



## *Guanxi* and Relationship Marketing: a closer look at bonding and asset value

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## Table of contents

1. Introduction.....	3
1.1 Preface.....	3
1.2 Scientific and social relevance.....	4
1.3 Structure.....	5
1.4 Problem statement and research questions.....	6
1.5 Methodology.....	7
2. Literature review.....	8
3. Conceptual Background.....	10
3.1 What is <i>guanxi</i> ?.....	10
3.2 Decomposing <i>guanxi</i> .....	11
3.2.1 <i>Ganqing</i> .....	11
3.2.2 <i>Renqing</i> .....	12
3.2.3 <i>Xinren</i> .....	14
3.3 What is Relationship Marketing?.....	15
4. Analysis: Relationship Marketing vs. <i>Guanxi</i> .....	17
4.1 <b>Q1</b> How does bonding in relationship marketing differ from bonding in <i>guanxi</i> ?.....	18
4.1.1 Who or what does the customer bond with?.....	18
4.1.2 What is the intention behind the bonding effort?.....	19
4.1.3 What image remains with the customer?.....	20
4.2 <b>Q2</b> What value does <i>guanxi</i> present to a company, and is this sustainable?.....	20
5. Conclusions and managerial implications.....	23
6. References.....	26

# 1 Introduction

## 1.1 Preface

In April of the year 1992, McDonald's opened its first franchise in Beijing. It was their largest restaurant in the world, employing almost 1000 Chinese employees in a 2500 square-meter, two-story building. The opening day broke the record for single day profits, surpassing the profits that the new Moscow McDonald's had set in 1991. In spite of all this, in November 1994, only two years into their 20-year lease of the land, the McDonald's Corporation received an eviction notice. As it turned out, Li Ka-Shing's development company from Hong Kong developed plans to build retail malls and luxury hotels on the parcel McDonald's legally owned. Unfortunately for McDonald's, Li shared tight connections with some of Beijing's top officials. Less than a year later, McDonald's grudgingly agreed to relocate and the property was Li's. (Luo, 1997).

It would be hard to find a better example of how *guanxi*, referring to the Chinese notion of personal relationships and connections, can be of tremendous value when doing business in China. Even against one of the largest American corporations, holding a legal contract, the party with the best connections came out on top.

In light of the remarkable transition China has been experiencing for decades, taking a leading position in the global economy, Chinese business practices have grown to be a first-line area of research. Somewhat more recently, a specific interest in the concept of *guanxi* has emerged. Many academics identify *guanxi* as a unique, significant element of doing business in China, and research is conducted in many different fields (Meuer & Krug, 2009; Yen et al., 2010). One of the particular areas of interest involves the comparison of *guanxi* as a marketing strategy with the Western concept of relationship marketing. Differences and commonalities are identified and the question of applicability of relationship marketing to Chinese society is considered. (Gómez Arias, 1996; Yeung & Tung, 1996; Yau et al., 2000; Wang, 2007). One of the important differences between the two concepts exists in the level on

which they operate, the individual or the organizational level. This is acknowledged by multiple academics (Gómez Arias, 1996; Yau et al. 2000), but the related implications receive little and fragmented attention. It appears the majority of the necessary knowledge is already there, yet no one has managed to incorporate the relevant knowledge in one research effort. If one manages to do this, we think the whole might be greater than the sum of the parts. So, the existing literature lacks a comprehensive examination of the consequences of the two distinct levels of operation. Therefore, we will closely investigate these, by assimilating the relevant existing theoretical knowledge and practical implications. We identified two prime subjects of interest: the value of relationship marketing or *guanxi* as an asset to an organization, and the issue of bonding on an organizational or individual level.

## **1.2 Scientific and social relevance**

Over the past decades, the unique Chinese notion of *guanxi* has received an increasing amount of attention. This should not be surprising, when considering the incredible march China has made from a closed, rural economy to what is maybe the most important player in the global economy. As a result, China, Chinese culture and Chinese business practices are at the center of general as well as scientific curiosity. After centuries of Western sovereignty on the 'global playground', (relatively) new entrants have been gaining influence and they have done it in their own unique way. *Guanxi* is an essential part of the Chinese way of doing business (and life, quite frankly) and to understand China, one must understand *guanxi*. It is an immensely interesting concept, deeply rooted in Chinese culture, that has attracted attention from fields ranging from psychology and anthropology to business and marketing. Without a doubt, China will continue to be one of the leading countries of the world and therefore it is of great value to any person to get acquainted with such an influential culture.

