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The role of instrumental guanxi in the relation between entrepreneurs' social competence and firms' financial performance: A comparative study

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ABSTRACT

Even though many studies have examined the role of instrumental guanxi in the formation and development of entrepreneurship, how instrumental guanxi and social competence support entrepreneurs in enhancing firm financial performance (FFP) has not been investigated. Thus, this study investigates the relationship between entrepreneurs' social competence and FFP in the textile industry of China and Pakistan to examine how instrumental guanxi mediates the said relationship. In Studies 1 and 2, 251 Chinese and 270 Pakistani entrepreneurs, respectively, were randomly selected. The partial least square structural equation modelling approach was employed to evaluate the data. In Study 1, social perception, impression management, and expressiveness have a positive and significant impact on FFP. Moreover, instrumental guanxi partially mediates the impact of all dimensions of social competence except social perception. In Study 2, impression management, persuasiveness, and expressiveness have a positive and significant impact on FFP, and instrumental guanxi partially mediates the impact of social adaptability on FFP. Given the competitive advantage theory, both groups of entrepreneurs can mutually support and enhance their social competence as well as FFP.

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1. Introduction

Given the China Pakistan Economic Corridor (CPEC), social and transactional interaction between Chinese and Pakistani citizens, specifically among entrepreneurs, is fast-growing. The continuous upward growth of Chinese entrepreneurs has caused the Chinese economy to be described as having an abnormal growth (14% GDP

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growth rate in 2010) (Easterlin et al., 2012), which depicts the capabilities of Chinese entrepreneurs. However, the performance of Pakistani entrepreneurs is not very significant in comparison. Even though Sino-Pak entrepreneurs were at the same level four decades ago, several reasons, such as lack of technical skills, shortage of financial and human capital, obsolete technology, and traditional business practices, explain the underperformance of Pakistani entrepreneurs today.

In the last decades of the 20th century, most Chinese businesses were limited to their national boundaries. In 1977, China opened its southern border to the international business community (Shirk, 1994). Chinese entrepreneurs and their business skills attracted stakeholders in the business world. Nonetheless, cheap labour and low prices were the key reasons for this attraction. Moreover, social and interpersonal skills were crucial to the success of Chinese entrepreneurs. Many studies confirm the positive role of the social competence of entrepreneurs in firm financial performance (FFP) (Baron & Markman, 2003; Hoehn-Weiss et al., 2004).

Social competence refers to the 'effectiveness and appropriateness in human interaction and relationships' (Han & Kemple, 2006). Baron and Markman (2003) define social competence as the ability to interact effectively with others via specific social skills. Similarly, Taborsky and Oliveira (2012) described social competence as an individual capacity to improve his social behaviour as per available social information. An entrepreneur frequently interacts with individuals (*i.e.* customers, suppliers, and community members). However, the level of entrepreneurs' social competence determines the consistency of this interaction. During the initial steps of venture creation, an entrepreneur requires financial capital support from potential investors. Moreover, the rate of success to engage investors depends on the degree and application of entrepreneur social competence (Hoehn-Weiss et al., 2004). Different dimensions of psychology (social and cognitive) guide entrepreneurs on how social competence can help them enhance positive and effective interaction with others (Hoehn-Weiss et al., 2004). Baron and Markman (2003) describe four factors of social competence: social perception, impression management, social adaptability, and expressiveness. However, the appropriate social competence factors and the context in which they are more significant to enhancing FFP remains unexplored. Thus, this study first explores the impact of factors of social competence on FFP in Sino-Pak textile industries.

Guanxi is a popular and ancient cultural characteristic entrenched in Chinese ritual. Guanxi refers to 'a network of close and pervasive ties emphasising mutual and obligatory reciprocity, combined with personal trust, face preservation and relationship harmony over the long term' (Ou et al., 2014). Guanxi and social capital are Eastern and Western terms, respectively; moreover, they are treated equally in the literature (Bari & Fanchen, 2017; Huang & Aaltio, 2014). Scholars consider guanxi (specifically, instrumental guanxi) as a significant part of entrepreneurial behaviour in enhancing firm performance (Chen et al., 2015). Instrumental guanxi is a network of backward and forward integrated entrepreneurs or firms, created to satisfy mutual business needs (Bari & Fanchen, 2017). Instrumental guanxi hinges on utilitarian elements and focuses on the mutual economic benefits of members. Moreover, organisations sustain the utilitarian elements at individual and organisational levels (Chen & Chen, 2004; Murray & Fu, 2016). Several studies have investigated the role of

