



## Paradoxes and guanxi dilemmas in emerging Chinese–Western intercultural relationships

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### ABSTRACT

Three paradoxes have been revealed in the study of business networks by Industrial Marketing and Purchasing (IMP) researchers. These are: seeking opportunities and then facing limitations, influencing others and yet being influenced in turn, and controlling and yet being out of control in network situations. These paradoxes have previously received little critical evaluation. This article investigates these paradoxes through in depth interviews with twenty-two business managers in Chinese–Western intercultural relationships. Three specific dilemmas relating to the fundamental Chinese cultural principle of guanxi are revealed. These dilemmas are: dilemmas between strong personal ties (guanxi) and weak personal ties, dilemmas between previous understandings and new learning of guanxi ties, and conflicting obligations between inner and outer circles of guanxi networks. These guanxi dilemmas occur in emerging Chinese–Western intercultural networks, irrespective of the specific cultural variations, contractual constraints, or corporate policies applying. This paper identifies a need for more acute study of guanxi cultural norms and their behavioral consequences in emerging Chinese–Western intercultural relationships, given the rise of China in the global economy.

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### 1. Introduction

Relationships give important structural support to the process of business interaction (for example, see Anderson & Narus, 1999; Axelsson & Easton, 1992; Gummesson, 2002; Håkansson & Snehota, 1995; Normann & Ramirez, 1998; Vargo & Lusch, 2004; Wilson & Möller, 1995). Wide-ranging scholarly studies of industrial behavior conducted by the Industrial Marketing and Purchasing group (IMP) over the last thirty years have challenged then-prevailing theoretical ideas of business markets (Håkansson, 1982; Håkansson & Snehota, 1995). IMP researchers have been especially prominent in studying the dynamics of interaction and relationship development between firms. For example, they were among the first to propose that economic transactions are not entirely synonymous with exchange. Instead, transactions are seen as one form of social and economic exchange episode within the relationship contexts operating between suppliers and customers.

This article reports specifically on a study of Chinese–Western intercultural collaborations to highlight paradoxical situations perceived by actors when working together. From an international business network perspective (Håkansson & Snehota, 1989; Johanson & Mattsson, 1988), it is likely that interactions, relationships and network inter-

dependencies will develop cautiously. The ‘working together’ process has to reconcile any conflicts specifically derived from different cultural norms and rules operating in different business networks. In particular, the three business network paradoxes revealed by IMP researchers (Håkansson & Ford, 2002) warrant careful study. To date, these paradoxes have received little critical evaluation in the literature.

This article examines how these network paradoxes (Håkansson & Ford, 2002) underlie the conflicts reported in our case study based research on Chinese–Western intercultural relationships. The network paradoxes are confirmed but three specific guanxi dilemmas are also revealed, irrespective of culture-specific variations, contractual constraints and corporate policies. Given the growing strength of China in world trade today, this study is important because of its emphasis on under-explored Chinese–Western intercultural dilemmas.

The article is structured as follows. First, the network paradoxes reported by Håkansson and Ford (2002) are reviewed. Then the nature of guanxi relationships (or circles) is explained. Next, the qualitative research method is discussed. Then follow findings that affirm the network paradoxes reported by Håkansson and Ford (2002) but go further and reveal additional Chinese–Western intercultural dilemmas associated with guanxi. The article finishes with a call for a more acute study of norms and behaviors in emerging Chinese–Western intercultural business relationships.

### 2. The idea of network paradox

Over the past thirty years, B2B researchers and members of the IMP group in particular have achieved significant success in understanding

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industrial markets and circulating ideas and theories of firm behavior in business relationships, interaction and networks (see recent publications in *Industrial Marketing Management*, for example, Ford & Redwood, 2005; Gadde, Huemer, & Håkansson, 2003; Johnsen & Ford, 2007; Ritter, Wilkinson, & Johnston, 2004; Vaaland & Håkansson, 2003). However, B2B marketing researchers still strive for understanding relationship specific problems (Blois, 1997; Ehret, 2004; Håkansson & Ford, 2002). For example, Blois (1997) posited that long term business relationships are in danger of being 'fief' like and becoming "inefficient" and "unstable". Similarly, Backhaus and Buschken (1999) reported the paradox of "unsatisfying but stable" in their study of German car supplying relationship. In his study of value networks in the hard disk drive industry, Christensen (1997) showed that suppliers were driven out of the market mainly because they actively listened to their most important customers.

Håkansson and Ford (2002) reported three paradoxes in network situations in their review of the IMP research: seeking opportunities and then facing limitations, influencing others and yet being influenced in turn, and controlling and yet being 'out of control'. A paradoxical situation can be understood as the situation that comprises "contradictory yet interrelated elements – elements that seem logical in isolation but absurd and irrational when appearing simultaneously" (Lewis, 2000, p.760).

### 2.1. Paradox 1: Opportunities and limitations in networks

Through relationships and interactions with others in the business network, business actors can gain access to external resources such as financial capital, technology and information, as well as market opportunities to do things that they could not do alone (Batt & Purchase, 2004; Ghauri, Lutz, & Tesfom, 2003; Håkansson & Ford, 2002). In their study of Small and Medium Enterprises (SMEs) of developing countries in gaining access to new foreign markets, Ghauri et al. (2003) found that networks are actively used to solve export-marketing problems.

