Guest Editorial

Managing Corporate Reputation Within the Chinese Context: Future Research Directions

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AIMS OF THE SPECIAL ISSUE

The exceptional growth and structural change that China has experienced over the last few decades following the market liberalization policies that the Chinese Government started in 1979 is clear to all. It is less than a decade ago when a Hong Kong-based Chinese-born sourcing agent expressed incredulity to one of the editors of this issue regarding an engineered device, that it was possible for a Chinese manufacturer to produce such high-quality product. Now, a decade later China dominates manufacturing worldwide and electronics assembly in particular. But beyond its spectacular growth, there are many other factors that characterize this transformation and add to the complexity, dynamism, and diversity of the Chinese economy. Some of these are the extensive market liberalization that China has embraced, its entrance into the WTO in 2001, the significant levels of government intervention and participation, the existence of multiple interrelated and often competing levels of government, the increasing level of inequality between the coastal area and the relatively underdeveloped interior, the continuous influx of foreign investment, the emergence of a new relatively affluent – but limited in size – consumer base, the existence of an immense consumer base with very low levels of income, and the uncertainty over future sources of energy to sustain such high growth levels, to mention a few.

Of course, it is beyond the purpose (or the ability) of this special issue to address all of these factors that are transforming the Chinese competitive arena. The aim of this issue is to trigger a research program that aids our understanding of the significance of Corporate Reputation (CR) within such a context. Therefore, in the following section, we briefly identify three future research directions for the study of CR within the Chinese context, and subsequently position the papers of this issue in relation to them.

FUTURE RESEARCH DIRECTIONS

From our reading of the reputation literature regarding the developments in China, we propose three possible directions for future research that academics need to understand and managers ought to deal with in relation to the management of CR within the Chinese context. These directions stem from exploring the interactions, causal links and relationships between CR and (1) the rapidly evolving Chinese competitive landscape, (2) *guanxi* and (3) the way the West views China. Of course this is not an exhaustive list, but we hope it can act as a starting point for future research.

Evolving Competitive Landscape

As mentioned above, over the last two decades China has experienced incredible levels of growth and structural change coupled with numerous factors that have enhanced

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the complexity of its transformation. Within such an evolving competitive arena then, the primary concern of a research program in CR should be to understand the role that Reputation plays in competition. For example, research in the West has found that a good CR can be a source of a sustainable competitive advantage (Hall, 1992, 1993; Fombrun, 1996); that it has a significant positive relationship with financial performance (Robert and Dowling, 2002); and moreover, that it allows firms to charge higher prices for their products and services (Fombrun, 1996; Fombrun and van Riel, 2004). Therefore, the first question, one might ask is whether these findings hold true for firms competing within China given its continuously changing economic landscape?

From the few, thus far, studies on the matter, it seems that CR although a relatively new concept for most Chinese companies is starting to receive increased attention. For example, the 2003 fifth annual CR Watch survey included for the first time executives from Asia and found some differences between Western and Asian executives. As Lines (2004) reports, this survey found 'that Asian executives were more focused on using CR to drive tangible business benefits than their North American and European peers' (2004: 233). More specifically, through a survey of 122 Chinese business leaders, Sudhman (2004) found that Chinese CEOs now regard corporate social responsibility (CSR) and CR as key factors in building successful brands and customers are seen as the most influential force impacting on CR.

Also, major foreign Multinationals have shown through their behavior that they believe CR to be a significant asset in China. For example, Procter & Gamble Co., whose advertisements focus on specific products such as Tide laundry detergent, and Pantene shampoo, is simultaneously running ads promoting its corporate image, and has been doing so for almost a decade. It seems that P&G is promoting its company name in the

Chinese market because it views China as one of a handful of crucial growth markets and by enhancing its CR, P&G hopes to make consumers more willing to buy its products, from Crest toothpaste to Pampers diapers (Lee, 1998). Moreover, Chinese companies seem to understand the need to build solid reputations nationally and abroad. For example, even companies like Ningbo Bird, the largest and most successful Chinese cell phone handset manufacturer, whose straightforward mission is to sell at the lowest price, acknowledges that as it moves outside China it needs to overcome the mainland's reputation for shoddy goods and build a solid reputation for quality (Schuman, 2004).

But beyond our understanding of whether the findings in the West hold true and to what extent, the study of CR within the Chinese competitive landscape requires our understanding of many other interrelated issues. For example, one might ask, what features of CR are more valuable within a Chinese context? Does Corporate Social Performance matter? Does it matter more or less than in Western countries? Will it matter more in the near future? What is the value that Chinese managers place on their firm's Reputation? Are Chinese consumers willing to pay higher prices for a product that is backed by a solid Reputation? Are the international reputations of multinationals a valuable competitive weapon in China? Can these reputations be effectively marketed beyond the relatively few affluent Chinese consumers? And, can large Chinese State Owned Enterprises (SOEs) that according to some 'have not caught up with the world's leading businesses' (Nolan, 2002: 119), build a successful CR?