instrumental guanxi in the formation and development of entrepreneurship (Burt & Burzynska, 2017; Dai et al., 2019; Troilo & Zhang, 2012). However, how instrumental guanxi and social competence support an entrepreneur to enhance FFP has not been investigated. Therefore, this study also investigates the question of how instrumental guanxi mediates the relationship between social competence and FFP in Sino-Pak contexts.

Hence, to address the two considerations above, this study reviewed the literature and conducted an empirical investigation of randomly selected Sino-Pak entrepreneurs in the textile industry. The study has three objectives. First, it ascertains the social competence factors that are significant in enhancing FFP in Sino-Pak contexts. Second, it investigates the role of instrumental guanxi as a mediator in increasing the impact of different factors of social competence on FFP. Third, given the competitive advantage and social exchange theory, the study proposes recommendations to enhance social competence and FFP for the respective sets of entrepreneurs.

The study findings will be beneficial to Sino-Pak organisations in their interest in investing in Sino-Pak under the umbrella of CPEC. The empirical results explain which social competence dimension is more significant and effective for Chinese and Pakistani entrepreneurs. The results also articulate the role of instrumental guanxi, given social competence, in enhancing the FFP in both contexts. This study also serves as a supportive tool to Sino-Pak entrepreneurs in selecting employees (i.e. evaluating the social competence and guanxi skills of employees).

The structure of the rest of this paper proceeds as follows: literature review, factors of social competence and FFP, hypotheses development, methodology, and analyses of Study 1 (China), methodology and analyses of Study 2 (Pakistan), discussion, study implications, limitations and future research directions, and references.

2. Literature review

2.1. Social competence

Competence refers to ‘an ability to generate and coordinate flexible, adaptive responses to demands and to generate and capitalise on opportunities in the environment (i.e. effectiveness)’ (Waters & Sroufe, 1983). Typically, competence is classified into domain, personal, and social competence (Le Deist & Winterton, 2005). Domain competence refers to skills and knowledge-based capabilities, willingness to solve issues, and achieving targeted goals independently. Personal competence signifies the ability of an individual to understand, analyse, and evaluate the development chances in a job, career, or business. It depends on personal characteristics such as self-confidence, independence, reliability, and responsibility to perform tasks. Social competence refers to the willingness and capability to develop and shape relationships rationally and meticulously with social responsibility and harmony (Le Deist & Winterton, 2005).

Lim et al. (2013) explained social competence as an evaluative construct based on a judgement that a person has performed social tasks competently. ‘Competence’ has been used in discussions of motivation, intellect, behavioural adjustment, and psychopathology (Waters & Sroufe, 1983). Most studies focus on the social competence of

children. In recent years, social skills or social competence is considered an antecedent of entrepreneurs' financial performance and networking development (Bratkovič Kregar et al., 2019; Hoehn-Weiss et al., 2004). Several factors of social competence are explored in literature, such as accuracy in perceiving others, persuasiveness, and impression management (Baron & Markman, 2003). A socially competent entrepreneur can obtain more knowledge and information on business opportunities (Trkman & Trkman, 2018). An entrepreneur should learn social competence regularly by observing the environment and being careful of personal biases and hasty judgments.

Hoehn-Weiss et al. (2004) explored seven different aspects of social competence: social perception, social adaptability, persuasion, impression management, emotional expressiveness, optimism, and self-efficacy. Different perspectives of social skills, such as the ability to perceive others properly, positive first impression, and persuasion, are explored under a single construct (social competence) in the literature (Hoehn-Weiss et al., 2004). Social competence is a basic requirement for developing and maintaining contacts with others (Shu et al., 2018). Scholars suggest that, while interacting with others (e.g. potential customers and venture capitalists), an entrepreneur should have the capabilities to perceive them accurately, create a positive initial impression, and try to change their attitude positively (Baron & Markman, 2003; Shu et al., 2018; Zhukov et al., 2018).

