

Relationship Portfolios, Guanxi and Chinese Business

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Abstract

This paper investigates guanxi in the context of relationship portfolio management. It has an electronic component manufacturing company active in China's business-to-business markets as its focus. As the research was exploratory a qualitative approach to data collection was taken. This involved conducting a number of individual depth interviews with a range of sales engineers and sales managers. The resulting data were compared with the existing criteria reported in the extant literature. The findings were interesting in that they showed that although some of the dimensions used in Western research were mentioned by the interviewees, the most important dimensions in a Chinese context are sales volume, customer's strategic importance, and trust. Additionally, we found that although guanxi is critically important in a Chinese business context, it is a supporting factor rather than a dimension of customer assessment. This has important managerial implications, especially with respect to management of relationships with Chinese firms.

Keywords: relationship portfolios, trust, guanxi

Introduction

Within business-to-business marketing there is an active debate about the role of relationship management in a company's strategy (see, for example, Turnbull and Valla, 1986, Ford, 2002, Håkansson and Ford, 2002). In order to establish, develop and maintain long-term relationships with their customers and suppliers, companies need to understand these other actors in their network. A recent paper in the Journal of Marketing on customer portfolios (Johnson and Selnes, 2004) indicates growing interest in the area of relationship portfolios. In the IMP tradition, relationship portfolios have long been considered to be an important mechanism for understanding and assessing supplier-customer relationships (Zolkiewski and Turnbull, 2002). Portfolios continue to attract attention in the context of business-to-business relationships (Campbell and Cunningham, 1983, Fiocca, 1982, Krapfel et al, 1991, Olsen and Ellram, 1997, Shapiro et al, 1987, Turnbull, 1990, Turnbull and Zolkiewski, 1997, and Yorke and Droussiotis, 1994, for instance) as well as being one of the most commonly used strategic management tools (Haspeslagh, 1982). More recently the notion of customer portfolios and their lifetime values has been considered in the context of all marketing relationships, both consumer and business-to-business, see Johnson and Selnes (2004).

The Chinese business economy continues to go from strength-to-strength, with a GDP growth rate of 9.29% and totaling 1596.61 US \$ in 2004 (Global Insight)). Yet, to date most of the research into relationship portfolios has looked at relationships in a Western business context, i.e. investigated either supplier or customer relationships of Western firms in established economies such as the US or the UK. The models or matrices and the corresponding strategies of these studies are also based upon Western culture. In China, which is becoming a more and more significant force in the world economy, the culture is entirely different from the West. It is questionable as an 'outsider' as to how much of another culture we can really understand, yet in our global economy such an insight could be imperative for our business success. The question hence arises: is the research on relationship portfolio management applicable in a Chinese business culture?

It is known that the Chinese tend to use the word *guanxi* (literally "relationship") instead of *relationship* in their business environment. Existing literature shows that *guanxi* stresses personal relations, which are different from Western relationships (Yau et al, 2000, Hui et al, 2004). However, does *guanxi* impact on relationships in a Chinese business situation and if so how? This research investigates this question by looking at how relationship management portfolios are used in Chinese business. Understanding such a phenomena will be of immense importance to managers and academics alike, as it will provide insight into how relationships with Chinese customers can be managed.

The remainder of this paper is structured as follows. Firstly, the literature on *guanxi* is explored and this is followed by an overview of the relationship portfolio literature. The chosen research methodology is then described. The results are then presented and discussed, finally theoretical and managerial implications are provided, along with a consideration of the limitations of the research and recommendations for future work.

Guanxi in a Chinese Business Context

Yau et al (2000) describe how *guanxi* manifests within Chinese business organizations. Firstly, according to the five fundamental relationships (*Wulun*) launched by Confucius (Hui et al, 2004), an individual in the Chinese cultural environment is fundamentally a relational or social being. Social order and stability are largely dependent on the numerous relationships between particular individuals. Yau et al (2000:16) argue that developing and cultivating personal relationships is "a common preoccupation and a form of social investment" in China.