The curiosity about China has led to a great deal of academic research into its success factors and *guanxi* is often identified as a primary determinant. With the

rising popularity of relationship marketing since the 1990's, scholars have often identified a general resemblance between the two concepts. At the same time, there are also important differences, both from cultural as well as conceptual origin. The existing literature, though not always in concordance with each other, proficiently considers those important differences. However, some seem to attract much more thought than others and at times the research tends to remain very conceptual, without investigating implications and consequences. The two aspects of *guanxi* and relationship marketing that are at the center of our research, bonding and the value as an asset, are two of those. As we validate later in this paper, relationship marketing and *guanxi* occur on different levels. In our attempt to add something to the present knowledge we will examine the implications of this variance for the mentioned aspects of bonding and asset-value.

### **1.3 Structure**

After the introduction of the problem statement at hand and the related research questions in section 1.4, we continue with the methodology in section 1.5. Next, we will examine the existing literature and summarize the most important ideas from this in section 2.

From a Western perspective the concept of *guanxi* is typically not something we know much about or can connect with. Therefore, in order for this paper to be understood to its full potential, it is crucial to elaborate on the concept before proceeding to analysis. For that reason we present an extensive conceptual background in section 3. Here we attempt to explain *guanxi* in the clearest possible way, dividing it into three relational constructs. Irrespective of the existing knowledge about relationship marketing, this concept will already be closer to the reader's understanding. Therefore, in section 3.3 we will continue with a more concise explanation of this theory. Now, the appropriate base has been established to analyze to problem at hand. We present our findings in section 4. After this, the

conclusions about our problem statement and the related managerial implications will be presented in section 5.

#### **1.4 Problem statement and research questions**

In the extant literature, *guanxi* and relationship marketing are mostly approached from a conceptual point of view. They are both considered long-term marketing strategies, focusing on establishing mutually beneficial relationships to ensure continual and profitable business operations. Nevertheless, the two concepts are not interchangeable and this is widely acknowledged. Among several others, one of the fundamental differences is that relationship marketing is and must be accomplished on the organizational level, whereas *guanxi* can only be built among individuals. The consequences and implications of this require further examination.

An essential element of relationship marketing and *guanxi* as a marketing strategy is bonding. Strong ties have to be established between two parties to create a long-term relationship. Relationship marketing taking place on the organizational level and *guanxi* on an individual level suggests that this is bonding of a very different nature. Therefore, the first research question is:

***Q1*** *How does bonding in relationship marketing differ from bonding in guanxi?*

We will answer this by means of three sub questions:

***Q1.1*** *Who or what does the customer<sup>1</sup> bond with?*

***Q1.2*** *What is the intention behind the bonding effort?*

***Q1.3*** *What image remains with the customer?*

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<sup>1</sup> Throughout this paper, we use the terms 'customer', (business) 'partner', 'other party', etc. This always denotes one of the two parties in a dyadic relationship and can be an individual as well as an organization.

Secondly, after it is established that in relationship marketing the bonding occurs with the company as an entity – consisting of personnel, images, brands, products, etc – it is clear that it is a company asset. *Guanxi*, on the other hand, is identified as a personal asset, owned by the individual at the center of his connections and relationships. A consequence of this is that it is an asset as mobile as the employee who owns it. As such, it is argued that it is a highly uncertain asset from a company perspective. Some research even questions if the benefits even outweigh the costs of such uncertainty. Therefore, our second research question is:

**Q2** *What value does guanxi present to a company, and is this sustainable?*

## **1.5 Methodology**

When it comes to the notion of *guanxi*, measuring is difficult. As is illustrated by the numerous different and elaborate definitions given in the different papers, there is no widespread agreement on the constructs of *guanxi*. Different scholars identify different components, and more importantly, those components often represent a certain intangible social or interpersonal value that is very hard to measure. As opposed to goodwill, which is a company asset and can be measured by looking at the premium on the book value of a company, *guanxi* is principally a personal asset and its total value to a firm is extremely difficult to measure. Yen et al. (2010) propose a seemingly realistic measurement scale, but this is in need of further validation and assumes different constructs than some other scholars. Since *guanxi* is a cultural and personal phenomenon, qualitative data needs to be gathered by in-depth interviews with ‘experts’ on *guanxi*, which would in this case be Chinese managers with some years of experience in Chinese business. However, in our case it can reasonably be considered impossible to gather this information. In addition, Langenberg (2007) states: “... the possibility of conducting empirical studies on the topic of *guanxi* is limited. Most people, and in particular managers, are reluctant to

talk about their attitude to *guanxi* ..." (p. 17). This is a logical result of the personal nature of *guanxi* and its specific value to the owner. Altogether, without access to a substantial pool of Chinese managers, it is impossible to perform empirical research.

Consequently, the nature of our research will be that of theoretical analysis. A vast amount of conceptual studies exists on the matter and this provides an adequate source for inductive reasoning. From this vast collection, a relevant, secure selection of theoretical and descriptive material will be made. Also, we will make use of some empirical findings from other publications, to strengthen our theoretical assumptions.

