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## Is guanxi universal in China? Some evidence of a paradoxical shift

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## ABSTRACT

The article reports on a study to examine the application of guanxi attributes and the pathways linking them to success and performance in the context of business-to-business relationships in the Chinese diamond industry. We draw on and adapt the Ganqing, Renqing and Xinren (GRX) scale to reveal a paradox in terms of how business is conventionally conducted. This is interesting because in Western markets that are typically governed by arms-length transactions the diamond industry is somewhat unique, as it is built on very close socially driven relationships. The paradox also occurs in the Chinese context, as the opposite is prevalent i.e., in a nation that often relies on social guanxi ties to drive business, the diamond industry is heavily characterized by a somewhat antagonistic arms-length approach. The study pieces together and tests a concept drawing on a sample of 212 diamond merchant traders operating in China. We discover that interpersonal trust (Xinren) has a positive influence on both emotional attachment (Ganqing) and obligational favor (Renqing), but has a direct negative influence on Performance (the paradox). Ganqing serves to positively influence Performance and Renqing leads to greater Satisfaction - which in turn has a positive bearing on Performance. Several implications are extracted from the study that provide useful insights into the ways that guanxi is perhaps becoming more or less prevalent in China.

## 1. Introduction

The past three decades have seen a far-reaching and fundamental transformation in China's economic infrastructure and business environment (Gu, Hung, & Tse, 2008). During this period China has completely transformed itself, moving from a centrally planned administrative system to a social market economy (Barbieri, Di Tommaso, & Huang, 2010). In parallel, modern China has evolved from being one of the world's poorest economies to being a promising political leader with a growing and affluent middle class (Berger, Choi, & Herstein, 2013). Experiencing such rapid transition brings about many opportunities and threats for business. In recent years much research attention has been directed toward China and its various industries, however, the Chinese diamond industry has been largely under researched, as indeed was the diamond industry as a whole until relatively recently (Bernstein, 1992; Li, Karande, & Zhou, 2009; Scott & Yelowitz, 2010; Spar, 1994).

While ten years ago China was fairly insignificant in terms of trading in diamonds, it is now the world's second-largest diamond processing center and has the second-largest consumer market with the

highest global growth rate (Berger & Herstein, 2014; Even-Zohar, 2007). Despite such a lucrative market with rising consumption (Harris & Cai, 2002), the industry is problematic and anecdotal evidence based on discussions with diamond traders suggests some degree of fraud and corruption exists. The objective of this study is to acquire greater insights into the Chinese Diamond industry in order to shed more light on how political, economic and cultural forces shape market exchanges and business in China. Lessons learnt from this industry may influence other sectors and this is of high relevance to both scholars and practitioners alike as they grapple with such factors that lead to success and improved performance when operating in modern day China.

## 2. The GRX scale and hypotheses development

The social governance mechanism which Chinese firms rely on is known as guanxi i.e. the relationship connections that individuals build in order to influence or secure resources (Berger et al., 2013; Fan, 2002; Hwang, Golemon, Chen, Wang, & Hung, 2009). The nature of guanxi represents a dynamic social network which needs cultivating, otherwise such ties can dissipate (Guthrie, 1998; Yang, 1994). Social relationships

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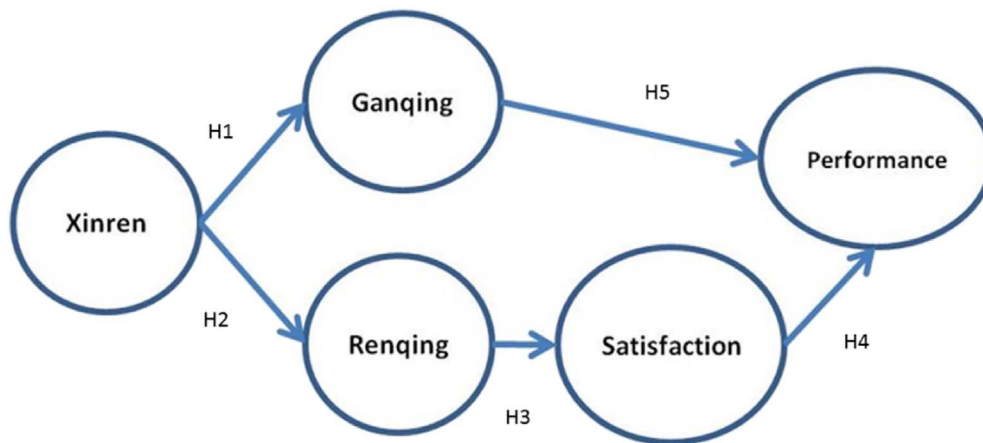
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Fig. 1. The concept.



play a critical role when doing business in China and are extremely important for Westerners and Chinese alike (Styles & Ambler, 2003). Research suggests that cultivating good guanxi connections can expedite economic exchange which can leverage performance advantages (Barnes, Yen, & Zhou, 2011; Yen, Barnes, & Wang, 2011). In today's competitive business environment, firms from diverse countries need to consider how they can incorporate such factors into their business strategies (Cadogan, Cui, Morgan, & Story, 2006). However, the notion of guanxi appears to be absent in the Chinese diamond industry, other than for the use of government connections to circumvent onerous regulations.

