



Research Topic

TITLE: How does guanxi affect the value chain of Australian SMEs conducting business with China?

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A handwritten signature in black ink, appearing to be 'Amy King Wei Lee', written in a cursive style.

Signature:

Special Acknowledgement

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Participants

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Abbreviations

B2B – business to business
B2C – business to consumer
B2G – business to government
BRIC – Brazil, Russia, India, China
ChAFTA – China–Australia Free Trade Agreement
DFAT - Department of Foreign Affairs and Trade
EO – entrepreneurial orientation
GDP – gross domestic product
HRM – human resource management
HR – human resources
IT – information technology
MNCs – multinational corporations
OECD – Organisation for Economic Co-Operation and Development
SMEs – small and medium-sized enterprises
SEZs – special economic zones
IVF – in vitro fertilisation
WTO – World Trade Organisation
WHO – World Health Organisation

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Abstract

Due to China's rapid economic growth, Chinese firms have become increasingly attractive as trade partners for foreign enterprises, but understanding the Chinese way of conducting business can be an obstacle to entry into the market. The level of resources and financial capital that are available to Small and medium-sized enterprises (SMEs) are not comparable to large companies entering the Chinese market, so they must find innovative ways to break into the market. SMEs also need to be more productive than established companies with more resources and greater access. Therefore, it is important to have a good understanding of how guanxi-based strategy can be applied in a cross-border trade for improving the relationships between Australian SMEs and Chinese firms.

The rapid economic growth in China especially in modernisation have transformed the Australia's economic and strategic environment, and China grew in importance as Australia's trading and economic partner from early to mid-2000s. As a result, SMEs are strongly focused on value chain management to improve access to opportunities and remove barriers that might hinder business growth. Many published studies have ascertained that creating and maintaining good, progressive relationships between SMEs and their value chain partners are critical in producing positive outcomes of various business engagements.

The question of this research study, how does guanxi affect the value chain of Australian SMEs conducting businesses with China, aims to identify the importance of guanxi and whether it affects a company's operation in the context of Porter's (1998) value chain model. In terms of research methodology, qualitative data from various focus groups will be collected and analysed. Moreover, a review of relevant literature, including peer-review articles, guanxi-related business documents, non-professional literature and personal stories, supported by reliable empirical data from interviews and focus groups, will supplement the field study. The current study, which explores the effects of guanxi on Australian SMEs conducting business with their Chinese counterparts, will further consider the complex relationships between personal and business relationships and how they drive business success or failure in the long run.

Introduction

Asia has experienced strong and solid economic growth for the past five decades (Santasombat, 2017). Due to increased competition, Australian (SMEs) must pursue strategies that involve a broad range of product options, improved customer segmentation, expanded customised products and services, and strong brandings to differentiate from competitors (Williamson, 2006). Therefore, going global has been a serious consideration of many Australian SMEs, especially given China's exponential growth over the past few years (Australian Government, 2012). Since 2001, when China entered the World Trade Organisation (WTO), business opportunities have expanded for local and foreign companies to compete in China's massive market, fuelled by a large population and a growing middle class. However, unlike large multinationals entering China, Australian SMEs with limited resources must understand their unique challenges and develop business strategies that are innovative, efficient and agile to survive in the market.

Oum et al. (2014) describe how business strategies for foreign expansion play an essential role in entering new markets and managing the costs of a newly expanded business practice. Raymond et al. (2014) assert that a market-oriented approach will give SMEs a competitive edge and conduct a better risk management by having a good understanding of meeting their customers' expectations. Guanxi is entrenched in Chinese collectivist culture and society and how people conduct their lives (Huang et al., 2019). Understanding guanxi and its importance can help foreign companies improve their offerings and distinguish themselves from competitors. Hence, the objective of this study is find an answer to this research question: How does guanxi affect the value chain of Australian SMEs conducting business with China?

Originating from Confucianism, guanxi is defined as an interpersonal relationship that tightly connects the community at macroeconomic and microeconomic levels. Guanxi involves a string of personal connections and the types range from friendship, kinship to comradeship (Qian et al., 2016). Based on the conventional philosophy of trust, guanxi drives the formation and maintenance of personal relationships between individuals and groups of individuals. Lu (2018) asserts that establishing long-term, win-win relationships based on a high degree of trust, strong commitment and constant communication between partners could become a significant source of competitive advantage for companies. The family is the centre of guanxi's unique relationship matrix, and this may explain why family businesses are the dominant form of business in China (Luo, 2007). Guanxi works on the principles of

reciprocation such as exchange of favours, gifts, banquets and entertainments. The cultivation of mutual and reciprocal dependence, and the production of obligation and indebtedness are built on these social foundations; *xinyong* (trust), *mianzi* (face) and *renqing* (favour) (Qian et al., 2016).

From an Australian perspective, it is hard to understand *guanxi*, which has been interpreted as a sordid form of nepotism. The decision-making process is highly centralised on one person (i.e., the group's patriarch) (Yeung & Tung, 1996). *Guanxi* is complex because it is centred on a mutual commitment to respond with aid, and it involves building lasting personal relationships (Pearce & Robinson, 2000; Standifird & Marshall, 2000). Therefore, foreign managers need to develop a reputation for fostering reciprocal exchange while conducting business in China (Leung & Barnes, 2020; Nolan & Rowley, 2020). For example, a Chinese supply chain manager might buy from a given supplier because they helped the manager's child enter a prestigious university. Once this has been established, a degree of loyalty can be formed, and long-term firm performance advantages are likely to be attained (Leung & Barnes, 2020).

In Australia, the business society is governed by regulations and legislation. This is in complete contrast to China, which has relational governance (i.e., *guanxi*) that is mainly shaped by social norms. Therefore, a better understanding of *guanxi* in China is essential to ensure sustained competitive advantage among Australian companies. According to Luo et al. (2007), they state that *guanxi* has a significant influence on the management practice of foreign companies conducting businesses in China because it can improve overall efficiency, reduce operational costs and enhance corporate governance. Liu (2009) emphasises the importance of *guanxi* to succeed in China, especially for firms that come from countries with very different cultures to China's. Moreover, foreign companies who trade with Chinese firms should be aware of *guanxi* and incorporate the concept into their international expansion strategies (Andersson et al., 2006). Given that operating in China requires understanding the government structure and decision-making processes, Larum (2010) stresses the importance of creating an alliance with a reputable local business partner to navigate the complex institutional and regulatory frameworks.

Due to the rapid growth of economies worldwide, advances in technology and changes to global supply chains, there is a need to reassess the value chain to build and sustain competitive advantage. For example, a growing number of Australian manufacturers

are relocating their production facilities and manufacturing bases to China because of the low costs of materials and labour, plus the sizeable consumer markets. In addition, the entry of Australian SMEs into China has pushed China to improve the related value-chain components to meet the growing demand for implementing sustainable practices (Geng et al., 2017). Similarly, it is crucial for Australian SMEs entering China to create and maintain good, progressive relationships with their local value chain partners as they would shape the outcomes of various business engagements.

In Australia, the trust system for a business to exchange value-added benefits is impersonal and governed by robust institutional frameworks, as the trust between firms is developed through historical business transactions and exchanges. This trust-building differs from *guanxi*, which represents a special social relationship among Chinese firms. The fundamental variation between the concept of social relationships in the Western world and Eastern's relational management (*guanxi*) is that *guanxi* originates from family relationships and can be unrelated to business transactions. In other words, social relationships in Australia are commonly initiated from business operations (Preechanont & Lu, 2014). In contrast, Chinese firms typically generate business growth through *guanxi* rather than efficiency from an improved value chains and the provision of new products or services. Traditionally, the Chinese business model uses *guanxi* to share resources for survival, for example, by bringing in key personnel, raising capital and providing market information, amenities and political favours. If a manager has a good relationship with the firm's suppliers, buyers and even competitors, they can obtain highly competitive pricing for the resource and improve the cost control mechanism (Luo, 2007). The communication mode is also different. Whereas countries in the West focus on exchanging facts and information, the Chinese focus heavily on communication to enhance *guanxi*. Personal trust is encouraged in the *guanxi* network of relationships to improve firms' performance. Entrepreneurs with new ventures will usually rely on *guanxi* as it helps to avoid uncertainties and create a more secure environment.

Orr and Menzies (2012) describe *guanxi* as a powerful business tool that focuses on using relationships and connections to create opportunities for new businesses and help facilitate deals. However, developing *guanxi* takes time and may require financial investment and personal commitment (Wang et al., 2021). Liu (2009) emphasises the importance of understanding *guanxi* for international managers and owners to succeed in the Chinese market, especially when a significant cultural difference exists between the home country and China. Even though there is greater emphasis on *guanxi* in creating sustainable and

competitive advantage in Chinese business context, there is limited literature on the effects of guanxi on Australian SMEs conducting business with China. Although there is an established literature on guanxi, previous studies mainly focus on the costs and benefits for firms. Other studies have examined the networks of guanxi relationships between well-established and emerging corporate players. However, there is a small understanding of how guanxi add values or hinders the success of Australian SMEs in industries such as manufacturing and technology-related ventures.

Further research on Australian SMEs, as opposed to large corporations, is vital as they collectively significance in the Australian economy by employing 62.1% of the workforce (Australian Government, 2019). Moreover, given the opportunities arise from the China–Australia Free Trade Agreement (ChAFTA), the findings of this thesis research will be beneficial for Australian SMEs. The value proposition of this research is not only to answer the question of how guanxi affects the value chain of Australian SMEs conducting business with China but also to build a theoretical concept (a guanxi-value chain) for Australian SMEs to apply. This network approach aims to improve the relationships between activities (e.g., inbound logistics, procurements and operations) within the value chain and with external parties (e.g., suppliers and inbound logistic teams) to give firms a competitive advantage and help these Australian SMEs to fit into the unique Chinese business culture.

This research thesis contributes to the literature by highlighting the unique business approach that can be taken by Australian SMEs to conduct business with China, as Chinese firms place a high value on relationship management (guanxi). For Australian firms, understanding the Chinese business culture is almost like learning a new business language. Yeung and Tung (1996) identified a positive correlation between having strong guanxi and the long-term financial condition of a firm. Hence, Australian SMEs must realise that having the right connections (guanxi) is usually the primary determinant of business decision-making rather than the quality or price of the product or service. Also, the construction of a guanxi- Porter's (1998) value chain theoretical model, is aimed to help Australian SMEs to understand guanxi and how it can be used in the design of business strategies. It will be good for the Australian SMEs to know where and how to apply guanxi at certain levels of activities within the Porter's (1998) value chain. For example, the manager of the procurement department may gain a competitive edge if they have a better guanxi with the suppliers especially when the resources are scarce.

This thesis is structured by reviewing the literature on the relationship between Australia and China. Then, it discusses the significance of Australian SMEs to the Australian economy and how they can expand internationally despite the limited resources available to them. Next, it integrates guanxi and Porter's (1998) value chain to build a guanxi- Porter's (1998) value chain theoretical model, which aims to determine if an external relationship of the value chain is required for a project to succeed. Then, the qualitative research methodology is discussed to detail the data collection and the application of grounded theory technique in the analysis. Based on the research data collected, the analysis shows guanxi has significantly affected the sales and marketing activities. Moreover, Australian SMEs must build a pool of Chinese staff through a vast guanxi network to stay competitive. The supplier relationship also plays a significant role in the SME's success because quality resources are limited and highly competitive; good guanxi with the suppliers will mean better accessibility. The findings are discussed to highlight the relationship between guanxi and the value chain. Finally, this paper concludes by discussing the practical and theoretical applications of this research including an exploration of the limitations and future research recommendations.

Literature Review

The Importance of Australian SMEs

Australian SMEs are an important sector of the Australian economy: they generate 97.7% of total business revenue and employ approximately 62.1% of the Australian working population (Australian Government, 2019). This sector creates a substantial amount of employment and contributes to general innovation, sustainability, new knowledge-based know-how and entrepreneurship. However, due to the limited resources available to Australian SMEs, their business models focus heavily on innovative activities relating to the product, process (e.g., how to improve the value chain), organisational design and marketing (Ceylan, 2013). The Australian Government has identified the need to become a more innovative country by having a good mix of culture, networks, skills, infrastructure, funding and policy to promote innovation, and it has been advised by policy makers and lobbyists that the Australian Government should focus more on the SME sector. As a result, Australia has been responsible for some well-known innovations, such as the Black-Box, pacemakers, wi-fi, the bionic ear and in vitro fertilisation (IVF) technology (Orr et al., 2018). However, more research and development activities are needed if Australia is to become a smart economy. By definition, a smart economy is built on technological innovation, resource efficiency and

sustainability which focuses on high social welfare. Hence, an increase in government funding would create more opportunities for SMEs.

The Australian Government plays a significant role in SME business growth because it encourages competition, promotes innovation and improves overall performance. Oum et al. (2014) pointed out that government support helps SMEs overcome innovation challenges. The support should be in the form of advice, training and development and better access to information, research and finance. However, Valencia (2016) argued that the formulation of small business policies is difficult to follow a one-size-fits-all approach because the SME sector comprises many different business structures that are unique in their operations and offerings. Therefore, the SME policy space is complex, and the Australian Government needs to be mindful of the local conditions at the national and even state and territory levels (i.e., the SME ecosystem).

Mudalige et al. (2018) suggested that the government should support SME owners in building and developing both the local and foreign networks while simultaneously designing strategies to build entrepreneurial orientation with the right level of social and human capital. Zhao and Castka (2021) examined the role of government support for SMEs in improving sustainability and proposed that the Australian Government should impose rules and incentives to motivate and shape these SMEs to attain sustainable solutions. Ismail and Zakaria (2018) asserted that the financial performance of SMEs is highly dependent on the support offered by the government. For example, both Asialink Business (2011) and Lamoureux et al. (2019) described how the government's lack of support and guidance has greatly limited SMEs' growth and potential to expand. In addition, Ismail and Zakaria (2018) argued that the performance of SMEs and government support are partially correlated with internationalisation, hence there is growing importance of the Australian Government in supporting the SME sector for generating more revenue by going overseas.

Pauluzzo and Shen (2018) suggested that competition was the main driver for SMEs to enter foreign markets, as small and saturated local markets will push SMEs to look abroad because there is no room for further growth. Hence, the need to reignite the business life cycle will depend on the foreign market. These SMEs must remain competitive with those that have already expanded overseas and gained economies of scale. The possibility of expanding offshore is one of the critical business strategies many Australian SMEs consider. Hence, there is a need for management to learn more about the internationalisation process.

They need to understand all the factors required for a foreign business expansion plan and consider how to best manage the associated expansion costs (Oum et al., 2014).

These Australian SMEs' internationalisation processes rely on foreign market information and local business knowledge and how they implement them in their business strategies. The Organisation for Economic Co-operation and Development (OECD, 2007) identified four motivating factors for SMEs to go global: (1) the motivation to generate growth, (2) the motives to seek more knowledge, (3) improve the supply chain by increasing the social ties and network and (4) seeking new markets in the region. Ryu et al. (2014) described how market differentiation and local partners help SMEs set up new ventures in new markets. Further, Wang and Zhou (2008) discussed the need to understand the local business culture in their Pfizer China case study. They demonstrated the importance of a foreign business having a local business strategy due to considerable variations between the home country's and the business conditions and legal environment in China (Wang & Zhou, 2008).

Internationalisation can be a suitable expansion strategy for SMEs because it can result in growth, increased competitiveness and superior performance (Mudalige et al., 2018). Child and Hsieh (2014) noted that SME management must use their networks to form strategic internationalisation plans and implement them accordingly by combining different resources and having the capabilities to develop strategies to succeed in China. Each SME follows an internationalisation process, such as entering a foreign market in stages or combining resources and competencies and going global straight away. The development of internationalisation strategies depends primarily on the SMEs' internal resources and how they can be utilised in the foreign business ecosystem. Hence, having the capacity to 'think new' is important for differentiation in the market and should be considered in designing internationalisation strategies and resource development (Orr et al., 2018).

Similarly, Senik et al. (2014) described the need for SMEs to understand the internalisation process in emerging markets to increase companies' potential competitiveness. Mejri and Umemoto (2010) note that a key to internationalisation is the type of knowledge acquired, such as cultural knowledge (i.e., language, habits, norms, laws and behaviour), network knowledge (i.e., social and business networks) and entrepreneurial knowledge (i.e., exploring and exploiting opportunities). Ahmed (2014) also asserts that a lack of understanding of overseas markets and their operations will create obstacles to

internationalisation. Therefore, SMEs must acquire local knowledge of the target country before starting the internalisation process (Mejri & Umemoto, 2010).

China's Relationship with Australia

In 2001, China joined the WTO and its gross domestic product (GDP) grew exponentially ever since, and its economic structure has transformed significantly. As a result, the manufacturing industry's demand for building materials, power, electricity, transport and raw materials increased. Australia, a resource-rich economy, is the perfect fit for this industrialising Asian partner. Therefore, China's trade relationship with Australia has deepened in the past decade, resulting in increasing economic growth, more accessible and better trade and a more stable investment environment in both countries.

The formation of special economic zones (SEZs) was essential to China's economic growth. They provided business opportunities that led to foreign capital investment in areas such as advanced technology and equipment. In addition, by offering preferential tax and financial policies, SEZs have opened up foreign direct investment (FDI) opportunities, providing China with advanced management skills, production technology, innovative ideas, external markets and foreign exchange earnings. China has also invested heavily in the infrastructure and new technology sectors to alleviate the critical bottleneck of economic growth, stimulate efficient production and provide strong externalities for the economy (Liou, 2012).

The Chinese Government is shifting its focus from being a manufacturing powerhouse and to a position that involves innovation and quality services. The Chinese Government is developing innovations in energy and sustainable technologies, biotechnology in medical science, information technology, equipment manufacturing, and advanced industries such as the Artificial Intelligence space (Orr et al., 2018), as part of delivering its five-year plan. Some of these initiatives include setting up high-technology business zones with solid capital investment in research and development especially in key industries such as pharmaceutical and automobile manufacturing. This innovation-based economic development offers substantial benefits to Australian SMEs because the Chinese Government can develop the necessary infrastructure to support them.

Between 2005 and 2012, China was in the heavy stage of industrialisation, driven by the machinery, construction, steel, construction, and automobile sectors (Beeson & Wilson, 2015). Still, the domestic supplies of resources and energy were limited, causing a threat to its economic growth. Australia was placed strategically as the key mineral resource supplier,

a very established one given it is geographical close to China and its markets. By 2013, Australia was exporting approximately \$55bn worth of iron ore to China, accounting for 52% of the country's import needs (Beeson & Wilson, 2015). To highlight this new trading phenomenon, in 2012, the Australian Government, led by Prime Minister Julian Gillard, produced the "Australia in the Asian Century White Paper". The paper sets out a comprehensive vision for Australia to capitalise on the rising opportunities in Asia through constructive and cooperative economic linkages with the prosperous Asia (Medcalf, 2014). This white paper created a road map for Australia's future position in the Asia-Pacific region and how it should adapt to China's rising power (He & Sappideen, 2013).

Before the current trade war between Australia and China, a strong trade partnership existed, with Chinese people consuming 34% of Australia's total exports, equivalent to approximately \$116bn (Australian Government, 2018; OECD, 2018). There were also multiple close business connections established in property developments, resources, migration, education and tourism (Medcalf, 2014). In addition, Australia became one of the first developed countries to enter the historical ChAFTA in 2015. As a result, China's market has become more accessible to Australia, especially for SME exporters, providing unprecedented opportunities to acquire new customers outside the domestic markets using this ChAFTA platform. Australia is China's sixth-largest trade partner and it is China's fifth-largest provider of imported goods and the tenth biggest consumer of exported goods. Therefore, the importance of China as a trading partner to Australia cannot be underestimated.

Unfortunately, in 2018, the relationship between Australia and China started to deteriorate. There was growing concern about Chinese political influence in many vital sectors of Australia, including government, universities and the media. The situation worsened in 2020 when the Australian Government of Prime Minister Scott Morrison launched an independent international inquiry with WHO into the origins of COVID-19 in Hunan, China. In retaliation, China sanctioned selected Australian imports, such as beef, barley, lobster and coal. The OECD has warned that further deterioration will hamper Australia's economic recovery, with some experts estimating that this trade war with China would cost Australia 6% of its GDP (Ryan, 2020). Guanxi has deteriorated between Australia and China, and both governments must mend the relationship to improve business ties and the Australian economy in particular. For example, the resource industry in Australia was affected negatively by the deteriorating relationship between Australia and China. Exports of

most minerals from Australia have dropped. Coking coal, for example, has been predicted to drop from the peak of 30 megatons in 2019 to 20–22 megatons in 2022 (AFR, 2022). This will lead to a reduction in GDP, and Australia will be at risk of a recession.

China's rapid growth has provided many opportunities for Australian SMEs that are greater than they would have experienced locally. For example, the consumer market for safe and healthy agricultural products is massive in China (Orr et al., 2017). In addition, the rise of China's middle class in the past 20 years means new business opportunities have been created for foreign and local SMEs with the demand for more innovative products and better-quality services. Urban growth is another significant development for Australian and Chinese SMEs as the increasing market concentration simplifies the logistics associated with delivering goods and services to markets. Operating in an urban environment with sophisticated distribution networks is particularly important for Australian SMEs, especially if they do not understand the Chinese legal framework and local business conditions. Urbanisation will continue to increase in China over the foreseeable future. As a result, the Chinese will continue to generate demand for newer and innovative products and services. Therefore, it is logical for Australian SMEs to develop their internationalisation strategy (Orr et al., 2018).

The internationalisation operations in China may require a unique set of resources, such as a pool of human capital with international experience and local Chinese knowledge. Due to the smaller scale of many Australian SME operations, they must consider the resources available for the organisation and the opportunities in the business environment to have an acceptable level of risk. One way to reduce risk is to match resources and capabilities with the possible opportunities in the open market (Orr et al., 2018). Internationalisation requires a considerable amount more resources than domestic operations. Therefore, some SMEs with limited resources have to maximise their capabilities through innovation. They need to do more with less. They often rely on their intangible knowledge, such as intellectual property (i.e., know-how), a talented pool of human resources, good social and business networks and innovative technological resources (Orr et al., 2018).

Australian SMEs' International Expansion to China

When internationalising, most SMEs lack local resources in the foreign country, such as credibility, knowledge and the ability to interpret regulations, culture and language, social norms, trust and social relationships. For example, SMEs might have insufficient credibility to engage large local clients and win their orders, an inability to attract local talent to manage Chinese operations, limited access to equity capital and no strong social relationships (Orr et

al., 2018). These insufficiencies have created several barriers to expansion. Some of these liabilities (i.e., foreignness, smallness and newness) have had adverse effects on Australian SMEs when building their internationalisation strategies. For example, foreignness liabilities may result from the challenge of building social capital, which includes transferring resources from Australia to China. Fortunately, these gaps can be resolved using customised internationalisation strategies, such as joint venture type partnership, knowledge acquisition and increased social capital (i.e., guanxi).

Wiesner and Millett (2012) suggested that Australian SMEs' strategic thinking and actions are based on a specific framework of a well-documented business plan that aligns with a deliberate management technique. Mazzarol et al. (2014) did their research using a case study which investigated the strategies of Australian SMEs and they found strategic business planning played a vital role in advocating SMEs' success and helping them achieve their goals by coordinating their team efforts and aligning with the strategic direction. Boso et al. (2017) also argued that many factors drive market expansion, including the firm's structure, the resources available, the management capabilities and the entrepreneurial orientations. In addition, Australian SMEs need to build entrepreneurship capabilities to compete and capitalise on the inherent advantages of small-scale operations (e.g., flexibility in adapting to the rapidly changing market conditions). Further, Amir et al. (2016) identified having the right innovative mindset as the key to enabling SMEs to have consistent growth in a dynamic arena. Having the correct values and personal attitude is critical to overcoming the institutional challenges SMEs face in internationalisation. Understanding the culture and its effects on entrepreneurial motivation is essential. For example, Chinese entrepreneurs like the opportunity of personal control and financial rewards, and Western entrepreneurs prefer the use of their knowledge to create an opportunity that gain an advantage in the market. The entrepreneur's performance is influenced by their social capital and the competitive intensity of their industry. The greater the competition, the more likely these SMEs will function as entrepreneurs and take on more risks (Orr et al., 2018).

Network strategy is defined as a range of activities and objectives that help to build various relationships to enter foreign markets. Ciravegna et al. (2014) argue that creating networks and relationships with colleagues and domestic clients is essential for SMEs to enter China. Therefore, there is a need for Australian SMEs to partner with clients or other investors in the China, usually in a joint venture format. Creating these alliances will overcome a deficiency in Chinese knowledge and help manage the internationalisation

process better (Lu & Beamish, 2001). Galkina and Chetty (2015) also argue that using these joint venture approaches has helped SMEs network with other entrepreneurs or interested partners. Successful networking is crucial as it enables Australian SMEs to enter new markets whenever an emerging opportunity is identified and utilise the established network to meet their goals. This strategic approach will help to reduce institutional, financial and agency risks. For example, many Australian SMEs know little about China and its business environment. Some of these Australian SMEs depend on their local agents to help them understand the Chinese legislation and tax systems and deal with ethical situations (Orr et al., 2018).