## **2 Literature review**

To get an up to date image of the existing literature on *guanxi* and relationship marketing, we will review the most important ideas from the used literature. As mentioned before, *guanxi* has received increasing attention over the past years. Therefore, a sufficient amount of quality research on the topic exists. Since *guanxi* is not a well-defined and structured concept and involves intricate historical and cultural Asian values, a lot of papers devote a substantial part to investigating what *guanxi* consists of. Next to this, a lot of academics are interested in the effect of *guanxi* and relationship marketing on firm performance, and how this differs between the two. Finally, we included one paper that attempted to construct a measurement scale for *guanxi*, a challenge that various scholars suggested should be undertaken to be able to validate empirical findings.

The papers come from various sources; universities all around the world have contributed to the matter. The ratio Western (U.S., England, Spain) – Asian (mostly Hong Kong and Singapore) papers is more or less equal. No research from Chinese mainland is included, and the quality of current Chinese research does not give any reason to. As Langenberg (2007) says on p. 14: "Interestingly, Chinese scholars acknowledge that at this stage *guanxi* is best learned about from abroad".



This would mainly be due to the reason presented on p. 13: “the papers of Chinese academics are commonly criticized as the work op copy-cats”.

Several scholars assume a Confucianism starting point to explain *guanxi*. Yum (1988) looks at interpersonal relationships in East Asia. He argues *guanxi* has such an unparalleled impact on Chinese society, because of the Eastern emphasis on social relationships, as opposed to the Western emphasis on individualism. He claims this stems from Confucianism, which considers social relationships the foundation of society. Yeung & Tung (1996) explain Confucianism contains a hierarchy of five social relationships, three of which pertain to family. In line with the importance of (extended) family, the Chinese only trust people from the ‘in-group’: (distant) family members and close friends. People in a *guanxi* network are in each other’s ‘in-group’. Even in the context of a large organization, family members often tend to be at the core of the *guanxi* network. As a result, most Chinese (large) businesses are still family-run concerns (Yeung & Tung, 1996; Yen et al., 2010).

When it comes to identifying and explaining the differences between relationship marketing and *guanxi*, Wang (2007) starts with contrasting *guanxi*’s particularistic and personal nature with relationship marketing’s universalistic and personal nature. In short, relationship marketing is impersonal and at the organization level, pursuing only economic goals. It is universalistic in that it the network is open to anybody who ‘plays by the rules of the game’, whereas *guanxi* is accessible only to selected individuals. An important difference both Wang (2007) and Yau et al. (2000) identify is the different meaning and significance of reciprocity or keeping promises. The timeframe of reciprocity in relationship marketing is such that favors are preferably repaid as quickly as possible. Westerners prefer not to be in debt with others. In the context of *guanxi*, the reciprocal relation of favors going back and forth is never supposed to be equalized. Also, favors in China can be of a non-business related, personal nature (Yeung & Tung, 1996; Park & Luo, 2001). Gómez Arias (1996) explicitly differentiates between *guanxi* as a network among individuals; contrary to the network among organizations he identifies relationship

marketing to be. Later he briefly touches upon the differences between bonding with an individual and bonding with an organization. Tsang (1998) adds to this how, because of *guanxi*'s individual nature, it is a personal asset. Finally, Fan (2002) claims that because of this personal nature, *guanxi* cannot be a sustainable competitive advantage.

### **3 Conceptual background**

#### **3.1 What is *guanxi*?**

*Guanxi* has been part of Chinese culture for thousands of years. Many researchers claim that the origin lies in the traditional Chinese philosophy/social theory of Confucianism (Yeung & Tung, 1996; Yen, Barnes, & Wang, 2010). *Guanxi* is deeply rooted into all layers of Chinese society and is therefore not easily described in a couple of words. Considering the literal meaning of the word itself, it is composed of two Chinese characters: *guan* and *xi*. The former means 'gate', and the latter 'connection'. Freely translated, one must pass the gate to get the connections (Wang, 2007). For a more interpretive meaning of *guanxi*, it is interesting to look at a selection of the numerous definitions given by academics around the world. Yeung & Tung state on page 55: "*guanxi* refers to the establishment of a connection between two independent individuals to enable a bilateral flow of personal or social transactions.". Wang says on page 81: "*guanxi* generally refers to relationships or social connections based on mutual interests and benefits." Finally, Yen et al. say on page 98: "In the business context, *guanxi* encompasses the use of close friends and associates, a network of intermediaries in assisting with general business activities."

*Guanxi* is a cultural, interpersonal aspect of Chinese culture and applies to all human interaction. Therefore, from a business point of view one could say that it is remarkable how much emphasis there is on friendship and (informal) social interaction. In the Western world, people are inclined to keep work and private life

separated. We would maybe even prefer not to get to know a business partner personally, so as not to let personal feelings prevent the optimal outcome from being reached. The Chinese, however, view friendship and empathy with business partners as a necessity. In China, the formal and the informal, business and friendship, meetings and dinners, go hand in hand.