Guanxi and CR

The notion of CR as a valuable firm resource has been developed within the Western management literature (Hall, 1992, 1993; Fombrun, 1996), therefore, transferring it to the Chinese culture and understanding its

impact, potential transformations, and dynamics can stem numerous research projects with multiple managerial implications, especially so given the richness, history, and diversity of the Chinese culture. But perhaps the most rewarding and relevant path for now would be to start by investigating the potential links between CR and *guanxi*.

Guanxi, according to Chen (2001), refers to connections 'defined by reciprocity and mutual obligation. Ideally...supported by a sense of goodwill and personal affection (2001: 46). *Guanxi* has its origins in the Confucian philosophy, which permeates Chinese society and emphasizes relationships of benevolence toward others and order in the relationships with the state. The eight traditional Confucian virtues include loyalty, filial piety, benevolence, love, trust, justice, harmony and peace and by drawing on them, Jacobs (1982) classified *guanxi* relationships, in three sets: family, connections by nature such as geography, school or workplace and acquired relationships. Since the 1980s, numerous management scholars have been investigating *guanxi* (Alston, 1989; Ang, 2000; Chadee and Zhang, 2000; Chow and Ping, 2000; Blackman, 2001; Chen and Godkin, 2001; Fan, 2002; Chen and Chen, 2004; Reid and Jallat, 2006), and its importance for business success in China. Of course, the importance that different researchers and executives attribute to *guanxi* varies. For example, while some maintain that *guanxi* applies to a different extent in most countries,¹ others like Abramson and Ai (1999) maintain that *guanxi* relationships are essential for business in China. Among four key success factors that they identified, *guanxi* relationships based on informal interaction patterns was deemed critical. Moreover, in their study, Reid and Jallat (2006), highlight that the importance of *guanxi* was never in doubt even with Western senior executives operating in China. Having interviewed approximately 50 senior executives in context, their data illustrates that with some of the for-

eign companies operating in China there is a degree of calculation, formulation and strategic intent to developing *guanxi* networks, even though, as Reid and Zyglidopoulos (2004) illustrated, some rushed in the Chinese market in the 1990s and failed to foresee the importance of *guanxi* for their business.

For research purposes, the importance of understanding the possible relationships between CR and *guanxi* stems from the similarities and differences 'between' the two concepts. First, both concepts are forms of social capital operating at different levels of analysis, the individual versus the organization, namely therefore, one could reasonably argue that personal connections may under certain conditions lead to the development of CR (Standifird, 2006 in this issue) and/or that CR can facilitate personal connections. But, beyond the different levels of analysis there is at least one more major difference between *guanxi* and CR. As Chen and Chen (2004: 305) maintain, *guanxi* is 'a particularistic personal connection between two individuals,' whereas CR is 'the overall estimation in which a particular company is held by its various constituents' (Fombrun, 1996: 37). In other words, *guanxi* is a particularistic, personal relationship, whereas CR is an impersonal, general one. So, one might argue that to some extent *guanxi* and CR represent alternative paths to commercial success, which might somewhat explain why according to a recent survey the priorities of Chinese CEOs are 'noticeably different from those of their US and European equivalents' (Fang, 2005: 48).

The research potential of the relationships between CR and *guanxi* can be illustrated by the following questions, some of which are addressed by papers in this issue. For example, how can business organizations use *guanxi* to build, maintain, or even repair their CR? Given that *guanxi* is an individual social asset, can it be turned into an organizational one, and, if so under what conditions? Can Chinese businesses use the *guanxi* of

their employees to build a reputation outside China? Can Western companies entering China with an internationally established CR use their reputation to make up for deficiencies in the social network of their employees? Are there aspects of developing *guanxi* that fundamentally enhance or degrade reputation and vice versa? Under what conditions are the two (*guanxi* and reputation) similar and under what conditions are they quite different? Does size and organizational complexity play a role in this respect?

The West's View of China

Given China's reliance on exports² and particularly exports to the West, the way Chinese firms and their products are perceived by the West determines to a great extent how these firms can use their being Chinese as part of their international Reputation. First, according to extensive research in international marketing, the Country of Origin (COO) does play an important role in the way products are perceived in the international markets (Schooler, 1971; Samiee, 1994; Al-Sulati and Baker, 1998; Sohail, 2005). Therefore, the COO will also affect the ability of firms to build an international reputation. In the case of China, one of the biggest challenges for Chinese firms is to overcome their low cost/quality image, which often is attributed to products originating from developing nations. But this is not a challenge limited to the perception of Chinese products in the West only, as Sohail (2005) avers Malaysian consumers tend to single out products from China for their competitive price whereas they prefer German products for their quality. Therefore, an issue for further research is the 'how' can Chinese firms overcome their Country of Origin limitations and develop a reputation for quality? This is an important question that Chinese producers have to address as some of them, the telecommunications company Huawei for example, have made serious

progress in producing high-quality products and their COO acts as a limitation in building a reputation for quality.

