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How FIEs may sustain competitive advantage in China

Adapting marketing strategy by the use of Guanxi

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Abstract

Purpose – The purpose of this paper is to show that the Guanxi characteristics in Chinese business culture may add to the understanding of foreign invested enterprise's (FIE) successful marketing in China.

Design/methodology/approach – The authors surveyed the entry mode of 296 FIEs in China and examined their way of adapting marketing strategy to local culture. The authors used a conceptual model hypothesizing a system of variables that the authors subsequently tested using structural equation modeling.

Findings – Market orientation was insufficient to obtain marketing capability in China. FIE marketing capability in China was dependent on Guanxi and learning orientation, showing the need for contextualization of marketing approaches.

Research limitations/implications – This paper enriches previous research on marketing and makes a contribution to the existing literature on practical management in China. It is also relevant for marketing in other markets in transition.

Practical implications – FIEs may develop these capabilities on their own or succeed trough partnering in China. The study also points at similar mechanisms in other emerging markets and economies in transition from previous socialist economies.

Originality/value – The authors attempt to explore the main factors driving the marketing capabilities of FIEs in China. Few articles have shown how foreign companies may adopt Guanxi orientation to do this, which is the object of the present study.

Keywords Competitive advantage, Strategic orientation, Entry mode, Competition type, Marketing capability

Paper type Research paper

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Introduction

Marketing capability (MC) has been proven to be a source of competitive advantage. It refers to the integrative processes used to recognize, collect and apply the knowledge and skill to deal with internal resources, adapting to the external environment (Day, 1994; Su *et al.*, 2009). However, most of the studies undertaken in the Western business world provide marginal implications for emerging nations in terms of how to configure organizational capabilities and their critical drivers under challenging economic and governmental reforms. The weighted importance of each capability at different economic development levels has rarely been explored, although some limited research on the difference between developed and emerging markets has shown the need to explore contextually dependent conditions for critical capabilities and resource configurations (Sheth, 2011).

Among the emerging markets, China is receiving more interest from practitioners and academics than other transitional economies (Sheth, 2011). As one of the Brazil, Russia, India, China (BRIC) nations, China's continuous economic growth and increasing consumer spending power continues to attract foreign investors and foreign invested enterprises (FIEs). Still, FIEs in China are gradually losing their competitive advantage to fast-growing local domestic firms. As more and more FIEs struggle to keep their competitive advantage in China (Sharif and Huang, 2012), there is a need for more research on how foreign companies may adapt to the on-going changes and their potential impact on MC in China.

The scope of knowledge necessary for multinationals to succeed in China spans competence development, teams and innovation and networking on many levels (Lee *et al.*, 2012; Wilkinson *et al.*, 2005), requirements found necessary even for Hong Kong-based companies (Sharif and Huang, 2012). Market penetration by existing business models seems to require knowledge creation on many levels (Nonaka and von Krogh, 2009), as predicted in capability theory (Eisenhardt and Martin, 2000; Teece, 2010).

Guanxi, a Chinese term that literally means "relationship", has long been considered a key success factor in doing business in China, particularly for foreigners (Ambler, 1994; Davies *et al.*, 1995; Gu *et al.*, 2008; Lovett *et al.*, 1999; Luo, 1997; Peng and Luo, 2000). The importance of *Guanxi* is still difficult to grasp from a knowledge-creating perspective in management. Some have claimed that the importance of *Guanxi* for local firms may diminish in the light of the open-door policy (Fan, 2002). But others have shown that even if *Guanxi* has characteristics of developing economies, being expensive in a transaction-cost perspective, it is a deeply ingrained form of relations-based governance likely to persist in most modern East Asian economies (Li *et al.*, 2004; Luo *et al.*, 2012). Hence, the need to further investigate the impact of *Guanxi* on FIEs is highlighted by several researchers (Lee *et al.*, 2012; Sharif and Huang, 2012).

Relationship-oriented governance may be more prevalent than commonly assumed in management theory. While the Chinese culture is mindful and explicit about relationships as in the concept of *Guanxi*, there are probably no countries that are entirely rule-oriented (Li *et al.*, 2004; Judge, 2012). Emerging markets and economies in transition from previous socialist models may be very relationship-oriented due to lack of pre-established trust (Brige, 2006; Salciuviene *et al.*, 2011). In this study, we try to identify how *Guanxi* affects the MC and market performance (MP) of FIEs in China, but believe our theoretical outline and empirical findings have relevance to other economies in transition.

The contribution of this study is to show how the application of marketing theory can profit from being contextualized when occurring outside of the most mature markets and economies, such as in China and other developing economies. There is less empirical support for management theory in such places and we want to highlight necessary adjustments for firms operating in emerging markets. Firms should gain advantages from both market- and *Guanxi*-type systems in modern China (Lovett *et al.*, 1999). The effects of market orientation (MO) and learning orientation (LO) have been studied extensively in Western contexts, but *Guanxi* has been tested mainly by Chinese local samples (Chen and Miller, 2011; Luo *et al.*, 2012). The mix of Western market concepts and Chinese *Guanxi* orientation (GO) has not been explored. The present study aims to explore how entry mode and competitive environment, two basic concepts in international marketing research, moderate the effects of MO, LO and GO on MC (Figure 1).

Theoretical background

The resource possession approach proposes that a firm's competitive advantage consists of idiosyncratic, inimitable and non-substitutable resources, both tangible and intangible (Amit and Shoemaker, 1993; Barney, 1991; Eisenhardt and Martin, 2000). MO and LO, as intangible endowments of firms, are ambiguous and less observable, creating a competitive advantage because they are difficult for competitors to duplicate (Day, 1994; Hunt and Morgan, 1995). However, the resource possession approach has a limitation: it does not guide firms to develop strategies to process their individual resources (Nahapiet and Ghoshal, 1998; Morgan *et al.*, 2009). Simply possessing certain resources is not a sufficient condition to explain firm advantage. In a dynamic market, it is essential to create flexible applications and reconfigurations of existing resources (Eisenhardt and Martin, 2000). It is important for firms to build core competencies to integrate firm resources to address rapidly changing market environments.

