

## **The Significance of *Guanxi* in Relationship Marketing: Perspectives of Foreign Banks in China**

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*The objective of this research is to study the significance of guanxi in terms of its importance and applicability to foreign banks in China (“CFBs”). It adopts a qualitative approach. Data are collected through semi-structured interviews of ten marketing executives (“Relationship Managers”), representing ten samples from ten CFBs based in Shanghai. Non-probability and purposive sampling techniques are applied. The research problem focuses on how important guanxi is in relationship marketing (“RM”) activities of CFBs. The findings confirm, either fully or partially, the research propositions. Such confirmations, coupled with certain theoretical and practical implications, have led to development of a platform/foundation for further research.*

### **INTRODUCTION**

In Chinese, *Guanxi* refers to two characters, *guan* and *xi*, meaning “gate” and “connection”, respectively; “one must pass the gate to get connected to networks” (Cheng, 2007:81). *Guanxi* also refers to relationships and social connections based on mutual interests and benefits (Yang, 1994). The earliest definition of RM is sourced from Berry (1983, p. 25): “attracting, maintaining and ... enhancing customer relationships”. Cheng (2007) specifically identified the underlying differences between RM and *guanxi* in terms of (1) the personal characteristic of *guanxi* and the particular nature of the relationship in the case of RM; (2) trust from *xinyong*; and (3) trust and the unique meaning of *renqing*. “*Xinyong*” and “*renqing*” mean “trust” and “favour”, respectively. Both *xinyong* and *renqing* guide behavioral norms in *guanxi*, which is different from the Western concept of RM in terms of the order in which transactions and relationships take place and the short-term versus long-term nature of business transactions (Geddie et al., 2002 and 2005; Sin, 1998). The CFBs tend to practice more of Western RM, which is quite different from domestic Chinese banks (“DCBs”) which are more focused on practicing the *guanxi* concept. The application of these two marketing concepts by the two types of banks is believed to have resulted in different business performances. The authors believe the CFBs need to review their RM activities in the light of *guanxi*.

China began its economic reform in 1978 and has transformed itself from a centrally planned economy to a more market-oriented economy, with a rapidly growing private sector, and has become a major player in the global economy (Kotler, 2010). However, this reform has aroused people's concern about where China stands in the world marketplace today and where it is going (Fisher, 2012). In this research, we have noticed that the reform has accelerated the improvement of China's banking sector in terms of infrastructure, technology and methods to develop business. The performance of the DCBs has been outstanding during these years in both domestic and global markets. Big names such as the Industrial and Commercial Bank of China, Bank of China, China Construction Bank and the Agricultural Bank of China are competing successfully against the CFBs. These DCBs owe their outstanding business performance to many factors, such as implicit support from the Chinese Government by way of capital injections and business policies. *Guanxi* is thus implied. In the circumstances, this research also attempts to study whether *guanxi* is a critical factor responsible for DCBs outperforming the CFBs.

## LITERATURE REVIEW

### CFBs in China's Financial and Banking Reforms

China's financial and banking reforms resulted in enhanced roles for CFBs. They used to function as international trade portals between China and the outside world in the mid-19<sup>th</sup> century and then as advisors to foreign firms in China through their representative offices. This status of representative offices of the CFBs was further upgraded to branches in some selected cities; in 1985 they were allowed to engage in foreign currency business and were then allowed to undertake domestic currency business in 1996 for financing customers from their home countries operating in China. In the late 1990s, China allowed foreign investors to buy minority stakes in domestic commercial banks, up to 20% in case of a single foreign owner and 25% by all foreign owners taken together. Since then, CFBs' investments in DCBs have grown very rapidly. Five years after China's entry into the WTO, foreign banks started receiving treatment identical to the DCBs. In December 2006, they were allowed to provide a full range of "Renminbi" business services to Chinese firms and individuals. Most of the CFBs have their China headquarters in Shanghai. Despite their growing importance in China, CFBs still appear to be less competitive as compared to the DCBs probably due to their failure to practice *guanxi* in RM activities. The Chinese government favors the DCBs, which implies a kind of B2G (Business-to-Government) *guanxi* and that is also a reason for the less impressive performance of the CFBs.

### *Guanxi* and Its Role in Business

Many authors have defined *guanxi* in extant literature. Despite numerous definitions having been proposed, there is no universally agreed definition because of its "intricate and pervasive nature" (Chen and Layton, 2003, p. 1218). Egan (2004) even concluded that there is no perfect definition. The role of *guanxi* is ambiguous. It exists between two persons or families because of blood ties or business acquaintances (Fernandez and Underwood, 2006). Lu (2012) explained the role of *guanxi* as one of the two cultural norms (the other norm being "*renqing*") followed in business dealings with managers in China. For business, *guanxi* is referred to as "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). Usefulness of *guanxi* lies in facilitation of procurement of information and resources;

transaction-smoothing; gaining business and enhancing the chance of success; securing future transactions and relationships; simplifying business process; improving negotiations; and eliminating competition.

Recently, *guanxi*'s role in Chinese business has been dramatically affected by international business trends because of foreign investment in China increasing rapidly (Dunfee and Warren, 2001). At the same time, China is undergoing changes because of the influence of Western legal procedures and concepts, resulting in *guanxi*'s role diminishing. Continuation of market liberalization has also diminished the role of *guanxi* (Wilson and Brennan, 2010). Ultimately, it is not *guanxi* but Western marketing concepts such as branding, high quality products and good marketing strategies which can make businesses successful in the Chinese market (Fan, 2002). This trend is getting accelerated because of advances in information technology, the Internet in particular, resulting in a more open and transparent market system. Thus, reliance on *guanxi* as a "middleman" is declining. However, given the long history of China, *guanxi*'s important role still prevails, especially when we link *guanxi* to cultural awareness, to emphasize the concept of *guanxi* as fundamentally important for understanding cultural interactions in China (Buckley et al., 2006). One example is China's cultural interactions which have resulted in integration of *guanxi* practices (e.g., gift giving, favor, face, etc.) into the Western business style of multinationals operating in China. Cross-cultural interactions between Chinese businesses and their foreign counterparts often occur in the form of marketing communications (Tian and Borges, 2011) and in the process of ensuring customer satisfaction, as in the case of China foodservice marketing (Tian and Wang, 2010). Lantos (2011, p. 11) also emphasized that "China's rapid assimilation of American-style consumer culture, which is revolutionizing the lives of hundreds of millions of Chinese, will have the potential to reshape the world".

*Guanxi* acts as a stimulus to cultural interactions and is becoming increasingly more important for multinational companies in China (Yang, 2011). The CFBs need to be aware of the role of *guanxi* and use it 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 they want to be successful in China. There are people who live entirely on their *guanxi* (Butterfield, 1982, cited in Tsang, 1998, p. 65) and claim that in China, *guanxi* is everything (Fox, 1987, cited in Su and Littlefield, 2001, p. 208).

### **Western Theories to Echo *Guanxi* in This Research**

To study *guanxi* in the light of Western theories is a complicated proposition, given the different cultures of the East and the West, and the different practices of *guanxi* and RM in business contexts. Further research in the future should link *guanxi* with various Western concepts and theories, for example, RM, network theory, social exchange theory, resource-based theory, social capital theory and the neo-relationship marketing theory.

