

**School of Marketing**

**The influence of Guanxi and knowledge of China's business environment on  
relationship initiation capabilities:  
The case of Australian SME service suppliers in China**

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## DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

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## ABSTRACT

The primary objective of this research is to examine the influences guanxi resources and understanding of the Chinese business environment have on business relationship initiation capabilities with customers in the People's Republic of China for Australian exporters. The second objective is to explore the moderating effects of environmental competition and salesperson effectiveness on the main effects. The third objective concerns the methodology of the research and is to undertake a mixed-method approach combining both qualitative and quantitative stages. Qualitative questionnaire data from 25 Australian small and medium enterprises (SMEs) exporting services to China is examined using a content analysis procedure. The procedure is based on identifying themes related to the main study constructs and interconnecting theories. Structural equation modelling (SEM) using WarpPLS software is also used to analyse quantitative survey data from 72 firms. Qualitative findings suggest firms acknowledge both advantages and drawbacks in using guanxi, consider sales efforts directed towards relationship building as beneficial as well as recognise maintaining an understanding of often volatile and somewhat inconsistently applied policies and regulations in the substantially different China market as important. The final quantitative model indicates the following. In undertaking the methodological objective and to fully explore the first and second research objectives concerning the links between the factors and relationship initiation, it was found that while guanxi resources do not have a significant direct effect on relationship initiation capabilities, however both understanding of the Chinese business environment and salesperson effectiveness do directly influence relationship initiation. These results are in accordance with resource based theory and goal setting theory respectively and show consistency with the qualitative findings. The quantitative model also indicates that higher guanxi resources in a moderating role result in a stronger association between salesperson effectiveness and relationship initiation capabilities, linking with the theme of networking in client facing roles identified in the qualitative analysis. The managerial implications of the overall findings are that a firm's knowledge and learning capacity are important to its performance in forging new customer relationships in China. Also, guanxi resources significantly enhance the likelihood of building new customer relationships for

salespeople with strong performance characteristics in account management, market share and prospecting.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

In an increasingly global economy, Australian companies have many opportunities to sell their offerings overseas. The fast-growing Chinese market has gained great attention over the past few years as a source of considerable demand for the goods and services of both small, medium and large Australian enterprises (WA DSD 2013).

However, securing business-to-business (B2B) customer relationships in the transitional economy of China for new entrant foreign firms is often challenging and time consuming (Salmi 2006, Fang, Olsson, and Sporrang 2004). This is due to a myriad of political, cultural, economic, technological and historical differences which exist between China and Australia. Whilst relationship marketing in general as well as specific research into business relationships in China has garnered considerable attention, the dynamics and strategies for actual initiation of B2B customer relationships for new entrant firms in China are still under-researched (Chan 2008, Murray, Masaaki, and Zhou 2005, Yen and Barnes 2011). Furthermore there is a lack of research on small and medium sized enterprise (SME) engagements with China (Ndubisi and Matanda 2011). SMEs often possess limited resources and experience in comparison to large firms, which are factors that require further consideration in international business research (Fang, Olsson, and Sporrang 2004). In terms of industry sectors, China has now become Australia's largest services export market (DFAT 2011), yet a majority of studies on export success have focused on products (Sichtmann and Selasinsky 2010). Lastly, while business sentiment for the future of the crucial Sino-Australian trade relationship is positive, Australian companies still grapple with the many challenges in fostering profitable long term relationships in China (Austrade 2013a, LaPlaca 2011).

## **1.2 Background**

The market for business-to-business exchanges of goods and services is vast and rivals in scale the market for consumer offerings (Fill and Fill 2005). The sales process in business-to-business markets often involves personal, relationship-based selling stages. This is especially true for new overseas sales situations (Blythe 2005), which are of major concern to this research.

The basis for stages of a B2B sales process often involving direct and detailed interactions between the salesperson and the client are born from the need to deliver complex information tailored to the customer's situation (Fang 2001, Smith and Taylor 2004). The salesperson's role is key in these transactions in order to successfully deliver sophisticated and customised solutions and participate in extended commercial and technical dialogues with customers (Singh and Koshy 2011). If customers aren't confident that a supplier effectively understands the customer's intricate needs and can deliver an offering to satisfy those needs, the sale is unlikely to take place.

In addition to the frequent complexity of products and services at hand, B2B buying decisions are rarely made in isolation and typically involve a client buying centre or decision making unit. Members of a decision making unit will have their own criteria and agendas, which require enhanced sales efforts and further justifies the need for personal selling (Blythe 2005).

Monetarily, the often high dollar cost of the potential B2B sale warrants investment in more personalised relationship based selling, as customers will rarely take the risk what can often be millions of dollars for something that won't confidently fit their exacting needs (Alejandro et al. 2011).

Even in business sales of commoditised goods, it is argued that the quality of the customer's experience provided through sales people is important, precisely because

there is often little else to differentiate one firm's offering from another's in the buyer's eyes (Howard and Kinni 2007, Narayandas and Rangan 2004).

Having highlighted the importance of personal selling in business-to-business sales, caution should be exercised as to whether personal selling is appropriate for every conceivable form of B2B sale (Streukens, van Hoesel, and de Ruyter 2011, Styles 2003). One potential counter example to personal selling is a small business purchasing stationary from an online wholesaler. The entire transaction may be very impersonal and streamlined with no person-to-person interaction required to generate revenue.

Australian companies now have many opportunities to engage in business-to-business sales activities in overseas markets as well as domestically. Among overseas markets, China has become a focus for many Australian companies (Yuhong 2008). However, the sales function within Australian firms must however understand that the sale process and related techniques that work in Australia for bridging relationships may not be effective in China. Among other things, after opening its economy China can be described as a new playing field with many old rules unfamiliar to foreign firms. Add to this the transitional and ever evolving nature of its economy; one begins to realise that successfully engaging China warrants investment in thorough research and efforts to understand the market (Tse 2010). This need is reinforced through acknowledging the fact that numerous foreign firms have not undertaken the necessary due diligence in learning how to operate in the Chinese business environment and have paid dearly for their ignorance (Crombie 2005, Wyrwoll and Hanschen 2007).

Having said Chinese enterprises operate in ways unfamiliar to many Australian companies, China is making recognisable changes in creating the commercial infrastructure and institutions desired by Western companies. After the 1949 communist revolution, China was essentially a closed centrally planned socialist economy (Yueh 2010). The state decided what was to be produced, who was to produce it and where it was to be delivered (Fishman 2005). Firms were essentially state owned, and the sales function in this regime was limited. There was no need to

identify and pursue new customers as the firm's produce was pre-allocated to the state.

Nowadays China poses many characteristics of a market economy (Yueh 2010, Li 2008), one such characteristics being firms must compete both domestically and internationally for the customer's business in many industries. The sales function within Chinese firms is important, as in many cases the state will not commit to buying 100% of the firms output, thus the firm must locate and compete for other customers. Although Chinese business customers do now engage with the supplier's sales department as business customers in the Australia do, this does not mean that effectively selling to Australian customers utilises the same strategies as effectively selling to Chinese customers.

Despite some considerable elements of economic modernisation, China's is still to realise the effective development and implementation of formal institutions which form a fundamental part of national governance in developed nations (Cornelisse and Thorbecke 2010). Bearing particular significance on the prevailing business environment are weak property rights (Child and Möllering 2003), a lack of independence within the judicial system (Estrin and Prevezer 2010, Millington, Eberhardt, and Wilkinson 2005) and multi-faceted difficulties in contract enforcement (Estrin and Prevezer 2010). Further to this is a legacy of erratic and sudden policy shifts, which are frequently interpreted and enforced throughout different regions and levels of government with great inconsistency (Tang 2009, Li 2008). To cope with various shortcomings in formal institutions, informal institutions typically develop to fill the void (Baumol and Blinder 1997, Cornelisse and Thorbecke 2010). This is prevalent in China, with one of its primary informal institutions being *guanxi* - a particularistic form of interpersonal social ties (Herndon 2008, Tang 2009).

To date, numerous empirical studies have explored the problems and prospects confronting overseas businesses seeking to export to the People's Republic of China (PRC), including significant efforts to research selling practices in China (Womack 2013). Extensive interest in business research concerning the nation is hardly

surprising considering the rapid in expansion China and its great importance to the global economy in recent years (Patience 2014).

However abundant areas of exploration still remain open. For one, whilst relationship marketing / guanxi marketing are subjects of considerable attention, initiation of B2B customer relationships for foreign firms are still under-researched (Crombie 2005, Murray, Masaaki, and Zhou 2005, Yen and Barnes 2011). Large firms have attracted a disproportionate amount of research (Zeng, Xie, and Tam 2010), despite the fact that micro, small and medium sized firms constitute the vast majority of firms in Australia (ABS 2014). While physical products especially commodities do account for the bulk of Australia's exports to China, China has now become Australia's largest services export market (DFAT 2011). China is also Australia's largest export destination in general (DFAT 2014), thus the importance of doing business in the world's most populous nation as well as adequately managing the large differences in business culture has never been so important.

### **1.3 Significance of the study**

As most firms in general, including SMEs, are involved to a greater or lesser extent with B2B transactions, industrial marketing research has broad applicability (LaPlaca and Katrichis 2009). Internationally, the overall yearly investment made by Australian firms from a diverse range of industries in prospecting for customers in China is substantial (DFAT 2014). A majority of Australia's exports to China are B2B exchanges. Although significant research has explored foreign engagement in China, a limited proportion of these examine Australian companies' perceptions in this realm, with a majority of research focused on countries such as the US and Japan (Liu 2008). What studies do exist on Australian engagement in China lack substantial coverage on networking (guanxi) and business relationship development (Chung 2003, KPMG 2013).

In addition to B2B exchanges with China providing an important platform for Australian trade in general along with a call for more Australian as opposed to, for example, US centric studies, this research work will contribute to the field of international relationship marketing in several more specific areas. Firstly, by

providing a review of issues pertinent to business relationship initiation in China by foreign firms. Secondly, by critically examining existing models and frameworks concerning business relationships. Thirdly by exploring the significance several factors play with respect to forging relationships with new customers in China via collecting and analysing data from a variety of Australian companies selling to China. Fourthly by empirically testing several theoretical precepts in the context of Sino-Australian trade.

Through these means it is intended a better understanding of relationship initiation in China will emerge. This may assist scholars in gauging the applicability of certain Western and non-Western based theories in the context of outbound service trade flows between Australian and China. From a practitioner standpoint, findings from the study may assist firms in developing their international marketing plans for service exports to East Asia, especially in the area of customer relationship management.

## **1.4 Research questions and objectives**

In addition to the above limits in current knowledge, the literature review chapter will identify further gaps in current understanding which include a relatively young body of literature on relationships in non-Western economies, a preference for qualitative methods in studying early phases and limited identification of the antecedents influencing the beginnings of relationships. The analysis of the extant literature combined with the background provided so far leads to the following research questions:

1. If and to what extent do guanxi and the understanding of China's business environment impact on relationship initiation capability?
2. If and to what extent does salesperson effectiveness and environmental competition moderate the above-studied impact?

To answer the research questions, the following research objectives are formed for the case of Australian SME service suppliers to China:

1. To explore the relationship between guanxi, the understanding of China's business environment and their impact on relationship initiation.
2. To examine the moderation effects of sales person effectiveness and environmental competition on the aforementioned variables.
3. To develop a mixed methods approach using structural equation modelling and qualitative template analysis to test the relationships.

## **1.5 Methodology**

An online survey based approach to collect both quantitative and qualitative data was chosen for the research. Survey based research involves collecting data from a sizeable population in a structured way (Saunders, Lewis, and Thornhill 2009). Surveys can investigate phenomena and context together. Although surveys do lack the in-depth investigation a case study approach can deliver. The strength of a survey research strategy for the stated research objectives were as follows.

Firstly, surveys are more likely to yield a sufficiently large sample of seller responses to permit a structural equation model to be tested. Secondly, depending on the questions asked, response rates are often higher due to confidential seller activities or information not being directly witnessed, as would occur in a case study or action research scenario. Thirdly, respondents were likely to view the risk of their anonymity being breached via a survey as less than would occur through a case study or action research. Online questionnaires also permit respondents to answer in their own time and potentially check company records where applicable to ensure responses are accurate.

In terms of operationalising constructs, pre-validated scales were employed. All scales were measured via statements on a seven-point Likert scale.

<b>Construct</b>	<b>No. of items</b>	<b>Reference</b>
Guanxi resources	5	Gu, Hung, and Tse (2008)
Understanding of China's business environment	9	Tsang (2002)
Relationship initiation capability	8	Hansen (2004)
Environmental competition	4	Chen, Ellinger, and Tian (2011)
Salesperson effectiveness	6	Plouffe, Sridharan, and Barclay (2010)

**Table 1.1 Latent constructs and sources of observed measures**

For data collection, a total of 1987 firms were randomly selected from trade databases maintained by the Australian Trade Commission (Austrade) and the Australia China Business Council (ACBC). Combined these databases held a total of 2278 companies. A cut off of 1987 approaches was decided after several extensions to the data collection period and marginal growth in full responses were observed as sampling frame saturation was neared. 183 respondents attempted the questionnaire. 78 respondent firms did not satisfy screening criteria, 19 left the questionnaire part way through and 14 full responses were generated by large firms (200+ full time employees). This left 72 full responses from firms up to and including the ABS defined medium company size of 199 full time employees, nearing the target

quantity of 80 - 90 responses. These firms constitute the focus of this research. Qualitative data was also collected via the survey instrument from 25 SME respondents who chose to provide further content concerning their experiences in China.

Data analysis was carried out by a variety of methods, including descriptive statistics, reliability analysis, correlations, structural equation modelling employing a partial least squares approach as well as thematic based template analysis for qualitative responses. These techniques were employed to ultimately assess the hypothesised linkages between the key constructs in order to test the applicability of various theories in the research context, thus fulfilling the research objectives.

## **1.6 Delimitations**

Within this research, the unit of analysis is micro, small and medium sized Australian enterprises supplying B2B services. For convenience in the purpose of this research we will term all three categories as small and medium sized firms. The classification of micro, small and medium sized firms will be based on enterprises with employee numbers between 1 and 199, as defined by the Australian Bureau of Statistics (ABS 2014). SMEs are the most common form of business in most countries (Chetty and Stangl 2010). SMEs play a crucial role in economies as suppliers, distributors, and consumers in most industries. However much prior literature has focused on the marketing strategy of large firms; therefore, the understanding of the strategies used by SMEs in industrial markets and in managing their relationship with their business buyers is limited (Ndubisi and Matanda 2011).

The other main delimitation of the study is its examination of firms including services in their offerings to China. Most research concerning international business marketing has focused on manufacturing firms (Rui and Jing 2011). As China has liberalised its service sector for foreign investment, further studies in the service industries is beneficial. China's services sector is projected to expand significantly as rising per capita incomes are now being accompanied by substantial removal of restrictions in the services sector after China's ascension to the WTO (Wu 2007). For example, by 2020, China's financial services market will be larger than that of

Germany and will grow more than twice as fast as the rest of the world (DFAT 2005). The growth in the services sector offers significant business opportunities for Australian service suppliers. China is already Australia's top export destination for services (DFAT 2011), with Australia companies already present in a variety of fields including finance, education, tourism, telecommunications, logistics and professional services. Services now account for the largest sector of Australia's economy (DFAT 2009). This places the nation in a very favourable position to further leverage its highly developed services industry to export capabilities to the growing Chinese economy.

## **1.7 Organisation**

This thesis is comprised of five chapters intended to explain the development of the research objectives, the steps undertaken to form and execute a suitable methodology and the analysis of the results linked back to the literature and research objectives.

This first chapter provides the reader with background information on business relationship initiation for Australian SMEs engaging with China. It includes an illustration of some of the drivers and barriers, the need for an understanding on why the research is important and the related factors that will be subject to evaluation. The overall research aim and individual research objectives are also identified. Chapter 2 is a review of the literature and will begin by discussing the parent theories which set a contextual foundation for the research problem. These include resource based theory, the Uppsala model and guanxi theory and their ability to explain business relationship formation in China. Research gaps will be identified and the review will subsequently hone in and critically analyse under-researched yet theoretically justified antecedents for relationship initiation in China. Further, this chapter will derive the research hypotheses for testing. Chapter 3 discusses the research methodology. The main research philosophies used in business studies and their relevance to this project will be deliberated. The use of a survey research will be justified through comparison analysis of the fitness of major methods against the research objectives. The general questionnaire design inclusive of the core scales and screening questions will be supplied. The respondents, time horizon and procedures for conducting the research will also be explained. Chapter 4 provides an

analysis of results. The chapter will begin with the characteristics of respondents, followed by descriptive and reliability analyses. This is followed by partial least squares based structural equation modelling of quantitative data and thematic based template analysis of qualitative data to test the hypothesis. Chapter 5 presents the overall conclusions of the study. The purpose, objectives, research process is reiterated and a general discussion of theorised versus actual results included. The findings and their implications for researchers and managers will be discussed. The chapter is concluded with the limitations of the research and directions for future studies.

## **1.8 Chapter summary**

Chapter 1 has provided a background and context for the study. In short, there is a need to have a more comprehensive understanding of relationship initiation in China, particularly for Australian SMEs who often possess limited resources and hail from a substantially different business culture. The significance of the study for scholars and practitioners was described, followed by the objectives for the study. The methodology employed to achieve the objectives was discussed and delimitations of the study declared. Finally the organisation of the thesis was summarised in order to provide readers with a sense of how the various stages of the project developed and interlink with one another. A review of the literature follows in the subsequent chapter.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Chapter overview**

The research is concerned with the initiation of business relationships in China and examines the conditions that facilitate new relationship development. The study also explores how salesperson and environmental factors may moderate the associations between the conditions and relationship initiation.

The three research objectives previously mentioned are:

1. To explore the relationship between guanxi, the understanding of China's business environment and their impact on relationship initiation.
2. To examine the moderation effects of sales person effectiveness and environmental competition on the aforementioned variables.
3. To develop a mixed methods approach using structural equation modelling and qualitative template analysis to test the relationships.

This chapter will explore the rise of relationship marketing and the benefits derived from business relationships to provide the overall context of the study.

#### **2.2 Business relationships**

##### **2.2.1 The rise of relationship marketing**

Within business-to-business marketing research, relationships have grown to be a large area of study in recent years. There are several wide-ranging meta-analyses of the extant literature. Backhaus, Lügger, and Koch (2011) undertook a comprehensive citation analysis of the 1522 published B2B marketing articles uncovered between 1972 and 2009. The study tracked the evolution of B2B marketing research and concluded that buyer-seller relationships posed the largest field of research in their most recent period of analysis. LaPlaca and Katrichis (2009) in reviewing B2B marketing literature covering thirty-one marketing journals, beginning with the initial publication of the Journal of Marketing in 1936, also highlighted the research growth in this area.

Although the increased interest in B2B relationships is a relatively recent phenomenon, many fundamental drivers for the requirement of close relationships hark back to early literary eras. Two of the seminal authors in this regard are Ames (1968, 1970) and Corey (1962, 1976). Some of their insights into B2B marketing practice are summarised below.

- Products are often customised and intertwined with services in a package. These packages are complex in nature and may evolve in characteristics rather than stay constant.
- The commercial, competitive and technical aspects of a customer's operations need to be understood by the seller.
- The interdependence between the buyer and seller is high, in particular in reference to seller offering used in the customer's operations.
- The purchasing process is complex.
- The requirement for a seller's offering is largely linked to the demand of the buyer's customers.

The aforementioned authors' observations are still relevant (Mattsson and Johanson 2006) as they highlight drivers for business relationships as opposed to purely clinical market transactions (Ellram 1995, Mattsson and Johanson 2006, Whipple, Lynch, and Nyaga 2010).

In concert with Ames (1968, 1970) and Corey's (1962, 1976) findings, one of the principles the distinguished Industrial Marketing and Purchasing (IMP) Group was founded upon in 1982 was the belief that individual transactions between buyers and sellers are often mere episodes in a continuing relationship between the parties (Ford and Hakansson 2005). Hair et al. (2009) also discuss this concept as concerning interactions between businesses moving from transactions to relationships. The merit of the IMP Group's philosophy has been evidenced by the massive growth of research into relationship marketing in the past decade (Backhaus, Lügger, and Koch 2011). Furthermore research into B2B relationships has also permeated to a noticeable extent into the fields of networks (Harris and Wheeler 2005), small firm

internationalisation (Coviello and MacAuley 1999) and export behaviour (Leonidou 2003), all of which are key components in this research project.

Despite the growth in relationship marketing to tackle the phenomena raised by authors such as Ames, Corey and the IMP Group, many large gaps in understanding still persist (Ford and Hakansson 2005). For example studies on the influence of social media investment on relationship outcomes (Clark and Melancon 2013). Or proposed models to describe how many modern ‘manufacturers’ defy the traditional definition and rely on sophisticated relationships with supplier run factories to integrate the final product (Christopher 2012).

### **2.2.2 The benefits of business relationships**

Relationship marketing posits the basic idea that firms should aim for mutually beneficial relationships with other entities in the business environment (Streukens, van Hoesel, and de Ruyter 2011). Such relationships may themselves evolve through several forms or degrees such as ‘consultancy’ and ‘partnering’ (Hair et al. 2009). Business relationships in many instances decrease exchange uncertainty and create customer cooperation and commitment through the development of mutual values and shared norms. These are the characteristics which allow the engagement between the parties to better adapt to changing circumstances (Bradford et al. 2010, Morgan and Hunt 1994). The creation of business relationships, which often transpire from long term exchange partnerships, may allow firms to derive revenue and market share gains which increase competitiveness, leverage synergies and decrease transaction costs (Andersen, Christensen, and Damgaard 2009, Doney and Cannon 1997, Shi et al. 2011). In addition to these benefits, relationships taking on an international export dimension, such as those between Australian suppliers and Chinese buyers, are promoted by supplier home country governments as further advantages stand to be gained (WA DSD 2009). These advantages include the generation of overseas funds for firm growth and reinvestment, diversification of business risks, better utilisation of idle operating capacity and creation of shareholder value through increased profits and improve service levels. This in turn contributes to the economic development of the supplier’s nation (Leonidou 2003).

Whilst there is a strong body of literature espousing the benefits of relationship marketing both domestically and in an international context, a number of authors have found evidence that building B2B relationships is not necessarily the best approach in all circumstances (Brush and Rexha 2007, Homburg, Müller, and Klarmann 2011, Streukens, van Hoesel, and de Ruyter 2011, Zhou, Poppo, and Yang 2008). Some authors conclude that relationships may in fact have a dark side linked with collective blindness, corruption and personal indebtedness by executives (Lin, Fu, and Chen 2014, McLoughlin and Horan 2002). Indeed, being locked into ties as a way of doing business may hinder firms in seeking new markets, possessing alternative avenues for gaining information, learning of shifting customer preferences in uncertain environments as well as creating vulnerability by relying on one organisation for a large part of the business (Li and Sheng 2011).

Following this section on the benefits of business relationships, the review will continue with an evaluation of theoretical models describing business relationships. The review will focus on studies related to the concept of relationship initiation in the general business context and specifically in China.

### **2.2.3 Models of relationship development**

Major schools of thought concerning relationship development models can be broadly classified into two categories: stages theory and states theory. Stage models propose sequential and irreversible stages of a relationship. For example the stage model of Heide (1994) views relationships transitioning from an initiation stage, to maintenance and finally a termination stage. Notable stage models widely cited in the literature include those of Dwyer, Schurr, and Sejo (1987) and Ford (1980). State models on the other hand propose relationships can transition amongst a series of unpredictable states which exist between the ultimate starting point and the final terminus of a relationship (Ford and Rosson 1982).