Marketing capability

"Capabilities" are defined as an organization's repeatable patterns of core routines and skills, carrying out various activities effectively (Amit and Shoemaker, 1993). According to the resource-based view (RBV), a firm is composed of a bundle of resources and capabilities, leading to differential performance among firms (Barney, 1991; Peteraf, 1993). Chang *et al.* (2010) defined MC as an organization's

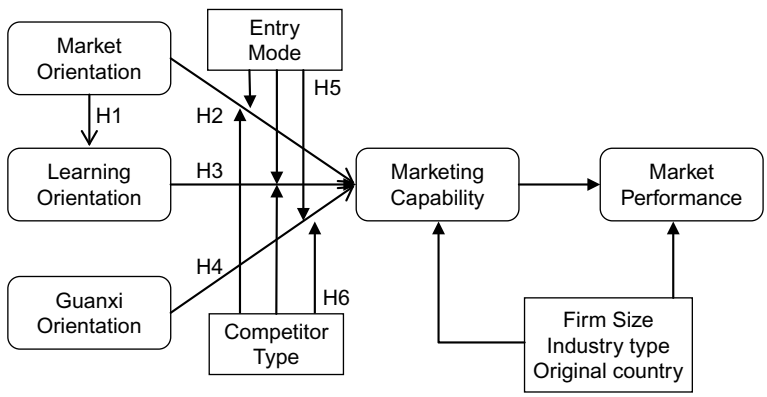

Figure 1.
The influence of strategic orientation on marketing capability

repeatable pattern of actions to carry out the marketing-related needs of the business effectively. Firms can achieve competitive advantages through the development of key MCs (Day, 1990, 1994; Day and Wensley, 1988). According to Day (1994), MC is firm-specific and provides superior market sensing, customer linking and channel-bonding capabilities, thus being one of the primary ways firms can achieve competitive advantages (McKee *et al.*, 1989). MCs are integrative processes designed to apply the collective knowledge, skills and resources of the firm to the market-related needs of the business. Moreover, MC has significant impact on competitive resource reconfiguration by gluing together necessary internal endowments and external information (Su *et al.*, 2009; Zhou and Li, 2010). In addition, excellent management of marketing tactics such as marketing programme employment (White *et al.*, 2003), prompt customer responses (Jayachandran *et al.*, 2004) and pricing skills (Dutta *et al.*, 2003) have been proven to influence firm performance. Within marketing literature, MCs are assumed to be key drivers of firm performance, with significant influence on firm market and financial performance. Prior empirical studies have demonstrated the extent to which MCs serve as drivers that lead to differential performance among companies. The main studies are illustrated in Table I.

Global expansion provides good opportunities for firms to leverage the value of their assets (Bartlett *et al.*, 1992; Chang, 1997) while also bringing new markets and new customers to firms. Given that MC is a firm-specific capability (Day, 1990, 1994), it can be a key to success in international markets (Blesa and Ripollés, 2008). For example, Aaby and Slater (1989) found a positive relationship between MCs and international economic performance. Zou *et al.* (2003) demonstrated how export MC (employing marketing-mix capability) of Chinese exporters significantly affected export financial performance. Chang (1997) examined whether technology and MC affected a firm's market expansion and financial performance in global business. These findings support our claim that firms with superior MC exhibited characteristics enabling them to enjoy superior performance and sustain competitive advantages in international and emerging markets such as China.

Guanxi *and* Guanxi *orientation*

Receiving growing interest in Western business literature, *Guanxi* is a moral code to doing business in China with strong impact on success in China (Liu and Roos, 2006),

Chang (1997)	Performance (ROI, ROS, cash flow, market share)
Vorhies *et al.* (1999)	Organizational performance (profitability, growth, adaptability and customer satisfaction)
Vorhies (1998)	Organizational effectiveness
Fahy *et al.* (2000)	Relative performance (SOEs, PSOEs, FDI, etc.)
Weerawardena (2003)	Organizational innovation intensity Sustained competitive advantage
Zou *et al.* (2003)	Export financial performance
Vorhies and Morgan (2003)	Marketing effectiveness Marketing efficiency
Vorhies and Morgan (2005)	Customer satisfaction; market effectiveness; profitability
Nath *et al.* (2010)	Profitability; operating profit
Chang *et al.* (2010)	Market effectiveness; market profitability

Table I.
The impact of marketing capability on performance

as pointed out by a number of scholars (Hofstede and Bond, 1988; Lee and Lo, 1988; Wong, 1998). One practical consequence of *Guanxi* is that personal loyalties are often more important than organizational affiliation or legal standards (Alston, 1989).

Wu and Leung (2005) confirm the link between managers' personal ties and firm performance as *Guanxi* is elevated from an individual to an organizational level. *Guanxi* could be considered an asset at organizational level, based on the fact that it is reciprocal, intangible and transferable among parties (Park and Luo, 2001). Empirical studies have shown that firms with *Guanxi* tend to be more efficient (Lovett *et al.*, 1999), can access scarce resources (Davies *et al.*, 1995; Luo, 1997) and possess sustained competitive advantage (Tsang, 1998). *Guanxi* enhances long-term survival and growth (Pearce and Robinson, 2000) and has favourable effects on firms' profitability and asset turnover (Peng and Luo, 2000), exerting a significant influence on channel and response capability (Gu *et al.*, 2008).

Foreign investors value *Guanxi* to gain two types of resources: first, they hope to do business smoothly by building *Guanxi*; second, being latecomers, they hope to acquire important market resources or information. The previously established importance of *Guanxi* to foreign investors in China is summarized in Table II.