Guanxi and international networks are beneficial as they give Australian SMEs the resources, they otherwise would not have access to, especially new foreign players. Lu and Beamish (2001) demonstrated that a solid strategy for managing internalisation is to create an alliance with local partners to close the deficiencies knowledge gap between the two cultures. Hence, guanxi is useful in this case because it can provide vital information and business advice, such as foreign market opportunities and trust referrals. Therefore, having the right set of guanxi networks can affect the capabilities of firms to engage in strategies on innovation and internalisation. Moreover, the guanxi network can help Australian SMEs to be more aware of potential opportunities and seek workable solutions to overcome many local-specific challenges in China. In truth, guanxi and business networks can help to reduce the risk of foreignness in entering the local Chinese market.

The joint venture arrangement is only a starting point as the Australian SMEs must develop and maintain a good relationship with local partners, corporate managers and government officials (Lo & Everett, 2001). As the correlation between the foreign firm's guanxi network and its performance depends on its entry mode (e.g., joint venture), country of origin, operation history and the Chinese environment. Therefore, these Australian SMEs can gain a competitive advantage by integrating guanxi in their commercial decisions. Instead of conducting business through standard contractual arms-length dealings, the Chinese business environment is about interpersonal relationships (guanxi), reflecting the second currency permeating the economic sphere. In addition, joint ventures have performed better than wholly foreign-owned firms because the guanxi-based business variables are more profound.

Australia is a major investor in China. Many Australian SMEs have emphasised the need to adopt *guanxi* (i.e., relation management) as part of their internationalisation strategy. Consequently, there is a greater need to have better understanding on the role *guanxi* in the context of Australian–Sino relationships. Due to the cultural and local Chinese market knowledge, building the *guanxi* network is not an easy task for many Australian SMEs competing with local Chinese companies. For example, Australian SMEs in China may not establish *guanxi* quickly. They will need to use various paths (e.g., joint venture arrangements) to create networks, which takes time and creates uncertainty (Orr et al., 2018).

However, Wilson and Brennan (2016) argued that even though a significant portion of Chinese managers recognise the importance of *guanxi*, the increased outward investment from China has led to concern about whether *guanxi* still matters. For example, the growing presence of Australian companies in the Chinese market has contributed to the adoption of Western business policies and practices that have, to a certain degree, diminished the influence and value of *guanxi* (Dobrucan, 2020). For Australian SMEs to expand abroad, creating networks and relationships with colleagues and domestic clients is essential (Ciravegna et al., 2014). Therefore, there is still a need to partner with clients or local investors in joint venture arrangements. Successful networking (i.e., *guanxi*) is crucial as it enables SMEs to enter new markets whenever an emerging opportunity is identified and utilise the established network to meet their goals.

Chinese managers and staff expect their Australian counterparts to understand *guanxi* and comply with its norms, values and rules. However, the adoption of *guanxi* in business relationships may be problematic due to the risks associated with the reciprocal provision of favours and gifts. Therefore, Australian companies seeking to operate in China must understand the possible connotations of creating close, interpersonal relationships with their Chinese counterparts. The networking system in the Western world is fundamentally different from *guanxi*, especially in the principles that guide its implementation. For example, *guanxi* involves situations where those in authority make decisions based on family relations rather than an objective assessment of ability (Liu, 2019). Unlike the West is more personal and involves the reciprocation of favours and acts. *Guanxi* networks can weave several Chinese businesses into a complex and intricate social and commercial web, which dictates their effectiveness by having B2B and B2G relationships (Reid, 2006).

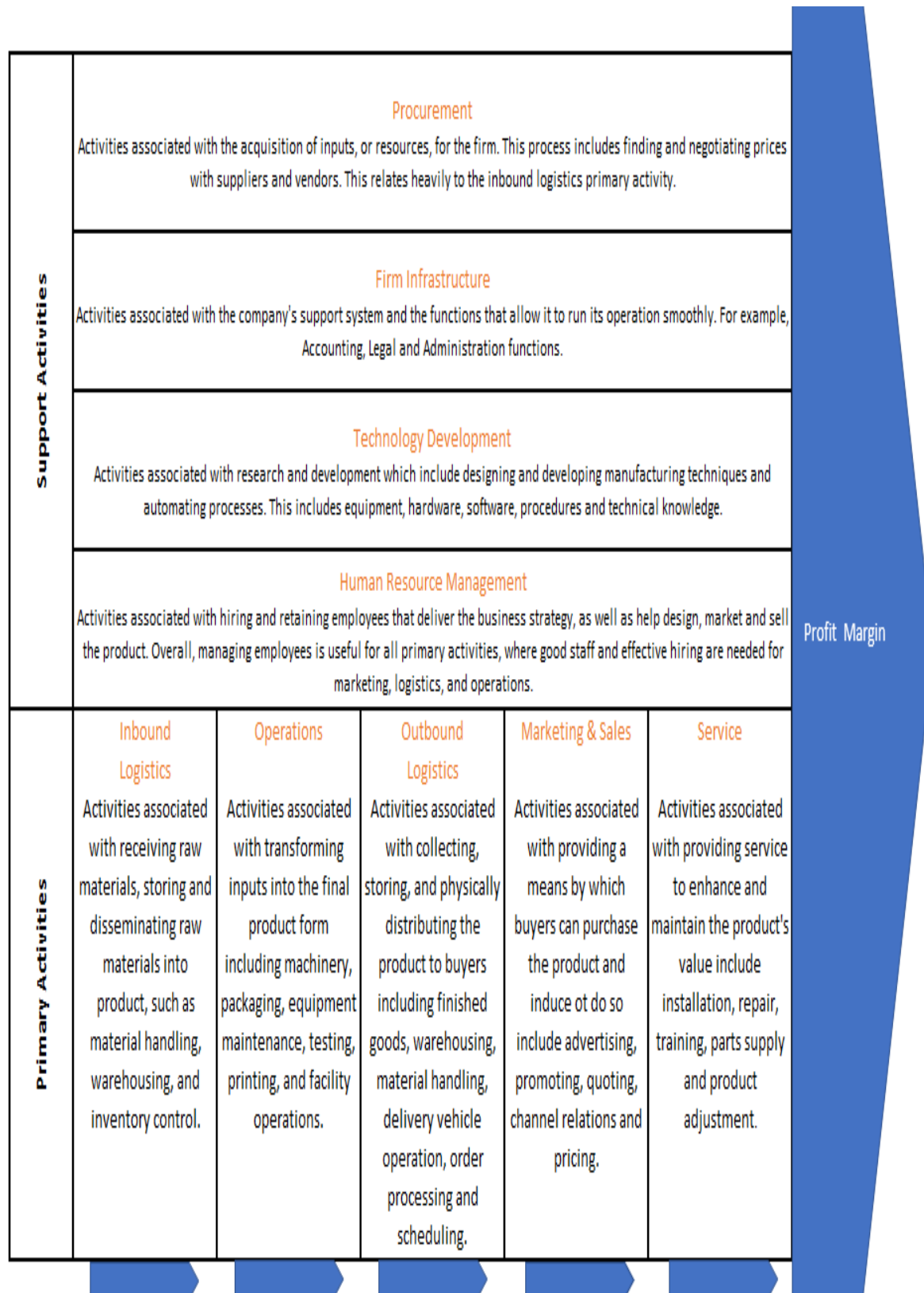
Michael Porter's Value Chain

The emergence of cross-border value chains across all sectors of the international economy will continue with the supporting business models, from fully vertically integrated corporate structures to contractual networks. To integrate with Chinese businesses, Porter's (1998) value chains will provide Australian SMEs with the opportunity to capitalise their strengths and for further business growth and expansion. Most of them have already identified areas of competitive advantage (Commonwealth of Australia, 2012). In addition, this regional value chain model drives a particular form of specialisation that Australian companies are encouraged to explore. For example, Australia's largest steelmaker, BlueScope Steel collaborated with Japan's Nippon Steel in a joint venture arrangement for the purposes of improving domestic growth, have bigger access to new Asian markets (in Indonesia, Singapore, Vietnam, Thailand, and Malaysia) and create a stronger presence in America.

The ability of a firm to understand its capabilities and how to meet customers' expectations is vital for a competitive strategy to be successful (Dilip & Rajeev, 2016). The value chain model is helpful for identifying and evaluating business opportunities in an increasingly complex business environment due to globalisation. The purpose of Michael Porter's (1998) value chain is to help companies to create value by meeting the customers' expectations after deducting the total operative costs (Walters & Lancaster, 2000). For example, profitability depends on how effectively resources are managed. Therefore the determined price a customer is paying for a product and service will exceed the relative cost of the value chain activities. Porter (1998) defines the value chain as "a systematic way of examining all activities a firm performs and how they interact, (necessary) for analysing the sources of competitive advantage". It was built on the platform that a firm's operations must not be looked at in isolation but rather as a series of design, operation, sales and marketing activities. The purpose to break down a firm's total operation into a chain of relevant activities (shown in Figure 1), is emphasis their linkages (Walters & Lancaster, 1999). As a result, cost advantage can be determined, so that differentiation can be identified. For example, a cost advantage can be achieved in a lower-cost distribution system, and differentiation might come from an innovative idea relating to product design.

Figure 1

Michael Porter's (1998) Value Chain Model



To stay competitive in the global business world, an organisation must be responsive to its customers' growing demands. Therefore, how the information is structured and the way the relationship is managed are important. For example, the design and implementation of information technology must be managed to ensure accuracy, rapid response and worldwide application. The value activities in Porter's (1998) model are classified into two broad areas: primary activities and support activities and the value proposition is to determine how customers values are created and delivered internally and externally. To meet the value offered to the customers, the management will formulate and evaluate the primary and support activities, and decide on their value-adding contributions. The internal perspective identifies the value drivers of the key stakeholders within the business (e.g., warehouse manager) and the activities involved in producing that value (i.e., improve the layout of the warehouse to improve the safety of the operation). Externally, the firm will determine its position in the customers' minds (Walter & Lancaster, 2000). This research thesis will focus on both primary activities, because they create the product and lead to its sale to customers, and supporting activities, such as human resources (HR), information technology (IT), firm infrastructure and procurement.

The primary purpose of using value chain analysis, as explained in Figure 1, is to systematically examine various activities of an organisation and how they interact with other organisations in relation to cost and performance. Therefore, it is essential to understand the cost drivers for these activities and how they can be reduced and to identify areas of improvement compared with competitors (Jarivala, 2015). By efficiently and effectively managing the value chain, these Australian SMEs can achieve competitive success in cost, quality, operational excellence and flexibility. This specific type of management will result in greater market share, business growth and profitability. For example, a firm can reduce its production costs and allow the sales department to lower its price as a competitive strategy used to gain more market share. In contrast, the firm may charge a premium in the market where the value chain delivers a value proposition (e.g., good quality) for which a customer is willing to pay.

There are two type of functions that control the value chain: information management and relationship management (Johnston & Lawrence, 1988). They are used to measure the effectiveness of the organisational structure as determined by the value chain and the operational efficiency. For example, information management may require coordination with upstream and downstream activities within the value chain to promote interdependencies.

Finally, the value chain's relationship management will handle the relationships amongst the key stakeholders to maximise the value creation by increasing customer expectations (e.g., using an efficient logistic management system). Furthermore, a value-adding partnership (Johnston & Lawrence, 1988) comprises a set of individual companies that work together as a team to better manage the production flow of goods and services along the entire value-added chain, as the steps in the value chain are delivered through arms-length relationships and hierarchies of shared ownership.

Integration of Guanxi and Value Chain

In response to a highly competitive global market and increased customer expectations, the managers use value chain analysis to seek a workable solution to reduce value chain costs and improve customer service (Chu et al., 2019). Therefore, organisations need to understand how the supply chain processes and then implement an operational strategy to achieve an effective and efficient flow of products and services, which ultimately add value to major stakeholders (Feng et al., 2017). The purpose of effective collaboration with upstream suppliers is to secure resources that would help build firms' capabilities. In China, Guanxi is considered a key strategy in relationship management (Chu et al., 2019). Even though it is an intangible asset, the Chinese value this asset highly because it promotes inter-firm collaboration, especially in logistics functions (i.e., supply chain management). According to Lu (2007), guanxi networks are beneficial especially in the form of information sharing and trust-based relationship building, which allow a better collaboration between suppliers and buyers.

The guanxi- Porter's (1998) value chain theoretical model integrates the tactical approach to the value chain's primary activities. The concept of guanxi and Porter's value chain framework is not new as it has been applied in strategies for many companies. However, Wang et al. (2021) discover that guanxi fuels the innovation in the supply chain and helps better integration between internal and external stakeholders (Figure 2). The results suggest that guanxi can create stakeholder values using a more innovative supply chain design, i.e., by bringing all stakeholders together and creating mutual benefits for all parties (Wang et al., 2021). Dekker (2003) described the different types of relationships within the value chain: B2B and B2G. This research focuses on all linkages, such as how the supplier's activities influence the buyer's costs and differentiation. Combining these frameworks provides management opportunities to think of the new guanxi-value chain theoretical model (Figure 3) on a much deeper level to achieve cost-effectiveness, value creation, operational

efficiency, better compliance and risk management. Strong relationships with business partners, buyers and suppliers are essential for the successful delivery of values to customers.

In a supply chain model, the primary objective of a manager is to manage, align and coordinate various resource partners (e.g., suppliers, logistics staff, etc) to create and deliver value to their customers (Wang et al., 2018). Creating value means the organisation can deliver important benefits to customers. Furthermore, the value chain evaluates the dynamics of complex linkages between various activities within an operation, where value is both created and captured among the stakeholders, such as suppliers, distributors, partners and collaborators (Zamora, 2016). Therefore, it requires monitoring the activities contributions and their relationships with each other (Zamora, 2016). Guanxi, in this context, plays an essential role for value chain partners because it can provide many benefits, such as securing scarce resources (e.g., quality supplies), bypassing the bureaucratic maze (i.e., to apply for trade licence) and obtaining key information and privilege (Fan, 2002, Wang et al., 2018).

To exercise good value chain management, Australian SMEs must be able to increase profitability by segmenting the market with differentiated product and service, increase the level of quality and be agile with channel distribution as determined by consumer demand rather than capacity utilisation (Zamora, 2016). In the context of supply chain management, Chu et al. (2019) argued that guanxi contributes to superior performance in several ways: it creates value by developing inter-firm relationships through acquiring external resources and knowledge, and it allows firms to develop innovation, which may lead to greater competitiveness and superior performance through better collaborations with customers, suppliers and partners. In addition, good guanxi helps control supply chain risks through effective supply management.

When Australian SMEs conduct business with China, it is an interpersonal and cooperative experience. However, business and personal relationships are mixed, for example, a manager's guanxi can be transferred from his relationship with a childhood friend to the corporate level when his childhood friend can supply him the key raw materials and vice versa (Feng et al., 2016). Guanxi as a relation network is the lifeblood of both the social and business communities in China. Therefore, to overcome uncertainty and achieve superior performance, many business managers utilise this social network mechanism on key stakeholders and part of the strategic design (Luo, 2007). To conduct business with China, there is an unwritten rule that business managers should build interpersonal relationship first with their counterparts, and only if successful (i.e., trust is

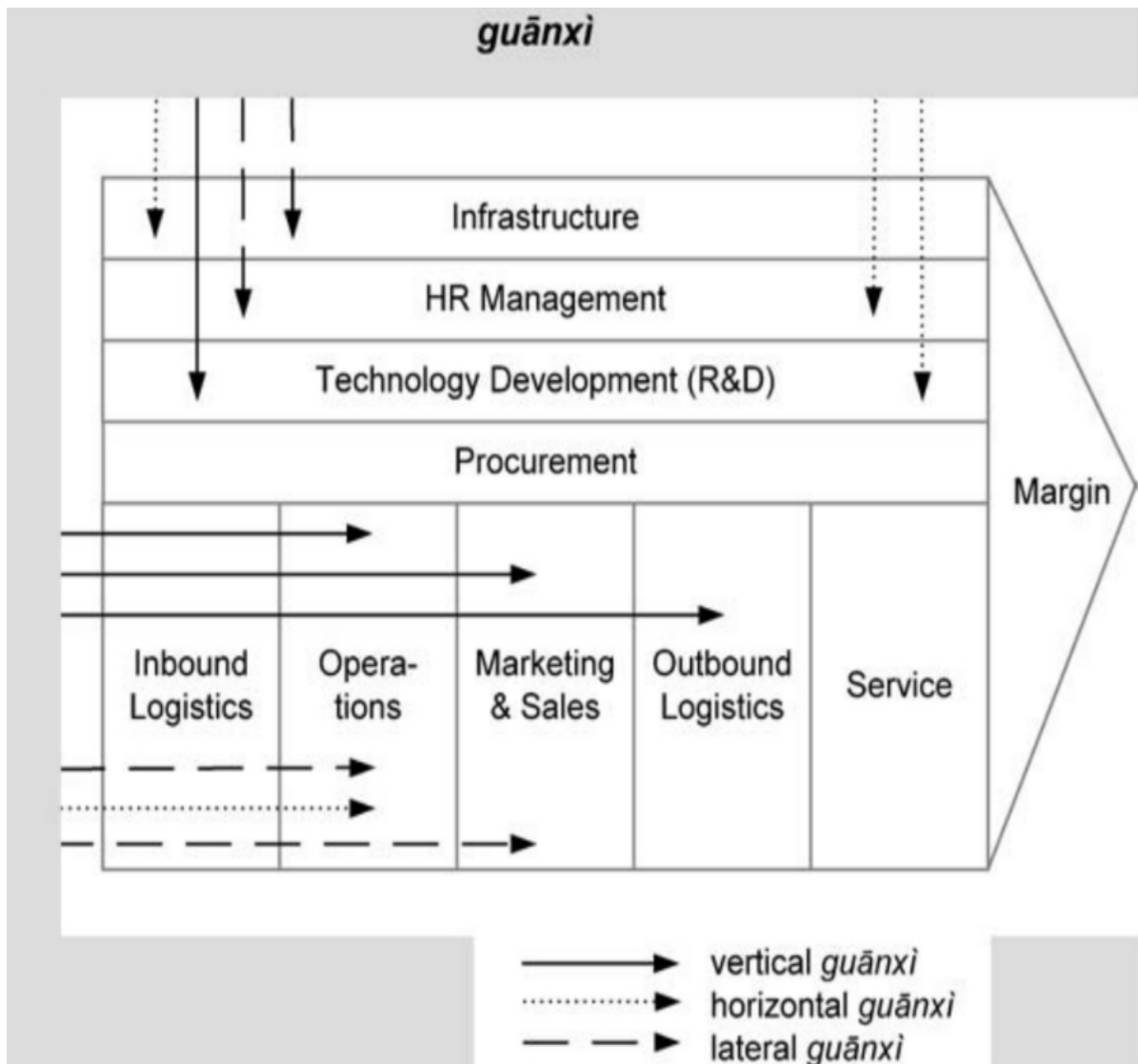
established) will commercial transactions follow. This arrangement is the opposite of Western culture, where transactions can occur before a relationship has developed (Feng et al., 2016).

Often, Guanxi is interpreted as a form of relationship marketing or utilise from this perspective as it creates strong business bonds between the value chains of a joint venture and advocates long-term relationships between key stakeholders (Leung & Wong, 2001). Moreover, it may even improve stakeholder value as trust is built between the parties involved (i.e., buyers and sellers) by using better communication, information exchange and supplier management (Lee & Humphreys, 2017). In Feng et al. (2016), guanxi is a valuable intangible asset for creating a firm's competitive advantage because managers can leverage interpersonal relationships within the guanxi networks to build an integrated supply chain. Therefore, Australian SMEs conducting businesses with China must understand how to utilise guanxi within the value chain for improving the cross-functional integration between various activities (i.e., primary and secondary activities) and the strategic cooperation with customers and suppliers.

Dyer and Singh (1998) initiated the idea of the relational view of the firms as explained in a value chain and identified four relationships with inter-firm linkups: (1) relation-specific assets, (2) knowledge-sharing routines, (3) complementary resources and capabilities and (4) effective governance. Continuing on this idea, Langenberg (2007) avers that a firm's managers and employees are members of a guanxi network, and analyses of value-creating activities must extend beyond a firm's boundary. Hence, a link between the guanxi system and business activities is established by extending Porter's (1998) view (i.e., the relational view of the firm) (Langenberg, 2007). In Figure 2, Langenberg (2007) suggested that management should use their personal relationships (vertical guanxi) with suppliers and customers, horizontal guanxi for competitors, and lateral guanxi with authorities.

Figure 2

Langenberg (2007) Guanxi-Based Value Chain



According to Langenberg's guanxi-based value chain (Figure 2), the use of vertical guanxi in the strategic design for primary functions of inbound logistics, marketing and sales, outbound logistics and after-sale services and secondary activity of procurement will increase the value when conducting business in China. Langenberg (2007) highlighted the importance of having guanxi partners in procurement and logistics. This unique relationship between management and employees will provide the firm with superior resources, reasonable prices, flexible payment terms and conditions and more helpful information. For example, having established a vertical guanxi, the raw materials that were bought from the guanxi network would be better in quality and have shorter delivery times than those of other competitors.

In addition, the business terms and conditions such as preferential prices and flexible payment arrangements can be negotiated using the existing guanxi between the involved parties (Langenberg, 2007). Further, the same study by Langerberg (2007) states that guanxi can yield good value for both inbound and outbound logistics through cost-efficient transportation and priority access to scarce infrastructure such as favourable distribution channels. For example, one of the reasons for Nokia's success in entering the Chinese market was their guanxi-enabled access to distribution channels (Langenberg, 2007). Vertical guanxi plays an important role in marketing, sales and (after-sales) services, especially in quality and pricing for market entry and penetration. In addition, many foreign companies use guanxi as a door opener to enter the Chinese market because local partners can help market entry by assisting with drafting of local sales contracts, application of trade licence and provision of distribution sales and supplies channels (Langenberg, 2007).

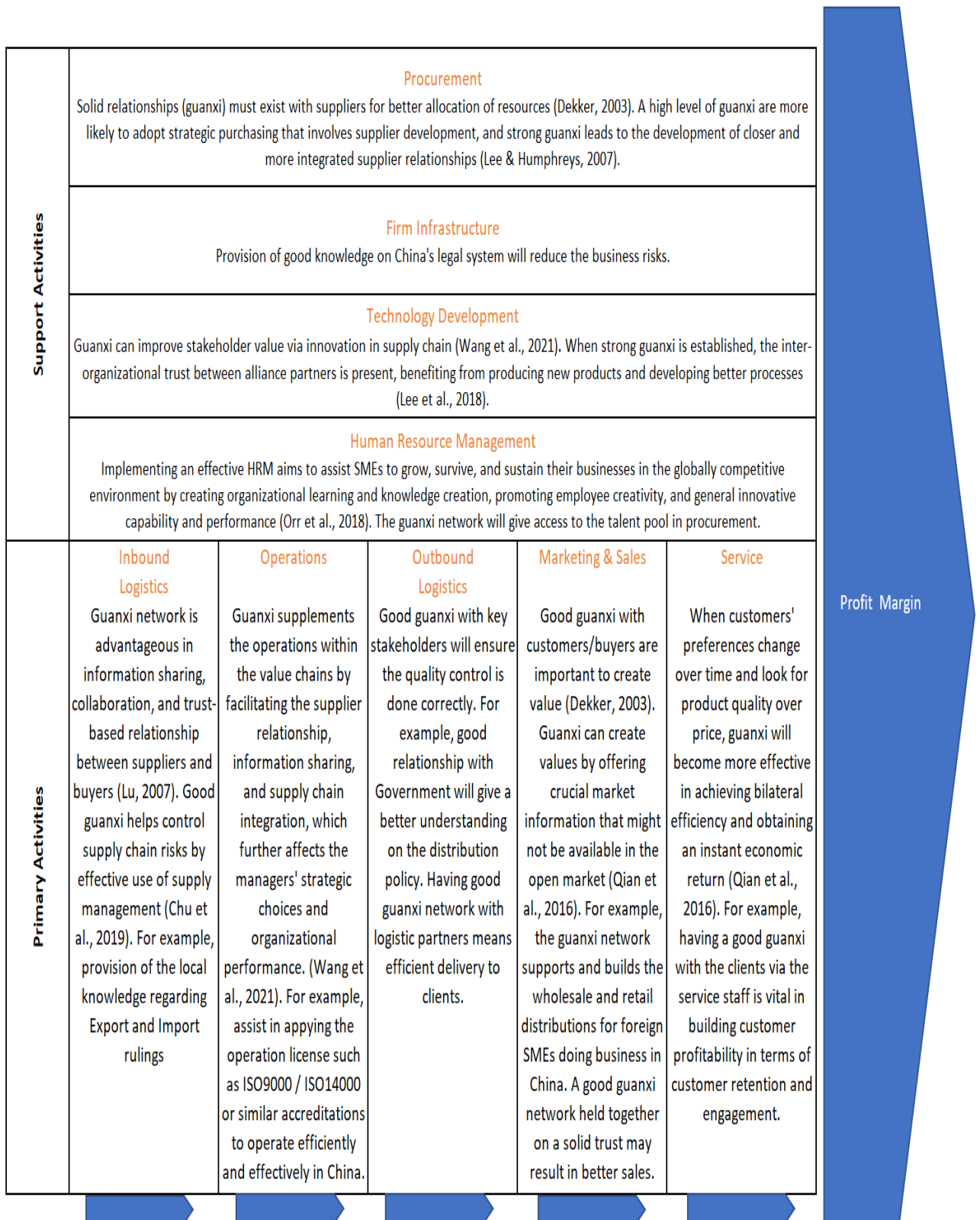
In Langenberg's (2007) guanxi-based value chain model, the use of horizontal guanxi may create values in activities such as procurement and logistics, marketing and sales, human resources and technology development (research and development). For example, employees with horizontal guanxi will be motivated to work hard because they do not want to disappoint the referrers who recommended them for the job (Lew & Chang, 2003).

