

The Influence of Patrimonialism, *Guanxi* and *Xinyong* on Partnership Relationship in Chinese SMEs in Jakarta, Indonesia

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ABSTRACT: This study is conducted in Jakarta among Chinese SMEs. It tested influence patrimonialism on *guanxi* and *xinyong*, and influence *guanxi* on *xinyong*, and influence *guanxi* and *xinyong* on partnership relationship. This study finds that patrimonialism has significantly effect on *guanxi* and *xinyong*. *Guanxi* has negative effect on partnership relationship, but *guanxi* has positive and significantly effect on *xinyong* and *xinyong* has significantly effect on partnership relationship. So through this result of the research, it is known that partnership relationship among Chinese SMEs in Jakarta is built on personal and trust relationship (*guanxi* and *xinyong*) as mediating between patrimonialism and partnership relationship.

KEYWORDS: Chinese business, patrimonialism, *guanxi*, *xinyong*, partnership relationship.

1 INTRODUCTION

Many researchers interest to examine the overseas Chinese business networks phenomenon. Many researchers who have conducted the study, at least among social and economic researchers there are S. G. Redding [15], Robert W. Hefner [6], Gary H. Hamilton [5], Jamie Mackie [14], David L. Szanton [18], Leung [10] etc.. The attractiveness of the research on Chinese business can not be separated from Chinese predominance in business if be compared with their native neighbors, both on small and medium enterprises as well as large companies.

According to Hefner there were not economic and cultural aspects of Southeast Asia which caused controversy as the dominance of large-scale private enterprises by the Chinese. Hefner gave the example that Chinese in Indonesia amounted to only 4 % of the total population. But be estimated that they control 70-75 % of medium and large private companies (not belonging to the State) [6]. Gary Hamilton shows greatness of the Chinese business system in Taiwan [5], Jamie Mackie demonstrated the superiority of Chinese businessmen over their indigenous neighbors both at the level of SMEs and LEs in Southeast Asia [14], and David L. Szanton demonstrated the superiority of Chinese business be compared by indigenous neighbors in a fishing town in the Philippines [18]. Similarly, Yoshihara Kunio who explains that the Chinese people have many advantages over a native people because they have a network to help them acquire the training, capital to start a business, credit, supply of goods, and information. The network formed by a tribal relations which they have same language and come from same tribe/clan [8], for example, Hokkien, Hakka, Teociu etc.

All of above research indicate that there are the role of patrimonialism, *guanxi* and *xinyong* in building a network of business partnerships that deliver them on their economic dominance in Southeast Asia that be called with "network capitalists" by Robert W. Hefner [6] and the "ersarzt-capitalists" by Yoshihara Kunio [8]. Patrimonialism is a management ideology where a highest authority sources of company in the hands of head of family and core family members (sons of the founder) of the family companies. *Guanxi* is a business network that is built on personal relationships and *xinyong* is a network that is built on personal ties or beliefs (personal trust). The researchers also suggest a relationship between patrimonialism with *guanxi* and *xinyong*, a relationship between *guanxi* with *xinyong*, and a partnership relationship that is built on *guanxi* and *xinyong* networks.

Based on the background above, formulation of the research problems can be made that there is the roles of patrimonialism, *guanxi*, and *xinyong* on partnership relationship in Chinese SMEs. Then based on the research problem can be given research questions such as the following: (1) Does Patrimonialism have an influence on *guanxi* in Chinese SMEs? (2) Does Patrimonialism have an influence on *xinyong* in the family business of Chinese SMEs? (3) Does *guanxi* have an influence on *xinyong* in the family business of Chinese SMEs? (4) Does *guanxi* have an influence on partnership relationship in the family business of Chinese SMEs? And (5) Does *xinyong* have an influence on partnership relationship in the family business of Chinese SMEs?

2 LITERATURE REVIEW

2.1 PREVIOUS RESEARCH

T. K. P. Leung, Kee-hung Lai, Ricky Y. K. Chan dan Y. H. Wong did research in China and the research results were published under the title "The Roles of *Xinyong* and *Guanxi* in Chinese Relationship Marketing" in *European Journal of Marketing*; 2005. Results of the study showed that *guanxi* has significant influence (40%) on *xinyong*, and then *xinyong* has significant influence (45%) on partnership relationship. This study showed indirect effect *guanxi* on Partnership Relationship [10].

