biddings. Secondly, you have to finance sufficient capital in order to cover the cost of new projects because payments from part A would only cover part of your cost and usually delay for a long time. And all these issues more or less depend on your Guanxi network” (Mr. YING)

Guanxi here offers a possibility to obtain projects, find potential partners and finance sufficient capital. A high quality of interpersonal Guanxi can lead to partnership and cooperation between two construction firms. One of the most common ways of cooperation and partnership is to take advantage of both firms’ Guanxi network, financial resources and know-how, all together it generates a synergy effect which may imply that the newly formed partnership is more qualified to win the government or public biddings. The reason is that if two SMEs are put together, it tends to share more information, a broader Guanxi network and a larger amount of resources. As a result, the synergy would produce competitive advantage among other rivalries. Another common form which also produces competitive advantage is that two or more small construction firms share the high cost of purchasing equipments such as excavators, trucks and bulldozers. Partner firms can use the equipments at very low cost, and it could help these firms generate more profit than renting or individual purchase in a long-run. At the same time, the share of expensive construction equipments allows partner firms to take advantage of scarce resources, and it could also become a competitive advantage over other small firms.

6. Managerial Implications

6.1 Guanxi is a Prerequisite for the Survival of Construction Firms

Guanxi as one of the most important building blocks in constructing the social structure of Chinese society, it has been deeply embedded in the Chinese culture for thousands of years

(Zhou, Wu and Luo, 2007) and its impact permeates various human activities. Under this strong cultural background, people get used to utilizing their connections to solve some problems when they are faced with difficulties. It could also be applied to business-to-business circumstances. Managers work as the proxy of firms, and they try to find their business solution through personal connection. Guanxi in this situation plays a very important role. The Guanxi connections work as the ears and eyes which managers rely on to get useful information, new project and support.

When firms encounter difficult situations, correctly use of Guanxi may become the only life-saving straw especially for those small and medium sized construction companies. The majority of interviewees claimed that they are highly depending on Guanxi in order to get new construction projects. Mr. TIAN was a very successful entrepreneur in the 1990's, his construction company made an annual revenue of five million RMB at the peak. However, TIAN's "big movement" to the real estate caused the bottom of his entire career because he cannot pay back the bank loan and debt to the suppliers and subcontractors. He lost his social reputation and hurt the ganqing (feeling) between him and friends. Nobody is willing to trust him anymore thus he lost his Guanxi with other business partners. Consequently, the collapse of Guanxi network ruined his life and took him more than six years for the recovery. Mr. TIAN recalled his hard time and made the following comments:

"Guanxi may not be the almighty god but without it you can do nothing. When I lost the Guanxi with my friends, I found life is so difficult for me. They were not willing to give me any information or support, no one would like to cooperate with me, and so I was blind and deaf and cannot do anything. No projects, no information, and no help even my wife had left me."

TIAN's story is not a unique case that construction entrepreneurs suffer from loss of Guanxi. His default hurts the interest of other business partners. Even worse, he lost his social reputation and credibility which implies the collapse of Guanxi. Lack of information, cooperation and support from business partners became a barrier for his recovery. Subject to the firm size, SMEs could only access very limited resources, so the inter-firm connections are relatively important for them. Sometimes they need to bond themselves together in order to obtain more resources. The lack of information exchange and cooperation may slow down the development of each firm. Mr. TANG undertakes a project of building up one kilometer express road, and there are culvert and tunnel within this road. However, TANG's firm is not good at building tunnels. He has to find technical support from his Guanxi network in order to finish the project.

Other interviewees also think that Guanxi is critical to the company performance. Mr. TANG still remembers how he starts the construction career:

“I was a chef in a small restaurant, and a customer of mine really appreciated my cooking so we became friends. One day he came to me and asked if I was willing to undertake a small construction project. That’s how I started my career and during the first few years all my clients were introduced by this friend. Later, I gradually built up my own business Guanxi with more and more friends. However, a new construction contract introduced by my friends has always been the important source of my company’s revenue.”

Business Guanxi at a firm’s different stage plays different roles. At the initiating stage, it provides managers necessary information for establishing firm’s basic connection with suppliers, clients and government through the “friends of friends” effect. Later, the exchange of ganqing (feelings) and renqing (favor) the quality of Guanxi increase, which may bring new opportunities, learning and cooperation. Our findings suggest that it is absolutely necessary for the Chinese construction companies to have Guanxi, without which firms may not survive in the competition.

