
The Importance of Social Capital to the Management of Multinational SMEs: Relational Networks among Chinese and American Firms

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ABSTRACT

Social capital is an important asset for multinational SMEs. Relational capital acquisition, based on relationship marketing has been pursued in the West for decades. In Chinese societies, however, guanxi-based capital provides the competitive framework for business dealings for thousands of years. Recent studies suggest that cross-cultural issues have been put forward to explain the high failure rate among American firms doing business in China and vice versa. This study conceptualizes guanxi network driven in the Chinese cultures vs. relationship marketing driven in the American society as a governance mechanism to acquire relational capital and further to compete effectively in global markets. Guanxi, as a source of Chinese social capital, gives them a potential competitive advantage in global market while American relationship marketing tends to assess partnership's cost-benefits and may lead to potential disengagement. In Chinese cultures, building guanxi is usually considered the highest priority both in terms of importance and time sequences, which in turn lead to business partners' weight on long-term social (non-economic) interaction and relationship utilization, where Western relations, place greater emphasis on short-time economic gain through openness and agreements in their relational exchanges.

Keywords: social capital, relationship marketing, guanxi network, relational exchange

INTRODUCTION

Social capital is an important asset for multinational firms to gain a competitive advantage. Multinational firms need to acquire appropriate resources (e.g., information, technology, knowledge, access to distribution network, etc.) through informal and formal relationships with others to compete in the global environment (Hitt, Lee and Yucel, 2002). Relational capital, one of the most decisive dimensions of social capital, facilitates the formation of partnership and contributes to effective management of relationship development and drive business performance. Firms without sufficient and effective social capital may experience challenges in gaining access to resources necessary to compete in the global market (Hitt, Lee and Yucel, 2002).

Recent studies suggest that cross-cultural issues have been put forward to explain the high failure rate in the relational networks between American and Chinese firms. Accordingly, such failure are costly to any multinational firm: damages can range from \$1 million loss per early termination in relationship development to negative impact on future interactions between the parent and foreign branches, and poor client relations (Shannonhouse, 1996).

The key issue is that American and Chinese managers reveal little understanding of cross-cultural issues. Moreover, some American managers in China who held high-level management positions received no preparation for dealing with Chinese ethical and business issues (Riley, Yester, & Elkin, 2000). In order to understand the cultural differences of Western and Chinese business practices, one must come to terms with the radical contrasts between highly individualistic and collectivist societies (Hofstede, 2001), certainly one of the significant global differences in the 21st century. The huge degree of cultural differences between the West and China explains why most Westerners finally lose their patience and even terminate their businesses in the Chinese market.

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As the concept of relationship development has become increasingly pervasive in global markets, the question of how multinational organizations effectively process local business relationships to acquire relational capital as a source of competitive advantage has gained great attention. The focus of this study is on relational capital, its importance and effects in multinational firms. Importantly, we focus on the differences in the relational capital held traditionally by Chinese and American firms.

Relationship marketing driven (RMD) appears to be a dominant governance mechanism for relationship development in Western companies for recent decades, whereas *guanxi* network driven (GND) mechanism and its utilization is the must-be standard and deeply rooted in Chinese society for many centuries (i.e., Wee and Lan,1998).

Both mechanisms emphasize strategic effectiveness and efficiency on relational capital acquisition. However, the extent to which the practices and processes of relationship development and the acquisition of relational capital can be transferred from one country to another has been the subject of considerable debate, particularly between Western and Chinese relational experts. The Chinese emphasize the criticality of *guanxi*, a behavior that is particularly difficult for American firms to emulate as they conduct business in China (Yu, 2002). Therefore, a comparative analysis of the cultural perspectives of relational capital acquisition and its utilization is the primary focus of this research. This study seeks to focus on relational capital and its importance to the management of multinational firms and their performance-orientation in both cultures. We contribute to the literature by focusing on two important research questions: (1) *How does cultural value affect a multinational firm’s governance mechanism?* and (2) *how does the acquisition of relational capital affect a multinational firm’s performance-orientation in two different settings ?*

To guide my research, I utilized the structure-conduct-performance (SCP) framework to investigate causal relationships and posit critical ideas (cf Bain 1956: an industry’ structure determines its competitive behavior (conduct), which in turn determines its profitability (performance)).

