

# The Role of *Guanxi* in China's Foreign Banks: A Review of the Literature

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**Abstract** – *Guanxi* has existed in China's Confucian society for more than two thousand years and at the end of the 1970s when China opened its doors to the outside world, *guanxi* was investigated in great detail. Current literature indicates that no prior studies of *guanxi* have been investigated in China's banking industry, or in particular, the China's foreign banks ("CFBs"). This paper provides a theoretical review of the existing literature on *guanxi* in general to facilitate development of the research problem, gaps, questions and propositions/issues for further investigation into a study on the role of *guanxi* in the CFBs.

**Index Terms** – Customer Relationship Management, *Guanxi*, Relationship Marketing, Full-time/Part-time Marketers.

## I. INTRODUCTION

In this paper, the researchers present a comprehensive review of literature relevant to the research problem, gaps, questions and propositions of a bank marketing research on "The Role of *Guanxi* in China's Foreign Banks" ("the Research"). The review builds a theoretical foundation by studying the relationships between the parent theories and research problem theories, and between the research problem and the research issues or propositions.

First, a literature review, including the parent discipline, is conducted to cover the underlying theories of *guanxi* and relationship marketing ("RM"), models, and the role of *guanxi* in business. The parent review of literature frames the research problem and boundaries of the Research. Figure 1 presents the layout and flow of this paper using two levels of literature review: (a) parent theories (or "parent literature"); and (b) research problem theories (or "immediate literature").

In this literature review, the researchers follow the sequence in Figure 1 to explore parent literature relating to (1) China's reforms in economy, finance and banking; (2) underlying theories of RM and *guanxi*; (3) *guanxi* and its role in business; (4) *guanxi* in the practices of RM; and (5) *guanxi* models. These parent theories link to the research problem theories relating to *guanxi* and bank performance used to develop the propositions or research issues concerning the previously unexplored research problems, gaps and questions.

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This literature review also develops a platform/foundation for the construction of a concept framework of *guanxi* in the RM activities of the CFBs – an area for future research. Conceptualization and practice in Figure 1 represent two interacting processes for: (a) conceptualizing the parent theories to develop the relationships of *guanxi* and business performance; and (b) practising *guanxi* with bank performance of the CFBs. With the review of the parent and research problem theories/immediate literature, the researchers will develop the research problem, gaps, questions and propositions for the further investigation into the role of *guanxi* in China's foreign banks.

(Fig. 1 here)

## II. CHINA'S REFORMS: ECONOMY, FINANCE AND BANKING

This section reviews China's economic, financial and banking reforms which have progressed rapidly over the past two decades. It helps to draw conclusions whether the *guanxi* concepts and practices have undergone a significant change due to the reforms in, and the financial liberation, of China, especially after its accession to the World Trade Organization ("WTO") in November 2001. It is also important to review China's reforms as a necessary precursor to understanding the role of *guanxi* in Chinese business transactions (Dunfee and Warren, 2001).

Since 1978, China has undergone vast economic reforms from a centrally administered economy (or "central planning economy") to an economy of market orientation or "social market economy" as confirmed by China's late leader, Deng Xiaoping, the chief architect of reform, in his 1992 tour of South China. However, the financial turmoil in the U.S.A. has affected the global economy and China is not immune to this economic predicament. Notwithstanding the global economic downturn, China could still witness a satisfactory economic growth in the past decade.

China's financial and banking reforms commenced in 1978. The reforms have enhanced the important role of the CFBs as international trade portals between China and the outside world in the mid-19th century and then as advisors to foreign

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firms in China through their representative offices. This status of representative offices of the CFBs was further upgraded to branches in some selected cities to engage in foreign currency business in 1985 and to undertake domestic currency business in 1996 for financing their home customers. In the late 1990s, China allowed foreign investors to buy minority share holdings in the domestic commercial banks (Anderson, 2005), up to 20% for a single foreign owner and 25% for combined foreign owners (Laurenceson and Qin, 2008). Since then, foreign investments in the domestic Chinese banks (“DCBs”) have grown very rapidly. Five years after China’s entry into the WTO, foreign banks received treatment identical to that of the DCBs. In December 2006 they were able to provide a full range of RMB business to Chinese firms and individuals. There are approximately 82 foreign banks with branches and representative offices in China (Source: China Financial Services Directory 2007). Most of the CFBs have headquarters in Shanghai. The growth of the CFBs as a result of China’s reforms has created many challenges to the DCBs to improve their business performance.