Secondly, although the Chinese government has been enacting thousands of laws, rules and regulations, the legal and regulatory environment is still far from perfect. In such an environment, personal relationships are expected to remedy the possible voids in legal interpretation (Yau et al, 2000). In some circumstances, “human” governance is acting in lieu of legal governance.

Thirdly, “official” market information is usually uncertain and out-of-date in the Chinese environment. With good personal relationships with customers, however, business sellers can benefit from more reliable and up-to-date information, which saves costs and assures faster decision-making (Yau et al, 2000).

Finally, as competition intensifies more and more products of similar quality, price and with similar service levels are becoming available in the market. A good personal relationship with customers is considered to be an added value which is difficult for competitors to imitate. Business suppliers anticipate that this will give them the edge over their competitors (Yau et al, 2000).

Guanxi can also be visualized in terms of layers of relationships, with trust implicit in the central layers, which are family relationships (Styles and Ambler, 2003) or as a network of multi-lateral relationships comprising families, relatives, friends, classmates, colleagues, acquaintances, or even rivals and “foes”. This illustrates a paradox of Chinese culture that is difficult for Westerners to comprehend: the apparent coexistence of positive and negative dimensions. Styles and Ambler (2003) suggest that viewing these dimensions as circular rather than linear may help the Westerner to understand such complexity.

A major objective of Chinese salespeople in establishing and maintaining good personal relationships with customers is to accrue *mianzi* (literally “face”) and *renqing* (literally “favour”) for their business activities (Wong and Tam, 2000). Renqing means “a resource allocated to another person as a gift and also connotes a set of social norms to guide an individual to get along well with other people” (Wong and Tam, 2000:58). Mianzi is about “the giving of face or enhancing of someone’s social status” (Buttery and Leung, 1997:382). Renqing and mianzi are reciprocal on both sides of the business and revolve around a principle of response or repayment (the Chinese word *bao*) (Yau et al, 2000). By presenting sufficient renqing (e.g. gifts, help or favours), the salesperson saves mianzi on the buyer’s side and the buyer is hence expected to pay back the favour in the future. On the other hand, the business buyer’s favourable consideration on purchasing orders and even a disclosure of certain key market information provide renqing to the supplier and the supplier should repay the favour in subsequent offerings. Violating this norm will damage one’s reputation and will lead to the loss of mianzi (Lee et al, 1999). Such actions often cause disquiet amongst Westerners who often equate the actions to bribery and corruption; there can be a dark side to these actions and a fine balance needs to be maintained and understood.

In Western cultures, organizations tend to do business first. When the business relationships go smoothly and last, personal relationships and/or friendship grows between the salespeople and the buyers. However, the personal relationship tends to have little to do with the organizations. In China, the Chinese dine together first before talking business, unlike the Western approach of talking business before having a meal together if things go well (Onkvisit and Shaw, 2004). This inter-organizational guanxi is realized in terms of personal friendship between the salespeople and the key contacts in the customer company. Although the Chinese people tend to establish friendship earlier, it is not developed as fast as it would be in the West. When it is developed, however, it is likely to be deeper and longer lasting (Onkvisit and Shaw, 2004).

Influenced by this specific social culture, Chinese salespeople tend to spend much more time, effort and cost in nurturing and keeping good personal relationships with the customers’ buyers in order to obtain advantages for their company.

Hence our first research question emerges: Does guanxi impact on relationships in a Chinese business situation and if so how?

Relationship Portfolios

In mature markets, especially business-to-business markets, the relationship approach is widely practised. Most companies define relationship marketing from the perspective of developing *long-term* relationships with customers as characterized by the research of the IMP group, e.g. Håkansson (1982), Håkansson and Snehota (1995) and Ford (2002).

Though manufacturers in business-to-business markets have fewer customers than those in consumer markets, they still have to manage hundreds of customers and more potential customers. It is impractical for a company to manage all of its customers/suppliers in the same way. Facing a portfolio of customers/suppliers, a company has to categorize the different types of customers in order to apply differentiated strategies and in business-to-business markets it is recognized that relationship portfolio management is a more appropriate tool than segmentation.