Major issues included:

- Organizational culture (viewed as a “structure”), due to its national culture and home economy
- Governance mechanism on the acquisition of relational capital (viewed as a “conduct”), which in turn leads to its performance orientation (viewed as “performance”)

SOCIAL CAPITAL

Social capital has been defined in various perspectives across disciplines. Burt (1992) states that social capital strengthens a worker’s career development and success. Social capital also creates a richer pool of recruits for organizations (Fernandez, Castilla, and Moore, 2000). In recent years social capital has been acknowledged in the field of organizational studies as contributing to a firm’s competitive advantage and success in a number of organizational activities. For example, social capital enhances supplier relations (Uzzi, 1997), inter firm learning (Kraatz, 1998) and product innovation and entrepreneurship (Adler and Kwon,2002) . Social capital effects organizational innovativeness by facilitating the flow of information (Adler and Kwon, 2002; Ahuja,2000). Social capital effects range from substantive (e.g., supplier relationships) to facilitative (e.g., innovation and entrepreneurship) (Ahuja, 2000). Yli-Renko, Autio and Sapienza (2001) examined social interaction, relationship quality and network ties as dimensions of social capital help to produce competitive advantage. In this study we focus on how different governance mechanisms of relational capital acquisition affect firms’ performance orientation in the most distinct cultural settings such as American and Chinese societies.

NATIONAL CULTURAL VALUES

The concept of culture has been a much studied phenomena over years. A major study by Hofstede (1991) defines culture as:

A definition of national culture is:

... the collective programming of the mind acquired by growing up in a particular country (Hofstede, 1991, p.262).

Hofstede’s five cultural dimensions

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In the 1970s, Hofstede conducted an empirical study of IBM with the objective of measuring different values dominant among people from different nations. It concluded that four dimensions of national culture were present: power-distance; individualism versus collectivism; masculinity and femininity; and uncertainty avoidance. Hofstede and Bond (1988) later expanded this description to five dimensions. They are: (Hofstede, 2001)

1. *power distance*, which is related to different solutions to the basic problem of human inequality
2. *Uncertainty avoidance*, related to stress levels in a society confronting an unknown future
3. *Individualism versus collectivism*, related to integration of individuals into primary groups.
4. *Masculinity versus femininity*, related to the division of emotional roles between men and women
5. *Long-term versus short-term orientation*, related to the choice of focus for people’s efforts: the future or the present.

These five dimensions were empirically found and validated: each country could be positioned on the scale represented by each dimension. These indexes are shown for U.S., PRC and Taiwan in the sample (Table 1). Hofstede standardized each measure to range from approximately 0 to 100. As seen in Table 2, the three countries provide a high level of variance across the three dimensions of culture-individualism, power distance, and long-term orientation. For instance, the U.S. exhibits a high degree of individualism, whereas the Chinese (in PRC and Taiwan) score high for power distance and long-term orientation.

Appropriately, this study selects individualism versus collectivism as the starting point for comparing the difference at the societal and organizational level between the US and China.

Table 1. Hofstede’s Cultural dimensions (2000)

	Individualism	Uncertainty Avoidance	Power Distance	Masculinity	Long-term Orientation
US	91	46	40	62	29
PRC	20	30	80	66	118
Taiwan	17	69	58	45	87

Source: from Hofstede, G. (1980, 2003). *Culture’s consequences*

Individualism and Collectivism at Organizational Level

People in the collectivist culture of organizations tend to develop closer work relations and higher involvement with their boss and company. Conversely, organizations with individualistic cultures would have members who consider themselves as largely independent of the organization. Employees would assume that they are hired because of their unique skills and professional abilities, rather than because of their personal relationships or social background. Thus, managers would presuppose that they need to compensate employees in a manner that is rationally consistent with their capabilities and performance, e.g., in U.S. organizations the relationship between a company and its members is built on rational exchanges, beginning with the process of recruiting, selecting, and continues until employees are terminated.