A review of state and stage models of relationship development conducted by Holmen et al. (2005) concluded that the stage based models have been the subject of considerable criticism, largely based on their inability to explain relationships which do not to follow a prescribed progression. The analysis also identified trends in empirical findings which largely support the validity of the state models.

Despite debate on the relative merits of stage vs state models, a common criticism levied against the state and stage models concerns lack of description regarding what processes are needed to move between stages/states, including how the initiation stage/state is entered into to begin with (Broch, Maniscalco, and Brinberg 2003, Edvardsson, Holmlund, and Strandvik 2008). Despite this shortfall, considering studies on international relationship states in the context of overseas networking are still beneficial to this research project. For example, the model constructed by Batonda and Perry (2003) to describe firms entering into relationships spanning Australia and China. Their findings support the notion that development of relationships with actors in the firms' networks is not an orderly progression of phases over time. Instead relationships were observed to transition in and amongst various states. Synthesising earlier work in stage/state models the authors refined a model of relationship development particular to Australia/China international networks. Of particular relevance to relationship initiation is the starting state within the model. This state is partly analogous to the 'early stage' derived by Ford (1980), which involves activities such as making initial contact through direct visits, direct contact or a third party, establishing rapport and presenting the purpose/opportunity of potential engagement to another party. These criteria for starting a relationship provide some guidance for measuring the point at which a relationship initiation is achieved for the research project. It should be noted however that a suitable questionnaire measure for the starting state was not developed by Batonda and Perry (2003), as their research was based on qualitative case studies. This particular methodology presents a further weakness of the study as quantitative techniques to permit statistical validation of the model were not carried out by the authors. This research seeks to ameliorate this situation by developing and testing a conceptual model. The literature review will continue with further discussion on relationship initiation.

#### **2.2.4 Relationship initiation capability**

Backhaus, Lügger, and Koch (2011) have clearly identified relationship marketing as the predominant field of B2B marketing research in recent times. However the authors did not discuss the growth in specific sub-topics of relationship marketing, such as relationship initiation.

To begin with, it is important to re-iterate what form of relationships the literature review is concerned with when discussing the initiation phase. Morgan and Hunt (1994) described ten discrete forms of relationship marketing. Examples of these include partnering with suppliers, marketing agencies, customers and competitors (in strategic alliances). Whilst many forms of dyadic relationships may exist this research concerns the buyer-seller dyad specifically. Be that as it may, existing network relationships with a broader array of firm types, such as those described by Morgan and Hunt (1994), will be considered when examining the endogenous construct of 'guanxi' resources. Guanxi is a type of relationship endemic in the Chinese business environment which is built upon the exchange of favours between two parties (Alston and He 1997). Further explanation of this construct will be provided in section 2.3.

Considering the buyer-seller dyad specifically, relationship initiation between the two parties is often a key factor linked to the success of a firm (Cateora and Graham 2002). Without creating business relationships with customers, most commercial B2B service providers would not survive (McColl-Kennedy et al. 2008). Thus the ability to forge relationships is essential to a company's success and ultimate existence (Blythe 2005, Katsikea 2003). Relationship initiation activities are often the first interactions in securing B2B customers. Relationship initiation activities and their influence on business success have been the subject of a substantial body of literature (Cates 2011, Coe 2004, Howard and Kinni 2007, Román and Martín 2008, Singh and Koshy 2011). Apart from relationship initiation activities themselves representing an important early stage in the lead up to revenue generation, there are also important implications to success with respect to strategies chosen. Choosing an ineffective means by which to approach Chinese firms can not only waste a significant amount of money and time (which negatively bears on firm success), it may also damage the seller's credibility in the eyes of potential customers if misused (Dunfee and Warren 2011, WA DSD 2009). This can further lead to lost revenue opportunities and jeopardise the survival of a firm.

Whilst there are clear links between developing relationships and a firm's success, the actual antecedents of a firm's capability to effectively initiate relationships has

received limited coverage. This limitation has been acknowledged both in general literature on relationships (Edvardsson, Holmlund, and Strandvik 2008, Geiger and Turley 2005, Harris and Wheeler 2005, Pickering 2005) as well as works focused on China (Agndal 2005, Luo 2007, Rui and Jing 2011). The following section will discuss relationship initiation in a general context and subsequently focus on relationships in the China market.

#### *2.2.4.1 General studies on business relationship initiation*

There is a scarcity of research concerned with relationship initiation and first meetings (Agndal 2005, Geiger and Turley 2005, Holmen et al. 2005). Common deficiencies cited by authors include a disproportionate focus on the life-cycle of a relationship with little attention paid to the beginnings (Edvardsson, Holmlund, and Strandvik 2008), an over emphasis on pre-existing ongoing relationships (Holmen et al. 2005) and a lack of investigation into the specific strategies pursued by entrepreneurs to forge international relationships (Harris and Wheeler 2005).

The IMP group tradition has spawned several attempts to better explain relationship initiation within a B2B context. Agndal (2005) utilised in-depth interviews to uncover how Swedish SME's meet their East Asian partners. Although a focus on the East Asia region, which includes China, is of relevance to this research, this study was primarily concerned with which side initiated relations (East Asian vs. Swedish) rather than the factors affecting the Swedish firm's ability to initiate. The study concludes that Swedish sellers rarely sought East Asian customers and instead relied on the direct enquiries from customers or referrals from third parties. This contrasted with the Swedish sellers' treatment of Nordic, the Americas and Western European regions where relatively high proportions of seller outward relationship initiation activities were reported. Two of the main reasons uncovered within the study for the different levels of activity were the relative importance attached to markets closer to home and the perceived difficulties in conducting business with the dissimilar business cultures present in East Asia. This finding encourages further research to assist Western firms to better understand relationship development in East Asia, which is especially important given the regions increasing economic importance on the global stage (Agndal 2005). Holmen et al. (2005) tackled the question of how

relationships begin via undertaking a case study of a Dutch firm and its domestic and international customer relationships. The findings were primarily focused on dimensions of techniques concerning whether the Dutch firm initiated contact or not and whether initial contact was direct or network mediated. The study concludes that for the firm, contact with new customers was quite reactive. The second most common mode of meeting customers after waiting for incoming enquiries relied on third parties introducing counterparts to the firm. Interestingly both these modes are corroborated by Agndal (2005), perhaps warranting further investigation into the similarities between Dutch, Swedish and Western European behaviour in the creation of business relationships via direct or mediated channels. In terms of this research project, the interesting conclusion of both these studies is that the importance mutually connected intermediaries play in bridging relationships. This mode of relationship introduction is similar to leveraging guanxi relational ties, which is an important factor in meeting new parties in China and the subject of further discussion in section 2.3.

Edvardsson, Holmlund, and Strandvik (2008) sought to explain dynamics in the relationship initiation process leading to a business agreement via a state transition model. Interestingly, the study observes through in-depth interviews that selling firms improved their relationship building capabilities through creation of references, joining respected industry associations and cooperating with other respected companies. In essence these activities are aimed at enhancing network relationships, which encapsulate among other things securing intermediaries as described by Agndal (2005) and Holmen et al. (2005). Furthermore the study promotes increased market intelligence as another key factor in relationship advancement, which was an element not incorporated to a great extent into the studies of Agndal (2005) and Holmen et al. (2005). Market intelligence is closely linked with understanding China's business environment, which is a key construct in this research project as described in section 2.4.

The aforementioned studies all employ either case study or in-depth interview research methods. Further to this phenomenon within the field of relationship initiation, a large proportion of IMP based literature on various areas within industrial marketing relationships employs qualitative methods of investigation

(Tyler, Stanley, and Brady 2006). Case study and in-depth interview methods have been held in high regard for studies in relatively young fields of endeavour, such as business relationships (Gadde, Hjelmgren, and Skarp 2012) due to the need to uncover the multi-faceted and complex factors which comprise industrial interactions throughout different exchange settings (Tyler, Stanley, and Brady 2006).

Beyond the studies discussed thus far, the draw of qualitative methods is further elucidated in the industrial relationship associated works of Andersen and Kumar (2006), Gadde, Hjelmgren, and Skarp (2012), Mainela (2007) and Salmi (2010). These authors rationalise employing an open and less structured approach in emerging streams of research stems as an effective means to explore and uncover new insights as well as reduce the influence of pre-conceived notions and assumptions (Gadde, Hjelmgren, and Skarp 2012, Harris 2000).

Whilst qualitative methods have formed a substantial basis for studies in the realm of relationship initiation, these also present a gap (Harris and Wheeler 2005). Further quantitative studies are needed to contribute to statistical validation of models and propositions developed to date. This is particularly pertinent to this research project in the case of measuring the significance intermediaries (Agndal 2005, Holmen et al. 2005) and market understanding (Edvardsson, Holmlund, and Strandvik 2008) pose to a firm's ability to initiate relationships. Analysis will now turn to works relevant to business relationships within the context of China.

#### *2.2.4.2 Relationship initiation in China*

In the specific context of China, the often long and involved sales dialogue will begin in earnest when relationships begin to solidify between seller and prospect (Davidrajuh 2007, Knoss and Beveridge 2007). For China, the business connections that must be nurtured in selling are manifestations of a relationship model native to China named 'guanxi' (Chen and Chen 2004, Millington, Eberhardt, and Wilkinson 2005). Guanxi is in essence, a set of personal connections based on the exchange of favours, which people may draw upon to secure resources or advantage (Davies 1995, Tindal 2003, Walters and Samiee 2001).

Yen, Yu, and Barnes (2007) advocate that with the increasing interaction between Western nations and China, further studies on cross national relationships will “prove stimulating from an academic perspective and certainly for practitioners, as they attempt to manage and grapple with such international hybrid relational dynamics” (Yen, Yu, and Barnes 2007 p. 9). This call is accentuated by the findings of Andersen, Christensen, and Damgaard (2009) which suggest that in many instances foreign managers in China are failing to manage *guanxi* relationships properly, prompting a call for further research.

Studies on relationship initiation in China written for Western audiences have frequently drawn emphasis on utilising a mutually connected third party as a bridge to relationships with a target prospect. Whilst providing enlightenment on how a firm can leverage its network relationships to gain referrals, these studies cover little in terms of other antecedents of relationship initiation in China (Cooper, Lou, and Chen 2007, Knoss and Beveridge 2007, Runckel 2005, Yen and Barnes 2011, Zhuang, Xi, and Tsang 2010). Authors such as Luo (2007) and Cornelisse and Thorbecke (2010) are particularly sceptical of ‘one size fits all’ approaches, such as the almost exclusive focus on engaging mutual acquaintances to forge relationships. A better understanding of whether situation characteristics, *inter alia*, investor’s experience, regional focus, market share, leadership style, product diversification and other operational factors may vary the process by which the firm constructs and manages China based relations is further encouraged by Gebauer et al. (2007) and Herndon (2008). Therefore further research concerned with factors influencing relationship initiation capabilities in China is useful (Luo 2007).

A further bias which has transposed into China specific studies is a preference for examining pre-existing relationships (Harris and Wheeler 2005). One example of this analysis conducted by Andersen, Christensen, and Damgaard (2009) on Danish SME’s and their relationships with Chinese suppliers. Although the investigation did not concern relationship initiation *per se*, findings did uncover that divergence in buyer–seller relationships was not simply a result of cultural differences. Rather, institutional frameworks often play a greater role in differing relationship expectations. Institutional frameworks include national rules and regulations, underlying assumptions that influence economic activity and beliefs that shape the

interactions between individuals (Andersen, Christensen, and Damgaard 2009). This has implications for the importance understanding China's business environment may play in healthy relationships and the normalisation of expectations between Western sellers and their Chinese customers.

#### *2.2.4.3 Summary of gaps in the literature*

Noticeable gaps in current literature have been identified. Firstly, business relationships and by extension the initiation of such relationships are a relatively new and evolving field of research (Ford and Hakansson 2005). This has implications for the breadth of areas still open for exploration. Examples include the interplay between the individual and organisation's web of business relationships (Yang and Wang 2011), the role business vs political ties play for institutions operating in East Asia (Dong, Li, and Tse 2013) and the impact of business networks to a firm's innovation outputs (Huang, Lai, and Lo 2012). In addition to large tracts of uncovered territory concerning business relationships in general, the fundamental stage and state models to describe business relationships and the various forms they transition through are largely deficient in describing the antecedents that cause movement between positions, including how the initiation stage/state is entered into to begin with (Broch, Maniscalco, and Brinberg 2003, Edvardsson, Holmlund, and Strandvik 2008). In concert with the various state/stage models encompassing the phases of a relationship, prior research has placed a disproportionate focus on the relationship life-cycles with limited attention to how they begin (Edvardsson, Holmlund, and Strandvik 2008). Furthermore an over emphasis on pre-existing ongoing relationships (Holmen et al. 2005) and a lack of investigation into the specific strategies pursued by entrepreneurs to forge international relationships (Harris and Wheeler 2005) further supports the need for studies covering overseas relationship initiation.

In terms of methodology, there has been a preference for qualitative as opposed to quantitative or mixed methods research (Tyler, Stanley, and Brady 2006). This is hardly surprising given techniques such as case study and in-depth interviews are often well suited for exploratory research into newer fields of endeavour such as business relationships in our era of globalisation (Gadde, Hjelmgren, and Skarp 2012).

Finally although there is a substantial and growing body of research exploring foreign engagement in China, a majority of studies focuses on larger economic zones such as Europe and the US (Lee, Abosag, and Kwak 2012, Lin, Fu, and Chen 2014). The experiences of Australian companies in under researched, despite the substantial trade relationship between China and Australia (Liu 2008).

#### *2.2.4.4 The antecedents of business success and relevance to relationship initiation*

The literature review has highlighted a lack of current understanding of the antecedents for relationship beginnings. To examine potential factors contributing to relationship initiation, it is worth considering literature on the leading indicators of general business success in China (Rui and Jing 2011). The measures of business success include but are not limited to relationship satisfaction (Leung et al. 2005), competitive advantage (Tsang 1998), sales growth (Zhang and Zhang 2006), financial performance (Chen and Hsu 2010) and market share (Pan, Li, and Tse 1999). A review of research efforts published between 1992 and 2012 concerning business success in China was performed. The sources analysed were representative of government trade publications and multiple journals from industrial marketing, business ethics, supply chain management and international marketing disciplines. As this study is concerned with relationship initiation, it is important to acknowledge that the antecedents ultimately considered must exist in some form before first contact with a potential client is made.

Table 2.1 presents the antecedents ranked by vote count and their sources.

Antecedent theme	Vote Count	Sources
Guanxi	19	(Abramson and Ai 1997, Austrade 2013b, Barnes, Yen, and Zhou 2011, Chung 2011, Gebauer et al. 2007, Gu, Hung, and Tse 2008, Holmen et al. 2005, Hu and Stanton 2011, Huang, Lai, and Lo 2012, Lee, Abosag, and Kwak 2012, Li and Sheng 2011, Salmi 2006, Su and Littlefield 2001, Szeto, Wright, and Cheng 2006, Tsang 1998, Wiley, Wilkinson, and Young 2005, Yueng and Tung 1996, Zhang and Zhang 2006, Zhu 2009)
Understanding of the Chinese business environment	10	(Austrade 2013b, Fang, Olsson, and Sporrang 2004, Gebauer et al. 2007, Guo 2004, Herndon 2008, Johnson, Yin, and Tsai 2009, Lee, Abosag, and Kwak 2012, Salmi 2006, Tang, Wang, and Zhang 2007, WA DSD 2013)
Adaptability	7	(Adler, Brahm, and Graham 1992, Edvardsson, Holmlund, and Strandvik 2008, Fang 2001, Gu, Hung, and Tse 2008, Leung et al. 2005, Luo 1997b, Wong and Chan 1999)
Commitment	6	(Barnes, Yen, and Zhou 2011, Feng, Sun, and Zhang 2010, Lee, Abosag, and Kwak 2012, Salmi 2006, Wiley, Wilkinson, and Young 2005, Wong, Tjosvold, and Zhang 2005)
Trust	5	(Barnes, Yen, and Zhou 2011, Brush and Rexha 2007, Edvardsson, Holmlund, and Strandvik 2008, Liu et al. 2008, Tsang 1998)
Credibility	4	(Edvardsson, Holmlund, and Strandvik 2008, Ewing, Windisch, and Newton 2010, Leung et al. 2005, Tsang 1998, Zhang and Rezaee 2009)
Corporate social responsibility	4	(Herndon 2008, Li and Sheng 2011, Szeto, Wright, and Cheng 2006, Zhang and Rezaee 2009)

Long term orientation	3	(Austrade 2013b, Jansson, Johanson, and Ramström 2007, Tang, Wang, and Zhang 2007)
Timing	3	(Beverland 2009, Edvardsson, Holmlund, and Strandvik 2008, Pan and Chi 1999)
Entry mode	3	(Ahn, Khandelwal, and Wei 2011, Pan and Chi 1999, Pan, Li, and Tse 1999)
Competition	3	(Beverland 2009, Brush and Rexha 2007, Edvardsson, Holmlund, and Strandvik 2008)
Uncertainty	2	(Lee, Pae, and Wong 2001, Li and Sheng 2011)
Communication	2	(Andersen, Christensen, and Damgaard 2009, Barnes, Yen, and Zhou 2011)
Firm age	2	(Li and Sheng 2011, Tang, Wang, and Zhang 2007)
Level of internationalisation	2	(Chen and Hsu 2010, Luo 1997b)
Market orientation	2	(Chung 2011, Chung et al. 2009)
Technology	2	(Fang, Olsson, and Sporrang 2004, Zhang and Zhang 2006)
Marketing structure	1	(Beverland 2009, Salmi 2006)
Opportunism	1	(Lee, Pae, and Wong 2001)
Market Power	1	(Luo 1997b)

**Table 2.1 Themes for antecedents of success in China and frequency of occurrence**

The extant research suggests that guanxi is the single most important contributor to successful business relationships in China followed by understanding the Chinese business environment. Understanding the Chinese business environment received 43% more votes than the third ranked antecedent, adaptability. Guanxi and understanding the Chinese business environment are concluded to be the most frequently identified antecedents by a significant margin. These antecedents will now be discussed further. Through the discussion particular attention will be paid to the views extant literature on business relationships provides concerning interactions between the antecedents and relationship initiation capability.

### **2.3 Guanxi resources**

Literature on guanxi has overwhelmingly found its influence to be positively linked to performance (Ambler, Witzel, and Xi 2009, Crombie 2005, Li and Sheng 2011, Wong and Chan 1999). The comparative importance of guanxi for SMEs in particular was reinforced by the empirical findings of Li and Sheng (2011). The findings drew on the rationale that SMEs often hold limited assets and experience, thus calling on one's guanxi network resources can provide additional capabilities not available to the firm as a sole entity (Tang, Wang, and Zhang 2007, Yueng and Tung 1996).

As outlined in section 2.2, guanxi is in essence a set of personal connections based on the exchange of favours, which people may draw upon to secure resources or advantage (Davies 1995, Tindal 2003, Walters and Samiee 2001). To date Western theories, some of which will be discussed in this section, only provide a partial explanation of the construct (Chen and Chen 2004, Wang 2007). The shortcomings of Western theories to fully explain guanxi has encouraged the development of a specific guanxi theory by authors such as Xin and Pearce (1996), Zhang and Zhang (2006) and Zhuang, Xi, and Tsang (2010).

Before further analysis of guanxi's link to relationship initiation, it shall be beneficial to clarify the link between guanxi, business relationships, relationship marketing and networking to avoid any confusion in latter discussion.

### **2.3.1 Guanxi, business relationships, relationship marketing and networks**

Guanxi permeates every level of society and can exist between family members, classmates, friends, business partners and fellow townsmen as examples (Wong and Chan 1999). Guanxi has been coined as the indigenous Chinese version of relationship marketing (Shi et al. 2011, Wang 2007). While there is merit in drawing a connection between guanxi and relationship marketing, guanxi in itself refers to a type of relationship native to China (Wan and Ng 2013). Relationship marketing is on the other hand a set of activities or processes (Morgan and Hunt 1994), rather than a relationship in its own right. Therefore engagement in relationship marketing activities may yield guanxi relationships. It is important to note that a great diversity of business relationships exist throughout the business world, encompassing many varied characteristics and evolutionary paths (Gummesson and Polese 2009). As with other types of relationships, the likelihood of success of relationship marketing in establishing guanxi will be greater if one takes into the consideration the specific and often unique protocols and norms for establishing, developing, and maintaining the type of relationship at hand.

When a firm develops relationships with other businesses, it broadens its business network. Business networks are long-term business relationships that a firm possesses with actors such as customers, distributors, suppliers, competitors and government (Chetty and Campbell-Hunt 2003). Guanxi style relationships are also components of a business network and can equally exist with suppliers, competitors, government agencies and other organisations a firm may interact with in China. If examining only relationships that come under the classification of guanxi, these relationships specifically constitute a firm's guanxi network (Wu and Yong 2006). Within this literature review, the term guanxi resources and guanxi network will be treated synonymously as referring to the sum total of guanxi relationships a firm possesses in China.

### **2.3.2 Guanxi resources and relationship initiation**

It has been evidenced that within Chinese networks, which employ the unique relational protocol of guanxi, an entity's web of relationships exerts influence on the course of relationship initiation with new parties (Lee, Abosag, and Kwak 2012, Liu 2008, Huang, Lai, and Lo 2012).

The survey research of Lee, Pae, and Wong (2001) on the People's Republic of China (PRC) and Hong Kong based firms examines guanxi and its influence on performance and relationship quality. The study finds that higher levels of guanxi positively influence the quality of a firm's relationships. The model developed by the authors was largely based on previous guanxi theory, relationship marketing theory and transaction cost economics.

As this research project concerns interactions with China emanating from Australia, which is classed as a Western culture, it is important to discuss the work of Yen and Barnes (2011) and Salmi (2006). Yen and Barnes (2011) leveraged social exchange theory to hypothesise that the role of guanxi relationships will be greater in Anglo-Chinese relationships that exist beyond the short term. Social exchange theory views society as being composed of interactions. Interactions are based on estimates of rewards and punishments. Behaviour of one party in an interaction is more likely to be repeated if it elicits approval or reward from the other party (Blau 1964, Kingshott and Pecotich 2007). Guanxi's alignment with social exchange theory in promoting rewarding interactions stems from its practice of countering imbalances of dependency through the mutual exchange of measured favours and promotion of long term reciprocity, which leads to cooperative, endearing and harmonious relationships between parties (Yang and Wang 2011).

Salmi (2006) furthermore analysed the establishment and management of supplier relations in China by Western buyers. Although focused on Western importers as opposed to exporters, the interview based study did provide some insight into how relationships were initiated with the Chinese side, citing working through existing guanxi relationships to forge new ones as an important strategy.

In terms of guanxi research relevant to SMEs, Li and Sheng (2011) examined the effects of guanxi on firm performance, with special consideration given to the moderating effects of firm level factors. The study finds guanxi is more salient with regard to enhancing performance for more entrepreneurial-oriented and younger firms, which has implications for SMEs. The theoretical basis for the paper was drawn from models developed to describe guanxi, namely those of Chen and Chen (2004), Xin and Pearce (1996), Zhang and Zhang (2006) and Zhuang, Xi, and Tsang (2010).

Further evidence of the importance of network connections for SMEs can be found in the study of export relationships conducted by Leonidou, Katsikeas, and Hadjimarcou (2002). The research finds that US exporters with a greater overseas clientele base had a tendency to experience more harmonious relationships. From this finding it may be the case that a more extensive set of existing customer relationships enhances the firm's capability to draw new relationships.