Zolkiewski and Turnbull (2002) provide a thorough review of relationship portfolio models and it is not the intention of this paper to replicate this here. It is worth noting, however, that there have been a variety of approaches proposed, one-step, two-step and three-step and two and three-dimensional representations, e.g. Cunningham and Homse (1982), Fiocca (1982), Campbell and Cunningham (1983), Shaprio et al (1987), Krapfel et al (1991), Olsen and Ellram (1997) and Turnbull and Zolkiewski (1997). Consensus on which approach to use has not been reached and it could be suggested that choice of approach should be context specific and relies on the strategic vision of the manager charged with implementation. The notion of portfolio management is also considered integral to the implementation of key account management strategies, providing a mechanism for identifying key accounts. Our second set of research questions is derived from this: Are relationship portfolios used in Chinese business? If so, which dimensions are used to construct the portfolio?

Methodology and Data Collection

A qualitative research approach was used for this piece of research because it was exploring a phenomenon that has not received a great deal of attention. As the primary aim of the research was to understand the phenomenon in question, a qualitative approach was deemed to be most appropriate (Carson et al, 2001). One-to-one, depth, semi-structured interviews were used to collect data. They are able to uncover greater depth of insight and provide more complete information through concentrating and developing an issue with the respondents (Yin, 1994, Malhotra and Birks, 2003). Furthermore, well-informed respondents can be seen as key informants and are critical to the success of such in-depth research. Styles and Ambler (2003) also support the use of such a methodology in the context of trying to unravel the complexity of *guanxi*. During the interview process care was taken to ensure that the interviewer did not impose his own perspective on the respondents by the way he commented on the information they gave or by the way in which the questions were posed. The interviews were conducted in Chinese and then translated into English. Care was taken to ensure that the translations were accurate and conveyed the meaning of the discussion that had taken place. The interviews were conducted over the telephone, recorded and transcribed as soon as possible after they had taken place.

Because of the exploratory nature of the research, data was collected from one sales division of a Chinese electronic component manufacturer¹. Interviews were conducted with a senior manager, who had over ten year's experience in the company), two junior managers, who both had over five year's experience in the company, and seven field sales representatives, who had all worked

¹ This company was chosen because it is typical of many of the emerging companies in China and because the researcher had good contacts with the company concerned. In effect it is a convenience sample.

for the company for between two and four years (a total of ten in all). Interviews lasted for between 45 and 90 minutes.

Data Analysis

The data was analyzed using qualitative techniques outlined by Miles and Huberman (1994). Primarily the data collected was analyzed by allocating codes to phrases or individual words. Prior to data collection a list of codes based upon the existing relationship portfolio dimensions and the concept of *guanxi* were drawn up. However, during the analysis it emerged that this list needed to be expanded to cater for newly emerging themes in the data.

Results and Discussion

Portfolio Dimensions

Table 1 below illustrates the criteria that were mentioned by the respondent as considerations in the way that they assessed their customer relationships. It is interesting to note that a number of dimensions from the portfolio literature were not mentioned by the respondents.

Criteria	Used in existing portfolio models
Sales volume	Yes
Strategic importance of the customer	Yes
Difficulty in managing the customer	Yes
Customer's business attractiveness	Yes
Strength of buyer/seller relationship	Yes
Life cycle classification of customers	Yes
Relationship value	Yes
Perceived power position	Yes
Interest commonality	Yes
Quality/culture of the customer	No
Customer's relationship with its organizational customers	No
Trust	Partially
Customer's organizational structure	No

Table 1 Chinese Customer Portfolio Dimensions

Hence it can be seen that elements of the Campbell and Cunningham (1983), Cunningham and Homse (1982), Fiocca (1982) and Krapfel et al (1991) models all seem to have some relevance in this context. It was interesting to note that none of the Shapiro et al (1987) variables were mentioned (cost to serve and net value) nor was profitability considered to be of importance. This may well be due to sample bias, as none of the interviewees had any responsibility for the price at which components were sold, this being decided by head office.