Morgan and Hunt (1994) provided a classic RM model on the basis of commitment and trust theory claiming that successful RM requires relationship commitment and trust. They further claimed that RM establishes, develops and maintains successful relationship exchange and constitutes a major shift in marketing theory and practice.

Networks aim at obtaining the necessary information and knowledge to optimize organizational performance and providing a framework for gaining resources, knowledge and data. To apply the network theory in practice of *guanxi* in China, Chen and Chen (2004, cited in Standifird, 2006) claimed that network groups have interpersonal *guanxi* dyads as their

fundamental units. Networks form an important ingredient of *guanxi*-based business practices (Standifird, 2006). *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).

Social exchange pertains to the relationship between unspecified obligations and expectations of returns in the future, in return for contributions made (Blau, 1964). *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 helps analyze a company's strengths and weaknesses through financial, physical, human and organizational resources. Discussions of the relationship of *guanxi* with the resource-based theory or *guanxi* as a resource are abundant in extant literature. Butterfield (1983) associated *guanxi* with social investment, which is an important source for people to access 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 business partners. Some studies have drawn 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; 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. Therefore, *guanxi* can be classified as a resource (Tsang, 1998).

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 that *guanxi* is also related to social relations (Dunfee and Warren, 2001; Xin and Pearce, 1996). *Guanxi* is not that different from concepts of social capital (Crombie, 2011). Huang and Wang (2011) even claimed that both *guanxi* and social capital are similar concepts. *Guanxi* can be considered as a type of social capital developed between two persons via a process of reciprocal exchange (Fan, 2002, cited in Standifird, 2006).

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

### ***Guanxi* in the Practice of RM**

Focus of this literature review is incorporation of *guanxi* in the practice of RM. *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* echoes RM in that good *guanxi* reinforces RM and ensures its success whereas bad *guanxi* spoils RM and in turn terminates the transaction (Wong, 2007). *Guanxi* differs from the practice of RM in three aspects: (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 while 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 and the process of relationship building and business negotiations (Gilbert and Tsao, 2000). Other examples of practicing *guanxi* in RM activities are: the *guanxi* initiator (1) shows honesty, introspection and reliability; (2) gives gifts; (3) keeps contacts with *guanxi* members; (4) spends time on social activities such as dining and drinking; (5) frequently provides help and offers free favors to parties in the network; and (6) pays favors back as a means of keeping the *guanxi* network running (Ai, 2006). Time and patience are two important elements required to build, maintain and enhance *guanxi* because Chinese executives do not attempt to develop close personal relationships with outsiders, that is, foreign firms (Fock and Woo, 1998). The operationalization of *guanxi* is very difficult because *guanxi* is very complex and goes beyond the economic context (Arias, 1998).

### ***Guanxi*: Strategies versus Tactics**

In this research, the concept of internal and external partnerships is adopted as a long-term strategy and tactics are considered short-term tools for the implementation of strategies via a customer relationship management (“CRM”) system. The term “internal partnerships” is used interchangeably with “internal marketing”. “Whereas traditional marketing focuses wholly on external customers, RM stresses the additional significance of the internal customer.” (Gummesson, 1991, p. 7, cited in Egan (2004, p. 153) and “... internal marketing can be seen as the process towards the development of internal partnerships” (Egan, 2004, p. 153). The term “internal customers” echoes “internal partners” in the sense that all employees of an organization partner together; those in non-marketing departments as part-time marketers and those in marketing departments as full-time marketers, to serve customers. This definition is also applied to external stakeholders such as suppliers, distributors, retailers and even competitors who can be seen as “external partnerships”. They cooperate as partners to provide high quality of services to customers. On the other hand, the term “CRM” emerged in the mid-1990s in the context of information technology and is often used to describe technology-based customer solutions as a means to acquire new customers, retain customers and maximize customers’ lifetime values. RM and CRM are often used interchangeably (Parvatiyar and Sheth, 2001). There seems to have been no previous studies on the relationship between *guanxi* and CRM. Their integration into a system for the CFBs is proposed to be examined in the second phase of this research in the future.

### ***Guanxi* and Business Performance**

Some researchers have reviewed the relationship between *guanxi* and business performance, which is measured in terms of the following four items: sales growth, customer retention, return on investment and market share (Sin et al., 2002; Tse et al., 2004). In respect of the relationship between *guanxi* and business performance, Zhang and Zhang (2006) provided a detailed explanation that there is no consensus on the positive effect of *guanxi* on business performance. Dunfee and Warren (2001) stated that the impact of *guanxi* on economic performance is not known with any degree of precision. Fan (2002) maintained that the benefits of *guanxi* for economic and organizational efficiency may be exaggerated. Other investigators have claimed 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).

The positive view of the relationship between *guanxi* and business performance is reflected in Luo and Chen (1997) who claimed that a firm could enhance its performance by benefiting from a *guanxi* network 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 (Lovett et al., 1999), sustainability of competitive advantage (Tsang, 1998), access to scarce resources (Davies et al., 1995) and enhancement of long-term survival and growth (Pearce and Robinson, 2000). Results of a survey by Wang et al. (2011) relating to the effects of organizational support and *guanxi* on salespersons' performance indicate that salespersons' *guanxi* with customers have a positive influence on their job performance. In spite of the positive comments of the authors, *guanxi* does not trump everything. For example, banks' success and business performance are 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 factors that affect the profitability and business of the banks.

## RESEARCH PROBLEM, PROPOSITIONS AND CONTRIBUTIONS

### Research Problem

The purpose of this research is to study the significance of *guanxi* in terms of its importance and applicability to RM of the CFBs. The literature review indicates a substantial volume of literature on Western RM theories and *guanxi* in general but no prior studies seem to have investigated *guanxi* in China's banking industry, particularly its practice by the CFBs. However, Redfer and Ho (2009) conducted a survey on *guanxi* and business ethics using an international bank in Hong Kong as their research target. Also, there are no surveys on how important the *guanxi* practice is in RM activities of the CFBs and discussions of the relationship between *guanxi* and bank performance through the implementation of a CRM system with *guanxi* elements. Therefore, the problem of this research is defined as:

How significant is the Chinese concept of *guanxi* in RM activities of the CFBs in China's banking industry?

The following are the related research questions, each of which has been formulated through literature review, pilot interviews with experienced bank marketing executives and the bank marketing experience of the researchers performing this research:

Research Question 1: What is *guanxi* and what is its role in China's banking industry?

Presently, Chinese domestic firms are often interacting with 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 China's banking industry and therefore leads to the first research question: *What is guanxi and what is its role in China's banking industry?*

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 importance of *guanxi* and whether the change has eroded *guanxi's* structural foundations and its relevance to doing business in China. The importance of *guanxi* for success in China may be waning, owing to the significant change in the legal structure, corporate governance, privatization and competition. These factors have

decreased the degree of organizations' reliance on *guanxi* (Dunfee and Warren, 2001). However, there are still many authors who support the importance 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: China's financial and banking reforms over the past two decades have not eroded the importance of *guanxi* in its banking sector.

