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Relationship marketing in *Guanxi* networks: A social network analysis study of Chinese construction small and medium-sized enterprises

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ABSTRACT

Despite the significance of *Guanxi* networking as the integrated approach to relationship marketing in the Chinese business environment, there remains, however, a limited understanding of the structural and relational characteristics of these stakeholder networks, within which value is jointly created and shared. In this study, the value-adding ego-networks of the business owners in four Chinese construction small- and medium-sized enterprises (SMEs) are examined. The relationship between the business owner and six main stakeholder groups was identified, quantified, analyzed, and visualized using SNA. Relationships were measured according to the frequency of communication, the value of favour exchanges, and the amount of emotional investment in the relationship. Comparative SNA studies were conducted, focusing on ego-network density, tie strength, and prominence of key stakeholders. The findings highlighted the high degree of the structural and relational embeddedness in Chinese SMEs with *Guanxi* ties (both strong and weak) dominating the construction business-owners' network. They also underlined the prominence of the internal markets of multiskilled employees and business-development managers. Transactional ties, albeit a minority, also exist in the business-owners' network, which confirms that both relational and transactional marketing coexist in the Chinese construction industry. The study draws managerial implications for entrepreneurial business owners and managers, and proposes directions for future research.

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1. Introduction

Traditional transactional marketing, with its short-term perspective and emphasis on product features and single transactions, is becoming increasingly inharmonious with the highly competitive and multi-stakeholder environment of the 21st century (Christopher, Payne, & Ballantyne, 2002). This is particularly important for small and medium-sized enterprises (SMEs), which, as the competition becomes heated, are proactively pursuing strategies that entail adding a value beyond the embedded one in products and/or services to differentiate from those supplied by other rivals (Ndubisi & Matanda, 2011; Christopher et al., 2002). Firms are thus gradually shifting towards relationship marketing, which focuses on customer retention (repeat business) and 'value co-creation' (Pralhad & Ramaswamy, 2004). Although relationship marketing originated from a dualistic perspective between buyer-and-seller relationships in a business-to-business (B2B) environment, it became pervasive when it widened into networks of stakeholders (Gummesson, 2008; Grönroos, 2007). Freeman (1984: 46) gives one of the early definitions of stakeholders as "all of those groups and individuals that can affect, or are affected by, the accomplishment of

organizational purpose". The view is that value co-creation transcends formal organizational boundaries and that a firm is perceived to be embedded in a network of relationships within which value is jointly created and shared in interactions with customers and other stakeholders (Christopher et al., 2002; Payne, Ballantyne, & Christopher, 2005). The position that a firm occupies within the network determines what value emerges and for whom (Ballantyne, Christopher, & Payne, 2003; Gummesson & Mele, 2010). Indeed, contemporary market economies are experiencing a fundamental re-conceptualization of how the notion of value is defined and how it is created through the activities of firms and other organizations, with a business-network perspective increasingly replacing traditional markets and vertically integrated firms (Halinen & Törnroos, 2005). In fact, a growing number of researchers in marketing have called for a 'paradigm shift' with relationships and networks considered to be the cornerstones of marketing (Gummesson, 1999).

In a Western context, such relational approaches in business activities are still in their infancy (Pryke & Smyth, 2006; Smyth & Pryke, 2008) whereas such approaches have been deeply ingrained in Chinese culture since the Sixth Century BC (Luo, 1997; Yau, Lee, Chow, Sin, & Tse, 2000). Within the context of the Confucian culture in China, marketing in small construction firms is more like *la Guanxi* (building personal relationships) with the client and other stakeholders, which harmonizes with the term 'relationship marketing' in the Western view. "It is widely

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recognized that *Guanxi* is a key business determinant of firm performance because the life blood of the macro economy and the micro business in the society is conducted through *Guanxi* networks” (Luo, 1997: 43). Su, Michell, and Sirgy (2007) add that *Guanxi* “is in essence a network of resource coalition-based stakeholders sharing resources for survival” (p. 301). *Guanxi* in this context is the ability to secure favours by developing and maintaining long-term personal relationships with other individuals and organizations (Luo, 1997; Yang & Wang, 2011).

Despite the importance of *Guanxi* as social-networking strategy for Chinese SMEs, knowledge of the effective management of *Guanxi* networks in the marketing literature remains weak (Yang & Wang, 2011) and the existing literature suffers from several limitations. First, few studies have endeavoured to understand the structural and relational characteristics of value-adding relationships in *Guanxi*. For example, while Peng and Luo (2000) underlined the importance of differentiating *Guanxi* networks into different categories, they limited their study to only business ties and political ties. Su et al. (2007) proposed a hierarchical stakeholder model which distinguishes between internal and external *Guanxi* – core, major, and peripheral *Guanxi*, and primary and secondary *Guanxi* stakeholders. Yet no effort has been made to empirically operationalize the model or to examine relationships across and between these key stakeholders. Secondly, while Su et al. (2007) have emphasized that the salience of *Guanxi* differs, no attempt has been made to identify the most important *Guanxi* value-adding ties to an entrepreneurial business. Also there is a paucity of research that attempts to distinguish the distinct characteristics of *Guanxi* networks during the different stages of a firm's life cycle. Specifically, the following questions are in need of further investigation:

- What are the distinctions between the western concept of relationship marketing and the Chinese *Guanxi*?
- What are the specific structural and relational characteristics of a Chinese SME business owner value-adding *Guanxi* network?
- With whom does the business owner choose to connect? Why? And how are these ties built and maintained?
- Which stakeholder groups are the most important to an SME Business owner during the different stages of the firm's life cycle?

