Abstract

Repeated reference to ‘guanxi’ (Chinese term for ‘relationship’) and its status as a critical success factor for doing business in China’s transitional economy can be traced within the strategic management literature. This phenomenon has been progressively explored through Transaction Cost Economics and Resource Based View conceptual and analytical lenses. A detailed review of the literature highlights certain conflicting arguments and limitations associated with both of these two conceptualisations of guanxi as a source of a sustainable competitive advantage. This research gap is addressed by exploring guanxi from a dynamic capabilities perspective, thereby offering new insight into the phenomenon and its implications for achieving a sustainable competitive advantage.
**Introduction:**

China’s remarkable economic transformation over the past few decades and the wide recognition of it rising as a major economic power has attracted much investment from international corporations. Innumerable accounts of the challenges posed by the unique host business system have repeatedly made reference to ‘guanxi’ and its status as a critical success factor for doing business in China’s transitional economy. An absolute explosion of western academic scholarship and popular discourse on the phenomenon of guanxi has ensued, with the prevalent use of the un-translated Chinese word having both negative and positive connotations with regards to its pervasiveness in China’s business sphere.

‘Guanxi’ literally refers to ‘relation’ or ‘relationship’. In totality, guanxi refers to a person’s nexus of private and particularistic social relationships that have the potential to serve, but do not exist solely for, instrumental purposes. These ties are based on ascribed traits (blood relations) and achieved (social relations forged through life experience) characteristics. Thus the bases for guanxi may be naturally occurring or created, yet guanxi must be consciously produced, cultivated, and maintained over time (Gold, Guthrie & Wank 2002; Lovett, Simmons & Kali 1999; Luo 2000; Yi & Ellis 2000). Guanxi is integrally linked to principles of Confucian social theory and involves implicit reciprocal obligations, which are without time specifications and are only socially binding. That is, it is a system of gifts and favours in which obligation and indebtedness are manufactured, and there is no time limit on repayment (Vanhonacker 2004; Xin & Pearce 1996; Yeung & Tung 1996). Fundamentally, guanxi is dynamic and practice-oriented. This is demonstrated through various dynamic processes, such as guanxi construction, cultivation, maintenance and strengthening; as well as manipulating and utilising guanxi and for established relationships, the art of putting the relationship to use (Guthrie 1998; Luo 2000; Wei & Youmin 2001; Wong & Tam 2000).

The field of strategic management is centrally concerned with exploring firm-level performance differentials and sources of competitive advantage (Foss 1996). There has been a lively advancement of perspectives and theoretical frameworks, enriched by interdisciplinary discourse, to address the complex subject of business strategy. One prominent stream of strategic management thought encompasses the efficiency approaches to business strategy, of which the underlying causal logic of rent generation is argued to stem from efficiency at the level of the firm. However, the efficiency approach is informed by a variety of perspectives, namely Transaction Cost Economics (TCE), Resource-Based View (RBV), Competence perspectives, and Dynamic Capabilities approach (Mahoney & Pandian 1992; Rumelt, Schendel & Teece 1991; Williamson 1991; 1999). While all of these perspectives provide valid conceptual and analytical routes for exploring efficiency sources of sustainable competitive advantage, they have, as yet, remained relatively independent. This is reflective of the acknowledgement that the subject of business strategy is highly complex and is in need of a variety of lenses through which strategy issues are to be adequately examined.
The persistent examination of guanxi within the field of strategic management has propagated concordant assertions of guanxi as a source of a competitive (and even a sustainable competitive) advantage. This position has been substantiated through the application of two of the prominent efficiency approaches to strategy – predominantly Transaction Cost Economics (TCE) and the Resource-Based View (RBV) (Davies, Leung, Luk & Wong 1995; Gold et al. 2002; Lovett et al. 1999; Luo 2000; Luo, Shenkar & Nyaw 2002; Mernkhoff & Gerke 2002; Tsang 1998; Xin & Pearce 1996; Yeung & Tung 1996; Yi & Ellis 2000). However, these explored perspectives are incomplete as certain conflicting arguments are evident. Yet, the inter-temporal persistence of guanxi as a critical strategic determinant in China is indicated by a still prominent consensus of opinions and empirical realities as to its association to competitive advantage. These conflicting arguments may well be reflective of an incomplete conceptualisation of guanxi as a source of a sustainable competitive advantage by the succession of academic scholarship on the topic to date. Hence, there is a need for further exploration of guanxi as a source of a sustainable competitive advantage. That is, guanxi needs to be examined through an alternative strategic management lens to unravel the mysteries of this important and timely phenomenon.

