
MARKETIZATION AND ITS IMPACT ON THE FUNCTIONAL FOCUS, RELATIONAL FOCUS, AND CHARACTER OF GUANXI TIES

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ABSTRACT

Prior research generally neglects how guanxi is used for marketing purposes by managers, and ignores possible differences in guanxi during marketization. In contrast, this paper argues why and how marketization may affect the marketing uses of guanxi, types of persons involved, and nature of their guanxi ties. As background, it provides an overview of salient features of marketization policy and marketplace conditions in three stages of marketization. It explains the functional focus, relational focus, and character of guanxi ties, and how managers are likely to use guanxi for strategic purposes at various marketization stages.

INTRODUCTION

In 1982, Xu Min sat in his office working on a five-year production plan with a group of his colleagues. The doors to the West and, in particular, Western investment had only recently been opened by Deng Xiao Ping in 1979. Just a few years before, the government still regulated the production and the market system, what little of it was effective. Now, with the open door policy and other reforms, Xu Min expected to transition into a new way of doing business that set aside guanxi, the art of building personal relationships, in favor of more practical and effective methods.

It wasn't until after 1984 that any of the expected changes actually began to happen. The state-owned enterprise (SOE) that Xu Min was in charge of began to face greater competition as a direct result of the open door policy. Sales and demand both began to increase as well. But even though change had come, Xu Min and his colleagues still had to rely on guanxi to access the necessary market information, to look for expertise in various industry silos, and to negotiate with the state agencies and suppliers. Guanxi had not disappeared as expected, but it had expanded. Instead of simply focusing upon relationships with state agencies and suppliers, Xu Min had to actively build relationships with new clients. Xu Min knew that it was now

absolutely critical to have good *guanxi* with new buyers because if he was accepted as part of the “family,” then he and his company could have more contracts. So he and his colleagues worked hard to build *guanxi* with these potential customers, sending them gifts and taking them out to dinner and even doing them favors when they could.

By 1992, Xu Min had completely cast aside the notion that the market system would replace the necessity of building *guanxi* as the practice of doing so expanded yet again. As more policies were implemented to help reform the industrial system in China, his organization began to face increased opportunities as well as even more competition from both domestic and, now, foreign firms. New *guanxi* relationships—not just with potential and current clients, suppliers, and state agencies—needed to be built to help pave the way for his business. Xu Min now began to build *guanxi* with various industrial and other business groups. Though the nature of *guanxi* may have changed, he expected that the art of *guanxi* would never end.

In recent years, global firms have also begun to strategically use *guanxi* in China. For example, the CEO of Leveno has developed *guanxi* with low-cost suppliers to reduce the production cost (Biediger et al. 2004). Volkswagen Shanghai has established *guanxi* with local Chinese suppliers, which allows them to have overnight shipments (Yang 2011). Hong Kong billionaire, Ka-shing Li, has used *guanxi* to win licenses and permission to develop real estate in Mainland China. He acknowledged that *guanxi* has been an “admission ticket” (Balfour 2007). In addition, KFC has used *guanxi* to obtain licenses quickly and prevent regulatory hurdles (Luo 2000). In 1987, *guanxi* played a central role when KFC opened its largest chain in Tiananmen, Beijing (Luo 2000). Coke intentionally placed its headquarters in Beijing, as it is convenient to access resources in the central government there (Tangen 2013). Coke also gave its first three bottling plants directly to the Chinese government as “gifts,” which later has allowed Coke to expand its sales and distribution in many areas in China. *Guanxi* has also been used in other contexts, such as employment. For example, Jerry Lui, who joined P&G in Shanghai along with his 80 “friends” in 1997, called this action, *guanxi*, a bonding experience (Balfour 2007).

Guanxi, as a governance mechanism, generally refers to a personal connection in China, which helps firms to gain favorable/unfavorable social capital (Carlisle and Flynn 2005; Lin and Si 2010), facilitate knowledge transferring (Guo and Miller, 2010; Ramsamy, Goh and Yeung 2006), build competitive advantage (Fock and Woo, 2003), influence channel power (Zhuang, Xi and Tsang 2010), and impact organizational performance (Luo, Huang, and Wang 2012). However, previous research stresses economic aspects of marketization and gives little attention to how

guanxi is used for marketing purposes. In contrast, we argue that marketization affects guanxi's qualities and that the purposes of guanxi, types of persons involved, and nature of their ties as marketization unfolds. As such, this research offers theoretical insights on differences in the functional focus, relational focus, and character of guanxi ties in different marketization stages.

Though China is in the third marketization stage, marketization has not been equally implemented in, or equally affected, all regions and parts of the economy. For example, the last stage of marketization is less of a factor in non-coastal than in coastal areas (Bao et al. 2002; Demurger et al. 2002; Goodman 2008; Fan, Kanbur, and Zhang 2009; Liou 1998). Moreover, the state has considerable control or ownership in some industries, e.g., petroleum, construction, banking and insurance, transportation, and telecommunications (Chen 2009; Chen, Wu, and Xie 2000; Wang 2003). Yet, insights on how guanxi may differ in different marketization stages may be useful in terms of designing marketing strategies in less-developed areas and more controlled industries in China. They may shed light on how cultural tendencies may be adapted and integrated into marketing practices in societies in transition.

The paper begins with an overview of marketization and salient features of policy and marketplace conditions in three marketization stages. Next, it describes guanxi's general nature and marketization's impact on guanxi's voluntary, pluralistic, and adaptive qualities. Then, it offers propositions on how managers use guanxi and how guanxi ties differ in various stages. Finally, it reviews theoretical, managerial, and research implications of these considerations.