The *quality or culture of a customer* emerged as an important variable. This variable includes a number of aspects:

- A customer's *development strategy*.
The type of products a customer develops directly influences its purchasing volume.
- A customer's *approach to quality*.
The company is well-known as quality-oriented and is likely to do business with quality-oriented customers.
- A customer's *business philosophy*.
The company is more willing to do business with customers pursuing cooperative approaches rather than those pursuing aggressive approaches.
- A customer's *environmental policy*.
It was suggested that a company which does not perform *environment-friendly* policies is short-sighted and does not have long-term competitive advantages.

- The *quality/character of key contacts* of the customer. These people may be buyers/purchasers, engineers, or other staff who frequently contact the salespeople. The salespeople tend to pay more importance to friendly contacts from the customer.
- A *customer's culture*. A customer's culture can vary across companies or countries. It is interesting to find that the interviewed salespeople have rough concepts about different companies' culture in terms of their countries of origin, product types, management styles, price levels, contact channels, etc.

However, these elements are very subjective. Sometimes, these personal evaluations can even be prejudicial. Respondent 6 recalled his experience:

"It is well known that Korean customers are hostile to Japanese suppliers for the historic reason. The tradition of Koreans is to avoid purchasing Japanese products. Our company has traditionally little business with Korean customers, even though it has had a Korean subsidiary there for a few years. It was conventionally considered impossible to trade with Korean customers inside our company. However, customer 022402 (a major Korean monitor manufacturer) had such great demand that I could not resist its temptation. I attempted to contact the customer one and a half years ago. I was very careful not to emphasize the Japanese background of our company. Instead, I stressed that it was a joint venture company by three subsidiary companies from Taiwan, Hong Kong, and Japan; there were few Japanese employees; it was actually a 'grandson'² company; all the products were manufactured by Chinese employees, etc. Hence, the customer did not show more hostility and we finally met face-to-face. Admittedly, it was just an aspect of the issue. Later I knew that the customer was eagerly searching for a quality supplier. But if I stressed the Japanese background in the beginning, I did not know whether we could begin business smoothly."

The variable *customer's relationship with its organizational customers* is particularly applicable in the electronics and IT industries. It is well known that OEM and ODM are common manufacturing methods in these industries. In order to get purchasing orders from their customers in the upper sector of the supply chain, the numerous OEM/ODM manufacturers have to maintain good relations with these organizations. It was believed by the respondents that, under the same competitive conditions, those organizations maintaining good relations with their customers are more likely to orders than their competitors who do not have as good relationships.

Another variable that emerged from the analysis is *customer's structure*. With more and more international corporations in the electronics and IT industries operating their subsidiaries and manufacturing plants in China, it is critically important for their suppliers to pay attention to all subsidiaries of these customers. If one of the subsidiaries receives bad service from a supplier, this subsidiary will complain to its headquarters. The headquarters will possibly pass this information to its subsidiaries, especially those doing business with the supplier in China. Hence, this supplier places its wider business at risk. The demand of an individual subsidiary may not be significant; however, the global demand of the customer group is often huge.

The above findings suggest that there are overlapping and similar factors within the dimensions identified during this research. Hence, it was felt that these could be effectively integrated into one dimension: *strategic importance (of the customer)*. For instance, though all the salespeople believed that the buyer/seller *relationship* is very significant, it does not function as a decisive dimension in assessing their customers. It is, however, an important factor in *strategic importance*: the customers who hold strong relationships with the company are considered

² This word is directly translated from the response in Chinese language. The Chinese tend to call the headquarters of a foreign company "mother" company; its subsidiary company is hence the "son" company. The case company was established by three "son" companies of the headquarters; consequently, it is a "grandson" company. The respondent tried to use this description to weaken the Japanese background of the case company.

strategically important customers. It was also felt that a number of the 'new' variables were actually elements of *strategic importance*. The findings suggest that strategic importance comprises the factors summarized in Table 2 below.