This research thesis addresses this gap by conceptually, analytically and empirically exploring guanxi from a dynamic capabilities perspective, thereby offering new insight into the phenomenon and its implications for achieving a sustainable competitive advantage. Hence, the originality of this research lies in the novel conceptualisation of guanxi as a dynamic capability and, therefore, the adoption of an untapped strategic management lens for empirical testing of this phenomenon. Hence, the central research question to be addressed is: Can a source and mechanism of sustained competitive advantage in China’s transitional economy be investigated within the conceptualisation of guanxi as a dynamic capability?

The thesis is organised as follows. The next section provides a review of the Transaction Cost Economics, Resource Based View and Dynamic Capabilities literature, with primary emphasis on re-examining these strategic management theories as applied to guanxi. The purpose of this review is to identify the main conceptual analysis and insights offered by each stream of research to date, as well as the relative limitations. Following this, the main research objectives are outlined and theoretical propositions are offered for conceptualising guanxi as a dynamic capability. A section on China’s economic reforms will identify some of the specific institutional changes that have occurred over China’s path towards economic transformation, which have contributed to the highly volatile and dynamic external environment. The purpose of this section will be to guide my interview questions to more specifically explore how guanxi capabilities enabled the firms to adapt in the face of these specific changes and sustain superior performance patterns over time. Subsequently, a methodology section will be introduced, followed by reporting and discussion of the empirical findings. Lastly, a concluding section will summarise the main insights and offer suggestions regarding future research.
Literature Review:

The full literature review has not been provided due to the imposed space constraints of this report. Alternatively, a focused summary of the central conceptual and analytical insights and limitations that constitute the guanxi-related Transaction Cost Economics and Resource-Based View literature is presented. Following this, a brief review of the Dynamic Capabilities approach and preliminary theoretical propositions are offered for conceptualising guanxi as a dynamic capability.

Transaction Cost Economics Analysis of Guanxi:

Hybrid forms (long-term contracts or other intermediate transaction modes, which includes safeguards against defection) are considered the most cost-effective choice of organisation form for transactions characterised by an intermediate degree of asset-specific investment, an intermediate degree of incentive intensity and a need for mixed adaptability – both autonomous and cooperative types of adaptation (Williamson 1991). Ouchi (1980, p.137) offers the ‘clan’ form, as an alternative governance mode to markets and hierarchies, which relies on reciprocity, legitimate authority and common values and beliefs deeply internalised through long-held traditions. While the norm of reciprocity and shared socialised values and beliefs governing behaviour are comparable coordinating and control mechanisms to those involved in guanxi-based exchanges, legitimate authority stands divergent. Rather, legitimate authority is implicit (not institutionalised) to the guanxi relationship and the locus of power continuously shifts according to the dynamic interchange of a position of obligation and indebtedness (Luo 2000; Yeung & Tung 1996).

Hence, the guanxi-based exchange system, that is, transactions conducted within a guanxi network, can be viewed as an alternative governance structure to markets, hierarchies, hybrids and ‘clans’, which is an outcome of China’s specific institutional environment evolution.

Williamson’s (1979; 1991; 1991a) initial discussion of the generic hybrid form of economic organisation, which is supported by the mediating mechanisms provided by the existence of neoclassical contract law and excuse doctrine has since been broadened to encompass discrete variations of the hybrid form. Williamson (1991a) incorporated a new institutional economics perspective to extend and refine the TCE framework by addressing the effects of the institutional environment – “as a locus of parameters” - on the comparative costs of alternative governance institutions. This serves to extend TCE application to economic systems other than Western capitalist economies, on which TCE was founded (Williamson 1991a). This allows TCE to be applied to economic systems comprising non-western and/or non-capitalist institutions, as well as institutional environments in which simultaneous parameter shifts relating to the legal, political and social rules occur frequently. This is distinctive of China’s transitional economy, which is characterised by weak capital market structures, information market imperfections, a
weak property rights regime, under-developed contract law and institutional uncertainty (Guthrie 1999; Luo 2000; Nee 1992).