Second, another potential challenge that China's firms have to face is the negative reactions that their products often receive in many developed countries, which cannot compete with what Business Week calls 'the three scariest words in US industry,' *the China price*. According to a recent report in Business Week, the China price 'means 30–50% less than that which US companies can reach when manufacturing in the US. In the worst cases it may mean below the cost of materials' (Dexter and Bremner, 2004: 102). This price differential, according to the same report has led to the loss of more than 2.7 million manufacturing jobs in the US since 2000. But, the loss of so many jobs is not something that can occur without any political upheaval, and as with Japan in the 1980s, China is now facing some negative publicity, among which being an unfair trader and not respecting intellectual property rights stand out. Of course, such accusations are not without some base, as, foreign companies operating in China aver. China has repeatedly failed to effectively police and enforce intellectual property rights. However, even though concerns about the protection of intellectual property and proprietary corporate data are not unique to China, Sumner (2004) maintains that the security risks are still greater in China than in locations such as India or Eastern Europe. Moreover, China's poor reputation for intellectual property protection in some cases influences the influx of Foreign Direct Investment (FDI). For example, based on the ongoing research of one of the editors of this issue, it seems that the music industry is cautious about re-entering the China market in the well-pirated arenas of CD and DVD production. Irrespective of the potential political upheaval, however, the West's possible retaliatory measures have been reduced significantly since China's 2001 entrance to the

WTO. But what is more of an issue from a reputation management perspective is that all of this controversy around China could create a negative predisposition among Western consumers, making it so much harder for Chinese firms to build solid international reputations.

Therefore, given the importance that the West's view of China could have for the development of an international CR by Chinese firms, this particular research issue may be captured in the following questions. How can Chinese firms deal with the potential for a negative predisposition towards Chinese products in the West and build an international Reputation at the same time? Or, how can Chinese firms disassociate themselves from some negative connotations of the 'China' brand (such as piracy, and low quality) that will not and cannot be addressed at a national level in the near future?

At this point, having identified and briefly discussed three possible topics for future research, we proceed in presenting the papers of this special issue and position them in relation to these research topics.

THE PAPERS IN THIS ISSUE

In response to our call for papers, we received a great number of high-quality submissions, which contribute towards one or more of the previously suggested directions for future research. Therefore, the papers in this issue can be also seen as leading the way in researching the management of CR in China. In Table 1, the contributions of the four papers, which made it through the selection process, are depicted in a matrix form.

In the first paper of this special issue, titled: 'CRs in China: How Do Consumers Feel about Companies?' Charles Fombrun and Matthew Pan provide an overview of the reputation landscape in China. Drawing on the results of the China 100 RepTrak™ Pulse survey conducted between 15 March,

Table 1: The Articles in this Issue and Their Contribution Towards the Four Directions for Future Research

<i>Authors</i>	<i>Chinese competitive landscape</i>	<i>Guanxi</i>	<i>Viewing China from the West</i>
Fombrun and Pan	X	X	X
Standifird		X	
Wang <i>et al.</i>	X		
Loo and Davies			X

and 1 May, 2006, they report that Chinese consumers not only ascribe higher reputations to international companies and downgrade Chinese-branded companies, but also that privately owned Chinese companies do much better than state-owned enterprises (SOEs). Moreover, they find that the Beijing 2008 Olympic partners appear to be already benefiting from the enhanced visibility their affiliation with the Games provides them.

The second paper in this special issue, titled: 'Using *guanxi* to Establish CR in China,' by Stephen S. Standifird, deals with the 'how' *guanxi* can be used to establish CR in China. Given that *guanxi* is a type of social capital, which results from relationships between individuals, this article contributes to our understanding of how business organizations can build their reputations in China by having a multitude of organizational participants engage in *guanxi*. In other words, Standifird deals with the broader issue of how an individual asset can contribute to the creation and maintenance of an organizational asset.

The third paper presented here, 'The Roles of Brand Equity and CR in CRM: A Chinese Study,' by Wang, Kandampully, Lo, and Shi, explores the brand equity and CR roles in customer-relationship management (CRM) within the Chinese market. In

testing their conceptual framework through an empirical study of customers of financial institutions in China, they find that brand equity is a positive driver of CRM performance and that CR plays both a mediating and a moderating role in the relationship between brand equity and CRM performance.

Finally, the fourth paper of our special issue, titled 'Branding China: The Ultimate Challenge in Reputation Management?' by Loo and Davies, deals with the challenges that China as a nation brand faces as its involvement in the global economy increases. They identify ten challenges facing China, which center on the issue of whether China can be a coherent brand, given its complexity and enormity as a nation. Moreover, Loo and Davies argue that it is the common denominators, which straddle across the different nation's outputs that can be used for building a coherent nation brand, and conclude with a discussion on the possible values that a Brand China can include.

We hope that the contributions of this special issue will open up a challenging new research arena for investigating the management of CR in China, and that we will see many more contributions in future issues of the *Corporate Reputation Review* and elsewhere dealing with this very important and potentially rewarding topic.

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NOTES

- 1 For example, the old school tie network, in the UK, Les Enarques/Les Grandes Ecoles, in France, kwankye, in Korea, blat in Russia (Oleinik, 2004) and kankei in Japan, are all practices based on connections.
- 2 China's trade surplus for 2005 was \$102 billion (Source, New York Times, 11 April, 2006).

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