In most cases, trade licences and permits are mandatory for business to operate in China. For example, the vice president of Kerry EAS Logistics stated in his speech, "to do business in one Chinese province, we need more than 17 different licenses, and nationwide we need more than 200 licenses" (Langenberg, 2007). In addition, to ease the application process, both local and foreign firms will need to use lateral guanxi to access valuable information such as changes in government policies, they must have good connections (i.e., guanxi) with the provincial government responsible for the changes. Similarly, lateral guanxi is also helpful for secondary activities, for example, obtaining finance approval from banks or negotiating on a favourable interest rate through internal support (Langenberg, 2007). Another benefit with lateral guanxi is that it can reduce the cost of technological research and development when unique relationships exist with the personnel of design institutes (Langenberg, 2007).

To further develop Langenberg's (2007) guanxi-value chain, a comprehensive theoretical guanxi- Porter's (1998) value chain model has been created (see Figure 3). Figure 3 sets out possible scenarios to illustrate guanxi's effects on the value chain to help analyse how guanxi affects all of Porter's (1998) value chain areas (i.e., the core of this thesis research).

Figure 3

Guanxi- Porter's (1998) Value Chain (Theoretical Model)



As illustrated in Figure 3, the guanxi- Porter's (1998) value chain theoretical model shows a high level of collaboration between each of the value chain partner (e.g., customers and suppliers) by sharing knowledge and resources to create a greater competitive advantage for each party. In addition, the notion of trust in guanxi will positively affects buyer-supplier partnerships and promote a positive performance in long-term relationship. For example, Lee and Humphreys (2007) discover that firms with a high level of guanxi are more likely to invest in supplier relationships as part of their purchasing strategy, and by having the guanxi network, it will lead to more integrated supplier relationships. In addition, Luo et al. (2007) assert that the relationship between guanxi and company performance is a positive one because customers and suppliers have a greater effect on operational performance and hence the company's profitability. Good guanxi can reduce uncertainty in the market, increase a firm's credible branding and placing pressures on supply chain partners to improve the quality of their products and services (Wang et al., 2018). Qian et al. (2016) in their study shows that if firms can increase their interdependence and collaborations using guanxi, both sides will benefit the efficiency in their channel relationships such as a reduction in transaction costs and enhancement in better decision-making process.

Many foreign managers believe guanxi can help to solve many business problems associated with entering and operating in China, as inter-firm relationships play a vital role in developing supply chain strategy and value creation for stakeholders (i.e., customers) in an organisation (Wang et al., 2018). Guanxi is an integral social phenomenon for establishing and maintaining favourable associations to realise market-based competence in China. Guanxi is associated with various benefits, such as forming and maintaining business networks, mobilising tangible and intangible resources and acquiring distinctive competencies or market knowledge (Lu, 2018). When strong guanxi is built, an inter-organisational trust between partners is formed, which will benefit from the production of new products and services, and the development of better processes (Lee et al., 2018). This means for Australian SMEs to conduct businesses with China, they must understand how guanxi will play a critical role in facilitating the interactions between each of the value chain partner by becoming more interdependent among the stakeholders (Wang et al., 2018).

To implement a good guanxi, it is important for both buyers and suppliers to see the benefits from the resources invested in the value chain system. These benefits include decreasing the uncertainty in demand, increasing transaction such as sales and putting pressure on firms to improve their innovative capability (Lee et al., 2018). Despite the recent institutional reform in China in

consumer product market, Gu et al. (2008) in their study confirm that guanxi still has a strong effect on the firm's branding and their sales performance. This is because guanxi can create values by offering insight information that would not be otherwise available in the open market and those that holds this insider information will have a competitive advantage (Qian et al., 2016). These initiatives motivate better collaborations and integrations between firms in new product and service development, forming an effective market creation strategy (Qian et al., 2016).

China's economic policy has shifted to an open-door policy that involves market liberalisation, legal reforms and massive infrastructural developments and they have been identified to affect guanxi for a conventional Chinese management practice (Luo, 2007). Human resource management (HRM) in China is changing as it has been influenced by Western practices and policies. As a result, more local Chinese companies are designing and building a more structured HRM practice with detailed policies on recruitment selection, training and development, compensation and performance measures (Luo, 2007). Implementing effective HRM practices can assist these SMEs to grow, survive and sustain their businesses in the globally competitive environment through organisational learning and knowledge creation, promotion of employee creativity and improvements in general innovative capability and performance (Orr et al., 2018).

This set of high-commitment HRM practices (Figure 3) will include higher pay contingent on performance, greater autonomy and the effective use of teams, more opportunities for training and development, and selective staffing focused on organisational fit. For example, suppose Australian SMEs plan to expand into China long term. In this case, there is a need to develop their workforce locally in China, not only focusing on workers' innate capability, creativity and commitment but also on their ability to venture outside, take initiative and risks, build guanxi with businesses and academic institutions and continue to learn and innovate (Orr et al., 2018) (Figure 3). Therefore, to improve the overall quality of SMEs' human and social capital, Australian SMEs must be fully committed to a specific HRM practice system to operate in the greater China region.

Finally, creating customer value is a critical goal of value chain management. It drives companies to design and offer distinctive products and services that differentiate the value chain from those of competitors. In addition, a high degree of information exchange between parties within the value chain can help improve the inter-organisational coordination as more intense the level of information is shared, the greater the gain in competitive advantages (Lee et al., 2018) (Figure 3). In most Chinese firms, guanxi supports their inter-organisational relationships, because managers will prefer to use of guanxi when dealing with operational challenges and local

competitions (Lee et al., 2018). However, the multi-faceted nature of guanxi, being a social capital, might affect value chain operations differently as long-term guanxi can eliminate the cost of establishing new business relationships (Figure 3). In addition, a stable relationship can improve productivity and increase efficiency (Wang et al., 2018). Therefore, managers must establish guanxi with all stakeholders within the value chain to create positive value and boost overall value chain performance.

The literature review provides a comprehensive analysis and overview of guanxi in Chinese society and its implications for business with Australian SMEs. The results show that the centrality of guanxi is a crucial component of Chinese society and culture, with a strong focus on the business advantages and drawbacks associated with this cultural norm. The research will also focus on examining how Australian SMEs can use guanxi relationships as the fundamental basis for attaining sustained competitive advantage, market success and increased firm and industry-level performance.

Research Methodology

Research Method

The interest in this research starts from the preliminary literature review as there was no recognised theory on guanxi-based business strategies, especially on the value chain. This study adopts an inductive qualitative approach because using objective and relevant research questions to avoid reliance on personal preference in the qualitative design is imperative to understand the core issue (Eisenhardt, 1989). The exploratory qualitative research will develop a theoretical framework that describes a guanxi-oriented value chain involving Australian SMEs conducting business with China.

The literature focuses on how guanxi is considered when foreign SMEs build a value chain analysis strategy to enter the Chinese market. As a result, a grounded theory approach was adopted. It is a suitable inductive strategy to assist in developing new theories and refining existing theories through interpretation, evaluation and critiquing of a social process under analysis (Strauss & Corbin, 1994). Similarly, Glaser (2003) argued that grounded theory plays an instrumental role in knowledge creation and application based on how it strongly emphasises multidisciplinary collaboration.

Maxwell (2005) asserted that in qualitative research, the researchers should ask how x plays a role in causing y and what the process to find the connection between x and y . Hence, substantial attention is focused on mechanisms and processes instead of the regularities in the relationships between intervening variables. This allows the qualitative approaches to better

explain the meaning of this social phenomenon. Ideally, the perspective of a participant assumes the role in describing the situations, events, actions and experiences that encompass all the 'meanings' presented in the given empirical reality. Moreover, given the relatively smaller sample of participants involved in this qualitative research, a good understanding of their distinct actions, experiences, attitudes and ideological perspectives regarding the social phenomenon can assist in grounded theory-building (Bryant & Charmaz, 2007). In addition, Creswell (2017) asserted that the flexibility and openness of grounded theory qualitative research would allow many research opportunities to modify research design to discover and analyse unexpected influences and phenomena.

For the purpose of this thesis, an exploratory approach was chosen, and the aim is to collect data to understand how guanxi affects the value chain and how that will create value for Australian SMEs. This approach aims to unpack a phenomenon that researchers know little of but would like to understand more deeply. This exploratory study focuses on the reasons to explain the why and how, enabling the researcher to gain a detailed view of the problem and help generate theoretical framework, advise on directions and provide recommendations for further research.

According to Eisenhardt (1989), the theory-building process, in many cases, can be attained by systematically examining the available literature to ensure its validity, credibility, usefulness and relevance. Although many researchers have created research mechanisms and approaches for developing theories and theoretical frameworks from relevant cases, grounded theory is often used in the process of theory-building because of its firm reliance on continuous comparison between data and information and the creation of valid theoretical constructs from a vast pool of relevant resources (Creswell, 2015). Glaser (2003) asserted that grounded theory could be a helpful methodology when responding to research questions. It is commonly applied to interventions to understand the process better.

In addition, the theory can significantly assist researchers in building a solid conceptual comprehension of distinct realities by using a selected list of inductive research engagements. Further, it is a flexible approach for identifying and implementing comprehensive qualitative data collection and analysis. In another reviewed study, Goulding (2002) clarified that grounded theory helps study interpersonal relations, individual processes and the reciprocal outcomes associated with individuals and vast social arrangements.

This application of grounded theory is in tandem with this research topic to analyse the effect of guanxi in business strategies (i.e., value chains) involving Australian SMEs and their Chinese counterparts. Guanxi relies heavily on mutual trust and reciprocal effects between individuals and entities from different organisational contexts (McCallin, 2013). Hence, grounded theory will be a useful methodological strategy for unpacking the mechanisms of guanxi. The utilisation of comparative literature analysis assists in verifying the theory that emerged from research findings and creates a meaningful connection to the prevailing empirical and conceptual evidence. The position of guanxi as a significant cultural variable in today's globalised world indicates that this factor can be adapted to varying social meanings in different contexts. Therefore, an exploratory study on guanxi will focus more on the distinct, flexible and dynamic processes that define the establishment and maintenance of personal and business relationships. Further, given the open-ended and flexible nature of the exploratory research design, it will extend and defend credible theories that are not only derived from available literature but also remain highly relevant and helpful to contemporary business management practice.

The intention of this research thesis is to identify boundary conditions of the theory for a phenomenon considered sufficiently different from the context for which existing theory has been developed in which participants have experienced the process. For this research process, the overall efficacy is based on how solid and reliable empirical data is utilised in the theory-building process and the extent to which organisational leaders study these management theories to improve performance (Bryant & Charmaz, 2007). Many scholars, including Eisenhardt (1989, 2007), emphasise the need for increased reliance on relevant, valuable and up-to-date empirical data to ensure the evolving and undeveloped sections of new theories are enhanced, critiqued and refined instead of creating a theory deduced logically from a set of assumptions. Belk (2016) suggested that grounded theory could become a practical methodological approach for working on qualitative data collected from unstructured or semi-structured interviews, participant observation, documentary sources, face-to-face interactions and other relevant academic sources. The project includes the following features:

- a focus on applying a value-chain for internationalisation of the Australian SMEs conducting business with China
- the concept of guanxi and how that affects Australian SMEs conducting business with China using value chain analysis

- the use of an inductive process and thematic analysis to identify the relationships between guanxi and the activities within the value chain to construct a new theoretical model, guanxi-value chain analysis.

Data Collection

According to Rust et al. (2017), qualitative research techniques enable the researcher to understand complicated and under-researched fields. In addition, these techniques will allow the researcher to explain the underlying issues regarding specific problems. Tuval-Mashiach (2017) contended that the technical flexibility of qualitative research is essential because, in every step of the methodology, the procedure is unique. Considering this factor, the researcher can make changes or develop their method following the impending circumstances. Hence, the data collection process needs to be transparent, as this will increase the research validation and reliability of the thesis results.

The primary purpose of this data collection method (i.e., focus group discussion) is to collect reliable and rich data for further explanation and discussion during the analytical process. Wilkinson (2004) describes the method of focus group discussion as “a way of collecting qualitative data, which – essentially – involves engaging a small number of people in an informal group discussion (or discussions), focused around a particular topic or set of issues”. The focus group approach utilises open-ended questions to trigger participants to convey their thoughts or feelings on the topics of this study, ‘How does guanxi affect the value chain for Australian SMEs conducting business with China?’ In addition, it is helpful for participants to discuss their ideas, opinions and perceptions in an interactive environment (Krueger & Casey, 2000).

Originally, the research was to be conducted using an online survey because this mode of research can obtain a large, random data sample. This approach would have ensured the analysis was relevant and comprehensible. However, the online survey company (Survey Monkey) here in Australia does not have business participants but instead focuses on individual participants. Therefore, it was hard to quantify business owners or senior management and collect the relevant data to help us learn about how they make certain business decisions in the guanxi and value chain space. Hence, the principal method of data collection was changed to a qualitative approach using discussion groups.

Given the qualitative nature of the present study, the dissertation will focus on analysing and interpreting the relationship between guanxi and business advantages in cross-

border joint ventures between Australian and Chinese companies. A comprehensive evaluation and analysis are conducted of different sets of information and data from secondary sources, including peer-reviewed academic journals, books, business surveys and other relevant scholarly materials. A review of relevant case studies is also conducted to evaluate the correlation of guanxi relationships with a competitive advantage in the operation of Australian multinational corporations in China. The narrative approach of administering the focus group discussions will be an excellent technique to transfer the unquantifiable knowledge, such as experience and business knowledge, from participants into this research. Moreover, the narrative approach helps transpose the participants' beliefs, experiences and values relating to conducting business with China into their strategies and goals.

The focus group approach is the research method of choice for this research study. This approach, which is categorised as qualitative research, asks participants open-ended questions, seeking responses that convey their thoughts, feelings and experiences on the topics of the study: 'Australia SMEs doing business with China' and 'How does guanxi affect the value chain?' (Krueger & Casey, 2000). A focus group discussion involves a moderator who asks a series of questions to provide insight into how respondents within the groups view the topics of the study.

In this study, the moderator will focus on questions on conducting business with China and the role of guanxi in their business success. As a representative sample of consumers targeted by the research, the findings from the focus group are consistent with those of the broader target market. Therefore, the moderator will pose questions that will not influence the participants to provide responses that reflect a biased view but instead offer insightful perspectives. The group discussion participants are encouraged to share and generate ideas and suggestions (Breen, 2006).

This study entails an exploratory research design featuring a structure that facilitates useful focus group discussion. This research design suits the context of the study because it applies an investigative and flexible approach to collect sufficient information that answers the research questions posed in this study (Bell et al., 2022). The qualitative research approach is appropriate because it mainly focuses on exploring and assessing the relevant topics (Novara et al., 2018). Concerning the specific research framework, the results generated from exploratory research are topic specific. As suggested by Awwad and Akrough

(2016), the experimental research design is developed based on a phenomenological paradigm involving detailed interviews and discussions with key business decision-makers.

A purposive sampling technique on non-probability sampling has been applied for this thesis research (Eisenhardt & Graebner, 2007) and focus on the researcher's judgement based on the knowledge of the population and the purpose of the study-specific characteristics of the subjects. This selection approach is consistent with Eisenhardt's (1989) recommendation that "random selection is neither necessary nor preferable". The selection criteria for the participant to join the focus group are as follows:

- 1) Business owners/senior managers must have the authority to make key business decisions.
- 2) Australian SMEs – The company size for SMEs should be fewer than 200 employees, according to the classification of the Australian Bureau of Statistics.
- 3) The chosen participants must have business connections with China and/or have experience conducting business with China.
- 4) They must understand the concepts of guanxi and the value chain and how they operate.

The sample was taken from the researcher's business and community networks (over 1,000 connections), and the selected Australian SMEs were invited to attend a focus group session (see Appendix). There were 25 business owners/key business decision-makers in total, and the sample developed was designed to capture Australian SMEs conducting business with China (see Table 1). To enforce the privacy of these participants, their personal identities were hidden to ensure anonymity. The relationship with China is a crucial criterion for this research as participants were drawn from the population of Australian firms that have a physical presence in China or have business links with China. All 25 participants in this study have worked as professional managers and key business decision-makers at different phases of the value chain in various business entities and capacities (i.e., service and manufacturing) for more than ten years. For example, Participant 1's mother started her jewellery business in China and expanded to Australia as part of her immigration process. Participant 1, who is now managing the business, acknowledged that some of her mother's guanxi relationships had been lost. Participant 1 uses social media, such as the WeChat platform, to build her network and guanxi relationships. All the participants have close personal and business ties to China. For example, Participant 4 (an immigration lawyer)

began to establish their Chinese network in primary school in the Canton Province.
Participant 5 (an architect) used a co-partnership model to conduct business with China.

There are several methods for collecting focus group data (Onwuegbuzie et al., 2009). The most common source of data collection is the actual text (i.e., what each of the participants discussed during the focus group). The data collected are from recordings of the participants from the focus groups, notes taken by the interns, and items recalled by the moderator (Krueger, 2000). For this research, the source of focus group data came from the notes taken by two university interns studying a Master of Finance at the University of New South Wales.

The research was conducted in the following format, and the information package was sent one week in advance.

Format:	Focus groups
Location:	Boardroom
Number of participants:	25 business owners/senior management/ key business decision-makers
Discussion channel:	Face to face
Duration:	60–90 minutes (The duration of the research was limited to 90 minutes, due to participants' busy schedules.)
Essential criteria:	Must have conducted business with China
Number of groups:	six groups, one moderator, two transcribers.

Table 1

Participants' Position and Business Discipline

Participant	Position	Business Discipline	Product/Service
Participant 1	Owner	Family Jewellery Business - The second-generation manager and the mother (founder) is a leading expert in fine jewellery in China.	Product
Participant 2	Owner	Property and Education	Service

		<ul style="list-style-type: none"> - A successful businessman in China in the retail, property and education industries. Currently investing in piano education in Australia and managing the Chinese business remotely. 	
Participant 3	Doctor / Owner	<p>Chinese Medicine/Café</p> <ul style="list-style-type: none"> - Chinese doctor from China but went back to open four Hong Kong-style cafes. 	Service
Participant 4	Partner	<p>Immigration Lawyer</p> <ul style="list-style-type: none"> - He built his network at a primary school in Canton Province, China. 	Service
Participant 5	Partner	<p>Architectural Firm</p> <ul style="list-style-type: none"> - An architect who came to Australia in 2012 for further study. His approach to building his channels in China was to find a partner with a network to expand the business. 	Service
Participant 6	Owner	<p>Trade (Construction supplies)</p> <ul style="list-style-type: none"> - An Australian garment manufacturer who moved to China and switched business models to distribute building supplies. 	Product
Participant 7	Owner	<p>Trade (Carpet)</p> <ul style="list-style-type: none"> - Built a partnership with a local Australian Chinese person and went to China to seek opportunities as the partner's family has a solid business in China with good connections. 	Product
Participant 8	Owner	<p>Retail (Cosmetic)</p> <ul style="list-style-type: none"> - Born in China, an Australian immigrant who wanted to be a business entrepreneur and was encouraged by friends to explore the vast opportunities in China. The entry began by working on her friend's business in China, managing several key projects in wine sales. 	Product
Participant 9	Owner	<p>Trade (Corporate Merchandise)</p> <ul style="list-style-type: none"> - An entrepreneur who started his corporate merchandising business 16 years ago and sourced the products from China as there was a demand in Australia for Chinese products. 	Product
Participant 10	CEO	<p>Capital Investment Fund</p> <ul style="list-style-type: none"> - The business was established in Australia, but the service is to help 	Service

		high-net-worth individuals in China to invest. Participant 10 built his network through friends in Australia who have relationships in China.	
Participant 11	CEO	Equity Fund <ul style="list-style-type: none"> - Participant 11 helps Chinese investors to invest in a retail complex where she manages the portfolios on their behalf. 	Service
Participant 12	Partner	Corporate Advisory Firm <ul style="list-style-type: none"> - Participant 12 was one of the first graduates from a China university in business and economics. He was elected to work in China's Guangzhou Treasury, Trade and Development office. After graduating. He joined AMP Australia and became a financial planner selling AMP financial products to his Chinese community. 	Service
Participant 13	Owner	Cherry Grower Agricultural Firm <ul style="list-style-type: none"> - The family started a cherry agriculture business in Orange and Mudgee, and their niche is exporting their produce to China using their guanxi. 	Product
Participant 14	Family Business	China Export Distributor (Light Goods) <ul style="list-style-type: none"> - The family distributes lightweight goods from China and exports them worldwide. 	Product
Participant 15	Owner	Education and Recruitment <ul style="list-style-type: none"> - Established four years ago, the business focuses on job readiness and placing students in internship and employment positions in Australia and China. The primary market is Chinese international students. 	Service
Participant 16	Owner	Education and Recruitment <ul style="list-style-type: none"> - A business partner to Participant 15, who originated from China. They have established a solid network and built relationships to help these international students find good jobs/internships in Chinese companies. 	Service
Participant 17	General Manager	Trade (Moutai Distributor) <ul style="list-style-type: none"> - A distributor of Moutai, the most famous white wine in China and an icon. Moutai's share price has grown exponentially. - Participant 17 grew up in China and came to Australia as an international 	Product

		student. Moutai Australia was his first job, and he grew with it over time.	
Participant 18	Partner	<p>Financial Services and Fund Management</p> <ul style="list-style-type: none"> - Born in Guangzhou, China, Participant 18 built his network in China before he immigrated to Australia in 2003. He joined Citibank and helped many Chinese clients to secure business investment visas. 	Service
Participant 19	Marketing Director	<p>Marketing Specialist Art and Culture</p> <ul style="list-style-type: none"> - Working for a foreign firm, Participant 19 is a marketing director in the art and culture industry. Her responsibilities include setting up processes for business and auctions in China. 	Service
Participant 20	Partner	<p>Law Firm</p> <ul style="list-style-type: none"> - The law firm began with his business partner to service the high demand for Chinese people seeking to immigrate to Australia. The initial connection is from families and friends because there is essential trust. 	Service
Participant 21	Owner	<p>Marketing and Graphic Design Firm</p> <ul style="list-style-type: none"> - A creative agency and international art dealership co-founder with offices in Paris and Guangzhou. 	Service
Participant 22	Executive	<p>Federation of Australian Canton Association</p> <ul style="list-style-type: none"> - Born in Australia, Participant 22's ancestors were from Zhongshan, China. His connections with China are from his father, who is very prominent in China's Zhongshan Province. 	Service
Participant 23	Director	<p>Funeral Services</p> <ul style="list-style-type: none"> - Participant 23 has over 15 years of experience in the industry. The end-to-end funeral service is focused on the Chinese market, such as Australian Chinese wanting to bury loved ones in China or mainland Chinese wanting to bury loved ones in Australia. 	Service
Participant 24	Consultant	<p>Consulting Firm: Australia China Council for Trade and Investment</p> <ul style="list-style-type: none"> - This start-up organisation has established relationships with partners with strong government and commercial connections in China. 	Service

Participant 25	Owner	Exporting of Australian Tea to China - A start-up business vision to promote Australian-made tea that encouraged a generally healthy lifestyle. The mission is to source Australian sustainable products and sell them to the Chinese market.	Product
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Focus Group Procedures

The schedule of the focus group interview was conducted as per the outline listed below. The researcher explored a range of possibilities by listening to participants' stories, views, ideas and business journeys. These procedures were conducted via face-to-face meetings, taking notes to capture all necessary data:

- A. Welcome and introduction – to welcome the group and introduce the researcher/moderator. The moderator then explain the discussion format and the sequence of the topics to be discussed.
- B. An overview of the researched topic(s) – How does guanxi affect the value chain of Australian SMEs conducting business with China?
- C. Statement of the ground rules for the focus group and give assurance of confidentiality (for ethical considerations).
- D. Obtainment of background information (gender, age, etc.).

Unstructured interviews were performed to explore the real-life experiences of the guanxi phenomenon from the participants' viewpoints using constant comparison. The central question (i.e., the researched topic) opened the discussion forum with the participants. A range of possibilities was explored by listening to their stories, views, ideas and discussion of their business journeys. The following supporting questions were asked to set boundaries and ensure the original research framework was in place to validate this research:

1. What is your Australian business journey with China?
2. How did you build a relationship with China?
3. What is your definition of guanxi in the context of doing business with China?
4. How vital is guanxi to the success of the business?
5. Does having the right guanxi enhance the values created for your company when doing business with China?
6. Where does your guanxi create values about Michael Porter's value chain framework?