Informal sanctions, such as norms, moral codes, reputation effects, and social trust, often supplement and/or substitute formal legal mechanisms (specifically, contract and property rights machinery), which support and define alternative forms of governance (Dyer & Singh 1998; Macaulay 1963; Williamson 1991a; 1993; Xin & Pearce 1996).

Bilateral governance structures with reference to relational contracting (Williamson 1973; 1979), “socialist hybrids” (Nee 1992), non-contractual relations (Macaulay 1963), and inter-organisational alliances or networks (Dyer & Singh 1998), have been proposed as alternative intermediate forms of governance, all of which rely more on personal ties than on binding legal machinery to provide assurances of compliance to contractual agreements. Guanxi-based exchanges or a guanxi business network (inter-firm guanxi) is a similar intermediate form for coordinating transactions and can be viewed as a superior form of organising certain exchanges to markets and hierarchies in China’s transitional economy. That is, there are unique transaction cost ‘economising’ advantages of guanxi-based exchanges.

Therefore, guanxi-based exchanges are an effective and efficient mode of governance for recurrent transactions, which are moderate in asset specificity. This distinctive form of governance can economise on ex ante and ex post transactions costs associated with behavioural and environmental uncertainties that arise on account of bounded rationality, while simultaneously safeguarding against the problems of moral hazards.

Firstly, guanxi-based exchanges reduce the problems of adverse selection, due to ex ante information impactedness and opportunism. An established guanxi network reduces search costs associated with identifying potential exchange partners by, either drawing on existing long-term personal relationships (a direct means), or through transference of guanxi through a third party relation (an indirect means), which is facilitated by informal communication flows within the network.

Guanxi-based exchanges conducted within a guanxi network reduce ex ante behavioural uncertainty, as ascertaining the true character of potential exchange partners (with reasonable confidence) is enhanced through access to knowledge of individuals’ ‘face’, which is transmitted through the guanxi network (Han 2003; Luo 2000).

The notion of ‘face’ (mianzi) represents an individual’s public or social image, which is an important tenet of Chinese sociality. The emphasis on ‘face’ and ‘face-saving’ – that is, the acquisition and maintenance of personal prestige and status – is inextricably tied to guanxi practice. Loss of ‘face’ associated with conduct, which disregards the principles of moral behaviour at the foundations of Confucian social order, begets shame to the individual as well as their family, leaving them unable to function in such a relationship-based society. Hence, shame serves as an effective behavioural sanction against immoral behaviour (Gold; Guthrie & Wank 2002; Luo 2000; Yeung & Tung 1996).
Hence, transaction costs associated with screening and selecting are diminished by relying on familiarity and established character of direct interpersonal relations (i.e. direct experience ratings) or reputation effects (i.e. knowledge of individual ‘face’), which is quickly and accurately communicated through the network. Furthermore, the intrinsic Chinese preoccupation with ‘face’ and ‘face-saving’, and the efficient diffusion of such ‘reputation effects’ serves to simultaneously deter opportunistic behaviour.

Additionally, the transferability of guanxi (i.e. a guanxi base, which facilitates the development of a guanxi relation with a desired contact can be established by an intermediary) provides an indirect means for screening and selecting potential partners (Luo 2000; Yi & Ellis 2000). Guanxi-based exchanges also reduce direct ex post transaction costs associated with behavioural uncertainty through rapid feedback on partner performance (directly and indirectly) from reliable information passed through the guanxi network. Generally, more trustworthy, richer and useful information can be sourced from one’s guanxi network, which also potentially reduces the opportunity transaction costs of failing to identify appropriate exchange partners (Fock & Woo 1998; Han 2003; Standifird & Marshall 2000).

Thus, ex post monitoring and enforcing transaction costs are reduced due to increased direct and indirect information disclosure as a result of inter-personal bonds and shared guanxi-based rules of reciprocity and equity, which are underpinned by personal trust.

Adaptation advantages can also be realised through guanxi-based exchanges. That is, direct transaction costs associated with ex ante environmental uncertainty, which include communication, negotiation and coordination costs arising from sequential adaptations of autonomous and cooperative varieties, are minimised within guanxi-based exchanges (Williamson 1979; Williamson 1999). Guanxi networks are composed of flexible and socially-based relationships, and potentially generate communication economies resulting from familiarity and common modes of communication among personal relations (Luo 2000; Standifird & Marshall 2000; Yeung & Tung 1996). These characteristics serve to reduce the costs of communication, negotiation and coordination upon adapting to disturbances.

