

# **East meets west –blending guanxi and transactional marketing –**

## **An exploratory study**

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Abstract: as the marketing concept evolved over the past few decades, the dominant transactional marketing paradigm has given way to relationship marketing. An Asian perspective on relationship, especially, guanxi in China, enriches the concept developed in the western context. An exploratory study was undertaken to investigate the interaction of transaction, relationship and guanxi factors in Chinese firms by interviewing managers in the greater Shanghai and Beijing area. This study suggests that, during the transition from a planned economy to a market economy, these three paradigms (transaction, relationship and guanxi-based) may coexist in one firm, depending on market structure and dynamics, industry characteristics, and strategic choice, and can be employed as complementary strategies to win in the market. Suggestions as to future research are made. Managerial implications are provided.

### **Introduction**

As marketing theories have evolved, an initial focus on transaction marketing shifted towards a concern with relationship marketing. Although many researchers argue about the merits of

the transaction and relationship paradigm, recent studies have suggested that these two views are best seen not just as two ends of a continuum (Coviello, Brodie, Danaher and Johnston 2002), but rather as often coexisting in one firm, depending on the strategic imperatives facing the business (Styles and Ambler 2003). This article, based on recent interviews in China exploring the role of guanxi in business dealings, provides some preliminary support for this view. It further suggests that the western relationship marketing and eastern guanxi can coexist in one firm.

Inspired by the rapid development of some Asian countries, researchers have started to look at how relationships work in business enterprises in these economies, especially in China. Here guanxi, which includes but goes beyond relationship or connection, remains an important factor in the implementation of business strategy. Guanxi has profound implications in Chinese society and is widely regarded as a key success factor in doing business. For this reason, some studies have compared relationship marketing and guanxi (e.g. Ambler and Styles 2000a; Arias 1998; Luo 1997; 2000; Yau, Lee, Chow, Sin and Tse 2000). While there is a suggestion that Chinese managers tend to stick to their unique guanxi way of doing business, it is argued in this article that during the transition from a planned economy to a market economy, western relationship marketing and guanxi can work in a complementary way in one firm. In several of the companies where interviews took place managers blended guanxi with transaction based marketing, depending on the interplay of internal and external factors, to achieve company goals. While this blend of guanxi with transaction marketing is perhaps a consequence of China's transition from a planned economy to a market economy, it might also

be seen as a reflection of deeper cultural values and beliefs. If so, it is likely for these managers at least that the co-existence highlighted by Styles and Ambler (2003) will continue to be an important option open to managers coping with increasingly turbulent environments.

## **Literature Review**

### ***Transactional marketing***

Transactional marketing is derived from the “micro-economic” school (Arndt 1983), or the “neo-classical” school (Carman 1980) and is also known as the “marketing mix” management paradigm (Grönroos 1991). It emphasises maximising profits by using the 4Ps. To achieve profit maximisation, a short-term view is taken by looking at individual transactions instead of the long-term development of business. It does not look at the social aspects of business (Ambler and Styles 2000b). This paradigm does not reflect the whole decision making process of marketing managers in the real world. This is where the concept of relationship marketing comes into the picture.

### ***Relationship marketing***

Granovetter (1985) proposed that economic activities be seen as embedded in ongoing structures of social relations. The importance of this factor in the business world was acknowledged by Berry (1983) in introducing the term “relationship marketing” into his analysis of service firm activities. He defined relationship marketing as “attracting, maintaining and – in multi-service organisations – enhancing customer relationship”.

From 1983, this concept has been studied in depth. The impact of relationship goes beyond service firms and business to business firms to include all types of organizations (Day and Montgomery 1999). International studies have also been carried out (e.g. Levitt 1983, Styles and Ambler 1994 and 2000). Relationships have been found to be a critical factor in international markets. They are not only important as between buyers and sellers, but also exist among all stakeholders. Morgan and Hunt (1994, p. 22) extended the idea, suggesting that relationship marketing was, “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges”, which represents the current understanding of the concept. However, as indicated by Grönroos (2000, p.23), a relational perspective is “probably as old as the history of trade and commerce”.