### III. UNDERLYING THEORIES OF RELATIONSHIP MARKETING AND *GUANXI*

The purpose of studying *guanxi* and RM theories is to provide systematic structures to explain their relevant marketing phenomena and, particularly, to provide answers to the questions in Section VIII. The related theories of *guanxi* and RM are also studied in this section for general applications in the Research.

#### A. *Guanxi: A Chinese Concept*

*Guanxi and Chinese Cultural Values.* *Guanxi* is viewed as a form of RM in China (Wong, 1998a, 1998b, cited in Leung and Wong, 2001). It follows the principles of relational behavior which emphasizes social norms and morality (Arias, 1998, cited in Wang, 2007). It originated from the orthodox doctrine of Confucianism – the foundation of Chinese cultural values which are largely formed and created from the interpersonal relationships and social orientations. *Guanxi* is linked with the Chinese cultural values in respect of the relational orientation which concentrates on (1) respect for authority (e.g. Confucius’ Wu Lun system); (2) interdependence (e.g., the principles of doing favors, social investments and reciprocity); (3) group orientation (e.g., collectivism, kinship system and the long-lasting human ties); and (4) face (e.g. lien-integrity of ego, moral character, mien-tsu – prestige and shame) (Kluckhohn and Strodtbeck, 1961, cited in Yau, 1988).

*Confucius Social Hierarchical Theory.* This theory is termed by Leung and Wong (2001, p. 55) and is referred to as the Chinese “Wu Lun” meaning five relationship hierarchy in

the traditional Chinese society: ruler-subject, father-son, husband-wife, brother-brother and friend-friend (Su et al., 2003). The conception of *guanxi* comes from Confucianism emphasizing personal relationships, loyalty, harmony, order and authority (Zhang and Zhang, 2006) and assumes that “people exist in a web of harmonious and orderly relationships” (Luo, 1997a, cited in Zhang and Zhang, 2006, p.378). Yeung and Tung (1996) and Lovett et al. (1999) also argued that *guanxi* is deeply tied to the Confucian heritage of the Chinese people and entrenched in the way of life of the Chinese. However, the modern practice of *guanxi* treats *guanxi* as a strategic tool to accomplish business objectives (Leung and Wong, 2001).

*Yin-Yang Theory.* Yin-Yang is a Taoist philosophy with dualism, unity and harmony as a doctrine. Yin-Yang is represented by a circle equally divided by a curved line forming the black and white areas. Yin represents female elements while Yang represents male elements. Chinese people believe that everything has two sides (yin/yang), neither absolute black nor absolute white. It is because there exists in the Yin-Yang symbol a dot of black in the white half and a dot of white in the black half. The “either or” concept is favored by the West, while “both and” in the East (Ambler, 1994). Social interdependence is found in Chinese society. It is a topic of Yin-Yang theory. China is a collectivist culture with *guanxi* to reflect norms involving social interdependence (Hofstede, 1980, cited in Su et al., 2003, p. 305). In conclusion, Yin-Yang theory can be applied to help managers cultivate, build and develop *guanxi* by establishing flexibility, harmony and commitment.

#### B. *Western Theories of RM to Echo Guanxi in The Research*

*Transactional vs. Relationship Marketing.* Egan (2004) described RM as a new marketing paradigm compared with traditional marketing or transactional marketing (“TM”). There is substantial literature on the comparison of TM with RM. Such comparisons include the duration of exchange relationships (Lehtinen and Mittila, 1995), the product/service factors (Rao and Perry, 2002), the customer’s orientation to the relationship (Garbarino and Johnson, 1999), and the company’s intention to attract customers (using TM) or retain customers (using RM) (Lindgreen et al., 2004). Thomas (2000, p.531, cited in Egan, 2004, p.234) also differentiated TM and RM in terms of long-term (RM) versus short-term (TM) orientation, sales relations and reward incentives.

A large volume of literature has placed importance on RM. However, some authors support the co-existence of TM and RM (Pels et al., 1999) where RM can be implemented concurrently or in conjunction with TM (Egan, 2004; Lindgreen et al., 2000) – the pluralistic approach. This pluralistic approach has been applied extensively with *guanxi* in the banking industry as a banking practice for improvement of business performance.