Furthermore, as guanxi ties are built on social trust and notions of reciprocity and ‘face’, the likelihood of future cooperation and an orientation towards mutual benefit will enhance adaptability as well as mitigate the threat of opportunistic behaviour. That is, guanxi-based exchanges have the potential for minimising contracting costs due to ‘self-enforcing contracts’, which are governed by informal mechanisms of personal trust and reputation effects (‘face’). Thus exposure to potential opportunism is diminished due to increased information disclosure through guanxi network information flows, which enables enhanced adaptation to unforeseen disturbances (Dyer & Singh 1998; Han 2003; Jeffries 2000; Standifird & Marshall 2000; Williamson 1993).
Conflicting Arguments and Limitations of TCE Conceptualisation of Guanxi:

While guanxi-based exchanges can be understood within the TCE contracting framework with regards to hybrid forms of relational contracting, this conceptualisation of guanxi has several limitations. Firstly, guanxi provides benefits other than transaction-cost minimising features within a bilaterally dependent contracting relationship. That is, guanxi also offers various potential value-creating factors and thus should be viewed beyond simply a TCE contracting approach (Davies, Leung, Luk & Wong 1995; Fock & Woo 1998; Lee & Ellis 2000; Luo 2000; Tsang 1998; Yeung & Tung 1996).

Secondly, there are several hidden costs associated with the guanxi-based exchange system that are not accounted for in TCE analyses of guanxi and may actually counter the transaction-cost minimising hypothesis central to the TCE framework. These hidden transaction costs include time and money spent identifying valuable guanxi connections (i.e. the “real decision makers”) with China’s imperfect market information, which would be of a higher burden to ‘outsiders’ – typically with reference to foreign enterprises entering and operating in China (Davies et al. 1995; Lee & Ellis 2000, p.35). Other costs incurred entail time spent choosing gifts, extending invitations and performing etiquette (calculated gift-giving), which is essential for cultivating and maintaining guanxi relations (Luo 2000; Yeung & Tung 1996). Additionally, the long-term orientation of guanxi inherently creates difficulties in ascertaining the opportunity costs of favour exchanges over such distant time horizons. More specifically, one tends to use a low discount rate in decision-making with regard to favour exchange due to the implicit role of deferred reciprocal obligations (Gold et al. 2002; Yeung & Tung 1996). Furthermore, the necessity for continuous investments (both social and economic) towards maintaining and strengthening established relationships further strains the cost-minimising dimensions of guanxi-based exchanges.

Therefore, while there are numerous added (hidden) costs associated with the guanxi-based exchange system, there are also dynamic diminishing transaction costs inherent to such exchange relationships. All of these factors must obviously be taken into account when assessing the transaction cost-minimisation dimensions of guanxi-based exchanges. These diminishing costs are not explicitly addressed by Williamson’s works and transaction cost reasoning, and constitutes a common critique of TCE in terms of its lesser ability to deal with dynamic elements as it operates out of a ‘static’ equilibrium contracting arrangement (Langlois 1992; Williamson 1999). However, these issues are frequently covered in network governance, cooperative alliance and trust literature within the field of strategic management.
Resource-Based View Analysis of Guanxi:

RBV also has been frequently applied to analyse guanxi, with much of the literature emphasising guanxi as a source of a sustainable competitive advantage due to its apparent satisfaction of the four conditions set out by the resource-based model. That is, a firm’s guanxi network can be conceptualised as a resource with the potential of long-lived competitive advantage as it is characteristically valuable, rare, imperfectly imitable and non-substitutable (Barney 1991; Fock & Woo 1998; Luo 1997; 2000; Menkhoff & Gerke 2002; Tsang 1998).

Firstly, the economic value of guanxi has been considerably empirically examined, and several factors, which support the notion of guanxi as a rent-yielding strategic asset, have been identified. Commonly cited economic benefits of ‘good’ guanxi connections include superior access to distribution channels, priority right to use scarce resources and infrastructure, preferential government treatment translated through design and implementation of favourable regulations influencing competition, access to customers, more timely and accurate information, and financing (Davies et al. 1995; Fock & Woo 1998; Guthrie 1998; Luo 2000; Yeung & Tung 1996; Xin & Pearce 1996).