By contrast, organizations that have collectivist cultures would have members who view themselves as highly interdependent with the organization. Employees would assume their relationships, loyalty, duties, and obligations are essential in an employment decision. Further, managers would assume employees are willing to sacrifice their individual desires to reach organizational goals. Similarly, for their personal sacrifices, employees would expect support from the organization during hard times. The relationship between an organization and its members is mutually interdependent. Therefore, employees view the nature of their relationship with the organization as one that is more a matter of long-term relational exchange (Hofstede, 2001). Kim (1994) argued collectivist cultures construct institutions as extensions of the family to reflect the importance of the fulfillment of obligations, whereas individualistic cultures construct institutions to reflect the importance of individual rights, e.g., in Confucian societies, organizations tend to develop long-term relationships with employees from recruitment through training, up to retirement.

According to Aston’s types of organization (Pugh, 1967), a family type of organization is highly significant in China, whereas a structured market type of organization is significantly emphasized in the U.S. In addition, as evidenced in earlier studies and empirical research, the Chinese demonstrate a high degree of collectivistic behaviors and beliefs in their societies or companies and tend to form a “family” type of organizational culture. American members exhibit highly individualistic

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characteristics in their corporations and society and tend to form a structured market mode of an organization. These conclusions lead to the following proposition.

Proposition 1. *An individualistic culture tends to create a “market” type organization that focuses on individual autonomy for short-term relationships driven by cost and benefit calculation, whereas a collectivistic culture tends to create a “family” type organization that focuses on interdependence with members for long-run relationships involving social interaction, group commitment, and human resources.*

Proposition 2. *A Chinese-based SMEs is more a “family” type of organizational culture than that of a US-based SMEs, whereas a US-based firm is more a “market” type of organizational culture than that of China-based firm.*

STUDY OF RELATIONSHIP DEVELOPMENT (THE WEST AND CHINA)

Overview

This study compares relationship development in Western and Chinese cultures from various perspectives: economics, sociology and social psychology, relationship outsider association, and current dominant paradigm (Table 2).

Table2. *The Study of Relationships in Western and Chinese Culture*

Type of Interpretation	Type of Exchange	West	China
<i>Economics</i>	Transactional	Transaction Cost Analysis (TCA) (Williamson, 1975)	<i>Guanxi</i> (Wong and Leung, 2001)
<i>Sociology and Social Psychology</i>	Contractual Interaction	Social Exchange Theory	Renqing /face (Wong and Leung, 2001)
<i>Business Association</i>	Relational	Interaction Theory (Outsider Association) Industrial Marketing and Purchasing Group (1994)	Confucian Dynamism (Insider Association) (Hofstede & Bond ,1988)
<i>Current Dominant government mechanisms</i>	Mutual obligation &Long-term benefits	RMD (Parvatiyar and Sheth 2000)	GND (Wong and Leung, 2001); RBV (Tsang ,1998) (Yeung and Tung, 1996)

In Western societies, most analyses of relationships have come from transaction cost theory, social exchange theory, and interaction theory (Wong and Leung, 2001).

In Chinese societies, empirical studies imply that *guanxi* is an underlying dimension of business there (Leung, Wong, and Tam 1995). In Chinese culture, social networks emphasize harmony within a given society and demand the appropriate arrangement of interpersonal relationships. The Chinese usually view *guanxi*, *reqing* (favor), *mianzi* (face) (King and Myers 1977), and Confucian Dynamism as “weapons” deployed in business relationships to influence people or obtain social resources. The study of those indigenous concepts has played a significant role in understanding Chinese social behavior.