6.2 Business Guanxi is not Omnipotent

Tsang (1998) argues that “a good Guanxi network is a necessary but not sufficient condition for business success in China”. Guanxi has also been identified as an important factor for doing business in China (Fan, 2002). It is believed that Guanxi network can reduce the transaction cost and improve firm’s efficiency. Other frequently cited benefits that Guanxi can offer are institutional information, guidance to government policy, market information and business opportunities (Davies et al., 1995). The interviewees agreed that business Guanxi is important for doing business in China but it is not the only thing that matters to a firm. Although the authors find that Guanxi has a positive relation to a firm’s performance, just like what Mr. TANG makes in his comments:

“Guanxi opens the door to an opportunity but it depends on you to grab in hand and make it possible.”

There is an old Chinese proverb “shi fu ling jin men, xiu xing zai ge ren”-the master can teach how but it is up to you to make the progress. Guanxi is like the Kung Fu master, he can guide the students when they have doubts and problems but he can never make the students martial artists without their own efforts. Therefore, Guanxi as a connection, it offers a manager possibility to a solution through the exchange of information, renqing (favor), ganqing (emotion) and xinren (trust).

Business Guanxi represents a way of searching business solution through personal contact. It is a tactical tool (Fan, 2002) but can never make a poor business strategy success. Determined by the nature of business, the key function in business transaction is seeking profits. “The only thing that matters to the parties is their own business interests and the utility of other party” (Fan,

2002), of course, both parties understand that they are utilizing each other. Guanxi may appear here as the lubricant, and managers should be cautious when they take advantage of Guanxi. Even if two individuals have high degree of Xinren (trust) and deep Ganqing (emotions), they have to use institutional tools such as legal contract to protect their own interests. Putting personal Guanxi aside and signing a formal contract before business transaction is becoming more and more popular in China, especially in the recent years.

7. Conclusion

This paper addresses Guanxi, as an important source of information, the efficient ways to seek financial and technical support, to increase market shares and reduce risks, has positive contribution to the performance of small and medium-sized Chinese construction firms. A high quality of Guanxi with suppliers can help the construction company to reduce the influence of informational asymmetries, guarantees the quality of construction materials, to cut procurement cost, and also ensure smooth and easy information flow and materials flow between the suppliers and the construction companies. The business Guanxi that a construction firm has with other construction enterprises has helped the firm to get new projects and explore new markets. When difficult problems occurred, a good Guanxi also becomes a useful tool for searching support from the construction firm's partners. A good Guanxi with government officials helps the construction company obtain special treatment and scarce resources. The business Guanxi with clients is an efficient channel of communication, so that the construction company could maintain customer satisfaction, and at the same time the firm itself could benefit from avoiding potential risk of capital shortage due to the high quality of Guanxi. Based on the empirical findings, the authors further argue that a good business Guanxi can create competitive advantages by bounding limited resources and Guanxi networks together in supporting Tsang's (1998) arguments. This paper also identifies business Guanxi is a necessary but not sufficient factor for the survival of small and medium-sized construction firms. Managers should seek formal and institutional tool to protect their own interest.

8. Limitations and Future Research

This paper is based on small samples of nine interviews which were conducted through telephone. It depicts a picture about current Chinese construction industry. However, it may not offer a clear full-scale image to reflect all the practical phenomena that currently exist in the construction business. One purpose of our data collection is try to leverage the development misbalanced over different regions but due to the large territory size of China and limited time and effort, the authors could only choose three provinces to get practical information. It may not offer exactly the same result for the rest parts of China. The authors use snowball sampling to collect data which may result in bias. The reason why the authors choose snowball sampling is

that the authors try to understand how Guanxi influences business performance in terms of its inter-connectivity. An independent Guanxi connection may not reflect how business Guanxi impacts other connection within the Guanxi network. So the authors decide to choose one person as the initiating point, try to explore his Guanxi network and understand the correlation that affects the rest of his Guanxi connections.

This paper discusses how business Guanxi affects firm performance but the authors seldom talk about the ethical issues that have been criticized a lot. Some of the Guanxi benefits may be based on the cost of general public. The future research is needed to explore the cost of establishing and maintaining Guanxi and its relationship with firm's performance. What would be the economic and ethical consequences if firms utilize Guanxi to compete with rivalries?

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