Secondly, the quality of rareness is inherent in guanxi. Each guanxi network is different among and within organisations, in terms of network constitution, the organisational embeddedness of the individual guanxi, as well as the strength and dynamics of each guanxi relation (Luo 2000). Rare guanxi also contributes to ex ante limits to competition for such strategic factors. Superior economic returns stemming from the implementation of strategies, requires that there be limits to ex ante competition to develop or acquire those corresponding resources necessary for strategy implementation (Barney 1986; Peteraf 1993). That is, above-normal returns will only be realised if the costs of implementing those strategies and accumulating the needed corresponding resources are less than the full future potential value of those resources. There are several features regarding guanxi, which create natural restrictions to ex ante competition. These include the traits of uniqueness and non-tradability, which signifies an incomplete strategic factor market for guanxi and thus prevents above-normal rents from being competed away by ex ante, accurately valued resources (costs) for strategy implementation (Barney 1986; 1989; Peteraf 1993; Wernerfelt 1984). Moreover, the costs of accumulating guanxi and maintaining these relationships over time must be offset by the returns from strategies based on such resource stocks for superior economic performance to be realised (Barney 1989). This presents a difficult criterion to satisfy in relation to guanxi, as it is a complex task to ascertain the value accruing from guanxi relations ex ante relative to the sum of the costs and opportunity costs of developing a firm’s guanxi network. According to Barney (1986; 1989), this criterion is satisfied as a result of asymmetric expectations about the future value of the resource ex ante or due to luck.

Thirdly, there must be ex post limits to competition for the resource to generate sustainable rents and preserve heterogeneity in terms of relative firm performance. Resources, which constitute attributes of imperfect imitability and imperfect substitutability, can serve in the maintenance of ex post limits to competition (Mahoney
& Pandian 1992; Peteraf 1993). Sustainability of a firm’s superior resource position, in relation to a superior guanxi network, is achievable due to various ‘isolating mechanisms’, which impede imitation (Wernerfelt 1984). Following, is an examination of a number of such ‘isolating mechanisms’, which are intrinsic to guanxi and guanxi practice.

Many of the guanxi connections tied to the firm are very much individual (not organisation) based relationships – i.e. the personal basis / friendship underpinning the relationship between two specific individuals is the overriding factor forging the connection, even when commercially-oriented transactions between the individuals (and their organisations) are involved (Luo 2000; Vanhonacker 2004). Furthermore, those within a firm’s guanxi network are often difficult for ‘outsiders’ to identify as an individual’s nexus of personal guanxi relationships that have the potential to serve, but do not exist solely for, instrumental (and thus organisational) purposes are generally not transparent or institutionalised within the organisational structure and its visible activities. Hence, the strong tacit dimension and element of interpersonal chemistry underlying guanxi relations gives rise to socially complex and causally ambiguous characteristics, which impede imitation (Barney 1991; Lippman & Rumelt 1982; Luo 2000). Moreover, a firm’s guanxi network is developed over idiosyncratic, path dependent histories, which also acts as a barrier to competitor imitation (Barney 1991). For guanxi establishment, a guanxi base must exist. A guanxi base is “a commonality of shared identification amongst to or more people” (Luo 2000, p.4). It can be an ascribed (blood relations) or achieved (social relations forged through life experience) base, or a transferred guanxi base via an intermediary when no pre-existing base exists (Luo 2000; Wei & Youmin 2001; Yeung & Tung 1996; Yi & Ellis 2000). This requirement for guanxi establishment ensures that any current relationships will be extensions of past accumulated guanxi relations and other organisational members’ interconnected guanxi networks. Therefore, a firm’s accumulated guanxi connections display path dependent properties, which also serves as an ‘isolating mechanism’ to limit ex post competition.

