

***Guanxi* versus Competitive Business Strategies**

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The guanxi puzzle in Chinese business

- *Guanxi*: Pronounced in Mandarin as “kuan-shee”
- Probably the most famous Chinese business word
- Seems to be everywhere
- Everyone needs it to get things done
- Businesses can’t survive without it

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What does guanxi do?

- The hallmark of a relational society and network capitalism (both cultural and institutional perspectives)
- Relationship first, business second
- Open many doors to facilitate business: The role of lubricant -- *Guanxi* and corruption
- Save on transaction costs compared with doing business with “strangers”

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How unique is guanxi?

- A cultural perspective: A unique phenomenon embedded in the Chinese culture
- A global perspective: Not really Chinese-specific
 - *Blat* in Russia (“expeditor,” or *tolkah*, in Russian)
 - Old boys network in the West
- An institutional perspective:
 - Formal and informal institutional constraints
 - The rise of informal constraints during the transition
- A combination of cultural and institutional factors: Opening the “cultural” myth

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A micro-macro link

- Linking micro-level interpersonal relations (*guanxi*) with macro-level firm strategy and performance
- Strategic choices for firm growth:
 - Genetic expansion
 - Mergers and acquisitions
 - Interorganizational networks and alliances
- *Guanxi*: Explaining the rise of an alliance strategy with both domestic and foreign (JV) partners during China's transitions

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Guanxi and performance

- (1) *Guanxi* with managers at other firms
- (2) *Guanxi* with government officials
- Performance impact of (2) > (1) (late 1990s)
- *Guanxi* matters more for
 - Non-SOEs (vs. SOEs)
 - Service firms (vs. manufacturing firms)
 - Small firms (vs. large ones)
 - Low-growth industries (vs. fast-growth industries)

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Guanxi versus capabilities

- *Guanxi* is important (explaining 11-18% of performance)
- Capabilities are becoming more important (explaining 38-62% of performance)
 - Quality, advertising, pricing, and delivery
- *Guanxi* + capabilities: Winning combinations
- Long-run decline of the importance of *guanxi* vis-à-vis competitive capabilities: Toward “normal” competition
- But its disappearance is unlikely: It is everywhere around the world!

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Further readings

- An accessible version of this talk is posted at www.chinaonline.com [Go to “Commentary,” and then “May 2001”]
- An academic version of the study which forms the backbone of this talk: Peng, M. W., and Y. Luo. 2000. Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 48 (3): 486-501.
- For WTO implications, see Zhang, B. and M. W. Peng. 2000. Telecom competition, post-WTO style. *China Business Review*, May-June: 12-21.
- For more expanded coverage, see my book: Peng, M. W. 2000. *Business Strategies in Transition Economies*. Sage.
- Most of my papers are downloadable at my website

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