Liang-Hung Lin and Yu-Ling Ho did research by took 446 employees who work and live in Taiwan and mainland China (especially in Shanghai, Nanking, and Suzhou) as their respondents. Results of the research were published under the title "*Guanxi* and OCB: The Chinese Cases" in *Journal of Business Ethics*, 2010. Results of this study demonstrated that *guanxi* has a significant influence on OCB or overseas Chinese business [12].

Mans Gellerstam and Jannike Wiesner did research for his master's thesis at University of Gothenburg with the title: "The Impact of *Guanxi* in Chinese Business: A Study of Swedish SMEs in Beijing." The research found (1) *Guanxi* impact on business relationships, (2) *Guanxi* impact on management control by promote an informal rather than formal controls; and (3) *Guanxi* was a key factor of success and led company to achieved an advantage competitive better than its competitors [4].

Feng Yang conducted research and published the results of his research in *Asian Social Science* under the title "The Importance of *Guanxi* to Multinational Companies in China" and he found a significant effect of *guanxi* on multinational companies in China [19].

Efferin dan Pontjoharyo conducted research among both Chinese LEs and SMEs in Surabaya, Indonesia in 2004 to 2005. Their results are published in the book, *Southeast Asia's Chinese Businesses in an Era of Globalization: Coping with the Rise of China* by Leo Suryadinata as an editor [3], [17]. The results of these studies indicate that ideology of patrimonialism especially among Chinese SMEs are very visible, especially relate with an authority source of company, corporate objectives, ownership of assets and a company's corporate successor. *Xinyong* (personal trust) becomes a very important factor in build their business networks that appear in these results. Partnership relationship, especially in to access main information sources of business relies heavily on *guanxi* and *xinyong* networks. However, *guanxi* (personal relationship) establishes a working relationship between companies owner or supervisors and employees are less apparent in principles of the Chinese SMEs.

2.2 VARIABLES OF THE RESEARCH

- **Patrimonialism**

Patrimonialism is an idea that the supreme power in a company is in the hands of company owner. Inseparability between ownership and management among Chinese companies is values of the family as a basic survival unit. The power is in the hands of company owner and will be handed over to family members as successors and not to others. In most Chinese organizations or enterprises, organizational structure is a duplicate of the family structure, in which a head of the family is a head of the organization, members of the family were members of a core staff, and one of his sons would be the heir to the company leadership [3]. According to Efferin and Pontjoharyo, if the company made huge profits, the family will invest the profits to set up branches of the company or start profitable new business, so that when a head of the family dies, the company's assets can be divided according to the allocation of corporate businesses separately to ensure his sons' surviving [3].

- ***Guanxi (Personal Relationship)***

According to Luo *guanxi* is a Chinese word that refers to a concept of connections in order to secure favors in personal relations. It is an intricate network which growing strongly among Chinese, not so obvious, but very impressive. The *guanxi* word has been used in the talks since a century ago, but it was not found in a classical Chinese dictionaries. It looks like the *guanxi* word is a combination of two words, *guan* and *xi*. *Guan* originally meant “the door”, and its extended meaning is ‘to close up’. Thinking metaphorically, inside the door you may be ‘one of us’, but outside of the door your existence are barely recognized. While the *xi* word means ‘tie up’ and extend into relationships. *Xi* can also be used to refer to a relationship that is built for a long term [13].

Hwang and Staley explains that *guanxi* has become very important to Chinese people for more than 2,500 years - since the time of Confucius (550-478 BC). According to *the Book of the Analects*, a book that contain the sayings and deeds of Confucius that be compiled by his followers, he gave three main teachings: loyalty, benevolence, and performing a responsibilities inherent in five fundamental relationships, named *wu lun* in Chinese language. The five relationships are hierarchical relationships as the following: (a) ruler-subject, (b) the father-son, (c) brother-brother, (d) husband-wife, and (e) friend-friend. All of the human relationships are derived from one or a combination of the five relationships. That's what makes Chinese society has been built on the concept of clan and then widened to include distant relations and finally unrelated individuals [7].

Luo gives some principle of *guanxi*. (1) *guanxi* is *transferable*, meaning that if A has *guanxi* with B and B is a friend of C, then B can introduce or recommend A to C or vice versa; (2) *Guanxi* also be *reciprocal*, it means that a person who does not follow the rule of equity and refuse to return favor for favor will lose his face (*mianzi*) and regarded as someone who should not be trusted; (3) *Guanxi* is *intangible*. This network is built on feelings of indebtedness and unspoken reciprocation and maintained long-term through unwritten commitments and sometimes even unspoken with each other in a network; (4) *Guanxi* is essentially *utilitarian* rather than *emotional*. *Guanxi* bonds two person who help each other through experience rather than through sentiment; (5) *Guanxi* is virtually *personal*. Even *guanxi* between organizations is initially established by and continues to build personal relationships. So finally *guanxi* is personal relationships [13]. In this personal relationship, who you know is more important, at least as important as who you known. Friendship is very important in building relationships work [3].