The moderator must understand her responsibility when facilitating the discussion, techniques used include prompting members to speak with suggestive questions listed above, requesting overly talkative members to let others talk, and encouraging all participants to contribute (Onwuegbuzie et al., 2009). During the discussion, the moderator will focus on probing the participants to talk about their experiences by asking them to share and compare experiences and initiate a debate on whether they agree or disagree with each other (Breen, 2006). In addition, it is important that the moderator does not have an interviewer bias (Griffin et al., 2013).

The final stage of the group discussion involved actively engaging the group members in the critical research questions they were required to answer. Therefore, effective time management was necessary for the entire process. There had to be enough time allocated for the essential questions segment to avoid the possibility of exciting discussions getting out of hand.

Advantages of Focus Groups

Focus groups are efficient and economical for conducting empirical research (Krueger & Casey, 2000). The environment is a face-to-face meeting. It is socially oriented (Krueger, 2000), facilitates spontaneous responses and yields more essential data (Morgan, 1988). The moderator should create a sense of belonging for better engagements from the participants so they can be more cohesiveness (Peters, 1993) and open with their opinions (Vaughn et al., 1996).

The advantages of using a focus group is that the outcome and results are insightful, and the feedback is more open and unpredictable. In contrast to the comparable results for a quantified research method, the group members can freely express clear ideas and share feelings found in a quantified survey or paper test. The open conversation among group members on various topics is free-flowing, and sound debate can proceed with good ideas exchanged. In addition, the focus group provides a social environment in which participants can articulate their attitudes and opinions more freely, which allows the researcher to have a better understanding in any new phenomenons or insights.

Disadvantages of Focus Groups

In using a focus group for research, there is the potential risk of ‘groupthink’. Groupthink is a concept in research that involves bringing a group of people together to talk about a subject. There is a likelihood or tendency for the dominant members to influence the more passive members’ ideas or thought patterns. Moreover, focus group participants might

be more diplomatic and reluctant to express adverse ideas in a face-to-face group discussion than in a more indirect research format such as a research survey. Other disadvantages of the focus group include cost, high levels of bias and time constraints.

There is much literature on the design of focus groups, including selecting focus group participants and conducting the focus group session. However, there is little information on how to analyse focus group data or what types of analyses would be helpful with a focus group. Wilkinson (2004) states that:

As indicated, compared with the extensive advice on how to conduct focus groups, there is relatively little in the focus group literature on how to analyse the resulting data. Data analysis sections of focus group handbooks are typically very brief. In published focus group studies, researchers often omit, or briefly gloss over, the details of exactly how they conducted their analyses.

Data Analysis

This study adopts the thematic analysis technique for analysing the data collected in the discussion. Thematic analysis is often used in analysing qualitative data in multiple fields (Terry et al., 2017). Its flexibility characterises thematic analysis, and it can be adjusted to meet the requirements of various studies, thus offering a detailed but complex account of the qualitative data (Monari et al., 2020). Additionally, thematic analysis can be used to find patterns or themes based on various participants' perspectives by identifying and highlighting the differences or similarities in their responses and generating the expected insights. Therefore, the thematic analysis method is the most suitable approach to assess the collected data.

The thematic analysis approach involves identifying patterns in data to gather insights and issues that can be used to answer the research questions. Terry et al. (2017) noted that thematic analysis techniques guide the researcher in interpreting and representing textual data. The method can be used to analyse sizeable qualitative datasets following a step-by-step approach.

The constant comparison of incidents in the data under analysis will help attain theoretical saturation where no new dimensions, properties, or variations are observed from the constant comparison of the identified data. A deductive approach is used on previous literature on guanxi and Porter's (1998) value chains and the data collected are investigated for topics or themes of interest. Based on the research data, when there are new and emergent

themes identified and developed, direct quotes from the interview are used because they best reflected the phenomenon under investigation. Finally, the research will continuously categorise and conceptualise the collected data for further examination (Creswell, 2015).

Qualitative analysis can be subjective. Therefore, a reliability check is employed before making claims about attitude prevalence to ensure objectivity. The researcher recorded data in a table (see Appendix) and updated the assessment of the results as they came through. Using a table to record the data allowed the researcher to ensure consistency in the interpretation of the results, as per the record of each individual respondent, on the progress of the research. The coding was done manually in Microsoft Word and then automatically by MAXQDA (i.e., “software program designed for computer-assisted qualitative and mixed methods data, text and multimedia analysis in academic, scientific, and business institutions”). Any discrepancies between the two coding tools were further analysed. Moreover, the utilisation of constant comparison analysis allows a comprehensive examination of various focus groups to identify emergent patterns, themes and trends (Onwuegbuzie et al., 2009). Finally, conversation analysis helps conduct mixed research by examining the meanings attached to ordinary conversations (Hopper et al., 1986).

The transcripts for each focus group session were created by two university interns from the University of New South Wales. The transcripts were analysed by the researcher to identify and verify structured claims made by participants in the focus groups through corroborating data, identifying prototypical examples and adopting relevant external sources (Markee, 2000). Since multiple focus groups are conducted within the same study, the application of constant comparison will be used to analyse numerous focus groups as theoretical sampling (Onwuegbuzie et al., 2009). The researcher can then use the multiple groups to assess whether there are similar themes that emerged from one group also emerged from other groups. (Onwuegbuzie et al., 2009).

Roger and Bull (1989) defined conversation analysis as “examining the procedures used in the production of ordinary conversation”. It is recommended that coding and themes should not be done prematurely in case vital details are not lost through the analysis (Hopper et al., 1986). Next, the researcher should examine the data by identifying prototypical examples, analysing data by using external sources to strengthen the findings further. Finally, according to Seliger and Shohamy’s (1989) the data should be verified based on data

retrievability and data confirmability by supporting assertions with examples from the collected data.

Ethical Considerations and Validity Issues

The researcher sought the approval of the research topic from the Geneva Business School before the research study. Considering the importance of personal privacy associated with guanxi, a strong focus was placed on ensuring the confidentiality of sensitive information and data by entering confidential agreements with each participant. Further, the confidential nature of the research was reinforced during the discussion so that participants could feel comfortable and willing to share their opinions more freely (Saunders et al., 2003). Due to ethical preservation, confidentiality, anonymity and privacy reasons, the actual names of the firms and interviewees are not reported. Instead, a pseudonym is used to represent their business type.

The participants consented to be interviewed in the focus group during the interview sessions. In addition, the moderator was responsible for establishing confidentiality by developing mechanisms to ensure that any respondents' personal information was not revealed. The data gathered for the research has been stored securely and will be destroyed upon completion of the study. Moreover, the participants will be acknowledged for their positive contributions to the Australian SMEs sector.

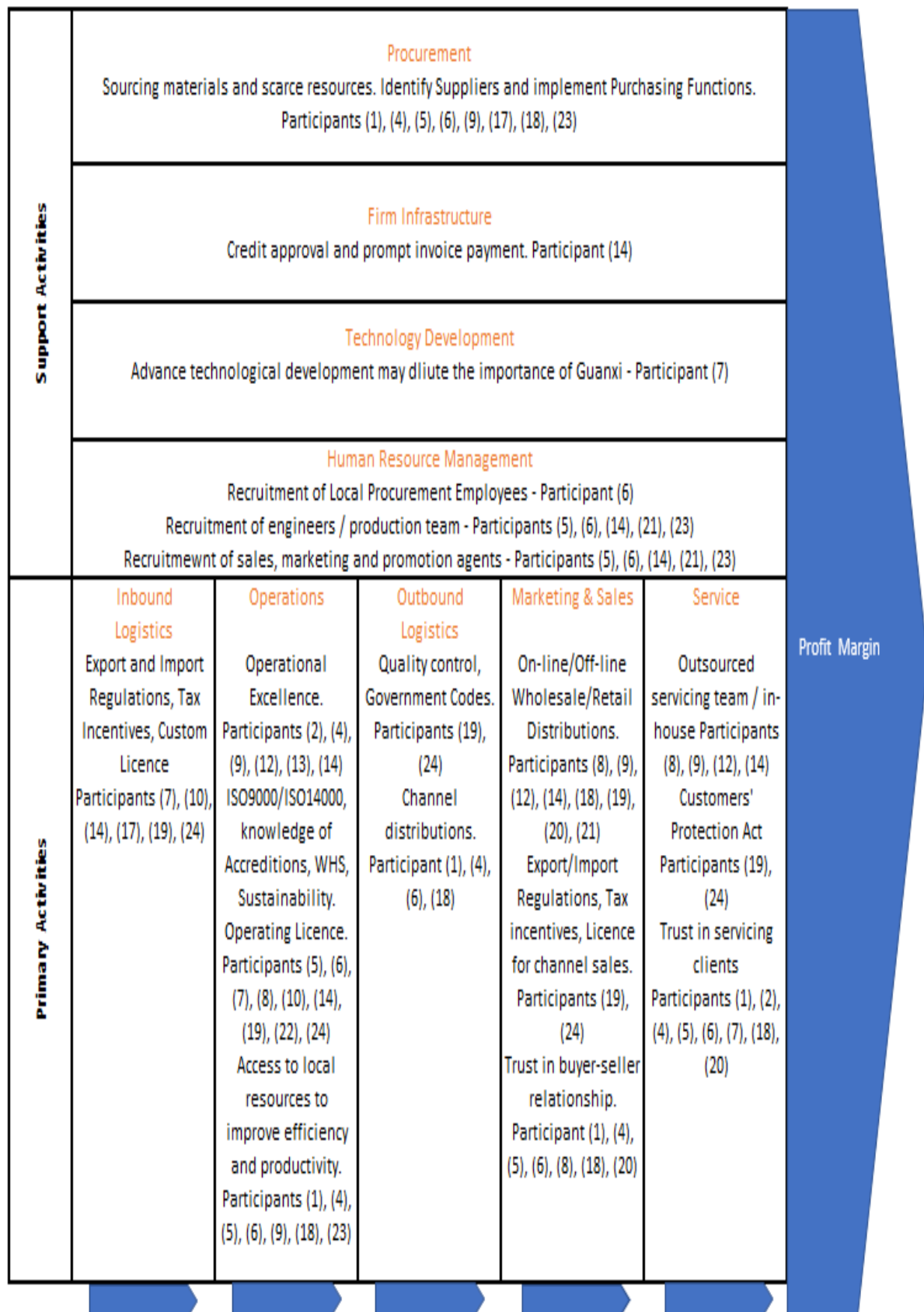
The validity of the research is essential because it is the key to improving the quality of evidence as it substantiates the research findings concerning elements such as credibility, usefulness, relevance, replicability and believability. As a distinct element of qualitative research design, it is critical to identify and respond to validity threats, such as reactivity, bias and perceptual subjectivity (Maxwell, 2005). In this study, various methods and approaches were adopted to improve the overall credibility of the findings and conclusions. On reactivity, the intention was to provide each participant with a favourable and professional environment to ensure an honest account of their guanxi experience in the business. Equally, spending an extended period of time conducting the fieldwork helped maximise the study width, richness and depth to improve the understanding of this guanxi phenomenon. For this research, the grounded methodology provided a constant comparative approach that helped with the verification and modification of the research findings based on the participants' feedback. This methodology enhances the plausibility and accuracy of the results and conclusions. Finally, a solid understanding of the threats in validity is required for the adoption of a

practical strategy and technique used to improve the validity of the study findings in a qualitative research.

Research Findings

The main objective of this research thesis is theory-building instead of providing a description and presentation of the substantive findings from the fieldwork. The core intention is to develop a systematic theoretical clarification on the evolving grounded theory model and its associated theoretical variables. Through conceptualisations and integrating empirical findings in the research, a strong focus could be placed on interpreting the strategic implementation of guanxi as a vital social process in business relations involving Australian SMEs and their Chinese counterparts. Hence, this study aims to integrate the two elements (i.e., guanxi and value chains) by modifying existing theoretical concepts (Langenburg, 2007; Porter, 1998) to illustrate the extent of guanxi's effects on Australian SMEs' value chains when conducting business with China.

Figure 4 - Guanxi- Porter's (1988) Value Chain: The Results



The value chain is an important business tool. It helps to gain insight into the organisation by analysing areas that need improvement. However, to conduct business with China, the application of guanxi is a must. As highlighted by Participant 9, outsiders need to be able to demonstrate their credentials and worthiness. In addition, having trust in business dealings is essential. It is the key to conducting business successfully in China. According to Participant 11, ‘once trust is built, more value can be added with improved efficiency and increased productivity’. Therefore, management needs to learn how to include guanxi into their value chain model, especially in procuring good resources, by fully understanding what guanxi is and its application. From an operational viewpoint, a guanxi-oriented business strategy focuses on offering solutions to the problems and mobilising core resources to pursue business success and even survival in China. In addition, the guanxi-oriented corporate approach in the Chinese business environment may prove instrumental in forming and maintaining good interpersonal relationships between different entities in a highly competitive marketplace.

The research results that were based on the participants’ responses showed that guanxi is utilised more in the areas of procurement, HRM, operations and marketing and sales than in other areas within Porter’s value chain (highlighted in green in Figure 4). This finding will help managers design a solid business strategy as the Chinese business context must be fully integrated into both competition-oriented and guanxi-oriented objectives, which involves the fundamental basis for mobilisation and use of available resources and competencies for value creation (Luo, 2007). The competition-based strategy strongly emphasises boosting market share and a better market position from a marketing standpoint. The guanxi-oriented business strategy reinforces the importance of long-term interpersonal and business relationships. Guanxi is an intangible resource capable of enabling companies, employees, customers and stakeholders to develop and maintain the leveraged bargaining power of the value chain process (Dinh & Hilmarsson, 2020).

Supporting Activity: Procurement

Implementing a guanxi-style value chain enables better allocation of resources, which leads to cost efficiency. Many participants (see Figure 4) confirmed that guanxi was critical for building a more robust supplier channel to compete for better quality resources and reduce waste from having inferior supplies. Participant 9 sums up this finding perfectly:

Guanxi is prominent in our business. Suppose we have a terrible reputation with the suppliers. They will delay the production and give wrong orders, which results in a

high fault rate. All these problems are generated due to poor guanxi, which will pressure our staff to fix the issues.

Many participants in the research acknowledged the importance of using guanxi to secure good quality resources and raw materials. A reliable supplier is highly critical. For example, Participant 17 (Moutai's distributor) said:

Guanxi with the Moutai supplies in China is super important than sales relationship with Australian retail channels. I need reliable supply as a distributor, especially when quantity is limited. I fly back to China regularly to keep good guanxi with the Moutai's manufacturer, built 15 years ago when it was a small manufacturer. The relationship is tightly established because we started the journey together and have helped each other grow.... Moutai has such a strong branding that the demand outweighs the supply.

It is essential to have a good network of suppliers. Having a good relationship with suppliers means companies can source the right resources and eliminate possible operational errors. A good procurement manager with established guanxi can negotiate lower prices with suppliers and often will direct towards enhanced quality (with no cost increase) that adds to end-user value satisfaction (Walters & Lancaster, 2000). For example:

Guanxi is prominent in our business. Suppose we have a terrible reputation with the suppliers. They will delay the production and give wrong orders, which results in a high fault rate. All these problems are generated due to poor guanxi, which will pressure our staff resources to fix the issues. – (Participant 9)

If there is a tight deadline and needs the goods immediately, having good guanxi will be helpful to solve the problem. – (Participant 9)

Guanxi plays a significant role in getting invoices paid. For example, I would promptly pay you to deliver the goods on time and acceptable quality. Otherwise, I would hold the payment. Hence, a good relationship with a track record is significant. – (Participant 14)

Supporting Activity: Firm Infrastructure

Some Chinese laws are complex and vague. Usually, local firms will employ guanxi to fill the gap. Guanxi may offer a mechanism to attain bureaucratic efficiency in the contemporary organisational setting (Geng et al., 2017). The implementation of a guanxi-based management system in the value chain is primarily shaped by the understanding that

guanxi might be used as a supplement to the existing business strategy when businesses are operating in a transitional economy and where institutional legitimacy and creditability appear to be weak and compromised (Chua, 2012; Geng et al., 2017). For example:

Based on the business structure in China, guanxi is a contract and supporting document when there is no presence or not enough professional currency. – (Participant 5)

The credit policy in China is weak. Many foreign firms rely heavily on guanxi to collect debt. According to Luo (2007), guanxi is particularly important in salesforce marketing and credit policy, specifically business determinants. For example:

Debt collection is an issue, but the guanxi approach accesses the value-added potential by working with the clients on their terms, and guanxi is vital for debt collection. It would be best to have guanxi to make sales with the client. You must also build a secure relationship with their payments as soon as nine to 12 months old. – (Participants 6 and 8)

Supporting Activity: Technological Development

Technology development will weaken the dependence on guanxi, especially when China enters the age of artificial intelligence. Only one participant made an observation about guanxi and technological development:

People will die, but technology will continue for centuries to come. COVID-19 has changed the way we live, propelled by advanced technology. Also, due to the advanced development in education, the structure has shifted from people's subjective assessment to what the numbers are saying, which is objective. – (Participant 7)

Supporting Activity: Human Resource Management

In their research, Nolan and Rowley (2020) noted that a guanxi strategy is the development of own personal networks by managers to gain a competitive advantage. It might involve planning and allocating guanxi investment (i.e., time, money and personnel) to cultivate relationships and guanxi practice (i.e., using connections to achieve organisational goals). This finding is confirmed by Leung and Barnes (2020), as the strategic integration of guanxi in the competition-oriented business strategy may form a meaningful starting point for both Australian and Chinese managers to evaluate the advantages in the global value chain. This guanxi orientation includes knowledge management and information exchanges, trust-

building, substitutes for an inadequate legal framework, increased access to funding and financial support, improved value chain relationships and fostered mutual collaboration and partnerships (Lu, 2018). For example:

Unlike the Western practice on clients seeking accreditation and professional capability when written contracts are highly developed and governed, the Chinese clients will look for those they know and trust. – (Participant 5)

Guanxi happens at all levels, and we must build relationships at the top, middle and lower levels. Unlike Australia, which is more straightforward, we follow the procedures and their required steps in the deal-making process. – (Participant 18)

Guanxi is used to assess the quality of my business clients and associates. Starting with trust and understanding, then we progress the business dealings by building a stronger relationship. – (Participant 18)

Guanxi is an essential element in the operational aspect of the value chain. Therefore, we need good collaboration with the funeral director to do their parts (i.e., funeral service) and do our parts (i.e., transportation and burial). – (Participant 23)

Having local knowledge is essential for conducting business with China. Firms need the guanxi network to source suitable suppliers and build a customer base. In addition, running the operation smoothly using local talent and skilled workers will contribute to the business's success. Further, rapid customer response requires strong supply chain and logistic capability knowledge. If sales staff do not know what is coming down the pipeline from the supplier, they cannot react quickly enough. Often, guanxi is viewed as long-term cooperation among exchange partners that contributes to organisation efficiency and sustained competitive advantage (Wang et al., 2018). Guanxi can be a fundamental driver in creating customer value and increasing employees' commitment. For example:

Guanxi falls on the staff and the personal relationships they have to bring to the business. The value in guanxi is boundless and unlimited. The value chain and its efficiency, size, operational excellence are irrelevant. The staffs are the real asset and the personal relationships that they can bring to the business. – (Participant 6)

Firms with established guanxi relationships trust one another, and with shared goals, they experience more success. Guanxi is positively and significantly related to overall performance (Ngoma, 2016). For example:

We have partners on the ground to ensure the operation is smooth. Guanxi is built on products and qualities, as the clients follow the artists and designers. – (Participant 21)

In China, guanxi starts with family relationships, which are cultivated over time (Kambil et al., 2006). Therefore, when hiring staff for procurement, operations, marketing and sales and service, foreign firms rely on the guanxi network to access the local talent pool. For example:

In China, family structure is still the foundation of many manufacturing businesses, and it is hard to be employed if there is no relationship with the family. Also, guanxi is used to retain staff as the monetary incentive is not enough. – (Participant 14)

Primary Activity: Inbound Logistics

A business might need a particular licence to trade and operate smoothly. Applying for a licence to trade in China is more complex than filling out a form, as would typically be done in the Western world. Therefore, there is a need to connect with government officials and seek local knowledge to understand the legal system. Firms willing to recognise and embrace the importance of the guanxi network should see transaction cost advantages unattainable by those who fail to develop such networks (Standifird & Marshall, 2000). For example:

Guanxi is critical because trade and auction licences are required from the local and national governments to operate in China. Therefore, there is a need to have an excellent legal understanding and strong leadership from the chairman who knows the right people to talk to. – (Participant 19)

We need someone to connect with the local government and then progress to the national government. – (Participant 19)

We need guanxi to see the high-ranking officials. – (Participant 22)

Primary Activity: Operations

Using the guanxi-value chain matrix and the results from the research, guanxi is found to play a more critical role in operations. It is about creditability and having a deliverable track record that can add value and build trust (Participant 13). Therefore, management must know-how to achieve operational excellence to build the required credentials that add value to the clients and key stakeholders. For example, obtaining the correct licence to trade successfully and having the related accreditations (ISO9000/ISO14000) is paramount to

establishing operations in China. This is where guanxi can be utilised, as more trust is built based on deliverable track records to achieve operational excellence.

Looking at the guanxi-value chain result (Figure 4), many participants agreed that guanxi plays a significant role in determining their firm's level of operational excellence. Companies operating in the Chinese market are confronted with transitional economic movements and guanxi dynamics. Therefore, it is integral for Australian companies to focus on this social dynamic and leverage their competitiveness along the different stages of the value chain. According to Zhang et al. (2021), guanxi should not be treated as an isolated strategic component from the resource-based perspective but instead holds the inherent power to generate superior operational performance. In addition, Chua (2021) asserted that guanxi assists companies conducting business in China run smoothly in a complex, uncertain and rapidly changing business environment. For example:

Once trust is built, more value can be added with improved efficiency and increased productivity. – (Participant 11)

Guanxi is about creditability and track record, and we must add value and build trust. – (Participant 13)

If we consistently have low fault rates, we will become more reputable and competitive. ... China is not the cheapest nation for manufacturing, but it is the best quality and process. Other countries cannot provide the infrastructure and protection as the manufacturing environment is more sophisticated and focuses heavily on ESG [environment social governance]. – (Participant 9)

The competition in China is highly fierce. Therefore, we must use guanxi to fight for the resources to get the best and most popular products. – (Participant 14)

Debt collection is an issue, but the approach is to access the value-added potential by working with the clients on their terms. – (Participant 8)

Guanxi plays an immense role in helping to collect debts. However, even though there is a legal contract with a proper review, the payment will never be on time with many excuses. Hence, it would be best if I had guanxi to speed up the process and iron out the credit issues. – (Participant 14)

Primary Activity: Outbound Logistics

There is less emphasis on guanxi in relation to outbound logistics. Few participants mentioned the need to use guanxi for logistic arrangements, recruiting distribution agents, quality control and channel distribution. The reason may be that guanxi will not add value to this part of the value chain due to the solid technical requirements in outbound logistics.

Participant 6 sums up the irrelevant of value chain by saying:

Personal relationship! The value in guanxi is boundless and unlimited. The value chain and its efficiency, size, operational excellence is irrelevant. The staffs are the real asset and the personal relationships they can bring to the business. – (Participant 6)

Primary Activity: Marketing and Sales

China is the land of business opportunities driven by the rise of middle-class consumers and the decentralisation of government policies. Therefore, there is growing demand for many foreign companies to sell their products and services in China, which creates a marketing demand for advertising firms, such as that of Participant 21. In addition, Participant 3 discussed the many promising business opportunities in China, being such a big market. Participant 6 agreed and said:

China is a very established market that is accessible. – (Participant 6)

Participant 7 framed this ample opportunity very nicely by saying:

The market is huge, just by looking at the population. There are 1.4 billion people in China; if each person buys \$1 sweet from me, I will get \$1.4bn already. – (Participant 7)

The luxury market in China is also booming. Participant 19 discusses how rare handbags that cannot be bought in retail stores are auctioned as part of a collection.

Every participant agrees that guanxi is vital in marketing and sales, from establishing sales distribution and engaging marketing and promotion agents to understanding export sales (e.g., having a licence for channel sales). In the buyer–seller relationship, trust is the critical ingredient in guanxi. It lies at the heart of successful long-term intercultural business relationships (Chua, 2012). Participant 4 shared a similar experience:

Trust is vital in business guanxi, but the cost of trust is very high. Our immigration clients would not engage us with the law firm if they did not know Participant 4 from

our childhood days. They demand a solid foundation on someone they can trust. – (Participant 4)

For Participant 20, trust is the foundation stone of guanxi because, fundamentally, it gives the assurance that you would not take advantage of your clients. After all, they know your networks and the likelihood that you will deliver. Trust is significant as it assures clients that they will not be taken advantage of.