MARKETIZATION

The marketization process takes place over time and involves aspects of public policy, the character of marketplaces, and firms' marketing practices. Marketization of public policy introduces institutional changes that create opportunities to shift the relative importance of public and private sectors in economic life. These conditions are conducive to the weakening and eventually replacement of a centrally-planned system and authority mechanisms with market-oriented mechanisms in an economy (Carman and Dominguez 2001; Chen, Wu, Zhe, and Xie 2000).

Some key elements of marketization policy are the introduction of competition, removal of state subsidies, deregulation, organizational restructuring, decentralization, and privatization (cf. Chen et al. 2000; Liou 1998; Yu 2005; see Table 1). The policies feature three stages of marketization, which are similar to Le, Kroll and Walter's (2010, 2011) propositions. According to Le et al. (2010, 2011), the early

or first stage is characterized by a state control-supporting institutional framework and the economic system is largely influenced by a planned system. It was clear that a market-based economic system was not established by 1982 (Naughton 2007; Yu 2005).

In the intermediate or second stage, policies moved toward a two-track system in the agriculture and, gradually, in the industrial sectors (Chen, Wu, and Xie 2000; Naughton 2007; Shen 2000). The two-track system involved coexistence of central planning and market mechanisms, planned and market prices, planned distribution and market allocation of resources, and state enterprises and private firms. Evidence showed that firms are likely to rely on networks/relationships strategies in the second stage (Le et al. 2010, 2011; Peng and Heath 1996).

The late or third stage is characterized by the prevalence of a free market supporting system. China officially ended the dual-track system, officially accepted a market-oriented system, and decontrolled state authorities in the marketplace (Chen, Wu, and Xie 2000; Naughton 2007; Shen 2000). For over three decades, China has been moved away from a quasi-socialist economy to gradually adapt to a new market system (Atinc et al. 2012).

As marketization unfolds in China, managers may face new opportunities and threats due to the changing character of the marketplace. They may deal with issues about products and services offerings, brand marketing, business relationships, and other marketing matters. Like managers in other transition nations, they may face challenges in using value-added adaptive innovations in their marketing practices. The experience in China and other nations seems to indicate that marketization does not generate consistent results in different societies (cf. Carman and Dominguez 2001). Instead, historical, cultural, and social factors may shape the character and outcomes of marketization. Guanxi is such a factor.

THE NATURE OF GUANXI

Scholars generally agree that guanxi involves a special relationship between two persons and describe it in terms of reciprocal and mutually-dependent interpersonal ties (Gold 1985; Osland 1990; Pye 1982; Yang 1989). Individuals with a guanxi tie are committed to each other and their relationship involves hidden norms of reciprocity and relational congruence that are mostly characterized by exchange (cf. Ambler, Styles, and Wang 1999; Ang and Leong 2000; Davies et al. 1995; De-Keijzer 1992; Kipnis 2002; Leung, Lai, Richey, and Wong 2005; Lovett, Simmons, and Rajo 1999).

However, such ideas do not equate guanxi and business friendship. Unlike business friendship (Price and Arnould 1999), guanxi may be sought for instrumental versus intrinsic relational reasons and it may not involve openness and sharing of personal experiences. As noted later, there are bases for guanxi besides friendship, and friendship does not insure that guanxi will exist (Alston 1989). Guanxi is also broader in scope than business friendships. Unlike business friendships (Alston 1989; Grayson 2007), guanxi may not be built by interactions in a business context, though it may promote business friendships. Additionally, guanxi ties are dyadic or interpersonal, do not have a group connotation, and do not automatically translate to intergroup or inter-organizational links (Fock and Woo 1998). Yet, they may foster indirect benefits and benefits that relate to social capital (Warren et al. 2004).

Scholars in other areas argue that marketization fosters new needs and uses for guanxi (cf. Lo and Otis 2003; Millington, Eberhardt, and Wilkinson 2006; Yang 2002), e.g., to find employment (Bian 1997), recruit and organize labor (Smart 1998), and attract overseas investment for enterprises in local areas (Wu 1997). More generally, they suggest that marketization transforms guanxi from an institutionalized ideology of Confucianism and Maoist rules into a widely-used cultural metaphor for building new ties with others, including strangers. Thus, guanxi is being modularized, which allows it to be voluntary, pluralistic, and adaptive in many ways. As a result, guanxi's functional focus (its purposes), guanxi's relational focus (the types of persons involved), and the character of guanxi ties may change during marketization.

Yet, research on use of guanxi in marketization glosses over marketing-related issues, and ignores differences in guanxi as marketization unfolds. Arguably, a partial exception is work on managers' use of interpersonal relationships and guanxi to deal with marketization's challenges, get marketplace advantages, and enhance their firms' market performance (Child and Tse 2001; Gu, Hung and Tse 2008).

FUNCTIONAL FOCUS OF GUANXI

As Xu Min, a SOE manager, stated, guanxi is essential to firms' success. The functional focus of guanxi concerns its use in trying to facilitate marketing outcomes. The interest here is in efficiency, effectiveness, information sources, expertise, and personnel. Marketing efficiency refers to better ways of conducting existing marketing activities by reducing and reallocating efforts to achieve cost savings and better productivity (cf. Carman and Dominguez 2001). Using guanxi to try to aid marketing efficiency is consistent with marketplace conditions in the first stage. In

Stage 1, state ownership and control of raw materials and other inputs is more dominant, competition for buyers and sales is more limited, and the pace of changes in the marketplace is slower than in later stages. Thus, firms are likely to be more focused on operational efficiencies than in later stages. Their operational emphases are more compatible with the less competitive situation and degree of state economic control in Stage 1 than with conditions in later stages. They are also consistent with their probable lack of marketing experience, relative insensitivities to nuances of the marketplace, and limited grasp of how to adapt marketing to fit market circumstances in the first stage. In ensuing stages, managers are apt to become increasingly experienced and competent in these matters. Thus, they may focus on using *guanxi* for matters other than marketing efficiencies.