- ***Xinyong (Trust Relationship)***

According to Leung et al., variable that is universally accepted as a basis for a relational exchange to Western society is a trust, interpersonal trust in [10]. However Western organizations do not depend on interpersonal trust or mutually agreed words in business transactions because it is not legally binding and less “objectivity” [10]. The managers that invest in PRC recently not want to use the “interpersonal trust” with their counterparts in PRC to manage risk and encourage “the system trust.” On the contrary, Chinese put more emphasis on *xinyong* (personal trust) in the business interactions system because of imperfections in PRC legal system (Wong and Chan, 1999). Indeed there are business practices those are built on Chinese legal system, however, largely depends on *xinyong* (personal trust) and *guanxi* (personal relationship) [10]. *Xinyong* is a belief based on integrity, credibility, trustworthiness, or reputation and personal character [10].

According to Efferin and Pontjoharyo, *xinyong* or limited bounded trust refers to use of family members or people who are worthy be trusted to perform an essential functions of the organization in terms of improving an efficiency of the organization for a purposes of identification, motivation, and confidential information. Suspicions about professional may exist since they are seen as having a potential to weaken a paternalistic relationships that be built by business owners, and therefore the trust-based personal relationships favored over a neutral relationship. In an Indonesian context, ethnic suspicion and antagonism between Chinese and indigenous Indonesian was sharpened and strengthened by New Order regime which also led to some Chinese businessmen more trust Chinese employees of indigenous employees [3].

- ***Partnership Relationship***

Efferin and Pontjoharyo explained that partnership relationship or Chinese overseas business tend to manage marketing relationships with partnership agreement that be based on personal and trust relationship [3]. Chan in Efferin and Pontjoharyo [3] emphasizes that a network is based on personal relationships (*guanxi*) can be formed from many things, for example based on kinship, classmates, friendship and shared interests.

2.3 RESEARCH HYPOTHESIS

- **The Effect of the Patrimonialism on Guanxi**

Gary H. Hamilton found that Taiwan is very successful as an economy of small and medium enterprises. Hamilton explained that private businesses in Taiwan are a family owned companies and are under control of the family [5]. According to Hamilton network that exists among family business groups are crucial to the economy of Taiwan with business networks that are within family, and the both became a main support for the Taiwan market culture [5]. Networks that Hamilton means are *xinyong* and *guanxi* network. *Guanxi* (reciprocal relationship) occurred outside field of direct family control; these networks are based on norms of reciprocity [5]. The results of these studies suggest effect of the patrimonialism on *guanxi*.

Hamilton also explained that in addition to ownership of family, business in general also have a second type of ownership, i.e., *guanxi* is a device of specific relationship bound by norms of reciprocity (*huibao*) or by what is more commonly called in the Chinese's person feelings (*renqing* or *ganqing*) [5]. We can build hypothesis on the above explanation as the following:

H1 = *Patrimonialism* has significantly influence on *guanxi*

- **The Effect of the Patrimonialism on Xinyong**

According to Hamilton, a family networks that apply within a scope of strong family control is a network that is hierarchical where family networks in Taiwan have a range of vertical control shorter than hierarchical nature of family networks in Korea [5]. This shows the relationship between an ideology of patrimonialism and *xinyong* in Chinese SMEs business in Taiwan.

The research results of Efferin and Pontjoharyo showed that 81 percent of Chinese SMEs respondents in Surabaya assume that the source of a highest authority of the company is the company owner and 67 percent of them assume that the company's objectives should refer to owner's objectives of the company. They explained that patrimonialism among Chinese entrepreneurs are very real, especially in aspect of the source of authority associated companies, corporate objectives, ownership of assets and the company's corporate successor [3]. The results of these studies also showed a strong relationship between Patrimonialism with *xinyong* and we can build second hypothesis as the following:

H2 = *Patrimonialisme* has significantly influence on *xinyong*.