Whilst Leonidou, Katsikeas, and Hadjimarcou (2002) considered relationships on a firm level, there is merit in considering individual relationships as a precursor to the initiation of business relationships. The importance of personal ties is particularly relevant in the case of China, where individual relationships are often intertwined with those on a firm level (Yong and Reuvid 2006). The qualitative studies of Dibben and Harris (2001) and Halinen and Salmi (2001) support the notion that personal relations bear a substantial and positive influence on the initiation and development of business relationships. It should be pointed out that although Dibben and Harris (2001) and Halinen and Salmi (2001) briefly acknowledged the importance of personal relationships in Asia, findings were based on case study analysis in a Western business setting. Therefore questions still remain concerning the statistical strength of the models in a Chinese context, a concern resounded by Shi et al. (2011).

Given the above discussion, the explanatory power of Guanxi theory within the context of this research will be tested. The research model will test the applicability of Guanxi theory via examining the idea posed by the below hypothesis (Berkeley

2015), which offers that a positive relationship between guanxi resources and relationship initiation capability.

### **H1.** High Guanxi resources have a positive association with relationship initiation

Possession of guanxi resources by a firm and the factor's influence on relationship initiation capability has been the focus of this section. At this point it is worth noting the possibility that a firm may possess an understanding of guanxi practices, without actually possessing guanxi itself. A firm's understanding of guanxi and other factors in the Chinese business environment is shown to influence their odds of success (Zhang and Keh 2010).

This leads into the next section which shall analyse the literature concerning understanding the Chinese business environment and its influence on relationship initiation capability.

## **2.4 Understanding of the Chinese business environment**

Austrade and the WA Department of State Development (WA DSD) first and foremost recommend Australian firms undertake thorough research to understand the China market and business practices before entering (Austrade 2013b, WA DSD 2013). This learning process enables an entrant firm to better establish a business base in the particular foreign market, reap locational benefits offered by the country market and better cope with differing legislative requirements to name a few (Lee, Abosag, and Kwak 2012).

Empirical research by Johnson, Yin, and Tsai (2009) in a Chinese-Western business setting supports the view that a firm's learning capacity is key to superior performance in its internationalisation process. The study also argues that international success does not merely rely on the possession of distinctive capabilities but also on the capacity to learn, which is in accordance with the knowledge based view (KBV) of the organisation. The KBV is considered an extension of the broader resource based theory (RBT) of the firm (Freeman, Hutchings, and Chetty 2012). RBT states that a firm can be viewed as a collection of productive resources (De Wulf and Odekerken-Schröder 2001). Superior firm performance can be judged by evaluating these resources: the assets, knowledge,

organisational structure, and procedures that it controls (Dong, Li, and Tse 2013, Leonidou 2003, Tsang 1998).

Contemporary evidence to support the validity of the RBT premise includes an EU Observatory of European SMEs 2006/2007 survey, which concluded that a lack of knowledge of foreign markets is the primary obstacle to overseas expansion (Figueira-de-Lemos, Johanson, and Vahlne 2011). Within the context of China, the significant relationship between Chinese market knowledge and performance has been found in studies by Herndon (2008), Johnson, Yin, and Tsai (2009), Lee, Abosag, and Kwak (2012) and Tang, Wang, and Zhang (2007).

As this research project concerns the internationalisation of Australian firms in China, it is worth acknowledging some specific theoretical foundation work related to understanding overseas markets and internationalisation. One of the most widely cited theories of internationalisation related to an accumulation of knowledge is the Uppsala process model (Johanson and Vahlne 1977). One aspect of the model states that a firm's increasing levels of internationalisation is motivated by the acquisition of knowledge, which may include experiential, objective or general international business knowledge (Pandian and Sim 2002). In terms of relationship initiation, before significant knowledge has been acquired, the model indicates the firms will be reluctant to commit high levels of resources to an international market (Salmi 2006). In this situation, the firm assumes a reactive stance, relying largely on being contacted by potential overseas buyers or business partners. As the firms build greater knowledge, the firm's proactive pursuits of overseas relationships increase in magnitude (Agndal 2005).

Partly drawing on the Uppsala model, Lee, Abosag, and Kwak (2012) examined the networking activities of multinational corporations (MNCs) in the China market. The study concluded that the speed of internationalisation is significantly influenced by MNC networking (further supporting the antecedent of guanxi resources) and the learning and commitment demonstrated by MNCs. Although the model presented by Lee, Abosag, and Kwak (2012) bears many similarities to the factors which will ultimately be incorporated into this project, there are several key points of difference. Firstly their study is concerned with MNCs whereas SMEs are not covered. A lack

of research on SME engagements with China has been noted as an ongoing concern that requires further addressing (Fang, Olsson, and Sporrang 2004). Furthermore Pickering (2005) stresses that the likelihood of failure amongst SMEs going international is much higher when compared to large enterprises, enunciating a serious need for greater understanding of overseas issues facing smaller firms. In addition to differences in the unit of analysis, the second key divergence Lee, Abosag, and Kwak (2012) presents is the fact that the dependent construct is the speed of internationalisation. The focus of this research project is in contrast relationship initiation in China. Third, Lee, Abosag, and Kwak (2012) based the research on case studies of several manufacturers where within this literature review, focus lies with service providers.

Based on the analysis provided in this section backed primarily by the theoretical underpinnings of Resource Based Theory, the following hypothesis is stated through which the applicability of RBT in the context of this research will be tested:

**H2.** Greater understanding of the Chinese business environment has a positive association with relationship initiation capability

## **2.5 Links between the antecedents**

Two of the antecedents to relationship initiation have been discussed thus far in their own right. At this point in the literature review it would be prudent to analyse the presence of links between the two antecedents, rather than assume they are discrete.

Thus far the view that within Chinese networks, which employ the unique relational protocol of *guanxi*, an entity's ties bear influence on new relationship initiations has drawn considerable support (Huang, Lai, and Lo 2012, Lee, Abosag, and Kwak 2012, Liu 2008). This further backs the business network perspective on firms with diverse networks experiencing greater relationship initiation opportunities, in general, in the export arena and for SMEs (Chetty and Holm 2000, Chetty and Stangl 2010, Harris and Wheeler 2005, Johanson and Vahlne 2003, Pickering 2005, Zeng, Xie, and Tam 2010). This is due to networks providing information, finance, access to other networks, referrals to new customers and reputation assets not available to the firm

as a solitary entity (Freeman, Hutchings, and Chetty 2012). Networking essentially speeds up internationalisation "... by providing synergistic relationships with other firms, small and large, that complement each other's resources at various stages in the value chain." (Crick and Spence 2005 p. 171). In essence inter-firm guanxi relationships are considered strategic resources in themselves, which can be leveraged, inter alia, to enhance a firm's understanding of the Chinese business environment (Dong, Li, and Tse 2013).

Although the literature supports the view that guanxi resources can be leveraged to gain a further understanding of the Chinese business environment, guanxi resources are not the only or necessarily the prime basis of knowledge. Trade seminars, internal human resources, market research reports, home country networks and government trade advisors are some of the sources a firm can call upon to enhance their understanding of international markets (Ambler, Witzel, and Xi 2009, Austrade 2009, Evers and Knight 2008, Zikmund 1997). Even though guanxi resources form but one source of information among many, careful analysis between the two antecedents to identify any cross loadings must be conducted. This will be discussed further in the research methods and findings sections.

## **2.6 Environmental competition**

Environmental factors, which are typically beyond the control of the firm, are an important considerations for initiating business relationships overseas (Leonidou 2003).

Works centred on guanxi conducted by Chen, Ellinger, and Tian (2011) and Gu, Hung, and Tse (2008) state that environmental competition often fosters alternative sources to obtain resources. As alternative sources become available, a buyer's dependence on relationships declines and forging relationships becomes more difficult with many other firms competing for the buyer's attention (Dong, Li, and Tse 2013). Competition has also been shown to affect the perception of relationship investment from the supplier side. As competition intensifies the bargaining position of the supplier devoting resources to relationship-specific assets for the buyer diminishes, exacerbating hold-up risks and further dampening the supplier's

willingness to invest (Jia 2013). Transaction cost theory (TCT) is useful in explaining these observations. A transaction cost is a cost incurred in making an economic exchange (Khemani and Shapiro 1993). Examples of transaction costs are search and information costs, bargaining costs, monitoring costs and enforcement costs (Wong and Chan 1999, Teo, Wang, and Leong 2004, Williamson 1975). Williamson (1975) in his model of TCT proposes that the interplay of certain dimensions of an exchange will determine the prevailing transaction costs. These dimensions are uncertainty, asset specificity and transaction frequency. The theory also assumes that human players are victims of bounded rationality and opportunism (Wong and Chan 1999). A party typically seeks to enter into an exchange whereby transaction costs are minimised. The prevailing uncertainty in highly competitive environments typically increases transaction costs, making exchange relationships more difficult to enter into and risky in terms of opportunistic moves by exchange partners. Therefore it is expected that higher competitive intensity will dampen the influence of guanxi and an understanding of China's business environment on relationship initiation capabilities as perceived relational risks increase. Consistent with this theory, Brush and Rexha (2007) conducted a survey of firms to test a model concerning supplier share allocations in an overseas Chinese context. The results back the premise that a supplier's share of a buyer's business is positively influenced by a supplier's efforts, among other things, to pursue market and customer learning. Yet the presence of increased competition will dampen the supplier's share.

Taken together, the above arguments predict the follow hypotheses.

**H3.** The higher the environmental competition, the weaker the association between Guanxi resources and relationship initiation capability

**H4.** The higher the environmental competition, the weaker the association between understanding the Chinese business environment and relationship initiation capability

## **2.7 Salesperson effectiveness**

Aside from a firm's technical competitive advantages in the products or services, Walter (1999) states a firm's ability to develop relationships with customers is

significantly influenced by boundary spanning individuals who manage relationships with clients. These boundary spanning individuals were traditionally classified as salespeople. Over time the modern successor of the salesperson within the B2B realm emerged as a customer relationship manager (Davies, Ryals, and Holt 2010, Homburg, Müller, and Klarmann 2011, Plouffe, Sridharan, and Barclay 2010). Customer relationship managers evolved in response to greater emphasis on the benefits of relationship marketing and key account management as opposed to short term, transaction based selling (Halinen and Salmi 2001, Homburg, Workman Jr, and Jensen 2002, Hutt and Speh 2010).

For customer relationship managers, Walter (1999) identified social competence, network knowledge, and a portfolio of good personal relationships as crucial attributes for role success and capturing new clients. Huang, Lai, and Lo (2012) further tested this notion in the context of China found empirical support for the significant influence of the skills possessed by a start-up's founder (who often also wears the hat of salesperson) on the firm's abilities to forge new network relationships with other companies. The founder acting in this capacity is not dissimilar to companies where the roles of CEO or MD take on a sales function - a phenomenon which commonly occurs in SMEs (Ates and Bititci 2009). Although the study of Huang, Lai, and Lo (2012) bears many similarities to the research described in this dissertation, the study explores a different transnational aspect - that of Taiwanese as opposed to Australian firms in Mainland China. Furthermore startups as opposed to SMEs were the unit of analysis. Although these firm types are interrelated, not all SMEs are startups.

In a narrower sense, when examining the initiation phase of relationship development Wood, Boles, and Babin (2008) and Bellenger et al. (2008), when examining trust formation, find that perceived salesperson expertise is positively related to the development of trust in initial encounters, based on social learning theory. Trust in turn is considered a core component of successful business relationships at the individual (Singh and Koshy 2011) and organisational (Morgan and Hunt 1994) level. If buyers' initially assess a supplier representative as lacking trustworthiness, the buyers will likely 'vote with their feet' (Wood, Boles, and Babin 2008 p. 35).

Whilst Wood, Boles, and Babin (2008) examine trust in the individual salesperson, Morgan and Hunt (1994) built support for the positive influence of trust in the supplier organisation on relationship building. Interestingly Doney and Cannon (1997) measure both types of trust in their study of buyer-seller relationships. Their empirical results conclude that buyer-supplier relationship trust at the organisational level is positively influenced by the buyer's trust of the salesperson, supporting a moderating effect of salesperson effectiveness (an influencer of trust) on organisational trust and subsequently relationship initiation capabilities.

In summation, important relationships may never pass through initiation if buyers develop a negative impression of suppliers during the initial encounter (Dwyer, Schurr, and Sejo 1987).

Research conducted by Plouffe, Sridharan, and Barclay (2010) supported a positive relationship between salesperson effectiveness and gaining new customers. The findings of Bellenger et al. (2008) further support a significant link between salesperson effectiveness, the salesperson's reputation in an industry network and salesperson understanding of the market. The research model will hypothesise a positive moderating relationship between salesperson effectiveness and the two antecedents.

**H5.** The higher the effectiveness of the salesperson, the stronger the association between Guanxi resources and relationship initiation capability

**H6.** The higher the effectiveness of the salesperson, the stronger the association between understanding the Chinese business environment and relationship initiation capability

### **2.7.1 Salesperson role seniority**

Confucianism is considered one of the foundation stones of Chinese society (Alston and He 1997, Li 2009). The Confucian philosophy of deference to seniority (Ambler, Witzel, and Xi 2009) and working within an accepted hierarchy (Tse 2010) has shaped the modern categorisation of the Chinese culture as being one of high

power distance (Hofstede and Minkov 2010). An implication of this cultural factor for relationship initiation is that individuals with higher positions in the supplier organisational will, on balance, receive greater acknowledgement and attention from potential Chinese customers (Alston and He 1997, Buttery and Leung 1998). To manage the potentially moderating effects of role seniority, this research project will target respondents from upper management within the sample of Australian SMEs under investigation. This will largely control for the effects of employee position on the conceptual model. Further details on respondent selection within the sampling frame are provided in the research methods section.

## **2.8 Firm characteristics**

### **2.8.1 Industry**

Tung (1982) studied US – China trade relations by measuring various characteristics of cross-national negotiations undertaken by 138 US firms. The study took into account the type of industry, number of previous negotiations with the Chinese and types of programs used in preparing for negotiations by US companies. The study found no significant variance in negotiation practices across different industries. The study of Li and Sheng (2011) concerning guanxi governance also calculated industry type had no significant moderating influence on firm performance, a finding also supported by Abramson and Ai (1997).

Lastly Salmi (2006) explored Western sourcing relationships with Chinese firms through empirical case studies. Strikingly, although the firms interviewed were of different sizes, industries and applied different sourcing strategies, there was a high level of consistency in the characteristics of relationships with suppliers.

In light of the above evidence from the literature, within this study industry is not predicted to produce material influence on the dependent variable. Nonetheless industry as a characteristic of a firm is straight forward to record via a single measure (Hessels and Terjesen 2008). It is possible to run various statistical tests across industry groups with a sufficient sample to verify the variable indeed has no significant influence on the research findings.

### **2.8.2 Modes of internationalisation**

It is important to consider how different modes of market entry may influence a firm's experiences in forging overseas relationships (Austrade 2009). For example, an Australian firm may derive significant revenue from the China market. Yet such a firm, as discussed by Petersen, Benito, and Pedersen (2000), may solely export through a single China based sales agent. Therefore the Australian firm may have little need or opportunity to initiate any further direct relationships with PRC based customers.

In line with the Uppsala model, Uribe, Ebel, and Hofer (2007) and Yong and Reuvid (2006) discuss the progression of entry modes a firm engages in based on escalating commitment in the Chinese markets. Firms typically start exporting to China via an agent, later on establishing a representative office and may transition to establishing a joint venture operation or wholly owned subsidiary company. The early stages of overseas engagement are relatively indirect, that is the firm has limited contact with end-customers and trade intermediaries usually fulfil a customer facing role (Katsikea 2003, Meissner and Gerber 1980). For the case of SMEs, within the earlier indirect modes of exporting, a firm's networks of relationships in the target overseas market and knowledge of the overseas environment are typically limited, as described in the empirical studies of Chetty and Stangl (2010) and Hessels and Terjesen (2008). Although Uppsala model has been criticised for its lock step interpretation of internationalisation phases (Crick and Jones 2000, Pickering 2005), many SMEs still follow the prescribed stages based on their ability to accumulate greater degrees of knowledge and experience (Bell, Crick, and Young 2004, Reason and Mughan 2002 ).

Therefore, within the bounds of this research project, the factors of guanxi resources and understanding of the China business environment are considered to characterise to a degree the SME's entry mode into China. Although mode of entry is an important factor to acknowledge when examining the engagements of SME's overseas (McNaughton 2001), the conclusion reached is that the construct will deliver only limited additional insight into the research model. A study of the interplay between the mode of entry and the constructs posed in the model will prove an interesting field of investigation for other research projects.

## **2.9 Summary of hypotheses**

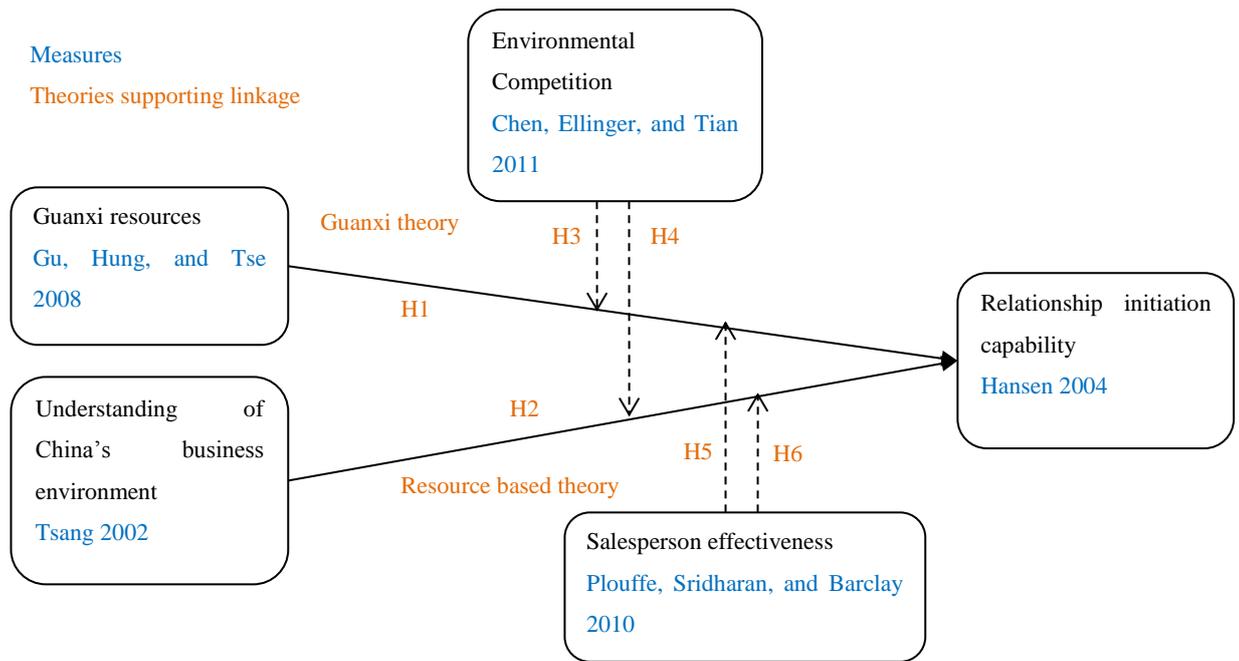
Based on relevant literature, the hypothesised relationships between the independent, dependent and moderating variables are summarised below.

<b>Hypothesis</b>	<b>Forecasted relationship</b>
H1	High Guanxi resources have a positive association with relationship initiation
H2	Greater understanding of the Chinese business environment has a positive association with relationship initiation capability
H3	The higher the environmental competition, the weaker the association between Guanxi resources and relationship initiation capability
H4	The higher the environmental competition, the weaker the association between understanding the Chinese business environment and relationship initiation capability
H5	The higher the effectiveness of the salesperson, the stronger the association between Guanxi resources and relationship initiation capability
H6	The higher the effectiveness of the salesperson, the stronger the association between understanding the Chinese business environment and relationship initiation capability

**Table 2.2 Research hypotheses**

## **2.10 Research model**

The research model based on the factors, theories and hypotheses identified is presented in Figure 2.1. The research framework has been developed for this research and is not sourced from a prior study. The model consists of two independent variables: guanxi resources and understanding of China's business environment. The dependent variable is relationship initiation capability and it is hypothesised that the primary linkages will be moderated by environmental competition, salesperson effectiveness and firm age. Note that the measures cited will be described in the research methods section.



**Figure 2.1 Conceptualised model**

## 2.11 Chapter summary

Compared to business-to-consumer marketing research there has been a general shortage in corresponding business-to-business studies, even though the economic importance of business-to-business activities is similar in scale (LaPlaca and Katrichis 2009). This provides a general call for more research in the area, with a particular focus on relationship marketing which has emerged as the largest single field of active B2B study in recent years (Backhaus, Lügger, and Koch 2011).

Several gaps in the literature specific to the antecedents of initiating relationships in the context of Australian SMEs supplying services to China were explored throughout the literature review. These include a limited understanding of how Western firms can successfully manage relationships in China (Andersen, Christensen, and Damgaard 2009, Wilson and Brennan 2010), a general bias towards the study of existing relationships (Harris and Wheeler 2005) and a lack of quantitative studies throughout the limited works specific to business relationship initiation (Aarikka-Stenroos 2008, Wan and Ng 2013).

Due to the relatively sparse quantity of literature concerning business relationship initiation, antecedents were drawn from the rich set of publications concerning

various forms of business success in China. Through vote counting analysis of these publications, the two most frequently cited antecedent themes, which also garnered evidence of supported in relationship initiation literature, were identified. These antecedents were chosen as they represented the more widely used constructs as evidenced by the representative research published between 1992 and 2012. The vote counting method of selecting antecedents by frequency of occurrence provided a quantitative justification for why the antecedents were chosen. The broad area of business success in China was specifically chosen to source the antecedents from for the following reasons. Firstly, whilst there is an emerging body of literature focused on the antecedents of relationship initiation in a general business context, China specific literature on this topic is extremely scant. Thus business success, which is linked to relationship initiation and hosts a wealth of China related literature, was considered a feasible proxy. Secondly, empirical tests to examine how well prominent measures of success translate to relationship initiation capabilities in China pose an interesting and underexplored area of research in itself.

The selected antecedents via vote counting were concluded to be guanxi resources and understanding of the Chinese business environment. The validity of guanxi theories to support guanxi resources as a link to relationship initiation are firmly supported in the context of China, namely because guanxi constructs are specifically designed and tested in that market. Despite this quantitative studies specific to transnational guanxi ties emanating from Australian SMEs engaging China are few in nature (Liu 2008, Zhu 2009). Furthermore, RBT which is the primary theory linking understanding of the Chinese business environment and relationship initiation capabilities has limited empirical data to support its applicability in China. Therefore testing a model incorporating RBT in the Australia/China context will further verify its applicability in an international setting.

In the broader context of relationship marketing, the literature review has identified a further need to adapt general theories, often developed in Western settings, in order to create Chinese relationship marketing models that better explain business phenomenon in the PRC. The side by side comparison supplied by Wang (2007) on commonalities and dissimilarities between business relationships in the West and China provides an important synopsis of several of these current issues. Within this

research, the relational model tested in an Australian/Chinese context may assist to a degree in bridging some of the gaps in relationship marketing literature between East and West.

The next stage of this research will detail the methodology used to collect the empirical data, including details on research strategy to be adopted, data collection techniques, sample selection and ethical considerations.