Since most FIEs did not have any *Guanxi* in China prior to going there, the bulk of previous studies on *Guanxi* have investigated local companies in China. As more companies accumulate history in China, it is more interesting to investigate if and how foreign entrants may employ *Guanxi*. In this study, we use "GO" as a new perspective on how foreign managers can make decisions in the Chinese market, taking *Guanxi* into consideration, and define it in the following way:

> GO is a business orientation or inclination that focuses on building and cultivating *Guanxi* networks, and it is a shared set of fundamental beliefs and values appreciating *Guanxi* as a basic asset to a firm's success in the Chinese market.

Based on Peng and Luo (2000), we believe two components exist in this concept of GO: government *Guanxi* orientation (GGO) and business *Guanxi* orientation (BGO). In countries with strong public governance, business success may depend just as much on third-party stakeholders, such as government officials, as on the commercial actors and competitors in the business-focused value chain (Judge, 2012).

Table II.
The *Guanxi*'s effect based on characteristic of Chinese market

Characteristic of Chinese market	*Guanxi*'s effect
Low trust society (in-group vs out-group)	*Guanxi* is a network, trust is extended only to the immediate (in-group member) (Fukuyama, 1995; Wong, 1998; Atuahene-Gima and Li, 2002; Wang, 2007)
Market uncertainty and confusion	*Guanxi* is a value entrepreneurial tool to bridge gaps in information and resource flows between unlinked firms and between firms and important outside stakeholders (Park and Luo, 2001)
A top-down allocation of resources	According to resource-based theory, *Guanxi* is a crucial company resource, which rare and difficult to imitate by competitor (Tsang, 1998)
Difference of local policy	*Guanxi* helps foreign firms (lack of market information) to reduce decision-making uncertainty in Chinese market (Lee *et al.*, 2001)

Hypotheses

The impact of MO on LO

Slater and Narver (1995) pointed out that significant overlaps exist between MO and LO at behavioural as well as cultural levels. They emphasize that MO only enhances performance when it is combined with LO. Bell *et al.* (2002) also argued that MO and LO are mutually dependent and synergistically related. MO and LO share similar research domains in explaining market sensing as critical organizational capabilities. Both are concerned with understanding organization-wide phenomena such as organizational culture and norms. Baker and Sinkula (1999) indicated that MO has a significant effect on relative performance only among firms with strong LO.

A growing body of research in the marketing literature examines the relationship between MO and LO, with differing views on the direction of causality between MO and LO (Mavondo *et al.*, 2005). Farrell (2000) and Slater and Narver (1995) argued that MO provides the cultural framework to develop LO. Dickson (1996) noted that MO describes a set of processes that enables the firm to learn. Baker and Sinkula (1999) pointed out that MO facilitates adaptive learning. Liu *et al.* (2002) investigated whether LO mediates MO and short-term marketing activities. After investigating 340 organizations, Lee and Tsai (2005) argued that MO has a positive impact on organizational innovation by stimulating a learning environment. Keskin (2006) identified that MO affects LO positively, while Farrell and Oczkowski (2002) found that MO is able to encompass LO, but not vice versa. Therefore, we state our first hypothesis:

H1. MO has a positive effect on LO.

The impact of MO on MC

MO has been asserted as a particular form of business culture (Kohli and Jaworski, 1990; Narver and Slater, 1990; Slater and Narver, 1998). Being an aspect of culture, MO may in fact be more rooted within the organization's core, given that culture may shape and affect the selection, implementation or alteration of business strategy (Hunt and Morgan, 1995). Dobni and Luffman (2000) indicate that MO may afford an explanation for strategy and the strategy-performance relationship.

Hult *et al.* (2005) suggested that MO influences performance through organization responsiveness. Moreover, MO requires complementary organizational capabilities if its value to the firm is to be fully realized (Morgan *et al.*, 2009). Morgan *et al.* (2001) found a positive relationship between market knowledge and MCs. MO has an operational focus on market information – processing activities regarding customers and competitors, particularly information acquisition, information distribution and the ability to respond to what is received (Day, 1994; Kohli and Jaworski, 1990; Narver and Slater, 1990). In recent research, Subramanian and Gopalakrishna (2001) demonstrated the importance of MO to competitive advantage in non-Western samples. Jaworski and Kohli (1993) have observed how MO affects business performance across national cultures.

MO is also called an "outside-in" orientation, characterized by the degree to which firms obtain and react to feedback from customers and competitors (Baker and Sinkula, 1999; Day, 1994). Therefore, MO is able to affect MCs in such a way as to make the firm an attractive supplier, and develop products and services to satisfy consumers (Celuch *et al.*, 2002). Consequently, we have the following hypothesis:

H2. MO has a positive effect on MC.

The impact of LO on MC

Creating new competitive advantages in the Chinese market is the biggest challenge for FIEs (Dai and Zhao, 2008). The opposing factors are organizational rigidity (Luostarinen, 1980), organizational inertia (Hannan and Freeman, 1984), organizational resistance (Darling and Taylor, 1989) and national cultural differences (Kogut and Singh, 1988). A firm can benefit from its global expansion if the management overcomes these difficulties. In order to assure global success, Bartlett *et al.* (1992) suggested that foreign firms develop an experience-curve advantage through global learning. If a firm manages such a learning process well, the advantages can play a significant role in determining its success in a competitive global market. Empirical findings of several studies (Baker and Sinkula, 1999; Sinkula *et al.*, 1997) have strongly demonstrated that LO is even more essential for firms in a quickly changing market, such as the transitional economy of China.

The existing literature shows some controversies around the relative importance of MO and LO on MC, but even research favouring MO over LO claim that it is "important to have a learning orientation to mediate the influence of a market orientation" (Farrell and Oczkowski, 2002, p. 210), and probably more so when operating as an international newcomer in a foreign market. On the basis of the foregoing, we make our next hypothesis:

H3. LO has a positive effect on MC.

The impact of GO on MC

As covered in our literature review above, *Guanxi* is beneficial to firms through multiple mechanisms and on several levels. Additionally, research on the development of relationship-versus rule-based governance suggests that relationship-based business models are not likely to disappear even when emerging markets mature (Li *et al.*, 2004). Thus, adopting a relationship-based marketing approach through *Guanxi* is also likely to be a sustainable approach.