- **The Effect of Guanxi on Xinyong**

According to Leung et al., if *xinyong* is a verbal contract to replace "system trust," then it must be based on building relationships prior to reaching the end of a agreement relationship, so *guanxi* has positively affect on *xinyong*. Someone will have more confidence (*xinyong*) to build relationship with his business partners, if he has good *guanxi* with his business partners [10].

The research results of Efferin and Pontjoharyo showed that 39 percent of the 69 respondents of Chinese SMEs in Surabaya assume that most people can be trusted is a family member, 69 percent assume that when there is no person ideal, they will recruit people who they have known personally, and 41 percent assume that Chinese people are generally more reliable [3]. The results showed a strong influence or relationship between *guanxi* and *xinyong*. So this is my third hypothesis of the research:

H3 = *Guanxi* has significantly influence on *xinyong*.

- **The Effect of Guanxi on Partnership Relationship**

Hefner explained that the system of lateral relations and reciprocity known as *guanxi* is one of two principal types contained in a network in the heart of business life of Chinese people [6]. According to Hamilton it does not surprise that economic organizations in Taiwan is often the result of a network of *guanxi* and *guanxi* development. According to Hamilton for the largest business groups in Taiwan, *guanxi* network is a major source of capital investment and is an important form of ownership [5].

Lin and Ho explained that *guanxi* plays an important role that has been embedded in the Chinese society in building a good relationship interactions based mutual trust, mutual benefit and mutual maintain, so role of *guanxi* in Chinese overseas business (OCB) is very real. *Guanxi* can also encourage responsibility and effective performance in the OCB. One of

Lin and Ho's hypothesis is *guanxi* has a significant impact on OCB. The research results of Lin and Ho prove the hypothesis, that *guanxi* has a positive influence on OCB [12].

According to Gellerstam and Wiesner *guanxi* is critical to business success because business networks depend on *guanxi* relationships. *Guanxi* network can create a company's core competence and distinctive competitive advantage that can create a successful business in China. Study that was conducted on overseas Chinese people in Singapore showed that the people of Singapore because they have Chinese ethnic background, they have a competitive advantage when investing in China. Overseas Chinese people take advantage of the languages, ethnicity, kinship and culture to build networks in mainland China [4].

The research results of Efferin and Pontjoharyo showed that 62 percent of Chinese SMEs in Surabaya assume that their information sources of their main business is private networks with friends or relations [3]. It shows that there is a significantly influence both *guanxi* and *xinyong* on partnership relationship, especially in access sources of information for Chinese businesses. So *guanxi* affect on partnership relationship among Chinese SMEs. So fourth hypothesis of the research is:

H4 = *Guanxi* has significantly influence on partnership relationship.

- **The Effect of *Xinyong* on Partnership Relationship**

According to Leung et al., *xinyong* is an important business cooperation mechanism in PRC. According to them *xinyong* implementation is proved that it is essential in building a partnership relationship between buyers and suppliers, for example managing manager of Gree Group Corporation confirms that personnel sales generate \$ 10 billion per year just by relying *xinyong* without legal contract agreement with their retailers. They showed that there is a significant effect *xinyong* on the partnership relationship in China by 45% [10]. This supports an assertion Harvey [10] and Chan et al. [10] that there is a strong influence *xinyong* on partnership relationship in a poor legal system in China and weak morality of trade in China's socialist market economy. So fifth hypothesis of this research is:

H5 = *Xinyong* has significantly influence on partnership relationship.

The research model is based on above hypotheses as the following (Figure 1):