However, some scholars claim that social competence plays a partial role in the development and maintenance of entrepreneurial networks (Baron & Tang, 2009; Shu et al., 2018). The literature on entrepreneurship suggests multiple approaches to evaluating the characteristics and capabilities of entrepreneurs (Cai et al., 2018). For instance, social skills (Baron & Tang, 2009), political skills (Sigmund et al., 2015), and social competence (Baron & Markman, 2003) support an entrepreneur at different levels of the entrepreneurial process (Shu et al., 2018). Tehseen et al. (2019) referenced several scholars who investigated different types of entrepreneurial competencies, such as opportunity competency, conceptual competency, learning competency, ethical competency, personal competency, and strategic competency (Man et al., 2002; Nakhata, 2018; Osagie et al., 2016; Stephen et al., 2017; Suhaimi et al., 2018). However, Tehseen et al. (2019) support the outcomes of Colombo and Grilli (2005) and argue that the skills and expertise in all types of entrepreneurial competencies do not enhance firm performance.

2.2. Guanxi

Guanxi refers to a network of close and unavoidable ties underscoring shared and compulsory reciprocity, as well as individual trust, face preservation, and relationship synchronisation in the long run (Ou et al., 2014). Guanxi is a noteworthy social feature that stems from ancient Chinese society. It is highly accepted and preferred in Chinese culture due to the relatively weak institutional mechanisms and legal system in China (Martinsons, 2008; Shao & Pan, 2019). The backbone of guanxi is *xinren* (trust). *Xinren* is a key component of guanxi (Chen & Chen, 2004; Shao & Pan, 2019). Luk et al. (1999) consider guanxi as a serious social liability in the obligation

to support others reciprocally, trust others, and avoid humiliation (Shao & Pan, 2019). Guo and Miller (2010) explained that obligation, trust, and reciprocity are three key features of guanxi. The guanxi network is categorised into four relational ties: government, community, family, and business ties (Chen et al., 2015; Guo & Miller, 2010). It also has four pillars: empathy, bonding, trust, and reciprocity (Wong & Tam, 2000). However, given the nature and purpose of interaction among individuals, Hwang (1987) categorised guanxi into three dimensions: socio-affective, instrumental, and mixed guanxi (Bari & Fanchen, 2017). Peng and Luo (2000) asserted that the development and survival of a new venture highly depend on an entrepreneurs' guanxi network. Guanxi that is based on creative entrepreneurs may contribute to mutual career success (Chen et al., 2015). Moreover, guanxi and social capital are Eastern and Western terms, respectively, and both terms are described as a form of social networking (Bari & Fanchen, 2017; Huang & Aaltio, 2014).

The performance of guanxi depends on not only the quality and size of social and business networks but also the personal characteristics of entrepreneurs. Several scholars consider social capital as the social competence of an entrepreneur to enhance business performance (Liu & Li, 2018). The performance of guanxi also depends on network competence. For instance, the quality of dyadic relationships among network members and their commitment to maintaining that network determine the network competence (Tehseen et al., 2019). Guanxi networks are formed with different backgrounds, such as friendship, kinship, surname, acquaintanceship, and native origin (Guo & Miller, 2010). Comparatively, Chinese entrepreneurs have a stronger tendency to interact with people, especially with government officials (Tian et al., 2019; Chen et al., 2013). Guanxi is an unavoidable lubricant in business relationships that helps entrepreneurs develop their business and sustain competitive advantage (Chen et al., 2015). In creative and innovative industries, guanxi is a significant part of entrepreneurial behaviour (Chen et al., 2015).

The exchange of resources (goods and services) among firms, buyers, and suppliers to fulfil their mutual needs describes instrumental guanxi (Chen & Chen, 2004). A network with strong instrumental guanxi provides opportunities for learning, knowledge creation, and transfer. Instrumental guanxi is developed on utilitarian grounds and the exchange of economic resources (Chen & Chen, 2004). Organisations sustain the utilitarian perspective of guanxi at the individual and organisation levels (Bari & Fanchen, 2017; Chen & Chen, 2004). In China, guanxi network development and utilisation commonly increase FFP (Zhou, Chan, & Song, 2017). Individual characteristics, such as human capital and social skills, and an effective guanxi network, are essential to finding business opportunities in China (Tang, 2010).