In order to address these questions, this study draws on social network theory, and the associated social network analysis (SNA) as a conceptual lens and a diagnostic tool in turn, to delineate the specific structural and relational characteristics of a Chinese SME business owner value-adding *Guanxi* network. The research questions are placed in the sector-specific context of the Chinese construction industry. An egocentric-network perspective is adopted with the personal value-adding ego networks of four business owners and their main stakeholders are examined. In particular, by adopting the “six markets” stakeholder model (Payne et al., 2005) the relationship between the business owner and six key stakeholder groups was identified, quantified, analyzed, and visualized using SNA. Relationships were measured according to the frequency of communication, the value of favour exchanges, and the amount of emotional investment in the relationship (Granovetter, 1973; Wong & Leung, 2001; Mavondo and Rodrigo, 2001; Wang, 2007; Yen, Barnes, & Wang, 2011; Homans, 2013). Supplemented with qualitative interviews, the ‘Chinese integrated relationship marketing’ approach embedded in the business network is examined in terms of structural embeddedness (density), relational embeddedness (tie strength), and the prominence of key stakeholders (degree centrality). The objective is to contribute to the field of relationship marketing by further refining the theoretical perspectives relating to both the value-adding and social-networking aspects of *Guanxi* marketing and to demonstrate how its unique characteristics are rooted and manifested in social-network theory. In addition, since relationship marketing is fundamentally seen as “interaction within networks of relationships” (Gummesson, 1999: 73), our work seeks to contribute to such a

‘paradigm shift’ about how value is created and to add acknowledgement of the new *markets-as-networks* relationship forms.

We begin the paper by laying down the theoretical foundations for the research and exploring relationship marketing in both Western and Chinese cultures, underlining the cultural differences between the two settings. We then introduce the social-network approach and explain the main conceptual lenses pertinent to the study of the Chinese *Guanxi*. The following section describes the methodology adopted, including the research sample, data collection, analyses, and visualization techniques. We then outline the study's findings from the four case-study SME business owners. Finally, we assess the theoretical and managerial implications of our findings, discuss the limitations, and underline the opportunities for future research.

2. Literature review

2.1. Relationship marketing

Relationship marketing (RM) is an approach designed to develop strong connections with a firm's main stakeholders, including customers, by promoting effective communication and fostering mutual commitment, trust, long-term engagement, and creating exchanges of mutually beneficial value (Christopher et al., 2002; Grönroos, 2007; Gummesson, 2008). The concept of *value exchange* is at the core of RM and is heavily influenced by the emerging service-dominant logic (SDL), as opposed to the goods-dominant logic, with which value is embedded in tangible goods. In SDL, what a buyer demands and consumes will be the value of skills and knowledge (intangibles) instead of the products/services per se (tangibles) (Vargo & Lusch, 2004; Grönroos, 2007). SDL concentrates on dynamic value exchange rather than static commodities exchange. RM can be a source of sustainable competitive advantage (Porter, 1990) and dynamic capabilities (Teece, Pisano, & Shuen, 1997) because long-term relationships have unique high value, build barriers for potential entrants, and complicate imitation for rivals (Park & Luo Y., 2001; Yau et al., 2000). Christopher et al. (2002: 131) defined this type of competitive advantage as “collaborative advantage”. It aims to enlarge the market by pulling together total demand rather than slicing it by well-managed stakeholder networks. Payne et al. (2005) developed the ‘six markets’ stakeholder model. The purpose behind the model is to highlight the importance of the connections between a firm and all its stakeholder groups in each of the six ‘markets’, including customers, referrals, influencers, recruitment, suppliers, and internal markets. These are explained below:

- Customer markets: The emphasis of RM is on developing and enhancing relationships with customers, so that they become “clients, supporters and, ultimately, advocates” (Sui Pheng, 1999: 156) of the firm. This is achieved by creating and sustaining value through a long-term perspective to relationships characterized by high levels of customer engagement, commitment, and trust (Payne, Christopher, Clark, & Peck, 1999).
- Referral markets: The significance of positive word-of-mouth endorsements was highlighted by File, Judd, and Russ (1992) who underlined it as an important part of the information-search strategy undertaken by clients before purchasing a high value or high-risk products or services. Clients often rely on third-party recommendations to reduce the associated risks when choosing between seemingly comparable products or services (Payne et al., 1999).
- Influencer markets: These markets comprise a wide range of actors such as financiers, investors, trade unions, industry and regulatory institutions, political and government bodies, the business press and media, and competitors (Payne et al., 2005).
- Recruitment markets: include all potential employees of the firm as well as third party actors who provide recruitment services to the firm by facilitating access to future members of staff such as job centres, employment agencies, and off-line and on-line advertising.

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