

Chapter 7

Personal Interaction Drives Innovation: Instrumental Guanxi-Based Knowledge Café Approach

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ABSTRACT

Based on knowledge sharing, transaction cost, and networking theories, the present study investigates the effects of instrumental guanxi-based physical knowledge café (IGPKC) and instrumental guanxi-based virtual knowledge café (IGVKC) on innovation capabilities. Relational psychological contract (RPC) acts as a mediator between IGPKC & IGVKC and innovation capabilities. Present study surveys 210 employees of software development Chinese firms and analyzes results through PLS-SEM. This study finds IGPKC and IGVKC have a significant effect on innovation capabilities and RPC partially mediates this effect. Through importance-performance matrix analysis (IPMA), it establishes that IGVKC has high importance but less performance than IGPKC and RPC for innovation capabilities. Thus, management needs to enhance the performance of IGVKC by following the trust commitment theory. The present study has implications for Chinese organizations to enhance their innovation capabilities and for the Chinese government to promote knowledge base economy with low transaction cost.

INTRODUCTION

Innovation capabilities play a significant role to enhance organization performance and sustain its competitive advantage. Organizations' resources and effective utilization of these resources determines the innovation capabilities of organizations (Sanchez-Famoso, Maseda, & Iturralde, 2014). The idea generation from existing codified and explicit knowledge and its application for innovative products

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is usually known as incremental innovation capabilities (Castiaux, 2007). In contrast, ideas' mining from tacit knowledge repositories is probably a clue to radical innovation capabilities (Nonaka, 1994; Pérez-Luño, Cabello Medina, Carmona Lavado, & Cuevas Rodríguez, 2011). Organizations through radical innovation capabilities get the monopolistic control over current/new markets (Zhou & Li, 2012) whereas incremental innovation capabilities help them to maintain their competitive advantage in current markets (Pérez-Luño et al., 2011).

Several authors explain that *guanxi* (relationship) networks help organizations to get information and other resources that can be used to increase their innovation capabilities and sustain their competitive advantage (Chung, Yang, & Huang, 2015; Li, Zhou, & Shao, 2009; Wang & Chung, 2013). *Guanxi* is an eastern term while social capital belongs to the west and both are reciprocally referred to social networking (Huang & Aaltio, 2014). There are three dimensions of *guanxi* (Socio- affective, Instrumental, Mixed) with reference to nature and purposes of interaction among people (Hwang, 1987). In this study, we are focusing on instrumental *guanxi* as a source of innovation. Instrumental *guanxi* refers to the exchange of resources among backward and forward integrated organizations (for goods and services) to satisfy their mutual materialistic needs (Chen & Chen, 2004).

Instrumental *guanxi*-based networks at the organization and individual levels can be a source of reliable market information, new ideas and innovative knowledge. Knowledge sharing and transference among organizations increase the level of organizational learning, innovative capabilities and mutual collaboration (Nielsen, 2005; Pérez-Luño et al., 2011; Tsai, 2001). An instrumental *guanxi*-base structured network can provide the opportunities for knowledge creation, sharing, and transference. Nonaka & Konno, (1998) used a Japanese term “*ba*” that refers to a shared place where activities of knowledge creation and its management are performed. They further explained that “*ba*” can be a physical (single place) and/or a virtual place (e-mail, social media or video conferencing). David Gurteen refines the concept of “*ba*” with the idea of “Knowledge Café” (KC) (Gurteen, 2012). KC refers to a place where group/groups of individuals come together and discuss their alike interests, ideas, problems and their solutions (Lefika & Mearns, 2015). An instrumental *guanxi*-based knowledge café (IGKC) may provide the opportunities for the organizations to improve their learning and innovation capabilities.

China has been maintained its exceptional economic growth from last few decades due to the advantage of low labor cost. However, GDP growth rate of China is continuously decreasing from last few years (Das & Diaye, 2013; World Bank, 2015). The reasons for this decline are upswing labor cost, inferior position of Chinese organizations and their products quality in international markets (Tellis, Prabhu, & Chandy, 2009), weak market management system (Gao, Gao, Zhou, & Huang, 2015; Yi, Liu, He, & Li, 2012), laggard approach in innovative strategies, insufficient knowledge creation and management practices (Jiang & Jiang, 2014). At present, Chinese intuitions and economy are in a transition phase (Gao et al., 2015; Zhou & Li, 2012). The paradigm of the Chinese economy is shifting from labor based economy to a knowledge-based economy (ADB, 2007; Jiang & Jiang, 2014). The growth of knowledge-based economy and organizations' innovation capabilities of China depend on effective knowledge creation and its management (Jiang & Jiang, 2014). To meet this prerequisite, IGKC approach may helpful to increase the organizations' innovation capabilities. IGKC approach focuses on some factors that are directly or indirectly linked to the organizations' innovation capabilities. These factors include the structure and size of *guanxi* network, mutual commitment and trust of the members, and scope of KC (local or international) (Mu, Peng, & Love, 2008; Pérez-Luño et al.,

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