### **3.2 Decomposing *guanxi***

*Guanxi* is generally agreed to consist of three (related) relational constructs, being *ganqing*, *renqing* and *xinren* (sometimes used interchangeably with *xinyong*) (Yen, Barnes, & Wang, 2010). Like *guanxi*, these three concepts have been elements of Chinese culture for thousands of years, and are more about certain feelings and values, than a simple set of rules. It is important to realize that they do not amount to good *guanxi* when assessed individually. Rather do they have significant complementary value to one another (Yeung & Tung, 1996). As Yen et al. prove in their research, *ganqing*, *renqing*, and *xinren* are significantly correlated with *guanxi* and consequently can be used to measure and improve on *guanxi*.

As it is crucial to this research to fully understand the dimensions of *guanxi*, we will now elaborate on the concepts of *ganqing*, *renqing*, and *xinren*.

#### 3.2.1 *Ganqing*

*Ganqing* can be translated as ‘feelings’ or ‘affection’, and it accounts for the more emotional and affective part of *guanxi*. It reflects the nature and the quality of the relationship between two individuals (sometimes it is also applied on an organizational level, but most academics agree that *ganqing* has most value on a personal level). It also indicates the level of emotional attachment between two parties (Wang, 2007). Chen and Chen (2004) say:

“*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 China, *ganqing* is used as an indicative measure for the quality of the relationship. For example, it can be the case that two parties have ‘*you ganqing*’, which means that some bonds and shared feelings have been established between two parties. When people have ‘*ganqing shen*’, which literally translates as ‘deep *ganqing*’, strong bonds have been established and there is significant emotional attachment.

In the context of different types of *guanxi* dyads, nuances can be made to the nature of *ganqing*. In a family context – the most intimate, blood-based emotional attachment (Wang, 2007) – good *ganqing* refers to good family bonds. Among friends, good *ganqing* indicates a healthy friendship. And in the business context, among colleagues good *ganqing* means that they have developed a good rapport. For fruitful collaboration, good *ganqing* between business partners is necessary. Again, this requires social interaction and the sharing of personal feelings or even secrets.

Nurturing *ganqing* reinforces *guanxi* and ensures a strong connection between two parties. “The better the *ganqing*, the better and closer the *guanxi* – and vice versa” (Yen et al., 2010, p. 99). Therefore, *ganqing* can be seen as a measure for *guanxi*. However, this does not mean *ganqing* is the sole component of *guanxi*. Although *ganqing* is an important element of *guanxi*, and Yen et al. show that it has the strongest correlation with *guanxi*, good *ganqing* alone does not suffice to develop a strong, positive connection. For that, the relational constructs of *renqing* and *xinren* should be nurtured carefully as well.

### 3.2.2 Renqing

The concept of *renqing* is built on two pillars: reciprocity and empathy (Wang, 2007; Yen et al., 2010). *Renqing* is extremely important both to build and maintain *guanxi*. It involves (constant) exchanges of favors or gifts, to improve the relationship and tighten the bonds between two parties. These gifts can be of substantial value, and can range from lavish dinners to even paying tuition fees for the other party’s children (Yeung & Tung, 1996). Reciprocity is highly valued by the

Chinese (it is also emphasized in Confucian philosophy), so accepting a gift or favor implies accepting the obligation to return the favor. The following Chinese proverb beautifully illustrates the rule of reciprocity: ‘if one receives a drop of beneficence from other people, one should return to them a fountain of beneficence’. This also shows how the Chinese think that the value of the returned favor should be at least equal to the original gift or favor, if not greater. Immediate return of the favor, however, is not required. The receiver of a favor is expected to store it, until the original benefactor is in need of the return favor. It is not even necessary to ever return the favor; like Ambler (1995) puts it: “... like insurance, one hopes not to need it, but its existence is reassuring”. Of course, the exact value of a favor is usually impossible to calculate. Then, however, the idea also is not to ever reach an even score of gifts and favors. It is more like a circle of giving and receiving, creating interdependence, thus ensuring a long-term relationship to last. On the contrary, Western societies prefer short-term, symmetrical reciprocity, which in their eyes seems more fair, easy and transparent.

*Renqing* is complementary to *ganqing*, in the sense that the right gifts and favors improve the social relationship between the two parties. In a way, *renqing* and its gifts can be seen as materializing positive *ganqing* (Jacobs, 1979). Rejecting *renqing* (non-repayment), however, is the most unforgivable thing one could do to the original benefactor. It is considered highly immoral and severely damages the *guanxi*, most likely resulting in the termination of the relationship. As *guanxi* not only applies to the direct connection, but also extends to the network both parties are in, this can have a very negative impact for the rejecting party.