## **CHAPTER 3**

### **METHODOLOGY**

The preceding chapters have introduced the research constructs and linkages that provide the foundation for this study. The significance and value of the research has been stated and the central hypotheses developed. This chapter is concerned with methodology and how the hypotheses will be tested.

A discussion of research philosophies common to business studies has been included. The various approaches to research are discussed and a philosophical standpoint for this project is justified.

#### **3.1 Chapter overview**

The research has three interconnected objectives which are set in the context of Australian small and medium sized enterprises (SME's) exporting services to China.

1. To explore the relationship between guanxi, the understanding of China's business environment and their impact on relationship initiation.
2. To examine the moderation effects of sales person effectiveness and environmental competition on the aforementioned variables.
3. To develop a mixed methods approach using structural equation modelling and qualitative template analysis to test the relationships.

The constructs stated in objectives 1 and 2, which form the basis of the research model, were elicited in Chapter 2.

A distinctive contribution of this research relates to Objective 3. This concerns the opportunity to empirically test the hypothesised relationships. This is important, as in spite of the subject of relationship initiation generating noticeable contemporary discussion, gaps in the extant literature were identified in the previous chapter. Of particular note was an emphasis on purely qualitative studies and limited corroboration of existing Western and Chinese theories in a transnational context

such as the Sino-Australian trade setting. Such shortcomings encourage further deductive research based upon studies incorporating quantitative techniques (Downward, Finch, and Ramsay 2002). This study contributes to the existing body of knowledge by empirically measuring actual business experience when Australian SMEs engage China. This should lead to a richer understanding of Australia-China commercial interactions to date and a contribution to the study of relationship development in the Peoples' Republic of China (PRC).

This chapter will follow with a discussion various research paradigms and their applicability to the research project as an important prelude to the specifics surrounding the research methods employed. Next the actual characteristics of the methods of research strategy to be adopted, the unit of analysis, sample selection, data collection techniques and the analysis approach will be discussed.

## **3.2 Research philosophies**

It is important to reflect upon research philosophies before questions concerning methods are tackled (Crossan 2003). Examining philosophies assists the researcher to refine and specify the research methods to be used in a study. Four research philosophies common to business research will be examined in this section: positivism, realism, interpretivism and pragmatism (Saunders, Lewis, and Thornhill 2009).

### **3.2.1 The positivist research philosophy**

To elucidate, epistemology concerns what comprises acceptable knowledge, how the knowledge is validated and the methods used to obtain it (Walliman 2011). The positivist branch within epistemology is an approach common to natural sciences and perceives a world in which knowledge is obtained from the logical and mathematical treatments of data derived from observable social reality (VanderStoep and Johnston 2009). Positivism falls within the empiricist theory of knowledge as both primarily draw from sensory experience (ibid.).

In a positivist world, the researcher is independent of the subject of research. Examining the research objectives, the need to measure the factors involved in the

model and apply statistical analysis to test the hypothesised relationships would seem to align well with a positivist approach. Positivism is also frequently adopted in research where established theory testing as opposed to new theory creation is at hand (Lehman 2008), which is also relevant to this research project.

### **3.2.2 The realist research philosophy**

Whilst positivism lends neatly to gathering precise scientific quantities and mathematical measurements, the research at hand is concerned with business relationships. What will be measured are individuals' knowledge and perceptions of concepts such as collaboration, social interaction, service levels and customer preferences. Measuring concepts such as these are subject to a greater degree of individual variance and result in a different level of precision to the measurement, for example, of material tensile strength or fluid flow rates in machinery. In the case of the above, it may be more useful to examine a realist philosophy. Realism proposes that objects exist independently of what our senses perceive and our knowledge about them (Maxwell 2012). Realism is related to positivism in the sense it pursues a scientific approach in developing knowledge (Saunders, Lewis, and Thornhill 2009). However realism considers the phenomenon being examined and the stance of the researcher in relation to the process of collection.

It is important to distinguish between the two main types of realism. A direct realist believes our senses provide us with direct awareness of the external world. A critical realist's position is that our knowledge is a result of social conditioning and cannot be detected merely by observing a pattern of events. Rather knowledge is discovered by the process of human interpretation (Walliman 2011). Critical realism is advantageous as it allows human mental processes to report on reality, such as a manager's interpretation of guanxi, understanding of China's business environment and relationship initiation phenomena within his/her organisation.

### **3.2.3 The interpretivist research philosophy**

Interpretivism advocates that it is necessary for the researcher to understand differences between humans in our role as social actors (Lehman 2008). This is important as it acknowledges that individuals approached for a research project such as this may act out different roles within a social organisation such as a firm as well

as possess their own dissimilar interpretations of how they and others play out their actions (Archer 2008). This is one reason why some argue that the interpretivist philosophical branch of epistemology is well suited to many forms of business and management research, particularly in topic areas such as organisational behaviour and marketing (Saunders, Lewis, and Thornhill 2009). It should be acknowledged that the aim of interpretive research philosophy is explore subjective viewpoints that underpin beliefs and behaviour rather than predict and control the research results (Weber 2004).

As this study concentrates on perceptions amongst individuals who will inhabit roles that will be different in ways between each firm social setting, it would be naive to assert that there is one identifiable and true reality.

#### **3.2.4 The pragmatic research approach**

It is acknowledged that few research endeavors can be conclusively argued to lie in one philosophical camp exclusively (Davison 1998). The practical reality is that a particular set of research objectives may exist at intermediate points along a continuum between various paradigms.

The act of partnering with a certain research philosophy is also determined by personal choice and the way in which the researcher views the world. Within this research project, the author inherently believes in pursuing a pragmatic stance on new endeavors. The pragmatist view holds that the more salient determinant of epistemology, ontology and axiology is the research objectives. It is also the author's view of the world that it is difficult to choose a particular side in the debate and argue effectively on what has essentially been an long term and complex deliberation between philosophical factions (Persson 2010).

If asked to acknowledge pre-dominant philosophical approaches for this study, given the researchers pragmatic examination of the research objectives, positivism and interpretivism both have a role to play. The research lends well to the statistical treatment of observed measures in order to potentially generalise results with a degree of confidence, as discussed in section 3.2.1. Combining this with the

underpinning interpretations of respondent experiences and knowledge via qualitative input will provide richer insight into the ‘why’ in addition to the ‘how’.

### **3.3 The quantitative research phase**

The decision to conduct quantitative research is an important areas to consider in the process of investigation (VanderStoep and Johnston 2009). Both quantitative or qualitative methods may be used appropriately within any of the discussed philosophies (Saunders, Lewis, and Thornhill 2009).

Given a substantial foundation of delimited factors, interlinkages and supportive theories identified in the literature review, it is concluded that a suitable time has arrived to conduct quantitative hypothetico-deductive assessments in the specific context of this study. It is important to point out that quantitative studies do not automatically construe positivism or vice versa. However it is undeniable that a positivist research philosophy coupled with a quantitative study has been shown as a logical fit in many studies (Crossan 2003). Within this study the applicability of both has been reasoned from a pragmatic viewpoint, in combination with capturing qualitative data for further interpretation and insight. Having moved towards a philosophical standpoint on the research, questions concerning methods will now be addressed.

#### **3.3.1 The questionnaire and data collection approach**

This section of the chapter will explain the strategy for data collection. What follows is a brief comparison of common techniques and their goodness of fit to the research project, taking into account the philosophical discussion in the previous section.

Examining firstly historical research, it was felt this strategy was not appropriate to this research work as it is typically focused on non-contemporary phenomena. Experimental research is also not particularly valid for the objectives, as it concentrates on causal relationships and, in attempting to achieve objectivity, separates phenomena from its context (Biggam 2010). Although much experimental research falls within the positivist philosophy, proof of causality is not a practical aim of this research. Rather providing sound evidence of ‘how’ factors may interact

with a degree of confidence in order to draw useful generalisations can still adhere to the positivist philosophy.

A case study approach, which involves close observation of how a particular population group of sellers operate when forging new relationships in China, has the potential to yield rich and accurate information as well as unveil subtle nuances that may prevail in Australia – China commercial interactions. This would acknowledge the role of critical realism in examining multiple layers within and outside the firm. However, it was predicted there would be considerably unwillingness of commercial firms to allow the researcher to effectively sit in for extended periods on what are some of the most commercially sensitive and confidential operations undertaken with clients in the business world. There was also the practical reality of completing the sufficient number of cases necessary for executing valid structural equation modelling. Add to this the fact that Chinese customers in particular are quite secretive (Chan 2008) and tend not to take kindly from external observation of business dealings with Australian counterparts, it was concluded that case studies were not a realistic option for the project.

Survey based research involves collecting data from a sizeable population in a structured way (Saunders, Lewis, and Thornhill 2009). Surveys can investigate phenomena and context together. Although surveys do lack the in-depth investigation a case study approach can deliver. The strength of a survey research strategy for the stated research objectives were as follows.

Firstly, surveys are more likely to yield a sufficiently large sample of seller responses to permit a moderated multiple regression model to be tested. Depending on the results of the tests, it may be possible to make statistical inferences regarding the population of Australian firms engaging China with a degree of confidence (Downward, Finch, and Ramsay 2002). This closely adheres to the positivist element of thought adopted for this research project. Secondly, depending on the questions asked, response rates are often higher due to confidential seller activities or information not being directly witnessed, as would occur in a case study or action research scenario. Thirdly, respondents were likely to view the risk of their

anonymity being breached via a survey as less than would occur through a case study or action research.

Fourthly, the time and resources needed to administer the technique across multiple firms was within the constraints of this project.

Re-examining the research objectives, it can be stated that the scope of the quantitative part of the research aligned with a positivist philosophy in testing hypotheses concerning the significance the antecedents bear on relationship initiation capability.

In terms of temporal dimensions, the research strategy employed a cross sectional approach. An advantage of employing a cross sectional study focused on the current state of the organisation is the mitigation of errors in participant recall which are present in retrospective longitudinal studies.

### **3.3.2 Benefits of online questionnaire surveys**

In general benefits of employing an online questionnaire within a survey approach for the stated research objectives include the ability to collect a sufficient probability sample for mathematical modelling, time and cost savings as well as the ability to gain feedback from firms located across the nation or with branches in China. Researchers regard the web as an effective alternative to traditional data collection methods in the present era (Savage and Waldman 2008). Online respondents have a lower dropout rate and produce less incomplete data (Roster et al. 2004).

Online questionnaires also permit respondents to answer in their own time and potentially check company records where applicable to ensure responses are accurate. Telephone or face-to-face survey interviews on the other hand can suffer from errors in respondent memory recall due the pressures for interviewees to provide real time answers.

### **3.3.3 Relevance to the population of interest**

Much research has successfully employed survey questionnaires to identify trends across multiple firms in various studies on business practices in China (Chan 2008,

Child and Möllering 2003, Pan and Chi 1999, Millington, Eberhardt, and Wilkinson 2005). Furthermore such authors' derived benefits from the ability to remotely collect data from firms located across a nation or region (i.e. Australia) or with branches in China. This can eliminate or drastically reduce the need for costly travel to multiple destinations. It has also been shown that nations with high internet connectivity, which include Australia (ABS 2011), often generate enhanced response numbers (Dolnicar, Laesser, and Matus 2009).

### **3.3.4 Concerns about the use of online questionnaire surveys**

Over-surveying in an ever increasing number of industries and fields has led to a large number of potential respondents (both individual and organisational) who are weary of surveys and therefore tend to ignore non-essential questionnaires (Baruch and Holtom 2008). Whilst it has been stated that online questionnaires often lead to a reduced dropout rate amongst those responding, the response rate itself is on average approximately 11% lower compared to that of other mechanisms, such as telephone and mail surveys (Fan and Yan 2010, Petchenik and Watermolen 2011).

Furthermore, the particular challenges of successfully reaching business managers or other senior key informants, solely via email and other internet communication tools, has grown in recent years (Crouch, Robinson, and Pitts 2011, Singer and Ye 2012). Three major causes have been identified as continuing high levels of SPAM traffic, the relatively impersonal nature of electronic approaches and the general unbaited phenomenon of manager 'information overload' (Anseel et al. 2010, Hayati 2011, Soucek and Moser 2010).

The chapter will now continue with an explanation of the questionnaire design and a number of methods adopted to manage some of the issues associated with online surveys.

### **3.3.5 Structure of the questionnaire**

The questionnaire deployed in this study and the accompanying introduction letter is presented in Appendix A.

The introduction letter was composed on university letterhead, in conformance with Human Research Ethics Committee (HREC) requirements. This letter introduced the researcher, explained the purpose of the study, indicated ethical considerations and authorisations, confirmed voluntary participation and described the preservation of anonymity (Kumar 2011). In addition to satisfying university requirements, introduction letters have been shown as beneficial in improving response rates (Groves 1989, Selm and Jankowski 2006), especially when originating from a credible research institution (Monroe and Adams 2012). Respondents were also offered an executive summary of the findings for their participation. This form of incentive has been shown to improve responses (Grewal, Chakravarty, and Saini 2010), in particular when the topic is of relevance to the respondent (Anseel et al. 2010).

The questionnaire consisted of three sections. Section A posed screening questions as well as recording basic company profile data. Section B recorded the research model constructs via the measures in section 3.3.6. To reduce the effects of question order and acquiescence bias, the items that measured the constructs were randomly distributed through the questionnaire to ensure responses were not biased by placing similar items next to each other (Huang, Lai, and Lo 2012). Approximately one in five items were reverse coded (Leonidou 2004). Section C recorded demographic information from respondents as well as providing an open text area for any qualitative input regarding their experiences in China (Rattray and Jones 2007). Open ended responses such as these allowed respondents to express themselves freely outside the confines of the structured questions regarding RIC and the questionnaire itself. It was decided that template analysis would be undertaken to identify any major themes in open feedback responses (Kumar 2011).

In terms of layout, content and length considerations, Brace (2004) described respondents' tendency to want a questionnaire that poses items that can be answered without too much effort, maintains interest and importantly does not take up too much time. The question of available time is especially important for the business professionals that form the respondents of this research. A survey that requires many hours to complete in order to extract information of rich detail and fine granularity would enhance the quality of the research findings. However such an onerous and

time consuming survey would reduce the number respondents willing to participate in the study to a point where the sample size would have little statistical credibility (Biggam 2010). Further to this, in terms of respondent attention length, Brace (2004) noted that few sessions can retain interest of any respondent for as long as 90 minutes. He also noted that a realistic expectation is that fatigue will arise on average after about 30 minutes for most respondents answering questions on any given topic.

### 3.3.6 The constructs

After a comprehensive search of the literature, pre-validated scales were identified for operationalising the constructs. These measures are outlined in Table 3.1.

<b>Construct</b>	<b>No. of items</b>	<b>Reference</b>
Guanxi resources	5	Gu, Hung, and Tse (2008)
Understanding of China's business environment	9	Tsang (2002)
Relationship initiation capability	8	Hansen (2004)
Environmental competition	4	Chen, Ellinger, and Tian (2011)
Salesperson effectiveness	6	Plouffe, Sridharan, and Barclay (2010)

**Table 3.1 Latent constructs and sources of observed measures**

Internal consistency of the measures was assessed by reviewing published Cronbach's alpha coefficients, all of which exceeded the recommended minimum of 0.7 (Hair et al. 2010, Nunnally 1978). An overview of each set of measures follows.

### 3.3.7 Independent variables

#### 3.3.7.1 *Guanxi resources*

Guanxi resources was measured by a 5 item scale developed by Gu, Hung, and Tse (2008). Importantly, the scale measured the firm's senior management ties rather than those of an individual. This is both a consequence of a shift in the level of analysis from the individual salesperson to the selling team (Homburg, Workman Jr,

and Jensen 2002) as well as a need to gauge collective ties the firm's senior team possesses (Fang 2001). Participants were asked to respond along a seven point Likert scale, with responses ranging from 1 = 'strongly disagree' to 7 = 'strongly agree'.

#### *3.3.7.2 Understanding of China's business environment*

Nine items were adapted to measure a firm's understanding of China's business environment. These nine items were drawn from a study conducted by Tsang (2002). The nine areas reflect three types of knowledge analysed (ibid.). The first indicator related to acquiring skills and competencies from firms in China which the respondent company had some form of partnership arrangements with, in essence vicarious learning. The second and third items concerned the actual managing of affiliates in China. The remaining indicators referred to the general knowledge a firm possesses of the business environment in China. Participants were asked to respond along a seven point Likert scale, with responses ranging from 1 = 'strongly disagree' to 7 = 'strongly agree'.

### **3.3.8 The moderating variables**

#### *3.3.8.1 Environmental competition*

A four item scale was employed to measure environmental competition (Chen, Ellinger, and Tian 2011, Sharma 1997, Zhou, Yim, and Tse 2005). Environmental competition refers to the availability of similar product or service offerings, aggressive moves in the marketplace by competitors and customer preference changes. Participants were asked to respond to items along a seven point Likert scale, with responses ranging from 1 = 'strongly disagree' to 7 = 'strongly agree'.

#### *3.3.8.2 Salesperson effectiveness*

A self-reported measure of sales performance was adapted from Plouffe, Sridharan, and Barclay (2010) for the purposes of this study. The scale was originally developed by Johlke et al. (2000), which itself was modeled on the popular industrial sales scale of Behrman and Perreault (1982). The scale consisted of six self-reported measures of performance which measure a respondent's ability to successfully meet outcomes such as meeting and exceeding sales targets, selling high margin offerings

and identifying and engaging major accounts. Responses were measured on a Likert scale, with values ranging from 1 = 'strongly disagree' to 7 = 'strongly agree'.

### **3.3.9 The outcome variable**

#### *3.3.9.1 Relationship initiation capability*

To measure relationship initiation capability (RIC), an instrument developed by Hansen (2004) underwent minor rewording for use in this study. It was decided that the instrument was a close fit for measuring the criteria of the starting state within the Batonda and Perry (2003) relationship model which was discussed in the literature review. In addition, through case study research the role of social interactions was found to bear substantial influence on relationship initiation by both Geiger and Turley (2005) and Harris and Wheeler (2005). Thus the measure developed by Hansen (2004) was also deemed a fitting candidate as it acknowledges the role of social interaction outside of business settings as an important element for initiating relationships.

The instrument consisted of 8 measures. Respondents were asked to indicate on a seven-point Likert scale the extent to which they agree they normally engaged in interactive activities with potential clients and forged new relationships. The possible responses ranged from 1 = 'strongly disagree' to 7 = 'strongly agree'.

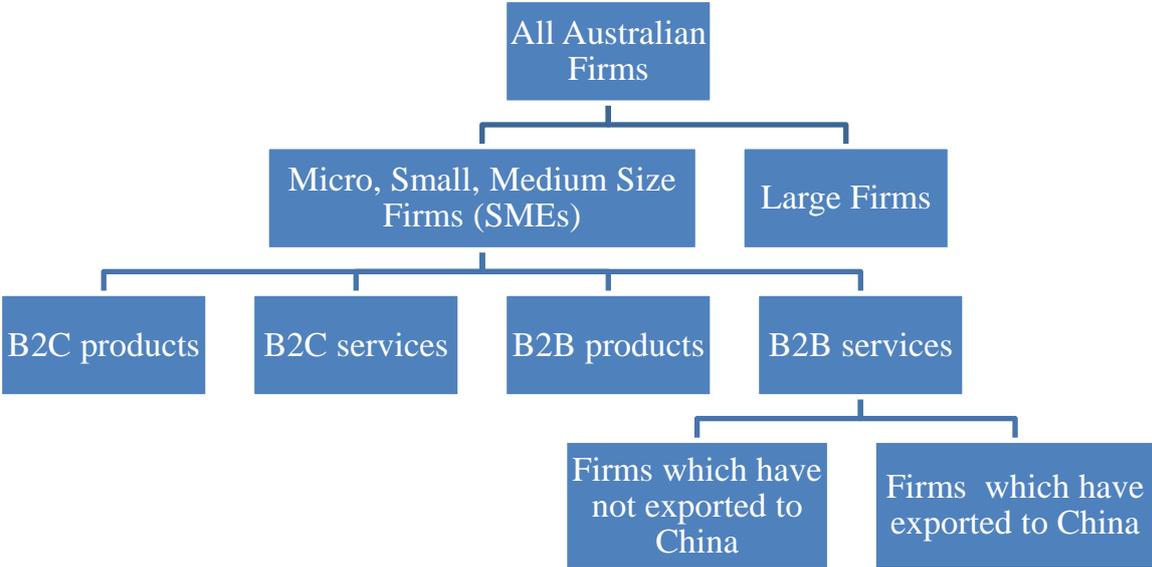
Having outlined the core construct measures and overall questionnaire design, the chapter will continue with a description of the data collection phase, including the unit of analysis, sample selection, and questionnaire distribution.

## **3.4 Data collection**

### **3.4.1 Unit of analysis**

Within this research, the unit of analysis is micro, small and medium sized Australian enterprises supplying B2B services. For convenience in the purpose of this research we will term all three categories as small and medium sized firms. These Australian based companies were selected based on the fact they have exported services to

China (Pickering 2005). Figure 3.1 illustrates the types of organisations targeted (ABS 2014, Blythe 2005).



**Figure 3.1 Organisational categorisation**

The classification of micro, small and medium sized firms will be based on enterprises with employee numbers between 1 and 199, as defined by the Australian Bureau of Statistics (ABS 2014). Australian firm counts for 2013 are presented below (ABS 2014).

Category	Employees	Number in Australia
Large firms	200+	3,598
Medium-sized firms	20-199	50,946
Small firms	5-19	197,412
Micro-enterprises	1-4	563,412

**Table 3.2 2013 firm counts for Australia**

**3.4.2 The sampling frame**

The sampling frame was sourced from the Australian Trade Commission (Austrade) and the Australia China Business Council (ACBC). Government trade bodies and industry associations are common sources of sampling frames for academic surveys of industry (Saunders, Lewis, and Thornhill 2009, Styles and Ambler 2000, Yen and

Barnes 2011). Compiling the sampling frame from two distinct trade organisations also reduced the chances that a qualified SME would be missed.

### 3.4.3 Sample size

The number of SMEs exporting B2B services to China from Australia was estimated to be 750. This estimate is derived from data on Australian firm numbers exporting to China (ABS 2012) the fraction of Australian firms SMEs represent (ABS 2014) and the proportion of service firms in Australia (Merrilees, Rundle-Thiele, and Lye 2011). As discussed in section 3.3.4, online questionnaire on average score approximately 11% less on response rates compared to other mechanisms. Survey studies based on organisations on average yield a response rate 35.7% (Baruch and Holtom 2008). An estimate of the response rate for this research is thus  $35.7 - 11 = 24.7\%$ . This is consistent with results of a meta-review of online survey responses conducted by Hamilton (2009). It is also pertinent to consider the results of the Austrade Australia China Business Perception Survey (Austrade 2013a), which targeted Australian companies operating in China and whose respondents thus closely align with this research. This government-run study, which was also backed by the prominent China-Australia Chamber of Commerce (Olsson 2010), achieved an 11% response rate. An optimistic expectation of responses, considering the challenges in accurately identify almost all of the SMEs supplying services to China, would thus be 24.7% of 750 or 185 cases. A level of 83 responses would alternatively be in line with the 11% rate achieved by the Australia China Business Perception Survey and other surveys attempting to gain access to senior positions (Lui, Wong, and Liu 2009).