Relationship marketing provides a wide range of benefits, such as reducing the level of customers’ price sensitivity (Berry 1983), saving marketing costs (Berry 1983), creating switching barriers (Dwyer et al 1987), developing better new products (Beaton and Beaton 1995) and obtaining necessary resources for firms (Morgan and Hunt 1999).

In terms of the role of transactional marketing and relationship marketing, Coviello, Brodie, Danaher and Johnston (2002) suggest that firms may adopt mainly transactional, mainly relationship, or both approaches. Styles and Ambler (2003) also argue that the relational perspective and transaction marketing can coexist in Chinese business world and suggest that Chinese managers have both economic and social network considerations in mind when doing

business.

### ***Guanxi – relationship or connection in China***

While relationship marketing has received widespread recognition in a western context, Guanxi, often translated as relationship or connection, has long been critical in social or business activities in China and other Asian countries and in countries in economic transition, such as Russia. For a transition economy, where firms are not able to grow through generic expansion or acquisition due to the lack of financial and human resources, coupled with poorly defined property rights and an unstable political structure, the only strategy possible is a network-based strategy (Peng and Heath 1996). Managers can build networks as strategic alliances to avoid the difficulty of ownership transfer and facilitate economic exchanges, and to obtain external resources that can be used, but not necessarily owned (Davies, Leung, Luk and Wong 1995; Peng and Heath 1996; Hunt 1997 and Tsang 1998). Managers in China have to rely on their interpersonal ties to serve as substitutes for a poor institutional framework in order to cope with the exigencies of their situation in an economy where there is neither market nor hierarchy, and which, as a result, has a significant impact on firm performance (Child 1994; Boisot and Child 1996; Peng and Heath 1996; Xin and Pearce 1996).

Since there is no unanimously agreed definition of guanxi, some examples may help to illustrate different aspects of this complex phenomenon. Yang (1988) suggests that guanxi is the “pre-existing relationships of classmates, people from the same native-place, relatives, superior and subordinate in the same workplace, and so forth”. Alston (1989, p. 28) defines

guanxi as the “special relationships two persons have with each other”. Bian (1994) suggests that guanxi can refer to one of three things 1) a relationship between people with the same group status or who are related to a common person, 2) real connections with and frequent contact between people and 3) a contact person with little direct interaction. Davies (1995, p. 22) defines guanxi as "the social interactions within the network place and its members in the equivalent of an infinitely repeated game with a set of people they know." Luo (2000) suggests that guanxi refers to drawing on an intricate and pervasive network to secure long-term exchange of favours in personal relations. It is more than friendship or simple interpersonal relationship. It involves reciprocal obligations for both parties.

***Relationship marketing vs guanxi***

Guanxi, a culturally embedded relationship factor, which, as Luo (2000) has suggested resembles relationship marketing, has its own distinctive characteristics, shown in Table 1 below:

Table 1: The Difference between Relationship Marketing and Guanxi

	<b>Relationship marketing</b>	<b>Guanxi</b>
<u>Purpose</u>	Exchange benefits	Exchange favour
<u>Bases</u>	Shared goal (specific intention)	No specific intention
<u>Level of relationship</u>	Commercial-based, corporation-to-corporation	Blood based and social based Personal relationship and

		organisational implications
<u>Order of business and relationship</u>	Business drives relationship	Guanxi leads to business
<u>Time to receive return</u>	Short-term	Long-term
<u>Communication style</u>	Sender-centred	Receiver-centred
<u>Dimensions</u>	Trust,	Trust, mianzi, renqing