Empathy is the second pillar of *renqing* and is complementary to reciprocity. Empathy is the ability to see a situation from another person’s perspective (Wang, 2007). In China, one is expected to consider the other party’s emotions and feelings. The other party’s need for help should be anticipated. If that need is brought to light, one should show the willingness to help. Yau et al. (2000) explain China is a high-context culture: what is not said, is often more important than what is said. In order to avoid offending people or rejection, the Chinese are prone to keep quiet about their true feelings and opinions. This shows the importance of empathy, and the

implied anticipation of the business partner's needs without having to ask about them. Yum (1998) further explains this by stating the Chinese have a 'receiver-centered' communication style, as opposed to the Western 'sender-centered' style.

### 3.2.3 Xinren

The third construct of *guanxi* refers to what in the Western world would be the notion of trust. *Xinren* consists of two parts, *xin* and *ren*, and these are two of the constant virtues. *Xin*, denoting fidelity, faithfulness, and obligation of paying debts of gratitude, comes closest to the meaning of trust (Yeung & Tung, 1996), and *ren* means benevolence. Taken together, *xinren* is used to describe the trustworthiness of a relationship. One could say that there is *xinren* in this *guanxi*, meaning that there is trust, reliance, belief and dependence in the relationship. *Xinren*, like *guanxi*, is not established at once and needs to be build up from repeated favor-exchanges and keeping of promises, proving one's credibility. A related concept is that of *xinyong*, which refers to the trustworthiness of a person. The Chinese would only have *xinren* in the relationship with someone who has good *xinyong*. So basically, it says one should only trust a trustworthy person (Yau et al., 2000).

According to Tsang (1998), the explanation for such great value and emphasis being placed on trust by the Chinese can be found in environmental uncertainties. Business legislation and standards are less developed than in the Western world and are often not fully exercised. Due to this limited safety or assurance offered by the formal system, the Chinese seek to rely more on personal agreements and the trustworthiness of their business partners. Where Westerners trust on written agreements and legal contracts to eliminate risk and opportunistic behavior, the Chinese rely (more) on mutual trust. In other words, in the West trust is placed on the system, in China on individuals. A consequence of this is that, in order for a business transaction to take place, mutual trust must be established first between two parties. Only afterwards formal contracts are likely to be drawn up. In

comparison, in the Western view contracts should be formalized before any form of cooperation is initiated. (Yen et al., 2010).

Some researchers, however, argue that it is not so much trust that safeguards the relationship, but assurance. Key to building up a *guanxi* network is the building of mutual dependence and the reciprocity-related sense of obligation. Not acting in accordance with the rules of reciprocity and empathy (i.e. acting opportunistically) is regarded as highly immoral and leads to seriously damaged reputation and connections. According to Yamagishi & Yamagishi (1994), assurance is an expectation of the other party's benign behavior based on the incentive structure surrounding the relationship, rather than the other party's personal characteristics and intentions. Some researchers argue that the threat of damage to the *guanxi* network is the real protecting factor against opportunistic behavior, so that it is not a matter of trust, but a matter of assurance.

### **3.3 What is Relationship Marketing?**

Gaining more and more attention since the 1990's, relationship marketing came to be the preferred approach, especially for the larger and more important customers. Before relationship marketing came into use, the dominant approach was transactional marketing. This approach focuses first and foremost on attracting customers for one off (or 'single point of sale') sales, and the emphasis is on maximizing the efficiency and the volume of individual sales. Contrary to transactional marketing, relationship marketing views the attraction of customers as an intermediate step. Relationship marketing advocates the importance of establishing (i.e. attracting customers) and then nurturing the relationship with the customer, to ensure the prolonging of relational exchanges. The idea is that satisfied, loyal customers spend more over the lifetime of their relationship with the company, thus providing a sustainable competitive advantage (Ganesan, 1994). As Grönroos puts it, the focus in relationship marketing is to "establish, maintain and enhance relationships with customers and other partners, at a profit, so that the

objectives of the parties involved are met. This is achieved by mutual exchange and fulfillment of promises" (Grönroos, 1990, p. 138).

In the relationship marketing approach, the customer is not just the (end) consumer. Instead, it includes suppliers, employees and other partners as customers as well. With these parties, continuing and mutually beneficial relationships are considered of great value too. Inter-departmental relations and relations with suppliers are part of the process of value creation and reflect on the quality of the end product or service and on profitability. Part of the transition to relationship marketing came about due to the realization that internal marketing is of critical importance to the success of external marketing.