*Transaction-Cost Economics.* Williamson (1979) discussed a three-way classification of contracts relating to transaction-cost economics which were echoed by Sin (1998) as classical contract law, neoclassical contract law, and relational contract law. Sin (1998) further claimed that relational contract law prevails in China where *guanxi* is practiced. This coincides with Davies (1995, cited in Fock and Woo, 1998, p.35) who suggested that in traditional transaction economics, “*guanxi* acts as a substitute for spending time and money on lawyers and legal contracts”. This is very typical in the institutional uncertainties in China’s society where transaction costs are relatively high, thus reliance on personalized exchange is popular and it is plausible for firms to adopt *guanxi* to facilitate economic transactions and avoid substantial bureaucratic costs. In brief, *guanxi* enjoys transaction cost advantages. Zhang and Zhang (2006) concluded that cost efficiencies from *guanxi* have three aspects: (a) *guanxi* reduces transaction costs relating to environmental uncertainties, such as coordinating, negotiating, communicating and exchanging; (b) *guanxi* facilitates the search for partners and minimizes contract negotiations, thus reducing associated costs; and (c) *guanxi* reduces costs of searching for information and subsequent authentication.

*Network Theory.* Networks can be classified as: (a) personal; (b) industrial; (c) social; and (d) entrepreneurial. Networks aim at “obtaining the necessary information and knowledge to optimize organizational performance and providing a framework for understanding the resources, knowledge and data collection/management. To apply the network theory to the practice of *guanxi* in China, Chen and Chen (2004, p.309, cited in Standifird, 2006, p.172) claimed that “... network groups have interpersonal *guanxi* dyads as their fundamental units”. Networks form an important ingredient of the *guanxi*-based business practice (Standifird, 2006). Network theory suggests better interpersonal relationships (i.e. *guanxi*) between managers. These interpersonal relationships are positively associated with improved performance. Finally, *guanxi* is a form of social network theory that “defines one’s place in the social structure and provides security, trust and a prescribed role” (Hammond and Glenn, 2004, p.24).

*Social Exchange Theory.* Social exchange pertains to the relationship between unspecified obligations and expectations of returns in the future as a result of the contributions made (Blau, 1964). It is also referred to as relational contracts based on common interest and trust (Holmes, 1981). *Guanxi* involves social exchange in the sense that it is an informal, complicated and non-transparent process involving a series of interactions that generate obligations, reciprocity and exchange (Emerson, 1976, cited in Cropanzano and Mitchell, 2005).

*Resource-based Theory vs. Social Capital Theory.* A company’s strengths and weaknesses can be analyzed through its resources. Resources are grouped into four categories, namely: (a) financial (e.g. equity, debt and retained earnings);

(b) physical (e.g. tangibles - land, plant, equipment and goods; intangibles - brand names, copyrights and patents); (c) human (e.g. knowledge, skills, experience, relationships, and intelligence of individuals); and (d) organizational (e.g. organizational structure, corporate culture, procedures, management information systems and external institutions) (Tsang, 1998).

Discussions of the relationship of *guanxi* with the resource-based theory or *guanxi* as a resource are found in a large volume of literature. Butterfield (1983) associated *guanxi* with social investment which is an important source for people to access, in case they need help or support. Su et al. (2003) stated that *guanxi* connects people in the form of a resource coalition to facilitate the sharing of resources between the business partners. Some studies drew upon resource-based theory by associating *guanxi* with an organizational resource and the capability to improve a firm’s performance and competitive advantage (Xin and Pearce, 1996; Luo, 1997b; Tsang, 1998). Braendle et al. (2005) also claimed that *guanxi* can add distinct competitive advantages to firms by providing opportunities for individuals and firms to acquire valuable resources, both soft and hard resources (Zhang and Zhang, 2006). Therefore, *guanxi* can be classified as a resource (Tsang, 1998).

Social capital theory states that resources are accessible through social connections (Song and Werbel, 2007). Social capital is a goodwill resulting from the structure of social relations (Warren, et al., 2004). Social capital theory has a close association with *guanxi* in a way that *guanxi* is also related to social relations (Dunfee and Warren, 2001; Xin and Pearce, 1996) that “establish certain privileges, including access to resources and opportunities” (Warren et al., 2004, p. 356). *Guanxi* can be considered as “a type of social capital that is developed between two persons via a process of reciprocal exchange” (Fan, 2002a, cited in Standifird, 2006, p.171). In conclusion, the term *guanxi* is used by the Chinese to refer to social networks (Song and Werbel, 2007) and *guanxi*’s association with the social capital theory is thus implied.