Western relationship theory and guanxi both aim to gain competitive advantage via relationship building with key stakeholders (Luo 2000 and Yau, et.al. 2000). However, these authors further suggest that western relationship are normally built with a specific intention and aimed at short-term benefit exchange. Moreover, a relationship normally originates from business and is always commercially-based. Unlike the western relationship concept, guanxi is usually built with no specific intention and is for the long-term when the exchange of favour goes beyond organisational, technological, strategic and financial issues, depending on the specific needs of the other party. Guanxi is normally built up at personal level, but has organisational implications (Tsang 1998; Li and Wright 1999; Luo 2000; Chen 2001). It is often well established before any business comes into view, while western relationship is mainly among organisations. Western managers draw a clear line between interpersonal and interorganisational relationships (Rodrigo 1998). Apart from common dimensions of a relationship, such as trust, unique dimensions in guanxi include face and favour. Giving face is a prerequisite to the establishment of guanxi. It is defined by Hu (1944) as an individual's social status or prestige that others recognise, acquired via successfully fulfilling specific social roles. Favour, as another prerequisite, provides the moral foundation for the reciprocity

and equity, and facilitates a continuous flow of interpersonal exchanges. There are also other dimensions in guanxi, e.g. social bonding and reciprocity that go beyond the limits of western relationship they are functioning. Moreover, guanxi is historically influential in every aspect of life. For a business manager, guanxi with one or more stakeholders such as customers, suppliers, government officials, banks and the like may be very critical. On the opposite, research on stakeholders other than customers in relationship marketing has just started. This article will look at how relationship marketing and guanxi interact with each other in the transition economy in China. While traditional values are still predominant, the western impact is significant in business practice of Chinese managers.

***Guanxi and corruption:***

One stream of research on guanxi focuses on ethical issues, and it is often very hard to draw a clear line between guanxi and corruption or bribery. They often come hand in hand.

Relationship marketing, though, which sometimes also spills over to illegal activities, has much less concern for this aspect. While it is hard enough to define guanxi, it is even harder to draw a line between guanxi and corruption. A significant proportion of the literature on guanxi is devoted to exploring its ethics. Some authors distinguish between guanxi and corruption on several dimensions. Luo (2000) provides a relatively comprehensive list. He argues that guanxi has long been an important part of the Chinese culture, emphasising favour exchange, while corruption has always been condemned; guanxi is legal, whereas corruption is illegal; guanxi is built upon favour exchange while corruption is mainly for monetary exchange; guanxi is implicit social reciprocity, while corruption mainly involves explicit transactional

reciprocity; guanxi has no lawful risk if it fails, whereas corruption is associated with high legal risks and uncertainties; guanxi is long-term-oriented, whereas corruption involves short-term “transactions”; guanxi has no time limit, while timeliness is often a requirement in corruption; guanxi is based on trust, corruption is on “commodity” (exchange between money and power); guanxi is transferable, which is not the case for corruption. Yang (1994) also indicates that guanxi has some level of emotional content, while bribery does not.

Although the above features can help distinguish the two concepts, it is very hard to have a clear-cut rule in practice. People practicing guanxi may not have corruption in mind, however, guanxi often unavoidably leads to behavior that is not in the best interest of organisations they represent. Often managers may find themselves caught in a dilemma between traditional values that give great attention to guanxi and optimal decision-making that is best for organisations.

### ***Instrumental, expressive and mixed ties***

According to social psychology, several rules of exchange are used in some circumstances – for example, the rules of equity, equality, and need (Deutsch 1975; Sampson 1975; Leventhal 1976a; 1976b; 1980). Individuals use different rules of social exchange to deal with people of different types of relationships or different degrees of intimacy (Lerner 1975, 1977; Greenberg and Cohen 1982). The Chinese culture puts much emphasis on these principles. When a potential resource allocator is approached by a petitioner, he/she will first ask, “What is the *guanxi* between us? How strong is our *guanxi*?” (Hwang 1987). Three types of interpersonal

relationships of Chinese are classified: the expressive tie, the instrumental tie, and the mixed tie (Hwang 1987).

The expressive tie is generally permanent and socially stable. It involves individuals' feelings of affection, warmth, safety and attachment. It normally occurs among groups such as family members and close friends. Although this tie can be used as an instrument for various purposes, the expressive component is far more important than the instrumental one. In this group, members use the need rule to govern social exchange and resource distribution. All members should do their best for the family; in turn, the family will supply him or her with the necessary resources for living.