ECONOMICS PERSPECTIVE

Transaction Cost Theory (West)

Transaction cost theory is based on two human behavior assumptions: bounded rationality and opportunism (Williamson, 1975). First, actors are intensely and intentionally rational. Second, actors are opportunistic: they pursue self-interest (Vibert, 2004). In partnering, transaction costs arise principally when it is difficult to determine the value of collaboration and cooperation, e.g., they can arise because the exchange partner is untrustworthy and the environment is complex (Vibert, 2004). Consequently, a dynamic and highly uncertain business environment makes it difficult and costly for business partners to build long-term, committed relationships.

A transactional approach emphasizes the short-term nature of buyer-seller relationships: both parties focus on attempting to maximize their profits (Ganesan, 1994). Partners view transactional exchanges as a zero-sum game (Day, 2000). Trust, commitment, or shared goals are not expected because relationships have a distinct beginning, a short duration, and clear end (Morgan and Hunt, 1994).

Guanxi (China)

Guanxi represents “personal connection,” “close and good relationships,” and “networking.” In Chinese culture, it is believed that one’s existence is largely influenced by one’s relationships with

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others. Standifird and Marshall (2000) opined that “*Guanxi* is first and foremost about the cultivation of long-term personal relationships. Chinese society is distinct because *guanxi* is ubiquitous and plays a central role in daily social and business life (p. 22)”. *Guanxi* is thought to be a prerequisite to achieving financial success in Chinese society. The concept of *guanxi* is embedded not only in the process of social interaction among Chinese people but also in decision making in Chinese businesses. Generally in Chinese culture, *guanxi* is a hierarchically structured network of relations. A member of the relationship network is confined by mutual obligations. Over time, these obligations occur through a conscious manipulation of *mianzi* (face), *renqing* (favor), and related symbols (Wong and Leung, 2001). Apparently, the notion of *guanxi* in China differs from what is meant by the term “relationship” in the West.

SOCIOLOGY AND SOCIAL PSYCHOLOGY PERSPECTIVE

Social Exchange Theory (West)

Social exchange theory reflects a process and interaction in which two parties are engaged in exchanging valuable resources (Wong and Leung, 2001). Emerson (1962) explains the importance of interfirm adaptation and trust in the social exchange theory. Trust and resource/ power-dependence are viewed as bases for social exchanges. Dyer and Singh. (1998) argue that “trust is an important concept in understanding expectations for cooperation and planning relational contracts” (p.18). An organization tends to achieve resource certainty to avoid being controlled by other parties. Thus, firms in a business relationship attempt to adapt to each other based on their dependence on choice (Wong and Leung, 2001).

Renqing (favor) and *Mianzi* (face) (China)

“*Renqing*” has been identified as an emotional response, a gift via both a social exchange and social norms. In psychological terms, *renqing* is similar to what the West terms “empathy” (Hwang 1987). The Chinese are encouraged to sympathize with a person’s emotional responses.

Renqing also represents a gift for transfer of resources. In Chinese culture, one should keep in contact with acquaintances in one’s social network. When a member of one’s social network gets into trouble or faces a difficult situation, another member should empathize or offer help and “do a *renqing*” for them. The Chinese saying “I owe him a *renqing*” signifies that *renqing* is a certain kind of resource that can be offered up. *Renqing* exchange and its date for reciprocation may be unlimited. Consequently, this back-and-forth *renqing* exchange facilitates long-term relationships and becomes a vital societal value in Chinese culture. This social interaction normally applies at the level of individual relationships for those within an entrepreneurial organization. However, the Chinese realize that the debt of *renqing* is much more difficult to repay than money owed to someone (Hwang 1987). *Renqing*, therefore, is a fundamental dimension of Chinese relationship development.

Mianzi or face has been identified as a form of social capital in Chinese society: it is defined as “the sum of the actual and potential resources that can be mobilized through membership in social networks of actors and organizations” (Anheier, Geshards, and Romo 1995, p. 862). It may pose as self-image — in terms of approved social attributes (Hwang 1987). Face is essentially the recognition by others of one’s social standing and position (Ho 1976). The practices of “giving face,” “losing face,” and “face enhancement” can occur not only at a personal level but also within an organization and other firms, or even in connection with governmental institutions. *Mianzi* maintenance is an essential element for Chinese social interactions.