*Neo-Relationship Marketing Theory.* Neo-relationship marketing refers to all marketing activities. This includes single dyadic buyer-and-seller relationships and relationships with other stakeholders which are “directed toward establishing, developing, and maintaining successful relational exchanges” (Healy et al., 2001, p. 187) at a profit so that the objectives of all parties involved are met through the achievement of mutual exchange and fulfillment of promises. The neo-relationship marketing covers the concepts of the Nordic School of Services, part-time versus full-time marketers, and the stakeholder theory. These theories facilitate *guanxi* practice in the RM activities of the CFBs.

In conclusion, the above Western theories have caused the CFBs to formulate RM strategies around the *guanxi* concept. The adoption of *guanxi* practices by the CFBs is consistent with the premises of these theories.

#### IV. GUANXI AND ITS ROLE IN BUSINESS

*Guanxi* is defined by the authors in Table 1. This Table provides *guanxi* definitions from different angles.

(Table 1 here)

Hark (1999) concluded a comprehensive review providing 26 definitions of *guanxi* which reached almost 50 during the 20th century (Dann and Dann, 2001). Despite numerous definitions, there is no universally agreed one, due to its intricate and pervasive nature. The concept of *guanxi* is not yet clearly defined. Different approaches to the concept of *guanxi* are held in different academic fields. Egan (2004) even concluded that no definition will ever be perfect.

The role of *guanxi* exists between two persons or families because of blood ties or business acquaintances. It is featured by categories (e.g. family/helper/business *guanxi*); scopes (e.g. family members, relatives, friends, neighbors, classmates, colleagues, acquaintances, or strangers) and characteristics (e.g. permanent versus temporary relationships; stable versus unstable relationships; and emotional/instrumental/utilitarian relationships, etc.) (Zhang and Zhang, 2006; Fan, 2002a). For business, *guanxi* is referred to “a Chinese system of doing business on the basis of personal relationship, which is representative of the way that business is done throughout much of the non-western world” (Lam and Lin, 2003, p. 1437). It functions in the Chinese way of “*la guanxi*”, “*gua guanxi*” and “*guanxi wang*” for doing business in China. It can also be reviewed by its important benefits. These benefits include the procurement of sources of information and resources; transaction-smoothing; gaining business and enhancing the chance of success; facilitating future transactions; simplifying business process and improving negotiations; increasing business introductions; securing relationships; and eliminating the competition (Davies et al., 1995; Xin and Pearce, 1996; Fock and Woo, 1998; Tsang, 1998; and Fan, 2002a).

The role of *guanxi* can be jeopardized by its dark sides. In the Western world, people tend to equate *guanxi* with unethical behavior, corruption and bribery, gift-giving and fraud that stem from China’s marketing economy (Chan et al., 2002; Lovett et al., 1999; Yang, 1994). In this respect, *guanxi* is viewed as a source of wrongdoings relating to cronyism and nepotism (Braendle et al., 2005) that result in under-the-table dealings or privileged treatment (Millington et al., 2005). Examples can be quoted from corruption and bribery allegations resulting from the *guanxi* of B2G (Business to Government) which is classified by Fan (2002a) as unethical or bad *guanxi*. However, some authors do oppose the negative view of the ethical issue of *guanxi* by considering *guanxi* to be

“an ethical practice with its own moral code which serves a necessary social function” (Vanhonacker, 2004, cited in Zhang and Zhang, 2006, p.377). Some other authors also claimed that *guanxi* is ethical, as it is one of the key factors leading to business success in China (Davies et al., 1995; Luo, 1997b; Tsang, 1998; Yeung and Tung, 1996). *Guanxi* can be well managed and “corruption does not have to result from the use of *guanxi*-based relationships” (Szeto et al., 2006, p. 425). Nevertheless, it is fair to say that no matter how people view *guanxi*, from an ethical perspective, a *guanxi* action is acceptable if this *guanxi* action does not adversely impact on a known or unknown party (Fan, 2002b).

Recently, *guanxi*’s role in Chinese business has been dramatically affected by international business trends because of China’s rapidly increasing foreign investment (Dunfee and Warren, 2001). At the same time, China is undergoing changes influenced by Western legal procedures and concepts, and *guanxi*’s role is diminishing. Ultimately, it is not *guanxi* but the Western marketing concepts such as branding, high quality products and good marketing strategy which can make businesses successful in the China market (Fan, 2002a). This trend is accelerated when information technology, the Internet in particular, is used to develop a more open and transparent market system. Thus, reliance on *guanxi* as a “middleman” is reduced.