Specifically, *Guanxi* is essential to marketing activities since it can bring strong bargaining power (Leung and Wong, 2001), reduces transaction costs (Standifird and Marshall, 2000) and allows price advantages. Recent studies find that *Guanxi* directly impacts new product performance (Perks *et al.*, 2009), inter-firm communication (Su *et al.*, 2009) and channel capabilities (Gu *et al.*, 2008). Furthermore, Pearce and Robinson (2000) found that good *Guanxi* was more powerful than aggressive marketing campaigns for an Australian firm in China. In this way *GO* is another essential strategic orientation (along with MO and LO) with important impact on MC in China, leading to our fourth hypothesis:

H4. GO has a positive effect on MC.

The moderating effect of entry mode

Entry strategies have been an interesting area of research in marketing and international business. There are a number of ways to categorize entry modes (Buckley *et al.*, 2007; Pan and Tse, 2000). In this study, we follow Xu and Greenwood's (2006) classification. They categorized entry modes into entry without collaboration (WOC) and entry with collaboration (WC). WOC represents wholly foreign-owned enterprises, whereas WC represents local strategic alliances, project-based

collaboration, joint ventures, mergers and acquisitions, etc. When exploring the role of GO in relation to the established constructs of MO and LO, we make the basic assumption that FIEs entering a foreign market decide to do that based on a perception of non-local advantages that make the entry appear reasonably promising. We further assume that FIEs characterized by such advantages are more rule-based than relationship-based in their business approach, tending to underestimate or even neglect the role of relationship governance.

Over the years, FIEs have faced many difficulties since they have a tendency to ignore Chinese business rules and ethics and attempt to impose Western management systems in the Chinese market (Von Weltzien Hoivik, 2007). In addition, foreign firms typically have a very limited understanding of *Guanxi* before entering the Chinese market. Moreover, they consider *Guanxi* to be unethical behaviour (Chen and Chen, 2009). MO and LO have been recognized as two important strategic orientations in international business research. Therefore, WOC firms tend to depend more on MO and LO to develop MC. However, WC firms are more familiar with the Chinese market and a certain basis of *Guanxi*. Moreover, Luo (1997) proved that *Guanxi*-based variables have more impact on the performance of firms engaging in co-operation with local firms. We therefore assume that knowledge of and attention to GO will differ:

H5. The effects of MO, LO and GO are moderated by entry mode such that:

H5a. MO and LO have greater impact on MC than GO for WOC firms, but not for WC firms.

H5b. GO has greater impact on MC than MO and LO for WC firms, but not for WOC firms.

The moderating effect of competitor type

Competition is a central topic in strategy. Although researchers pay attention to identifying competitors, they have often neglected host countries' competitive environments with respect to FIEs (Chang and Xu, 2008). FIEs are likely to face challenges from other foreign entrants as well as local firms. Previous researchers have argued that a foreign entrant's advantages over local firms, such as technological superiority, strong brand loyalty and location advantage, are sufficiently large to compensate for their lack of local knowledge and to limit competition from local firms (Caves, 1971).

We hypothesize that belief in superior advantages, and not GO, will characterize foreign companies entering China, because they need to use non-local advantages to compete with local actors already entrenched in relationships. In addition, with the *Guanxi* network, Chinese local firms are provided with a distribution advantage, low production and transition costs, and rich market (consumer) knowledge with mass-market brands (Dawar and Frost, 1999). Foreign companies cannot easily catch up with them. Therefore, the effects of MO, LO and GO are expected to differ significantly in regard to the types of competitors facing the FIEs:

H6a. MO and LO have greater impact on MC than GO for firms with local competitors, but not for firms with foreign competitors.

However, with the entry of more foreign competitors and technology spillovers to locals, we believe that GO will be increasingly important as the foreign entrant becomes less distinct:

H6b. GO has greater impact on MC than MO and LO for firms with foreign competitors, but not for local competitors.

Research method

Data collection

Data were collected with assistance from the administration of Wuqing Development Zone (WDZ), located between Beijing and Tianjin in China. The group of organizations situated here is almost like a snapshot of the international business environment in China: the WDZ was set up in December 1991, and includes more than 400 foreign invested companies from more than 21 countries, such as the USA, Denmark, Sweden, Germany, Japan and South Korea, as well as special Chinese regions such as Taiwan and Hong Kong. This sample is therefore fairly representative of the international business community in its approach to the Chinese market. The applied survey questionnaire was first developed in English, then translated into Chinese, and then reverse-translated by two independent translators to ensure conceptual equivalence. Invitations were sent to 385 firms, of which 296 returned completed forms, yielding an overall response rate of 76.9 per cent. About 65 per cent of the respondents (from 193 firms) were department managers and 75 per cent (from 222 firms) had worked for their firm for at least three years. A total of 273 firms (92 per cent) were SMEs with fewer than 1,000 employees and 231 firms (78 per cent respondents) had entered China at least five years earlier. A total of 121 firms (about 40.8 per cent) labelled their industry as "manufacturing sector".

The questionnaire had two parts. The first part collected data about the constructs of MO, LO, GO, MC and MP, adapted from the existing literature described above and using seven-point Likert scales, ranging from "disagree strongly" (1) to "agree strongly" (7). The second part collected basic information about firm profiles and respondents' characteristics, using nominal scales. Following Narver and Slater (1990), our MO measure consists of three components: customer orientation (CMO), competitor orientation (CPO) and inter-functional coordination (ICO). Adapting the measures developed by Sinkula *et al.* (1997), our LO measures include an organization's commitment to learning (CL), shared vision (SV) and open mindedness (OM). The GO measure includes two components: BGO and GGO. For BGO, we adapted the measures of Peng and Luo (2000) and Dubini and Aldrich (1991), and for GGO we adapted the measures of Peng and Luo (2000) and Gu *et al.* (2008). MC was measured using the scales developed by Vorhies (1998) and Zou *et al.* (2003). MP was measured by adapting the measurements employed by Blesa and Ripollés (2008). On the control variables, we treated firm size (number of employees), industry type and original country as controls, since MC and performance may be influenced by the characteristics of firms.