Factors	Description
Customer characteristics	Scale; yield, potential, prestige, leadership, life cycle classification, experience, product features, buying behaviour, interest commonality, technological factors, development strategy, company culture, orientation, management style, quality/character of key contacts, environmental policy
Market factors	Market size, growth rate, service features, sensitivity to price
Competitive environment	Number of competitors, strengths/weaknesses of competitors, supplier's share purchases, substitutability, switching cost
Relationship values	Strength of relationship, length of relationship, customer's relationship with its organizational customers, a member of a strategically key customer group, management distance, geographic distance, cultural distance, technological distance, friendship, degree of cooperation

Table 2 Customer's Strategic Importance

Trust is a factor included in Fiocca's (1982) analysis of strength of buyer/seller relationship and difficulty in managing the customer. However, in the context of this research it was continually emphasized as a vital dimension by the interviewees. Hence, it was decided to list it as a separate dimension. In this context trust appears to comprise three separate elements: repayment terms (credit), mutual trust and meeting commitments.

Repayment terms (credit) were seen to be the most significant element in trust. Customers who did not pay their invoices within the agreed time period were seen to pose a severe risk to the company. It is interesting that this perception was felt so strongly by the respondents and it is indicative of different cultural perceptions of what is acceptable, e.g. it is often common practice in Western business to delay payment of invoices beyond the agreed period.

Mutual trust was felt to be much more important than a written contract or agreement. Nonetheless, it was also interesting to note that the majority of the customers trading with the company had no formal contracts or agreements to define the rights and duties of each of the parties.

Meeting commitments was also considered to be a significant aspect of trust. A trustworthy customer meets its commitments and promises. As purchasing decisions are often made via emails or face-to-face communications only, with no formal written agreements to define each party's obligations. The meeting of commitments is seen to be critical. For instance, the buyer promises to purchase products at an agreed price or to give the supplier a certain percentage of share of their purchases, the customer should then honour this promise. Otherwise, the customer will not be ranked highly. Both *mutual trust* and *meeting commitments* are actually closely interlinked with *guanxi*, which is discussed separately below.

During the interviews, all respondents were asked to indicate which dimensions they believed to be the most important, they all nominated either one, two or and three dimensions as illustrated in Table 3 below:

Interviewee	Sales Volume	Strategic Importance	Trust
1	*	*	*
2	*		*
3	*	*	
4	*		*
5	*	*	
6	*	*	*

7	*	*	
8			*
9	*		*
10	*	*	

Table 3 Most Important Dimensions

Hence, there appear to be three important customer portfolio dimensions: sales volume, strategic importance, and trust in the context of Chinese business.

The Role of Guanxi

Some interviewees stated that in order to do business with organizations, salespeople should first learn to be friends with customers, especially with key contacts in the customer company. This confirms the points made by Yau et al (2000) and Onkvisit and Shaw (2004). Organizational guanxi was identified by respondents in terms of personal friendship. Friendship is taken seriously in Chinese culture—it involves real obligations such as providing personal help when friends (previously the sellers and the buyers) are down and out. As the first step in establishing guanxi with customers, both sales managers and sales representatives are strongly encouraged to frequently contact their customers face-to-face. Interviewee 1 picked up a traditional Chinese saying, the essence of which can be translated as *“friendship accumulates every time people meet”*. He stressed that face-to-face communication still has its unique advantages in the IT era and wins over all other communication channels. The company has an unwritten guideline about the frequency and level of business calls. For strategically key accounts, the top executive officers pay regular or occasional calls. For normal key accounts, top managers of the sales division pay regular or irregular calls. For non-important customers, the section managers pay occasional visits. It is also expected that friendships will be established between top managers. In addition to frequent contact with customers, the company appropriates a particular percentage of its turnover as “strategic funds”. Salespeople use the funds to have social activities with customers. The key contacts of key accounts usually take 70% of the expenses.

Guanxi is the premise of buyer/seller relationship and is usually treated as a “lubricant”. Guanxi plays its role in two aspects: mianzi (face) and renqing (favour). When talking about mianzi, interviewee 1 stated that the company encourages face-to-face contacts because of mianzi. Especially when searching for new customers, a sales representative will be rejected if he/she tries to conduct all their business via the telephone. Therefore, salespeople grasp every chance for face-to-face meetings. Once face-to-face contact is established, the customer is not as likely to reject the salesperson because mianzi (social status). The sales representative thus gets a chance to introduce the products and advantages of the company. Interviewee 1 said that he acquired many customers in this way. He also stated that guanxi is critically important when the company has similar strengths to its competitors. He said that under the same qualifications, the buyer would choose the supplier with good guanxi with him/her. Thus confirming the points made by Wong and Tam (2000).