Using *guanxi* to aid marketing efficiency is also feasible in early stages. In many cases, such efforts may involve ties with persons in state agencies who dealt with managers in the Maoist era. As noted, *guanxi* is not created instantaneously; it takes time to establish. Thus, use of *guanxi* to aid marketing efficiency is more apt to involve ties with state authorities in Stage 1 than later stages.

In addition, marketing effectiveness refers to conducting marketing in new ways, e.g., via marketing innovations, such as new products and services, new modes of distribution, and new marketing communication methods (cf., Carman and Dominguez 2001). The idea that *guanxi* may affect marketing effectiveness is indirectly supported by evidence that it enhances a firm's brand performance, channel capability, and ability to adapt to market changes and sustain advantages during industry changes (Gu, Hung and Tse 2008).

In successive marketization stages, it is increasingly likely that managers will try to use *guanxi* to obtain the previously-noted, and other, competitive advantages. In each stage, managers typically face increasing competitive pressures and have increasing freedom to take marketing initiatives. These conditions create added incentives and opportunities for managers to seek competitive advantages, as marketization continues. In addition, they are consistent with the increasing likelihood of managers trying to use *guanxi* to improve marketing effectiveness in successive marketization stages. Of course, such efforts may not succeed. Innovative actions do not ensure success, which, arguably, explains why competitive intensity and technological turbulence may dampen *guanxi*'s positive impact on market performance (Gu, Hung and Tse 2008). This reasoning leads to the following propositions (see excerpt of Table 2 below).

P1: In successive marketization stages, there is a decrease in managers' ten-

dencies to use guanxi to try to facilitate marketing efficiency.

P2: In successive marketization stages, there is an increase in managers' tendencies to use guanxi to try to improve marketing effectiveness.

Managers may obtain marketing information from internal and external sources (Sinkula 1994). Internal sources offer information that is congenital (from the firm's founders), experiential (from trial and error), or experimental (e.g., from trying to develop innovations or improve processes), or from critical reflection. Information from external sources may come from searching (e.g., from the state or market research), borrowing (e.g., from consultants), grafting (e.g., acquiring other firms that have market information), and collaborating (e.g., joint ventures; Dixon 1992; Huber 1991).

In Stage 1, managers are apt to have less need for marketing information than in later stages in which there is less state control and central planning. Compared to later stages, in Stage 1 there is less policy reform, decentralization, decontrol of marketplaces and prices, reliance on market mechanisms, and competition. Managers also have less authority and responsibility for marketing performance and wholesale markets, trade centers, and professional and consulting services are less developed in Stage 1 than in later stages. Managers also may have less chance to gain experience in using guanxi for competitive marketing purposes, with fewer and less varied firms in Stage 1 than in later stages. Stages 1 and 3 differ more in each of these respects than Stages 1 and 2.

In Stage 1, market information is scarce since marketization is at an early point. In areas in which state control is relaxed, managers have some opportunities to gain experiential and experimental knowledge (Sinkula 1994) that gives their firms potentially valuable internal sources of market information. When possible, they may also gain market knowledge from external sources via ties with persons in state agencies, who may be the only ones privy to it. Managers also face problems in getting market information from other sources in Stage 1. They have little experience in the marketplace or in coping with new conditions. There are few or no external private information sources and, even if they exist, managers are unlikely to know them or gain access to them via guanxi since there is apt to be insufficient time to cultivate new guanxi ties.

Due to state policies and marketplace conditions, managers are apt to have more chances to develop ties with persons in government or other firms who they may not know in Stage 2 than Stage 1. The same factors also are likely to allow them

to have more ways to combine public and private sources of information and use internal and external information. Thus, they are apt to have better chances to gain marketplace experience and understanding in Stage 2 than Stage 1.

In Stage 3, managers have more opportunities to use internal and external information sources and to expand their marketplace experience and understanding than in prior stages. Xu Min stated that there are more accessible public and private sources of marketplace information in today's environment. Compared to earlier stages, in Stage 3 managers also have more chances to build ties with persons that they do not know and more freedom to act independently. There are also more firms in the marketplace in Stage 3 than in prior stages. Still, in the last stage, the growing set of firms selling professional services and marketing information and expertise is apt to partially reduce managers' needs to use *guanxi* to access public and private information sources. Thus, managers' tendencies to use *guanxi* ties to try to access public and private information sources differ in different marketization stages. This logic leads to the following three-part proposition.

P3a: The likelihood of managers using *guanxi* to try to access public and private information sources is lowest in the first of the three marketization stages.

P3b: The likelihood of managers using *guanxi* to try to access public and private information sources is greatest in the second of the three marketization stages.

P3c: The likelihood of managers using *guanxi* to try to access public and private information sources is greater in the third marketization stage than in the first stage, but is lower in the third marketization stage than in the second stage.

As marketization proceeds, it generally leads to market growth and heightened competition. These changes are likely to increase managers' needs to employ marketing experts and marketing personnel. There may be increasing numbers of consultants and persons seeking marketing employment in successive stages of marketization. Yet, managers in an economy in transition are likely to lack sufficient experience and knowledge to readily find and judge the suitability of marketing consultants and marketing personnel for their firms. Managers may find potentially direct and indirect help in both regards in their *guanxi* networks. Persons in those

networks may have, or know others with, experience and abilities to deal with such matters. Hiring good professional expertise (e.g., marketing communication and strategy consultants) and personnel can be beneficial. These factors are compatible with the following proposition.

P4: In successive marketization stages, there is an increase in managers' tendencies to use guanxi to try to access potential marketing expertise and personnel.