Research Question 2: How do different views on *guanxi* and its practice affect marketing activities and operations of the CFBs?

*Guanxi* is 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* along with the Western RM concept due to differences between culture and business practices in China and Western countries. However, it is commonly accepted that *guanxi* does affect marketing and operations of the CFBs. The second research question is: *How do different views on guanxi and its practice affect marketing activities and operations of the CFBs?*

Relationship Managers employed in banks in China are believed to hold different views of *guanxi*. The success of a bank's RM in China depends on the degree to which the relationships of customers and banks are merged to form a cooperative unit or a merged partner. In *guanxi* marketing, a merged partner relationship between the company and customers is established. However, in RM, the customers are only treated as a subset of the company (Sin, 1998). It therefore leads to the proposition that:

P2a: Different views on *guanxi* in association with RM affect marketing activities and operations of the CFBs.

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

P2b: Whether *guanxi* can be efficiently practiced and operationalized affects RM activities and operations of the CFBs.

Research Question 3: How does *guanxi*-based RM affect the strategies and tactics of the CFBs?

The CFBs adopt the concept of internal and external partnerships in their RM strategies. Tactics are short-term tools for implementation of strategies. The CFBs should incorporate *guanxi* elements into their RM strategies and exercise control (e.g. *guanxi* measurement and *guanxi* audit) via a CRM system along with a conceptual framework of *guanxi* proposed in the next phase of this study. The third 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 CFBs to redefine their business and operational strategies and tactics for the purpose of integrating the *guanxi* concept into their RM

activities. Banks which strategically formulate *guanxi* relationships with internal and external core stakeholders are more likely to be successful in business. Su et al. (2003) provided a foundation for further research in this area. It therefore supports the formulation of the following proposition:

P3: Business and operational strategies and tactics of the CFBs require re-defining of RM in terms of *guanxi* with the constituencies of internal and external partnerships.

Research Question 4: Does *guanxi* affect business performance of the CFBs?

As discussed in the Introduction section, the major DCBs are performing very well, as is evident from their global branch network development, outstanding business performance and aggressiveness in recent mergers and acquisitions in the domestic as well as global capital markets. People tend to believe that one of the critical success factors is their *guanxi* networking activities which are not practiced by the CFBs. *Guanxi* continues to play a major role and is a determinant of 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) have claimed that there is no consensus and benefits of *guanxi* are over-stated (Fan, 2002). The fourth research question is then derived: *Does guanxi affect business performance of the CFBs?* A positive answer to the above question consequently leads to the following proposition:

P4: DCBs with high *guanxi* outperform the CFBs with low *guanxi* and the lack of *guanxi* is a reason that undermines business performance of the CFBs.

## Contributions

Answers to the research issues and questions are derived from the findings presented in Table 1, which also suggest theoretical and practical contributions of this research. In terms of theoretical contributions, research results confirm the propositions developed through Western theories as discussed in the Literature Review section. This suggests that wider utilization of Chinese concepts/theories like *guanxi* should exist in some organizations where Western culture is prevailing, e.g., the CFBs. For the practical value of this research, firstly, *guanxi* is a very complicated concept in the context of banking industry due to its highly sensitive nature, particularly with regard to corruption and bribery which are strictly forbidden in banking. The research suggests incorporation of *guanxi* into RM activities of the CFBs in the future. This is a pioneering attempt in the banking industry and no previous research work has examined *guanxi* in China's banking sector, notwithstanding the numerous studies regarding the importance of *guanxi* in non-banking foreign firms. Secondly, given that *guanxi* is a typical component of Chinese culture, this research can only be practically applied in countries where *guanxi* prevails. However, it provides some insights into foreign cultures, which apply RM in business. Thirdly, the findings provide bank managements with improved marketing strategies and tactics and Relationship Managers with practical marketing guidelines.



## RESEARCH METHODOLOGY AND DESIGN

### Research Design and Approach

This is a social research project and an experimental/exploratory design was chosen to meet the research criteria. Hitherto little has been known about, and no information is available on, whether *guanxi* can be incorporated into RM activities of the CFBs. Therefore, an exploratory study was undertaken to better comprehend the research problem. A cross-sectional study was also carried out because data was gathered just once over a period of one week, through interviews with Relationship Managers of selected foreign banks in Shanghai, in order to meet the research objective. The study thus has a “one-shot” characteristic; a longitudinal study could not be conducted due to time and cost constraints. This research has used a deductive approach that commences with prior theoretical knowledge, develops concepts and suggests propositions and applications, and then concludes with new knowledge (Spens and Kovacs, 2006).

### Sample and Sampling Technique

The samples cover Relationship Managers of ten CFBs. The selected banks are purely commercial and are located in Shanghai. These banks are important in terms of size, exposure and business experience in China, as well as international capital markets, as listed in the “*China Financial Services Directory*” and the “*Bankers Almanac*”. Their national diversity and long-term business commitment (e.g. ten years or more) in China were also inclusion criteria for sample selection. The city of Shanghai was chosen because it is a major city where many foreign banks have established their China headquarters.

One participant from each bank was invited to attend the interview, making a total of ten Relationship Managers. This sample size is considered acceptable as it represents around 33% of the foreign bank population. In accordance with the “*China Financial Services Directory*”, there are approximately 30 foreign commercial banks with branch status in China.

Sample constituents from the selected CFBs are marketing executives working as relationship managers, officers or heads of marketing departments (e.g. Corporate Banking, Business Banking, Private Banking, Retail Banking, Customer Services, Trade Finance or Financial Institutions) who have direct and face-to-face contact with customers in their daily marketing activities. The sampling was confined to such specific people (i.e. Relationship Managers) who could provide the desired information on *guanxi*/RM. They are the only ones who possess, and are in the best position to provide such information, because they know the subject area well. Therefore, their professional opinions, views and knowledge constitute a rich data source and provide great insights into the research questions. With respect to the sampling technique, this research adopts purposive sampling, which matches the topic, which is social and behavioral and which is related to the characteristics of human nature.

### Data Collection Methods

Data was collected by using a qualitative method because *guanxi* is a complex issue involving social, behavioral and human elements. *Guanxi* exists within the complex environment of China’s banking sector and it is a phenomenon that cannot be addressed or measured quantitatively. In this respect, semi-structured, open-ended, individual in-depth and face-to-face interviewing was used. This data collection method is considered ideal because the process involves a large amount of prompting, probing, collecting additional data, asking additional questions, establishing rapport and motivating participants during the data collection process.

To proceed with the interviews, the researchers first telephoned the Relationship Managers of the selected banks in Shanghai to obtain their consent to be interviewed. Then, the researchers mailed the pre-planned interview guide to them to facilitate the interview process. A two-hour interview with each participant was arranged in his/her office or at any sites convenient to the participants in Shanghai. Participants had a working knowledge of English. Interviews were conducted in both Putonghua and English and Cantonese was also used in some cases where the participants were originally from Hong Kong. Note-taking rather than voice-recording was used due to the need for confidentiality. To minimize any possible bias caused by the note-taking process, the pre-planned interview guide was used in order to help control the collected answers to the questions. Subsequent telephone follow-ups with the interviewees were made to clarify any doubts about information collected in the interviews via the note-taking method.

