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Is Guanxi (relationship) a bridge to knowledge transfer?

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Abstract

Guanxi is the lifeblood of Chinese business communities, and frequently acts as a lubricant of business activities. In this paper we explore the role of this special relationship in knowledge management by examining the relationship between inter-firm knowledge transfer and Guanxi. Three components operationalize Guanxi: trust, relationship commitment, and communication. Using 215 Chinese enterprises located in four southern cities in China as the sample, data is analyzed using regression analysis with interaction terms. Our results show that trust and communication are the two main channels of knowledge transfer. However, the two elements both have a negative moderating effect upon the opposite channel of knowledge transfer. Several important managerial and theoretical implications are proposed.
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1. Introduction

In a rapidly changing business environment, knowledge becomes one of the most important determinants of business success (OECD, 1996). By infusing new organizational knowledge, a firm can improve and innovate, thus obtaining competitive advantage in the market (Teece, 1998). However, a firm must first acquire new knowledge before diffusing and utilizing such knowledge. Three major sources of knowledge are available for the firm: internal knowledge, market contracts, and relational contracts (Inkpen, 2000). The first source refers to the capturing and leveraging of knowledge created within the firm itself; the second is a market-based transfer of knowledge embodied in a product (Demsetz, 1991); and the third refers to both inter-firm networks and individual strategic alliances between firms (Inkpen, 2000). We focus on this third mode of knowledge transfer. The OECD describes the importance of business networking in relation to knowledge transfer and the knowledge economy as follows:

In the knowledge-based economy, firms search for links to promote inter-firm interactive learning and for outside partners and networks to provide complementary assets. These relationships help firms to spread the cost and risk associated with innovation among a greater number of organizations, to gain access to new research results, to acquire key technological components of a new product and process, and to share assets in manufacturing, marketing and distribution. As they develop new products and processes, firms determine which activities they will undertake individually, in collaboration with other firms, in collaboration with universities or research institutions and with the support of government (OECD, 1996, p. 15–16).

While business partners are certainly a good pool of knowledge to draw on, they do not necessarily open their gates to everyone. According to Inkpen (2000), Buckley and Casson (1988) and Roberts (2000), the extent of inter-partner knowledge transfer is greatly dependent on, among

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other things, partner openness and inter-partner trust established between the knowledge receiving firm (KRF, the demand side) and the knowledge source firm (KSF, the supply side). However, these factors may not be sufficiently appropriate in a Chinese business relationship context. In fact, the Chinese are quite unique in their attitude towards knowledge transfer and the disclosure of information. This can be best described by the relationship between a Chinese Master/Guru and his/her students. The former tend to *Lew Yi Soow* ("to keep one's secret from"), whereby the master will always keep some skills and knowledge from his/her students in order to maintain an upper hand. Other popular sayings that may offer some implications of why the Chinese are unwilling to transfer all their knowledge include: *Fei Shui Bu Liu Bie Ren Tian* ("Farmers prevent their fertilizers from flowing into the fields owned by their neighbors"), and *Kiasu* ("Afraid of losing out"). These sayings reflect the selfish nature of the Chinese in sharing knowledge, fearful that they might loose their competitive advantage. Thus, Chinese firms may not transfer or disclose their knowledge and information easily to those not in their "in-group" or circle. Hence, to acquire knowledge from partner firms, *gao Guanxi* (relationship building) becomes extremely important for a firm.

We propose an empirical model that examines the relationship between Guanxi and inter-firm knowledge transfer, where the concept of Guanxi is operationalized through three components: (a) trust, (b) relationship commitment, and (c) communication. Our sample consists of 215 firms located in four southern cities in China. Our findings make an important contribution to the knowledge management literature by being amongst the first to explore (1) the issue of knowledge transfer between firms compared to the general literature that concentrates on intra-firm knowledge transfer (Parise and Henderson, 2001), and (2) the effectiveness of Guanxi in facilitating this knowledge transfer process.

In the next section we present literature on knowledge, knowledge management and factors contributing to effective knowledge transfer. We then discuss the concept of Guanxi and the role such relationships play in facilitating knowledge sharing in a Chinese business environment. In the Fourth section, the methodology and sample base are outlined. We further discuss the constructs used to operationalize Guanxi and knowledge transfer. The results of our analysis and their implications to both theory and managerial decision making are presented in the Final section.

2. Inter-partner knowledge transfer

Knowledge is "...a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experience and information. Knowledge originates, and is applied in the mind of knowers. In organizations, it often becomes embedded not only in documents or repositories, but also in organizational routines, processes, practices and norms" (Davenport and Prusak, 1998, p. 5).

Knowledge can be broadly classified into explicit and tacit knowledge (Nonaka, 1991). Explicit knowledge is information that can be easily documented and shared through electronic or other media (Martensson, 2000), such as manuals, reports, and databases. Tacit knowledge on the other hand is knowledge that resides in humans, such as beliefs, hunches, insights, intuition and values (Gore and Gore, 1999). The transformation of explicit into tacit, or tacit into explicit, happens through the processes of socialization, externalization, combination, and internalization (Nonaka and Takeuchi, 1995).

Knowledge management is a matter of "connecting people so they can think together" (McDermott and O'Dell, 2001, p. 104). Five activities interrelate in knowledge management: knowledge acquisition, knowledge documentation, knowledge transfer, knowledge creation, and knowledge application (Filius et al., 2000). While the effectiveness of the knowledge management process largely depends on how well a company manages its resources, assistance from a business partner is a valuable asset. This proposition is true for new organizations or international joint ventures that have simple knowledge structures, whereby parent or more established partner firms become the source of knowledge acquisition for further knowledge development (Lyles and Schwenk, 1992; Markoczy, 1993). Furthermore, knowledge acquisition from foreign international joint ventures partners can enhance the project's performance. New knowledge from partner firms is particularly important to firms in developing countries, such as the Chinese enterprises, for the purpose of technological knowledge transfer. Zhou and Xin (2003) for example, show how in the Zhongguancun ICT cluster, foreign multinationals provide technological and organizational training to local firms, which is then utilized to develop marketing networks and innovative capabilities in the home market. Thus, apart from internal mechanisms that facilitate knowledge management, the presence of allies (i.e., partner company or foreign parent) is equally important.

According to the literature on strategic alliance and inter-partner learning, firms see joint venture as an opportunity to gain access to the partner's valuable knowledge base (Hamel, 1991; Inkpen, 2000). Two factors determine the accessibility of a partner's knowledge base: partner openness and inter-partner trust. In general, partner openness is the willingness of the KSF to share and communicate information to the KRF (Hamel, 1991; Inkpen, 2000). The KSF's tolerance towards the risk of knowledge leakage and spillover (Cohen and Levinthal, 1990) influences the degree of openness. Inter-partner trust "reflects the belief that a partner's word or promise is reliable and that a partner will

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