From an outbound logistic perspective, the focus group participants did not comment on the effects of guanxi. Instead, observations were made on marketing and sales and service. Most agreed that building trust was critical in earning the guanxi currency to attract new customers through sales and marketing and retain existing customers. The perception of guanxi by Chinese businesspeople is a social phenomenon and an integral part of the business norm that aims to secure meaningful business opportunities in the long run (Yeung & Tung, 1996). In addition, the development of guanxi networks in cross-border business transactions might assist companies in compensating for their deficiencies using solid capabilities and competencies helped by the guanxi partner (Wiegel & Bamford, 2014). For example:

The immigration clients will not engage us if they did not know our partners since childhood. They demand a solid foundation on someone they can trust. – (Participant 4)

Guanxi is vital for debt collection. Not only do you need guanxi to make sales with the client, but you must also build a secure relationship to get their payments which can be delayed one to twelve months after the issue of the invoice. – (Participant 8)

Guanxi starts from the early stages, which grow together as a close-knitted cohort, resulting in an ecosystem that is hard to break in. – (Participant 2)

Guanxi must be developed over time because you need to show credentials and worthiness. It is naturally the ultimate way of doing business in China and the key to doing successful business here in China. – (Participant 9)

There is a large growing market for Australian products and services: for example, land, migration and education. Due to these needs and the growing wealth in China, they want to invest in Australia and demand Australian goods and services. – (Participant 20)

The growing wealth of the Chinese means the luxury market in China is massive and booming, creating many business opportunities that aim to service this pool of high-net-worth individuals who want to invest in Australia for its stable economy, good lifestyle and excellent education. – (Participants 18 and 19)

Primary Activity: Service

Guanxi affects the performance of a business firm (Wang & Chen, 2018), particularly in customer relations spaces such as marketing, sales and servicing. When the focus groups discussed the accessibility of local commercial networks to build their databases, almost all agreed on the importance of using guanxi to generate their sales revenue. For example:

You must build relationships from acquaintances to friends and then to best friends and even families to get business. ... My mother is the leading expert in the industry, but she still needs guanxi to stay ahead and makes solid deals. The higher the level of trust, the relationship between buyer-seller will significantly enhance. – (Participant 1)

The heart of guanxi is in the family network. – (Participant 6)

Guanxi must be exercised in the service part of the value chain to monitor and maintain relationships. – (Participant 7)

*To enter the Chinese market, you still need guanxi built on trusting friendship.
– (Participant 8)*

We could not access the high-net-worth Chinese clients without existing guanxi and the trust building on it. – (Participant 20)

Based on the focus groups' discussion results, it is apparent that guanxi does affect the various activities within the value chain. Almost all participants recognise the importance of using this relationship concept in conducting business with China because it is part of the social fabric of Chinese society. Trust plays a significant role in building guanxi in China, and how it works depends on the different functional roles that manage the value chain. There are two perspectives on how guanxi affects the value chain:

- functional roles; that is, people that manage different parts of the value chain
- functional activities; that is, how guanxi affects the business outcome (revenue, profit and customer value).

By understanding these perspectives, guanxi will shape the organisational structure of Australian SMEs and their team dynamics, especially when both internal and external parties must work together seamlessly.

Research Findings: Summary

When considering how guanxi affects the value chain when Australian SMEs conduct business with China, one can also look at guanxi as a multiple discipline rather than a singular act. For example, to enter a new market in China, Australian SMEs must build relationships with influential people who can improve the existing stakeholder management. This network of guanxi must then be cultivated with ongoing resources, such as time and reciprocal favours.

The concept of guanxi networks (i.e., the multiple discipline) is important because this helps foreign companies to understand Chinese business at a broader level. For example, to penetrate the local Chinese market, an Australian SME needs to have a guanxi network to build a business to government (B2G) channel to gain entry because there are multiple layers in the Chinese regional government. Pan and Wong (2008) demonstrated that when foreign enterprises adopt a wholly foreign-owned entry model, they will prefer to focus less on B2B and B2G guanxi network relationships.

Relationship marketing, such as guanxi in China, affirms that Australian SMEs should aim for a mutually beneficial relationship with Chinese entities in the business environment. As a result, the uncertainty in business exchanges will decrease, and customer cooperation will improve. Guanxi helps companies navigate China's complex, institution-ridden terrain (Fang et al., 2018). Being part of this network means managers reciprocate favours or exchange favours with other firms and local governments (Gu et al., 2008). The added advantages for Australian exporters and Chinese customers include the allocating a budget for capital investment of foreign expansion, diversification of business risks, better utilisation of idle operating capacities and creation of shareholder value through increased profits by creating positive customer values.

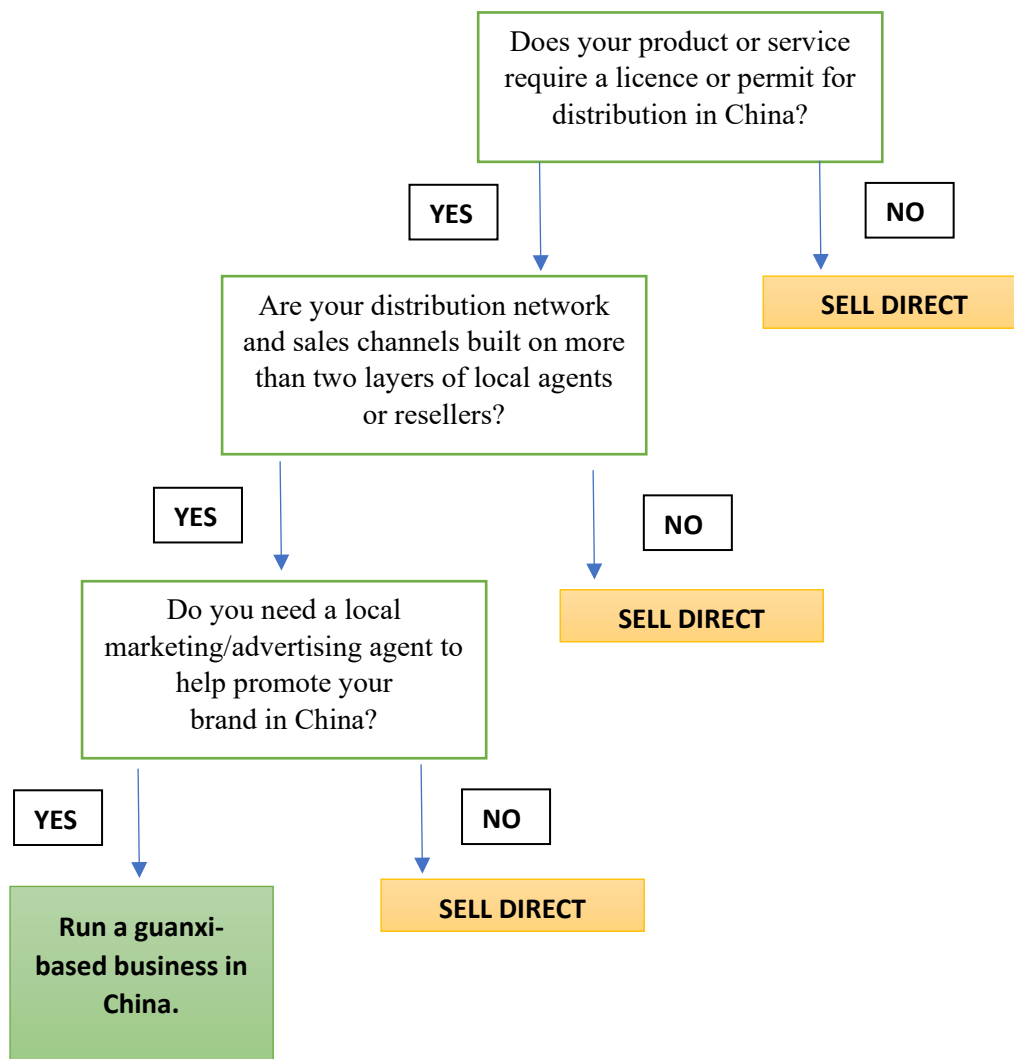
Discussion

In this study, the emphasis was on the effect that guanxi has on the value chain, as it has been identified to create value for both Western and Chinese businesses. By integrating the principles of these two business tools, the following discussion focuses on how Australian SMEs should utilise guanxi in their value chain design. To embed the Chinese culture into

each activity within the value chain, there is a need to be specific about how and where guanxi would matter most. For example, the flow chart in Figure 5 shows the application of guanxi in designing a strategy for a Chinese marketing and sales unit within an Australian SME's value chain.

Figure 5

Flowchart: Setting up Marketing and Sales Channels in China



As illustrated in the Figure 5, a sustainable supply chain requires proactive relationship management that helps develop a suitable culture and trust. However, it will not succeed if no parties buy in and commit to the concept of guanxi. To create a strong relationship between Australian SMEs (suppliers) and Chinese buyers in a supply chain network, there is a need for guanxi to be utilised because the aim is to develop proactive long-term collaborative relationships (Cox, 2004). The concept of relationship management provides a collaborative environment and a framework for all participants to meet their long-

term objectives (Cheung & Rowlinson, 2011). It requires transparency in communication so that resources and experience can be shared, as a result, the hidden risks of the project can be avoided.

The focus of the value chain is on collaboration. It emphasises the linkages between production, marketing and operational activities effectively and efficiently. It can be summarised as the simplest form of a collaborative effort. This approach is recommended because securing B2B customer relationships in the transitional Chinese economy is challenging and time-consuming, as per the previous discussion on the political, cultural, economic, technological and historical differences between Australia and China (Chan et al., 2016). For example, gift-giving and wining and dining are means of establishing and maintaining *guanxi*. However, this may be considered a form of bribery, which is illegal in China. Therefore, company guidelines must be clear so that the issue of favour is handled correctly in a Chinese context.

In reference to resource-based theory, *Guanxi* can be challenging to imitate and sustain. Therefore, it is highly prone to disruptions and influence within and outside the *guanxi* network (Atiff, 2016; Geng et al., 2017). The perception is that *guanxi* is essential for building business in China, and *guanxi* with government officials is especially important. However, there can be a lot of time-wasting, with a lot of talk and no action taken (Participant 3). Historically, China is a country of many uncertainties, where business standards and legal regulations are not fully exercised (Tsang, 1998). *Guanxi* comes from insecurity due to the history of modern China (e.g., buying meat from a friend to get a good slice is *guanxi*). The fear is the possibility of unfair treatment (i.e., bad meat), so *guanxi* reduces the risk of being ripped off (Participant 2). In addition, trust plays a vital role because it helps to facilitate a smoother and more efficient transaction and eliminate opportunistic behaviour and the associated risks of the unknown (Wong & Leung, 2001). Similarly, trust must exist between relationship management partners in the relational contracting approach. As a result, when Australian SMEs do business with China, they need good *guanxi* to implement an effective relationship management strategy. Its benefits include win-win relationships, time and cost savings, trust, motivation, risk sharing, mutual objectives, cultural understanding and open communication.

There is a cost to *guanxi*. Cultivating and sustaining this unique interpersonal relationship can be expensive, especially in meeting reciprocal demands, even though they

bring value-added benefits to the firms. Despite this high cost of guanxi, which may not guarantee good results, the notion of running a Chinese firm without this unique relationship network is unthinkable. To cultivate guanxi, companies must continue to support and reciprocate favours. According to Pearce and Robinson (2000), guanxi can be seen as a form of social investment that involves time, money and effort. For long-term guanxi, it is more important to develop a personal relationship that built on trust rather than exchange of gifts and other mutual tangible benefits.

In practice, guanxi appears to resemble nepotism in the West because exchange of favours, particularly for tendering short-term gains, is required when conducting business with China (Tung & Yeung, 1996). There are some similarities between guanxi and nepotism for example, situations where someone in authority will make decisions based on family relations or connections instead of objectively evaluating ability (Tung & Yeung, 1996). While the reciprocal favour exchange in guanxi makes it possible for the involved parties to gain the ultimate benefit of an insider, a debt is often accrued. In other words, the party who ultimately receives a gift or favour in the relational guanxi context is bound to repay the favour when it is required (Yang, 2011). With guanxi, there is pressure to give and reciprocate favours (i.e., support and exchange favours).

Despite the importance of guanxi to win sales in China, companies still need to focus on their product offering in terms of values and qualities. Therefore, many managers viewed product quality on the priority list, followed by guanxi and then payment terms, delivery, pricing and advertising. Therefore, guanxi is necessary but not sufficient for overall performance enhancement. Instead, the companies should focus on their operational excellence, such as understanding the legal landscape, solid productivity and values on increased productivity (Participant 19). In addition, guanxi is becoming less significant in the retail space due to the increasing product choices for consumers and advances in information from social media (Participant 8). It is arguable that guanxi cannot solely guarantee the long-term success in China as it is not so significant in ‘inbound’ logistics due from the rise in social media (Participant 1). From a market-based perspective, guanxi is not directly associated with any meaningful end products and may not necessarily be crucial in producing the final product (Luo, 2007). While guanxi is a unique and rare resource in some cases, it is often viewed as inadequate in business settings defined by other relational marketing models (Dinh & Hilmarsson, 2020).

A strong relationship between relational networking and innovation on customers, suppliers, stakeholders, and entrepreneurship will foster productivity and innovative performance. Therefore, technology development has profoundly affected guanxi's mainstream practice, mainly due to increased growth in education, science and manufacturing (Chu et al., 2020). The entire value chain must be high quality to produce a stable product. Guanxi has changed over time, and reliance on guanxi is declining due to the information available (Participant 7). Likewise, the KPI has also changed as it demands a more professional approach, which the government leadership and political system have had a significant effect on (Participant 2). Therefore, guanxi is not necessary if the quality of the product is high (Participant 13). Guanxi has changed over time. Succession planning in transferring guanxi is essential, as it is an intangible asset. If it is not handled properly, it might be lost. Social media provides a new way for the younger generation to build their networks. Foreign education (especially for those that left China at a young age) is another reason why the second generation uses social media to establish their networks in China (Participant 1).

Guanxi may not play a significant role in traditional business that values the product in nature and qualities especially when many Chinese companies are changing their business strategies from traditional cultural norms to comply their operational practices with international business standards (Roy et al., 2012). This shift was significant after China was accepted into the WTO. Guanxi is becoming less important, and legal contracts are becoming more crucial. It was further argued that a lack of interpersonal exchanges might dilute the effectiveness of guanxi, especially since the eminent nature of guanxi is a personal asset. Moreover, guanxi in business settings is often viewed as temporary and tactical instead of strategic (Atiff, 2016).

China is moving towards a market-based economy, meaning rule-based impersonal exchanges play an essential role in the market. Berger and Herstein (2012) confirmed that as China approaches a true market system, hence the moderating effects of interpersonal ties are likely to decrease. Although guanxi is a stable tool to use, the effect may decline as the government adopts a more institutional than cultural structure. Because, traditionally it is guanxi rather than the laws that managed and controlled the institutions and various business domains. (Luo et al., 2012). The research by Qian et al. (2016) shows that solid financial performance from good operational practice can make guanxi a redundant practice. Also, it is essential to note that even though guanxi can help Australian SMEs to gain a competitive

advantage in negotiation within the complex human network in China; it cannot eliminate threats and competition. In some instances, guanxi may even become worthless or creates a liability if the Chinese counterpart loses power (Leung & Wong, 2001).

Strong governance, based on the relationships that determine how resources are allocated and flow within the value chain, may ensure the competitiveness of the value chain and its members. Some researchers have argued that the importance of guanxi has gradually diminished its values due to modernisation in China that causes a change in the Chinese social structure. Therefore, managers should not expect guanxi to influence operational performance directly but rather indirectly through value chain development. To capitalise on the rapid economic growth and cultural changes in China, Australian SMEs should develop dynamic value chain capabilities that will deliver financial benefits to the organisations. The use of legal contracts to bind relationships is becoming more common in China because this regulatory framework reduces many uncertainties in conducting business in another country. Another reason for the diminishing value of guanxi is that it does not recognise the changing business environment in China, as the legal system is evolving with more reforms in the regulatory procedures and rule of law (Chua, 2012).

It is important for Australian SMEs to understand the relationship initiation in China better because Chinese firms typically possess limited resources and have different business cultures. This research aims to provide an informative insight for Australian SMEs to conduct businesses with China using the Value Chain model, and they are as follows:

- 1) The traditional value chain determines the value drivers and analyses how they add value to the firm. Internally, the associated relationship management reinforces the linkages between value activities to ensure that the value proposition for the customer expectation is met. However, when conducting business with China, an extra layer has to be added to the value activities. That is the external relationship each value activity must have with its Chinese counterpart. For example, the operating manager must have good guanxi with the Chinese Government officials to obtain or renew a trade licence to operate successfully.
- 2) The guanxi-value chain matrix highlighted the importance of integrating guanxi practice into Michael Porter's (1998) value chain model as an Eastern expansion strategy for Australian SMEs. With limited resources, Australian SMEs must seek

innovative ways to remain competitive. Having a better understanding of guanxi and how it affects the value chain will increase the value proposition for their customers.

- 3) There is no doubt that China will be a super powerhouse for the global economy, and it will have a more critical influence on the Australian economy as we advance. Therefore, Australian SMEs need to learn the art of conducting business with China, and guanxi is a necessary form of business currency besides Mandarin and Moutai (Chinese iconic white wine).

The current relationship between Australia and China is at a low point, which is not ideal for the economy and businesses in general. Yet, the Chinese culture values relationship and trust, with guanxi existing in the Confucian era 2,000 years ago. Guanxi is not a phenomenon but a currency determining how the Chinese live and conduct their businesses. Therefore, when the Australian Government designs and implements an economic policy related to our Asian partner, they must respect and understand guanxi and embed it, similar to how this research added a dimension to the value chain model. The rationale behind this thesis research is to initiate an understanding of Chinese culture. All members within the value chain need to change their cultural mindset as the relational contracting approach involves the notion of guanxi. Therefore, companies should increase their guanxi currency by investing in continuous training and in-house workshops to build a relationship management culture. Further, this type of relationship culture should be cultivated in the early stage of education (Cheung and Rowlinson, 2004). For example, the Australian Government can implement a new education curriculum for young students to undertake Asian studies.

Thesis Limitations

The white paper ‘Australia in the Asian Century’ (Commonwealth of Australia, 2012) highlights the vital national objectives for Australian companies conducting business in Asian countries. They are establishing more innovative businesses, developing capabilities for companies to conduct business in Asia and building relationships and linkages between business groups in Australia and China. The first objective of innovative development has not been the focus of this research thesis. However, the researcher is aware of the significance of this area that requires further investigation and exploration. The second objective has been loosely examined in reference to the value chain and how it should be used with guanxi to increase competitiveness in the Chinese market. The third objective has been fully explored in this research thesis.

Entrepreneurial orientation (EO) is a critical element of internationalisation, as it consists of innovativeness, pro-activeness and risk-taking decisions (Kraus et al., 2012). This EO element (part of objectives one and two) has not been thoroughly examined in this research thesis. The focus of this study was more on the value chain and how its operational competitiveness was affected by guanxi rather than the effects of guanxi on technological innovation (Lee et al., 2018) and how it will increase competitiveness.

There is a strong focus in China on innovation and IT. Moving away from the low-cost labour manufacturing market, China has invested heavily in innovation-driven manufacturing that optimises the structure to emphasise quality over quantity, develops a talent pool and achieves sustainable manufacturing processes. The innovation process involves finding new operational processes and trying out new products, services and markets. The rapid advancement in technological developments, such as remote working conditions, artificial intelligence applications, mobile technology and social media, has helped SMEs expand and share the same competitive space with multinational corporations (MNCs) in international markets (Dabic et al., 2019).

The modern value chain introduced by Slywotzky and Morrison (1997) is a customer-centric approach which the customer is top priority because they are willing to pay a premium for products and services. Therefore, the management must understand their customer needs and priorities so they can meet the expectations by implementing strategies such as create the core competencies essential to the inputs and raw materials. In addition, the identification of customer value criteria and having a good understanding on how to meet the criteria will create both competitive advantage and resultant success (Walters & Lancaster, 2000). This research thesis focuses on guanxi and how it creates more value for Australian SMEs using the value chain model to create competitive advantages. There is less focus on values creation from the perspectives of customer benefits and effective cost control. Other variables such as organisational knowledge and how good operational design can facilitate faster response and prompt delivery.

Identifying the study limitations can help the researcher develop possible strategies to make the expansion process into China a smooth operation by avoiding the pitfalls that companies encounter when developing an expansion plan. As a result, the qualitative research method allows the researcher to determine the specific strategies based on data collected from

corporate expansion participations. In addition, the disadvantage of using qualitative research methods is the unconscious biases, as the approach is subjective, not objective.

Although qualitative research has enhanced the researcher's capacity to understand every aspect of the investigation, this method has some limitations. First, the approach involves a small sample population and is more descriptive. Thus, the model does not help make good decisions or reach conclusions regarding all the investigated issues. As a result, there is a risk that some areas may not be fully explored, and the credibility of the findings, especially in the guanxi-value chain matrix, may be compromised. Second, the methodology may not include some components, such as Australian companies' strategies that have already been used successfully in entering the Chinese market. Instead, it focuses on guanxi as the only factor determining Australian companies' success in the Chinese market. Finally, in qualitative research, the researcher is both the object and subject of the study (Queiros et al., 2017). Therefore, the results may be biased based on the individual experience and the adopted data collection approach. In addition, most of the participants in this research came from the same network, and they are similar in business backgrounds and approaches. Therefore, there might be a tendency for groupthink to occur.

Future Research

China's Capabilities for Australian SMEs

Pauluzzo and Shen (2018) pointed out that SMEs have often faced the traditional challenges of insufficient funding, limited managerial capabilities and difficulties exploiting technology to gain advantages. Poor management skill with limited Asian knowledge has prevented them from onboarding the Chinese platform for outward business growth. Lu et al., (2009) argues that SMEs need to build entrepreneurship capabilities to compete for their inherent advantages in small-scale operations (i.e., flexibility in adapting to the rapidly changing market conditions). Amir et al. (2016) echo Harvie's (2015) findings and identify the importance of having the right innovative mindset as the key to enabling these SMEs to have consistent growth in the dynamic arena.

The main barrier to SMEs' global regime is the lack of good management knowledge and capabilities (Pauluzzo & Shen, 2018) in relation to local government rules and laws (tariff and non-tariff barriers), local markets with local knowledge, business customs and regulations and market positioning. In the case of China, it is even more difficult for SMEs to enter because low-cost locals and MNCs drive the market. The market is vast, complicated,

opaque and super competitive. In their research, Olmos and Diez-Vial (2015) confirm that new market entrants often face the liability of newness arising from their poor experience and lack of history in the new business ecosystem. Additional costs arise from breaking into the local environment from a cultural, political and economic perspective.

Asialink Business (2011) investigated the development of an Asian capable workforce and found several barriers that many Australian businesses face. Yet, breaking down these barriers is critical, as per the findings in Harvie (2015), Amir et al. (2016), Pauluzzo and Shen (2018) and Dessler (2006). These barriers include:

- limited board experience in Asia for large Australian corporations
- lack of Asian knowledge give rise to the scepticism in the investment community on many Australian companies' abilities to deliver Asia-focused strategies
- scale constraints on resources to develop Asia capabilities, particularly for Australia SMEs.

Key personnel with China qualities are not easy to recruit because there is a considerable shortage in China due to two main challenges: training and development of fresh recruits and the existing inflexible employment system imposed by the Chinese Government (Dessler, 2006). This suggests a need for change. Braun and Warner (2002) put forward the Strategic International Human Resource Management (SIHRM), which links the global strategic activities of multinational enterprises to their HRM practices. The key feature of the SIHRM is in the appraisal program, but it must be customised to suit the China business climate and local culture. The cultural gap between a multinational parent company and its China office cannot be ignored, especially since a performance review is considered a very culture-bound activity. Battisti et al. (2014) also pointed out the strategic importance of implementing high-performance HRM functions. Among the companies researched, most linked their training and development plans, compensation and selection process to their performance appraisal system.

It will be interesting to further explore the level of performance between senior management with Asian capabilities and those without in conducting businesses with China. In addition, if a company is serious about expanding into the Chinese market, what level of investment will be required to change its workforce so that it is more Asia- or China-centric and adaptable to the Chinese ways of conducting businesses?

Internationalisation Capabilities

The traditional internationalisation model, also known as the Uppsala model (Johanson & Vahlne 1977; Paul & Benito, 2017), describes a step-by-step involvement from going abroad into the new market, corresponding to a gradual increase in international commitment. Managing a firm that engages in foreign activities requires extensive adaptation (Olmos & Diez-Vial, 2015). The steep learning curve involves operations in an unfamiliar environment and coordinating local operations with activities in other countries (Johanson & Vahlne, 1977; Olmos & Diez-Vial, 2015). Ivarsson and Alvstam (2013) explored why local companies go abroad and found the primary driver of new business opportunities to be their relationship with the network partners both in their home country and abroad. Another valid reason is cost reduction, mainly for companies to serve their international clients, either locally or through exports (Ivarsson & Alvstam, 2013). Ahmad's (2014) study on Malaysian SMEs revealed the motives for SMEs to expand overseas are driven by entrepreneurial initiative, innovative strategy, opportunistic vision and their attempts to exploit unique circumstances to stay competitive.