Another tie is the instrumental one, which is opposite to the expressive tie. Instead of having the goal of establishing an expressive tie with people, those who seek for instrumental tie take the tie more as an instrument or a means to achieve other goals. Hence, this type of relationship is very unstable and temporary. This type of relationship exists between salesmen and customers, bus drivers and passengers, nurses and outpatients in a hospital and others. Both sides understand that their interaction is to achieve their own purposes. The expressive component is very small. In this type of relationship, people employ the equity rule. An individual treats all other people equally. Empirical evidence shows that Chinese tend to behave rationally, when they interact with strangers.

The last type is the mixed tie, which is a mixture of the above two ties. It has both expressive and instrumental components. Individuals tend to influence others by favour (*renqing*) and face (*mianzi*). Both sides know each other and have a certain expressive component in their relationship. It exists mainly among groups such as relatives, neighbours, classmates, colleagues, teachers and students (Fried 1969; Jacobs 1979). In this tie, both sides have something in common. An individual can be simultaneously involved in different groups. One person is the centre of a unique network made up of one's particular social ties (Mitchell 1969; Kapferer 1969). Other people in the network are the centre of their own network. The overlapping and intersecting of these ties weave a complicated network of social relations, which has a significant impact on Chinese social behaviour. The mixed tie does not last as long as the expressive tie, but can last a long time, if both sides contact each other frequently. It is very different from the instrumental tie, for both sides expect to continue their relationship and understand that some people in their respective networks may know what is going on between them and judge their interaction based on social standards. In this tie, the resource allocator has to take favor (*renqing*) into consideration. Otherwise, he/she will harm their relationship and even mar his/her interpersonal attractiveness (*renyuan*). Hence, he has to follow the rule of favor (*renqing*).

### **Research methodology**

To understand how relationship marketing, guanxi and transactional marketing work together, an exploratory study was undertaken in Beijing and greater Shanghai area from December 2003 to January 2004. To broaden the context of the research, 12 firms were approached in

two very different industries, the textile and electronics industries. It was felt that perceptions of managers as to the importance of these variables in fast-developing industries might be different from those in stable industries. Depending on the availability of respondents, single respondents were interviewed in eight firms, while multiple respondents were used in the remaining four firms. The definition of guanxi by Luo (2000) was given to respondents. However, due to the blurring boundaries between guanxi and corruption, it is possible that respondents, when answering questions, did not clearly differentiate these two concepts, when answering questions.

The findings suggest that individual respondents have different perceptions of the interaction of relationship marketing, guanxi and transaction marketing. No difference was identified between the fast growing and stable groups, and between the two areas. Hence, the following section will report the findings with no consideration of industry style.

## **Findings**

### ***Relationship marketing or guanxi?***

1) Chinese managers may use a western approach to contact potential business partners, but may maintain a relationship with traditional guanxi method. The literature (e.g. Luo 2000, Styles and Ambler 2003) on guanxi suggests that Chinese like moving slowly towards understanding business counterparts before they commit themselves in any business relationship. When it may be true in many cases, quite a few interviewees do not agree with the statement. They follow a more or less western approach, investigating the potential partner,

if satisfactory, placing a trial order. A relationship is then established during business interaction. When asked whether they want to know people in that firm first to understand their credibility and trustworthiness, they do not place too much emphasis on it. Instead, a priority is placed on marketing factors, such as price, quality and delivery.

This finding may not totally go against the literature, for many studies are concerned with the first entry of foreign firms in China. The reason for Chinese to take gradual steps in dealing with foreign firms may be that they are total strangers. Before any commitment is made, as a habit in a low-trust society, Chinese businessmen need to first know these strangers and their background. For firms already in existence in China, this procedure may not be very important, as information on these firms is widely available. Yeung and Tung (1996) suggest that more importance is assigned to guanxi by firms that newly enter the Chinese market than by those that have been operating in China for ten or more years. After a certain time period, other factors become more important. Guthrie (1998) believes that joint venture managers with foreign partners view guanxi as more important than those without foreign involvement. Moreover, although some firms develop guanxi in doing business, the way to keep a relationship may still follow a traditional Chinese way, such as sending gifts in holidays, expecting a return of favor in business. For foreign firms in China, Chinese firms may choose to deal with senior Chinese managers in these companies. Naturally a traditional and understandable way of keeping a relationship is probably followed. However, when Chinese firms pursue cooperation with foreign firms overseas, these managers are likely to adapt their

way of doing business and follow a western approach.