Analysis and results

We used a two-step approach to analyse our data, separating the measurement model from the structural model. The confirmatory factor analysis (CFA) for validating the measurement and the structural equation modelling for testing the hypotheses were conducted with AMOS 18.0.

Construct validation. Gerbing and Anderson (1988) assert that exploratory factor analysis (EFA) can expose underlying patterns or factor structures among measured data in cases in which there has been insufficient study of the relevant factor model. The validity of the scale items was first assessed through factor analysis using principal component analysis with varimax rotation. The overall factor loadings of all items range between 0.594 and 0.917, which exceeds the 0.5 threshold for the structural model (presented in Appendix 1). Assessing convergent validity of a measure can be done by CFA to gauge the fit of the proposed measurement model to the observed covariance matrix (Philips and Bagozzi, 1986). As assumed, we found three factors within the constructs of MO (CMO, CPO and CIO) and LO (CL, SV and OM), respectively; two factors measuring GO (BGO and GGO); four factors measuring MC (Pri, Pro, Cha and Com); and one single factor constituting MP (Per). The second-order constructs were MO, LO, GO and MC. Following the recommendations of Liu *et al.* (2002), the second-order constructs were tested separately from the first-order factors (Sinkula *et al.*, 1997). We treated our model as reflective rather than formative when conducting the CFA analysis, as we assume the unobservable construct to be the cause of its manifestation or measures (Bollen, 1989; Edwards and Bagozzi, 2000). The second-order factor loadings were significant ($p < 0.01$) and acceptable, indicative of reasonably convergent validity. Thus, proceeding, we created first-order constructs by assigning each item's responses to a corresponding scale, and we generated the second-order constructs by averaging the scores of the first-order constructs (Table III).

We then adopted the first-order model for the measurement and structural models. Table IV shows convergent validity as the factors associated with all items load significantly on the corresponding latent constructs (Bagozzi *et al.*, 1991) and the fit statistics are appropriate. The overall factor loadings of all items range between 0.51 and 0.86, which exceeds the 0.5 threshold for the structural model with an acceptable model fit ($\chi^2 = 214.400$, df = 80, GFI = 0.910, CFI = 0.919, RMR = 0.038, RMSEA = 0.075).

Our models also show convergent validity on three criteria as shown in Table V: the standardized path loadings are greater than 0.7 and statistically significant (Gefen *et al.*, 2000); the composite reliabilities, as well as Cronbach's αs, are larger than 0.7 (Nunnally, 1978); and the AVE for each factor are all above 0.5 (Fornell and Larcker, 1981). In addition, the scales' discriminant validity was indicated as the AVE of

	Structure	χ^2	df	RMR	TLI	CFI	RMSEA
CMO CPO ICO	MO	183.361	51	0.041	0.890	0.915	0.094
CL SV OM	LO	66.233	17	0.023	0.921	0.952	0.099
BGO GGO	GO	88.666	26	0.087	0.949	0.963	0.090
Pri Pro Cha Com	MC	145.15	61	0.037	0.918	0.936	0.069

Table III.
Convergent validity (second-order full CFA)

High-level constructs	Low-level constructs or items	Factor-loading
Market orientation	Customer orientation	0.58
	Competitor orientation	0.70
	Interfunctional coordination	0.67
Learning orientation	Commitment to learning	0.79
	Open mindedness	0.63
	Shared vision	0.70
Guanxi orientation	Government *Guanxi* orientation	0.62
	Business *Guanxi* orientation	0.55
Marketing capability	Pricing capability	0.63
	Product capability	0.71
	Channel capability	0.73
	Communication capability	0.51
Market performance	Sales growth	0.71
	Market share	0.86
	Profitability	0.74

Table IV.
Convergent validity (first-order full CFA)

Notes: $\chi^2 = 214.400$, df = 80, GFI = 0.910, CFI = 0.919, RMR = 0.038, RMSEA = 0.075; df – degree of freedom; GFI – goodness of fit index; CFI – comparative fit index; RMR – root mean square residual; RMSEA – root mean square error of approximation

	1	2	3	4	5	Mean	SD	AVE	CR
1. Market orientation	*0.864*					6.18	0.52	0.71	0.87
2. Learning orientation	0.678*	*0.866*				6.15	0.57	0.83	0.93
3. *Guanxi* orientation	0.308*	0.238*	*0.868*			5.73	0.85	0.77	0.87
4. Marketing capability	0.545*	0.601*	0.487*	*0.803*		6.06	0.53	0.77	0.93
5. Market performance	0.449*	0.492*	0.327*	0.505*	*0.837*	6.01	0.76	0.71	0.88

Table V.
Description and reliability of constructs

Notes: Correlation is significant at: *0.01 level (two-tailed); coefficient αs are shown in italics on the diagonal; CR stands for composite reliability and AVE stands for average variances extracted

each construct, which was bigger than the paired scales' shared variance (squared intercorrelation). The zero-order correlation matrix of the first-order constructs and controls is shown in Appendix 2.

We also checked the data for possible common method bias. First, we conducted Harman's single-factor test (Podsakoff *et al.*, 2003). An EFA of all five constructs (including 44 items) yielded five factors with eigenvalues exceeding 1.00. The highest percentage of explained variance was 17.15 per cent, and no single factor explained most of the variance. Second, we conducted the marker variable test (Lindell and Whitney, 2001). We used the item "firm age" as a marker variable because it was not related to this study's variables. According to the results, the average correlation between the marker variable and other variables was low and insignificant ($r = 0.056$, $t = 1.27$). We then calculated CMV-adjusted correlations using equations from Malhotra *et al.* (2006) and found a negligible difference between CMV-adjusted correlations and pre-adjustment correlations (average = 0.041). Thus, the results of these two statistical tests indicate that common method bias was not a serious problem.