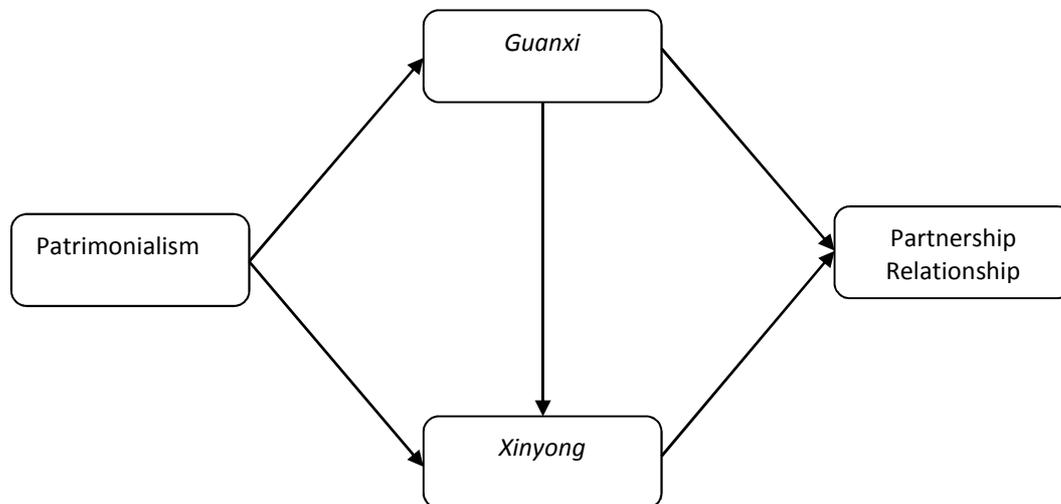


Figure 1

3 METHOD

This research design is quantitative. Sampling study conducted among owners of Chinese SMEs in Jakarta. While sampling techniques will be based on techniques is 10 times number of variables. As number of indicators in this study is 21, then minimum number of samples taken is $21 \times 10 = 210$, which means 210 samples of research here already qualified sampling. Measurement scale in this study was adopted from measurement scale of Efferin and Pontjoharyo [3]. As in quantitative research in general, in this study conducted a series of tests, which include a validity and reliability tests and multivariate

analysis to determine the effect of patrimonialism on *guanxi* and *xinyong*, the influence of *xinyong* and *guanxi* on partnership relationship, the influence of *guanxi* on *xinyong*, and the influence of *xinyong* on partnership relationship. This study used AMOS 21.

4 RESULT AND DISCUSSION

4.1 VALIDITY AND RELIABILITY

The CFAs indicate acceptable levels of fit and significant loading of all measurement items on their respective latent construct. In general, the results demonstrate adequate levels of fit, and all item loadings are greater than the cut-off point of 0.40 suggested by Nunnally and Bernstein [10]. Standardized Regression Weights on AMOS 21 output shows that all factor loading on the estimate column shows above 0.40 and it shows all the indicators can explain the constructs or existing variables.

Convergent validity and discriminant validity test show that all indicators of constructs are valid (see table 1). Eight indicators of patrimonialism have P value= ***. It means the regression weight for patrimonialism in the prediction of all indicators is significantly different from zero at the 0.001 level (two-tailed). Three indicators of *guanxi* have P value= ***. It means the regression weight for *guanxi* in the prediction of all indicators is significantly different from zero at the 0.001 level (two-tailed). Three indicators of *xinyong* have P value= ***. It means the regression weight for *xinyong* in the prediction of all indicators is significantly different from zero at the 0.001 level (two-tailed). And seven indicators of partnership relationship have P value= ***. It means the regression weight for partnership relationship in the prediction of all indicators is significantly different from zero at the 0.001 level (two-tailed).

Table 1. Regression Weights

			Estimate	S.E.	C.R.	P
P1	<---	Patrimonialism	1.000			
P2	<---	Patrimonialism	1.122	.126	8.925	***
P3	<---	Patrimonialism	.831	.114	7.277	***
P4	<---	Patrimonialism	1.276	.130	9.816	***
P5	<---	Patrimonialism	1.131	.130	8.695	***
P6	<---	Patrimonialism	.915	.125	7.313	***
P7	<---	Patrimonialism	1.037	.117	8.882	***
P8	<---	Patrimonialism	1.127	.125	8.994	***
G1	<---	Guanxi	1.000			
G2	<---	Guanxi	1.137	.160	7.122	***
G3	<---	Guanxi	1.266	.170	7.461	***
X3	<---	Xinyong	1.000			
X2	<---	Xinyong	1.271	.221	5.759	***
X1	<---	Xinyong	1.207	.238	5.075	***
PR1	<---	Partnership	1.000			
PR2	<---	Partnership	1.025	.119	8.629	***
PR3	<---	Partnership	.940	.131	7.171	***
PR4	<---	Partnership	.962	.122	7.854	***
PR5	<---	Partnership	.820	.125	6.577	***
PR6	<---	Partnership	1.101	.126	8.765	***
PR7	<---	Partnership	.868	.113	7.708	***

4.2 TEST OF HYPOTHESES

In Regression Weights on AMOS 21 output below (Table 2) shows the research hypotheses is proven. Significant influence of patrimonialism on *guanxi* is shown with $p = ***$ or $p < 0.001$ and the estimate of 0.630, which means that when patrimonialism goes up by 1, *guanxi* goes up by 0.63. Likewise, there is a significant effect patrimonialism on *xinyong* that be indicated by $p=***$ and estimate= 0.436, which means that when patrimonialism goes up by 1, *xinyong* goes up by 0.436.