Since interviews were undertaken in the relatively developed areas of greater Shanghai and Beijing, it is likely that some managers may have more knowledge of western world. They perceive a low risk in dealing with foreign firms and are happy to adapt to a western way. One interviewee even mentioned that he prefers a western approach, as it is much less complicated!

### ***Relationship and transaction marketing***

1. It is found in interviews whether a firm puts more emphasis on developing and maintaining guanxi or on marketing practices may be based on the role of supply and demand. For example, when the number of suppliers is large and no special requirement is placed on supplied goods, firms may not need to make many efforts in developing and maintaining guanxi with suppliers, instead their focus is possibly on maximising profits. A few respondents mentioned that they do not give much thought to suppliers, for there are many of them. If a firm's products are in high demand in the market, the need for it to foster guanxi with customers may also be reduced. For example, one respondent in a high-tech firm said that "since our products can only meet 15% of domestic demand, there are always clients who approach us." In this case, the factors that have an impact on supply and demand serve as a lever. Apart from factors, such as high season or low season, quality, delivery, price, reputation, brand and other marketing factors all have a role. If a firm has a competitive advantage in any of these aspects, their bargaining power is enhanced, guanxi may be easy to build up, and firms are more likely to give more attention to how to

maximise profits by working on the 4Ps.

2. This rule may also work in efforts to establish connections with government officials. If their products and service are priorities in their locality, instead of spending effort and time in fostering guanxi with government officials, these officials may need them for political purposes. For example, a high-tech firm mentioned that it can obtain financial assistance from the government if it sets up ERP (Enterprise Resource Planning). It is not argued that it is unimportant to have guanxi with government officials, but to say that it may be easier for these firms.
  
3. Like relationship marketing, Guanxi may be more important between business and business rather than between business and consumers. One interviewee said that “guanxi is used, when we deal with industrial buyers; marketing factors are employed in the consumer market.” Because of the political system in China, government organization is one of important stakeholders in business world. Thinking about how guanxi is established and maintained, it is not hard to understand why. With limited time, energy and money, the most important (profitable) companies or government organizations are probably the focus of firms. Looking at the four categories, transaction marketing, database marketing, interaction marketing and network marketing, Coviello et al (2002) suggest, guanxi seems to include both interaction marketing and network marketing. However, the rules of game will be different in the Chinese context.

4. Guanxi may be more important, when a business just starts; marketing practices become increasingly important, when a business is established. Some interviewees mentioned that guanxi is more important at the beginning of a business. Guanxi may provide a good source of supply or some initial customers, or a license or other type of critical resource. When a business is set up, guanxi probably does not help growth, unless it provides another type of critical resource, instead, marketing approaches may be more effective on a day to day basis.
5. Guanxi may be a strategy tool. An interviewee said “we work out strategy first, then develop relationships for that purpose.” Guanxi is a tool that helps achieve marketing strategies. Corresponding to what Styles and Ambler (2003) suggests, a few interviewees regard service as part of guanxi, which works with other marketing activities to achieve business goals. For certain business activities guanxi plays a more important role than for others, such as bidding, some interviewees suggest in the bidding process, fostering guanxi with those who make final decisions is very critical. When firms have similar capacities, the one that has good guanxi normally wins out. Interestingly, one interviewee disagrees. He thinks that the bidding process gives more guarantees to fairness. The different views may result from different competitive advantages firms have, such as quality and price, other than guanxi, different markets, different government officials they need to deal with.
6. Furthermore, the influence of guanxi may vary in different markets. Inside Chinese Business (p. 64) suggests that in high-tech industries, managers rely much less on guanxi