An additional and significant limit to imitation is related largely to this process of guanxi accumulation. A firm’s guanxi network can be considered a non-tradable asset stock, which is internally accumulated over time (Dierickx & Cool 1989). There are no corresponding strategic factor markets for acquiring guanxi connections. Rather, they must be internally developed and accumulated over a firm’s specific trajectory. Dierickx and Cool (1989) have identified certain characteristics relating to the process of asset stock accumulation, which serve as critical ‘isolating mechanisms’. These include time compression diseconomies, asset mass efficiencies, interconnectedness of asset stocks, asset erosion and causal ambiguity (Dierickx & Cool 1989, pp.1507-9). Guanxi can thus be considered as non-imitable as the process of guanxi accumulation displays all of these properties. First, the presence of time compression diseconomies can be observed, as the quality of a guanxi relationship that is developed over a long time period is unlikely to be directly proportional to the efforts invested in cultivating it. That is, the quality of a long-term guanxi relationship cannot be easily replicated within a shorter time span even with matching investments. Second, asset mass efficiencies apply as existing guanxi facilitates the creation of new guanxi. This is due to both the development of superior abilities in
guanxi construction and cultivation, as well as enhanced connectivity resulting from an increasing availability of guanxi bases and access to other individuals’ extended guanxi networks. Thus, the rate and costs associated with further guanxi accumulation are discounted for those firm’s with favourable initial asset stock positions in terms of a well-established guanxi network. Third, asset mass erosion can be minimised as guanxi actually strengthens over time (rather than decays) due to the interpersonal nature of such social exchanges. As interpersonal trust builds up over time, this intangible element can prevent erosion and acts as a credible threat to entry – i.e. competitors will not be able to access such guanxi connections when loyalty is fixed to the existing relationship. However, such erosion will not be prevented without adequate maintenance investments towards sustaining and strengthening the relationship over time, which is inherent to guanxi practices of reciprocal favour exchanges and long-term orientations towards mutual benefit. Fourth, interconnectedness of asset stocks is also prevalent. Guanxi accumulation is highly dependent on complementary capabilities in guanxi practice and is often individual-specific. Last, guanxi, as mentioned earlier, innately embodies causal ambiguity (Dierickx & Cool 1989; Fock & Woo 1998; Luo 2000; Vanhonacker 2004; Wank 1996; Wei & Youmin 2001).

A guanxi network can also be considered imperfectly substitutable to the extent that there are no strategically equivalent connections available for effectively facilitating the implementation of a specific strategy (Barney 1991). This may be the case when specific individuals have complete authority over scarce resources, which are needed to implement a certain strategy. Once this individual has an established relationship with a competing firm there may be no other strategically equivalent guanxi available. Alternatively, the degree of substitutability among companies with similar guanxi ties will depend on the comparative strength of the competing firms’ relationships (Tsang 1998).

Peteraf (1993, p.180) also specifies the condition of “imperfect resource mobility [to] ensure that the rents are bound to the firm and shared by it”. Guanxi relationships are imperfectly mobile to the extent that they are underpinned by strong interpersonal bonds. The existence of personal trust of many close guanxi relationships acts as a resource position barrier, ensuring that they cannot be bid away easily to other individuals outside the firm. Hence, the strength and quality of the relationship will determine the degree of resource mobility, and as guanxi is often individual-specific, the organisational embeddedness of the individual guanxi will be an additional determinant. Thus, the firm must be equipped with strategies for maintaining guanxi and transforming the efficacy of guanxi (social) capital, as well as strategies for the transference of individual to organisational guanxi (Wank 1996; Yeung & Tung 1996).
**Conflicting Arguments and Limitations of RBV Conceptualisation of Guanxi:**

There are certain conflicting arguments to the previous RBV literature on guanxi. Firstly, the economic value of guanxi is often difficult to establish due to the dynamic system of favour exchange, which fluctuates between positions of indebtedness. Thus, while guanxi relations have the potential to confer the recipient with strategic resources or opportunities generating economic value, they also generate many (‘hidden’) costs (Luo 2000; Yeung & Tung 1996). This is reflected in the difficulty in analysing the comparative total costs of developing a guanxi network with the value they create when used to implement strategies.

Secondly, the notion of sustainability requires an assumption that the guanxi exchange system will persist into the short- and long-term future. China’s economic transition is generating a stronger institutional framework, which is replacing the role of guanxi and guanxi practice in various commercial transactions. Thus substitutes to guanxi in certain business transactions are presently emerging. Hence, the issue of substitutability has been widely discussed in the literature and there are various views on the topic – predominantly institutionalist versus culturalist debates as to the future significance of guanxi and guanxi practice in China’s transforming environment (Gold et al. 2002; Guthrie 1998; 1999; Han 2003; Menkhoff & Gerke 2002; Nee 1992; Wank 1996).