However, relationships in networks also mean that a firm's pursuit of its own objectives, such as in introducing a new product or service or altering an existing system, have to depend on the approval and actions of other actors in the same network or allied networks (Håkansson & Ford, 2002). Very often, different actors view the costs and benefits of change differently and demonstrate different degrees of support or resistance. This puts constraints on choices and on the strategic decisions of the focal firm. Reliance on others in the network determines that the outcomes of the firm's actions are strongly influenced by the attitudes and actions of those firms with whom the focal firm has relationships (Batt & Purchase, 2004). According to Uzzi (1997), when a firm becomes too embedded in the network, adaptation becomes more difficult. Similarly, Burt (1992) pointed out that a concentrated level of exchange with only a few network partners reduces access to new opportunities. Therefore, the network situation in which actors encounter both opportunities and limitations is said to be paradoxical (Håkansson & Ford, 2002). Håkansson and Ford (2002, p. 136) suggest that one way out of the paradox is for parties entering a new relationship to choose to make the necessary investments and accept the negative trade-off effects of the new relationship on existing relationships.

### 2.2. Paradox 2: Influencing and being influenced in networks

The second paradox concerns the tensions that arise between actor firms (nodes) through their relationships (threads) in the network. A firm's relationships in the network provide tools for strategic action affecting present and potential partners, while at the same time, these others try to influence the company through the very same relationships (Gadde et al., 2003). From a network learning perspective, the process of influencing others and being influenced can be translated into inter-firm learning. However, benefits and risks of this learning process can never be equally distributed between firms in collaborative relationships (Mohr & Sengupta, 2002). Actors may put their self interest first and

focus on influencing others. This type of influencing can itself be a positive force for network development. The more actors try to influence one another, the greater the potential for network development (Håkansson & Ford, 2002). For example, Nokia's announcement of its new partnering policy has shaped the development of the whole industry by trying to influence the beliefs, goals and behaviour of other key actors (Möller, Rajala, & Svahn, 2005). Yet listening, reflecting and reacting to others are also within the range of behavioral norms for network actors. The paradox is that the company's development is itself an outcome of the process of influencing others and being influenced (Håkansson & Ford, 2002). A way out of the paradox is for a firm to develop its strategy more interactively, evolutionarily and responsively, rather than self-centredly (Håkansson & Ford, 2002).

### 2.3. Paradox 3: Controlling and being out of control in networks

A network is the outcome of the deliberations, aims and actions of a number of participants (Håkansson & Ford, 2002, p.135). Business actors tend to compete for the best positions in business networks, for example, securing the gateway to the customer in marketing channel management (Achrol & Kotler, 1999). One actor's seeking control may compensate for the lack of goal congruence of actors in the network context while this controlling focus may also drive other actors towards passive and reactive modes (Ojasalo, 2004).

According to Håkansson and Ford (2002), no one firm is the "hub" of a network for long and even dominant firms are unlikely to have complete control. It follows that a firm can mobilize part of a network in the direction it wishes only with support from other parties in the network. Further, the position in a network that an actor firm holds is dynamically unstable, as there are competing views between actor firms regarding the future structure of the network and any firm's position within it. Any one firm seeking control is a destabilizing force because it is confronted by competing aims from other actors.

The control effort of individual actors might create stimuli for the network to develop at first but, paradoxically, the more an actor firm achieves its control aims, the more contributions of other actors will be thwarted and the less innovative and effective the network is likely to become (Gadde et al., 2003; Håkansson & Ford, 2002). In extreme cases, the network will develop a single-centre orientation and evolve to a hierarchical structure. This means that at the level of the individual actor firms, being 'out of control' is necessary in order to optimize the performance of the network as a dynamic whole. The situation is therefore paradoxical, according to Håkansson and Ford (2002). It follows that a firm should not lightly seek to control a network. Changing the network position of an actor firm may be preferable over time. Notwithstanding, there are no "nice neat solutions or standardized approaches to strategic network success" (Håkansson & Ford, 2002, p. 137).

The unifying theme between these three paradoxes is constraint on action at the individual firm level. The idea of one actor firm actually managing relationships within a network and the other party responding passively is problematic, yet it is a common positive assumption among many practitioners and some academics as well. We take the view as do Håkansson and Ford (2002) that business relationships are not a resource that can be easily manipulated in the marketing mix and "captured" for the benefit of a supplier. While highly dependent relationships do exist in social life, they are almost always regarded as dysfunctional or coercive. In business life, for such relationship arrangements to continue, the dependent party must judge the costs of exiting to be greater than the gains. Focusing on the needs of one dominant party or the other raises new questions about what kind of management control is appropriate today. In other words, we agree with Håkansson and Ford (2002) that the interactive processes operating within network structures put serious constraints on the freedom of managerial action at the level of the firm.

However, dependent and coercive relationships that have been questioned in IMP studies are highly acceptable in Chinese social and

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