Putting effort into the creation and maintenance of good relationships with customers of all kind has several advantages. First of all, an integrated company effort, offering superior service and quality, is likely to be the source of a competitive advantage. The reputation of being a company that takes good care of its customers might just provide the edge to win over a potential customer. Secondly, emphasizing on the conversion of first-time customers into loyal customers leads to repeat sales. Not only does this ensure continued sales to those customers, these sales also yield higher profits. Numerous research efforts have proved that customer retention can greatly enhance profitability (Buchanan & Gillies, 1990). Especially in highly competitive, saturated markets, the retention of customers is pivotal to continued profitability (Ansell & Harrison, 2002). Also, customers who have experienced a long and fruitful relationship with a company, are much more likely to recommend that company to others. In this way, merely by taking good care of existing customers and without spending extra time or money, a company is able to attract new customers.

In summary, relationship marketing consists of several essential elements. Prime focus is on establishing healthy, lasting relationships with customers (in the broadest sense of the word). The goal is to reach cost-effective relational exchanges that are of mutual beneficence to both parties. Important aspects in achieving this are the fulfillment of promises and an integrated company effort. Finally, all of this is



done with a long-term orientation in mind. If implemented successfully, relationship marketing provides the framework for sustainable profitability.

#### **4 Analysis: Relationship Marketing vs. *Guanxi***

As we can see from looking at the concepts of *guanxi* and relationship marketing, there are several important commonalities. The emphasis on and effort put into the building of close relationships with customers is a shared key element. The importance of mutual beneficence in those relationships is another; and the long-term orientation in the business strategy is too. Nonetheless, at the same time several influential differences exist. Satisfyingly, most of these differences are covered comprehensively by the existing literature (see the literature review). No broad consensus exists on the perspective from which *guanxi* and relationship marketing can and should be looked at: can the principles from relationship marketing be applied to *guanxi* or is a '*guanxi*-specific' approach needed? However, we think this does not represent a grave deficiency in the literature, since both approaches are proficiently employed in several papers. For example, Gómez Arias's (1996) frequently cited paper argues relationship marketing provides an 'appropriate conceptual framework for the study of *guanxi*'. Wang (2007), on the other hand, is of the opinion that the direct transfer of relationship marketing principles into Chinese society is questionable.

Nevertheless, in our opinion there is one fundamental difference between relationship marketing and *guanxi* that has not received the attention it deserves by academics so far. This is the fact that relationship marketing is essentially an organizational strategy, whereas *guanxi* is, in essence, an interpersonal concept. As has become clear from the conceptual background, *guanxi* is an intricate process of developing a deep-rooted relationship on the individual (micro) level. Success or failure of the *guanxi* relationship depends on the involved individuals; on their

actions and personalities. It is only after the relationship has been established on the personal, individual level that the product or the company behind the individual comes into sight. Relationship marketing, on the other hand, does not and cannot depend on one individual establishing the relationship. It is a strategy expressed by the organization (meso level) as a whole and depends on the sum of the individual employees, symbols, images, brands, and the like (Gummesson, 1996).

That being said, we think there are aspects to both strategies that cannot be generalized. The distinction in the level on which they operate ensues certain strategic and practical specifics that cannot be overlooked. In the following section we will explore how the differences between an organizational and individual approach are of significant importance. The analysis will be twofold; we will consider the topic of bonding first; after this we will consider the issue of *guanxi* or relationship marketing as an asset to the firm.

#### **4.1 Q1: How does bonding in relationship marketing differ from bonding in *guanxi*?**

In the context of *guanxi*, just as well as in the context of relationship marketing, a certain degree of bonding, attachment or *ganqing* takes place. However, the nature of these relational ties and the way they are built show to be quite different for both approaches.

##### **4.1.1 Q1.1: Who or what does the customer bond with?**

From a conceptual point of view, bonding in relationship marketing takes place at the organizational level and is typically impersonal (Morgan & Hunt, 1994). The customer attaches certain values, opinions and expectations to the company as an entity. These are built up over time from every single encounter the customer has with the other party. The impression that the customer has of the company consists of a vast collection and combination of brand name(s), images, commercials,

meetings, personal encounters, and so on (Gómez Arias, 1996). The bonding or emotional attachment occurs with that combined identity of the organization. Employees will generally be part of the entity that the other party bonds with, but not in a way that the customer feels attached to employee A or B. Rather is it the appreciation of the personnel as one of the company's assets. For example, if company A is known to have a staff that provides good service, customer X might grow to be attached to the staff.

Regarding the concept of *guanxi*, bonding is specifically an individual matter between two people, thus taking place at the personal level. In the (lengthy) primary establishment of the relationship, the two parties create relational ties by sharing inner feelings or personal concerns. If this goes well, a base of emotional attachment (good *guanxi*) and mutual respect is created. The customer bonds with the employee (more appropriate: the person) on the other side of the table, not the company he or she works for.