2.3. Factors of social competence and FFP

The self-perception of entrepreneurs about their social competence is usually higher than their interactors' evaluation (Hoehn-Weiss et al., 2004). Different factors of social competence are discussed in the literature, including social perception (Zebrowitz & Collins, 1997), impression management (Baron & Markman, 2003), persuasiveness (Hoehn-Weiss et al., 2004), emotional expressiveness, and optimism

(Hoehn-Weiss et al., 2004). Baron and Markman (2003) suggested five aspects of social competence: social perception, impression management, persuasiveness, social adaptability, and expressiveness. Several scholars agree on the positive relationship between social competence and securing outside funds (Hoehn-Weiss et al., 2004). This study hypothesises the impact of the five factors of social competence suggested by Baron and Markman (2003) on FFP.

Social competence dimensions are described as follows. *Social perception* refers to perceiving others carefully and accurately (Zebrowitz & Collins, 1997) by, for instance, carefully observing their traits, intentions, and objectives. An entrepreneur must then react positively, which is denoted as *impression management*. However, there is no fixed criterion for impression management; it is situation and environment dependent. An entrepreneur's ability to adjust and present himself as comfortable in multiple social situations refers to *social adaptability* (Isaak et al., 2019). Expressive behaviour is just as important as social adaptability. *Expressiveness* refers to an entrepreneur's capability to express feelings and emotions properly and clearly to develop enthusiasm and interest in others (Hoehn-Weiss et al., 2004). Once the interest is developed, *persuasiveness* follows, which is the ability of an entrepreneur to change the behaviour, body language, and views of others during live encounters (Boster et al., 2011).

Ispas et al. (2014) investigated the impact of impression management on job performance with two different samples. The first study confirmed the relationship between impression management and objective job performance. The second study employed a different scale and found a positive relationship between impression management and FFP (Ispas et al., 2014). Bolino et al. (2016) confirmed that the calculated image of an entrepreneur plays a significant role in success. However, the impression should be authentic and timely (Bolino et al., 2008; Bolino et al., 2016). Shu et al. (2019) conducted a study on 230 China-based firms and concluded that entrepreneurial orientation and strategic renewal with the support of state institutions significantly impacts firm financial and non-financial performance (Shu et al., 2019). Khan et al. (2019) collected the data from 196 respondents located in different parts of Pakistan and confirmed the positive impact of entrepreneurial strategies and network ties on venture performance (Khan et al., 2019). Khan et al. (2019) further recommended that entrepreneurs should develop effective business strategies and inflate their business network to grasp useful and innovative resources and enhance their FFP. Thus, regarding Chinese (C) and Pakistani (P) entrepreneurs, this study proposes the following:

- H1a-C, H1a-P: Social perception has a positive association with FFP.
- H1b-C, H1b-P: Impression management has a positive impact on FFP.
- H1c-C, H1c-P: Social adaptability has a positive association with FFP.
- H1d-C, H1d-P: Persuasiveness has a positive association with FFP.
- H1e-C, H1e-P: Expressiveness has a positive association with FFP.

2.4. Instrumental guanxi as a mediator

Instrumental guanxi is based on a network of transactional ties of firms (e.g. buyers and suppliers). The social competence of an entrepreneur helps to enhance FFP.

However, from the networking theory (Ford & Mouzas, 2013), the mere social competence of an entrepreneur is not sufficient to sustain FFP, especially in the transactional nature of the network. Thus, a socially competent entrepreneur with the support of instrumental guanxi not only enhances FFP but also sustains it (Huang & Aaltio, 2014). Chung et al. (2015) examined the impact of instrumental guanxi on FFP in 120 Chinese firms. The results of their study explained that instrumental guanxi positively controls the impact of explorative learning on firm performance. Chung et al. (2015) discussed that in developing economies such as China, Pakistan, and India, a suitable fit between organisational learning and instrumental guanxi-based networking could sustain firm performance. Ju et al. (2019) investigated the impact of guanxi on entrepreneurial performance in China and revealed that different dimensions of guanxi (family and instrumental) positively impact FFP (Ju et al., 2019). Hence, this study proposes the following regarding the Chinese (C) and Pakistani (P) contexts:

- H2a-C, H2a-P: Instrumental guanxi mediates the relationship between social perception and FFP.
- H2b-C, H2b-P: Instrumental guanxi mediates the relationship between impression management and FFP.
- H2c-C, H2c-P: Instrumental guanxi mediates the relationship between social adaptability and FFP.
- H2d-C, H2d-P: Instrumental guanxi mediates the relationship between persuasiveness and FFP.
- H2e-C, H2e-P: Instrumental guanxi mediates the relationship between expressiveness and FFP.

2.5. Study framework

Given the social exchange and networking theories, this study employs five exogenous constructs (social perception, impression management, social adaptability, expressiveness, persuasiveness), one endogenous construct (FFP), and one mediator (instrumental guanxi) (Figure 1).

3. Methods

3.1. Data collection procedure

Sino-Pak entrepreneurs in the textile industry were randomly selected. The Pakistan textile industry has an 8.5% share in the GDP of Pakistan and contributes 57% of the country's exports (NNI, 2018). Meanwhile, the textile industry of China contributes 7.1% of the yearly GDP. Moreover, China is the largest textile product exporter in the world (Gaille, 2018). All respondents were experienced (at least three years) in the industry. This study was cross-sectional, and all participants were selected randomly from different cities of China and Pakistan in Studies 1 and 2. Thus, to control social desirability bias, the study adopts the following process.

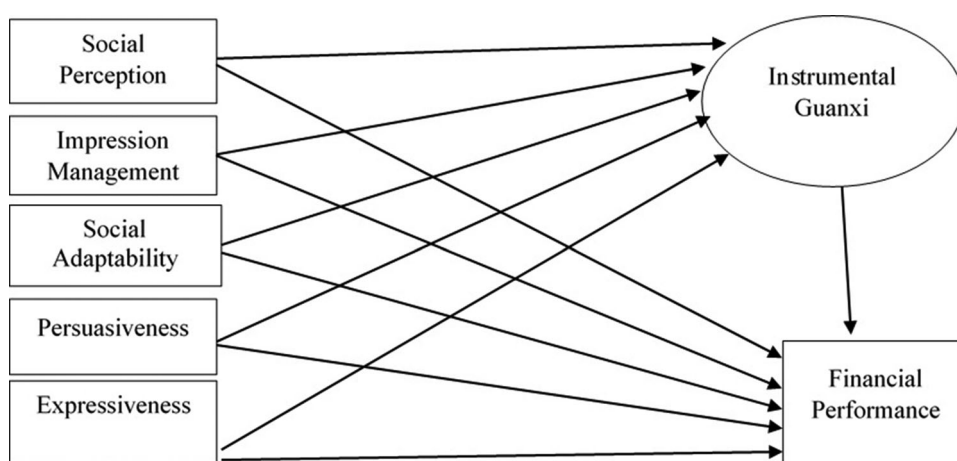


Figure 1. Study Framework.

Source: All Authors.

In China, the authors employed Pakistani and Chinese students from different Chinese universities to collect data from Chinese entrepreneurs. The students visited the offices of Chinese entrepreneurs and briefly presented the study objectives. On behalf of the authors, the students promised to provide the study results and managerial implications in exchange, which was subject to request. Data were collected through a questionnaire, and an administrative approach was adopted. A cover letter was attached to the questionnaire that explained the survey objectives with an assurance to respondents on data confidentiality. Moreover, individual identification would not be shared with anyone other than the authors of the study. Furthermore, the cover letter iterated that answers will not be categorised as right or wrong since they are perceptions regarding a phenomenon. Data were collected after obtaining the free consent of participants. In Pakistan, the study authors approached the Pakistani entrepreneurs of the textile industry. Other than the context changes in the questionnaire and cover letter, the data collection procedure was the same as that adopted in China.