Hypotheses testing. The hypotheses were tested, estimating path coefficients in structural equation modelling using maximum likelihood (ML) estimation (Bollen, 1989) with standardized coefficients and other fit statistics. To assess the differential effects, we report standardized coefficients as path coefficients. The overall model fit was examined and we found a good model fit to our normalized data ($\chi^2 = 237.158$, df = 114, $p = 0.000$; GFI = 0.918; CFI = 0.926; RMR = 0.034; RMSEA = 0.061). Table VI shows the parameter estimates for the assumed causal paths of main effects (*H1-H4*). The empirical results suggested support for main effects of all our hypotheses, except *H2*. LO and GO show significant effect on MC ($\gamma = 0.584$ [0.101], $p < 0.10$; $\gamma = 0.614$ [0.116], $p < 0.10$). However, the path of MO on MC failed to reach the desired significance level. Thus, *H2* was not supported, but *H3* and *H4* were supported. In other words, MO did not seem to have a direct impact on MC in the present research context. However, we found that MO had a significant impact on LO, supporting *H1*. Moreover, this indicated that MO had an indirect effect on MC by influencing LO, but our study contains no hypothesis of this due to the previous coverage of this topic. Our estimates showed that the path from MC to MP was significant ($\gamma = 0.681$ [0.046], $p < 0.01$), confirming the significant impact of MC on MP in a Chinese market context.

Testing the moderating effect of entry mode and competitor type, we conducted a multi-group comparison test. The sample was split into two groups by entry mode (1 – WC-entry with collaboration; 0 – WOC-entry without collaboration) and competitor type (1 – local competitors; 2 – foreign competitors). Two-group comparisons were then performed to examine whether there were any differences in structural parameters between two groups, as shown in Table VII (moderating effect of entry mode) and Table VIII (moderating effect of competitor type). We found no difference between WC and WOC data on the links from MO ($\Delta\chi^2 = 1.059$) and LO ($\Delta\chi^2 = 0.053$) to MC, suggesting that the effects of MO and LO on MC were the same between the two groups, thus that *H5a* was not supported. As for the relationship between GO and MC, the coefficient of GO for WC was 0.258 ($p > 0.10$) and for WOC was 0.649 ($p < 0.05$), significantly different ($\Delta\chi^2 = 7.968$). Thus, *H5b* was supported. This indicates that FIEs entering the Chinese market without any collaboration tend to pay more attention

Structure paths	Standardized (SE)	*t*-value	
Main model			
MC → Per	*0.681 (0.130)*	*7.570* ***	*H1* is supported
MO → LO	0.618 (0.135)	8.417***	*H2* is not supported
MO → MC	−0.086 (0.144)	−582	*H3* is supported
LO → MC	*0.584 (0.101)*	*4.071* ***	*H4* is supported
GO → MC	*0.614 (0.116)*	*4.048* ***	
Control variables			
Firm size → MC	0.055 (0.027)	1.038	
Industry → MC	*− 0.091 (0.045)*	*1.696* *	
Original country → MC	−0.006 (0.030)	−0.119	
Firm size → Per	−0.031 (0.039)	−0.576	
Industry → Per	−0.078 (0.067)	−1.405	
Original country → Per	*0.*116 (0.045)	*2.126* **	

Notes: Significant at: *$p < 0.10$, **$p < 0.05$ and ***$p < 0.01$; $n = 296$; $\chi^2 = 237.158$, df = 114, $p = 0.000$; GFI = 0.918; CFI = 0.926; RMR = 0.034; RMSEA = 0.061

Table VI.
Hypothesis testing of main effect

to *Guanxi,* whereas FIEs whose entrance is based on collaboration present a weak effect of GO. Examining the moderating effect of competitors between local competitors and foreign competitors, we also found that the impact of MO and LO on MC showed no difference between the two groups ($\Delta\chi^2 = 0.012$; $\Delta\chi^2 = 1.082$). Therefore, *H6a* was rejected. However, the effect of GO was significantly different between the two groups ($\Delta\chi^2 = 4.126$). When FIEs' main competitors were Chinese local companies, they tended to attach more importance to the influence of *Guanxi* than did FIEs competing with foreign firms ($\gamma = 0.663$, $p < 0.05$ vs $\gamma = 0.375$, $p < 0.05$). This supports *H6b*.

Conclusion and discussion

As the largest emerging market in the world, China continues to attract FIEs. Global actors seek to sustain competitive advantage by building MC that can adapt to China's fast-changing markets. Foreign companies struggle to succeed partly because they are relying too heavily on Western market characteristics (Davies *et al.*, 1995). Western marketing approaches may not be universally applied, since culturally defined values will affect their effectiveness in different cultural contexts (Hofstede, 1992). Lovett *et al.* (1999) argued that firms should gain advantages from both market- and *Guanxi*-type systems. In this study, we proposed a model using three strategic orientations to explore the antecedents of MC in China and emphasized the essential impact of GO on MC.