### **Data Analysis**

Data was analysed mainly through qualitative approaches such as secondary data analysis, content analysis, categorization, interpretation, quotations and narrative forms to see if the research questions were supported or the research objectives were substantiated.

For the first part of this research, secondary data analysis and content analysis methods were used. The researchers analyzed the data regarding *guanxi* gathered from previous surveys and published research, which were used as secondary data for the purpose of studying *guanxi* and RM in general. Then, the researchers supplemented the secondary data with primary data, or judgements obtained through interviewing the Relationship Managers, to fully address the research problem.

In the data analysis process, the researchers also undertook an initial analysis of interviews and field notes. They would then “take the data apart and then piece them together in a number of ways” (Shaw, 1999, p. 65) for an understanding of the research problem. This was followed by constant comparison of emerging themes and categorization of core codes into four pre-planned units of: (a) Role of *guanxi* in China’s banking industry; (b) Views and practice of *guanxi* in RM activities and operations of CFBs; (c) *Guanxi* as strategies and tactics; and (d) *Guanxi* and business performance of CFBs. The researchers then deepened their analysis by comparing their findings with the established concept of *guanxi* as described in extant literature. Finally, the analysis was compiled into written forms by means of narrative analysis, interpretation, quotation and data display.

In the narrative approach, questions were mainly open-ended in nature which served as a good guide to encourage the interviewees to share more stories and events. These questions helped stimulate the flow of details and impressions of the Relationship Managers about the views and practice of *guanxi* in their RM activities.

Interpretation is a central theme of qualitative research when it comes to complex behaviors, conditions, forces and messages of an event (Cavana et al., 2001) such as *guanxi*. During the analysis, the researchers interpreted the participants’ views by directly quoting or using their actual words in order to safeguard the accuracy and avoid any distortion that might have arisen from the abstract nature and complications of the concept of *guanxi*.

Data in this research was displayed in accordance with the methods suggested by Sobh and Perry (2006). Firstly, in spite of some empirical experiences obtained from the participants, the data eschewed numbers and concentrated on qualitative approaches like interpretation, narrative analysis, content analysis and secondary analysis of qualitative data. Secondly, every observation from the interviews had an explanation of why the observed event had occurred. This

explanation was linked to what the participant said and is supported by representative quotations (in the data analysis section below), thus providing the in-depth understanding that the researchers sought. Finally, data analysis computer software was not used because the sample size of this research is small. This omission was necessary in light of cost and time factors.

For verifying the validity of the research findings, the researchers could not use scientific and quantitative methods to measure *guanxi*. In addition, validation could not be performed at this stage as this is a continued process requiring follow-ups through the qualitative approach of trustworthiness in terms of credibility, transferability, dependability and confirmability.

## **ANALYSIS OF RESEARCH ISSUES/PROPOSITIONS**

### **Role of *Guanxi* in China's Banking Industry**

Finding 1: It is important to understand the definitions of and differences between *guanxi* and RM in the context of the CFBs. This understanding assists in studying whether the importance of *guanxi* has been eroded because of reforms in finance and banking over the past two decades.

In the interviews, participants appeared to have varying perceptions of definitions and role of *guanxi* in RM activities of their banks. They were unconcerned about the differences between *guanxi* and RM as long as these two measures could help them develop business and customer relationships. Four participants (40%) linked *guanxi* with personal relationships and viewed it as a tool or channel to facilitate business development and the conclusion of business deals through the satisfactory cultivation and maintenance of good relationships with customers. RM was viewed by six participants (60%) as a more "corporate" approach toward business development. One participant provided a very straight-forward answer, namely, "*guanxi* is RM in a Chinese way." The following quotation from a participant typically demonstrates the perceptions and understanding of the majority of participants regarding the definitions, roles and differences between *guanxi* and RM:

"*Guanxi* is a process between two personal relationships commonly practiced in China while RM is implemented in the world market and the role of *guanxi* is very important in Chinese cultural society and it can enhance business network in the banking sector."

With respect to terms "RM" and "*guanxi*", the findings indicate that 100% of the participants have knowledge of RM but 60% do not know exactly the term "*guanxi*" and how it is different from RM. There was a similar response to the question on the "*guanxi* model", in that 100% of the participants had not encountered the term in China's RM. On the other hand, 70% of the participants disagreed with the statement that "*guanxi* is found only in the Chinese personal and business environment and nowhere in foreign countries" and all participants emphasized the importance of a continuous business relationship for long-term banking relations. Also, a large proportion of participants (70%) disagreed with the statements that (1) *guanxi* focuses on building relationships before transactions – the company and customer become one cooperative unit/merged partner; and (2) RM deals with transactions first and building relationships later – the customer is the subset of the company (Geddie et al., 2002 and 2005; Sin, 1998). What they

were concerned with was the establishment of long-term relationships with the customers and they had no intention to distinguish *guanxi* from RM.

The last issue is whether the reforms in finance and banking over the past two decades have eroded the importance of *guanxi* in the banking sector. Findings indicate that participants generally had difficulties in drawing the conclusion. In the interviews, 80% of participants indicated continued importance of *guanxi* as a part of the Chinese way of RM. However, one participant commented that given the reforms and the resultant high marketization and strong competition in banking which requires innovative and high quality banking products and services, the role of *guanxi* has been eroded. Another participant who claimed that *guanxi* is only assuming a secondary (or supplementary) role in Chinese business also supported this comment. However, these two participants did not deny the importance of *guanxi* in the current RM activities of banks in China.

The above findings confirm the importance of *guanxi* in the banking business, which is becoming more and more important among foreign organizations, including the CFBs. However, banks need to possess more competitive capabilities and advantages in the aftermath of reforms in finance and banking over the past two decades. They cannot rely solely on *guanxi* for survival. However, the importance of *guanxi* still applies in today's business environment in China, given that history and culture have continued to foster *guanxi* as an essential strategy for conducting business in China. Therefore, Proposition 1 (P1) "*The reforms in China during the past two decades have not eroded the importance of guanxi in China's banking sector*" is partially confirmed.

### **Views and Practice of *Guanxi* in the RM Activities and Operations of the CFBs**

Finding 2: How *guanxi* affects marketing activities and operations of the CFBs depends on the understanding of the Relationship Managers of: (1) the views of *guanxi* in association with RM; and (2) whether *guanxi* can be efficiently practiced and operationalized in RM activities and operations of the CFBs.

#### *Views of Guanxi in the CFBs*

The above finding outlines the importance of *guanxi* for a long-term relationship between a bank and a customer. One participant said: "*Guanxi* should be practiced by the CFBs because: (1) the CFBs focus on the market in China; and (2) banking is a tertiary industry and needs to rely more on *guanxi*." However, another participant emphasized the impracticability of *guanxi* in his RM activities due to the difficulties in transplantation of the Western RM concept into the Chinese *guanxi* concept or vice versa:

"The CFBs hold the Western RM concept in their business development and bank operations. This concept is quite different from the *guanxi* concept. It is difficult for the CFBs to transplant the RM concept from the Western countries to China, and *guanxi* concept from China to the Western countries because of the different cultures, economic and social environments of China and the Western countries."