A total of 450 questionnaires were distributed in each context (China and Pakistan). After three months, 265 and 292 questionnaires were received from Chinese and Pakistani entrepreneurs, respectively. However, some questionnaires were either incomplete or not properly filled in both contexts. Thus, the valid questionnaires were 251 and 270 from China and Pakistan, with a useful and acceptable response rate of 56% and 60%, respectively (Baruch & Holtom, 2008). The authors also addressed the issue of non-response bias potential by comparing early and late responses after follow-up reminders (Dillman, 1991). However, no significant difference was found. The questionnaire was developed in English and Chinese, both of which were reverse translated to confirm the content accuracy.

From a total of 251 Chinese entrepreneurs, 158 (63%) were males, and 93 (37%), females. Thirty-five (14%) participants were between the ages of 30 to 35 years, 108 (43%) were between 31 to 40 years, and the remaining were older than 40 years. Many of the participants had college (48%) and university education (38%). Most

(82%) had five or more years of experience in their businesses. From a total of 270 Pakistani entrepreneurs, 221 (82%) were males, and 49 (18%), females. Fifty-nine (22%) participants were between the ages of 25 to 35 years, and 127 (47%), 36 to 45 years. The remaining were older than 45 years. Many of the participants (48%) were intermediate-level qualified, 35% were university graduates, and the remaining had high school education. Most of the participants (78%) had more than five years of experience in their respective fields.

3.2. Measurements

An examination of the previous studies helped the authors to recognise measures of each variable for validation. A complete-scale on all variables of the study is provided in Appendix 1.

3.2.1. Social perception

This study employed five items of the social perception scale developed by Baron and Markman (2003). Respondents specified their proficiency in each of the itemised behaviours (e.g. 'I'm a good judge of other people'). A five-point Likert scale (strongly disagree = 1 to strongly agree = 5) was employed to measure respondents' perceptions.

3.2.2. Impression management

Impression management was measured via eight items developed by Tang et al. (2012). All items were evaluated on a five-point Likert scale (strongly disagree = 1 to strongly agree = 5) (e.g. 'I talk proudly about my experience or education').

3.2.3. Social adaptability

Social adaptability was measured via five items developed by Baron and Markman (2003). All items were evaluated on a five-point Likert scale (strongly disagree = 1 to strongly agree = 5) (e.g. I have no problem with introducing myself to strangers).

3.2.4. Expressiveness

Expressiveness was measured via five items developed by Baron and Markman (2003). All items were evaluated on a five-point Likert scale (strongly disagree = 1 to strongly agree = 5) (e.g. Whatever emotion I feel on the inside tends to show on the outside).

3.2.5. Persuasiveness

Persuasiveness was also measured via five items developed by Boster et al. (2011). All items were evaluated on a five-point Likert scale (strongly disagree = 1 to strongly agree = 5) (e.g. I am good at thinking of multiple ways to explain my position on an issue).

3.2.6. Instrumental Guanxi

Instrumental guanxi was measured via six items. Three items were taken from Yen et al. (2011) and three, Peng and Luo (2000). Data were collected after confirming the scale validity. All items were evaluated on a five-point Likert scale (very little = 1 to very extensive = 5). (e.g. My supplier's representative seems to be concerned about our needs).

3.2.7. FFP

FFP was measured via five items developed by Chan, Huff, Barclay, and Copeland (1997). All items were evaluated on a five-point Likert scale (strongly disagree = 1 to strongly agree = 5) (e.g. highly satisfied with net profits).

3.3. Statistical analyses technique

This study employed partial least squares structural equation modelling (PLS-SEM) (Hair et al., 2016). The SmartPls 3.2.8 software is employed for the data analysis. PLS-SEM is an effective and comprehensive method for multivariate statistical analyses (Bari & Fanchen, 2017; Hair et al., 2013). It adequately evaluates measurement and structural models simultaneously, as well as reflective and formative construct-based models (Hair et al., 2016). Moreover, PLS-SEM is a non-parametric SEM approach that is appropriate for conducting mediation analysis (Hair et al., 2019). It supports small and large data sizes (Hair et al., 2014). Furthermore, it is appropriate in the case of a few items, such as items less than six and a sample size greater than 100 (Bari et al., 2016; Hair et al., 2016). Thus, it is suitable for this study since most of the items are less than six, and the sample sizes are greater than 100.