**Table 2 (excerpt):
Functional Focus of Guanxi and Propositions**

Type of expected difference	Early stage/ Stage 1	Intermediate Stage/ Stage 2	Late Stage/ Stage 3
P1: marketing efficiency	P1: most	P1: less	P1: least
P2: marketing effectiveness	P2: least	P2: less	P2: most
P3: access public and private information sources	P3a: lowest	P3b: greatest	P3c: lower
P4: access marketing expertise and personnel	P4: least	P4: less	P4: most

RELATIONAL FOCUS OF GUANXI

The relational focus refers to using guanxi to try to facilitate relationships with persons in state agencies, suppliers, B2B buyers, and persons in other strategic relationships. For example, managers are likely to be concerned with relationships with persons in state agencies during marketization. All marketization reforms are not instituted or implemented at once. The state still controls some essential resources and information and intervenes in some business matters. Managers may also be uncertain about regulatory policies and the comprehensiveness of legal frameworks.

In Stage 1, managers are more apt to use guanxi with persons in state agencies than in later stages. State policies and marketplace conditions limit managers' abilities to make independent marketing decisions and lead them to stress ties with

persons in government versus persons in other firms. In Stage 1, reform policies deal with decentralization of control of agricultural commodities and dismantlement of the commune system. Yet, many factors constrain private sector development. For example, state ownership is dominant, financial institutions and most major raw materials are under state control, technology development is slow, market information is controlled, and competition is weak. Other sources of market information typically are not available or are not known by managers. Moreover, problems such as mismatch between demand and supply in different geographic areas emerge in Stage 1. Demand dramatically increases, but managers lack the information and abilities to adjust their marketing accordingly. In Stage 1, access to other resources, such as financing, raw materials, and information are, in effect, controlled by state officials. Managers have little experience with the marketplace or with coping with these conditions. Moreover, they are apt to lack the time needed to cultivate new *guanxi* ties with persons in other firms to substitute for their links with persons in government. These factors are apt to be conducive to managers focusing on ties with persons in state agencies.

In Stage 2, marketization policies expand and the two-track system allows central planning and market mechanisms to coexist. As a result, the number of private firms and level of competition are greater in Stage 1 than Stage 2. Compared to Stage 1, these changes give managers more opportunities to gain marketplace experience, have more varied sources of information, and develop a wider set of relationships with persons in other firms. As a result, managers' emphasis on ties with persons in state agencies is apt to be somewhat lower in Stage 2 than Stage 1.

Presumably, ties to persons in other firms might offer managers critical advantages, such as access to the benefits of embeddedness in local and regional markets. Yet, ties with persons in state agencies are apt to be important for a number of reasons. Marketization of marketplaces is increasing, but it is limited due to state control. Government is one of a few large providers of market information and raw materials. Available information is inaccurate or incomplete in many cases, which makes continuing links with the state essential. *Guanxi* with persons in state agencies also enables managers to get help to understand changing marketplace regulations and evolving conditions. It also puts them in positions to benefit, for example, in obtaining desirable land, licenses, and distribution channels (Child and Tse 2001). Thus, managers are likely to still have *guanxi* ties with persons in state agencies in Stage 2 and rely on them less in Stage 1.

Compared to prior stages, conditions in Stage 3 are likely to create a faster pace of change, a more varied set of firms, a more competitive climate, and a more

diverse set of potential ties for marketing purposes. Reform policies, marketplace development, and firms' strategies begin to reflect increased marketization in 1992. For instance, new state policies allow firms to get crucial resources from formal markets with less difficulty than in the past. In Stage 3, the creation of market infrastructures, such as wholesale markets, introduces new distribution channel efficiencies. More retail prices are decontrolled. In addition, newly-established private consulting, accounting, and marketing research firms and other agencies begin to offer more complete and reliable marketing information than was formerly available from private sources. Due to marketization, firms' ties to government are still important, but are less salient than their strategies in influencing business performance (Law, Tse and Zhou 2003). Thus, managers are less apt to use *guanxi* ties with persons in state agencies for marketing purposes in Stage 3 than prior stages.

In addition, *guanxi* is apt to be an important element in supplier relationships, particularly in Stage 1. Yet, the likelihood of managers using *guanxi* to try to facilitate relationships with suppliers is apt to decrease in successive marketization stages. Managers are likely to be concerned with securing supply whereas, as noted earlier, other aspects of marketing are apt to increasingly occupy their attention in later stages. Moreover, due to marketplace conditions and the time needed to build *guanxi*, relationships with suppliers are more likely to be subject to influence through *guanxi* in Stage 1 than in later stages.

In Stage 1, state ownership and control of raw materials and other inputs is more dominant and competition for buyers is more limited than in later stages. Thus, supplies and dependable relationships with suppliers are apt to be scarcer tangible and intangible resources for firms in Stage 1 than later periods. In addition, managers emphasize on supply and suppliers in Stage 1 probably reflect their relative inexperience with other marketing matters and with the marketplace. Moreover, using *guanxi* to try to facilitate relationships with suppliers is feasible in Stage 1, since it is likely to involve existing ties. In stage 1, many supplies are controlled by persons in state agencies. It would not be unusual for managers to have dealt with these persons in the Maoist era. Use of *guanxi* to aid supply is more likely to involve ties with state authorities in Stage 1 than in later stages in which state authorities play decreasing roles in controlling supplies. Thus, it is likely that managers' use of *guanxi* to facilitate supplier relationships also decreases.

Managers are more apt to need to build new *guanxi* ties with persons in other firms to facilitate supply in later stages than in Stage 1. There is also less state control in the marketplace in Stage 3 than in earlier stages. As a result, managers are less likely to rely on persons in state agencies and more likely to build new *guanxi* ties

with persons in other firms to secure supply in Stage 3 than earlier stages. Moreover, it is more likely for market mechanisms and supply contracts to at least partially supplant managers' needs for guanxi relationships to secure supplies in successive stages of marketization.