Business Association Perspective

Interaction Theory (West)-Outsider Association

Kutschler (1985) suggests that interaction theory has introduced a dynamic element into the analysis of business relationships. Organizations regard transactions as joint decision processes among firms (Wong and Leung, 2001). This interaction is both the cause *and* the result of power-oriented relationships. This type of relationship interaction has been the focus of the work of the Industrial Marketing and Purchasing Group (1994), which labels it an “outsider association” (Wong and Leung, 2001).

Confucian Dynamism (China)-Insider Association

Hofstede and Bond (1988) showed that their measure of Confucian dynamism was positively correlated with the economic growth rate of nations. The Confucian ethic was focused on the quality

of relationships a person should try to maintain, and the social and civic duties that person is required to maintain as a symbol of their living a healthy, social life and participation in a civic society. Scholars have repeatedly shown that a high savings rate in East Asia and Japan was actually a product of the Confucian ethic, which promotes a long-term view of existence. Hofstede and Bond (1988) concluded that Confucian Dynamism is, in essence, a “dynamic, future oriented mentality.” Previous studies have concluded that Asian epicenters such as Hong Kong, Taiwan (and Chinese living abroad) have been successful due to the intense inter-organizational effectiveness and efficiency emblematic of Confucian Dynamism. The Chinese tend to view business partners as insiders. The Chinese strategically approach business relationships as “insider associations” (Wong and Leung, 2001).

Relationship Management Processes and Relational Capital Acquisition

A Process Model of Relationship Marketing (Western Perspective)

Sheth and Parvatiyar(2006) argue that “the objective of relationship marketing is to increase customers’ commitment to the organization through the process of offering better values on a continuous basis at a reduced cost” (p. 615). They have developed a four-stage relationship marketing process model (Figure 7). This broad model suggests that the relationship marketing process comprises four sub-processes: formation, management and governance, performance evaluation, and relationship evolution or enhancement. However, relationship marketing must be limited to the discipline of marketing and must focus on understanding and managing customers’ needs and behaviors (Sheth 1996).

Relationship Marketing and Market Relations (capital) Acquisition- Transaction Cost Analysis

During the relationship marketing process, managers must define their purpose for engaging in relationship marketing, select parties for relationship marketing, and develop marketing programs. Relationship marketing has the potential to improve marketing productivity and to create mutual values between a firm and its customers by increasing marketing effectiveness and/or improving marketing efficiencies (Sheth & Parvatiyar, 1995b). Once a relationship making program is developed, the program as well as the individual relationships within it must be managed and governed. In this stage, several issues must be addressed including communication and common bond, the planning process, process alignment, and monitoring procedures.

In addition, periodically companies need to assess the results of relationship marketing in order to evaluate whether or not programs are meeting expectations and whether or not they are sustainable in the long run. When performance is satisfactory, partners will be motivated to continue or enhance their relationship programs (Shamdasani & Sheth, 1995). When performance fails to meet expectations, the relationship may be terminated.

Clearly, although relationship marketing is defined as “the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value or reduced cost” (Parvatiyar and Sheth 2000, p. 9), there is no promise or further expectation to maintain the relationship once one party dissatisfies the other in economic performance. This approach of business relationship is considered a part of transaction cost theory, which emphasizes maximizing profits (the goal of extrinsic output) based on a calculation of costs and benefits, as well as on an evaluation of economic performance. Therefore, while the process model of relationship marketing may tend to focus on economizing transaction costs by choosing appropriate governance structure and control system, eventually it also forces all parties to evaluate their short-term economic performance. Thus, it proposed that,

Proposition 3. *A market type organizational culture tends to employ mechanistic processes such as Relationship Marketing Driven (RMD) for managing the relationship development and view partners as outsiders, which in turn leads to a focus on short-term economic performance*

The Guanxi-Network Dynamic and Process (Chinese Perspective)