In order to examine this phenomenon in more detail, we decided to adapt the GRX scale (Ganqing, Renqing, and Xinren), developed by Yen et al. (2011) which represents a useful tool for analyzing social network relationships in a Chinese context. The scale consists of three relationship dimensions which Fig. 1 expands on. As the diamond industry is a relatively closed industry that is globally trust based, it is our intention to examine quantitatively if inter-personal trust (Xinren) forms the foundation for effective relationship building as was suggested by Yen et al. (2011). We therefore draw on insights from business practitioners operating in the sector who consider trust at a personal level (or the lack of it) as an initiator or trigger to drive trade. Our concept therefore posits two pathways leading from interpersonal trust (Xinren) for enhancing Performance through Ganqing, Renqing and Satisfaction. We consider these latter constructs to have a positive influence on Performance i.e. sales growth and greater profitability (Chadee & Zhang, 2000).

*Xinren* is mostly used as a verb and is translated as: to trust in, to believe in, to confide in, to have confidence (or faith) in, to put stock in, to rely on; to place (or put) dependence on one and give credit to (Eye, 2007). In emerging economies, where legal regulations are often not fully developed, trust frequently plays a crucial role to facilitate business and eliminate risk or opportunistic behavior (Wong & Leung, 2001). *Xinren* plays a significant role in Chinese culture and is measured by the degree to which one keeps both written and verbal promises (Yen et al., 2011). It is founded on an individual's history and their reputational standing in society. It refers to the aptitude of an individual to trust another because she/he is considered trustworthy or capable. In a Chinese context, the notion of trust is based on Confucian values, which have a significant influence on individual behavior and is associated with successful relationship building (Tsang, 1998). This is because trust is often treated as the most fundamental element by the Chinese and mutual trust must be established first, before business transactions will follow (Arregle, Borza, Dacin, Hitt, & Levitas, 2000). Based on Confucian principles, which are ingrained in Chinese cultural values, individuals are relational creatures who depend on properly differentiated personal associations with other individuals to maintain some degree of social order and stability. Hence, establishing and

building healthy interpersonal relations represents a key part of day-to-day living in China and tends to consume a significant amount of time, effort and resources. Through these relations, the Chinese frequently achieve a desired harmonious working environment which can yield long-term benefits.

*Ganqing*, which can be translated as feelings or affection, draws on social connections between relationship parties and considers the degree of emotional empathy that is apparent at the individual level (Barnes et al., 2011; Tsang, 1998). It is the emotional side of guanxi which is based on positive mutual feelings to one another or a good rapport that is normally built over time following social interactions. *Ganqing* often occurs when people work together, co-operate and get along with one another (Jacobs, 1979). In some literature, the concept of *Ganqing* is closely linked with social bonding and personal friendship, as both are used to emphasize the degree of feelings between parties (Mavondo & Rodrigo, 2001; Wilson, 1995). In China, building affective personal relationships with a business partner provides the flexibility needed to deal with changing circumstantial conditions as witnessed in the diamond industry. It is therefore very important to initially develop a sense of trust in order for greater social bonding to occur. Based on the notion that personal credibility serves as a pre-requisite for facilitating relational exchange in the Chinese context we hypothesize that:

**H1.** High levels of *Xinren* will positively enhance *Ganqing* in the relationship.

*Renqing*: Relationship building in China often goes beyond an emotional attachment and instead of focusing on the feelings part of the relationship, *Renqing* emphasizes human obligations and favors (Kipnis, 1997). Similar to favor in English it can both be given and received as a transaction (Yen et al., 2011) and reflects reciprocity (Chan, 1963; Fang, 1999). It is the level of human benevolence and nepotism that stems from the exchange of favors or even gifts (Shou, Guo, Zhang, & Su, 2011). It creates a bond of commitment through reciprocity and the need to repay favor at a later stage (Choi & Kim, 2010). Other ways to nurture *Renqing* include providing support and assistance to an exchange partner at a time of need (Gu et al., 2008). It emphasizes the significance of networks in interpersonal relationships and is based on a unique system consisting of the reciprocal exchange of favors and gifts that strengthens personal ties (Yeung & Tung, 1996). When trust between both exchange parties is strong, each can cooperate and mutually help one another (Cadogan et al., 2006). Once established, both parties will also have a strong desire to commit more to the other and reciprocate. The construct of *Satisfaction* is grounded on the basis of which reciprocal exchange can potentially leverage the expectation set by the exchange partner. In other words the reciprocal nature of *Renqing* can trigger *Satisfaction* with a particular relationship party due to the beneficial exchange that is transferred from one party

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