Graves and Seet (2017) conducted an exploratory study of the Australian SME internationalisation process. They argued that external accountants, advisory boards and foreign investors are the main factors for exploring foreign markets. However, the study also suggested that the internationalisation of Australian SMEs is significantly affected by advisory boards and investor networks, which play a vital role in determining the intentions and strategies of Australian SMEs to expand into new markets. Similarly, Ciravegna et al. (2014) argued that creating networks and relationships with colleagues and domestic clients is essential for SMEs' internationalisation. Therefore, in the case of Australian SMEs, there is a need to partner with clients or other investors in the new foreign markets. These claims emphasise adopting a joint venture expansion approach in succeeding in the new markets. Galkina and Chetty (2015) also argued that internationalisation using these approaches has helped SMEs network with other entrepreneurs or interested partners. Successful networking is crucial as it enables SMEs to enter new markets whenever an emerging opportunity is identified and utilise the established network to meet their goals.

Sandberg and Jansson (2014) investigated collective internationalisation from Chinese SMEs' perspective. The study indicated that they use a common market platform in the foreign market, and their decisions are based on their collectivistic culture. This approach works effectively with fewer experienced SMEs as they can fill each other's gaps due to the

constraints of resources (Sandberg & Jansson, 2014). These findings support the claims of Ciravegna et al. (2014) by emphasising the need for these SMEs to consider joint venture approaches in expanding into foreign markets. The aim would be to achieve the benefits of reducing risks and encouraging collective learning. Bose (2016) argued that the key factors these SMEs must have for internationalisation are competencies, prospects, strategies and good knowledge of the current internationalisation scenario. Based on these arguments, should companies focus more on networking and multidimensional relationships as the underlying evaluation variables?

Innovation Capabilities

Sulistyo (2016) looked at SMEs' innovative capabilities (i.e., marketing, empowerment, relational capital and entrepreneurship) and how they have helped them enter the Asian markets. They found a positive correlation between these innovative capabilities and performance, creating a competitive advantage. SMEs must innovate to succeed, even though they have limited resources in accessing the market (Oum et al., 2014). The innovative capabilities extend to managing intellectual property rights, effective information communications and investment in technology infrastructure. The aim is to lower the barriers that block them from advancing as they are affected by cultural, social and economic factors, including societal pressures, legal issues and access to finance (Harvie, 2015). Din et al. (2013) revealed that there is a strong relationship between networking and innovation. Solid relationships with customers, suppliers, staff, communities and entrepreneurial networks will foster productivity and innovative performance.

The performance of SMEs served as an essential determinant to strengthen their competitive advantage, and Sulistyo (2016) further argued that innovation would improve the market performance of SMEs. In the Asian market, the success rate of these start-up companies is dependent on their innovative capabilities (i.e., having an effective strategy that involves investing more in expertise and maintaining better performance management) (Lee & Yang, 2016; Sulistyo, 2016).

Wonglimpiyarat (2015) discusses the challenges of entrepreneurial financing and innovation in the context of China. The Chinese Government wants China to be an innovative economy and realises the significance of creating a more innovative economy through SME capabilities. However, even though they have established the 12th Five Year National Economic and Social Development plan for supporting the development of SMEs, the country needs to enhance its policies and regulations further to offer adequate support for

small and innovative business enterprises. Therefore, policymakers need to make appropriate changes to enhance the competitiveness of Chinese SMEs. Similarly, Zhai et al. (2018) suggested that the Chinese Government needs to create a better business environment for SMEs to be more innovative. The government should address the financial challenges these SMEs face in relation to fiscal and monetary policy.

Based on the above claims from Wonglimpiyarat (2015) and Zhai et al. (2018), SMEs face critical challenges in accessing finance, a lack of support due to poor policies and an innovation gap. In addition, allowing the same development standard in the economy plays a significant role in enabling more competitive SMEs to thrive and succeed in the dynamic market. Therefore, further research in the innovation space will evaluate the usefulness and relevance of current business models. For example, will the rapid rise of social media in Chinese society dilute and even diminish the importance of *guanxi* in a company's marketing and sales strategy design and implementation?

Business Strategy

A business strategy is vital in setting up a business expansion plan for the new market, as there is a need to establish a linkage between the success rate of companies and the effectiveness of their business strategy. Antonetti et al. (2022) argued that business strategies relating to foreign expansion play an important role in entering new markets and managing the cost of the newly expanded business practice. Asia has been going through an unprecedented change in recent years, and the next round of competition requires companies to pursue a strategy that involves a more comprehensive list of quality product options, more selective customer segmentation with better customised offerings and stronger brands to signal differentiation from other competitors (Williamson, 2006). Raymond et al. (2014) argued that the market-oriented approach would give SMEs a competitive edge and the opportunity to reduce their commercial risks by better understanding their customers' needs. Hence, this will improve the offering of a customised product and distinguish products from those offered by competitors. For example, the Pfizer case study by Wang and Zhou (2008) in China demonstrates the importance of having a local business strategy. There are considerable differences between the home country and host country conditions, and management needs to localise their strategies to fit the market. This was a challenge for them as Pfizer had to meet the objectives of global integration coming from headquarters and yet be responsive to local demand (Wang & Zhou, 2008). It is both an art and science for management to balance the two conflicting pressures.

The relationship between the owner's leadership and organisational strategy should be stronger in smaller firms, but high-performance management practices are lacking in many SMEs (Wiesner et al. 2007) as they are constantly faced with limited resources for HR, materials and funding. This is becoming more challenging as they cannot compete like the MNCs in an increasingly global environment with more companies entering from emerging economies, such as the BRIC and South-East Asian nations (Din et al., 2013). Even though Australian SMEs have low survival rates, they tend to take a short-term view to maximise the benefits. These SMEs can implement high-performance practices as they have the advantages of being flexible and agile and having a strong commitment to the change process (Wiesner et al., 2007). An important element of Australian SMEs' business strategy is the leadership of the owner, who is intertwined with the firm's reputation. Their involvement in the community, investing in personal assets, commitment to their businesses (Wiesner et al., 2007) and ability to align their plan and the organisational goals will increase their chance of success.

In addition to leadership (Wiesner et al., 2007), Din et al. (2013) argued that the real difference between good SMEs and bad SMEs is not found in machinery, processes, installations or the organisation itself but, rather, in the corporate culture. A solid HRM that nourishes creativity, willingness to take risks and building a cohesive team will foster innovation and increase competitive advantage (Din et al., 2013; Raymond et al., 2014; Sulisty, 2016). Further, product and process innovations may encourage companies to internationalise, and knowledge-intensive companies tend to focus on creating products that can be commercialised internationally. Therefore, by combining innovation and internationalisation, SMEs can achieve the highest growth potential due to strategic and financial benefits (Kunttu & Torkkeli, 2015).

Boso et al. (2017) argued that many factors drive market expansion and internationalisation: business strategy, firm structure, capabilities and entrepreneurial orientations. These factors have the potential to increase variability in regional market expansion. Moreover, Boso et al. (2017) suggested that a regionalisation strategy is an alternative for expanding globally, which concurs with the arguments of Oum et al. (2014). Similarly, Stevens and Makarius (2015) argued that when planning an entry into a new economy for the first time, foreign companies need to consider the business plan with a localised element of the firm. To overcome the challenges of being the outsiders, Ivarsson and Alystam (2013) identify attributes such as learning, trust-building and commitment

development and the identification and exploitation of business opportunities as the fundamental elements in foreign companies' internationalisation strategy. Ninerola et al. (2017) noted that entry modes into the Chinese market are dependent on whether the SME has incentives for investment with partners rather than a focus on top managers, international experience of the corporate boards or the size of the business. Hence, based on the review of both researchers' findings, the business strategy should consider and encompass multiple features to ensure that the SME can establish and generate gains in the local foreign market.

Unique business strategies are essential for internal market expansion. For instance, Ryu et al. (2014), in their case study with Paris Baguette, found that the company employed a unique mechanism and business strategy that involved localisation, diversification, style and high quality. Further, Ryu et al. (2014) indicated that market differentiation and engagement with local partners help establish ventures in new markets.

Mazzarol et al. (2014) conducted a case study investigation of Australian SME strategies. They found that strategic business planning played a vital role in advocating SMEs' success and helping them achieve their goals, coordinate efforts and align with the strategic direction. Moreover, a business strategy helps develop strong management teams with competent and dedicated workers. Further, to ensure effective and faster market expansion, a business strategy supports networking, recognition of opportunities and adequate management of the strategic triangle (i.e., resources, structure and strategy). In contrast, Wiesner and Millett (2012) argued that Australian SMEs' strategic thinking and actions are based on a specific framework of a documented business plan aligning with a deliberate technique. However, there is also the utilisation of sophisticated strategy-making techniques. Therefore, these arguments imply that the business strategies for SMEs in Australia and those intending to expand into new markets are influenced by decisions aiming to achieve the business goals and generate more value. This is, indeed, an interesting area to further explore and evaluate.

Government Support and Initiatives

This research study did not focus heavily on government support, particularly from Australia, or any public policies that will help Australian SMEs conduct business with China. However, Wonglimpiyarat (2015) asserts that government encouragement is crucial in the growth of SMEs, especially in enacting favourable policies that can encourage growth and allow start-up SMEs to innovate and establish themselves in the market. In contrast, SMEs' expansion needs to consider the government's support, especially in relation to business

linkages and information on international market development. These supports may help SMEs determine expansion areas, avoid unfavourable business environment conditions and take advantage of government policies. For instance, China decouples communist governance rituals by promoting globalisation and economic growth (Marquis & Qiao, 2017). Therefore, when strategising cross-border policies, the government should consider their effect on SME regulations, markets and technologies.

A good policy for one sector of SMEs may be a disadvantage for another segment. Battisti et al. (2014) argue that government agencies (i.e., DEFAT) for facilitating and promoting international trade should customise their export policy to support various marketing strategies imposed by the Australian SMEs. According to Valencia (2016), the government must focus on facilitating international trade, as reflected by the different internationalisation patterns (i.e., providing adequate support and training programs for Australian SMEs). Australian SMEs are less likely to access the direct finance channel via the debt and equity markets because Australia is one of the few countries with no credit guarantee scheme for small business loans. Therefore, receiving financial assistance from the government will help Australian SMEs to improve their performance in terms of profitability, generating better cashflows and increasing their financial capability to access more funding (Xiang & Worthington, 2017). Instead, the government policy in Australia can help SMEs to finance their foreign expansion venture using a targeted fiscal policy (i.e., subsidies and grants) (Xiang & Worthington, 2017).

Asialink's (2011) survey on Australian businesses engaging in Asia highlighted the need for the government to maintain continuous support for developing and promoting the capabilities associated with international business involvement. It also argued that government policy is one of the few main factors that hindered Asian expansion. Similarly, Pfitzner and McLaren (2018) suggested that the Australian Government needs to extract the public information for SMEs to encourage debate and provide support and help generate more growth for these microbusinesses. However, although the Australian Government recognises the importance of SMEs in the country's economic growth, SMEs lack significant support from the government, as confirmed by Asialink's (2011) research paper. Besides, Roy et al. (2016) argued that the government needs to offer trade help to support the expansion requirements of SMEs. Hence, SMEs in Australia need to effectively engage the government to debate policy plans to gain more support to increase their growth locally and abroad.

Larum (2010) argues that the Australian Government can pressure the Chinese authorities to provide greater clarity in their rule of law that may affect Australian businesses. Further, AusTrade and foreign business chambers (e.g., the China–Australia Chamber of Commerce) can play an important role in assisting companies in understanding their dual obligations on operative matters in China especially when some of the rules and regulations (FDI financial system) are complex and opaque. For example, intellectual property is particularly vulnerable, and some commercial contracts are unenforceable (Mudalige et al., 2018).

Lamoureux et al. (2019) examined the role of government support for SMEs in adopting sustainability. The government should impose regulations and incentives to motivate and shape these companies to provide sustainable solutions. Both Asialink (2011) and Lamoureux et al. (2019) recognised that the government's lack of support and guidance have greatly limited the potential for SMEs' growth and expansion.

Canfei (2006) highlighted the two-pronged decentralisation process from China's perspective: it involves power and fiscal decentralisation from central to local governments. The decentralisation process offers more significant incentives to local governments for revenue creation and economic development, allowing many Chinese regions to experiment and create flexible policies to help businesses (both local and foreign) flourish. Gorg and Greenaway (2014) suggested that the quality of local infrastructure, especially in the communication and transport facilities, is critical for attracting initial investments and sustaining clusters. The fiscal policy decentralisation allows the local government to invest in infrastructure and establish development zones to attract FDI into China. Some SEZs (e.g., Shenzhen) were given autonomy in foreign economic and trade activities to attract FDI (Canfei, 2006). For example, local government agencies have reduced transaction costs for foreign investors since most projects do not need central government approval. They can also grant some investment incentives to foreign investors.

Gorg and Greenaway (2004) pointed out the importance of FDI to an economy's economic growth and how the development of these companies will bring their best practice (technology and management) into the country. However, even though China has decentralised its policies and opened the economy (Canfei, 2016), Larum (2010) argued that Australia, like many other countries, faces a considerable number of formal barriers to setting up its FDI in China. Some of these barriers are in the laws and regulations governing the

activity of FDI in China. Still, there are other informal barriers, such as the apparent preference of Australian investors for economies with similar cultural, political and institutional frameworks.

Conclusion

While a business strategy focuses on selecting financial industries or product markets, a relational approach needs to stand out as a powerful competitive tool designed to enable a firm to attain specific competence and market competitiveness in a particular industry or product market (Bourgeois, 1990). Therefore, guanxi must be integrated into business strategies for value creation. The guanxi-related strategy helps a business entity attain its core competence to achieve high profitability, expand the business and increase market-based competence in various parts of the operation.

According to Normann and Ramirez (1993, page 1), “strategy is the art of creating value. ... the way the company defines its business and links together with the only two resources that matter in today’s economy knowledge and relationships on an organisations competencies and customers”. Therefore, the importance of positioning the company in the right place on the value chain by having the right business, the right products and services, the right market segments, the right value-adding activities and, in the case of Australian SMEs conducting business with China, the right guanxi is the key to business success in the modern globalised society.

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Appendix

Invitation to Participant:

Hope this email finds you well and nice to eMeet you.

Firstly, a sincere thank you for accepting our invitation to participate in the GBS (Geneva Business School) Focus Group to be held on Monday 9:30am, 24th May 2021 @ AIMS Boardroom on Level 41, 259 George Street, Sydney.

The aim of this focus group is provide an insight to help answer my Doctorate (DBA) Thesis Research Question:
"Australia doing business with China – how does 'guanxi' impact the value chain".

Please find more information in the attached document as it highlights the format of the focus group, my profile and the education institute (Geneva Business School, Switzerland) which I am involved in.

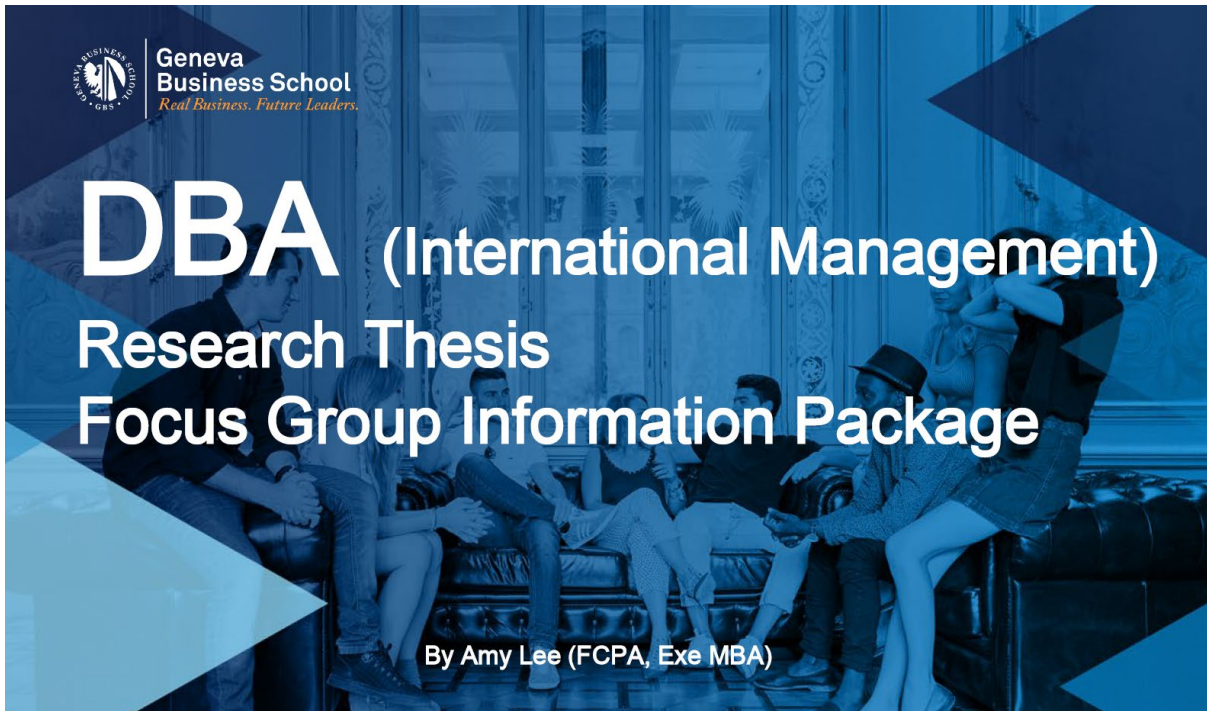
I am very excited to hear your business journey with China and your view of 'guanxi' as an element within your business operation.


Wishing you a nice week ahead and looking forward to see you on Monday, for confirmation, I'll be sending you a meeting invite.

Best Regards,

Amy Lee (FCPA, Exe MBA)
Consultant

Information Package:



 **Geneva Business School**
Real Business. Future Leaders.

DBA (International Management)

Research Thesis

Focus Group Information Package

By Amy Lee (FCPA, Exe MBA)



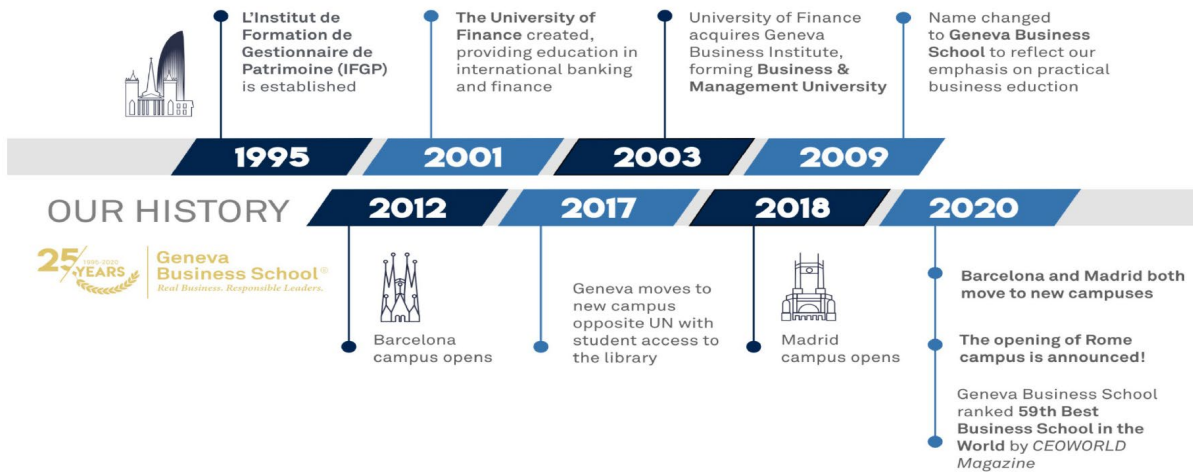
 **Geneva Business School**
Real Business. Future Leaders.

DBA Thesis Research Question:

Australia doing business with China:

How does guanxi impact the value chain?

About Geneva Business School



About DBA Candidate – Amy KW Lee

A Doctorate candidate in Business Administration (International Management) with Geneva Business School in Switzerland, I hold an MBA from AGSM, a Fellow of CPA Australia and graduated at UNSW with Bachelor of Commerce (Merit). I am an entrepreneur as I found two CPA Public Accounting Practices – Acting Management and Cohort Partners. Prior to that I was the Commercial Director at Medacs Healthcare Group and Director of Finance, Asia Pacific with Odgers Berndtson.

In my executive capacity, I have over 15 years of qualified financial and management experience in strategies implementation, change management, due diligence, management and financial reporting, cash flow management, business development and business expansion, especially in the Asia Pacific.

I have a long history in teaching and very passionate in passing my skills and knowledge to the next generation. I am currently a Professional Year Trainer with Navitas Professional and Lecturer at La Trobe University, Federation University and Sydney University.

Education

Geneva Business School, Switzerland
Doctorate candidate in Business Administration, from 2019

University of New South Wales
Executive MBA 2013
Bachelor of Commerce in Accounting and Finance 1994

CPA Australia - Fellow

Leadership

Hong Kong Australia Business Association
Immediate Past President 2020 | President 2019

Liberal Party NSW
Candidate – Member of Legislative Council 2019
Candidate – City of Ryde Council 2016

Brief summary of “Guanxi”.

China is dominated by the Confucian philosophy for over 2,000 years in which the societies are characterized by tight as well as close networks among individuals and organizations (Yeung & Tung, 1996). The emphasis is on two key elements: the closed system of relationships among individuals such as family, and the hierarchical order of these relationships such as father and son. This unique guanxi network can be understood as concentric circles whereby family members are central, which expands out to relatives, classmates, friends, and acquaintances (Dinh & Hilmarsson, 2020). Building guanxi is not a short-term process as it can be a complex and long-term investment. Governed by the seven principles, guanxi can be better understood through its attributes (Luo, 2007).

1. The first attribute is that guanxi is transferable – it can be transferred but the success depends on the parties involved.
2. Guanxi has reciprocal features – this is an important characteristic of guanxi which distinguishes itself from the Western social network as there is an expectation for exchange of favours.
3. There is the intangible characteristic, a requirement for the party to commit as they are bonded by an indiscernible as well as unwritten code of equity and reciprocity equity.
4. Utilitarian – the bond will be broken easily if there are no values in guanxi, as the bond is glued by a series of favours exchanged. Another feature is that the guanxi brand is contextual, a full understanding of the situation that cultivates guanxi is highly important. Additionally, the long-term nature of guanxi implies that to cultivate and utilize the brand is a long-term social investment. Some guanxi relationships never end but continue from generation to generation.
5. Guanxi brand is personal, this is the core principle of guanxi as it is a personal asset only (Luo, 2007).

Brief summary of Michael Porter's Value Chain

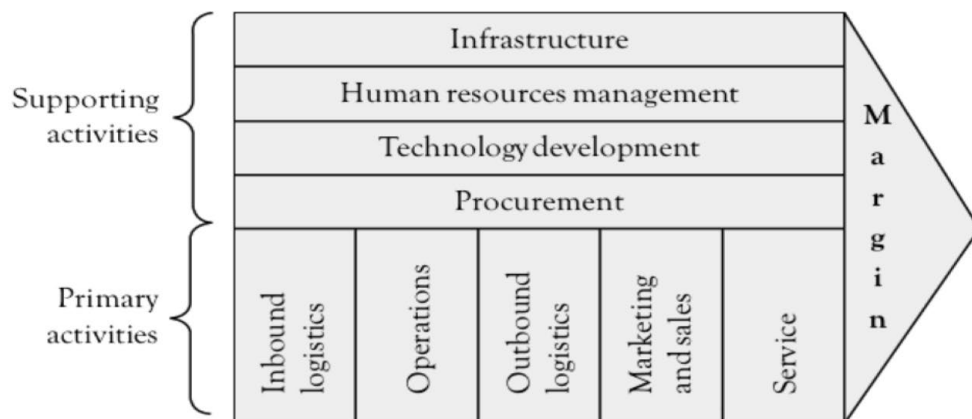


Figure 1.1. Michael Porter's value chain.



Format of the Focus Group

AIM:

To identify the importance of 'guanxi' (relationship) and whether it has an impact on the company's operation with reference to Michael Porter's Value Chain model.

Criteria:

Firm size – medium / turnover AUD \$10m+

Role – owners / key decisions makers

Relationship – must have conducted business with China, past or present.

Number of groups – 6 groups of 5 participants + moderator (Amy)



Focus Group Meeting Format

Duration – 60 to 90 minutes

- - Welcome and introduction (5 minutes)
- - An overview of the researched topic (5 minutes)
- - Statement of the ground rules of the focus group, and assurance of confidentiality (for ethical considerations) (5 minutes)
- - Obtainment of background information (5 minutes)
- - Your Australian business journey with China, what worked and what did not work? (40 minutes)
- - Questions and Answers (20 minutes)
- - Vote of thanks and conclusion (5 minutes)



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Focus Group The Journey:

AIM:

To seek an understanding on the reasons for expanding your Australian business in China and with China.