In spite of the above comment, the important role of *guanxi* in business has long been traditionally recognized, particularly in the situation where China still favors rule by man instead of by law and its legitimacy. Law and business infrastructure are yet to be developed in China. In practice, *guanxi* should be adapted, modified and shaped to provide true friendship, integrity and sincerity to gain respect and *guanxi* from others. The CFBs must be aware of these key concepts and use them to establish better institutional connections with local stakeholders, including customers, employees, local partners and government officials. They should also acknowledge that it is essential to understand and practice *guanxi* if non-Chinese people or organizations want to enter the market and be successful in China (Luo, 1997b; Tung and Worm, 1997; Tsang, 1998).

#### V. GUANXI IN THE PRACTICE OF RELATIONSHIP MARKETING

##### A. Development of RM and Guanxi

RM emerged in the 1990s originating from industrial marketing to build long-lasting relationship between buyers and suppliers (Perrien and Richard, 1995). *Guanxi* has existed in China’s Confucian society for more than two thousand years dating back to 770-470 B.C., the period of Spring and Autumn. At the end of the 1970s when China opened its doors to the outside world, *guanxi* was investigated in great detail. It was

first discussed in the Chinese newspapers in approximately 1978 (Yang, 1994, p.147, cited in Fan, 2002a, p.546). In the West, *guanxi* first appeared in the 1980s in some popular business writings relating to cultural factors for undertaking business in China (Butterfield, 1983; Alston, 1989, cited in Fan, 2002a, pp. 543-544). The future of *guanxi* is a topic for further research as “even the future trends of *guanxi* are far from clear” (Ai, 2006, p. 109).

#### B. Differences in the Practices of RM and Guanxi

*Guanxi* is practiced via personal relationships, as opposed to the Western practice of RM which focuses on specification and enforcement of contracts (Davies et al., 1995). Gronroos (1996, cited in Arias, 1998) viewed *guanxi* essentially as a Chinese cultural construct, but RM as a service or management of the service delivery process for doing business. *Guanxi* has a close relationship with RM in a way that “a good *guanxi* reinforces relationship marketing and ensures its success whereas a bad *guanxi* spoils relationship marketing and in turn terminates the transaction” (Wong, 2007, p. 263). Finally, *guanxi* differs from the practice of RM in three areas: (a) RM focuses on a purposefully-built relationship but *guanxi* emphasizes family ties; (b) principles of Confucianism or one’s family and social roles are found in *guanxi*; and (c) *guanxi* favors personal bonds and RM facilitates inter-group or inter-organization relationships (Alston, 1989, cited in Fock and Woo, 1998). These differences affect the practice of *guanxi* in RM by managers, for example, the formation of pricing strategies, the process of relationship building and business negotiations.

#### C. Management and Operationalization of Guanxi

Management of *guanxi* consists of using, building, maintaining and enhancing *guanxi*. In so doing, the *guanxi* initiator should show honesty, introspection and reliability, gift giving, keeping contacts with *guanxi* members, spending time on social activities such as dining and drinking, frequently providing help, offering free favors to the parties in the network, and paying favors back as a means of keeping the *guanxi* network running (Ai, 2006). Time and patience are considered as two successful elements to build, maintain and enhance *guanxi* because Chinese executives do not attempt to develop close personal relationships with outsiders, that is, the foreign firms (Fock and Woo, 1998). Finally, the building, maintenance and enhancement of *guanxi* are important.

The operationalization of *guanxi* is very difficult because *guanxi* is very complex and goes beyond the economic context (Arias, 1998). Some authors opined that some *guanxi*-derived benefits can help operationalize *guanxi*, for instance, reciprocal exchanges, giving face, trust and commitment, wining and dining, and interpersonal bonds (Lee and Ellis, 2000). However, this very often consumes substantial managerial and financial resources of an organization in order to cultivate and maintain *guanxi* networks. Therefore, many companies abandon *guanxi* when it becomes an unbearable burden. A phenomenon called “*guanxi* evasion” (Chen, 1995, cited in Fan, 2002a, p.555 and Fan, 2002b, p.375) would then prevail.

## VI. GUANXI MODELS

Various *guanxi* models are discussed in the literature, for instance, the integrative *guanxi* model (Wong and Tam, 2000), the four-stage model (Buttery and Wong 1999), the insider-outsider perspectives of *guanxi* (Lee and Ellis, 2000) and the three-stage approach of initiating, building and using *guanxi* (Chen and Chen, 2004). Geddie et al. (2002 and 2005) put up a *guanxi* model together with RM. The Research will use the model of Geddie et al. (2002 and 2005) together with some Western theories to formulate a conceptual framework of *guanxi* for the CFBs to improve their business performance in China. The reason for selecting the subject model and RM concepts is due to their practicability and real-life characteristics in service industries notably hospitality and banking.