Further, success in cultivating B2B relationships is apt to have an increasing bearing on firms' marketing performance, as marketization proceeds. Among other things, such relationships may help firms build customer equity, increase sales, expand market share, cut long-term promotion costs, and obtain market information. The likelihood of managers using guanxi to try to facilitate ties with buyers is apt to increase in successive stages. In Stage 1, the command system, rather than a market mechanism, plays a major role in determining sales and distribution. Ownership and control of raw materials and other inputs are dominated by state-owned enterprises. In many, if not most, cases, firms rely on the state as a buyer. Firms sell their output to state-owned enterprises and government agencies, which decide where and to whom to resell it. Competition among firms is weak. Sales and market share in the private sector are not major concerns of firms. As a result, managers may sell products without building strong relationships with B2B buyers. Managers also may not have time to build guanxi in the relatively brief first stage of marketization and they may lack the marketing experience and sensitivities to efficiently and effectively establish ties with potential non-governmental buyers.

In Stage 2, decontrol of the economy expands and the dual-track system allows firms to build vertical sales and distribution links with other firms. Firms are required to sell a large part, or most, of their output to the private sector. Many start-up firms also begin to operate and there is more competition than in Stage 1. Firms need new B2B ties and new customers to respond to these challenges. As a result, in Stage 2, managers have more responsibility for their firms' marketing performances and are more apt to focus on using guanxi to facilitate B2B relationships than in Stage 1. Yet, they are less likely to focus on guanxi ties with buyers in Stage 2 than Stage 3, since marketization is a gradual process and state decontrols are less extensive in Stage 2.

Marketization is more extensive in Stage 3 than earlier stages. As marketization unfolds, competition intensifies and new buyers appear. Firms face more competition from private firms, reformed state enterprises, and foreign firms in Stage 3 than in prior stages. They also need to build new relationships to sell their products to an increasing number of potential buyers, including new local and regional firms, new state-owned enterprises, and foreign firms. More competition and new potential buyers are apt to be incentives for managers to use guanxi to try to build B2B rela-

tionships. The favored treatment and obligations that are associated with guanxi may be barriers to competitors and help managers retain future sales. There are apt to be more rewards for building and maintaining guanxi in B2B relationships and more severe consequences for not doing so in Stage 3 than in prior stages. This reasoning leads to the following propositions (see excerpt of Table 2).

P5: In successive marketization stages, there is a decrease in managers' tendencies to use guanxi to try to facilitate relationships with persons in state agencies for marketing purposes.

P6: In successive marketization stages, there is a decrease in managers' tendencies to use guanxi to try to facilitate relationships with suppliers.

P7: In successive marketization stages, there is an increase in managers' tendencies to use guanxi to try to facilitate relationships with B2B buyers.

Firms in other strategic relationships may be in similar or complementary lines of business, e.g., networks of suppliers, manufacturers, dealers, retailers, industry groups, and buying groups. They may be in trade associations, lobbying entities, and local and regional development groups. They may share expertise, research and development costs, and facilities. They may form vertically/horizontally-integrated supply and distribution systems. Developing, sustaining, and insuring the efficacy of these and other strategic relationships may involve substantial effort and risk.

During the process of marketization, firms' needs for strategic relationships are apt to increase, as new and more diverse types of firms appear in ensuing stages. As this occurs, managers are increasingly likely to use guanxi to try to develop, sustain, insure the efficacy, and reap the potential benefits of coordinated strategic ties and activities with other firms. Guanxi may help them foster trust and feelings of obligation and avoid opportunism among those involved. Arguably, signs of these effects are due, in part, to the adaptability of guanxi in marketplace relationships. For example, as Redding and Witt note (2007), the Chinese economy operates as a form of network capitalism. Networks are needed, since many goods cannot be efficiently produced by one firm. Thus, firms specialize and then link, often with the flexibility to adjust to changes in demand, technology, or price. As they create opportunities to expand, resources become embedded in these networks. The networks are informal and flexible, with long-standing personal ties providing bases for complex transactions (Nee 1996). The impact of these ties and guanxi may not be

limited to long-standing relationships in some cases. Marketization may foster new needs and uses for guanxi, transform it into a metaphor for building new ties with others including strangers, and allow guanxi links to take new voluntary, pluralistic, and adaptive forms and expressions (cf. Lo and Otis 2003; Millington, Eberhardt, and Wilkinson 2006; Yang 2002).

Managers may get benefits from guanxi, even without such flexibility (Bian 1997, Dunfee and Warren 2001, Park and Luo 2001, Tsui and Farh 1997, Xin and Pearce 1996). Yet, they are increasingly likely to take advantage of guanxi's flexibility in successive stages to gain access to a wider array of resources and opportunities. These resources and opportunities may be directly and indirectly available via the extended zones of effective ties (Lo and Otis 2003), set of relationships (Aufrecht and Bun 1995) and social capital (Warren et al. 2004) that are embedded in strategic relationships with other firms. These factors suggest the following proposition.

P8: In successive marketization stages, there is an increase in managers' tendencies to use guanxi to try to facilitate other strategic relationships.