Guanxi, as a unique cultural element in China, has long been considered a key success factor for business in China (Wang, 2007). We believe our results contribute to further understanding of *Guanxi* in the marketing literature, as our study clearly supports that MC in China is strongly dependent on GO as one of the explanatory variables. Most FIEs may have realized that they could access important resources through *Guanxi* if they have experience in the Chinese market, but Western managers and researchers are still struggling to understand how to use this approach and how to differentiate it from unwanted forms of co-operation such as corruption

Table VII.
The moderating effect of entry mode

				Estimate		
			Change of χ^2	WC	WOC	
MO	→	MC	1.059	0.179	−0.079	*H5a* is not supported
LO	→		0.053	0.444**	0.529**	
GO	→		7.968***	0.258	0.649**	*H5b* is supported

Notes: Significant at: *$p < 0.10$, **$p < 0.05$ and ***$p < 0.01$; $n = 296$; $\Delta\chi^2 > 3.84$, df = 1
Source: Anderson (1987) and Bagozzi *et al.* (1982)

Table VIII.
The moderating effect of competitor type

				Estimate		
			Change of χ^2	Local	Foreign	
MO	→	MC	0.012	−0.111	0.100	*H6a* is not supported
LO	→		1.082	0.499***	0.671**	
GO	→		4.126***	0.663**	0.375**	*H6b* is supported

Notes: Significant at: *$p < 0.10$, **$p < 0.05$ and ***$p < 0.01$; $n = 296$; $\Delta\chi^2 > 3.84$, df = 1
Source: Anderson (1987) and Bagozzi *et al.* (1982)

(Wilkinson *et al.*, 2005). FIEs in the Chinese market could benefit from seeking *Guanxi* to increase MC, since China is a low-trust society and Chinese people prefer to conduct business with those who are in their own *Guanxi* networks rather than someone else (Wang, 2007). Foreign actors must consider *Guanxi* an asset of firms and try to build an effective business *Guanxi* with Chinese counterparts. Hence, it is important for FIEs to maintain GO.

Contrary to our first assumption, there was no direct effect of MO on MC. The extensive previous research on MO has been undertaken in Western contexts such as the USA. Moreover, most of the previous research only considered the effect of MO alone. In this study, we considered the effect of MO with other factors, such as LO or GO in the Chinese context, and found that MO had an indirect effect on MC via LO. It is well known that foreign firms face many difficulties due to limited market knowledge. Bartlett *et al.* (1992) suggested that foreign firms are able to improve their business operations through global learning in order to assure global success. The empirical findings of several studies (Baker and Sinkula, 1999; Sinkula *et al.*, 1997) have also demonstrated strongly that LO is essential for firms in a fast-changing market such as the transitional economy of China. Many scholars have also indicated that MO is antecedent to LO (Baker and Sinkula, 1999; Farrell, 2000; Slater and Narver, 1995). Our results support that MO may affect LO, and also imply that this effect of MO is relevant to the Chinese market.

Finally, we found that both entry mode and competitor type in China moderated the effect of GO on MC. GO has a stronger impact for WOC firms than for WC firms, which indicates that WOC firms have more inclination to build or utilize *Guanxi* than WC firms. This is possible since foreign investors who have local partners are likely to have better access to powerful Chinese *Guanxi* networks than firms wholly owned by foreign investors (Luo, 1997). As a consequence, WOC firms might pursue *Guanxi* more than WC firms. In addition, we found that the effect of GO appeared to be greater when FIEs mainly competed with local companies rather than foreign firms. As mentioned above, most advantages of local companies (low transaction cost, channel capability, etc.) are closely related to *Guanxi*. It is quite possible that the advantage of foreign companies (technology advantage, brand power, etc.) could not be exerted without *Guanxi*. They therefore may consider *Guanxi* more when they compete with local firms. However, when they compete with other foreign firms, they pay relatively less attention to *Guanxi* since other FIEs stand in the same position of having low *Guanxi*. In other words, foreign investors can gain an edge over their competitors by understanding the specific effect of GO. Thus, our findings provide strong quantitative support for what has previously only been suggested in case studies (Lee *et al.*, 2012).

Practical implications

Marketing strategies need to be adapted to the Chinese business culture in order to succeed. LO and MO are both likely to contribute to MC (Farrell and Oczkowski, 2002), but our findings indicate that the concept of *Guanxi* needs to be taken into account in emerging economies such as China. *Guanxi* can be obtained by having a local counterpart or by investing in one's own network. The choice of approach here may be dependent on one's competitive situation. The time pressure for *Guanxi* may be more severe when competitors are local than if they are foreign. As argued initially, we also believe our findings are interesting to researchers and practitioners in other countries,

such as in the Baltic area. Emerging markets and economies in transition from previous socialist models share many similarities with the Chinese market. Previous research has shown how relationship orientation in the Baltic region is conducive to business success in logistics as well as banking (Brige, 2006; Juščius and Grigaite, 2011), possibly because of the need to establish inter-organizational trust (Salciuviene *et al.*, 2011). Professional knowledge about *Guanxi* also helps to differentiate between relationship governance and corruption, which has been an issue in developing business with post-Soviet actors in Russia (Kouznetsov and Dass, 2010).

Limitations and future research

This study has several limitations. First, we used a cross-sectional approach to examine the causal relationships in the proposed model. The role of *Guanxi* in China is likely to evolve along with the country's economic growth. Future research should use a longitudinal design to examine the evolving effects on firm performance. Second, this study's sample was limited to FIEs in the WDZ, which is located between Beijing and Tianjin. However, market and institutional environments are likely to vary across regions in China and this may influence the relationship between *Guanxi* and firm performance (Sheng *et al.*, 2011). Third, the sample did not include large FIEs, which are likely to have more resources and market experience than SMEs, which may influence their view of *Guanxi*. In this regard, future research should include large firms across regions. Fourth, our conceptualization of MC is constrained to marketing mix in our operationalization and other empirical approaches may yield different findings. Finally, we examined the moderating effects of the entry mode and type of competitor only. A wide range of factors may moderate the antecedents of MC.