Additionally, with the high degree of uncertainty resulting from China’s ever-changing environment, a firm’s guanxi connections may or may not be an economically advantageous social (and financial) investment in the long run. Future changes in economic policies and market systems may dissipate ex post limits to competition. For example, a superior competitive position attained through guanxi connections may be destroyed as new government policies are implemented and as further exchange sectors are opened to market forces. In view of this, RBV does not provide an adequate framework for exploring sources of sustainable competitive advantages in highly dynamic environments.

Lastly, RBV analysis of guanxi does not comprehensively address the types of guanxi capabilities (i.e. skills in establishing, cultivating, maintaining and extending guanxi relationships) that are necessary for constructing a guanxi network, which confers a sustainable competitive advantage.

**Dynamic Capabilities Literature:**

The dynamic capabilities approach is closely related to other works within the field of strategic management, such as ‘the competence perspective’ (Foss 1996), ‘evolutionary theories’ (Nelson & Winter) and ‘combinative capabilities’ (Kogut & Zander).

The dynamic capabilities approach views the sources of a sustainable competitive advantage as stemming from higher-order organising routines (“dynamic capabilities”), which enable the firm to “integrate, build and reconfigure internal and external
competences to address rapidly changing environments” (Teece, Pisano & Shuen 1997, p.516). That is, unique, idiosyncratic and difficult to imitate higher-level coordinative routines that are able to continuously renew the sources of a firm’s competitive advantage by manipulating its resource stock and corresponding strategies, and which evolve over path dependent firm trajectories.

Dynamic capabilities are embodied in a collective of learned and stable organisational and strategic routines. They have the ability to generate, progress and transform the organisations operating routines (and thus resource base) in order to sustain competitive advantage within contexts of rapid change. The dynamic capability-building process is underpinned by organisational learning processes, which are central to the evolution of routines that can appropriately integrate, gain and release, or reconfigure the firm’s resources over time to be in ‘fit’ with the shifting requirements of the external environment (Eisenardt & Martin 2000; Zollo & Winter 2002). According to Teece et al. (1997, p.524), a firm’s competitive advantage is only determined by competences ['dynamic capabilities'], which are “based on a collection of routines, skills, and complementary assets that are difficult to imitate”, and sustainability is further promoted by the firm’s ability to successively reconfigure and transform these competences to deal with highly dynamic environments.

Dynamic Capabilities Perspective of Guanxi:

The dynamic capabilities perspective addresses more dynamic sources of sustainable competitive advantage (Eisenhardt & Martin 2000; Foss & Knudsen 1996; Helfat & Peteraf 2003; Makadok 2001; Teece, Pisano & Shuen 1997; Winter 2003; Zollo & Winter 2002). That is, it provides a framework for exploring long-lived competitive advantages in rapidly changing environments, similar to China’s transitional economy. Hence, guanxi practice can be viewed as a dynamic capability in that it is a collection of competences in establishing, cultivating, sustaining and extending guanxi relationships to deal with China’s rapidly changing institutional environment. The skills required in utilising guanxi relations or networks for continuously exploiting competitive advantages and renewing the firm’s configuration of resources and capabilities to deal with rapidly changing circumstances may be more accurately explored through the dynamic capabilities framework. Therefore, this strategic management perspective may be better suited to capture the process-oriented and dynamic nature of guanxi, as well as better conceptualise guanxi as a source of a sustainable competitive advantage in China’s dynamic environment.

Guanxi is not a static concept but a highly dynamic process. Guanxi is practice-oriented and comprises of multiple interrelated processes, such as the ability to seek, establish, cultivate and extend guanxi relations; the ability to manipulate and utilise guanxi (putting the relationship to use, actualising it); the ability to alter and enhance the efficacy of guanxi social capital; and the ability to appropriately adapt one’s guanxi practices according to different types of guanxi relations, such as diplomatic / official, commercial or personal relationships.
The empirical research will aim to explore whether guanxi practices exhibit features equivalent to higher-order coordinative routines that facilitates the integration, gain and release, or reconfiguration of firm resources over time to be in ‘fit’ with the rapidly shifting requirements characteristic of China’s volatile environment.

**Research Objective:**

Much of the conceptual literature has not yet captured the full complexity of the dynamic and multidimensional phenomenon of guanxi and guanxi practice and the role it plays in securing a long-lived competitive advantage. Thus, my purpose in this research is to extend and refine the conceptual frameworks out of which previous strategic management approaches have explored guanxi, thereby to respond to some of the identified criticisms.