## VII. RELATIONSHIP OF GUANXI AND BUSINESS PERFORMANCE/GUANXI AND BANK PERFORMANCE IN CHINA

Business performance is measured in terms of the following four items: sales growth, customer retention, return of investment and market share (Sin et al., 2002; Tse et al., 2004). This section provides an immediate review of literature in relation to the business and bank performance in post-WTO China to determine whether *guanxi* has influence on business performance, or in particular, the CFBs.

Zhang and Zhang (2006) provided a more detailed explanation of the relationship between *guanxi* and business performance. They claimed that there is no one consensus on the positive effect of *guanxi* in relation to business performance. For example, Dunfee and Warren (2001, p. 197) stated that the impact of *guanxi* on economic performance is not known with any degree of precision. Fan (2002a) maintained that the benefits of *guanxi* to economic and organizational efficiency may be exaggerated. Other investigators maintained that *guanxi* has no effect, or may even have a negative effect, on a firm and its performance (Braendle et al., 2005; Li and Athuahene-Gima, 2001), and that the role of *guanxi* in Chinese business is diminishing (Fan, 2002a, 2002b; Tsang, 1998). Liu and Roos (2006) claimed *guanxi* only has a positive effect on business performance in the restricted industries in China. However, *guanxi*’s important effect on business performance is its ability to substitute for formal legal structure (Xin and Pearce, 1996), to lower transaction costs (Standifird and Marshall, 2000) and to provide a competitive advantage (Tsang, 1998). Therefore, *guanxi* continues to play a major role in China and East Asia (Davies et al., 1995; Lovett

et al., 1999; Millington et al., 2005; Yang, 1994 and 2002) and is perceived by the Chinese to be a major determinant for good business performance and long-term business success.

Previous section discusses China's vast reforms in its economy, banking and finance over the past two decades. Before the reform program of 1978, China had a centrally planned economy with a mono-bank system and the banks had not operated with performance. Post-1978 saw a change to an increasingly "market" economy in China and the Chinese banks have since kept growing as profit-driven entities to compete with one another throughout the country. CFBs have a competitive edge over Chinese banks in the areas of superior corporate structure, governance, credit management practices, financial resources and international branch networks. However, the increasing competitiveness of the Chinese banks has imposed pressure on CFBs.

The success in business performance is facilitated by bank operations (e.g. technologies and systems) and marketing (e.g. customer relationship and satisfaction, network and communications, staff-customer relationship, etc.). Other non-financial factors such as relationship quality, staff commitments and loyalty, reward and staff motivation, and business ethics, etc. are also critical success factors affecting the profitability and business of the banks.

To conclude, Luo and Chen (1997, p.4) claimed that "a firm could enhance its performance by benefiting from the *guanxi* network it has established" and "this network constitutes a firm's core competency and distinctive competitive advantage that can lead to high performance". This reinforces the claims of Su et al. (2003) that high-*guanxi* firms have outperformed low-*guanxi* firms in terms of business efficiency, sustainability of competitive advantage, accessibility to scarce resources and enhancement of long-term survival and growth.

#### VIII. RESEARCH PROBLEM, GAPS, QUESTIONS AND DEVELOPMENT OF RESEARCH PROPOSITIONS

The literature indicates a lack of consensus on the definition of *guanxi* and controversies exist in respect of the benefits and "dark sides" of *guanxi*. The literature also fails to demonstrate a relationship between *guanxi* and business performance. In addition, a substantial volume of literature focuses on the discussion of *guanxi* in general and the differences between the Chinese concept of *guanxi* and the Western concept of RM. However, no prior studies have investigated *guanxi* in the banking industry in China and the CFBs. This might be due to the strict confidentiality of information disclosures, thus creating a high degree of difficulty in conducting surveys of *guanxi* in the banking sector. Specifically, there appears to be no previous surveys on any conceptual framework of *guanxi* to be implemented by the CFBs to improve their business performance; also there are no surveys on how useful for

*guanxi* in the RM activities of the Relationship Managers of the CFBs are the concepts of RM and the Western theories, for example, the internal and external partnerships, stakeholder theory, full-time/part-time marketers and customer relationship management ("CRM"), etc. As a result, the Research aims at filling these gaps in the literature. Problem of the Research is therefore defined as:

#### ***How useful are the Chinese concepts of *guanxi* for the practice of the RM activities of the Relationship Managers of the CFBs in China's banking industry?***

The following summary details the rationale of each research question and the argument for each proposition.