The findings indicate different views on *guanxi* in the mindsets of the participants regarding *guanxi*'s practice in a foreign culture that can affect their marketing and operational functions in the areas of (a) customer relationships; (b) networks and communications; (c) staff-customer

relationships; (d) accounts management; (e) business ethics; and (f) bank operations. Therefore, Proposition 2a (P2a) “*Different views on guanxi in association with RM affect marketing activities and operations of the CFBs*” is confirmed.

#### *Guanxi in RM and Operations of the CFBs*

*Guanxi in Customer Relationships.* 90% of the participants claimed that the DCBs are more inclined to practice *guanxi* and they are more skilful in building *guanxi*. The following comment was made:

“Foreign banks often lack long-term relationships with Chinese customers. Relationships between the CFBs and enterprises are mainly built on corporate cooperation in which a corporate *guanxi* exists. Under this *guanxi*, the customer and the bank emphasize procedures and policies and there is a certain degree of distance between the two parties. However, in the DCBs, relationships between the banks and customers are multi-dimensional and corporate *guanxi* is not so significant. Very often, the Relationship Managers spend lot of time developing personal *guanxi* with the decision-makers of their customers, for example, engaging in entertainment, adopting some hobbies of common interests and even helping the family members of the customers in order to build up intimacy.”

*Guanxi* facilitates customer relationships and is extensively used in RM activities by banks in China. The findings show that CFBs acknowledge the important applications and usefulness of *guanxi* for maintaining a stable client base, enhancing satisfaction of customers, facilitating new customer referrals and advocacy, operationalizing customer commitment and trust in customer relationships, reviving deteriorating customer relationships and developing bank image and customer awareness of the bank. All of these RM activities can be facilitated by *guanxi*. In addition, *guanxi* can also help smooth bureaucratic processes, provide access to business opportunities from state-owned enterprises and secure support from relevant government bodies.

Eighty percent of the participants supported *guanxi* as a means to attract more clients but their bank managements have not proactively committed to implementation of the *guanxi* concept in RM activities as managements do not actively practice *guanxi*. They agreed that creating a competitive advantage in a bank based on excellent services is more important than *guanxi*.

*Guanxi in Networks and Communications.* Findings show that 70% of the participants believe they have good *guanxi* with their customers because of excellent and frequent communications. Fifty percent of the participants were neutral to the statement that *guanxi* can assist in solving problems and providing solutions for their customers. Eighty percent of participants did not agree that their banks focused on *guanxi* networking as part of their business strategy. However, 70% participants believed that *guanxi* could function in the information network of their banks, and banks with wide “*guanxi*” and relationship networks performed better than those with little or no relationships with Chinese customers.

*Guanxi with Staff-Customer Relationships.* Findings indicate that support for *guanxi* in staff-customer relationships is confirmed. The findings reveal 80% support for *guanxi* as an effective tool to develop and foster relationships between staff and customers. *Guanxi* is maintained through staff-customer trust by solving problems, rectifying errors and responding promptly to customers, and by expertise that gives customers the perception of credibility.

*Guanxi in Accounts Management.* The findings also indicate that on average Relationship

Managers allocate 70% of their time to daily accounts management. Relationship Managers spend substantial time on relationship cultivation, including clients and site visits, establishment of mutual understanding, problem investigation and solution, customer entertainment and social gatherings (e.g. lunch, dinner, playing golf and social event participation). Accounts administration and other activities relate to internal administrative functions in order to support RM. These activities take up around 30% of the time of the Relationship Managers.

*Guanxi as Ethics in Bank Operations.* Eighty percent of the participants agreed that *guanxi* can take many forms, such as gift-giving and reciprocity, i.e. it cannot be simply based on money and is considered legal in Chinese culture for building relationships. It is not viewed as bribery. There is no need to feel uneasy or uncomfortable about *guanxi*. Finally, 90% of the participants believed that *guanxi* with high ranking government officials are still important for doing business in China. They then added one comment that corruption and bribery in B2G *guanxi* still prevails in China.

*Guanxi in Banks' Operations.* Findings indicate 100% of the participants supported high quality services as their banks' strategies to sustain long-term relationships and proper *guanxi*. This also applies to the pricing strategy in which 80% of the participants indicated *guanxi* can reduce a customer's price sensitivity because of trust. One hundred percent of the participants claimed that a closer relationship is needed due to the innovation of technology and increased automation in banks' operations, business and services, thus fostering "emotionless" services found in virtual banking or the "virtual marketing/virtual corporation" (Aijo, 1996, p. 16). Finally, participants agreed that *guanxi* can streamline operations but it depends on the allocation of financial resources to support *guanxi* management.

In conclusion, *guanxi* has a significant effect on RM activities and banks' operations as discussed in the above research findings and therefore Proposition 2b (P2b) "*Whether guanxi can be efficiently practiced and operationalized affects RM activities and operations of the CFBs*" is confirmed.

### ***Guanxi as Strategies and Tactics***

Finding 3: *Guanxi*-based RM affects business and operational strategies and tactics of the CFBs – banks which strategically formulate *guanxi* relationships between banks' internal core and external major stakeholders are more likely to be successful in business than banks with *guanxi* relationships that do not connect such core and major constituencies. Therefore, the CFBs should redefine their RM in terms of *guanxi* to include the above-mentioned constituencies of internal and external stakeholders.

#### *Guanxi at the Strategic Level*

Data collected for this section was analyzed in terms of: *Guanxi* as a Strategy; *Guanxi* in Internal Partnership/Marketing; and *Guanxi* in External Partnership/Marketing.

*Guanxi as a Strategy.* Sixty percent of the participants agreed that their customers view banks' RM strategy or *guanxi* as a business strategy. Seven participants (70%) agreed that banks' marketing executives could benefit from incorporating the principles and practice of *guanxi* in their marketing strategies and tactics. Also, seven participants (70%) said they would consider *guanxi* as a key competitive element when they redefine RM in order to incorporate *guanxi* into their existing RM activities. However, the majority of participants indicated difficulties in

redefining their RM with *guanxi* elements due to the illusive and complicated nature of *guanxi*.

Participants were further asked about strategies their banks would implement in order to adopt the *guanxi* concept and approach into their RM activities. Among all participants, only one linked RM with *guanxi* by proposing personalized *guanxi* as a way to upgrade RM:

“We should initially introduce *guanxi* practice; then, follow up with systems and ways for adoption of *guanxi* in RM. At the same time, use *guanxi* to maintain good communications and mutual understanding during the entire process.”

*Guanxi in Internal Partnership/Marketing.* Findings show that nine participants (90%) have not learnt about or did not know of internal partnerships and/or internal marketing and their uses. However, by its name, they could guess what internal marketing is and supported this practice. Two participants indicated that:

“Internal partnerships focus on the staff and view the staff as internal customers. It is marketing within the group. It can yield quick results in meeting business targets.”

“Internal marketing is the provision of support to the customers through the relationship manager’s internal influencing power on the back offices, credit department and the supervising levels of the bank. It is the basis on which the cooperation and relationship of the bank and the customers are built.”