Xinyong has significantly influence on partnership relationship that be indicated by the significant p-value=*** and estimate=1.636 which means that when *xinyong* goes up by 1, partnership relationship goes up by 1.636. Thus, in the three relationships H_0 is rejected. *Guanxi* has significantly influence on *xinyong* and it showed by the probability of getting a critical ratio as large as 2.406 in absolute value is .016. In other words, the regression weight for *guanxi* in the prediction of *xinyong* is significantly different from zero at the 0.05 level (two-tailed) and therefore H_0 is rejected. Estimate=0.248 means that when *guanxi* goes up by 1, *xinyong* goes up by 0.248. The influence of *guanxi* on the relationship partnership is also significant. The probability of getting a critical ratio as large as 2.159 in absolute value is .031. In other words, the regression weight for *guanxi* in the prediction of partnership relationship is significantly different from zero at the 0.05 level (two-tailed). Estimate - .475 means that when *guanxi* goes up by 1, partnership relationship goes down by 0.475.

Table 2. Regression Weights

			Estimate	S.E.	C.R.	P
Guanxi	<---	Patrimonialism	.630	.107	5.903	***
Xinyong	<---	Patrimonialism	.436	.106	4.104	***
Xinyong	<---	Guanxi	.248	.103	2.406	.016
Partnership	<---	Guanxi	-.475	.220	-2.159	.031
Partnership	<---	Xinyong	1.636	.389	4.202	***

The results of this study support the research findings of Liang-Hung Lin and Yu-Ling Ho that *guanxi* has a significant influence on the Chinese business networks [12]. The results of this study also support findings of Leung et al. that *guanxi* has a positive influence on *xinyong*. Their findings did not show significantly effect of *guanxi* on partnership relationship, but *guanxi* affects on *xinyong* and then *xinyong* affect on partnership relationship [10]. The results of this study also support part of the findings of Gellerstam and Wiesner who found that *guanxi* has an influence on business relationships among Chinese [4]. The results of this study also support the research findings of Feng Yang that *guanxi* has an important influence in multinational business network of Chinese people [19].

The results of this study support research findings of Ai who conducted in Mainland China and in Taiwan where *guanxi* become business network that are a key to business success in China. Ai concluded that while Western business culture separation between an affairs of individuals and organizations clearly, and depend on legal contracts, and focuses primarily on the tasks to be done, otherwise the Chinese business culture prefers human-hearted, based on mutual respect and trust, as well as long-term oriented with more attention to an interests of all members of the network [1]. Ai found that trust relationship (*xinyong*) and personal relationships (*guanxi*) has correlations and greatly influenced business networking and cooperation between Chinese people both on the mainland China and in Taiwan [1]. The results also support the research findings of Sheng and Silva [16]. The study took 110 samples of the Chinese entrepreneurs who built their business in downtown São Paulo, Brazil. They found that one of the alternative Chinese SMEs entrepreneurs can gain access to capital through personal relationships (*guanxi*) and informal channels to access financial capital [16]. These findings also support the findings of Cheng and Tang who also found that *guanxi* has an influence on the performance of Chinese SMEs in China, especially the sampling was done in Sichuan, Xinjiang and Shanghai [2].

The results of this study also support the research findings of Law, Wong and Lau that the trust relationship (*xinyong*) has an important role in Customer Relationship Management for trust and relationship ties formulating various relational strategies which is the key to success in Customer Relationship Management [9]. The influence of *xinyong* on partnership relationship also supports the findings of Ai because in addition to finding the influence of *guanxi* on the partnership relationship [1]. Ai also found the influence of *xinyong* on partnership relationships in the Chinese business network in mainland China and in Taiwan [1]. This finding also supports most of the research findings Liao who found in the automotive industry, Chinese people see that salesperson should increase their *xinyong* to assist their customers in building *guanxi* because it can affect the sales promotion [11].

5 CONCLUSION

This study reveals that Overseas Chinese Model still can be found in Chinese business in Jakarta, especially Chinese SMEs. Partnership relationship or business network play an important role in Chinese SMEs. As be found in this study that the partnership relationship is built on trust relationship (*xinyong*), and *xinyong* is built on patrimonialism and personal relationship (*guanxi*). And *guanxi* is built on patrimonialism. This network framework led Chinese in Jakarta can predominate business be compared with their indigenous neighbors. The result of study proved all of research hypotheses.

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