#### **4.1.2 Q1.2: *What is the intention behind the bonding effort?***

Although from the conceptual perspective relationship marketing takes place on the organizational level, this naturally does not mean that individual interaction does not occur all the time. In the end, individual employees do the communication and cooperation. As Herbert Simon stated about organizational learning: "all learning takes place inside individual human heads." The essential difference here is the intention with which the contact is initiated. In relational networking, the objective is to reach commercial goals. The involvement with the other party is of impersonal, economic nature and is not meant to extend to the personal spheres: 'strictly business'. In contrast to this, *guanxi* networking goes beyond the commercial meaning and those involved exchange personal matters, i.e. *ganqing*. During the first encounter(s) no commercial or business-related topics will be discussed and the sole intention is to get to know the other party on a personal level.

Every contact receives a personal treatment. This is a necessity to establish and nurture bonds between two persons.

#### **4.1.3 Q1.3 *What image remains with the customer?***

A general effect of the approaching of the relationship on the two different levels is that a distinct image will be portrayed. Relationship marketing being a company-wide, integrated approach (Shani & Chalasani, 1992) results in individuals representing a certain company identity, accompanied by specific values. The employees represent (and are expected to represent) what the company stands for, without bias from their personal opinions and values. The fact that *guanxi* cannot exist without including personal matters means an elementary different image of the company is created. When a Western customer thinks of company A, he thinks of a combination of employees, brands, products, etc. When a Chinese customer thinks of company B, he primarily thinks of employee B-1.

Davies et al. (1995) summarize: “Western companies often judge partners based on corporate image and brand, Chinese business-to-business relation is often based on contacts or bonds with specific individuals, not among organizations”.

This brings us to the second part of our research. *Guanxi* so clearly being an issue on the individual level, the question is raised who or what *guanxi* is ‘attached’ to and what value it thus holds for a company. Can it provide a sustainable competitive advantage to a firm?

#### **4.2 Q2: *What value does guanxi present to a company, and is this sustainable?***

As established in previous parts, relationship marketing is mainly an organizational matter, whereas *guanxi* is explicitly a personal and individual occurrence. In relationship marketing, the network of relationships is a network between organizations. Since the ties are established between organizations and on

the basis of the organization's strengths, relationship marketing is a company asset. As such, employees are part of the asset value, but there will be little dependence on individual employees. Cooperative and collaborative relationship with customers is an intangible asset to the firm (Srivastava et al., 1998), sometimes referred to as relationship equity (Bharadwaj, 1994; Peterson, 1995).

On the contrary, the network created with *guanxi* marketing is a network built among individuals (Gómez Arias, 1996). This has a consequence of major importance: if the individual (the employee) moves to another organization, his connections move with him. As such, *guanxi* is a personal asset and it is not easily transferable to, for example, one's successor in the organization. Many Western companies are known to rotate managers periodically between Asian subsidiaries. It is, however, unlikely for those managers to inherit the goodwill and networks of their predecessors (Haley, Haley, & Tan, 2004). More likely, those resources will be lost.

The *guanxi* asset is embedded in the two-way relationship that exists between two people and is in principle not an asset that belongs to the organization. An employee may use his *guanxi* to the benefit of his employer (for example to boost his own performance), but despite this it remains the employee's personal property and will not become an organizational asset (Tsang, 1998).

As a personal asset, some research argues that *guanxi* cannot be a source of competitive advantage. Being owned by an individual, it is a highly mobile and volatile asset (Fan, 2002). This makes it extremely difficult to sustain for the firm. Be that as it may, there are ways to transform the inherently personal *guanxi* to the organizational level. Tsang (1998) provides us with an insightful example of a Chinese manager.

The manager said his company used to suffer a lot from employees leaving and taking their valuable connections with them. So he and the other senior managers employed a strategy to transform the *guanxi* to become a company asset. Whenever an employee joined the company, the senior staff would try to get involved with his most valuable connections. For example, they organized regular (plenary) meetings

or social activities for several staff members of both companies. Organizational *guanxi* was then established and strengthened by the multiple individual *guanxi* relationships, making the company less dependent of a single employee. If possible, they would also try to formalize the relationship by signing an agreement.

This example demonstrates how *guanxi* can be transferred from individual employees to the company level, which on its own undoubtedly provides the company with a competitive advantage. The loss of individual *guanxi* can very well be as consequential as losing one or several clients permanently and completely, so the advantages of transferring *guanxi* to the organization are eminent. Note that the *guanxi* is not transferred in the sense that it is 'taken' from the employee and 'given' to the company; sooner is it extended to the company, the employee retaining his personal *guanxi* unchanged.

Fan (2002) presents a valid warning that it might not be possible to transfer the *guanxi* to the organizational level, because of the related entry barriers. *Guanxi* exists on the foundation of a shared background. This '*guanxi* base' has either carefully been created over time through social interaction, or is founded on a commonality like kinship or the shared roots of coming from the same village. As Fan rightly argues, it is not unlikely that this shared background cannot be imitated, at least not without sufficient time. Luo (1997) adds an important remark: *guanxi* should be considered a double-entry system, since next to presenting value through connections and favors, at the same time it represents a liability (accounts payables, so to speak) through the mechanism of reciprocity. Whether the final balance will show a positive value of *guanxi* is questionable.