The interviewee also talked about his experience with respect to renqing. A buyer is under great pressure when he or she purchases from their normal supplier (the case company’s competitor) and the products cannot be delivered in time or when a batch of the competitor’s components is rejected. The buyer has to resort to other suppliers for help. At this time, the case company would win renqing (favour) by helping the customer to deal with product shortages or urgent shipments. The buyer appreciates this help and rewards the renqing in the future when necessary. For example, the key purchaser of the customer is usually able to decide which supplier to use for a new model of product. Customer service can be an important aspect in decision-making. The supplier who once helped gets a high mark for service, again confirming the points made by Wong and Tam (2000). This also illustrates the one of the paradoxes in Chinese culture, the coexistence of long-termism and short-termism (Styles and Ambler, 2003).

However, although *guanxi* is important in a Chinese business context, in this case it was not perceived to be the decisive factor in assessing business. *Guanxi* appears to be a supporting factor. Customers will not place purchase orders with a supplier solely because of good *guanxi*. Additionally, salespeople will not classify customers as important simply because of good *guanxi* with them. This may well explain why *guanxi* did not appear as a relationship assessment dimension.

Conclusions

In an oriental business context such as China, relationship portfolio models appear to be useful management tools. Chinese culture does, however, have an impact on which dimensions appear to be most appropriate in the portfolio analysis. Although sales volume has equal importance in both Western and oriental culture, customer's strategic importance and trust appear to be significantly more important in the oriental context. This unexpected stress on trust could be due to the unsound legal and regulatory environment in China or to fundamental differences between Western and oriental cultures. These findings suggest that relationship portfolio theory needs adjusting to take into account oriental culture and business practice.

Guanxi is critically important supporting factor throughout the whole process of customer assessment, although it is not regarded as a dimension of customer assessment. *Guanxi* plays its role by way of personal friendships between key contacts in the sellers and buyers. It actually functions in a dynamic balance of *mianzi* and *renqing* between salespeople and buyers of customers and illustrates the paradox of the mutual existence of long and short-termism in Chinese buying behaviour. Again theories of buying behaviour and relationship management need to be developed to take *guanxi* into account.

Managerial Implications

The research suggested a three-dimensional matrix for use in an oriental business context; with the dimensions of sales volume, customer's importance, and trust appearing to be most important. Managers need to consider these when making decisions about resource allocation, especially when doing business in China.

Guanxi is clearly important; it acts as a "lubricant" throughout the customer evaluation process. Good *guanxi* ensures long-term relationships with customers. *Guanxi* to some degree is about "giving" and "harvesting". In order to maintain good *guanxi* with customers, a business seller should seek a balance between *mianzi* and *renqing* and provide "strategic funds" for *guanxi* activities. In order to obtain good *guanxi* with customers, it is likely that Chinese nationals are employed; it is unlikely that Westerners would have the skills and empathy necessary to be successful in the development of *guanxi*.

Limitations

The research project has a number of underlying limitations. The first comes from the methodology applied in the research. Due to geographical inaccessibility, the interviews had to be performed via telephone. Face-to-face interviews are normally considered as a better approach for qualitative research because of the opportunity for observing the interviewees and better understanding. Additionally, the three dimensions that were identified as key dimensions during the research may not be universally applicable, further research is needed to confirm or refute these findings. However, it was never the purpose of this research to produce generalizable findings, simply to begin a dialog about the areas investigated. Finally, the research only investigates a single point in time, longitudinal studies would help explain the development of relationships in this context.

Recommendations for Future Work

Areas for further research include the further testing of the portfolio dimensions and the manner in which elements are grouped together to generate strategic importance of customer. Additionally, a longitudinal study of the role of guanxi is needed in the context of oriental-oriental and oriental-Western business.

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