Guiding questions:

- 1. How did it begin and the journey involved?
- 2. What were the values added?
- 3. What were the challenges?



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Focus Group The Journey:

AIM:

An insight in the Australian business experience of doing business with China.

Guiding questions:

- 1. Did advantages outweigh the costs?
- 2. Would you have done it differently?
- 3. What were the hidden costs (e.g., opportunity costs)?



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Focus Group The Journey:

AIM:

An understanding on the importance of guanxi.

Guiding questions:

- 1. How did you build guanxi when doing business with China?
- 2. How much does guanxi contribute to the business success?



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Focus Group The Journey:

AIM:

An insight in the impact guanxi may have on the value chain.

Guiding questions:

- 1. Using the value chain as a strategic business model, did you modify the process based on the guanxi you have with the key players in China?



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Focus Group Sample Questions:

1. What is your Australian business journey with China?
2. What is your definition of guanxi in the context of doing business with China?
3. Which parts of Michael Porter's value chain framework does your business create values?
4. Does having the right guanxi enhance the value created for your company when doing business with China?
5. How important is guanxi to the success of your trading and expansion projects with China?
6. What kind of help was offered to you by the Australian / Chinese government while advancing the expansion strategy? If there was no help received, what type of assistance you would like to have?



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Thank you.

Your participation is valuable to
our future business research.

By Amy Lee (FCPA, Exe MBA)

Focus Group Transcripts:

Focus Group A – 24th May 2021

Part A - Journey to China.

Participant 1 – Family Jewellery business

- The business began in China as participant 1's mother is the leading expert in precious jewellery, which expanded using the deep family connections in that province. However, participant 1, being the second-generation of the family business, did not fully understand the guanxi that her mother and elder members of the family have developed and found communication difficult with some of these high net-worth clients.
- Participant 1 acknowledged that the market in China is massive; however, due to COVID-19 and the local travel ban, they brought the focus back to Australia as everything on Chinese trade must be put on hold.

Participant 2 – Property and Education

- Participant 2 is a successful businessman in China with retail, property, and children's education ventures. However, due to Covid, he decided to put his Chinese business on hold and come to Australia. Currently, he is investing in teaching Chinese piano while remotely managing his businesses in China.

Participant 3 – Chinese Doctor / Café Owner

- Participant 3, a Chinese Doctor, came to Australia in 1992 as there was a strong demand for this profession. Then he went back to China to open four Hong Kong-styled cafes in Beijing in 2007. He also made some trade on health products in Shenzhen province. His guanxi connections with China came from his uncle, a very established businessman in Hong Kong and Canton since the 60s.
- Based on his two years of business experience in China, he will not return because the business process is vague and uncertain. The risks are too high, and he is more interested in Australian politics.

Participant 4 – Immigration Law Firm

- An immigration lawyer from Canton, China, Participant 4 has established his solid Chinese network as early as a primary school in the Canton province. Before that, he was in the IT business in the Data Mining space. Now, he is in Australia and ready to open his law firm servicing his Chinese clients.

Participant 5 – Architectural Firm

- Participant 5 is an architect who came to Australia in 2012 and graduated with a Master of Architect at UNSW. Unfortunately, Covid's specialty in retail architectural design had the most brutal hit, and he must look for more ample opportunities to survive and grow the business.
- His method of building his channels in China was finding a partner with a network to expand the business. The business arrangement is not a joint venture but rather a co-

founder format. Due to the lower cost of operation in China, there is an added advantage in setting up this collaborative business with his Chinese co-founder.

Part B – Insight: Australian business experience of conducting business with China.

Participant 1 – Family Jewellery Business

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> How do you get into the very niche and luxurious social circle? The only way was to be introduced (i.e., guanxi).
Business Structure	<ul style="list-style-type: none"> Will guanxi add value to the business? YES! But not worth the effort because you must build the relationship from the acquaintance stage to friends and then to best friends and even families to get the business. Professional currency is not significant in China, unlike in Australia.
Guanxi and Value Chain	<ul style="list-style-type: none"> Guanxi is the primary asset, and it is above professionalism. Even though Participant 1's mother is the absolute leading expert in the industry, she also needs guanxi to stay ahead and make solid deals. The cost of maintaining the guanxi relationship is very high, and you need to build a close and intimate relationship and not just a professional one. Guanxi in the value chain is not so significant in 'inbound logistics' because of the rise of social media. Business does not need guanxi to source resources but rather directly onto social media and evaluate based on the feedback and other information. China is moving towards this professional approach due to advanced knowledge and social media. Social media, such as feedback in the younger generation, is becoming more critical and affects on a global scale.

Participant 2 – Property and Education

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> You need an introduction to get into the business and target circle.
Business Structure	<ul style="list-style-type: none"> A succession plan in transferring guanxi is essential, as it is an intangible asset. If it was not moved properly, it might be lost. This might explain why social media is a new way for the younger generation to build their network. In addition, foreign education (especially those that left China at a young age) is another reason why the second generation uses social media to establish their network in China.

	<ul style="list-style-type: none"> • Guanxi starts from the early stages, which grow together as a close-knit cohort, resulting in an ecosystem that is hard to break in. • Politics and guanxi are very complicated and integrated into multiple layers.
Guanxi and Value Chain	<ul style="list-style-type: none"> • Guanxi comes from insecurity due to the history of modern China, e.g., buying meat from a friend to get a good slice is guanxi. The fear is the possibility of unfair treatment (bad beef), so guanxi will reduce the risk of being ripped off. • Guanxi has changed over time, and the reliance is becoming less due to the advanced information available. Likewise, the KPI has also changed as it demands a more professional approach, which the government leadership and political system have had significant effects. • Guanxi is very personal as it is about giving face and recognising the status within the community. • Guanxi is pressure to give and reciprocate favours, i.e., support and exchange favours. Part of the favours in support is to provide assurance that we can deliver.

Participant 3 – Chinese Doctor / Café Owner

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • Good business opportunities because the Chinese market is so big. There were lots of fun in doing business in China, many networking dinners, various business entertainment, and travel trips as business deals were not made in the office.
Business Structure	<ul style="list-style-type: none"> • Participant 3 claimed that he might have picked the wrong industry, e.g., fast food café in Beijing, therefore not making profits. In Beijing, there are two types of spending, with super expensive and super cheap, no middle ground, which were the targets of his four cafes. In addition, Beijing workers are very structured with set timetables and eating routines. Therefore mad rush is hard to cater to. In addition, the weather is an issue. • No business structure – no concrete contract as everything is almost done verbally. Australian business is more transparent and prudent; you could not tell your actual profit, and will the margin be? • A joint venture arrangement is good, but the risk can be very high; how much can you trust your Chinese partner?
Guanxi and Value Chain	<ul style="list-style-type: none"> • The perception is that guanxi is essential in building business in China, especially with government officials. However, it can be just a time-wasting

	<p>exercise as most are just all talks, and no action is taken.</p> <ul style="list-style-type: none"> • You need guanxi to get into the shopping centre to establish the cafes. • How does your account verify the cost of guanxi and factor that into the profitability analysis?
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Participant 4 – Immigration Law firm

Experience	Critical points on occasion
Business Structure	<ul style="list-style-type: none"> • Practising business in China is very challenging because there are no ethical standards and professional practices in Australia. • All the clients are friends like families, rather than acting professionally. • The connection came from the Canton province since the early childhood days, i.e., you must start early. • Guanxi is very important because it is mutual bonding relationship.
Guanxi and Value Chain	<ul style="list-style-type: none"> • In terms of the value chain, guanxi plays an integral part in ‘Sales’ – primary activity. • Trust is vital in building guanxi, but the cost of trust is very high. Their immigration clients would not engage the law firm if they did not know Participant 4 since their childhood days. They demand a solid foundation on someone they can trust. • The exchange of intangibles in guanxi can create an issue in ‘debt collection’ in ‘Financial Control’ – secondary activity on the value chain. The client might see the service as part of building a relationship if they do not see the values being added or that they might be at risk if they do not pay the invoice.

Participant 5 – Architectural Firm

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • Started the business in Australia from one project to another using Western networking. Whereas in China, it is all about guanxi! Tapping his co-founder’s family network, they can establish and build the business in the province.
Business Structure	<ul style="list-style-type: none"> • Based on business structure in China, guanxi is a contract and supporting document when there is no presence or not enough professional currency. E.g., when we submit the proposal, the developer will not trust you unless you have guanxi. • Spend a lot of service and time to build trust and the relationship. Cannot rely solely on the Chinese

	business, need the Australian part to support the regular operation.
Guanxi and Value Chain	<ul style="list-style-type: none"> • Guanxi is more complicated. The family ecosystem is the focal point in China, so they would look for those they know and trust in the system. Whereas in the West, the clients seek professional advice based on accreditation and capability. • There is no actual scope in China even though there is a contract because changes can be made quickly. Therefore, Guanxi is mainly used to minimise risk or the unknown, rather than having real benefits such as generating profits. • In ‘Debt Collection’ in ‘Financial Control’ – secondary activity, guanxi plays a significant role in helping collect debts. For example, even though a legal contract with a proper review, the payment will never be on time with many excuses. Hence you need guanxi to speed up the process and iron out the credit issues.

Focus group B – 29th May 2021

Part A - Journey to China.

Participant 6 – Trade (Construction Supplies)

- Participant 6 came from Hong Kong and started his business with A\$500 in 1982.
- Began his venture by selling men's and women's belts to local retail shops, which were sourced from his father's factory in Hong Kong. Then he developed into manufacturing and distributing buttons to Australian garment manufacturers.
- As Australian garment manufacturers moved to China, more competition came from China. So with the help of his sister, who has factories in China, participant 6 switched his business models by manufacturing and distributing building supplies such as door handles, taps, and locks. This business took off due to the construction boom in Australia for the past 20 years, and there is no sign of slowing down.

Participant 7 – Trade (Carpet Grippers)

- Partnership with a local Australian Chinese and go to China to seek opportunities. The partner's family has a solid business in China with a good connection. However, participant 7's husband has no business skills.
- They went to China and bought two containers full of wooden carpet grippers, which did not comply with the Australian standard. They bought out the partner business and took complete control of the issue by exchanging the correct container sent in error. As a result, participant 7 became a wholesale, importing 16 containers a year.

Participant 8 – Retail Cosmetic

- Australian immigrants wanted to be business entrepreneurs and were encouraged by friends to look at China for business opportunities.

- Participant 8 was born in China, had her family, and established a network in China.
- Her entry into the Chinese market started with working on her friend's business in China, managing several key projects in wine sales. During her training days in China, she learned business skills in retail and began her cosmetic business.
- The cosmetic business starts from zero with no branding, and it was a tough start as she has no bargaining power and must accept unfair retail terms. Many consignment arrangements are at the beginning, but as the business builds its credentials and branding, it can convert the consignment arrangements into a purchase order.

Participant 9 – Corporate Merchandise Distribution

- Participant 9 started his corporate merchandising business 16 years ago and sourced the products from China as there was a demand in Australia wanting Chinese products.
- The connection with China came from his brother-in-law, sourcing products for a global company. His brother-in-law referred manufacturers to participant 9 for a few years until he built his networks and guanxi.
- It is a very transactional business because participant 9 simply buys the available products from the sellers. Therefore, there is a need to do solid due diligence on the sellers and manufacturers.

Part B – Insight: Australian business experience of conducting business with China.

Participant 6 – Trade (Construction Supplies)

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • Huge market. • A very established market that is accessible.
Business Structure	<ul style="list-style-type: none"> • The Chinese companies are structured at two levels: State-owned enterprises and private firms. • A foreign company that wants to expand into China must go thru a partnership platform. Otherwise, the expansion opportunity is limited—the same way as doing the business in Australia.
Guanxi and Value Chain	<ul style="list-style-type: none"> • Personal relationship! The value in guanxi is boundless and unlimited. The value chain and its efficiency, size and operational excellence are irrelevant. The staffs are the real asset and the personal relationships they can bring to the business. • The heart of guanxi is in the family network. However, it is not recommended to include family members in the business. It will create a lot of conflicts due to greed, jealousy, and self – interests. • Guanxi is necessary for ‘debt collection,’ not only do you need guanxi to make sales with the client. You must also build a secure relationship to get their payments, which can be delayed nine to twelve months after the invoice.

Participant 7 – Trade (Carpet Grippers)

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • Very huge, just by looking at the population. There are 1.4bn people in China; if each person buys \$1 sweet from me, I get \$1.4bn already. • Whether you can capitalise on the opportunity depends on an individual's capability, luck, guanxi, and strategy.
Business Structure	<ul style="list-style-type: none"> • It is all about people! Their assessment may include a biased view. Not just in China but also in Australia. It is not what you know but who you know. • Currently, due to the advanced development of education. The structure has shifted from people's subjective assessment to what the numbers are saying, which is objective.
Guanxi and Value Chain	<ul style="list-style-type: none"> • Technology development will weaken personal relationships (guanxi), especially in Artificial Intelligence. People will die, but technology will continue for centuries to come. COVID-19 has changed the way we live, propelled by advanced technology. • Guanxi must be exercised in the 'Service' component of the Value Chain, this constant monitoring and maintenance ensure the building relationship continues. • In the older generation, it is all about who you know and whether you have a connection with people in China. • It is a more Western and more professional approach in the newer generation. It is replacing Moutai with coffee. Some look at the sample goods, calculate the numbers and value the proposal BEFORE the consideration of guanxi.

Participant 8 – Retail Cosmetic

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • The market in China is massive, with a 1.4bn population. However, the competition landscape is exceptionally intense. • The people in China face many choices, both from overseas and local suppliers. • You must work very hard to stay in business.
Business Structure	<ul style="list-style-type: none"> • There are so many product choices in retail that guanxi does not play a significant role. • The fundamental business keys are the price and quality of the products. So how do I convince the consumers to buy my products?

	<ul style="list-style-type: none"> Guanxi is becoming less significant in the retail space due to the increasing product choices for consumers and advanced information such as social media. However, you still need guanxi built on trusting friendship to enter the Chinese market.
Guanxi and Value Chain	<ul style="list-style-type: none"> 'Debt Collection' is an issue, but the approach is to access the value-added potential by working with the clients on their terms. Built from nothing, accept very tough deals to get into the market—lots of consignment with lots of capital. A marketing budget is more critical than guanxi. The foundation is on the price and quality rather than on guanxi.

Participant 9 – Corporate Merchandise Business

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> Manufacturing is not Cheaper in China; however, they have the infrastructure and protection in place that other countries cannot provide. E.g., China has a quality control policy such as ISO to protect the buyers and sellers. The manufacturing environment in China is more sophisticated as they have independent auditors to ensure there is no labour exploitation and negative environmental effects. This gives our clients peace of mind, especially when they know our supply chains are ethical and transparent. Unlike China, Vietnam, and Sri Lanka cannot produce ESG documents; we have a competitive edge by partnering with our Chinese manufacturers. The prices are not low, but it makes sense to work with these Chinese manufacturers who practice CSR, so it is worth the value.
Business structure in China	<ul style="list-style-type: none"> Our business model focuses on quality and service those premium clients who value quality more than price. We try to steer away from those clients that focus solely on the lowest price. We align with the Chinese manufacturers with the same mission, vision, and values for ease of business. Guanxi must be developed over time because you need to show your credentials and worthiness.
Guanxi and its importance	<ul style="list-style-type: none"> In terms of payment, the company pays an initial deposit and then the final payment after dispatch. Guanxi is needed to create a more flexible term with the suppliers and manufacturers. Chinese manufacturers will produce products for their preferred clients. E.g., if there is a tight deadline and I

	<p>need the goods immediately, having good guanxi will help me solve my problem.</p> <ul style="list-style-type: none"> • We will become more reputable and competitive if we consistently have low fault rates. The low fault rates are measured in customer experience and our complaints. • Guanxi is significant here. Suppose we have a terrible reputation with the suppliers. They will delay the production and give wrong orders, which results in a high fault rate. These problems are generated due to poor guanxi, which will pressure our staff resources to fix the issues.
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Focus group C – 7th June 2021

Part A - Journey to China.

Participant 10 – Capital investment funds

- The business was established in Australia, and the service is to help high-net-worth individuals invest and provide an investment channel for their capital funds.
- Participant 10 is Malaysian Chinese and does not have any family connection in China; he built his network through friends in Australia who have a relationship in China.
- He establishes a good track record, especially when you do not have a strong network, because participant 10 started his business on referral connections.

Participant 11 – Equity Funds

- Participant 11 helps Chinese investors invest in a retail complex where she manages the portfolios on their behalf.
- Guanxi is built from working relationships, relatives, and friends.

Participant 12 – Corporate Advisory Firm

- Participant 12 was one of the first graduates from a China university in business and economics. He was elected to work in the Guangzhou Treasury, Trade and Development office, building his vast network. The guanxi came from the Chinese Government.
- Participant 12 managed the advisory firm to help Chinese companies be listed on the stock exchange and used the new capital to invest in Australia.
- Participant 12 was sponsored to Australia and joined AMP Group after post-graduation. Through AMP, he learned all the financial products and made his first pot of gold. That was where he built his guanxi in Australia. Then he leveraged his regular Chinese radio show to build his goodwill and profile in the Chinese community.

Participant 13 – Cherries Grower Agriculture Firm

- Participant 13's family started a cherry agriculture business in Orange and Mudgee, expanding locally. Their niche is that there are not many Chinese in the agriculture business. So, using their business connection in China, they became the largest cherry grower in NSW and distributor for local companies to export to China.

Participant 14 – China Export Distributor (light goods)

- Participant 14's family are distributors of lightweight goods (toys, handbags, etc.) and export them worldwide.

Part B – Insight: Australian business experience of conducting business with China.

Participant 10 – Capital Investment Funds

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • There are many high net-worth individuals in China that Participant 10 is targeting.
Business Structure	<ul style="list-style-type: none"> • Value heavily into face-to-face meetings because that is the most effective way to build relationships. Participant 10 travels to China every month.
Guanxi and Value Chain	<ul style="list-style-type: none"> • I must have Guanxi. Without this element, I will have no business.

Participant 11 - Equity Funds

Experience	Critical points on occasion
Opportunities in China	
Business Structure	<ul style="list-style-type: none"> • Must do due diligence on the clients as part of the risk management and reduce PI costs. • Keep those reliable clients, add value to your business, and avoid those considered risky. • The risk is too high if no due diligence is done (especially in insurance costs).
Guanxi and Value Chain	<ul style="list-style-type: none"> • Guanxi will help you get the best resources. • Once I have built more trust in guanxi, I can use guanxi to improve efficiency and increase productivity.

Participant 12 – Corporate Advisory Firm

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • Between 2012 to 2018, the Chinese Government allocated a huge budget to cultivate 800 business enterprises. The aim was to have them listed on the

	<p>Stock Exchange and expand their business worldwide, including in Australia.</p> <ul style="list-style-type: none"> The relationship between Australia and China is still strong because we have the resources, and the quality is high. China is a manufacturing country, and it needs raw materials such as iron to deliver processed goods worldwide.
Business Structure	<ul style="list-style-type: none"> Besides commodity trade between Australia and China, there will be a bigger platform for capital trade and agricultural business.
Guanxi and Value Chain	<ul style="list-style-type: none"> Guanxi is the infrastructure in the value chain. First, the complex structure is built upon the circle of friends and then the circle of relatives and close friends, which then goes into the heart of the family. Together this gives the circle of influence.

Participant 13 – Cherries Grower Agriculture Firm

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> Largest cherries grower in NSW and exporter of local produces (Orange and Mudgee) to China. There is a high demand in China for cherries to be a stable commodity; therefore, guanxi does not play an important role.
Business Structure	<ul style="list-style-type: none"> Australian Government and related agents such as Austrade play a significant role in helping the cherries business export into China. Services include finding leads and providing sales propositions. The entire value chain must be of high quality.
Guanxi and Value Chain	<ul style="list-style-type: none"> Being a stable product, guanxi is not as important as the quality of the product. How the business operates is very important in its operational excellence and productivity. Guanxi plays a role in allocating the exported cherries, i.e., who gets the best batch of the cherries. Guanxi is about creditability and track record; we must add value and build trust.

Participant 14 – China Export Distributor (light goods)

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> The competition in China is highly fierce; therefore, we must use guanxi to fight for the resources to get the best products and most popular products.

Business Structure	<ul style="list-style-type: none"> • Most manufacturing factories/businesses in China are family businesses, and that is how these businesses were built. • With the advancement of robots and automated manufacturing, family type management and connections still hold firmly.
Guanxi and Value Chain	<ul style="list-style-type: none"> • Family structure is still the foundation of many manufacturing businesses. Therefore, it would be hard to work there if I did not have guanxi with these families. • Guanxi plays a significant role in getting invoices paid. For example, I would promptly pay you to deliver fast and good quality goods. Otherwise, I would hold the payment. Hence a good relationship with a track record is significant.

Focus group D – 10th June 2021

Participants 15 and 16 – Education and Recruitment

- The business was established four years ago. It focuses on job readiness training (resume, interviews) and placing students for internship and employment here in Australia to kick start their careers. This business model was later expanded into China to help return and local students start their careers in China.
- Participant 15's business also works with local Chinese universities on international exchange study programs with overseas universities. For example, China's four-year program will be broken down into 2 + 2 models, with two years of local programs and two years of overseas programs.
- The primary market is China and mainly international students; for example, the study disciplines are commerce, business, finance, and IT.
- Fifteen years ago, participant 15 began his journey to Australia as an international student, and he found it hard to secure a job and started a promising career.
- Before the education business, Participant 16 worked in many places, including the banking industry. He started to cultivate their networks here in Australia as participant 15 and participant 16 both originated from China. They have already established a solid network and built relationships to help them find a good job and internship at a Chinese company.

Participant 17 – Trade (Moutai Distributor)

- Participant 17 is the distributor of Moutai, the most famous white wine in China. It is considered one of the icons of China, and the company is enjoying exponential growth in share price.
- Grew up in China, Participant 17 came to Australia as an international student. Moutai Australia is his first job, and he has slowly grown with the company. Not much family support, so he partnered with someone from the US and opened a small factory in Guangzhou to promote and distribute Moutai.

Participant 18 – Financial Services and Fund Management

- Participant 18 came to Australia in 2003. There were not many economic and business relationships between Australia and China. Not until 2012 that China exceeds Japan to become Australia's leading trading partner. He joined Citibank and had many Chinese clients immigrate to Australia on a business investment typed visa.
- Born in Guangzhou, Participant 18 built his network in China before he immigrated to Australia in 2003.

Part B – Insight: Australian business experience of conducting business with China.

Participants 15 and 16 – Education and Recruitment

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • The market for this type of educational service is massive in China, but the competition is also very intense. • As the Chinese economy grows, there is an increase in middle-class families wanting their children to have a better education. They have the money to send their children abroad, which large local Chinese companies and multinationals favour. • On average, 800,000 Chinese students are studying overseas; that's 1/10 of the total students in China. • The culture of studying abroad started with Chairman Deng, who encouraged the Chinese students to go overseas and learn new knowledge, which then brought them back to China and built the country. That was his vision. • Chinese parents are willing to spend money on their children's education because they firmly believe knowledge will add value to their children's future by being more competitive in the local job market.
Business Structure	<ul style="list-style-type: none"> • The job market in China is getting stricter and more selective for international students because of the ample supplies and wider choices available. • International students could find a banking or finance job very quickly in the past. However, due to the current competition of many international students, it is more difficult for these students to enter the financial industry.
Guanxi and Value Chain	<ul style="list-style-type: none"> • The guanxi with students and the guanxi with hiring companies are two very different levels. • The students came to use our service for better prospects, and the relationship is a B2C type of guanxi. When they secured a job and were pleased

	<p>with our service, most likely, they would refer more students or jobs to us for placement.</p> <ul style="list-style-type: none"> • The relationship with hiring companies is a B2B type of guanxi because we need to maintain a good connection with hiring managers. Participant 11 spends a fair amount of time in China and travels between cities just so the quality of guanxi is maintained. • There is no big issue in debtor management because the parents pay the fees and pay for their children's prospects. However, they worried about their prospect of getting a job placement if they delayed their payments so they would pay on time.
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Participant 17 – Trade (Moutai’s Distributor)

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • The drinking culture in China provides an excellent social platform for Moutai to prosper.
Business Structure	<ul style="list-style-type: none"> • Moutai is the icon of China, and it is now listed on the stock exchange. • Being the distributor of Moutai, the most crucial point is to build guanxi with Chinese consumers, which is the strength of participant 17. • Promoting Moutai in Australia was very difficult at the start because there were not many Northern Chinese, mostly Hong Kong Chinese and Canton Chinese, who did not drink Moutai.
Guanxi and Value Chain	<ul style="list-style-type: none"> • The drinking culture and guanxi are tightly connected as they can bring two groups of unknown people together and become brothers after a few rounds of Moutai. • Moutai is guanxi as it helps to close the deal. When an Australian wants to collaborate with a mainland Chinese, he will engage him by giving him a few Moutai. A sign of willingness to work with the Chinese by learning their culture. • Guanxi with the Moutai supplies in China is super important to participant 17 than the sales relationship with Australian retail channels. Participant 17 needs reliable supply as a distributor, especially when the quantity is limited. • Participant 17 flies back to China regularly to keep good guanxi with the Moutai’s manufacturer, built 15 years ago when it was a small manufacturer. The

	<p>relationship is tightly established because we started the journey together and have helped each other grow.</p> <ul style="list-style-type: none"> • Moutai has such a strong branding that the demand outweighs the supply.
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Participant 18 – Financial Services and Fund Management

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • Many high-net-worth business clients believe Australia is good for investment, a stable economy, a good lifestyle, and excellent education. • Due to the large population size, the relationship and networks in China are very complex compared to Australia.
Business Structure	<ul style="list-style-type: none"> • Guanxi is used to assess the quality of my business clients or associates. Then, starting with trust and understanding, we progress the business dealings by building a stronger relationship. • Guanxi happens at all levels, and we must build relationships at the top, middle, and lower classes. Unlike Australia, which is more straightforward, we follow the procedures and the required steps in the deal-making process.
Guanxi and Value Chain	<ul style="list-style-type: none"> • We must keep a good relationship with our business associates. However, if the firm changes owners, we must start all over again in building guanxi with the key decision-maker, especially since guanxi is a personal asset.