Wang and Heung (2001) identify a “5 S” approach to the *guanxi* network dynamic: System, Scarcity, Saving, Security, and Success (Figure 8). The importance of relationship networks is rooted in Chinese history, which has been characterized by strong government control that reinforced Confucian codes of ethics. Those Confucian ethics were core values strongly upheld by Chinese government officials in their interpretation of business law. Due to the radically weak Chinese legal system (especially concerning property rights), and that country’s uncertain government style, most private enterprises tend to build up social capital using a *guanxi*-based network (the saving of *guanxi*)

instead of earning personal economic capital. They had no resources to take formal legal action against officials in the absence of formal written commercial law.

Chinese merchants have developed substantial negotiation skills — and created flexible contacts — within an ever-changing, hostile environment. In China today, *guanxi* is a very effective way to cope, both socially and politically, with ever-changing systems. This security network is the key reason why Hong Kong and Taiwan have been successful, even though they have little or no natural resources. The holistic perspective of *guanxi* building within a security network has motivated Chinese companies to build a mutual obligation and trust network for the exchange of resources, one that is efficient, interdependent, and dynamic. Such a network also allows them to enjoy greater flexibility in dealing with an ever-changing environment (Wang and Heung, 2001).

Guanxi Network and Social Relations (capital) Acquisitions-A Resource-based View

Resource-based theory assumes that firms try to maximize long-term profits by exploiting and developing their resources (Penrose, 1959). A resource-based approach to strategic management focuses on high cost-to-copy attributes of the firm as sources of economic rents, and as the fundamental drivers of performance and competitive advantage (Conner, 1991).

The resource-based view suggests that a firm can obtain a sustained competitive advantage only by using strategies that exploit rare, valuable, nonsubstitutable and difficult-to-imitate resources and capabilities (Barney, 1991). Firm resources can be classified into three categories: physical capital resources (Williamson, 1975), human capital resources (Becker, 1964), and organizational capital resources (Tomer, 1987). Human capital resources include the knowledge, skills, experience, relationships, and intelligence of individuals associated with a firm. *Guanxi*, viewed as human capital, may be considered an organizational level resource.

In Chinese business settings, building individual *guanxi* within an organization or with customers outside the organization is a valuable learning process that involves social interaction and knowledge transfer, and provides the participants with valuable business experience. *Guanxi* lubricates every social interaction and business transaction in Chinese society. Thus, *guanxi* appears to provide very essential assets or capabilities for an individual or a firm to survive in the Chinese environment. The literature of organizational learning and knowledge management supports the view that it is possible to transform individual knowledge into organizational knowledge. Thus, social connections at an individual level, much like personal assets, can be transformed into social connections at an organizational level (Tsang, 1998) to become organizational assets.

“*Guanxi* building” is strategic process that often offers the potential for competitive advantage (Barney, 1991). Tsang (1998) has used resource-based analysis to view *guanxi* as part of organizational human capital, which may contribute to a firm’s competitive advantage only if it is rare, valuable, and imperfectly imitable.

The Imitability of Guanxi

For survival purposes, Chinese people tend to interact with others by building “informal” ties, which become strong bonds leading to the growth of a network. This growth reflects public socialization and customs of hospitality (Redding 1990). In a business setting, a Chinese organization’s interactions and exchange processes with other firms in a network develop links of resources and activities. These resources and activities among firms complement one another. Organizations can use the existence of complementarities or competitiveness in their relationships in different ways, as they interact with one another (Wong and Leung, 2001). *Guanxi* is a socially complex resource in Chinese society. It is very difficult to identify and control all factors that contribute to establishing and nurturing good social *guanxi* due to interpersonal chemistry embedded inside that and “time compression diseconomies” (Tsang, 1998, P.68). A one-year *guanxi* building is hardly comparable to a ten-year one for Chinese people or organizations.

