



## Importance of Guanxi in Chinese Apparel New Venture Success: Mixed Method Approach

Li Zhao and Jung Ha-Brookshire, University of Missouri, USA

Keywords: New Ventures, Guanxi, Success

The Chinese apparel industry has been in a growth phase since the late 1970s, when an economic open-door policy was launched. In recent years, it has developed at an accelerating speed. Most companies in the Chinese apparel industry are new ventures (companies established fewer than five years ago), playing an important role in both promoting economic development and maintaining social order (Feng, 2008). More importantly, it is found that firms' external networks, called "guanxi," are critical for new venture success in China, as "knowing the right people" is a key (Zhuang, Xi & Tsang, 2003). Although guanxi is often said to be the source of sustained competitive advantage for most Chinese businesses, there is (a) little theoretical basis for this view in entrepreneurship settings, especially for apparel new ventures, and (b) little understanding of how guanxi helps these apparel new ventures' success. To gain a deep understanding of these topics, Barney's (1991) resource-based view of the firm was used as a theoretical framework. That is, a firm's external network is considered as a unique, rare, and costly-to-copy resource by which firm is configured. This network then helps new ventures reduce business uncertainties and improve their decision-making processes.

To achieve this research goal, a mixed method research design was employed. First, in-depth interviews with open-ended questions were conducted in study 1. This qualitative method is recommended for uncovering valuable insights, experiences, and perspectives that are difficult to obtain from other research techniques (Creswell, 2012). Through purposive sampling techniques, 16 Chinese apparel companies were selected. All participants were founders and senior managers who were qualified to offer information concerning companies' experiences in the first five years of business establishment. Interviews were conducted from December 2013 to February 2014. The interview data were transcribed and analyzed for recurring themes. Second, an online survey was administrated as study 2. Online surveys are useful to target specific populations and at a time and place of the participants' convenience (Victor, 2006). Due to the difficult-to-reach population of the study subjects, the purposive sampling technique was used (Victor, 2006). Data were collected in February 2015 to March 2015. As a result, 210 usable responses were used for further data analysis. Multiple regression analyses were performed to analyze how guanxi influences new venture performance. The quality of firm network relationships was measured through the relationship quality scale developed by Lages et al. (2005), including: (a) amount of information sharing; (b) communication quality of the relationship; (c) long-term relationship orientation; (d) satisfaction with the relationship. New venture performance was measured through profitability, sales volume, market share, and productivity (Ling-yee & Ogunmokun, 2001). The survey was translated into Chinese, and all Cronbach's Alpha was .6 or above.

Three major themes emerged in study 1. Participants described three major characteristics of guanxi: (a) founders' personal networks transformed to firms' networks [12 out of 16]; (b) information sharing and communication with business partners [10 out of 16]; and (c) long-term relationships with business partners [8 out of 16]. With "founders' family members' and friends' relationships," new ventures get "preferential taxing policy," "monetary support," and other benefits. Sometimes, companies' "old and long-term partners" could help the participants by "extending payback period," "getting discounts," "acquiring administrative approvals," and "gaining preferential treatment for a good location" for new store openings. Moreover, sharing information and communications with partners assists participants' knowledge of "industry situations through first-hand information sources" or "turns of events and exclusive new trends." In study 2, the various components of overall relationship quality accounted for 21.2% of the observed variance in new venture performance. The results showed that communication quality of the relationship (standardized  $\beta=.136$ ;  $p=.1$ ), long-term relationship orientation (standardized  $\beta=.243$ ;  $p=.005$ ), and satisfaction with the relationship (standardized  $\beta=.168$ ;  $p=.05$ ) had a statistically significant positive impact on Chinese apparel new venture performance.

Overall, both the qualitative and quantitative research showed that guanxi could produce a sustained competitive advantage for Chinese apparel new ventures. Indeed, new ventures with better communication with partners could more easily predict others' plans, adapt appropriate strategies to incur lower costs, and increase business efficiency, in turn resulting in higher level performance. Both long-term relationship and satisfied partners create mutual dependence and trust, which can benefit new venture performance. Data showed that the resource-based theory of the firm is a useful theoretical framework to analyze why guanxi can be a sustained competitive advantage and critical resource for Chinese apparel new ventures. Understanding the economic values of guanxi, Chinese apparel new ventures may want to improve network relationships for greater competitive advantages. Further research opportunities could compare the use and understanding of firms' external networks between Western and Chinese apparel new ventures and how Western apparel companies take use of guanxi to benefit their business in China.

#### References

- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management*, 17(1): 99-120.
- Creswell, J. W. (2012). *Qualitative inquiry and research design: Choosing among five approaches*. Sage.
- Feng, W. (2008). Research on development of china's small and medium garment enterprises. Master's Thesis.
- Jupp, V. (2006). *The Sage dictionary of social research methods*. Sage.
- Zhuang, G., Xi, Y., & Tsang, A. S. (2010). Power, conflict, and cooperation: The impact of guanxi in Chinese marketing channels. *Industrial Marketing Management*, 39(1), 137-149.
- Ling-yee, L., & Ogunmokun, G. O. (2001). The influence of interfirm relational capabilities on export advantage and performance: an empirical analysis. *International Business Review*, 10(4), 399-420.
- Lages, C., Lages, C. R., & Lages, L. F. (2005). The RELQUAL scale: a measure of relationship quality in export market ventures. *Journal of business Research*, 58(8), 1040-1048.