In terms of sample adequacy for modelling, a common benchmark for multiple regression is the formula  $N \geq 50 + 8m$ , where  $m$  is the number of independent variables (Tabachnick and Fidell 2007). Given the presence of two independent variables and also counting the two moderating variables within the research model, the formula yields a minimum advised sample size of 82.

Given the likelihood of a small response rate and sample size, variance based partial least squares (PLS) structural equation modelling (SEM) tools provide an alternative to standard regression techniques. PLS approaches possess an advantage in many

circumstances over covariance-based SEM in their ability to yield robust results with smaller sample sizes, with data sets in the order of 50 cases utilised effectively (Chin and Newsted 1999; Reinartz, Haenlein, and Henseler 2009). The PLS heuristic posed by Barclay, Higgins, and Thompson (1995) states a recommended size of 10 times the number of measures of the largest scale. The largest scale was understanding of China's business environment which contained 9 items. The recommended size is therefore 90 which is a close quantity to the 82 cases aforementioned. Thus the research will target 90 responses for analysis.

#### **3.4.4 Participant recruitment and questionnaire distribution**

Individuals in a managerial role with direct knowledge of firm relationships with China were sought. This is in line with the key informant approach (Brush and Rexha 2007, Homburg, Workman Jr, and Jensen 2002). By selecting personnel in relevant senior managerial positions as key informants, it is argued that the cognizance and richness of knowledge these individuals provide on the firm's internationalisation decisions provides dependable research input (Hollensen 2004). Walter (1999) furthermore noted that in the case of SMEs, relationships with key customers are often managed at the senior levels within the organisation, further supporting the use of this approach.

Although a single-respondent design affects the generalisability of results, the key informant method is based on the premise that people in executive positions are sensitive to overseas interests, are knowledgeable informants and can be dependable sources when reliable and valid multi-item scales are employed (John and Reve 1982, Liu 2008).

The most likely key informant designations were drawn from previous research on employee engagements in customer relationship management (Barnes, Naudé, and Michell 2007, Davies, Ryals, and Holt 2010, DEEWR 2011, McColl-Kennedy et al. 2008, Zaefarian, Henneberg, and Naudé 2011). The role designations include:

- Relationship managers
- Business development, sales and marketing managers
- Key account managers

- Managing directors
- Executive directors
- General managers
- Area managers
- Senior sales engineers

To further reduce misrepresentation, the fact the questionnaire was anonymous and online lent to the reduction of social desirability bias and deliberate distortion by respondents (Davies, Ryals, and Holt 2010, Graziano and Raulin 2010). Another potential bias of concern was common method variance. As all constructs in the study were measured via self-reporting, correlations between constructs may have succumbed to inflation as a result of using a single survey for the quantitative phase (Podsakoff et al. 2003). However, Spector (2006) reasons and provides evidence that shows the effect of common method bias is generally exaggerated. Still it is worth taking steps to reduce the potential impact of common method bias. Firstly, some items were reverse coded in the questionnaire (Murray, Masaaki, and Zhou 2005). Secondly, the various scale items used in the study were randomly distributed through the question banks to reduce the likelihood that respondents would have been able to guess the specific purpose of the study and moulded their answers to be consistent for each latent variable. High levels of expertise and interest of the key informants also reduced the threat of respondents guessing due to lack of knowledge, which is another possible source of common method bias (Caniëls, Gelderman, and Ulijn 2010).

The firms sourced from the sampling frame received a telephone call by the researcher to further qualify the firm, briefly explain the study and request participation. Firms were also verbally informed of the incentive of an executive summary of the research findings. If the firms were willing to participate, the researcher would send information in a personalised email to the relevant contact person. Individualised consensual approaches are one method to allay the impersonal and SPAM aspects which commonly afflicts online questionnaire response rates (Dillman, Smyth, and Christian 2009).

The online questionnaire was emailed to respondents. Emailing questionnaires to respondents is a frequent practice for survey research of businesses (Watson 2011). In terms of follow up actions post send out, Pan (2010) noted a significant improvement in response numbers was achieved in various studies by sending email reminders. Email reminders also pose a distinct advantage over the costs and lag associated with traditional follow-up mail methods. Due to their ease of administration and effectiveness, reminder emails were employed within this study. The reminder emails were sent seven working days after the initial mailing to each company. The reminder message expressed thanks to the contact if they had completed the questionnaire and encouraged them to participate if they had not yet done so.

### **3.5 Quantitative data analysis**

Once the survey had been completed, analysis of data downloaded from Qualtrics was undertaken to ensure a complete dataset. Although logic had been programmed into Qualtrics to prevent submission without all necessary data, a visual check of the survey response data sheet was considered prudent. Following this, basic examinations including questionnaire result averages, variances, normality, outliers and covariances were undertaken to initially screen and inspect data.

A general interpretation of the conceptual model hypotheses was revealed firstly by correlation analysis. SEM was then undertaken via WarpPLS. WarpPLS was selected due to its ability to estimate parameters in models with reflective latent constructs, moderating variables and also cope to a degree with non-linear relationships simultaneously (Kock 2011b). As it is also often difficult to collect large datasets for firms meeting a narrow set of characteristics, such as those analysed in this study, the ability to detect non-linear trends places WarpPLS at an advantage for small samples (Gountas et al. 2013).

### **3.6 Qualitative data collection and analysis**

Qualitative data was captured at the end of the survey via the optional question ‘Is there anything else you’d like to add about your experiences in China?’ and the accompanying open text field to allow respondents to freely enter their thoughts.

Template analysis was used on the data. Template analysis covers generating categories and linking these to qualitative segments of data. These segments are coded and reviewed to discover and explore themes, trends and associations within the data (Saunders, Lewis, and Thornhill 2009). In addition to exploring themes related to the main study constructs, the possibility of additional patterns in responses related to further topics was allowed for in order to uncover other phenomena of relevance to Australian relationships in China. Data was primarily organised and presented via listing numerically labelled cases and accompanying demographic data, collating theme-occurrence tabulations and selecting excerpts from respondent input to illustrate the experiences and beliefs underpinning the various themes.

### **3.7 Questionnaire pre-test**

Before the main survey was launched, a questionnaire pre-test was conducted. A core objective of the pre-test was to identify any problems the instrument presented in capturing data from respondents (Graziano and Raulin 2010). Firms sourced from the Orbis business database were approached and in total 20 valid responses were received. The quantity of responses was deemed adequate by consulting studies concerned with analogous survey methodology data collection (Barnes et al. 2010, Caniëls, Gelderman, and Ulijn 2010, Kingshott and Pecotich 2007). Firms from the pre-test frame were cross-checked with the sampling frame of the main survey before approaches were made to ensure no overlap. The pre-test study revealed that only minor revisions to the wording and question order were needed. Firstly, an extra category to capture firm size was added in order to better differentiate between micro, small and medium enterprises. Secondly several questions were reworded for conciseness, i.e. 'cannot' was substituted for 'are unable to' for the operationalisation of certain scale items. Thirdly scale items were more broadly interspersed to limit items corresponding to the same latent variable being placed next to one another.

### **3.8 Chapter summary**

The chapter has discussed the main research philosophies used in business studies and their relevance to this project. Research methods employed for this study the basis of rationale for their application were then provided. The use of a survey research was justified through comparison analysis of the fitness of major methods against the research objectives. Discussion drew particular reference to the third research objective which recognisably called for statistical tests to be run over a certain minimum number of cases required for statistical significance as well as qualitative category analysis. An online questionnaire was identified as an appropriate research instrument for this survey study. The general questionnaire design inclusive of the core scales and screening questions was supplied. The respondents, time horizon and procedures for conducting the research were identified. Importantly a number of concerns regarding the effectiveness of online questionnaires were identified and methods by which the study addressed common drawbacks were presented.

An outline of the basic data screening functions as well as core statistical tests employed was made available. This outline of data analysis procedures concluded the research methods section and leads into the research findings presented in the next chapter.

Table 3.3 provides a useful classification of the key methodological components discussed in this chapter.

Predominant philosophies	Positivism and interpretivism
Research approach	Deductive
Sample cases	Australian SMEs supplying B2B services to China
Research design	Mixed method quantitative/qualitative
Time horizon	Cross-sectional
Research strategy	Survey
Research instrument	Online questionnaire
Sampling technique	Random
Primary data analysis	PLS based SEM and template analysis

**Table 3.3 Research classification**

## **CHAPTER 4**

### **DATA ANALYSIS AND FINDINGS**

#### **4.1 Chapter overview**

This chapter contains the findings of the study with respect to the developed hypotheses. The chapter will begin with the characteristics of participants, followed by descriptive and reliability analyses. Subsequently the correlations that reflect bivariate relationships will be presented for initial discussion. Structural equation modelling (SEM) results are then displayed, which constitute the main tests for hypothesised relationships between constructs. The results are examined in groups of findings and discussed in accordance with the previous research. All quantitative data were analysed using the Statistical Package for Social Sciences (SPSS) 20.0, Analysis of Moment Structures (AMOS) 22.0 and the partial least squares WarpPLS 4.0 program.

Following the quantitative examination of results, a discussion of qualitative survey responses analysed via template manual content analysis will be presented and the results discussed with respect to the quantitative outcomes and hypothesised model.

#### **4.2 Response rate**

A total of 1987 firms were randomly selected from the sampling frame and contacted. 183 responses were received. From these, 78 were discarded due to respondents not passing screening criteria whilst 19 were removed due to individuals voluntarily leaving the survey part way through. This left 86 completed questionnaires.

Of the 86 full responses, 72 were received from firms up to and including the ABS defined medium company size of 199 full time employees. These firms constitute the focus of this research. The remaining 14 responses were generated by large firms (200+ full time employees).

### **4.3 Data screening**

The data was screened for errors and missing values via SPSS descriptive and frequency tests, as well as visual examination of the data set. No anomalies were detected.

To aid in identifying outliers, Mahalanobis distances were calculated for the 72 cases. The critical value of 18.47 at an alpha value of 0.001 was determined for evaluating Mahalanobis distance values using 4 independent latent variables (Tabachnick and Fidell 2007). No Mahalanobis  $D^2$  scores exceeded the critical 18.47 value, with the most distant case lying at 14.18.

### **4.4 Descriptive analysis**

Table 4.1 presents descriptive information for the sample. Over 75% of the firms have been engaged with China for more than 3 years, with over half respondent companies having supplied services there for more than 5 years. Likewise 73.6% of respondents had worked in their position for over 3 years with 54.2% being in the role for over 5 years. This finding demonstrates a substantial period of experience for the firms as well as the individuals participating in the survey. Further to this, 65.3% of the cases have been in business in Australia for 20 years or more, reflecting that the data is by and large derived from a seasoned group of companies.

A range of industries are represented in the sample, with the top five sectors comprising of services in manufacturing (18.1%), wholesale trade (16.7%), agriculture (15.3%), professional services (9.7%) and education (9.7%). These service sectors have played an important role in Australian trade with China for several years (Austrade 2012, DFAT 2013, 2011, Liu 2008).

In terms of organisational size, 54.1% of the participant organisations fall into the size category up to and including small enterprises, whilst the rest were classed as medium sized (ABS 2014), showing fairly balanced proportions. A majority of firms at 69.4% do not have any China based employees, which may be a factor of SMEs lacking the resources for in country offices (Chetty and Campbell-Hunt 2003).

Likewise a similar percentage of firms at 73.6% have 10% or less Mandarin speaking employees engaged with China.

The majority of respondents were male (72.2%), likely reflecting the gender bias in managerial roles in Australia (CEDA 2013) and for positions engaging with China (Beverland 2009, Hutchings and Murray 2002, Liu 2008). Respondent ages showed a fairly even spread over the various brackets from 25 to 65+ years.

Most respondents hold senior positions within their firms, with 65.3% at the director/manager/supervisor level. The next major category at 19.4% are sales/business development representatives, who typically have direct involvement with customer relationships (Homburg, Müller, and Klarmann 2011, Singh and Koshy 2011). According to the key informant approach (Brush and Rexha 2007; Homburg, Workman Jr, and Jensen 2002) this result firmly evidences the participation of knowledgeable individuals providing dependable research input for the study (Austrade 2012).

<b>Years supplying to China</b>	<b>%</b>	<b>Years in Australia</b>	<b>%</b>
Less than 1 year	4.2	1-2	4.2
1-2 years	19.4	3-4	5.6
3-5 years	22.2	5-9	6.9
More than 5 years	54.2	10-14	8.3
		15-19	9.7
		20 or more	65.3
<b>Employees in Australia</b>		<b>Employees in China</b>	
1-4	19.4	1-4	18.1
5-19	34.7	5-19	2.8
20-99	37.5	20-99	5.6
100-199	8.3	100-199	1.4
		200 or more	2.8
		None	69.4
<b>Mandarin speaking staff</b>		<b>Industry</b>	
None	36.1	Agriculture, forestry and fishing	15.3
1 - 10%	37.5	Resources/Mining	4.2
11 - 25%	4.2	Manufacturing	18.1
26 - 50%	2.8	Wholesale trade	16.7
Over 50%	19.4	Retail trade	2.8
		Accommodation and food services	1.4
<b>Job role</b>		Transport, postal and warehousing	6.9
Director/Manager/Supervisor	65.3	Information media and telecommunications	2.8
Professional (salaried non-mgt. business & technical)	4.2	Financial and insurance services	2.8
Sales/Business Development	19.4	Professional, scientific and	9.7

Representative		technical services	
Administrative Support	2.8	Education and training	9.7
Group Leader	1.4	Arts and recreation services	4.2
Customer Service	4.2	Other services	5.6
Other*	2.8		
<b>Age group</b>		<b>Years in role</b>	
20 - 24	2.8	Less than 6 months	4.2
25 - 29	12.5	6 months - 1 year	5.6
30 - 34	8.3	1-2 years	16.7
35 - 39	11.1	3-5 years	19.4
40 - 44	9.7	More than 5 years	54.2
45 - 49	9.7		
50 - 54	11.1	<b>Gender</b>	
55 - 59	9.7	Male	72.2
60 - 64	11.1	Female	27.8
65 and over	13.9		

\* 1 case (1.4%) Deputy Principal, 1 case (1.4%) Export Coordinator

**Table 4.1 Descriptive statistics % (n=72)**

#### **4.5 Validity and reliability**

Table 4.2 Means, standard deviations, composite reliability, Cronbach's alpha, AVE scores and correlations presents key convergent and discriminant validity indices.

As the scales were established and well validated, measures are only considered for removal during internal consistency analysis if Cronbach's alpha levels are less than .7 (Pallant 2005), with the exception of relationship initiation capability which is discussed further in this chapter.

The five item guanxi resources (GR) scale demonstrate a relatively low alpha of .618. Two items exhibited an item to total correlation of less than .3 (Field and Miles 2010). The two items in their operationalised version are:

GR1: Our senior management has personal relationships with important people

GR2: Our senior management cannot obtain valuable and important information (R)

To further assess the composition of scale factor loadings, confirmatory factor analysis was conducted on the construct using AMOS 22.0. The same two scale items displayed a low standardised factor loading of less than .4 (Bernard 1998, Losada et al. 2008). The two items were removed with the Cronbach's alpha increasing to .652. Following the Robinson (1991) criterion of coefficient alpha being greater than 0.60 for an exploratory study, it is decided to keep the guanxi resources scale post item removal (Reday, Marshall, and Parasuraman 2009).

The eight item understanding of China's business environment (UC) scale gave an alpha of .869 which is a strong result (Gliem and Gliem 2003). The four item environmental competition scale showed a low alpha of .583. Pallant (2005) noted that it is quite common to find low alpha scores (i.e. .5) for scales with fewer items, signifying scale size as well as content needs to be considered in selecting question sets for internal consistency purposes. It was determined that the item concerning customer preferences displayed a weak standardised factor loading less than .4 as well as an item to total correlation of less than .3.

UC4: Customers' preferences do not change substantially over time (R)

The item was removed and the Cronbach's alpha increased to .664.

The six item salesperson effectiveness scale (SE) showed an alpha of .680. It was determined that the items concerning selling to major accounts and speed of sales displayed a low standardised factor loading less than .4 as well as an item to total correlation of less than .3.

SE3: Our people responsible for sales cannot quickly generate sales of new company products / services (R)

SE6: Our people responsible for sales cannot identify and sell to major accounts / customers in their territories (R)

The two items were removed with the Cronbach's alpha increasing to .759.

The relationship initiation capability scale (RIC) was drawn from the unpurified set developed by Hansen (2004) before reliability and validity procedures were conducted by the author. The eight original scale items were tested in the pilot survey for their noted relevance for measuring relationship initiation concepts. The mean inter-item correlation of the original scale was .278 whilst the purified four item scale refined by Hansen (2004) showed a value of only .167 in the pilot. The eight original scale items were thus included in the full survey with the knowledge measures could always be deleted if their contributions were low. The Cronbach's alpha for the construct measured from the full survey results is .818. All eight measures exhibit an item to total correlation above .3 and thus were retained.

In summary, the final Cronbach's alpha scores are guanxi resources (.652), understanding of China's business environment (.869), environmental competition (.664), salesperson effectiveness (.759) and relationship initiation capability (.818). The final scales are included in Appendix A. Composite reliability scores produced using SEM (AMOS) all exceed .8, suggesting the internal consistency of the scales (Esposito Vinzi 2010). Means, standard deviations, Cronbach's alpha, composite reliability and AVE scores are presented with construct correlations in Table 4.2.

Convergent validity was assessed via average variance extracted (AVE) scores. Two of the latent variables, UC and RIC, exhibit lower scores of .491 and .445 respectively as compared to the commonly used threshold of .5 (Fornell and Larcker 1981). Prior research has argued that AVE below .5 can still be acceptable in instances where the composite reliability is strong and the item-to-total correlations exceed .4 (ELSamen 2011, Rosebush 2011). UC and RIC passed these secondary criteria however were subject to additional validity tests as discussed below.

To test for discriminant validity, correlation coefficients amongst latent variables were computed. The coefficients are all less than .7, suggesting multicollinearity

was not in effect (Miller and Whicker 1999). However of note was the significant correlation of .51 between the focal IVs of GR and UC, which encourages further investigation.

A further criteria for discriminant validity is the square root of the average variance extracted exceeding any of the correlations involving that latent variable and other constructs (Fornell and Larcker 1981, Zait and Berteau 2011, Zhao and Wang 2011). All AVE square root values are higher than the corresponding latent variable correlations, except for RIC (.67) as compared to its correlation to UC (.68).

Given discriminant validity concerns between the focal constructs UC-RIC and GR-UC, two nested models for each pair of constructs were tested in AMOS. This involved constraining the construct correlations to 1 and testing whether the model fit statistics worsen significantly as compared to the unconstrained model (Atuahene-Gima 2005, Dong, Li, and Tse 2013).

The results show that GR is different from UC (constrained model:  $\Delta\chi^2 = 138.21$ ,  $\Delta df = 54$ ,  $p < .001$ ; unconstrained model:  $\Delta\chi^2 = 130.49$ ,  $\Delta df = 53$ ,  $p < .001$ ; difference  $\Delta\chi^2 = 7.72$ ,  $\Delta df = 1$ ,  $p < .01$ ), UC is different from RIC (constrained model:  $\Delta\chi^2 = 222.12$ ,  $\Delta df = 119$ ,  $p < .001$ ; unconstrained model:  $\Delta\chi^2 = 219.83$ ,  $\Delta df = 118$ ,  $p < .001$ ; difference  $\Delta\chi^2 = 2.28$ ,  $\Delta df = 1$ ,  $p < .05$ ).

Lastly, as a final examination of discriminant validity, the variance inflation factors for all latent variables derived from test model runs in WarpPLS range from 1.05 to 3.48, which are well below the threshold of 10 (Belsley 1984, Neter et al. 1996). This result further supports discriminant validity in the model.

Latent Variable	M	SD	CR	CA	AVE	Sqrt AVE	GR	UC	EC	SE
Guanxi resources (GR)	3.69	1.22	.81	.65	.59	.77				
Understanding of China's business environment (UC)	4.65	1.07	.90	.87	.49	.70	.51**			
Environmental competition (EC)	4.37	1.26	.82	.66	.60	.76	.16	.09		
Salesperson effectiveness (SE)	4.08	.10	.85	.76	.59	.77	.36*	.55**	.05	
Relationship initiation capability (RIC)	4.92	.89	.86	.82	.45	.67	.37*	.68**	.06	.26*

\*\* Significance at .01; \* Significance at .05

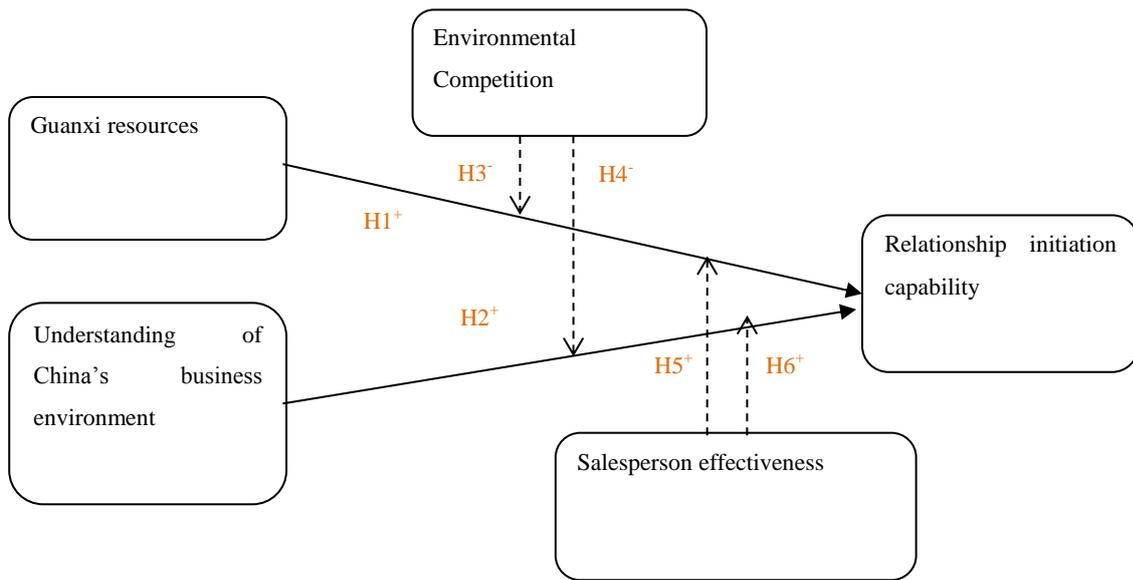
**Table 4.2 Means, standard deviations, composite reliability, Cronbach's alpha, AVE scores and correlations**

A general overview of data in Table 4.2 lends supports to a positive linear relationship between the IVs of understanding of China's business environment and guanxi resources to the DV of relationship initiation capability. Salesperson effectiveness also shows a significant positive correlation to UC, GR and RIC, which may be a pretext for significant moderation. However, the general relationship between environmental competition and the other variables is weak. It will be of interest to examine whether the subsequent SEM model finds this moderator to exhibit any significant influence.