Guanxi’s Network Perspective and Competitive Advantage

Gulati, Nohria and Zaheer (2000) posit that a comprehensive view of a firm’s rent-generating resources not only includes elements such as brands, technological capabilities, and management talent, but also includes the network resources, or social capital of the firm. The relationships a firm has are a unique and inimitable asset. From a resource-based view, a firm’s network can be thought of as creating nonsubstitutable value, and as a means to access inimitable resources and capabilities. For

companies influenced by Confucian dynamics, a *guanxi*-based relationship is consonant with a network perspective of business relationship. *Guanxi* building with its partner for a firm is based on the resource-based view to build its unique networking and accumulate its competitive advantage in the Chinese business environment. Thus, *guanxi clearly satisfies all conditions of a strategic resource*. In this sense, empirical evidence supports that there is a correlation between “the possession of right and strong *guanxi* and a firm’s financial performance” (Yeung and Tung, 1996, p.63). Thus, it is proposed that,

Proposition 4. *A clan type organizational culture tends to employ organic processes such as Guanxi Network Driven (GND) for managing the relationship development and views partners as insiders with a focus on long-term social performance*

IMPLICATION AND CONCLUSION

Adler and Kwon (2002) define social capital as “the resource available to actors as a function of their location in the structure of their social relations”. They further distinguish conceptually between market relations and social relations: (1) market relations, in which products and services are exchange for money or bartered, (2) social relations, in which favors and gifts are exchanged. The study suggests that the distinct strategic mechanism (market-relation driven vs. social-relation driven) certainly as one of the global significant difference for comparing strategic motives and behaviors between Chinese and American firms. Recent studies also differentiate competitive resources between social capital-reinforced through partners’ continuous long-term interactions and market capital-reinforced by evaluating marketing effectiveness and efficiency among members (Peng, Lee,&Wang 2005).

Hansen and Wernerfelt (1989) suggest that economic and organizational values are two major determinants of firm performance. In individualistic cultures, firms emphasize economic value such as industry profitability, relative market share, and firm size. However, in collectivism, companies may more focus on organizational values of social interaction such as human resources, and achieve group goals.

According to Wee’s (1994) study, Western and Chinese views on management can be traced back to societal values and practices. Wee’s (1994) framework contrasts the Western and Chinese view of business relationship. For example, Chinese emphasize friendship more than their Western counterparts, and treat friendship as a means to competitive advantage. By contrast, Westerners focus on profits and business dimensions such as return on investment. Additionally, Western TCA theory emphasizes fragmented societal values based on legal issues with short term expectation while the post-Confucian dynamic approach focuses more on disciplined and cohesive values with long-term orientation. For example, in the Western world, gift giving may often be viewed as illegal, but in Chinese society, gift giving is often regarded as the sincere demonstration of social interaction such as building *guanxi*. Thus, in Chinese society, the process of *guanxi*-building is expected to go beyond pure friendships and tends to facilitate effective resources among members to obtain valuable social capital and competitive advantage.

From a strategic perspective, product positioning and market orientation often dominate Western management’s efforts to maximize its shareholders’ wealth and target its key customers, based on cost and benefit calculations. Relationship marketing dominates Western management and strategy which tends to build contract-base dependence among partners. In contrast, the ultimate objective of Chinese management is to win the hearts of the people (employees, customers, suppliers, government, shareholders, and business partners) through the holistic *guanxi* networking. The ultimate goal is considered an art: it is to find various solutions to different situations in order to satisfy all stakeholders and maintain long-term relationships with them. In Chinese culture, the *guanxi*-network - a relationship-based strategy that emphasizes mutual interdependence among members- appears to be a priority for social interaction and business transactions.

Today the greatest potential business market has shifted from the West to China due to Chinese purchasing power and production efficiency. As China continues its economic reform while property rights in the country remain ambiguous, *guanxi* has become more important to manage uncertainties and external dependency. The benefits of described above of employing *guanxi* in business relationships hold significant implication for managers engaging in global organizations. Relationship marketing and *guanxi* are different but complementary strategic behavior, and one cannot function without the other in today’s ever-changing and complex global economy.

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