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Appendix 1

Construct		Indicator (parameter)	Loadings	Reliability
Please indicate how much you agree or disagree with each of the following statements. Seven-point scale with 1 (strongly disagree) to 7 (strongly agree) scale anchors				
Market orientation	Consumer orientation (CMO)	Our business objectives are driven by customer satisfaction	0.830	0.855
		We monitor our level of commitment and orientation to serving customers' needs	0.835	
		Our strategy for competitive advantage is based on our understanding of customer needs	0.837	
		Our business strategies are driven by our beliefs about how we can create greater value for customers	0.714	
	Competitor orientation (CPO)	Our salespeople share information within our business concerning competitors' strategies	0.818	0.877
		We respond to competitive actions that threaten us	0.820	
		We target customers and customer groups where we have, or can develop, a competitive advantage	0.699	
		The top management team regularly discusses competitors' strengths and strategies	0.594	
	Interfunctional coordination (ICO)	Our top manager's from every function visit our current and prospective customers	0.753	0.893
		We communicate information about our successful and unsuccessful customer experiences across all business functions	0.838	
		All of our business functions (e.g. marketing and sales, manufacturing, R&D, finance and accounting, etc.) are integrated in serving the needs of our target markets	0.742	
		All of our managers understand how everyone in our company can contribute to creating customer value	0.789	
Learning orientation	Commitment to learning (CL)	Managers basically agree that our organization's ability to learn is the key to our competitive advantage	0.824	0.913

(*continued*)

Table AI.
Measures used

Table AI.

Construct		Indicator (parameter)	Loadings	Reliability
		The basic values of this organization include learning as a key to improvement	0.838	
		The sense around here is that employee learning is an investment, not an expense	0.765	
		Learning in my organization is seen as a key commodity necessary to guarantee organizational survival	0.754	
	Shared vision (SV)	All employees are committed to the goals of this organization	0.842	0.627
		Employees view themselves as partners in charting the direction of the organization	0.814	
	Open mindedness (OM)	We are not afraid to reflect critically on the shared assumptions we have made about the way we do business	0.742	0.750
		Managers encourage employees to "think outside the box"	0.889	
How important are these statements do you think when you do business in China				
Guanxi orientation	Government *Guanxi* orientation (GGO)	Our senior management has personal relationships with important people in government	0.810	0.887
		Our senior management spend on government officials gift in special festival	0.863	
		Our senior management always invite government official to participate in dinner or other social activities	0.835	
		Our senior management always do personal favours to government officials	0.826	
		Our senior management often communicate with government officials	0.879	
	Business *Guanxi* orientation (BGO)	Our senior management and partner senior management exchange government officials gift in special festival	0.917	0.909

(*continued*)

Construct	Indicator (parameter)	Loadings	Reliability
	Our senior management and partner senior management always invite each other to participate in dinner or other social activities	0.914	
	Our senior management and partner senior management always do personal favours to each other	0.913	
	Our senior management and partner senior management often communicate with each other	0.763	
Relative to your major competitors, responding quickly to competitors' pricing tactic (much wore – 1; much better – 7)			
Marketing capability Price capability (Pri)	Using your pricing skills to respond quickly to any customer changes	0.604	0.637
	Communicating pricing structures and levels to customers	0.716	
Relative to your major competitors, managing product (much wore – 1; much better – 7)			
Product capability (Pro)	Developing new product and exploit R&D investment	0.773	0.861
	Successfully launching new product	0.777	
	Speedily developing and launching new product	0.802	
	Overall new product development system	0.609	
Relative to your major competitors, attracting and retaining the best distributors in the market (much wore – 1; much better – 7)			
Channel capability (Cha)	Satisfying the needs of distributors in the market	0.870	0.793
	Adding value to distributors' business	0.883	
	Closeness in working with distributors/retailers in the market	0.895	
	Providing high levels of support to distributors	0.877	
Relative to your major competitors, skillfully using marketing communications (much wore – 1; much better – 7)			
Communication capability (Com)	Advertising activities	0.758	0.834
	Sales promotion activities	0.778	
Compared with our top three competitors, last 3 years			
Market performance (Per)	Our sales growth is increased	0.838	0.837
	Our market share in this market is increased	0.890	
	Sales growth in this market is increased	0.876	

Table AI.

Appendix 2

Table AII.
Correlation and descriptive statistics for the first order

	CMO	CPO	ICO	CL	OM	SV	UOG	BOG	Pri	Pro	Cha	Com	Per	Firm size	Country	Industry
CMO	1															
CPO	0.472*	1														
ICO	0.330*	0.450*	1													
CL	0.453*	0.524*	0.486*	1												
OM	0.335*	0.416*	0.421*	0.466*	1											
SV	0.398*	0.428*	0.418*	0.599*	0.413*	1										
GGO	0.298*	0.364*	0.234*	0.317*	0.288*	0.297*	1									
BGO	−0.018*	0.075*	0.310*	0.041*	0.038*	0.076*	0.337*	1								
Pri	0.259*	0.279*	0.490*	0.299*	0.264*	0.307*	0.264*	0.365*	1							
Pro	0.248*	0.385*	0.349*	0.484*	0.399*	0.384*	0.419*	0.250*	0.506*	1						
Cha	0.264*	0.398*	0.478*	0.429*	0.419*	0.385*	0.362*	0.357*	0.469*	0.496*	1					
Com	0.163*	0.258*	0.306*	0.247*	0.404*	0.382*	0.287*	0.162*	0.296*	0.306*	0.386*	1				
Per	0.349*	0.402*	0.307*	0.436*	0.386*	0.377*	0.342*	0.214*	0.343*	0.388*	0.416*	0.361*	1			
Firm size	−0.005	0.070	0.057	0.072	0.022	−0.060	−0.036	0.054	0.016	0.057	0.067	0.077	0.019	1		
Country	−0.027	−0.023	0.056	−0.004	−0.063	0.045	−0.008	0.018	0.037	−0.025	−0.005	−0.027	−0.027	0.095	1	
Industry	−0.019	0.060	0.045	−0.003	0.069	0.037	0.031	0.061	0.043	0.076	0.162*	0.113	0.024	0.044	−0.002	1
Mean	6.27	6.22	6.05	6.21	6.14	6.11	5.93	5.53	6.06	6.12	6.02	6.05	6.01	2.38	2.09	0.059
SD	0.685	0.613	0.680	0.723	0.673	0.703	0.884	1.172	0.680	0.636	0.612	0.868	0.755	0.83	0.73	0.49

Note: Correlation is significant at: *0.01 level (two-tailed)