One participant further expressed that internal marketing promotes team spirit among employees of the organization and through teams, his bank can provide better quality of services to the customers, by a team rather than by individuals. He claimed that “banking service is, as a whole, a kind of team services.” He finally linked team services with *guanxi* in a way that “team services can help sustain in-depth *guanxi* between the bank and the customer” and “cooperative teamwork can be enhanced by *guanxi*”.

In respect of internal partnerships with *guanxi*, two participants linked their relationships as follows: (1) “*Guanxi* promotes the internal marketing of inter-staff relations”; and (2) “Internal marketing is beneficial to the development of *guanxi*”.

When asked to redefine RM in terms of *guanxi* in order to implement internal partnerships and/or internal marketing, no participant was able to provide a specific response. This situation was also found in the last question relating to the processes the participants’ banks should implement in order to support the *guanxi*-based internal partnerships and/or internal marketing. One participant stated that:

“All departments should be implanted with a concept of acting as marketing departments with shared responsibilities in order to promote quality services to the customers in a unique role of the same family which is based on the *guanxi* concept.”

Another participant provided a very straightforward answer that:

“*Guanxi* has to be implemented for internal marketing as departments tend to cooperate if there is good *guanxi* with the relationship managers; however, my

bank is not practicing *guanxi* in business development and bank operations.”

*Guanxi in External Partnership/Marketing.* Six participants (60%) indicated that they were not aware of the term “external partnership and/or external marketing”. Some participants viewed customers and other parties having business relationships with banks as external partners. Other parties include insurance companies, leasing companies, suppliers of innovative financial products, trust and investment corporations, investment banks and other banks within the commercial banking field. The importance of external partnerships was well explained by the following participants:

“The importance of external partnerships is facilitation of common resources sharing and provision to customers with expertise within the scope of services of each partner for customer satisfaction and monitoring.”

“External marketing can result in profitable business for the banks.”

A number of participants linked *guanxi* with external partnerships. They claimed that maintaining good *guanxi* with external partners can enhance and widen a bank’s product range and scope of services provided to the customers, and a bank’s connections with external partners are as important as *guanxi*. One participant also claimed that:

“Through *guanxi*, relationships between banks can be closely linked to streamlining exchange of communications and information and supplementing what is lacking at my bank. This is the objective of external partnerships.”

External partnerships are also referred to as inter-organizational cooperation through which “advantages of different banks can be applied to serve the customers” in order to “obtain customers’ satisfaction”, “update market and industry information and intelligence for the customers”, and “achieve win-win situations between the bank and its customers”, as claimed by a participant. In the interviews, 70% of the participants indicated that *guanxi* is workable through inter-organizational cooperation and team spirit.

Findings also indicate external partnerships in relation to *guanxi* and RM and the participants’ degree of satisfaction with external partners/business networks. One hundred percent of the participants indicated satisfactory relationships with their external partners in terms of interdependent relationships and long-term associations and interactions. Ninety percent of the participants revealed that partners are expected to act in each other’s best interests to form good business relationships. With regard to *guanxi*, eighty percent of the participants claimed that *guanxi* with external partnerships existed and that they had complete confidence in the promises made to the banks by their business partners, notwithstanding the absence of *guanxi* in their RM activities. As a whole, findings indicate the effect of *guanxi* and its importance in external partnerships from the perspective of the participants.

#### *Guanxi at Tactical Level*

This section focuses on *guanxi* as tactics. Arias (1998) claimed that “tactics” is a tool to implement strategy and, in this research, tactics are referred to as the establishment of customer databases, customer-oriented service systems and procedures that help ensure proper and



efficient implementation of strategies relating to *guanxi*. Findings indicate use of *guanxi* at a tactical level. Seventy percent of participants indicated that they had built up their databases to cover the necessary information about customers and stakeholders. This includes internal computer systems for data storage and mining purposes but not relationship cultivation and development via the CRM system. However, the systems do not provide procedures or mechanisms to establish direct contact with customers and other stakeholders. The customer-oriented service systems are understood by the participants as CRM system, e-banking and phone-banking.

Eighty percent of the participants said their banks have developed systems to track loyal and profitable customers in order to prioritize them in accordance with their importance as customers. This does not mean systems installed for customer relationship building. On the other hand, 90% of participants said the marketing and operational systems for managing and controlling of marketing activities are developed by their banks' head offices. Then, concern was expressed about the implementation of *guanxi* through some systematic and technology-aided devices provided by their head offices. Owing to the lack of understanding of *guanxi* by the head offices of the CFBs, difficulties are encountered in adaptation of Western banks' systems for local conditions, particularly in integration of *guanxi* into RM activities of the CFBs. Finally, 60% of participants indicated that there are no programs in their banks to manage and control RM and, needless to say, *guanxi*.

In the context of use of *guanxi* as a tool in RM activities, all participants indicated that there is no such thing as *guanxi* audits (Tsang, 1998), especially in situations where *guanxi* is not practiced. Another tactical application suggested by a participant relates to using a CRM system to monitor the nature and composition of business activities of customers for designing and providing tailor-made services to customers. This was said to be a good way to foster and sustain *guanxi* with the customers. Finally, the following is a very typical *guanxi*-driven policy proposed by a participant to better manage and control relationships or *guanxi* with customers:

“I'll first of all categorize my customers in terms of priority for provision of quality services based on *guanxi* or RM. Then, individual customer plans are formulated to ally with the daily work schedules for advancing *guanxi* systemically and procedurally. First priority should be given to handling any matters that are beneficial to the promotion and development of *guanxi*.”

In conclusion, the findings indicate the importance of concepts of internal and external partnerships/marketing with *guanxi* elements in RM. However, relationship managers of the CFBs are not clear about such concepts. To improve RM activities, CFBs should provide top priority to link *guanxi* with internal and external partnerships. Redefining RM is necessary for future research. Therefore, Proposition P3 (P3) “*Business and operational strategies and tactics of the CFBs require redefining of RM in terms of guanxi with the constituencies of internal and external partnerships*” is confirmed.

### ***Guanxi* and Business Performance of CFBs**

Finding 4: *Guanxi* has been extensively practiced by the DCBs but not the CFBs. People are led to believe that *guanxi* is one of the critical success factors for the DCBs because of its major role as a determinant of good business performance

from a long-term business perspective in China. Notwithstanding that the findings make it difficult to draw a consensus on the notion that *guanxi* does affect performance of the CFBs, they indicate that the CFBs should practice *guanxi* in their RM activities via the development of a *guanxi*-based CRM system in order to improve their performance in China.

Eighty percent of the participants indicated that they had heard of CRM systems involving people, processes and information technology, though only 50% of the participants have installed (or will install) a CRM system. On the other hand, 70% of the participants expressed the opinion that the development of a CRM system can help operate and enhance *guanxi* in RM and assist in the development of a *guanxi* strategy. A CFB participant gave the comment as below:

“A CRM system can monitor *guanxi* progress with the customers ... Data storage can reveal and update the happenings and status of each customer for *guanxi* purposes. This can facilitate better operation of *guanxi* with the customers.”

Finally, eight participants (80%) proffered no ideas on how to develop a CRM system should they be asked to do so. This reveals a problem in installation of systems without incorporation of *guanxi* elements and the need to make the CRM system more *guanxi*-oriented.

