



Localization in China: How *guanxi* moderates Sino–US business relationships☆



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ABSTRACT

Understanding and adapting to local cultures has long been considered as an important part of successful localization, yet extant literature has not discussed how the adoption of cultural-specific constructs as tools of localization facilitates successful b2b relationships with local counterparts. Whilst international companies are increasingly concerned with their business performance in China, this study believes b2b firms should engage the cultural-specific concept of *guanxi* (interpersonal ties) as a tool of localization when interacting with Chinese counterparts for better financial performance and long-term orientation. Using data collected from 299 Chinese buyers regarding their Sino–US business relationships, the results reveal that the relations between trust and financial performance and between uncertainty and long-term orientation are moderated by *guanxi*. The findings shed further light on localization literature with evidence highlighting the impact of *guanxi* in localizing b2b relationship activities in China.

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1. Introduction

Globalization has attracted considerable interest over the last couple of decades (Levitt, 1983; Ramarapu, Timmerman, & Ramarapu, 1999). However, existing studies tend to agree that standardization offers limited explanation for the behavior of international firms in different markets (e.g., Czinkota & Ronkainen, 1998; Humbert, 1993; Ritzer, 2004). The recognition of such limitation encourages scholars to consider localization as a necessity for international businesses to achieve the desired success in different markets (e.g., Prahalad & Doz, 1986; Samiee, Jeong, Pae, & Tai, 2003; Vrontis, 2003). Whilst previous studies identify situations and conditions in which international businesses can localize their business approaches and marketing mix for better success in various target markets (Calantone, Kim, Schmidt, & Cavusgil, 2006; Dow, 2006; Roth, 1995), most works find the understanding of local culture to be the key force that determines the success of localization (e.g., Czinkota & Ronkainen, 1998; Roth, 1995).

Over the past two decades, China as a market has received significant attention from both academics and practitioners alike for its sheer market size and economic growth. However, despite China's open-door policy, many international firms still struggle to succeed or sustain their business presence in the Chinese market due to their lack of awareness

or understanding of the specific cultural context (Buckley, Clegg, & Tan, 2006). Studies have discussed how international firms could better adapt and localize their business approaches and practices in China, adjusting to the Chinese culture in areas such as advertising (Cui & Yang, 2009; Tai & Pae, 2002), strategy (Fock & Woo, 1998), communication (Hung, 2004), services (Pheng, 1997), direct selling (Luk, Fullgrave, & Li, 1999), retailing (Yip, 1995), and b2b activities (Yan & Gray, 1996).

Nevertheless, despite extensive discussion on Chinese culture (e.g., Lovett, Simmons, & Kali, 1999; Luo, 1997) and how its cultural orientation differs from the West in different ways (Hofstede, 2001), most of the aforementioned studies have not considered utilizing the Chinese notion of *guanxi* as a tool in their discussion of localization in China. Given culture is the collective programming of the mind which distinguishes the people of one country from another (Hofstede, 2001), a close examination of such cultural-specific construct is imperative to assist international firms in localizing their business approaches and practices appropriate to the local cultural context. Acknowledging this gap when studying localization in China, this paper makes the first attempt to bring *guanxi* literature to further enhance localization in China by asking the question as to what extent the relations between relationship constructs and outcomes in international b2b relationships are contingent to Chinese buyers' evaluation of their US suppliers' adaptation to *guanxi*? In other words, what is the moderation effect, if any, of *guanxi* on relationship constructs and outcomes in Sino–US business relationships?

Embedded within the social network theory and regarded as the social capital in China (Zhou, Wu, & Luo, 2007), *guanxi* translates to 'relationships' and 'connections' in English (Luo, 1997; Seligman,

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1999). *Guanxi* refers to the dynamics in personalized networks of influence and emphasizes the possibility of using influence in personal relationships to secure a better position and/or to gain a competitive edge in a business transaction in the Chinese context (Bruun, 1993; Chen, 2001). Considering the importance of *guanxi* in China, this paper argues that international businesses need to engage the notion of *guanxi* as a tool of localization, when dealing with Chinese counterparts. International suppliers that are better at implementing *guanxi* will be considered more favorably by their respective Chinese buyers (Barnes, Yen, & Zhou, 2011), leading to business success via increased performance, buyer satisfaction and relationship longevity (Luo, Huang, & Wang, 2012; Yen & Barnes, 2011). The retail success of Samsung in China is a famous example. Samsung manages to provide good product access to Chinese consumers by collaborating with the top three mobile operators and establishing good *guanxi* with small local Chinese retailers.

To support this theoretical argument, this paper develops a *guanxi* framework that examines the moderating impact of *guanxi* on the relations from favorable relationship constructs (trust, commitment, cooperation, and communication), and unfavorable relationship constructs (emotional conflict, task conflict, opportunism and uncertainty) to financial performance and long-term orientation using survey data collected from 299 Chinese buyers regarding their business relationships with US suppliers. The findings contribute to existing understanding of localization by empirically proving the moderating effect of *guanxi* on financial performance and long-term orientation, confirming its significance as a localization tool for US firms venturing into the Chinese market.

This paper contributes to existing debates in two ways. Firstly, by discussing how cultural-specific notion such as *guanxi* should be considered as tool of localization in China, this paper makes the first attempt to bridge the stream of *guanxi* literature into the study of localization in China. Secondly, by empirically discussing how the sub-dimension of *guanxi*, especially *xinren* (personal trust) and *renqing* (reciprocal favor exchange) can affect financial performance and long-term orientation differently. This paper also sheds new insight to studies on *guanxi*.