Focus group E – 11th June 2021

Participant 19 – Global Marketing Specialist, Art and Culture

- Marketing Director for an Art and Culture Industry since 2012; before that, she was a marketing specialist for the financial industry.
- Working for a foreign firm, Participant 19 was responsible for setting up China's business and the auction process. As a result, they are the first foreign firm that gained an auction licence to trade in China.

Participant 20 – Law Firm

- It began with his business partner to service the high demand from Chinese seeking to immigrate to Australia. The vision is about bringing customised solutions by focusing on clients' needs and providing a premium solution, such as addressing the legal requirements of asset protection in Australia and China.

- The initial connection is from families and friends because there is essential trust. Trust is critical as it assures them that they would not be taken advantage of. They know your networks and the creditability to deliver.
- After a few successful legal cases were delivered, the clients started to refer their families and friends, which was how the law firm was built.
- It has operated for eight years, and the majority of its clients are Chinese, selling Australian legal services to them. The mission is to create a platform for trade from one region (China) to another area (Australia).

Participant 21 – Marketing and Graphic Designing Firm

- Co-founder of a creative agency and international (mainly European) art dealership with offices in Paris and Guangzhou.
- It started as a hobby that slowly built the business, project by project.
- Not a social person, she did not do much work on guanxi in terms of networks and relationship building.

Participant 22 – Federation of Australian Canton Association

- Participant 22's mentor and a close friend invited him to join the Federation of Australian Canton Association as the Vice President of Australia Zhongshan Business Chamber.
- Born in Australia, his ancestors were from Zhongshan. His connections with China are from his father, who is very prominent in China's Zhongshan province.
- By invitation, the Federation of Australian Canton Association invited Participant 22 and his delegation to an official tour in Canton, meeting local governments and prominent business people.

Part B – Insight: Australian business experience of conducting business with China.

Participant 19 – Global Marketing Specialist, Art and Culture

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • The luxury market in China is massive and booming, e.g., rare handbags can be auctioned in a collection that cannot be bought in retail. • There is a considerable demand among consumers for luxurious auction items because they know it is an excellent channel to get rare items.
Business Structure	<ul style="list-style-type: none"> • We need the licence to auction and sell rare items after 1946. Anything before that, you can only exhibit. • The target audience is high-net-worth individuals, policyholders, and Chinese Government makers. • Need the government support by gaining the permits to trade, exhibit, sell, import, and export rare arts items.

Guanxi and Value Chain	<ul style="list-style-type: none"> • Guanxi is critical because trade and auction licences are required from the local and national governments to operate in China. • We need someone to connect with the local government and then progress to the national government. • Both corporate and personal guanxi is required to get the licenses. This involved many years of relationships in building the trust to obtain the permit. • There is a need to have an excellent legal understanding and strong leadership from the Chairman, who knows the right people to talk to.
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Participant 20 – Law Firm

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • There is a large and growing market for all Australian products and services, e.g., Australian produces, land, migration, and education. Due to these needs and the growing wealth in China, they want to invest in Australia and demand Australian goods and services.
Business Structure	<ul style="list-style-type: none"> • Consistently high-net-worth individuals first and then followed by their corporate businesses. To get the corporate companies, I need to get their personal touch. It is easier to go through the corporate companies if I have the trust of the decision-makers.
Guanxi and Value Chain	<ul style="list-style-type: none"> • I cannot tap into these high-net-worth Chinese clients to acquire a new client without guanxi and trust built on it. • I got the client to put the monies into the Trust Account and then started the work. It is more of a credit control issue.

Participant 21 – Marketing and Graphic Designing Firm

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> • With the rise of the middle class, there is a growing demand for many foreign companies to sell their products and services in China. Hence there is a marketing demand for the firm such as Participant 21.
Business Structure	<ul style="list-style-type: none"> • The business structure is genuinely based on artistic talent as my business partner is the first Artistic Director of the largest advertising company in the world. She was well established and had a name already.

	<ul style="list-style-type: none"> The core model focuses on foreign companies entering the Chinese market, so guanxi emphasises less.
Guanxi and Value Chain	<ul style="list-style-type: none"> We have paid in retainers. We would not deliver the goods if our clients did not pay. Usually, these clients will pay on time because they want the goods. However, we use a little bit of guanxi to push our clients to pay on time. We must do due diligence on our clients to ensure they have the budget and funds to pay. Credit control and assessment are significant in our business. We need strong guanxi to hold on to the designers and retain this talent pool in Guangzhou, Paris, and Sydney. Monetary incentive is not enough; guanxi is required. We have partners on the ground to ensure the operation is smooth. Guanxi is built on products and qualities, as the clients follow the artists and designers. Highly critical.

Participant 22 - Federation of Australian Canton Association

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> China is a big market, and other Asian countries are not as developed and as big as China.
Business Structure	<ul style="list-style-type: none"> We need guanxi to see the high-ranking officials, and these relationships do take many years to build. I was invited to study in Chinese universities on a short-term program. The Chinese Government aims to train our foreign Chinese to learn more about our motherland and serve accordingly. I haven't been able to capitalise on the business relationship but have taken the opportunity to plan a Greater Bay Chamber of Commerce here in Australia.
Guanxi and Value Chain	<ul style="list-style-type: none"> Guanxi is transferable! When I went to Zhongshan, I was served by many high-ranking officials due to my father's guanxi network.

Focus group F – 12th July 2021

Participant 23 – Funeral Director

- Funeral Director with 15 years of working experience in the industry. The end-to-end funeral service is focused on the Chinese market, such as Australian Chinese wanting to bury in China or mainland Chinese wanting to bury in Australia.

Participant 24 – Consulting Firm: Australia China for Trade and Investment

- This organisation is set up to help Australian businesses to succeed in China. The Greater Bay Region's current target market empowers Australian companies to build the right partners and develop strategies to enter and develop partnerships in this new region.
- This start-up organisation has established relationships with partners with strong government and commercial relationships in China.

Participant 25 – Australian Tea exporting to China

- A start-up business vision to promote Australian-made tea that encouraged a generally healthy lifestyle. The mission is to source Australian sustainable products and sell them to the Chinese market.
- The produce is alternate tea for the Chinese market, for example, Go-gee and green tea combined instead of the traditional Pui Lei Chinese tea.

Part B – Insight: Australian business experience of conducting business with China.

Participant 23 – Funeral Director

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none">• The China market is huge on two factors, an ageing population and insufficient land availability when land burial is preferred based on old Chinese tradition.
Business Structure	<ul style="list-style-type: none">• We need the licence to trade, and we must work closely with local Funeral Directors to transport the body from China to Australia.
Guanxi and Value Chain	<ul style="list-style-type: none">• Guanxi is an essential element in the operational aspect of the value chain. Therefore, we need good collaboration with the Funeral Director to do their part (i.e., the funeral service) to do our part (i.e., transportation and burial).• Trust is critical, and guanxi is built in; I need to trust the Funeral Director and the deceased's family to perform my given task, i.e., land burial in Australia.

Participant 24 - Consulting Firm: Australia China for Trade and Investment

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> Greater Bay China will take China's economy to the next level.
Business structure	<ul style="list-style-type: none"> The key to our relationship building is finding individuals who have connections to government officials who can support our initiatives. In addition, we need to add value to them.

Participant 25 – Australian Tea Exporting to China

Experience	Critical points on occasion
Opportunities in China	<ul style="list-style-type: none"> Opportunities in China are massive but very competitive.
Business structure	<ul style="list-style-type: none"> Our company is a start-up, and the strategic model is built on the growing middle-class in China and their demand for quality products from Australia.

Qualitative Analysis

<i>Guanxi</i> <i>Application</i>	<i>Porter's Value Chain / Primary Activities</i>				
	Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service
Know Industrial Knowledge	Identify Suppliers, Purchasing Functions Participant (9) (17)	Selection of Plant, Operational Excellence Participant (2) (4) (9) (12) (13) (14)	Transportation/Logistic Arrangement	On-line/Off-line, Wholesale/Retail Distribution Participant (8) (9) (12) (14) (18) (19) (20) (21)	Outsourced servicing team/ In-house Participant (8) (9) (12) (14)
Access Local Talent Pool	Recruit Local Procurement Employees Participation (6)	Recruit Engineer/Production Team - Participant (5) (6) (14) (21) (23)	Recruit Distribution Agents	Engage Sales / Marketing and Promotion Agents - (5) (6) (14) (21) (23)	Build Up Customer Servicing Team - Participant (6)
Know Local Rules & Regulations	Export/Import Regulations, Tax Incentives, License for custom, Participant (7) (10) (14) (17) (19) (24)	Apply for Operating Licenses, ISO9000/ISO14000 Knowledge and Accreditations, WHS, Sustainability - Participant (5) (6) (7) (8) (10) (14) (19) (22) (24)	Quality Control, Government Codes - Participant (19) (24)	Export/Import Regulations, Tax Incentives, License for channel sales - Participant (19) (24)	Customers' Protection Act - Participant (19) (24)
Access Local Commercial Network	Sourcing materials and scarce resources - Participant (1) (4) (5) (6) (9) (23) (17) (18)	Access to local resources to improve efficiency and productivity Participant (1) (4) (5) (6) (9) (23) (18)	Channel distributions Participant (1) (4) (6) (18)	Trust in buyer-seller relationship - Participant (1) (4) (5) (6) (8) (18) (20)	Trust in servicing clients - Participant (1) (2) (4) (5) (6) (7) (18) (20)

Theoretical Framework	Literature Review	Quotation/Empirical Findings
Know Industrial Knowledge: Inbound Logistics, Operations, Outbound Logistics, Marketing & Sales, Service	<p>Guanxi is considered one of the critical factors determining the success of foreign entrants in China (Dobrucah, 2020).</p> <p>The tendering of favours, particularly the offer of short-term gains, is essential but not powerful enough to maintain long-term guanxi relationships alone. To maintain long-term relationships, an integrated approach is more effective (Tung & Yeung, 1996).</p> <p>From a resource-based perspective, guanxi cannot be treated as an isolated strategic component but instead reflects the inherent power to generate superior operational performance (Zhang et al., 2021).</p> <p>There is a greater need for foreign companies to understand guanxi competence better. The complete removal of guanxi-based competence might significantly undermine the ability of a firm to succeed in a guanxi-driven setting (Nolan & Rowley, 2020).</p> <p>Guanxi assists companies conducting business in China to run smoothly in a complex, uncertain and rapidly changing business environment (Chua, 2021).</p> <p>The perception of guanxi by Chinese businesspeople is a social phenomenon that is an integral part of the business norm that aims to secure meaningful business opportunities in the long run (Yeung & Tung, 1996).</p> <p>The enforcement of guanxi may prove instrumental in enabling firms to effectively mobilise their core resources and competencies to access an expansive range of markets through market development (Zhang et al., 2021).</p> <p>The value of solid emotional affiliation to the business transaction, the guanxi advantage, might be the driving force to support long-term</p>	<p>Participant 2 – Guanxi starts from the early stages, which grow together as a close-knitted cohort, resulting in an ecosystem that is hard to break in.</p> <p>Participant 4 – The immigration clients will not engage us if they did not know our partners since childhood. They demand a solid foundation on someone they can trust.</p> <p>Participant 8 – Guanxi is vital for ‘debt collection’. Not only do you need guanxi to make sales with the client, but you must also build a secure relationship to get their payments which can be delayed none to twelve months after the invoice.</p> <p>Participant 8 – Debt collection is an issue, but the approach is to access the value-added potential by working with the clients on their terms.</p> <p>Participant 9 – Guanxi is prominent in our business. Suppose we have a terrible reputation with the suppliers. They will delay the production and give wrong orders, which results in a high fault rate. All these problems are generated due to poor guanxi, which will pressure our staff resources to fix the issues.</p> <p>Participant 9 – If we consistently have low fault rates, we will become more reputable and competitive. The low fault rates are measured in customer experience and our complaints.</p> <p>Participant 9 – China is not the cheapest nation for manufacturing, but it is the best quality and process. Other countries cannot provide the infrastructure and protection as the manufacturing environment is more sophisticated and focuses heavily on ESG (environment social governance).</p> <p>Participant 9 – Guanxi must be developed over time because you need to show credentials and worthiness.</p>

	<p>business relationships (Gellerstam & Wiesner, 2020).</p> <p>The development of emotional affiliation might be time-consuming in a well-developed guanxi association; others find that imitating the guanxi advantage within a short period is impossible (Dobrucah, 2020).</p> <p>The weakening of guanxi connection might reduce guanxi advantage, and the quality may be diluted by an average social or interpersonal relationship (Leung & Barnes, 2020). Guanxi may be significantly undermined in the event of a bad business experience, thereby reducing the ability of a foreign business to yield sustained value for the involved partners (Dobrucah, 2020).</p> <p>The development of guanxi networks in cross-border business transactions might assist companies in compensating for their deficiencies using solid capabilities and competencies helped by the guanxi partner (Wiegel & Bamford, 2014). This social-cultural phenomenon is still inadequate for the development and growth of a company in the long term (Abosag, 2015).</p> <p>There is ambiguity about the treatment of guanxi as a core competence for the company, and current and future studies must examine the extent to which guanxi can improve business performance within the Chinese context (Feng et al., 2017).</p> <p>In practice, companies operating in the Chinese marketplace are confronted with transitional economic movements and guanxi dynamics, making it integral for Australian companies to focus on this social dynamic and leverage their competitiveness along the different value chain stages (Cheng & Tang, 2012).</p>	<p>Participant 9 – Guanxi is naturally the ultimate way of conducting business in China. It is the key to doing successful business here in China.</p> <p>Participant 9 – If there is a tight deadline and needs the goods immediately, having good guanxi will be helpful to solve the problem.</p> <p>Participant 11 – Once trust is built, more value can be added with improved efficiency and increased productivity.</p> <p>Participant 12 – Despite the current trade war between Australia and China, the relationship is still strong because Australia has high-quality resources. China is a manufacturing country and needs raw materials such as iron ore to deliver processed goods worldwide.</p> <p>Participant 12 – Besides commodity trade between Australia and China, there will be a more significant capital trade and agricultural business platform.</p> <p>Participant 13 – Guanxi is about creditability and track record, and we must add value and build trust.</p> <p>Participant 14 – The competition in China is highly fierce. Therefore, we must use guanxi to fight for the resources to get the best and most popular products.</p> <p>Participant 14 – Guanxi plays a significant role in getting invoices paid. For example, I would promptly pay you to deliver fast and good quality goods. Otherwise, I would hold the payment. Hence a good relationship with a track record is significant.</p> <p>Participant 14 – Guanxi plays an immense role in helping to collect debts. However, even though there is a legal contract with a proper review, the payment will never be on time with many excuses. Hence it would be best if I had guanxi to speed up the process and iron out the credit issues.</p>
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	<p>An intense competition orientation is required for companies to stay truly competitive and innovative in the wake of changing business conditions in global markets. The involvement of guanxi principles in cross-border joint ventures creates genuine trust-driven business relationships (Wilson & Brennan, 2010).</p>	<p>Participant 17 – Guanxi with the Moutai supplies in China is more important than the Australian retail channels’ sales relationship. Being a distributor, participant 17 needs reliable supply, especially when the quantity is limited.</p> <p>Participant 17 – Moutai has strong branding that the demand outweighs the supply.</p> <p>Participants 18 and 19 – The growing wealth of the Chinese means the luxury market in China is massive and booming, creating many business opportunities that aim to service this pool of high-net-worth individuals who want to invest in Australia for its stable economy, good lifestyle and excellent education.</p> <p>Participant 20 – There is a large and growing market for Australian products and services, e.g., land, migration, and education. Due to these needs and the growing wealth in China, they want to invest in Australia and demand Australian goods and services.</p> <p>Participant 21 – With the rise of the middle class, there is a growing demand for many foreign companies to sell their products and services in China. Hence, there is a market demand for a firm.</p>
<p>Access Local Talent Pool: Inbound Logistics, Operations, Outbound Logistics, Marketing & Sales, Service</p>	<p>Guanxi is viewed as long-term cooperation among exchange partners contributing to organisational efficiency and sustained competitive advantage (Wang et al., 2017). Guanxi advantage is quite distinct from a market-driven competitive advantage because it is based on mutual bonding rather than outcomes and effects (Chu et al., 2020). Guanxi begins with family relationships, but it is cultivated over time (Kambil et al., 2006). Guanxi might become a fundamental driver in creating customer value through the increased personal</p>	<p>Participant 6 – Guanxi falls on the staff and the personal relationships to the business.</p> <p>Participant 6 – The value in guanxi is boundless and unlimited. The value chain and its efficiency, size, operational excellence are irrelevant. The staffs are the real asset and the personal relationships they can bring to the business.</p> <p>Participant 14 – In China, family structure is still the foundation of many manufacturing businesses, and it is hard to be employed if there is no relationship with the family. In addition, guanxi is used to retain staff</p>

	<p>commitment of employees (Shu, 2018).</p> <p>Firms with established guanxi relationships based on trust and shared goals experienced more success. This is because guanxi is positively and significantly related to overall performance (Ngoma, 2016).</p>	<p>as the monetary incentive is not enough.</p> <p>Participant 21 – We have partners on the ground to ensure the operation is smooth. Guanxi is built on products and qualities, as the clients follow the artists and designers.</p> <p>Participant 23 – Trust is critical, and guanxi is built in.</p>
<p>Know Local Rules and Regulations: Inbound Logistics, Operations, Outbound Logistics, Marketing & Sales, Service</p>	<p>Guanxi is particularly important in salesforce marketing and credit policy, specific business determinants (Luo, 2010).</p> <p>The treatment of guanxi is based on the understanding that guanxi may offer an efficient mechanism to attain bureaucratic efficiencies in the contemporary organisational setting (Geng et al., 2017).</p> <p>Firms willing to recognise and embrace the importance of the guanxi network should see transactional cost advantages as unattainable by those who fail to develop such networks (Standifird & Marshall, 2000).</p> <p>A guanxi-oriented strategy can be a powerful tool to enable the Chinese business players and their Australian counterparts to establish a good business relationship to deliver business success (Shu, 2018).</p> <p>The implementation of a guanxi-based management system in the value chain is primarily shaped by the understanding that guanxi might be used as a supplement to the existing business strategy, mainly when operated in a transitional economy where institutional legitimacy and credibility appear to be weak and compromised (Chua, 2012).</p>	<p>Participant 5 – Spend a lot of service and time to build trust in the relationship. Cannot rely solely on the Chinese business, need the Australian part to support the regular operation.</p> <p>Participant 5 – Based on the business structure in China, guanxi is a contract and supporting document when there is no presence or not enough professional currency.</p> <p>Participant 7 – In the older generation, it is all about whom you know and whether you have a connection with people in China.</p> <p>Participants 6 and 8 – Debt collection is an issue, but the approach accesses the value-added potential by working with the clients on their terms, and guanxi is vital for debt collection. It would be best to have guanxi to make sales with the client. You must also build a secure relationship to get their payments as late as nine to 12 months old.</p> <p>Participant 10 – I must have guanxi. Without this element, I will have no business.</p> <p>Participant 14 – If you could deliver the goods fast and of acceptable quality, I would promptly pay you. Otherwise, I would hold the payment. Hence a good relationship with a track record is significant.</p> <p>Participant 17 - Being the distributor of Moutai, the most crucial point is to build guanxi with Chinese consumers.</p> <p>Participant 19 – We need someone to connect with the local government and then progress to the national government.</p>

		<p>Participant 19 – Guanxi is critical because trade and auction licences are required from the local and national governments to operate in China. Therefore, there is a need to have an excellent legal understanding and strong leadership from the chairman who knows the right people to talk to.</p> <p>Participant 22 – We need guanxi to see the high-ranking officials.</p> <p>Participant 24 – The key to our relationship building is finding individuals who have connections to government officials who can support our initiatives. In addition, we need to add value to them.</p>
Access Local Commercial Network – Inbound Logistics, Operations, Outbound Logistics, Marketing & Sales, Service	<p>Guanxi is viewed as long-term cooperation among exchange partners that contribute to organisation efficiency and sustained competitive advantage from a resource dependence theory. From a transaction cost theory, guanxi tends to reduce transaction costs, thereby making firms appear more effective and efficient because guanxi has provided an alternative and efficient network system that advances the firm economically (Wang & Chen, 2017).</p> <p>Contracts and guanxi are complementary. Contracts are an early-stage mechanism, and then you must adapt your products and services, operational policies and employees to local practices (Yu, 2002).</p> <p>Guanxi remains an important social phenomenon that must be understood and applied by both Chinese and Australian managers to foster a collaborative engagement to deliver success in key value chain activities (Zao & Ha-Brookshire, 2018).</p> <p>Trust plays an indispensable role in cross-cultural business relationships since partners from different cultures do not always have the same values or assumptions about business (Roy et al., 2012).</p>	<p>Participant 1 - You must build relationships from acquaintance to friends and then to best friends and even families to get the business.</p> <p>Participant 1 – My mother is the leading expert in the industry, but she still needs guanxi to stay ahead and makes solid deals. The higher the level of trust, the relationship between buyer–seller will significantly enhance.</p> <p>Participant 2 – Must sign to ensure the involving parties will deliver future promises.</p> <p>Participant 4 – Succession planning in transferring guanxi is essential, as it is an intangible asset.</p> <p>Participant 5 – Unlike the Western practice on clients seeking accreditation and professional capability when written contracts are highly developed and governed, the Chinese clients will look for those they know and trust.</p> <p>Participant 6 – The heart of guanxi is in the family network. However, it is not recommended to include family members in the business. It will create many conflicts due to greed, jealousy, and self-interest.</p> <p>Participant 7 – Guanxi must be exercised in the service part of the value chain to monitor and maintain relationships.</p>

	<p>Traditionally, the Chinese rely more on developing functional relationships, with less emphasis on written contractual documents (Yen et al., 2007)</p> <p>Guanxi affects the performance of a firm (Wang et al., 2017).</p> <p>Guanxi strategy can be defined as developing and using personal networks to gain a competitive advantage. It might involve planning and allocating guanxi investment, namely the resources (i.e., time, money and personnel) needed to cultivate relationships and guanxi practice and the use of connections to achieve organisational goals (Nolan & Rowley, 2020).</p> <p>The strategic integration of guanxi in the competition-oriented business strategy may form a meaningful starting point for both Australian and Chinese managers to evaluate the advantage in its global value chain (Leung & Barnes, 2020).</p> <p>Guanxi orientation might also be adopted in other settings, including knowledge management and information exchanges, trust-building, substitutes to an inadequate legal framework, increased access to funding and financial support, improved value chain relationships and fostering mutual collaboration and partnerships (Cheng et al., 2012; Lu, 2018)</p>	<p>Participant 8 – To enter the Chinese market, you still need guanxi built on trusting friendship.</p> <p>Participant 17 – Flies back to China regularly to keep good guanxi with the Moutai manufacturer, built 15 years ago when it was a small manufacturer. The relationship is tightly established because we started the journey together and have helped each other grow.</p> <p>Participant 20 – Could not access the high-net-worth Chinese clients without existing guanxi and trust-building.</p> <p>Participant 23 – Guanxi is an essential element in the operational aspect of the value chain. Therefore, we need good collaboration with the funeral director to do their part (i.e., the funeral service) and do our part (i.e., transportation and burial).</p> <p>Participant 17 – The drinking culture and guanxi are tightly connected as they can bring two groups of unknown people together and become brothers after a few rounds of Moutai. Moutai is guanxi as it helps to close the deal. When an Australian wants to collaborate with a mainland Chinese, he will engage him by giving him a few Moutai. A sign of willingness to work with the Chinese by learning their culture.</p> <p>Participant 18 – Guanxi happens in all levels, and we must build relationships at the top, middle and lower levels. Unlike Australia, which is more straightforward, we follow the procedures and the required steps in the deal-making process.</p> <p>Participant 18 – Guanxi is used to assess the quality of my business clients and associates. Starting with trust and understanding, we progress the business dealings by building a stronger relationship.</p>
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