The findings also shed light on measurement of *guanxi* in respect of performance of the CFBs. In the survey, the focus of the interviews was on discussion of *guanxi* against measurement factors such as customers, relationship quality, bank and account managers, staff commitment and loyalty, profitability and business performance.

*Customers.* One hundred percent of the participants claimed that “customers” are an important factor in measuring *guanxi*. By means of this factor, *guanxi* may be measured via loyalty and satisfaction, new customer acquisitions and referrals, amount of business generated and the amount of profit from each customer.

*Relationship Quality.* Nine participants (90%) emphasized the importance of relationship quality as a factor to measure *guanxi*. Good *guanxi* with customers and senior managers of their companies ensures high quality relationships and thus secures good profit from the account. *Guanxi* also promotes relationship quality via provision of standard products and services, enhancement and sustaining of competitive quality of services.

*Banks and Account Managers.* Seventy percent of the participants claimed that *guanxi* helps banks capture customers. Measurement of *guanxi* in terms of “banks” depends on the number of banks with which the customers have maintained accounts and the share of banking facilities obtained by the customers. Measurement of *guanxi* in terms of “account managers” is determined by business volume and profits generated from a certain customer.

*Staff commitment and loyalty.* One participant said: “It is critical to judge the staff’s commitments towards *guanxi*.” Another participant claimed: “Staff commitment and loyalty ensure that the bank’s interests are not jeopardized by the personal *guanxi* of the relationship manager with his/her customers.”

*Profitability/Business performance.* Fifty percent of the participants did not agree that *guanxi* has little influence on their banks’ returns on sales. Seventy percent of the participants claimed that their banks could realize business on a broader scale if they made use of *guanxi*; yet, two participants did not agree with this statement despite having assigned a relatively high weight to *guanxi*. They thought that today’s customers were very demanding in terms of actual benefits

(e.g. a broader scale of services) from their banks and that *guanxi* alone cannot work. Participants also emphasized the provision of diversified and quality products and services to customers, other than simply *guanxi*, as a critical success factor for doing business in China. Therefore, they remained neutral concerning the statement that most bank business is generated through *guanxi* and, without *guanxi*, banks would find it difficult to survive and grow in China.

However, a large proportion of participants (70%) agreed that banks with wide *guanxi* usage often perform better than those with little or no relationship with the Chinese and *guanxi* is useful in order to maintain a competitive advantage. This finding was also applied to the DCBs (as claimed by the participants). Despite 70% of the participants claiming a positive relationship of *guanxi* with banks' competitive advantages, they were not keen to practice *guanxi* in their business development and, therefore, business performance might have been adversely affected. This is reinforced by the following comments of two participants:

“Profitability/business performance is the ultimate objective of good *guanxi* which is true for both banks and enterprises.”

“Effective *guanxi* will contribute to profit and good business performance of the banks in the future.”

The above comments are suggestive of the importance of *guanxi* for business performance of banks in China. However, in the interviews, a number of participants claimed that *guanxi* itself cannot guarantee good business performance and, therefore, banks should gain their own competitive advantages and not simply rely on good *guanxi* with customers. Proposition P4 (P4) “*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*” is partially confirmed.

## RESULTS AND DISCUSSION

The findings of this research are consistent with mainstream previous studies of the general concepts of *guanxi* in the China context. Table 1 and Table 2, which are self-developed for this research, summarize findings against research questions and propositions by addressing the research problem.

**TABLE 1**  
**SUMMARY OF FINDINGS AGAINST EACH RESEARCH QUESTION**

Research issue/question	Findings
<b>RQ1:</b> What is <i>guanxi</i> and what is its role in China's banking industry?	Ambiguities are found in the role but the findings help to study the role of <i>guanxi</i> in China's financial and banking reforms over the past two decades.
<b>RQ2:</b> How would different views on <i>guanxi</i> and its practice affect marketing activities and operations of the CFBs?	How <i>guanxi</i> affects marketing and operations of the CFBs depends on the understanding of the Relationship Managers of (1) the views on <i>guanxi</i> in association with RM; and (2) whether <i>guanxi</i> can be efficiently practiced and operationalized in RM and operations of the CFBs.

<b>RQ3:</b> How does <i>guanxi</i> -based RM affect the strategies and tactics of the CFBs?	<i>Guanxi</i> -based RM affects business and operational strategies in terms of internal/external partnerships and stakeholder theory and tactics in terms of technology-facilitated systems, for example, customer relationship management (“CRM”) systems. The findings indicate the need for the CFBs to re-define these two core concepts of stakeholders and internal/external partnerships with <i>guanxi</i> elements as a whole process and a <i>guanxi</i> -based conceptual framework should be formulated to facilitate RM via a CRM system.
<b>RQ4:</b> Does <i>guanxi</i> affect business performance of the CFBs?	It is difficult to conclude from the findings whether <i>guanxi</i> does or does not affect business performance. However, the CFBs should enhance their competitive capabilities and advantages in China market. They should develop a <i>guanxi</i> -based CRM system in order to improve their business performance. Future research in this aspect is required because of the continuously undeniable importance of <i>guanxi</i> based on the findings of this research.

Proposition P1 to P4 are intended to answer the four questions as described in Table 1.

**TABLE 2**  
**RESULTS OF FINDINGS FOR EACH RESEARCH PROPOSITION**

Description of Research Issues/Propositions	Results of Findings
<b>P1:</b> China’s financial and banking reforms over the past two decades have not eroded the importance of <i>guanxi</i> in its banking sector.	Partially confirmed
<b>P2a:</b> Different views on <i>guanxi</i> in association with RM affect marketing activities and operations of the CFBs.	Confirmed
<b>P2b:</b> Whether <i>guanxi</i> can be efficiently practiced and operationalized affects RM activities and operations of the CFBs.	Confirmed
<b>P3:</b> Business and operational strategies and tactics of the CFBs require redefining of RM in terms of <i>guanxi</i> with the constituencies of internal and external partnerships.	Confirmed
<b>P4:</b> DCBs with high <i>guanxi</i> outperform the CFBs with low <i>guanxi</i> and the lack of <i>guanxi</i> is a reason that undermines business performance of CFBs.	Partially confirmed

The findings reported in Tables 1 and 2 lead to three main themes which help achieve an understanding of the research objective in relation to the study of *guanxi*’s significance to the CFBs. Finally, the findings provide a platform and foundation for further investigations in the new areas identified in this research.

### ***Guanxi* and its Role in CFBs**

The findings show ambiguities in the definition and interpretation of *guanxi* and its role in banks in China, implicitly confirming the comment of Chen and Layton (2003, p. 1218) that there is no universally agreed definition of *guanxi* due to its “intricate and pervasive nature”. In defining *guanxi*, Relationship Managers tend to look at *guanxi* from a more practical point of view, as information sourcing, problem solving and business referrals from one party to another. It is also indicated that Relationship Managers are not concerned about the differences between RM and *guanxi* as long as they can use either of them to build long-term customer/bank relationships. This also confirms the view of Arias (1998) that it is misleading to identify *guanxi* with RM.