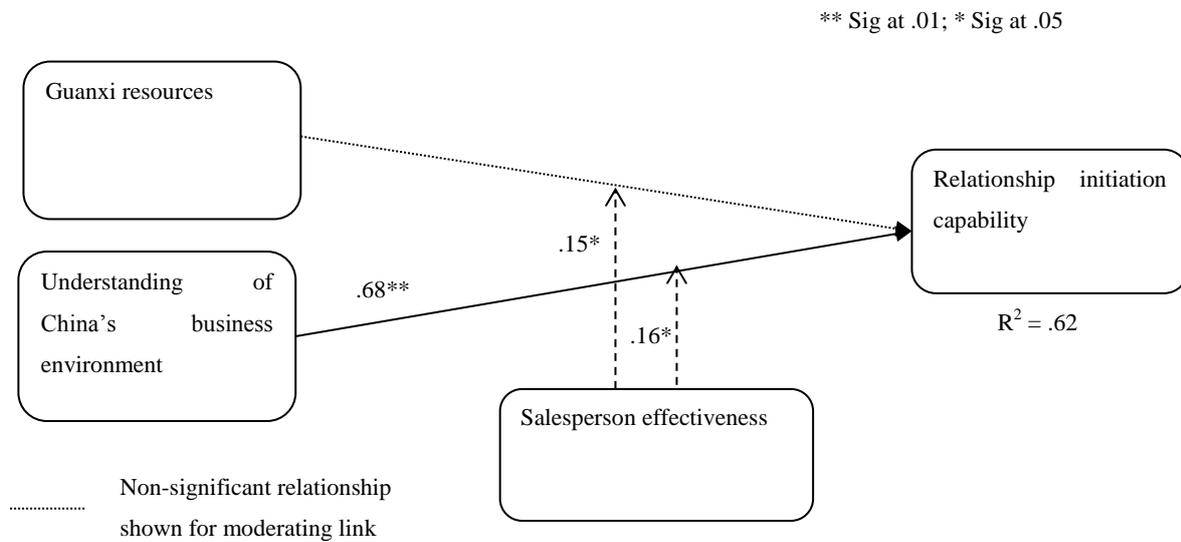
#### **4.6 Estimating the model**

The structural model was estimated using the default PLS regression model analysis algorithms and the stable resampling method within WarpPLS 4.0. The model performed favorably on fit diagnostics. Specifically the average path coefficient (APC)=.195, average R-squared (ARS)=.621, average adjusted R-squared (AARS)=.586, all were significant at the .01 level. Both the average block variance inflation factor (AVIF)=1.775 and average full collinearity VIF (AFVIF)=1.860 indices were below the ideal level of 3.3 (Kock 2011a). The Tenenhaus GoF (GoF)=.527 index was considered large (>.36) signifying the explanatory power of a model was strong. Sympton's paradox ratio (SPR)=.833 which is above the .7 threshold and considered acceptable (Kock 2014).

Figure 4.1 presents the conceptualised model whilst Figure 4.2 displays the results of the structural model run. Table 4.3 summarises the hypothesis tests and model fit statistics. The  $R^2$  for relationship initiation capability was .62, indicating the latent IVs accounted for approximately 62% of explained variance in the DV.



**Figure 4.1 Conceptualised model**



**Figure 4.2 The SEM model with significant  $\beta$  path coefficients**

Hypothesis	$\beta$ path coefficients	Significance	Hypothesis supported
H1: High Guanxi resources have a positive association with relationship initiation capability	.09	.15	No
H2: Greater understanding of the Chinese business environment has a positive association with relationship initiation capability	.68**	<.01	Yes
H3: The higher the environmental competition, the weaker the association between guanxi resources and relationship initiation capability	-.06	.25	No
H4: The higher the environmental competition, the weaker the association between understanding the Chinese business environment and relationship initiation capability	-.03	.38	No
H5: The higher the effectiveness of the salesperson, the stronger the association between Guanxi resources and relationship initiation capability	.15*	.05	Yes
H6: The higher the effectiveness of the salesperson, the stronger the association between understanding the Chinese business environment and relationship initiation capability	.16*	.03	Yes

\*\* Significance at .01; \* Significance at .05

$n = 72$ ; fit statistics: APC=.195\*\*; ARS=.621\*\*; AARS=.586\*\*; AVIF=1.775; GoF=.527; SPR=.833

**Table 4.3  $\beta$  path coefficients, significance levels and hypothesis test results**

To conduct a basic further cross check of the SEM path results, standard regression was conducted in SPSS incorporating the two latent IVs of guanxi resources (GR) and understanding of China's business environment (UC). Standard regression  $\beta$  scores were SPSS=.10 ( $p = .921$ ), WarpPLS=.09 ( $p = .15$ ) for GR. For UC the  $\beta$  scores were SPSS=.674 ( $p < .01$ ), WarpPLS=.68 ( $p < .01$ ) for GR. The high consistency between WarpPLS and SPSS coefficients contributes to the confidence of the model results presented.

#### **4.6.1 Discussion**

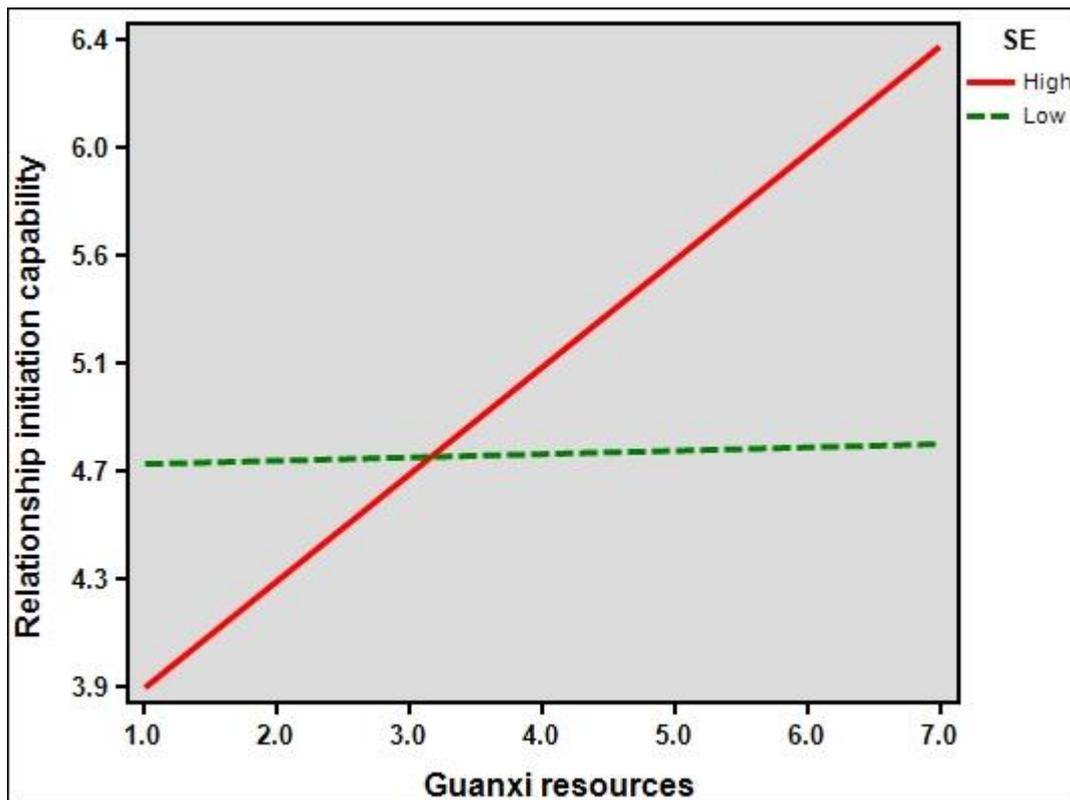
As stated, approximately 62% of explained variance in relationship initiation capability is explained by the model, showing empirical support for the influence of understanding China and H2. However guanxi resources had a non-significant link to RIC and H1 was not supported, even though the basic correlation between the two factors is significant as detailed in Table 4.2. This may be a consequence of the decline of guanxi's importance in certain sectors (Fischer and Hartmann 2010) along with non-Chinese firms' improved learning of guanxi mechanics, which is more aligned to understanding of Chinese business as opposed to possession of guanxi resources (Wilson and Brennan 2010).

The moderating effects of environmental competition on the main relationships are negative, consistent with the hypothesised roles. However as the relationships were not significant, H3 and H4 were rejected. On one hand Gu, Hung, and Tse (2008) propose that environmental competition often fosters alternative sources to obtain resources. As alternative sources become available, a buyer's dependence on relationships declines and forging relationships becomes more difficult with many other firms competing for the buyer's attention (Dong, Li, and Tse 2013). Therefore higher competitive intensity will act to loosen ties (Beverland 2009).

Conversely Chen, Ellinger, and Tian (2011) hypothesised strengthening rather than loosening of manufacturer-supplier relationships in China as a result of increased competition for critical raw materials, components, market share, customers and supplies exhibited.

Salesperson effectiveness is found to have a significant moderating effect on the links between understanding of China's business environment and relationship initiation capability, supporting H6. This corresponds to the findings of Bellenger et al. (2008) which showed a significant link between salesperson effectiveness, understanding of the market and reputation in an industry network.

Salesperson effectiveness is found to have a significant moderating effect on the links between guanxi resources and relationship initiation capability (in spite of the main effect not being significant) supporting H5. Significant moderating effects on non-significant main effects often occur when the slopes differ substantially between moderating categories and a crossover between slopes occurs near middle values of the independent variable (Ender 2010). Due to the small sample size in the study, two simple groups were defined to examine interaction effects. The high salesperson effectiveness category accounted for all samples above the mean SE latent variable score across cases, low salesperson effectiveness accounted for samples below the mean. Figure 4.3 presents the interaction graph. The graph shows that at high salesperson effectiveness levels, the fitted line ( $p < .01$ ) is steep projecting the relationship initiation capability of firms grows at a relatively high rate when guanxi resources increases. At low salesperson effectiveness levels, the regression is not significant, although what may be inconclusively seen is that a relatively uncertain and potentially sluggish growth in relationship initiation capability will occur. Furthermore below an intersect score of approximately three on the GR construct, RIC cannot be said with confidence to be stronger among those firms exhibiting high salesperson effectiveness.



**Figure 4.3 SE moderating the relationship between GR and RIC**

#### **4.7 Alternative model**

The SEM results for the original model, while displaying good fit statistics, exhibit several unexpected characteristics with respect to the literature and hypotheses developed. In particular, the non-significant main effect of GR on RIC coupled with an unanticipated form of interaction with the SE construct encouraged reconsideration of the model.

The literature was re-reviewed to identify support for any alternative relationships between the constructs. The first alteration adopted was to test the direct effect of SE on RIC. The literature indicates salesperson skills and abilities can directly affect the nature of client relationships (Pettijohn, Pettijohn, and Taylor 2002, Sharma et al. 1999). In particular when exploring the initiation phase of relationship development Wood, Boles, and Babin (2008) and Bellenger et al. (2008), in terms of trust formation, find that perceived salesperson expertise is positively related to the development of trust in initial encounters, based on social learning theory. Social learning theory emphasises the importance of learning from one another via observation, imitation and modelling (Bandura 1977). Trust is considered a core

component of successful business relationships at the individual (Singh and Koshy 2011) and organisational (Morgan and Hunt 1994) level. If buyers' initially assess a supplier representative as lacking trustworthiness, the buyers will likely disengage for the exchange (Wood, Boles, and Babin 2008). In the China context, goal setting theory provides further support for the positive association between SE and RIC. Goal setting theory postulates that specific and challenging goals combined with appropriate feedback motivates individuals and leads to higher performance (Locke and Latham 1990). In China, building an extensive network of quality relationships is a means to enhance an individual's profile, social standing and ultimately their face and self-esteem (Wong et al. 2007). Thus the expanding and strengthening of one's ties are often goals in themselves as opposed to a mechanism for gaining social capital to call on when required. Therefore salespeople who perform well in achieving various measured sales targets can also be theorised to succeed in developing their web of relationships as challenging sales goals in their own right. In addition to the literature supporting SE as an antecedent, the presence of a significant correlation between SE and RIC at .26 ( $p < .05$ ) in the dataset provided further justification for testing the direct effect.

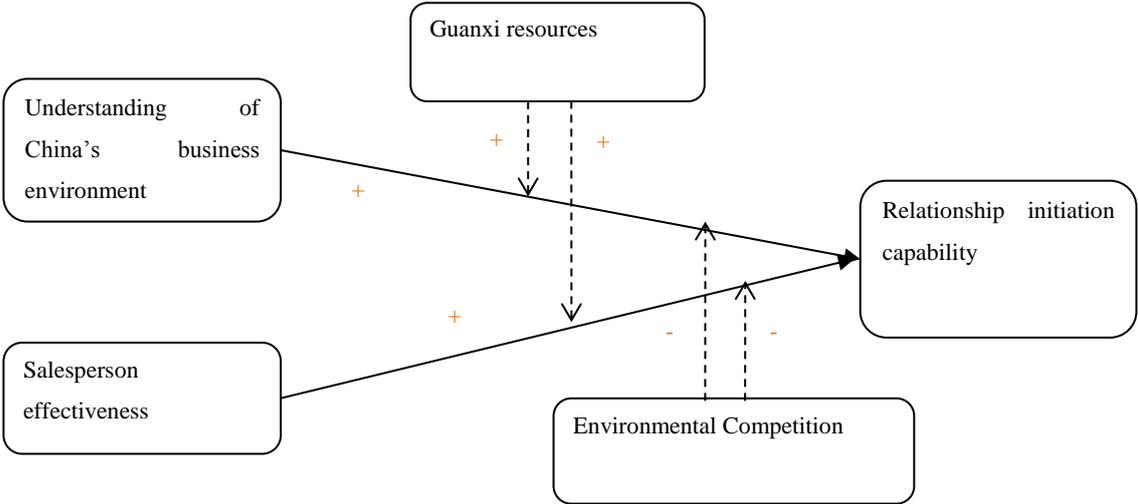
A second alteration to the original model is GR establishing a moderating position within the structure. Interaction effects between antecedents of business success and guanxi have been observed in empirical studies (Ying et al. 2011). Of particular relevance to this research, Li, Wang, and Liu (2011) examine how social ties in China moderate the relationships between types of organisational learning and product quality. Product quality in turn being an antecedent of financial performance. Social capital theory forms a theoretical foundation for the model, applied in an organisational context to highlight the strategic importance of social ties in explaining organisational learning and firm performance (Yli-Renko, Autio, and Sapienza 2001). The results of the study support the positive moderation of social ties on organisational learning, providing substantiation for testing the interaction of the related constructs of guanxi resources and understanding of China's business environment respectively.

Concerning the interaction between GR and SE, Bennett (1999) and Luo (1997a) find foreign firms operating in China which used guanxi frequently and intensely in

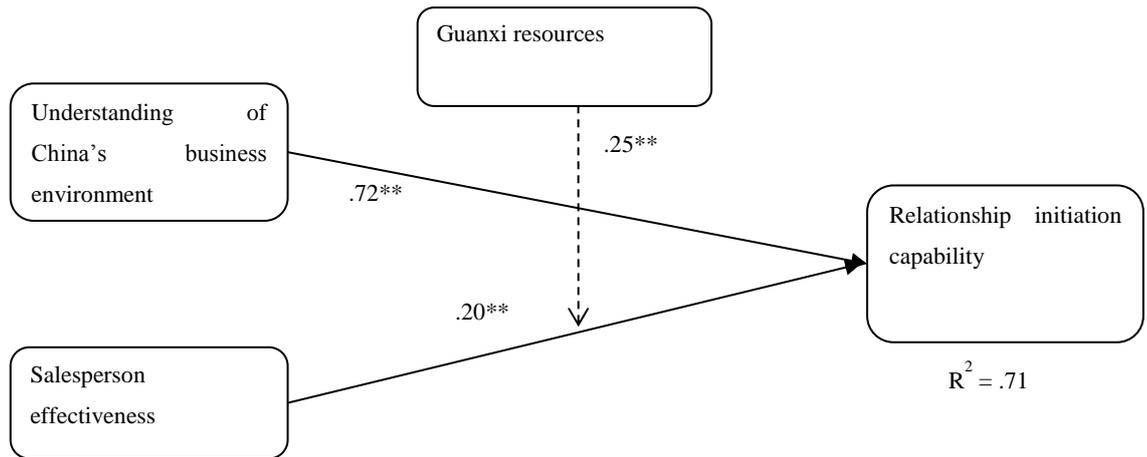
the course of their salesforce marketing experience greater levels of marketing growth, profitability and 'asset efficiency' (the ratio of sales to assets). The theoretical basis for the linkages is guanxi theory, which in concert with the substantiating results of the studies provides support for a positive interaction between GR and SE in this study.

The structural model for the alternative model was estimated using the default PLS regression model analysis algorithms and the stable resampling method within WarpPLS 4.0. The alternative model performs more favorably on fit diagnostics than the original model. Specifically the average path coefficient (APC)=.224, average R-squared (ARS)=.713, average adjusted R-squared (AARS)=.687, all were significant at the .01 level. Both the average block variance inflation factor (AVIF)=1.611 and average full collinearity VIF (AFVIF)=1.957 indices were below the ideal level of 3.3 (Kock 2011a). The Tenenhaus GoF (GoF)=.570 index was considered large (>.36) signifying the explanatory power of a model was strong. Sympton's paradox ratio (SPR)= 1.00 which is above the .7 threshold and considered ideal (Kock 2014).

The alternative conceptual model and SEM results are presented below.



**Figure 4.4 The alternative conceptual model and theorised path associations**

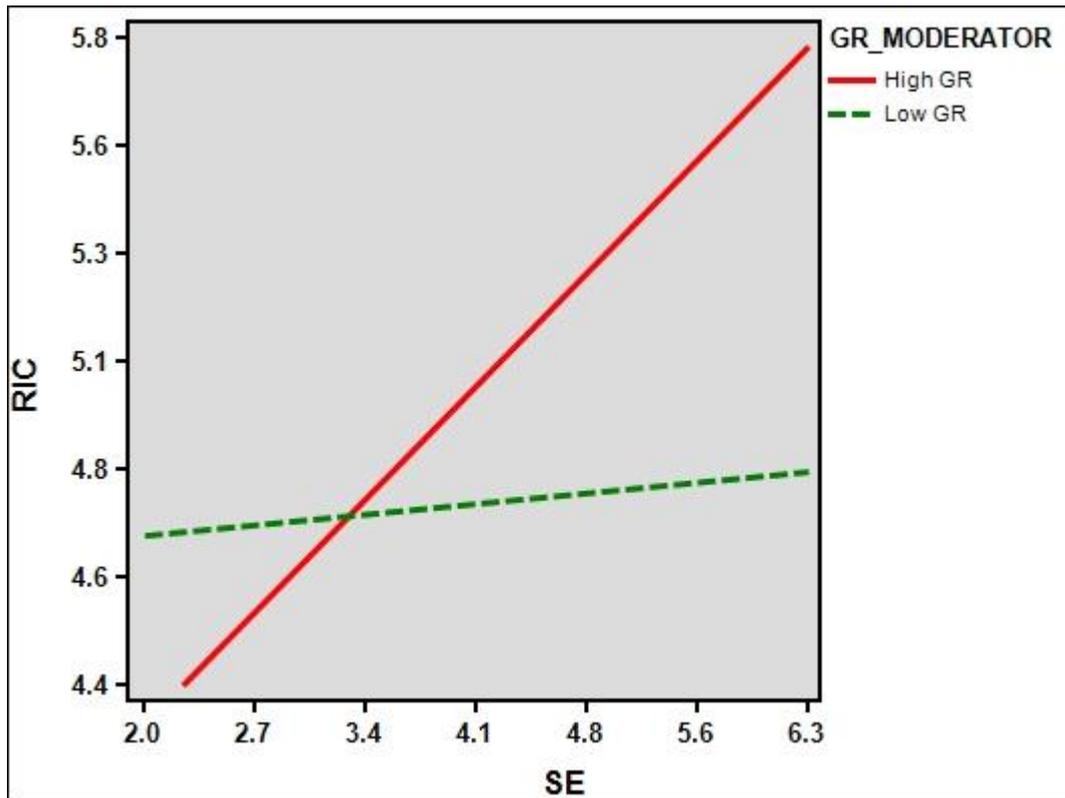


**Figure 4.5 The alternative SEM model with significant  $\beta$  path coefficients**

The  $R^2$  for relationship initiation capability is .71 in the alternative model, indicating the latent IVs accounted for approximately 71% of explained variance in the DV, a noticeable improvement over the original model.

Both main effects are significant at the .01 level which provides empirical support for the proposed relationships between the independent variables and RIC. The interaction between GR and SE is supported however not between GR and UC. As in the original model, the moderating effects of EC are not supported.

The interaction term between SE and GR was further examined via the interaction plot presented in Figure 4.6. Due to the small sample size in the study, two simple groups are defined. The high guanxi resources category accounted for all samples above the mean GR latent variable score across cases, low guanxi resources accounted for samples below the mean.



**Figure 4.6 GR moderating the relationship between SE and RIC**

The plot showed that at high guanxi resource levels, the fitted line was steep projecting the relationship initiation capability of firms grows at a relatively high rate when salesperson effectiveness increases. At low guanxi resource levels, the regression line for growth in relationship initiation capability although fitted at a very shallow incline, was not significant. This may signify that when salesperson effectiveness moves from the lower end of the scale to high levels, little substantiated improvement in RIC can be observed.

#### **4.7.1 Discussion**

Both main effects were found to be significant in the alternative model. The influence of understanding China continued to play a strong role as observed in the original model. Salesperson effectiveness in its altered position is found to have a significant direct effect on relationship initiation capability. This reflects the findings of Wood, Boles, and Babin (2008) and Bellenger et al. (2008), who found development of trust in initial encounters is positively influenced by perceived salesperson expertise, based on social learning theory. Trust in turn is considered a

core component of successful business relationships (Morgan and Hunt 1994, Singh and Koshy 2011).

The interaction between GR and SE is significant. One of the core benefits of guanxi expressed in the literature has been its measured influence on enhancing sales efforts (Kaynak, Wong, and Leung 2013, Wan and Ng 2013). Research by Luo and Chen (1997) indicated that in China, foreign firms that utilise guanxi in selling techniques are more likely to capture new customers and generally improve performance in the market. More specifically their findings show customers are more likely to purchase a new offering if it is marketed through a business guanxi network they are connected to.

The moderating effects of environmental competition on the main relationships were insignificant in both the original and alternative model. Zhang and Keh (2010) in their analysis found that as emerging economies become more competitive, networks and relationships, previously thought to be imperative for business success, no longer seem as important as before. Competition in effect loosens relational ties (Gu, Hung, and Tse 2008). Conversely Chen, Ellinger, and Tian (2011) evidence that more proactive manufacturers would ensure that effective relationships are developed and maintained with key suppliers to ensure security of stock. Likewise suppliers would fortify ties with manufacturers in the face of similar product or service offerings and aggressive moves in the marketplace by competitors.

Having presented the quantitative results and corresponding analysis in the preceding sections, the discussion will now move to the qualitative data captured in the survey and its relationship to the alternative model.

#### **4.8 Qualitative analysis**

Qualitative data was collected from 25 respondents who chose to provide input for the final survey question ‘Is there anything else you’d like to add about your experiences in China?’ The number of cases is similar to several other qualitative studies of Australian firms exporting to China (Batonda and Perry 2003, Beverland 2009, Hutchings and Murray 2002). Furthermore the proportion of managerial level

individuals, the main industries and gender ratios are similar to those of the full quantitative data set described in section 4.4.