## 5. Conclusions and managerial implications

Although a general resemblance of relationship marketing and *guanxi* is undisputed, the related management practices cannot be used interchangeably because different cultural contexts will affect their effectiveness (Hofstede, 1992). In Chinese culture, there is such a strong emphasis on interpersonal bonding that this overrules almost any feeling of bonding on the basis of economic or commercial value. The integrated company effort that relationship marketing is, essentially tries to convince the customer of the long-term economic benefit of their package of products or service. If they succeed, the customer will eventually bond with this company image of commercial benefit. The bond will remain strong, as long as the economic outcome remains mutually beneficial and in balance. In China, the primary effort of *guanxi* marketing is to bond on a personal level. The social relationship is prior to and prerequisite for the business relationship (Wang, 2007). This emotional attachment, or *ganqing*, is proven by Yen et al. (2010) to be the most significant factor in establishing the essential 'good *guanxi*'. And in China, without positive *guanxi* not a single sale is made (Wong & Chan, 1999). For Western managers this means they have to change their focus and priorities. The primary focus for employees of all ranks will become to connect with their prospective clients. The only way to do this in China is through social interaction. In the introductory stage of this process, it is far more important to discuss social matters, than business. The intention of bonding should be of a personal, affective nature. If this social interaction yields the desired result, the customer will have bonded with the employee, and will want to do business with the employee's company on the basis of affection, not economic interest.

Important to realize for Western managers is that they also need to refocus their ideas about what identity they want to project as a company. Due to the great value placed on the personal aspect in Chinese business it becomes important for employees to project an overall positive personal image of themselves.

Instead of marketing their quality products, superior service and the prestige of their brand name, they have to be marketing their people. Marketing a certain

company image and commercial benefit is of no use whatsoever when the staff is not perceived as having the right combination of *ganqing* (emotional attachment) and *xinren* (trustworthiness).

Regarding the asset value of *guanxi*, there is not much discussion that it can represent advantages and a certain value to the firm. As Tsang (1998) simply puts it, after mentioning several significant positive outcomes of research on the economic benefits of *guanxi*: "... the economic value of *guanxi* cannot be disputed". The example from the introduction about McDonald's vividly illustrates this value; even surpassing the value of a legal contract. Also, the affective value of having good *guanxi* can outweigh the monetary value of a better deal in economic terms (Wong & Chan, 1999). On the other hand, because of its inherently personal nature, it is an extremely volatile asset (Fan, 2002). *Guanxi* goes where the employee goes and this obviously presents a liability. Based on this, Fan argues that it cannot possibly be a sustained competitive advantage. However, if one were to manage to transfer or extend the individual *guanxi* to the organizational level, like Tsang (1998) proposes, sustainability of *guanxi* might become real. For a manager, this would imply that *guanxi* has to be assessed regularly on a company level. This could be seen as a '*guanxi* audit'. The most important *guanxi* connections have to be identified and then the question should be answered whether too much *guanxi* is concentrated in the hands of (too) few employees. If this would be the case, the earlier discussed strategy of staff members getting involved with others' connections should be employed. If successfully, the concerning client becomes part of the individual *guanxi* networks of several employees. This can be seen as an insurance against the possible leaving of an employee. To ensure an optimal maintenance of the organization's *guanxi* network, company-wide '*guanxi* audits' should be conducted on a regular basis. In light of Luo's (1997) remark about the liability side to every *guanxi* connection, a cost-benefit analysis should ideally be conducted to ensure the maintenance of a connection is worth the cost. However, since *guanxi* is not easily measured in monetary terms, this will prove to be a strenuous task.



In conclusion, it is obvious from examples like those of McDonald's that *guanxi* can be of significant value. Clashing with this is Luo's undeniable truth that, at the same time, it represents a liability, since advantages or favors received have to be reciprocated for the sake of the relationship. The final balance might very well turn out to be negative. The only means to come to a conclusion on this matter would be to conduct empirical analysis on the costs and benefits per *guanxi* relationship. Without a doubt, this would prove to be an extremely difficult task.

On the note of sustainability it is pivotal to be able to transform individual *guanxi* to organizational *guanxi*. Valid arguments as to whether or not this is possible are presented both in favor and against. In our view, it should be possible to transform any *guanxi* relationship to the organizational level, as long as sufficient time is at hand to establish a *guanxi* base and this will not always be the case. Therefore, the answer to the question of sustainability will be case-specific. The manager should use the knowledge and experience at hand to evaluate whether a certain connection is worth the effort of transforming it to organizational *guanxi*.

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