A second issue relating to *guanxi*'s role is the impact of China's financial and banking reforms over the past two decades. The findings demonstrate the difficulties in confirming the impact of these reforms and a high percentage of Relationship Managers supporting the continuing importance of *guanxi* in today's business environment in China implicitly suggest that *guanxi* continues to play a role in determining business performance even after reforms.

However, the findings suggest an important point regarding the emphasis of the Relationship Managers on the growing importance of enhancing and sustaining their competitive capabilities and advantages in order to withstand strong competition brought in by the reforms. Competitive advantages of the banks may be achieved through the introduction of innovative and high quality products and services required by customers. Solely relying on *guanxi* for survival is no longer viable. To further investigate the conclusions about the role of *guanxi*, a review of RM practices in the CFBs with *guanxi* is required.

### ***Guanxi* in the RM Practice of CFBs**

Relationships between *guanxi* and activities of the Relationship Managers in the CFBs are established through confirmation of P2a and P2b. The findings confirm that *guanxi* should be practiced by the CFBs regardless of the Western RM concepts followed by the Relationship Managers. However, there are difficulties in transplanting the RM concept from Western countries (Palmer, 1995) into banking practices in China, and in integrating the *guanxi* concept into RM activities of the CFBs due to differences in cultures and business practices. Further, the findings demonstrate that *guanxi* bears a strong relationship with marketing and operations of banks in China, e.g., customer relationships, products and services, pricing strategies, networking and communications, staff-customer relationships, accounts management and ethical issues. The CFBs are not exceptions. These findings establish the importance of *guanxi* as a new area for future research.

Research findings also throw light on *guanxi*-based RM which affects CFBs' business and operational strategies when implementing some Western concepts, e.g. internal and external partnerships and stakeholder theory, in their RM activities – a new research area to integrate *guanxi* into the Western RM under a conceptual framework to be researched and practiced by the CFBs. On the other hand, findings focus on *guanxi* in terms of tactics. The findings focus on *guanxi* at a tactical level relating to the establishment of customer databases and customer-oriented service systems in order to achieve direct contact with customers and other stakeholders (Gronroos, 1996, cited in Arias, 1998). The findings also focus on the importance of how CFBs coordinate with their head offices for design of customer-oriented service systems (e.g. CRM system) with integrated *guanxi* elements. CRM is viewed by many Relationship Managers of the CFBs as a marketing process to foster customer relationships through a so-called CRM system, by delivering superior customer value and satisfaction.

### ***Guanxi* and Business Performance of CFBs**

In respect of the relationship between *guanxi* and business performance of the banks, particularly the CFBs in China, findings indicate a dangling answer to whether *guanxi* influences returns on sales. Relationship Managers consider profitability and business performance as the ultimate objectives of good *guanxi* for banks and enterprises in China. This confirms the claims of Davies et al., (1995), Lovett et al. (1999), Millington et al. (2005) and Yang (1994 and 2002) that *guanxi* plays a major role in China and East Asia. However, *guanxi* itself cannot guarantee good business performance. This finding confirms the comments of Braendle et al. (2005) and Li

and Athuahene-Gima (2001) that *guanxi* has no effect or even a negative effect on a firm and its performance. The findings also confirm the claim of Zhang and Zhang (2006) that there is no consensus on the positive effect of *guanxi* in relation to business performance. The most important factor for the success of banks in China is competitive capabilities of the Relationship Managers and the competitive advantages of the banks. Therefore, the findings emphasize the provision of diversified and quality products and services, offers of attractive pricing and tailor-made services to customers as success factors rather than sole reliance on *guanxi*.

## IMPLICATIONS OF THE RESEARCH

This research provides two types of implications: (1) theoretical implications; and (2) practical implications. For *theoretical implications*, first, there is a close relationship between *guanxi* and some Western theories as outlined in the Literature Review section. It is then feasible for the CFBs to practice *guanxi* along with the Western management concepts of RM. Second, there is a need for the future development of *guanxi*-bank related theories. The findings indicate a lack of such literature, for example: (a) integration of *guanxi* with RM for the CFBs; and (b) relationships between *guanxi* and marketing/operations of the CFBs. The findings also reveal a lack of *guanxi* models for banks in China, particularly the CFBs. It is difficult to link *guanxi* to banks' marketing practices in China in the absence of sufficient theories and literature in the field. In terms of *practical implications*, the general application of *guanxi* in conjunction with RM activities of CFBs, and the formulation of a *guanxi*-RM conceptual framework for the use of the CFBs are two practical implications and new areas for future research.

## SUMMARY AND CONCLUDING REMARKS

This research aimed at studying *guanxi* in RM activities of the CFBs. It is mainly of an exploratory nature, and has determined that there should be more in-depth discoveries concerning *guanxi* in marketing and operations of the CFBs. So far as the findings are concerned, there is no consensus on important implications of *guanxi* in China's banking sector but, without *guanxi*, Relationship Managers would find it difficult to solicit business and maintain rapport with customers. There are still many unanswered questions in respect of the application of *guanxi* to RM activities of the CFBs. Specifically, the CFBs need to (1) formulate an effective *guanxi*-RM conceptual framework; (2) study the effect of *guanxi* on their businesses and operations; and (3) understand the relationship between *guanxi* and business performance. These issues are more complex than indicated in the literature, thus setting a foundation for further research.

The researchers encountered a number of limitations that were beyond their control. They are (1) limitations of research methodology; and (2) limitations of conducting research in China. While such limitations are acknowledged, they do not detract from the significance of the findings. Instead, they have provided platforms for future research.

For the limitations of research methodology, firstly, selection of Shanghai as the location posed time and cost constraints. Secondly, "one-shot" interviews used in this research are not sufficient to produce full and rich descriptions of the findings (Polkinghorne, 2005). Thirdly, the time spent in each interview (approximately two hours) was too long and the interviewees found the interviews tedious, and as a result became restless.

With respect to limitations of conducting research in China, data collection activities in this

research were influenced by a number of practical considerations including the lack of up-to-date, comparable and complete information from industrial directories in China, and a strong disinclination of Mainland China people to reveal information about their views on *guanxi* to outsiders. The latter is a sensitive issue for bankers, as far as their view of *guanxi* is concerned.

The first issue identified for further research is the relationship of *guanxi* with business performance of banks in China. Some elements of the literature have indicated “no consensus” on the relationship. The second issue relating to the impact of *guanxi* on the CFBs could not be definitely confirmed, and it is still unknown whether the DCBs with high *guanxi* outperform the CFBs with low *guanxi*, or whether a lack of *guanxi* undermines business performance of the CFBs. The third issue is the relationship between *guanxi* and Western theories. Research on their interrelationships and interactions is very limited and there has been no study on impact of such relationships on the CFBs. The fourth issue is the worldwide application of *guanxi* in different industries, not only banking.

Finally, further phases of this research are susceptible to future surveys covering *guanxi* in the CFBs in these areas: (a) *guanxi* and RM integration; (b) redefining of the role of *guanxi* in the RM activities of the CFBs; (c) redefining of RM in terms of *guanxi* related to some other Western theories being applied by the CFBs; and (d) formulation of a *guanxi*-RM conceptual framework to facilitate marketing activities of the CFBs.

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