Case No.	Industry	Gender	Position
1	“Other” services	Male	Director/Manager/Supervisor
2	Transport, postal and warehousing	Female	Director/Manager/Supervisor
3	Wholesale trading	Male	Professional (salaried non-mgt. business & technical)
4	Professional, scientific and technical services	Male	Director/Manager/Supervisor
5	Education and training	Female	Director/Manager/Supervisor
6	Manufacturing services	Male	Director/Manager/Supervisor
7	Arts and recreation services	Male	Sales/Business Development Representative
8	Transport, postal and warehousing	Male	Director/Manager/Supervisor
9	Agriculture, forestry and fishing	Female	Director/Manager/Supervisor
10	Agriculture, forestry and fishing	Male	Director/Manager/Supervisor
11	Education and training	Male	Director/Manager/Supervisor
12	Manufacturing services	Female	Director/Manager/Supervisor
13	Education and training	Female	Director/Manager/Supervisor
14	Wholesale trading	Male	Director/Manager/Supervisor
15	Information media and telecommunications	Male	Director/Manager/Supervisor
16	Education and training	Male	Deputy principal
17	Professional, scientific and technical services	Male	Director/Manager/Supervisor
18	Agriculture, forestry and fishing	Male	Director/Manager/Supervisor
19	Agriculture, forestry and fishing	Female	Director/Manager/Supervisor

20	Agriculture, forestry and fishing	Female	Customer service
21	“Other” services	Male	Director/Manager/Supervisor
22	Manufacturing services	Male	Director/Manager/Supervisor
23	Wholesale trading	Male	Professional (salaried non-mgt. business & technical)
24	Professional, scientific and technical services	Male	Director/Manager/Supervisor
25	Manufacturing services	Male	Director/Manager/Supervisor

**Table 4.4 Case profiles**

Qualitative input was examined using template analysis, based on identifying themes related to the main study constructs and interconnecting theories (Yin 2009). Subsequent grouping of responses into themed categories to identify trends among cases was undertaken (Saunders, Lewis, and Thornhill 2009). In addition to responses related to the main study constructs, several other themes were identified among multiple cases. Table 4.5 presents this information.

Case	Theme								
	GR	UC	EC	SE	RIC	GV	CR	LT	RS
1.	●	-	-	-	●	-	-	-	-
2.	-	-	-	-	-	-	-	-	-
3.	-	●	-	-	-	●	-	-	-
4.	-	●	-	-	-	-	●	-	-
5.	-	●	-	-	-	-	-	-	-
6.	-	●	-	-	-	-	-	-	-
7.	●	-	-	-	-	-	-	-	-
8.	-	●	-	-	-	-	-	●	-
9.	-	-	-	-	-	-	-	-	-
10.	●	-	-	-	●	-	-	-	-
11.	-	-	-	-	-	-	-	-	-
12.	-	●	-	-	-	-	-	-	-
13.	●	-	-	-	-	-	-	●	-
14.	-	●	-	-	-	-	-	-	-
15.	-	●	-	-	-	-	-	-	-
16.	●	-	-	-	-	●	●	●	-
17.	-	-	-	-	-	-	-	-	-
18.	-	●	●	●	-	●	-	-	●

19.	-	●	-	●	-	-	●	-	-
20.	-	-	-	-	-	-	-	-	●
21.	-	●	-	-	-	●	●	●	-
22.	●	●	●	●	●	-	●	-	-
23.	●	-	-	-	●	-	-	-	-
24.	-	-	-	-	-	-	-	-	-
25.	-	●	-	-	-	●	●	-	-
<b>N</b>	8	13	2	3	4	5	6	4	2

● Theme present

- Theme not present

GV - Government

LT – Long term relationships

CR – Corruption

RC – Resource constraints

**Table 4.5 Themes raised by case**

Theme areas and related excerpts from respondents will now be discussed. Excerpts are labelled by case number, industry, gender of respondent and position. Firstly, there is acknowledgement among the responses that the theme of relationship initiation was important yet difficult to achieve in practice, which is a major basis of this research. As one provider who dealt in production as well as wholesale trading services states:

We want to do more manufacturing in China but it is hard to establish relationships or know who to contact, who can be trusted to set these things up (Case 23, wholesale trading, male, business/technical professional).

Another major premise of the research is the issue of bridging relationships in significantly different business cultures. There was acceptance among the responses that the Chinese business environment was innately different from that of Australia (Crombie 2005, Wong 2008), which falls amongst the Anglo-Saxon economies which also include for example Canada and the UK (Atkinson and Leigh 2013, Larum and Qian 2012). This adds weight to the significance of understanding business practices between Australia and China, especially given the PRC is Australia's largest trade partner (DFAT 2013).

Dealing with the Chinese is always challenging. They often approach business from a direction quite different to what we expect and accept in Australia (Case 6, manufacturing products and services, male, managerial).

Culturally challenging! (Case 15, information media and telecommunications, male, managerial).

Further to this, based on their experience in China, respondents believe that understanding and keeping abreast of changes in regulations and trade agreements was imperative. There is also support for the notion that restrictive and sometimes volatile regulatory burdens make it challenging to export there (Herndon 2008).

The new China Government has put a real strain on the market for luxury items such as abalone, shark fin, birds nest, fish maw, etc. Their crack down on spending and banquets has made sales into China very difficult. The biggest downside to selling directly into China is the Government tariff and tax. If Australia could get a free trade agreement like New Zealand then sales into China would improve (Case 19, agriculture, forestry and fishing services, female, managerial).

Cosmetic & skin care regulations to register products in China inhibit importing Australian products into China (Case 12, manufacturing services, female, managerial).

Law or policies changes are different with dealing business within China. It is extremely hard for the Australian senior management to understand that (Case 5, education and training, female, managerial).

The role of guanxi and its perceived importance relative to other countries is also questioned. Although acknowledgement is present about the general divide in business cultures, opinion in a number of cases is that guanxi should not be overestimated in comparison to relational practices in other countries (Hutchings and Murray 2002). Furthermore the darker side of guanxi entanglements is hinted at (Gu, Hung, and Tse 2008).

China may be a difficult place to operate but it is no more different or difficult than operating in a new market in South America, Russia, Middle East, Africa, Australia, US or Europe. Each market has its uniqueness and China in my view is not any more unique than other markets. Too much has been made of "guanxi" as the modus operandi for business success in China. But it is the same in other Western markets e.g. the US or Europe. Try operating in the US without knowing the local politicians and officials. Capitalism or socialism, it's who you know that matters (Case 1, "other" services, male, managerial).

Cultivating guanxi causes as many problems as it potentially avoids (Case 25, manufacturing services, male, managerial).

More specific to the practice of guanxi itself the notion of dinner table dealing as a typical B2B sales activity is also the subject of mixed opinion, as illustrated by the following cases:

Most of the contracts or deals are done on the dinner table (Case 9, agriculture, forestry and fishing services, female, managerial).

We are wary of the practice of needing long dinners to conclude enduring business relationships (Case 21, “other” services, male, managerial).

In a related theme, others speak of developing trust without pointing to China specific terminology such as guanxi or renqing. This may be linked to various works supporting trust as an important relational foundation across many cultures (Jansson, Johanson, and Ramström 2007, Wood, Boles, and Babin 2008) as well as important for the survival of relationships beyond the short term in China (Barnes, Yen, and Zhou 2011, Ndubisi and Matanda 2011).

Building trust and utilising integrity and exercising patience are lessons I have learned in dealing with Chinese businesses (Case 13, education and training, female, managerial).

Consistently, corruption and illegal practices, which are still reported as commonplace in the Chinese business arena (Birney 2014, Wen 2014), were cited as difficulties that Australians may have in establishing exports.

Main issue is the lack of recourse in the event of arbitrary decisions by bureaucrats. There is no transparency and no avenue of appeal. Corruption is rife at all levels and the best strategy (for us) is to maintain a low profile (Case 25, manufacturing services, male, managerial).

The level of distrust is very high. Chinese expect graft and corruption and their products are not even tested. They pay someone to "test them" (Case 4, professional, scientific and technical services, male, managerial).

An understanding of long timeframes and the importance of face (Wong et al. 2007) were divided into two main views. On one hand there were those who feel it is difficult to develop trust and see it as easily destabilised. Whilst others believed that while it takes longer to build sturdy connections and managing 'face' is an effort, ultimately relationships are a worthwhile pursuit, which supports the interaction effect of GR on SE as seen in the alternative model.

...we have found that it takes a considerable time to develop effective relationships and that our reputation and being a government institution are critical in establishing new relationships (Case 16, deputy principal, education and training, male).

We take a long term perspective and respect the Chinese culture in all aspects (Case 8, transport, postal and warehousing, managerial).

Whereas there were those skeptical:

Very little loyalty from our Chinese customer base. The market is 100% price driven, with no emphasis or respect towards higher levels of customer service, after sales service, or relationships developed (Case 10, agriculture, forestry and fishing services, male, managerial).

Time spent on traditional sales activities such as trade show participation, product/service education and client visits was linked to development and maintenance of clients and business partners (Evers and Knight 2008), supporting the influence the factor of salesperson effectiveness exhibits on relationship building in the alternative model:

I do travel to China each year to man a stand at various Trade Shows and to visit the senior management of our clients. This gives me the opportunity to

meet the sales staff of our agent. I have attended classes on Chinese culture as I wish to understand them better (Case 22, manufacturing services, male, managerial).

The Chinese have strong pre-conceptions which we must overcome through education and promotion (Case 18, agriculture, forestry and fishing, male, managerial).

Environmental competition was mentioned in two cases as a hindrance to firm penetration into the China market, however both for different reasons. Gaining traction is often difficult for SMEs, who suffer from a lack brand recognition and prominent face (Abramson and Ai 1997, Tang, Wang, and Zhang 2007), which can be accentuated in highly competitive sectors (Tse 2010).

Irrespective of how hard we work to develop a market in China we have to overcome several major obstacles including, (i) our Government's apparent inability to provide us with an even playing field compared to our competitors. We are often at a competitive disadvantage (Case 18, agriculture, forestry and fishing, male, managerial).

Whilst those who do make it are often faced with local firms copying their unique offerings, which is tied to the illegal practices elucidated earlier. Unlicensed imitations of service and product provision is a phenomenon which has been pervading modern China for a number of years (Lin 2011). Whilst imitation is sometimes considered a form of flattery, it can seriously jeopardise a firm's position in the market. Though one respondent is attempting to understand ways to strengthen ties and marketing strength by seeking opportunity in competitive adversity:

I am very disappointed that a Chinese company breached one of our patents and has produced copy machines at 40% of our price. While they have inferior performance - they have sucked away many sales. I have met the Owner of this business many times and I am looking for a way to co-operate. The new word "Co-opertition". Learning to co-operate with your competition.

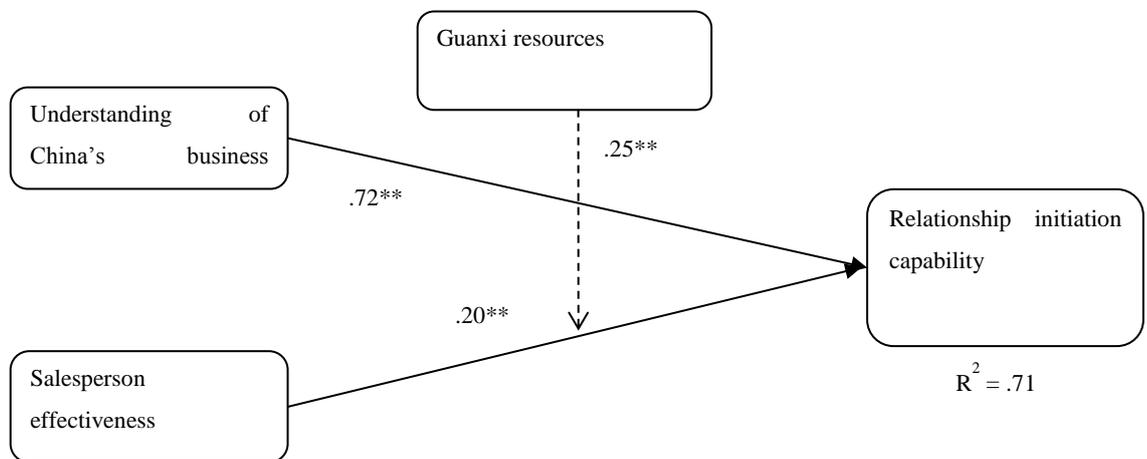
This is a challenge as he is keen to fill the market with cheap "Chinese copies" (Case 22, manufacturing services, male, managerial).

In trying to manage such a disparate market, the resource constraints faced by companies surfaced, which provides researchers with a further complicating factor in understanding how SMEs can successfully engage a challenging foreign economy (Chetty and Campbell-Hunt 2003, Pickering 2005).

China is an important market for us but not our most important market and not currently receiving the level of resources that we would like to give it, due to current resource limitations (Case 20, agriculture, forestry and fishing, female, customer service).

## 4.9 Chapter summary

This chapter contains the findings of the study with respect to the developed hypotheses and conceptual model as well as an alternative model. The SEM results for the original model supported three of the hypotheses yet several unforeseen characteristics with respect to the literature were found. This encouraged a revisit of the literature to identify if any support for an alternative model was present. Reasoning for an alternative model was recognised in a review of prior works. Tests of the alternative model resulted in closer fit statistics, more robust path coefficients and stronger support for the corresponding hypotheses.



**Figure 4.7 The final model with significant  $\beta$  path coefficients**

Qualitative findings were also analysed to determine if the open feedback provided by firms was consistent with the quantitative responses and offered a deeper explanation of the model results. It was concluded the qualitative findings did provide support for the quantitative results. Furthermore the qualitative analysis elucidated richer details of phenomenon experienced by firms, particularly in terms of the benefits / drawbacks of guanxi, the importance of sales efforts directed towards relationship building as well as significant challenges in maintaining an understanding of often volatile and somewhat inconsistently applied policies and regulations in the China market.

In the following chapter, conclusions with respect to whether the research objectives and main research problem have been adequately addressed will be discussed. A

summary of the results will be reviewed along with the scholarly, managerial and methodological implications. Limits of the study as well as opportunities for future research will also be examined.

## **CHAPTER 5**

### **CONCLUSION**

#### **5.1 Chapter overview**

In this chapter, overall conclusions regarding the purpose and the research process of the current study are presented and related to the research objectives. The findings and their implications for researchers and managers will be discussed. This chapter also contains recognition of the study's limitations. The chapter ends with a number of suggestions for future research on the topic.

#### **5.2 Introduction**

Numerous empirical studies have explored the problems and prospects confronting overseas businesses seeking to export to the People's Republic of China (PRC), including significant efforts to research selling practices in China (Womack 2013). However, as Chapter 1 and Chapter 2 have identified, abundant areas of exploration still remain open concerning business relationship in China, including the initiation of business-to-business customer ties for new entrant foreign small and medium sized enterprises engaging with the market.

Despite much literature supporting the original model, the results of structural equation modelling, while displaying good fit statistics, shows relationships of unexpected strength and direction with respect to the hypotheses. The relationship between guanxi resources and relationship initiation capacity is insignificant, suggesting the diminishing role of guanxi in certain situations in accordance with several more recent studies in contemporary literature. An alternative model was identified based on a thorough re-examination of the literature. The alternative model exhibits closer fit statistics, more robust path coefficients and stronger alignment with the literature. Findings indicate that understanding of the Chinese business environment has a significant effect on relationship initiation capabilities, in accordance with resource based theory and salesperson effectiveness has a significant effect on relationship initiation capabilities, in accordance with goal setting theory. Understanding China's significant effect on relationship initiation capabilities in both models can be linked to a lack of knowledge of foreign markets

as a primary obstacle to overseas expansion both in a global (Figueira-de-Lemos, Johanson, and Vahlne 2011) and a China specific context (Herndon 2008, Johnson, Yin, and Tsai 2009, Lee, Abosag, and Kwak 2012). Findings for the qualitative stage showed that acceptance that the Chinese business environment was innately different from that of Australia and must be carefully considered and analysed to avoid serious relational problems. This is in agreement with the quantitative findings which resulted in a significant effect understanding the Chinese business environment had on relationship initiation capabilities as well as the literature reviewed. The importance of this factor is especially pronounced due to China's developing business environment being the subject of volatile policies, inconsistent enforcement of regulation, corruption and tenuous IP security in many sectors (Chai 2011). The main effect of salesperson effectiveness on relationship initiation capabilities is consistent with the previous literature which found that perceived salesperson expertise is positively related to the development of trust in initial encounters - trust being an important ingredient for healthy relationships (Bellenger et al. 2008, Wood, Boles, and Babin 2008). Likewise qualitative findings discussed building trust and utilising integrity with Chinese partners as lessons several Australian firms have learned through their experiences in the PRC. In the China context, client relationships are often seen as goals in their own right rather than purely paths to commercial transactions, linking to goal setting theory which emphasises the important connection between goals and performance of the individual, in this case the salesperson (Luo 2007).

The results also show higher guanxi resources result in a stronger association between salesperson effectiveness and relationship initiation capabilities. An implication drawn is that guanxi resources significantly enhance the likelihood of building new customer relationships for salespeople with strong performance characteristics in account management, market share and prospecting. This is consistent with past research which shows the positive effect an entity's web of relationships exerts on the course of relationship initiation when combined with strong salesforce expertise (Lee, Abosag, and Kwak 2012, Walter 1999). This notion is supported by the application of social capital theory, which nominates that the ability of actors to extract benefits from networks is important for the actor's survival (Tang 2009, Portes 1998, Liu 2008).

Theoretical, methodological and managerial implications of the study will now be discussed in further detail.

## **5.3 Implications of the study**

### **5.3.1 Theoretical implications**

The findings support the position that greater understanding of the Chinese business environment had a positive association with relationship initiation capability. This provides further substantiation for resource based theory (RBT). Resource based theory states that a firm can be viewed as a collection of productive resources (De Wulf and Odekerken-Schröder 2001). Superior firm performance can be judged by evaluating these resources: the assets, knowledge, organisational structure, and procedures that it controls (Tsang 1998, Leonidou 2003). Resource based theory can be applied to support linkages between a range of firm resources and various measures of firm performance (Robinson 2008). Empirical research partly based on RBT undertaken by Johnson, Yin, and Tsai (2009) in a Chinese-Western business setting supports the notion that a firm's learning capacity is key to superior performance in its internationalisation process, which is evidenced in both the quantitative and qualitative findings of this research.

In relation to understanding China's business environment, the long standing problem of opportunistic behaviour exhibited by companies and in general strangers in the China market (Crombie 2005, Wu and Yong 2006), which is in part due to Confucian ethics (Su and Littlefield 2001, Wu and Yong 2006), is a pervasive factor in Australian firms' caution in engaging with China. However with legal improvements to protect customers against fraudulent and deceptive practices, the situation will hopefully develop as firms place more faith in understanding the legal and regulatory infrastructure as opposed to relying only on guanxi relationships to uphold arrangements (Xie and White 2006), perhaps leading to changing theories about the dominance and role of guanxi in Chinese society as the nation evolves (Ying et al. 2011). Interestingly, in Western economies, which are traditionally seen as functioning on contracts, regulations, rationalism and legal infrastructure (Clever

2004, Lee et al. 2010), one cannot deny the extensive effort in studying the importance of relationship marketing in these so called transactional market economies (Backhaus, Lügger, and Koch 2011). As China adopts more of the norms characterised by free markets and international trade conventions, perhaps it will still retain aspects of its own nuanced form of relational based business practices just as the so called advanced Western economies have still held on to their styles of relationship marketing. Among other things, guanxi practices and relationship marketing may continue to protect companies from opportunism via the threat of ostracisation from an exchange partner's network should the other party engage in opportunistic behaviour (Yong and Reuvid 2006, Wu and Yong 2006). The Chinese also believe that building a guanxi network will improve access to resources and information, which is a similar perceived benefit of Western business networks (Luo 2007, Clark and Roberts 2010). Thus investing in networks both at home and abroad should be a consideration, as one male manager who has been working with China for over five years stated: 'Capitalism or socialism, it's who you know that matters'.

In terms of the second antecedent, salesperson effectiveness, the findings of this study support the general premise that business-to-business marketing is heavily dependent on personal selling (Tanner and Raymond 2010). Within this arena, the anticipation of future business interactions is an important consideration when seeking clients. To this effect literature has shown trust of the supplier firm and trust of the salesperson (which is influenced by salesperson capabilities) can increase the likelihood that buyers anticipate doing business with the supplier firm in the future (Doney and Cannon 1997). This is consistent with other studies indicating that the salesperson's effectiveness share commonalities with customer orientation and other attributes, which in turn affect relationship quality and continuity (Kim and Cha 2002, Morgan and Hunt 1994). This supports theoretical alignment with the alternative model's main effect of salesperson effectiveness on relationship initiation capabilities.

A further implication of the positive association between salesperson effectiveness and relationship initiation capabilities is its support for goal setting theory. Goal setting theory highlights the important connection between goals and performance. Much literature supports predictions that specific and challenging goals lead to the

most effective performance (Lunenburg 2011). In Chinese culture, relationships are often seen as ends in themselves rather than purely a means for realising various individual objectives (Luo 2007). Thus salespeople who are effective in achieving sales targets linked to large contracts, territory and high margin accounts can also be theorised to succeed in forging new relationships as challenging sales goals in their own right.

Existing research supports the findings that high salesperson effectiveness has a positive association with relationship initiation capability for Australian SME service exporters to China. From the above discussion, this has made theoretical contributions by supporting the applicability of trust and goal setting theory in the Australia-Chinese service export context.

The third significant relationship identified in this study is that higher Guanxi resources resulted in a stronger association between effectiveness of the salesperson and relationship initiation capability. In terms of network ties and new clients relationships, research conducted by Walter (1999) identified social competence, network knowledge, and a range of good personal relationships as key attributes for role success and capturing new clients. Likewise the qualitative findings showed that reputation and face, which are enhanced by an entity's network of contacts, along with proficiency in the relevant social graces and customs are critical in establishing new relationships. To expand on this, in the Chinese context, how much face an individual possesses is largely a function of his or her network of relationships and conformance to rules derived from Confucian values (Luo 2007). The larger and more powerful the guanxi network, the more face is afforded to the salesperson and the more willing potential clients will be to engage with him/her (Su and Littlefield 2001). Huang, Lai, and Lo (2012) furthermore found support for the notion that the skills and social capital possessed by a start-up's founder (who often also wears the hat of salesperson) influences the firm's abilities to forge new network relationships with other companies in China. Within the Chinese theoretical landscape, an important link between Confucianism and guanxi can be highlighted given the above discussion. Confucianism among other things has defined the importance of an individual's role in a web of relationships (Laulusa 2008). This has evolved the strong motivation to build guanxi which are the fibres that define such

relationships (Zhang and Zhang 2006). Guanxi network resources in turn are a means to ultimately strengthen one's own face and self-esteem in the sales field, thus enhancing the chances of achieving goals which typically involve initiating relationships to ultimately gain new client accounts. The above observations also draw analogies with social capital theory in the West, which nominates that the ability of actors to extract benefits from networks is critical for the actor's survival (Tang 2009; Portes 1998).

Although the findings support the effects of network ties on enhancing the sales role, the future role of guanxi in the broader Chinese business context needs to be considered. A case in point is the original model in this research, in which guanxi resources was a non-significant predictor as compared to understanding of the Chinese business environment. As the country transitions into a more liberal market system with stronger property rights, formal institutions and legal infrastructure, questions are raised as to the role of the concept of guanxi in an economically maturing nation (Chai 2011, Zhang and Keh 2010). Possibly, a firm's understanding of rules, regulations and official institutions in the Chinese environment will grow in importance compared to participation in informal institutions and relational networks, accounting for the lack of significant effects guanxi showed in the original model as well as the lack of moderation guanxi resources exerted on the relationship between understanding of the Chinese business environment and relationship initiation capabilities (Beverland 2009).