than those in more traditional business sectors, such as real estate. Interestingly, the real estate sector was used as an example for a few times that uses guanxi to a great extent. One interviewee explained that from purchasing land, to financing, to evaluation, all these processes involve government officials. That could be the reason for guanxi to be so important in this sector. It is possible that not only high-tech industries, but also other emerging markets, for example, outdoor markets, rely less on guanxi. According to the interview with the marketing manager of an outdoor trading company, they do not deal with government officials much, for there is no organisation that is in charge of the market. No association exists in local market either. To this firm, guanxi does not count much. For high-tech industries, they are the focus of the government and enjoy support from the government in terms of policy and finance. One interviewee mentioned that their firm would obtain financial assistance from the government if it would establish ERP.

7. Moreover, environmental contexts, resources and managers' vision and philosophy may also have an impact on business activities. For example, as one interviewee suggested local policies vary across regions; there may be more state-owned enterprises in one province than in another; the reliance of guanxi and marketing practices may also vary. Also, firms enjoying favourable policies may have more time and energy working on marketing levers (4Ps). The different philosophies that senior managers may hold in one firm may also have an impact. In one interview, the general manager and vice general manager of the firm had different views on the importance of guanxi and marketing practices, which possibly will be reflected in business activities.

### **Theoretical Implications:**

While relationship marketing has been researched in depth in the western context, the current study attempts to further extend the relationship concept to different cultures, in this case, China, by introducing a similar but broader and regionally more influencing relational concept, “guanxi”. Unlike relationship marketing that is the practice in B2B, guanxi is at personal level with organisational implications; Guanxi can start before a business is done, or be set up during business transactions, and can last long after business interaction is finished; apart from trust that is critical in relationship marketing, face, favor exchange and empathy are also essential elements of guanxi. Moreover, the study provides preliminary support for literature suggesting that transaction and relationship marketing can co-exist in one firm. This study also identifies that western relationship marketing and guanxi can be practised by a single firm. Due to the limited nature of the exploratory research, more (empirical) studies are necessary to confirm and generalise the findings of the research.

Several research directions are suggested by this investigation, firstly, exploring the extent of the coexistence of transaction, relationship and guanxi in one firm; secondly, using contingency theory to investigate the circumstances under which each practice is more prevalent than others, such as ownership type, location, business types (manufacturer or service providers). Thirdly, in the long run, researchers can explore the concept further in other cultures, such as Middle East countries or countries in Africa, to see whether different relationship concepts exist in these very different cultures. Moreover, research on guanxi

makes researchers start to think whether a similar practice to guanxi exists in western countries. If it does, is the impact different across countries and cultures? A comparison across countries would be interesting. Finally, it is also worthwhile looking at how the weight of these three marketing practices evolve when the Chinese economy become more market oriented. A longitudinal study may serve the purpose or a comparison study between relatively underdeveloped and developed parts of Mainland China, HK, Taiwan and among overseas Chinese.

### **Managerial implications**

Managers have been using different concepts with the evolution of the society and economy. While the 4Ps are still popularly used in practice, they have been the focus at operational and tactical level, rather than at strategic level. Fostering relationship with customers, suppliers and competitors has become increasingly important to many managers. Firms may make better use of their resources and resources of their network. When firms seek to extend business to the Chinese market, they need to understand another relationship practice, guanxi. And most often, they need to practice it, if they wish to be successful in this big market. According to the findings from interviews, transaction marketing, relationship marketing and guanxi can be concurrently used in one firm as three strategies. While it may be true to Chinese firms, it may also be critical to understand for foreign firms entering into the Chinese market. By effectively using these strategies, there may be a higher chance for firms to survive and be successful in China or other countries or regions who have similar ideology. For firms who are concerned about ethical issues in guanxi and do not want to practice it, it is also worth

knowing its impact and way of operation, so that they can make proper policy in dealing with the phenomenon.

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