#### ***Research Question 1: What is *guanxi* and what is its role in CFBs?***

Presently, Chinese domestic firms are often interacting with the management philosophies of their foreign counterparts in response to the growing integration of global business (Luo and Chen, 1997). As a result, the role of *guanxi* is becoming important among foreign organizations. This requires a survey of *guanxi* in the CFBs and therefore leads to the first research question: *What is *guanxi* and what is its role in CFBs?*

China's economic, financial and banking reforms over the past two decades have posed a question as to whether there is any change in the important role of *guanxi* and whether the change has eroded *guanxi*'s structural foundations and the relevance to doing business in China. The importance of *guanxi* for success in China may be waning owing to the significant change in China's rule of law, corporate governance, privatization and competition that have decreased the degree of organizations' reliance on *guanxi* (Dunfee and Warren, 2001). However, there are still many authors who support the important role of *guanxi* for successful market entry and sustainability of competitive advantages. Fox (1987) claimed that in China, *guanxi* is everything. This leads to the following proposition:

#### **P1: The reforms in China over the past two decades have not eroded the important role of *guanxi* in China's banking sector.**

#### ***Research Question 2: What are the relationship between the constructs of *guanxi* and those of RM and what is their significance?***

The constructs of RM and the constructs of *guanxi* are not the same. Upon review of the literature, there appears to be few articles discussing the significance and relationship between RM constructs and *guanxi* constructs and their interactive effect. A study on subject issues can facilitate the integration of these two constructs in a conceptual framework of *guanxi* for the CFBs. It then leads to the second research question: *What*

are the relationship between the constructs of *guanxi* and those of RM and what is their significance?

Investigation of the above question requires the researchers to focus on these two constructs in relation to the RM practices of the CFBs with the following proposition:

P2: Understanding the *guanxi* constructs and RM constructs and their interactive effect can ensure good practices by the Relationship Managers of the CFBs.

**Research Question 3: How does *guanxi* affect the marketing activities and operations of the CFBs?**

*Guanxi* is regarded as a Chinese form of RM. It affects the marketing activities and operations of the CFBs in terms of customer relationship building, maintenance and development. The CFBs are using Western RM concepts in business development and they have encountered difficulties in practicing Chinese *guanxi* with the Western RM concepts due to a different culture and business practices between China and Western countries. However, it is commonly accepted that *guanxi* does affect the marketing and operations of the CFBs. The third research question is: *How does guanxi affect the marketing activities and operations of the CFB?*

Relationship Managers employed in the banks in China are believed to hold different views of *guanxi* in their business development activities. The success of a bank's RM practices in China depends on the degree to which customer relationship and the bank are merged as a cooperative unit/merged partner (via *guanxi* marketing) of the DCBs rather than a subset (via RM) of the CFBs. It therefore leads to the proposition that:

P3a: Different views of *guanxi* in association with RM will affect the marketing activities and operations of the banks in China, particularly the CFBs.

On the condition that the above proposition is confirmed, it is necessary to study the effect on practicing *guanxi* by the Relationship Managers of the CFBs by raising the following proposition:

P3b: Whether *guanxi* can be efficiently practiced and operationalized and, if so, will it affect the RM activities and operations of the CFBs?

**Research Question 4: How does *guanxi*-based RM affect the strategies and tactics of the CFBs?**

Internal and external partnerships are adopted as the RM strategies of the CFBs. Tactics are short-term tools for the implementation of the strategies via a CRM system. *Guanxi* elements in RM and control (e.g. *guanxi* measurement and *guanxi* audit) are to be incorporated into strategies/tactics via the CRM system in a conceptual framework of *guanxi* to be

developed for the CFBs in the Research. The fourth research question is thus derived: *How does guanxi-based RM affect the strategies and tactics of the CFBs?*

The answer to the above question requires the redefinition of business and operational strategies and tactics in the above-mentioned conceptual framework for the purpose of integrating *guanxi* concepts into the RM activities of the CFBs. Banks which strategically formulate *guanxi* relationships between internal core stakeholders and external major stakeholders are more likely to be successful in business performance than the banks with *guanxi* relationships that do not connect such core and major constituencies. It therefore supports the formulation of the following proposition:

P4: Business and operational strategies and tactics of the CFBs require the redefinition of RM in terms of *guanxi* with constituencies of internal and external partnerships.