In both the original and alternative models, the moderating effects of environmental competition are insignificant. A possible explanation is that at a lower levels of competition, guanxi resources have a positive impact on sales growth and market share, but when competition level is high, the impact of existing guanxi ties is slightly lower or negative (Gu, Hung, and Tse 2008). The interaction effect reinforces competitive intensity as a definite threat to sales performance, but the negative influence is much stronger when firms rely heavily rather than lightly on guanxi.

Conversely, where high levels of environmental competition persist, in both Western and guanxi relational contexts, core competitive forces (such as price and quality)

can be subverted by the presence of a personal relationships (Karanović, Pecotich, and Renko 2005). The relationship is in itself a form of distinguishing offerings whose purpose is to dampen competitive action (e.g., freedom of entry and exit or information) and protect both exchange partners from more competent competitors, in effect hindering the efficiency of the market system.

Given prior evidence to show environmental competition loosens ties and actors subsequently moving to strengthen ties, it is possible the counteracting forces cancel each other out to a degree and lead to an immaterial moderating effect in certain contexts.

### **5.3.2 Managerial Contributions**

Understanding of China's business environment emerged as an important factor for Australian exporters. The quantitative findings showed a significant effect and strong path coefficient linking understanding and relationship initiation. Insight into some of the reasoning behind the importance of this factor was provided by qualitative responses. The responses showed that not only do firms need to contend with volatile and ever changing policies, they must also grapple with these regulations being applied in an inconsistent fashion (BMI 2013). Add to this pervasive corruption and IP risks, an understanding how to navigate such uncertain terrain is important (Zhao 2014). Furthermore whilst local competition was typically seen as hindrance for developing the China market, one qualitative respondent also sees it as an opportunity to create a relationship with a local imitator, a phenomenon not unheard of in China (Xie and White 2006).

Techniques demonstrating salesperson effectiveness are believed to help foster improved client relationships, a proposition supported by the strong and significant link between the two constructs in the final model. The qualitative data showed that as is the case with many small firms, respondents were somewhat resource constrained so reliance fell onto upper management to partly wear the hat of a salesperson. Activities such as service customisations, client education and support to intermediaries, in person visits to customers and partners in China were highlighted. These practices have garnered general support for B2B selling both in China and the West (Tanner and Raymond 2010). This view holds true especially

for service as opposed to product-dominant settings, as the intangibility of services means customers have limited opportunity to reliably evaluate the offering prior to an initial purchase. Thus there is a heightened reliance on the information and communication provided by the salesperson (Geigenmüller and Greschuchna 2011).

The influence of guanxi has both its supporters and detractors within the qualitative responses. The quantitative model also exhibited a tenuous link between the construct and relationship initiation capability, though its interaction with salesperson effectiveness was clearly significant. On one hand the guanxi sales avenue is seen as an efficient way of introducing a new offering into a Chinese society, though a high extent of business guanxi network resources is required (Chung 2011). Furthermore the general importance of trust development in guanxi and conformance to guanxi mechanics is acknowledged, especially in relation to sales activities (Shaan et al. 2013). Managerially for proponents of guanxi, placing emphasis on engaging a mutually connected third party to gain a referral for an audience with a target prospect, a practice known as altercasting (Yueng and Tung 1996), can be an effective way to leverage one's network to initiate new relationships (Luo 2007). Practitioners should be aware that despite several works and numerous consulting firms espousing altercasting as the ultimate technique for bridging new relationships (Chan 2008), it is not the only base of commonality that can be leveraged (Kiong and Kee 1998). Research has shown other mediums for meeting partners in China include networking events, trade shows or even chance meetings where shared goals or localities / dialects are discovered (Chen and Chen 2004).

Whilst some firms highlight the importance of guanxi resources and associated practices, other respondents consider the concept to be overemphasised and perhaps not taken as one among many types of business relationship practices of equivalent purposes in other nations. Furthermore there was a sense of caution on its application, as several respondents cite thorny consequences with its use and fickleness among customers due to emphasis on pure commercial gain and the transactional rather than relational aspects of an exchange. Mixed relational and transactional modes of exchange in China have been observed, showing that business dealings in China are not necessarily clearly divided into either category to the mutual exclusion of one another (Styles 2003). Rather exchanges can inherit

attributes of both forms of governance. General business-to-business research in addition to China specific studies supports the simultaneous coexistence of various forms of governance (Mahapatra, Narasimhan, and Barbieri 2010). The managerial implications are that Australian firms need to carefully assess how much investment they make into cultivating relationships with Chinese clients on a case by case basis. Investing in relationship cultivating activities such as banquets, frequent visits to China, supporting delegations and providing training support to Chinese partners are expensive and may provide little return if the commercial interaction has a strong market driven transactional flavour.

Finally, whilst guanxi resources and practices are the subject of mixed opinion and its direct statistical link to relationship initiation lacked significance, there is a clear focus on initiating and committing to long term associations in general which is the ultimate factor of interest in this research and is consistent with other studies showing durable long term supplier relations as an important goal of Western purchasers sourcing from China (Salmi 2006).

#### **5.4 Limitations**

The conclusions are based on an extensive review of the literature and survey of Australian SMEs. This represents two sources only. The research does not claim that the conclusions apply to all other firms engaging in selling to China, as there is always various degrees of error in generalising characteristics of a population from a limited sample. The research does however appeal to the concept of sound relatability: that what was uncovered in this study will be of use to other researchers and institutions interested in Australia's multitude of export deals with China. As the unit of analysis was Australian SMEs supplying services to China, a further extension of the study could incorporate large firms to explore whether significant differences exist between groups along the dimensions of size in terms of employee numbers as well as other measures such as market share and turnover (Chen and Hsu 2010).

Another limitation in terms of the unit of analysis is that the perspectives of the Chinese enterprises who have an interest in purchasing services from Australian

firms have not been solicited. Such data would have provided a degree of triangulation as well as added further insight to the study (Salmi 2006).

Region-specific factors should also be considered when examining business behaviour in such a large, diverse and geographically sprawled economy (Wyrwoll and Hanschen 2007). Economic development and policies differ across different areas in China (Tse 2010). The business culture and social norms are also heterogeneous, particularly between the eastern coastal provinces and the central and western inland areas of China. These disparities may influence the significance and strength of relationship initiation factors across regions and potentially need to be controlled for in further research (Luo 1997a).

In general, previous literature has shown numerous other factors may play a part in relationship initiation. These factors relate to the internal characteristics of the relational parties, the premise on which their connection is formed as well as the prevailing social, economic, regulatory and other environmental forces at play (Luo 2007, Chan, Cheng, and Szeto 2002). In other words, the precise nature of relationships between two parties is highly context specific, depending on the environment, actors and the form of exchanges (Cornelisse and Thorbecke 2010). Studies can seldom realistically measure all these factors. To this end the vote counting procedure to identify potential antecedents featured in the literature review may be a source of future avenues for investigation by scholars. Potential factors to incorporate into future studies include adaptability (Leung et al. 2005), commitment (Feng, Sun, and Zhang 2010), credibility (Zhang and Rezaee 2009) and corporate social responsibility (Herndon 2008).

In terms of methodology, the qualitative analysis of the study, whilst in itself a form of triangulation in concert with the qualitative results, was inevitably interpretive. This is a situation inherent with much qualitative research. Whilst this is not wholly a disadvantage, one must consider the interpretation of the data may be coloured by the researcher's psyche and life experiences. The researcher's background in sales and dealing with Chinese firms also means that his own worldview with respect to the research may be tinted by personal experiences.

## 5.5 Future Research

A common theme within literature on doing business in China is the importance of developing relationships with customers for successful business transactions (Ambler, Witzel, and Xi 2009). This research has tested certain factors which influence relationship initiation, yet does not test whether relationships themselves are in fact an essential element for all variations of business transactions within China. Further research is warranted to test whether relationship development over more impersonal forms of interaction is applicable in different scenarios. This is especially pertinent given concerns by researchers which propose that investments in relationships may in fact outweigh the ultimate business benefit derived in certain circumstances – in essence relationship development can be a loss-making proposition (Brush and Rexha 2007, Homburg, Müller, and Klarmann 2011, Streukens, van Hoesel, and de Ruyter 2011, Zhou, Poppo, and Yang 2008).

Opportunities to extend and modify the conceptual model provide another avenue for further research. In addition to the vote counting procedure employed in Chapter 2 to identify a range of potential antecedents, the qualitative analysis uncovered further concepts of interest to Australian firms and their relationships in China. These included resource and funding levels, regulatory uncertainty and government support / hindrance both at home and abroad for the firm's line of business. Incorporating these factors into an enlarged model may prove a worthwhile line of enquiry.

Guanxi was also a common thread of reflection in the qualitative responses. In a broader context, it is worthwhile at this point to further consider why guanxi developed and where it is going. One of the major factors influencing the evolution of guanxi in China is weak institutional frameworks. For numerous tumultuous periods in China's history the rule of law was weak or non-existent; protection of private property rights and regulation of economic interests was largely absent (Lee 2010). These periods also include various precarious eras from the 19<sup>th</sup> up until the late 20<sup>th</sup> century, such as the Boxer Rebellion, Chinese Civil War and Cultural Revolution (Andreas 2007, Osinsky 2010).

The weak institutional frameworks of these times included a lack of independence and reliability within the legal system to provide recourse where business agreements are not honoured by one party (Estrin and Prevezer 2010, Herndon 2008, Walters and Samiee 2001).

In the absence of effective laws and legal enforcement, citizens concluded that they could not rely on the government to protect their economic interests. Thus a propensity was formed for citizens to do business only with those they have formed a trusting personal relationship with (Clever 2004). In modern terms *guanxi* is an informal institution (Estrin and Prevezer 2010), providing among other things a transaction cost reduction (Yang and Wang 2011) and due diligence mechanism (Luo 2007).

However Chinese culture and its economy is not static. The chaos and uncertainty of the 20<sup>th</sup> century have been replaced by a new dynamism of economic growth and liberalisation (Jacka, Kipnis, and Sargeson 2013) and thus marketing strategies must factor in cultural shifts in order to effectively serve the market (Blackwell, Miniard, and Engel 2006). The future role the omnipresent *guanxi* will play in the Chinese business environment has been questioned and challenged by various authors (Wilson and Brennan 2010). Thus studies into the influence of such network ties via a longitudinal methods presents a worthwhile topic of investigation. What may now be a critical factor in doing business in an economy may change in importance as China's culture and economy undergo various transformations.

Another area for future investigation on the criticality of factors can be derived from the nature of the product or service. The literature and results have presented strong advocacy for the merits of personal selling in Sino-Australian B2B service exchanges. However, limited discussion of the correlation between the characteristics of the B2B offering and the nature and need for personal selling has been raised. Characteristics of a product or service are many and varied, including its absolute dollar value, the level of involvement for the buyer and whether extended, mid or low level problem solving will be undertaken (Blackwell, Miniard, and Engel 2006). Thus, including such factors in future research may help better

define the level of selling effort warranted depending on the size, complexity and other characteristics of the sale.

In terms of the bilateral nature of this study, another worthwhile area for future researchers relates to the converse trade flow: examining the determinants of Chinese suppliers' ability to forge relationships with Australian buyers. Such a study would provide outcomes which could be compared and contrasted against this research, potentially leading to theoretical contributions on the unifying and dissimilar aspects of relationship marketing between the West and East (Shaan et al. 2013).

Another important element in the Sino-Australian trade relation concerns language differences. This is an issue confronting several respondents. Lin and Betz (2007) examined the levels of social self-efficacy in English language scenarios for a sample of native Chinese speaking students at a US university. The study found that social self-efficacy was significantly impacted by the student's perception of their own English language skills. An interesting area of further research may include the reverse setting. Namely what effects do the Mandarin skills that Australian representatives possess pose to social self-efficacy when forging new relationships in China?

## **5.6 Chapter summary**

This chapter features the conclusions of this thesis. Whilst the original model developed garnered strong support from the literature, several unexpected characteristics were observed. Part of the reason why research propositions may be supported at one point in time yet be faced by data to the contrary in the next period may be linked to challenges in maintaining an understanding of the rapid economic and social transformation China is undergoing (Du and Choi 2013). It is also relatively challenging to formulate deductive studies as China's business environment and its theoretical underpinnings are relatively new frontiers of scholarly study (Shaan et al. 2013). In general there is cause to ponder that if certain study findings on China are found relevant, how long will they remain valid given an economy quite unlike any other is in the midst of unprecedented growth and evolution (Jacka, Kipnis, and Sargeson 2013).

The theoretical implications of the study include support for resource based theory concerning a firm's learning capacity in China, the potential for transactional and relational interplay in exchanges and the importance of social ties for salesperson effectiveness in accordance with goal setting theory.

Managerial implications were also discussed which included the notion that Australian firms face a significant challenge in grappling with volatile, inconsistently applied and at times subverted policies and regulations in China. Investment in relationships was also an area for careful consideration as the costs involved in such activities can potentially outweigh the benefits in certain situations.

Limitations and areas for future research were discussed, which covered opportunities for data collection from Chinese firms, longitudinal studies and potential incorporation of further factors when developing models incorporating relationship initiation in China.

It is hoped the results of this study and subsequent discussion has drawn attention to the complex and cross-functional nature of international relationships between disparate cultures and provide inspiration for future researchers into the field of Sino-Australian business relationships and further into Australia's role within greater Asia.

In closing, despite the volatility in the market, one cannot ignore the fact that China is now the world's second largest economy (Patience 2014). The nation hosts an unprecedented number of firms which have thrived in their home environment and built strong profits and customer relationships on a scale unmatched in its history (Zhu 2012). This demonstrates an ability of many Chinese firms to understand and adapt to their evolving surroundings (Refkin and Cray 2013). If Western firms can learn from and reproduce some of their understandings, this may lay the foundation for rewarding relationships and long term success (Trimarchi 2010).

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## **APPENDIX A**

### **MEASURES**

Measures with original Cronbach alphas from source studies.

#### **Guanxi resources** (Gu, Hung, and Tse 2008)

Cronbach  $\alpha = 0.79$

Our senior management:

1. Has personal relationships with important people.
2. Is able to obtain valuable and important information.
3. Is able to obtain government approvals.
4. Is able to obtain resources like land and electricity from local authorities.
5. Is able to obtain financing or attract investors.

#### **Understanding of China's business environment** (Tsang 2002)

Cronbach  $\alpha = 0.8$

Our company has:

1. Learned skills and competencies on how to operate in China through interactions with Chinese companies.
2. Expertise in collaborating with Chinese partner(s) in our engagements.
3. Knowledge of setting up a management system in a joint venture.
4. Knowledge of overseeing operations in Asia.
5. Knowledge of the Chinese business environment, e.g., tax system, labor policy, etc.
6. Knowledge in dealing with Chinese government bodies.
7. Know how in building up business connections (guanxi) in China.
8. Knowledge in adapting technology to the local Chinese condition.
9. Establishing marketing and distribution networks in China.

#### **Relationship initiation capability** (Hansen 2004)

Cronbach  $\alpha = 0.76$  for refined set only, please see section 4.5 for further explanation.

1. Our senior management associates with customers outside business meetings
2. Our senior management can establish relationship with potential customers who are otherwise inaccessible.
3. Our senior management initiates relationships with suppliers.
4. Our senior management meets decision-makers with which we normally do not get in touch.
5. Our senior management participates in servicing existing customers.
6. Our senior management increases the speed and influence on the various steps in the decision process of our customers.
7. Our senior management initiates personal contacts with existing customers.
8. Our company uses business meetings as an arena where our management can develop relationships with customers.

**Environmental competition** (Chen, Ellinger, and Tian 2011)

Cronbach  $\alpha = 0.85$

1. In our business, customers' product preferences change substantially over time.
2. There are too many similar services in the market; it is very difficult to differentiate our brand.
3. This market is too competitive; price wars often occur.
4. We are in a business with very aggressive competitors.

**Salesperson effectiveness** (Plouffe, Sridharan, and Barclay 2010)

Cronbach  $\alpha = 0.94$

Our people responsible for sales are:

1. Able to sell products / services with higher profit margins.
2. Able to generate a high dollar amount of sales in their territories.
3. Able to quickly generate sales of new company products / services.
4. Able to produce a high market share for my company in their territories.
5. Able to exceed the sales targets and objectives that are assigned to them.
6. Able to identify and sell to major accounts / customers in their territories.

**APPENDIX B**  
**SURVEY COVER LETTER**



Tysun Chan  
Masters Research Student  
School of Marketing  
GPO Box U1987  
Perth WA 6845  
T: +61 419 219 459

**Re: An investigation into Australian firms doing business in China**

Dear Mr/Mrs X,

My name is Tysun Chan and I am undertaking a master's research degree at the Curtin University School of Marketing. My research is conducted under the supervision of Dr Sandra Gountas and Dr Brian Handley. This survey is part of my research into Australian firms doing business in China. The findings will provide some insights to academics and practitioners on the subject. We'd appreciate it if an individual, be it yourself or a colleague, with direct knowledge of your organisation's relationships with China could complete this questionnaire. The questionnaire should take approximately 15 minutes to complete.

[Please click here to complete the survey.](#)

To show our appreciation for your participation, we would be pleased to offer you an executive summary of the research findings once the study is complete. Please contact me if you'd like to receive this.

Participation is voluntary and you can withdraw at any time without prejudice. Your responses are confidential and no one will be able to identify individuals or organisations.

The survey has been approved by the Curtin University Human Research Ethics Committee, registration number SOM2012003

If you have any queries regarding the survey process or experience any technical difficulties, please contact myself on mobile +61 4219 219 459 or by email to [tysun.chan@postgrad.curtin.edu.au](mailto:tysun.chan@postgrad.curtin.edu.au)

Should you have any ethical concerns regarding this survey these can be addressed by contacting the Human Research Ethics Committee, telephone number +61 8 9266 2784 or by email to [hrec@curtin.edu.au](mailto:hrec@curtin.edu.au)

Thank you for your assistance with this research.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tysun Chan', with a long horizontal flourish extending to the right.

Tysun Chan  
Masters Research Student  
School of Marketing  
Curtin University

## APPENDIX C

### QUESTIONNAIRE

The following questionnaire has been created as part of a Curtin University study into doing business with China.

We appreciate your participation and your responses are entirely confidential. No results will be reported which will identify individuals or organisations. There are no right or wrong answers, so please respond to the statements as you truly feel.

#### Section A

The questions in this first of three sections will take approximately three minutes to answer

**A1.** Has your organisation provided services to the Mainland Chinese market in the past 12 months?

For the purposes of this survey China refers to the People's Republic of China excluding Hong Kong and Taiwan

- Yes
- No

<If No is selected, then skip to end of questionnaire>

**A1b.** How long has your organisation provided services to China?

- Less than 1 year
- 1-2 years
- 3-5 years
- More than 5 years

**A2.** How many years has your organisation been in business in Australia?

< Drop down box choices are the following

- Less than a year
- 1-2
- 3-4
- 5 - 9
- 10 - 14
- 15 - 19
- 20 or more >

**A3.** How many employees work at your organisation?

(Full time employees)

	1-4	5-19	20-99	100-199	200 or more	None
In Australia?	<input type="radio"/>					
In China?	<input type="radio"/>					

**A4.** What percentage of the staff engaged with China at your organisation speak Mandarin?

- None
- 1 - 10%
- 11 - 25%
- 26 - 50%
- Over 50%

**A5.** In which industry does your organisation primarily operate when engaging China?

< Drop down box choices are the following

- Agriculture, forestry and fishing
- Resources/Mining

- Manufacturing
- Electricity, gas, water and waste services
- Construction
- Wholesale trade
- Retail trade
- Accommodation and food services
- Transport, postal and warehousing
- Information media and telecommunications
- Financial and insurance services
- Rental, hiring and real estate services
- Professional, scientific and technical services
- Administrative and support services
- Public administration and safety
- Education and training
- Health care and social assistance
- Arts and recreation services
- Other services >

## **Section B**

The questions in this second of three sections will take approximately ten minutes to answer. Please indicate the extent to which you agree or disagree with each of the following statements.

Please rate each statement as 1= strongly disagree and 7 = strongly agree

**B1.** For engagements between your organisation and China:

	1	2	3	4	5	6	7
a. our senior management has personal relationships with important people (GR1)							
b. our company has learned skills and competencies on how to operate in China through interactions with Chinese companies (UC1)							
c. customers' preferences do not change substantially over time (reverse) (EC1)							
d. our senior management associates with customers outside business meetings (RIC1)							
e. our senior management cannot obtain valuable and important information (reverse) (GR2)							
f. there are too many similar services in the market; it is very difficult to differentiate our brand (EC2)							
g. our senior management initiates personal contact with existing customers (RIC7)							
h. our company has knowledge in establishing marketing and distribution networks (UC9)							
i. our senior management is able to obtain resources like land and electricity from local authorities (GR4)							
j. our people responsible for sales are able to sell products / services with higher profit margins (SE1)							

**B2.** For engagements between your organisation and China:

	1	2	3	4	5	6	7
a. our company has expertise collaborating with Chinese partner(s) in our engagements (UC2)							
b. our senior management is able to obtain government approvals (GR3)							
c. our people responsible for sales are able to generate a high dollar amount of sales in their territories (SE2)							
d. the market is too competitive; price wars often occur (EC3)							
e. our company has knowledge of setting up a management system for our Chinese engagements (UC3)							
f. our company has knowledge in adapting technology to local Chinese conditions (UC8)							
g. our company uses business meetings as an arena where our management can develop							

relationships with customers (RIC8)							
h. our people responsible for sales cannot identify and sell to major accounts / customers in their territories (reverse) (SE6)							
i. our management increases the speed and influence on the various steps in the decision process of our customers (RIC6)							
j. our company has know how in building up business connections (guanxi) in China (UC7)							
k. our company has knowledge of the Chinese business environment, e.g., tax system, labor policy, etc. (UC5)							

**B3. For engagements between your organisation and China:**

	1	2	3	4	5	6	7
a. our management is able to obtain financing or attract investors (GR5)							
b. we are in a business with very aggressive competitors (EC4)							
c. our senior management initiates relationships with suppliers (RIC3)							
d. our people responsible for sales cannot quickly generate sales of new company products / services (reverse) (SE3)							
e. our senior management meets decision-makers which are normally difficult to get a hold of (RIC4)							
f. our people responsible for sales are able to produce a high market share for the company in their territories (SE4)							
g. our company has knowledge in dealing with Chinese government bodies (UC6)							
h. our people responsible for sales are able to exceed the sales targets and objectives that are assigned to them (SE5)							
i. our senior management can establish relationships with potential customers who are otherwise difficult to access (RIC2)							
j. our company has knowledge of overseeing operations in Asia (UC4)							
k. our senior management participates in servicing existing customers (RIC5)							

**Section C - Demographics**

This is the final section and will take approximately two minutes to answer

**C1. What category BEST describes your job?**

- Director/Manager/Supervisor
- Professional (salaried non-mgt. business & technical)
- Technical (hourly)
- Sales/Business Development Representative
- Administrative Support
- Group Leader
- Customer Service
- Other

If other please specify \_\_\_\_\_

**C2.** How long have you worked in your current position?

- Less than 6 months
- 6 months - 1 year
- 1-2 years
- 3-5 years
- More than 5 years

**C3.** What is your age?

<Drop down box choices are the following

- 15 – 19
- 20 – 24
- 25 – 29
- 30 – 34
- 35 – 39
- 40 – 44
- 45 – 49
- 50 – 54

- 55 – 59
- 60 – 64
- 65 and over >

**C4.** What is your gender?

- Male
- Female

**C5.** Is there anything else you'd like to add about your experiences in China

Thank you for your participation