**Table 2 (excerpt):
Relational Focus of Guanxi and Propositions**

Type of expected difference	Early stage/ Stage 1	Intermediate Stage/Stage 2	Late Stage/ Stage 3
P5: persons in state agencies	P5: greatest	P5: less	P5: least
P6: suppliers	P6: most	P6: less	P6: least
P7: B2B buyers	P7: least	P7: less	P7: most
P8: persons in other strategic relationships	P8: least	P8: less	P8: most

CHARACTER OF GUANXI TIES

Chinese tend to see guanxi with different qualities, as Xu Min noted. The character of guanxi ties deals with the relative symmetry/asymmetry, number of guanxi bases, strength, and instrumental nature of guanxi ties. The relative asymmetry of guanxi ties refers to the activeness or passiveness of the persons involved. In a more asymmetric relationship, the person who needs favors is more active in

pursuing the connection than the other person (who does not have a pressing need). The relative number of bases for guanxi ties concerns the extent to which guanxi is grounded on different foundations (e.g., common educational background or business interests; Fan 2002; Kiong and Kee 1998). The strength of ties generally concerns the closeness of the relationships.

In Stage 1, managers' guanxi ties with state officials for marketing purposes are apt to be relatively asymmetric. Due to their past dealings and state controls, these ties are apt to be more readily available to managers than other ties. Relatively asymmetric ties with persons in state agencies may help managers' firms reduce uncertainties and gain supplies, information, protection, and access to markets in which formal regulations and institutions are not developed or clearly understood. State control and limited marketization are apt to restrict the number of guanxi bases in Stage 1. The number of bases for managers' guanxi ties is apt to be larger in Stage 2 than Stage 1, due to state policy and marketplace conditions in which central control and market systems coexist.

In Stage 2, managers are apt to have similar needs for state assistance. Yet, they may be less dependent on the state than in Stage 1, due to expanded marketization policies, changing marketplace conditions, their increasing marketplace experience, and their guanxi links with persons in other firms. Thus, it is likely that their guanxi ties are less asymmetric in Stage 2 than Stage 1. The asymmetry of ties for marketing purposes is apt to be less pronounced in Stage 3 than in prior stages, due to the faster pace of change, more varied set of firms, and a more competitive climate.

The idea that there is less asymmetry in managers' guanxi ties in ensuing stages is consistent with recent reports that, due to marketization, Chinese firms' ties to the state have less impact on business performance than their strategies (Law, Tse, and Zhou 2003). It is also indirectly supported by indications that Asian managers are less apt to need favored treatment from state authorities or actively seek links with persons in state agencies due to institutional transitions (e.g., in state resource control, state intervention in business, clarity of regulatory policy, and comprehensiveness and effectiveness of legal frameworks; Peng and Zhou 2005).

P9: In successive marketization stages, the guanxi ties that managers use for marketing purposes are likely to be more symmetric.

As marketization unfolds, it is more likely that, in Stage 2, managers have ties with varied persons in state agencies and other firms that are founded on a wider

set of guanxi bases than in Stage 1. In Stage 3, there is a faster pace of change, more varied set of firms, a more competitive climate, and a more diverse set of potential ties for marketing purposes than in earlier stages. Moreover, marketization is a modernizing force that loosens old links and forges new ones, which are often less permanent (Gu, Hung and Tse 2008). As a result, compared to prior stages, in Stage 3 managers' contacts with persons in state agencies and other firms are more apt to include previously unfamiliar persons with varied social and economic positions, backgrounds, status levels, social identities, experiences, etc. Thus, the number of bases for managers' guanxi ties is apt to be greater in Stage 3 than prior stages.

This expectation is consistent with views on how aspects of social capital operate in other settings. For instance, scholars argue that, for firms to develop (Hite and Hesterly 2001) and economic development to continue (Woolcock 1998), more diverse ties may have to replace or supplement less diverse ties. They also note that bounded solidarity (one motive that underlies social capital) results from actual or perceived shared membership due to, among other things, individuals' common situation or fate, sense of external opposition, and distinctive traits (Portes 1998; Portes and Sensenbrenner 1993). In ensuing marketization stages, managers are apt to have more varied reasons to identify with their counterparts in other firms, due to common trade association memberships, competitive threats, characteristics of their firms, and many other factors. These considerations are consistent with the following expectation (see excerpt of Table 2 below).

P10: In successive marketization stages, there is an increase in the number of bases for managers' guanxi ties for marketing purposes.

The relative strength of guanxi ties may also differ. Generally, persons with stronger ties are more socially involved with one another than individuals with weaker ties (Granovetter 1983). Evidence suggests that persons with stronger ties have more overlap in their personal communication networks than those with weaker ties. Strong ties have advantages, but weak ties may be needed for an individual to access information and benefits that are not readily available in his/her primary social network (Granovetter 1983). Generally speaking, weak ties are more instrumental than strong ties.

Managers are more likely to have stronger ties with these persons than with unfamiliar individuals in Stage 1. Moreover, it is apt to be easier for managers to get marketing help by tapping guanxi ties with these persons, rather than turning to other people with whom they have weaker ties. Research in other contexts indirectly

supports this expectation. For example, it suggests that individuals in insecure positions are likely to resort to use of stronger versus weaker ties for protection and uncertainty reduction. It also suggests that stronger ties are typically more readily available than weaker ties (Granovetter 1973). Thus, it is likely that managers tend to try to use stronger versus weaker guanxi ties to help them do business in markets with insufficient or non-existent formal guiding regulations and institutions.

In Stage 2, the circumstances give managers more chances to build a wider set of guanxi ties with persons in state agencies and other firms than Stage 1. Conditions in Stage 3 and reports from other settings are consistent with the idea that managers tend to rely on weaker guanxi ties for marketing purposes in Stage 3 than in prior stages. The development of new ties for marketing purposes is apt to be more necessary and possible in Stage 3 than prior stages. In ensuing stages, there is also an increasingly diverse set of firms and managers that have increasing opportunities to gain experience in using a wider set of ties for marketing purposes. As noted, these ties may give managers competitive advantages. Weaker relationships are more prevalent and their roles are more influential in modern society than in its predecessors (Simmel 1950). In addition, such contacts are often of limited duration and are instrumentally focused. Weaker ties are compatible with achieving instrumental goals (Boormann 1975; Blau 1974; Ibarra 1993; Putnam 1993). Compared to stronger ties, weaker ties also tend to involve less frequent interaction, require less time to maintain, and are likely to involve less reciprocity than stronger ties (Granovetter 1973).