**Research Question 5: Does *guanxi* affect the business performance of the CFBs?**

As discussed previously, the DCBs, for example, the Industrial and Commercial Bank of China, China Construction Bank, Bank of China, the Agricultural Bank of China and the Bank of Communications are performing very well as evidenced by their global branch network development, outstanding business performance and aggressiveness in recent merger and acquisitions in the domestic as well as the world's capital markets. People tend to believe that one of the critical success factors is their *guanxi* networking in their business activities which are not practiced by the CFBs. *Guanxi* continues to play a major role and determinant for good business performance and long-term business success (Davies et al., 1995; Yang, 1994 and 2002; Millington et al., 2005) for Chinese organizations. However, some authors (Zhang and Zhang, 2006; Dunfee and Warren, 2001) claimed there is no one consensus and any benefit of *guanxi* is over-exaggerated (Fan, 2002a). The fifth research question is then derived: *Does guanxi affect the business performance of the CFBs?*

A positive answer to the above question will consequently lead to the following proposition which is the essence of the Research:

P5: The DCBs with high *guanxi* outperform the CFBs with low *guanxi* and the lack of *guanxi* is a reason that undermines the business performance of the CFBs.

## IX. CONCLUSION

Substantial literature has been reviewed in this paper on *guanxi* and RM as well as their inter-relationship. Parent literature in the scope of China's reforms, the role of *guanxi*, *guanxi* models and *guanxi* in the practice of RM have been conducted with focus on the underlying Western theories of

RM and their interactions with *guanxi*. The review has been narrowed down to the immediate literature (or research problem theories) in relation to the discussion of the relationship of *guanxi* with the business performance of the banks in China, particularly the CFBs. Finally, research gaps and questions have been identified and propositions have been developed through this literature review for future research on the topic of “The Role of *Guanxi* in China’s Foreign Banks”.

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TABLE 1  
SUMMARY OF GUANXI DEFINITIONS

Relationship	A special relationship between two persons (Alston, 1989)
Particularistic ties	Particularistic ties based on shared attributes i.e. guanxi base (Jacobs, 1979)
Friendship	With implications of continued exchange of favours (Pye, 1982)
Connection	Actual connections with and frequent contact between people (Bian, 1994)
Exchange	Reciprocal exchange between two people; petitioner and allocator (Hwang, 1987)
Resource	A form of social investment or social capital (Butterfield, 1983)
Process	As single process, refers to personal interactions between two individuals (Fan, 2002a)
Network	As multiple processes, refers to a network social connections

Source: Adapted from Fan (2002b, p.372).

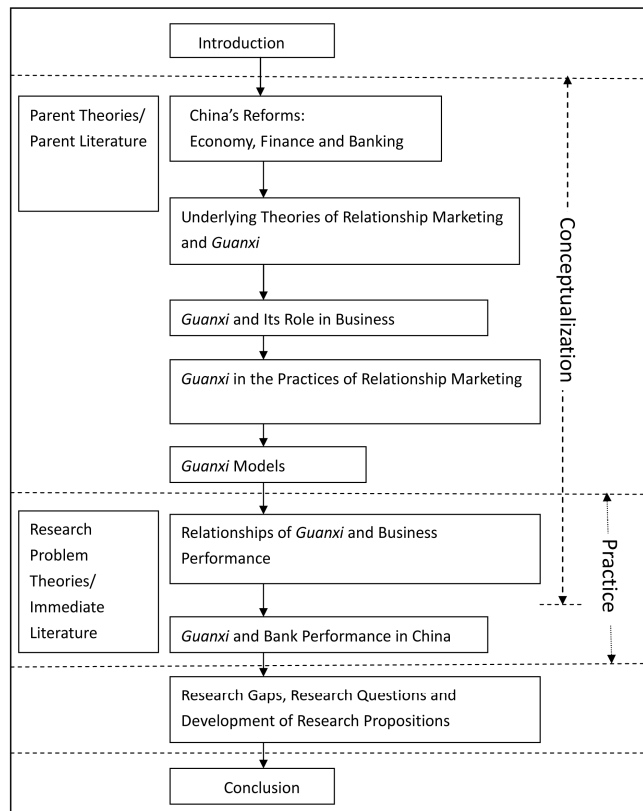


Fig. 1 Layout and flow as a guideline for the review of literature in this paper.