The following objectives are especially pertinent:

1. Explore whether guanxi continues to provide a source of a sustainable competitive advantage in China’s transitional economy.
2. Ascertaining the conditions that are necessary for guanxi to remain a source of a sustainable competitive advantage into the future amidst China’s changing environment.
3. Explore the realities of guanxi dynamics in order to identify whether it is more accurately conceptualised as a dynamic capability in regards to offering a long-lived competitive advantage.
4. Develop a more comprehensive conceptualisation of guanxi within the context of strategic management.

**Research Methodology:**

The research design builds upon insights developed through field-based, within-firm data collection. This research study will involve a multiple-case study strategy based on a random sample of 2-4 Chinese-Singaporean companies, which are located in Singapore. Data will be collected through conducting semi-structured formal interviews with management and employees of the selected firms. Access to the companies will be assisted through a close relation who has long-term personal and business connections within the Singapore community. Literature on qualitative personal interviews in Asian countries has stressed the importance of local contacts for accessing research participants. This is due to tightly knit social and business networks, which are difficult for ‘outsiders’ to access (Tsang 1998; Yeung 1995). While the practicalities of gaining access to firms and interviewees present some limitations to selecting the research sample, there are certain criteria, which will determine the cases to be studied.
**Case selection criteria:**

1. **Chinese- Singaporean Firm: Overseas Chinese businesses.**

   This criterion can be justified as studies of cross-societal uses of guanxi indicate the appearance of and reliance on guanxi in Chinese societies that vary institutionally. That is, guanxi dynamics are evident in Overseas Chinese business networks despite a well-developed market economy and institutional environment, as is the case in Singapore (Chen 1995; Menkhoff & Gerke 2002). These adapted forms of guanxi relations and guanxi practices in Chinese- Singaporean business may be indicative of the evolving role of guanxi, which has dynamic capability implications. Furthermore, by targeting Singaporean Chinese as opposed to Mainland Chinese, the introduction of an element of psychic distance may actually enhance the quality of the data. Guanxi concepts and practices may not be as culturally embedded in Singaporeans’ subconscious and thus more easily identified and described.

   Additionally, difficulties of gaining access to Mainland Chinese firms and language barriers present practical obstacles. Greater access to firms in Singapore can be assured due to the close local contact, combined with my own familiarity with Singapore from living there for almost 14 years, and a common spoken language, will facilitate interviewing.

2. **Direct business experience in China and time period of operations.**

   Firms with direct business operations in Mainland China and in operation for a minimum of 15 years. This is a necessary requisite in order to gather longitudinal data for exploring the dynamic role of guanxi over China’s institutional evolution. After data collection, I will attempt to confine the boundaries of analysis to a specific time period to enhance internal validity. However, this may be limited by the realities of the data sets gained.

3. **Limit study to specific sector.**

   This will provide for a more controlled analysis in regards to the major institutional shifts within a specific sector.

**Interviewee selection criteria:**

As guanxi is a personal phenomenon, drawing on individuals’ experiences justifies this level of analysis of guanxi, which can best be understood through individuals’ subjective accounts. Data will be sought from employees from multiple hierarchical levels within each organisation and the interviewees must have had direct (moderate to long-term) operating experience in Mainland China. These criteria will assist in addressing validity issues relating to the data sets. It must be noted, however, such a sample selection will be naturally subject to the practicalities of gaining access.
**Progress and Research Directions:**

- Preliminary interviews have been conducted, which have provided increased confidence that a dynamic capabilities conceptualisation of guanxi will generate some truly unique insights.

- Further data collection is constrained by the following areas that require additional progress.

- Completion of the section on China’s economic reforms is needed to develop more specific interview questions to explore how firms used their guanxi capabilities to adapt to the various institutional shifts identified in this section. That is, more specific relationships between variables need to be targeted in the data collection phase.

- A further review of the methodological approaches for empirically testing dynamic capability constructs within the literature to guide my own data collection method must continue.

- Completion of the data collection and analysis phase.

- Moving towards building a dynamic capabilities conceptual framework of guanxi as source of a sustainable competitive advantage.


Kleinberg, R. 1990, *China’s “Opening” to the Outside World: The experiment with Foreign Capitalism*, Westview Press, USA.