Moreover, individuals are more able to reallocate their time and energy if ties are weaker versus stronger. Strong ties require more time to maintain than weaker ties (Boormann 1975). Thus, partners may shift from stronger guanxi ties to weaker guanxi ties to avoid obligations. A clear-cut exit from guanxi ties may be infrequent. Yet, people may minimize their participation in some relationships as time goes on (Lo and Otis 2003). As a result, managers are apt to find it easier to uncouple themselves from weaker as opposed to stronger guanxi ties.

These are among the reasons that weaker guanxi ties are apt to have important roles in the increasingly market-oriented Chinese economy and why guanxi ties are apt to be weaker in Stage 3 than in earlier stages. The idea that the strength of managers' guanxi ties decreases in ensuing stages is also consistent with views on how facets of social capital function in other contexts. For instance, scholars indirectly indicate that strong ties may not be needed for guanxi relationships because social capital may operate for reasons besides bounded solidarity, e.g., value introjection or instrumental motives (Portes 1998; Portes and Sensenbrenner 1993). They also

suggest that, in Asia, the strength of ties in business-to-government and business-to-business networks decrease due to the institutional transitions noted earlier (Peng and Zhou 2005). Moreover, researchers indicate that, as firms develop, their networks evolve from identity-based ties to more calculative connections to allow firms to gain resources and adapt to environmental uncertainties. Identity-based ties stem from prior relationships with social, family, and long-held sources and are strongly embedded, whereas calculative ties are weaker and more intentionally managed to meet firms' changing needs for economic benefits (Hite and Hesterly 2001). They also suggest that the calculus of costs and benefits of embeddedness in networks may change as economic development continues. Strong ties provide the cohesion that is often initially essential for development, but they can constrain continued development. As development continues, businesses may need external linkages, which involve weaker ties than those that initially aided development, to help them access larger and more complex networks and markets (Woolcock 1998). The prior considerations are consistent with the following propositions (see excerpt of Table 2 below).

P11: In successive marketization stages, there is a decrease in the strength of managers' guanxi ties for marketing purposes.

P12: In successive marketization stages, there is an increase of the instrumental nature of managers' guanxi ties for marketing purposes.

**Table 2 (excerpt):
Character of Guanxi Ties and Propositions**

Type of expected difference	Early stage/ Stage 1	Intermediate Stage/Stage 2	Late Stage/ Stage 3
P9: relative symmetry	P9: relative symmetry	P9: relative symmetry	P9: relative symmetry
P10: relative number of bases	P10: relative number of bases	P10: relative number of bases	P10: relative number of bases
P11: relative strength	P11: relative strength	P11: relative strength	P11: relative strength
P12: relative expressive/ instrumental nature	P12: relative expressive/ instrumental nature	P12: relative expressive/ instrumental nature	P12: relative expressive/ instrumental nature

CONCLUSIONS

China has become a major player in the global economy and this emerging market has become increasingly crucial for both local and foreign firms' success (Johnson and Tellis 2008). Although firms may face opportunities (Sheng, Zhou and Li 2011), competition is increasing (Tsang 1998). In order to overcome the challenges and gain sustained competitive advantages (Tsang 1998), cultivating networks/relationships becomes essential to a firm's success in China (Sheng et al. 2011).

This paper seeks to contribute to the managerial marketing knowledge about guanxi's role in the marketization process in China and to examine marketing-related issues that are neglected in prior research. It presents an overview of some salient aspects of public policy and marketplaces in three stages of marketization and reviews the general nature of guanxi. In combination, the propositions suggest that managers are less likely to focus on using guanxi to try to aid marketing efficiency and facilitate relationships with persons in state agencies and suppliers in successive marketization stages. In contrast, they indicate that managers are increasingly likely to focus on using guanxi to try to aid marketing effectiveness, access marketing expertise, and facilitate relationships with B2B buyers and persons in other strategic relationships in successive stages. They also suggest that managers are most apt to stress using guanxi to try to access public and private information sources in Stage 2 and least likely to do so in Stage 1. Moreover, they indicate that the relative symmetry, number of bases, strength, and instrumental nature of managers' guanxi ties are likely to increase in successive marketization stages (See Table 2).

In managerial terms, an implication of the ideas presented here is that the significance of guanxi is not declining in the transition process (Yang 2002). Managers should recognize the functional focus, relational focus, and character of guanxi ties as significant elements in the marketization process and as factors in marketplace competition. Inevitably, there are limitations in trying to deal with a subject as broad as marketization and guanxi. Of necessity, the propositions are generalizations that do not take into account the idiosyncrasies of different industries or firms. The marketization process is likely to be more complex and nuanced than suggested by any single conceptual framework, including the one used here. Moreover, for example, there may be sizable time lags in the effects of shifts from stronger to weaker guanxi ties in emerging economies (Carney 2004). Arguably, the overall differences suggested by the propositions apply to different industries but the magnitudes of these differences may differ depending on the nature of the business and factors such as technology, turbulence, and internationalization. In addition, the details of

functional focus and relational focus may differ by firm. Different firms in the same industry may have different competencies, needs, and problems that cause them to navigate the marketization process in different ways. As a result, they may focus on different facets of effectiveness, efficiency, strategic relationships, seek different specific combinations of ties in the marketplace, etc. (Koka and Prescott 2002; Steensma et al. 2005).