2. Localization and Guanxi

Firms engaging in international business activities must take account of the specific cultural norms and values of each different market (Hofstede, 2001), as cultural differences directly impact behavioral management practices as well as communications between international counterparts (Buckley et al., 2006). Since the debate on whether to standardize or localize has largely agreed on the use of both strategies simultaneously (e.g., Samiee et al., 2003; Vrontis, 2003), international businesses are encouraged to look for ways that enhance their performance and competitiveness through effective localization (Czinkota & Ronkainen, 1998).

Some studies focus on the degree to which international firms localize their operation management (Ilari & La Grange, 1999; Zhang & Goffin, 2001), some look at the localization of marketing mix in different countries (Calantone et al., 2006; Magnusson, Westjohn, Semenov, Randrianasolo, & Zdravkovic, 2013; Shoham, 1996), whilst others investigate their foreign partners' strategic choices and relational competence, and their impact on localization (Kotabe & Zhao, 2002; Steenkamp & Geyskens, 2013). Hardesty (2008) and Nicholson, Gomez, and Gao (2011) are the only studies that discuss how localization influences firms' financial performance with empirical data. Hardesty (2008) finds that localization increases the cost of processing and distribution in retail. Nicholson et al. (2011) suggest that the cost of localization varies between different regions, hence impacting firms' financial performance, with consequences for their long-term competitiveness.

Although past research has examined and discussed the importance of localization from various aspects, few studies have investigated localization in b2b markets (e.g. Yan & Gray, 1996). Extant research on localization has not discussed how international businesses could achieve better performance through localizing their b2b interactions in the

foreign markets. Specifically, little research attention has explored how sellers' adaptation to local cultural norms can contribute to more fruitful b2b relationships with their respective local buyers. Such scant research attention on localization in relation to cross-border b2b relationships provides some support to the argument made by Coca-Stefaniak, Parker, & Rees (2010, p. 681) that "localization suffers from a rather limited body of knowledge."

Acknowledging that cultural differences lead to different business approaches and practices, this paper proposes to employ cultural-specific constructs as international firms' tools of localization and regards localization as the adaption of business approaches and practices appropriate to the local cultural context. Bridging the stream of *guanxi* literature to localization, it examines the impact of *guanxi* on the discussion of localization in China, arguing that an international business' relationship performance and longevity with Chinese counterparts are dependent on its adaption to the Chinese *guanxi* practices during their b2b interactions. Whilst generic frameworks and constructs derived from the Western developed countries often fail to explain human interactions across different cultural contexts (Lee & Dawes, 2005; Tsang, 1998; Yen, Barnes, & Wang, 2011), this paper reinforces the need for foreign firms to understand, adapt, and localize their relationship approach following the suggested *guanxi* practices when dealing with Chinese counterparts.

Originating from Confucius's principles of structures, *guanxi* has a prevalent impact on the Chinese way of being (Kipnis, 1997). Chinese businesspeople practice *guanxi* in their daily interactions with others for building, maintaining and enhancing their interpersonal as well as inter-organizational relationships with different counterparts at various levels (Styles & Ambler, 2003; Yen & Barnes, 2011). *Guanxi* consists of three sub-dimensions, namely *ganqing* (affection, emotional bonding), *renqing* (exchange of favor reciprocally) and *xinren* (interpersonal trust) (Kipnis, 1997; Yen et al., 2011). Unlike Western b2b relationships, the Chinese *guanxi* approach is established and nurtured at the individual level via increasing levels of *ganqing*, *renqing* and *xinren*, often between key relational personnel such as sales representatives and procurement buyers on behalf of the firms they represent. As a cultural-specific construct and practiced by all Chinese firms, *guanxi* helps businesses secure better positions and competitive advantage in China (Luo et al., 2012).

The practice of *guanxi* is often referred to as an art (Chen, 2001; Kipnis, 1997), which includes favor exchanging, gift giving, visiting, socializing, and wining, dining and karaoke singing with the aim of increasing the elements of *ganqing*, *renqing* and *xinren* with respective business partners. Nevertheless, corruption and bribery are not the best practices for banking favors or increasing reciprocity (Fan, 2002). Such under-table exchanges are often frowned upon and avoided (Dunfee & Warren, 2001; Su, Sirgy, & Littlefield, 2003). Ethical compromise is never encouraged as the appropriate *guanxi* building practice over the long-term. Through implementing the art of *guanxi*, foreign firms could modify their interactions with local Chinese counterparts and adapt to the Chinese way of developing as well as maintaining relationships.

Business management actions are embedded in societal, economic, cultural and institutional contexts, which influence relational norms (Cayla & Peñaloza, 2012; Muthusamy & White, 2005), hence Buckley et al. (2006, p. 276) suggest that international firms "should mount sustained efforts to build up *guanxi* to give them a competitive edge in their search for an insider position in the China business arena." This paper thus argues that the success of international b2b relationships with Chinese counterparts, shown by financial performance and long-term orientation (Chung, Yang, & Huang, 2015; Luo et al., 2012), is dependent upon their implementation of *guanxi*. By postulating a necessary moderation of *guanxi* from favorable and unfavorable relationship constructs to financial performance and long-term orientation, this framework suggests that foreign firms' business relationships with Chinese counterparts are contingent to their implementation of *guanxi*, as perceived by their respective Chinese buyers.

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