In theoretical terms, the propositions and reasoning that underlies them underscores the frequently overlooked notion that marketing is an important element in the marketization process. In addition, they reflect the notion that marketization is not a purely economic matter. They also provide examples of how cultural tendencies may be adapted and shape managers' marketing activities in a society in transition. Moreover, they imply that there is interplay between marketing and marketization. That is, marketing is affected by and it affects marketization. From a macromarketing perspective, it is also possible that there is an interplay between marketing and guanxi. It is possible that the ways in which guanxi is adapted to marketing circumstances and needs may extend to other parts of life in China.

Research is needed to test these propositions in cross-sectional or longitudinal studies that use quantitative and qualitative methods. Particularly, a case study using in-depth interviews with managers who have been through the marketization process can be insightful. Additionally, examining SOE and its privatization process might provide some argument to support the propositions. Future work should also include areas of China and industries that differ in the extent of marketization.

Additionally, the significance of guanxi can be further elevated in terms of a governance mechanism. Future research agenda may also access how guanxi can be effective in reducing agency costs in the marketization process. It should be useful to study possible antecedents of guanxi, e.g., dependence, adaptation, trust, and favor (Buttery and Wong 1999), uncertainty and opportunism (Williamson 1975), perceived similarity (Lee, Pae, and Wong 2001). It should also be valuable to explore how institutions and networks co-evolve due to guanxi (Peng and Zhou 2005) and the antecedents and consequences of terminating guanxi. Moreover, other potential consequences of the use of guanxi should be examined. Positive effects should be investigated, e.g., perceived relationship quality and interdependence (Lee, Pae, and Wong 2001), commitment (Anderson and Weitz 1992; Heide 1994), and marketing performance (Kao 1993). Negative consequences should also be studied, e.g., ethical violations and distorting effects of material facets of guanxi exchanges (Lovett, Simmons and Kali 1999) and the possible added costs, deception, burden of obligations, exclusion, opportunism, excessive demands, and personal indebtedness due to

guanxi. It is perceived that guanxi is associated with bribery and corruption (Yang 2011). For example, Diagnostic Product Corporation, which is a manufacturer of medical equipment, has been noted to pay Chinese doctors and hospital administrators to gain market share (Norton 2006). Thus, examining the association of guanxi and corruption is crucial for future research.

Building guanxi is a complicated strategic process (Vanhonacker 2004). Vanhonacker (2004) posited that establishing guanxi involves four steps: targeting, scouting, signaling, and packaging. First of all, it is crucial to identify the key person who may be involved in the guanxi relationship (targeting). Scouting requires identifying the common basis of the potential guanxi (e.g., family friends, alumni). Once the commonality is found, the individual may signal the target. If the link is established, guanxi will exist. However, empirical studies on guanxi building/maintaining are rare and future research may be needed in this area. Furthermore, future research may examine how to structure guanxi (e.g., guanxi building/maintaining, strong/weak ties) without ethical violations.

Today, Xu Min is a successful leader in one of the largest international corporations in China. His guanxi relationship with many government officials and others allows him in developing new markets, obtaining new licenses, finding new partners, and attracting additional capital. Recently, Xu Min joined one of the most prestigious Executive MBA programs in Shanghai and he firmly believed that building new guanxi is essential to future success. As his classmate, Jack Ma (the founder of the online exchange Alibaba.com) wrote, "guanxi means access; once you have it you could open doors. It is a relationship that can inform you and educate you."

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Table 1
Salient Features of Policy in the Three Marketization Stages

Early/Stage 1 (1978-1983)	Intermediate/Stage 2 (1984-1991)	Late/Stage 3 (1992-)
<ul style="list-style-type: none"> • Decentralization of commune system and agricultural decision making • Stimulation of production and private sector activities in agriculture and rural areas • State negotiated contracts with farmers to lease land and sell given amounts of output to government; farmers could sell excess output to the market • Increased agricultural procurement prices paid by the state • Small local businesses allowed to sell output beyond production quotas to the market • Non-farm (industrial) state enterprises given expanded decision-making autonomy and allowed to keep profits that exceeded planned earnings • State ownership and control still dominant in most raw materials, financial services, and other sectors 	<ul style="list-style-type: none"> • Both central planning and market mechanisms (dual track system) for prices, distribution, and allocation of resources in agriculture and (gradually in) industrial sectors • Expanded authority and responsibility of state owned enterprise managers • Introduction of contracts between employers and employees • State permitted restructuring of state owned enterprises via sales of shares to employees, provincial and local governments, and private firms • Many state owned enterprises allowed to sell output in excess of production quotas at market prices • State encouragement of establishment of private firms • Sales between state owned enterprises and private firms at market prices permitted • Gradual price reforms • Development zones in coastal cities • Decentralization of prices of most consumer goods 	<ul style="list-style-type: none"> • Wide range of reforms initially focused on southern China • End of dual track system, official acceptance of market-oriented system, decontrol of state authorities in marketplace, and promotion of market price mechanisms • Widespread decontrol of retail prices and coal • Restructuring and downsizing of state owned corporate sector; reorganizing state owned enterprises into limited liability corporations • Changes in legal infrastructure, stock markets, and tax, banking, patent protection, and social security systems • Local government officials given increased authority over bankruptcy, mergers and acquisitions, sales, and auctions of state owned enterprises • New wholesale markets, e.g., for garments, clothing, meat, and sugar • New trading centers, e.g., in grain, steel, and petroleum • Development of professional services, e.g., accountants, consultants, and other types of agencies • China becomes WTO member

cf. Chen 1995; Chen, et al. 2000; Liou 1998; Rawski 1995; Steinfeld 2004; Storey 1983; Watson 1994; Yu 2005.