4. Results and analysis

4.1. Reliability and convergent validity (Study 1, China)

Model measurement is performed by testing for reliability and validity. All indicators confirm the reliability and validity of the current model. The factor loadings of all items are > 0.7 , which indicates the reliability of the model (Hair et al., 2014). However, for robustness, we employ item trimming. Thus, few items were discarded for having factor loadings < 0.7 , such as two items from impression management and one item from instrumental guanxi. The constructs' reliability was established by employing Dijkstra-Henseler's rho criteria. Table 1 shows that all values are above 0.70 and meet the threshold criterion, which satisfies the construct reliability of the proposed variables (Hair et al., 2016). The convergent validity is also ensured through the average variance extracted (AVE). All AVE values meet the threshold criterion, which is > 0.50 (Hair et al., 2014). The R^2 values of instrumental guanxi and FFP also indicate a robust model.

Table 1. Model measurement.

Variables	R ²	Loadings	CR	α	Rho-A	AVE
Social Perception		SP1-0.811 SP2-0.718 SP3-0.766 SP4-0.739 SP5-0.798	0.877	0.826	0.826	0.589
Impression Management		IM1-0.832 IM2-0.736 IM3-0.784 IM4-0.835 IM5-0.815 IM6-0.863	0.911	0.896	0.900	0.660
Social Adaptability		SA1-0.702 SA2-0.701 SA3-0.722 SA4-0.858 SA5-0.774	0.865	0.808	0.828	0.563
Persuasiveness		PRN1-0.854 PRN2-0.833 PRN3-0.832 PRN4-0.779 PRN5-0.857	0.908	0.888	0.891	0.691
Expressiveness		EXN1-0.789 EXN2-0.836 EXN3-0.841 EXN4-0.834 EXN5-0.778	0.909	0.875	0.879	0.666
Instrumental Guanxi	0.736	IG1-0.863 IG2-0.828 IG3-0.837 IG4-0.863 IG5-0.739	0.905	0.883	0.888	0.682
Firm Financial Performance	0.770	FFP1-0.879 FFP2-0.882 FFP3-0.848 FFP4-0.828 FFP5-0.844	0.921	0.900	0.910	0.733

CR = Composite Reliability, α = Cronbach alpha reliabilities, AVE = Averagre Variance Extracted, SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm Financial Performance.

Source: All Authors.

4.2. Discriminant validity (Study 1, China)

Discriminant validity confirms the unrelatedness of the constructs. It is ensured via two popular approaches: Fornell-Larcker criterion and heterotrait–monotrait ratio (HTMT). According to the Fornell-Larcker criterion, the square root of each construct's AVE should be greater than the correlation values of the remaining constructs (Hair et al., 2016). This criterion has been satisfied in the current analysis, as shown in Table 2. Accordingly, the study performed the HTMT criterion for the discriminant validity of the proposed model. All constructs' HTMT values are less than 0.90, which confirms the discriminant validity of the model (Table 2) (Hair et al., 2016). This study addressed the issue of collinearity by performing the variance inflation factor (VIF) Test. The values of $VIF < 5$ indicates no issues of collinearity in the data (Hair et al., 2016). Moreover, all inner VIF values are less than 5.

Table 2. Discriminant validity.

Fornell-Larcker Criterion							HTMT Ratios						
EXN	FFP	IG	EXN	PRN	SA	IM	SP	FFP	IG	EXN	PRN	SA	IM
FFP	0.856												
IG	0.803	0.826						0.893					
EXN	0.747	0.762	0.816					0.828	0.862				
PRN	0.611	0.592	0.514	0.831				0.680	0.664	0.578			
SA	0.727	0.717	0.684	0.586	0.751			0.820	0.831	0.790	0.685		
IM	0.810	0.798	0.725	0.567	0.707	0.812		0.900	0.894	0.807	0.634	0.830	
SP	0.757	0.725	0.685	0.622	0.706	0.729	0.767	0.866	0.834	0.779	0.721	0.834	0.834

SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm Financial Performance.

Source: All Authors.

Table 3. Direct relationships.

Structural Path	Path Coefficients (t-Value)	(t-value) Effect size (F^2)	Confidence Interval (95 %)	(p value) 5 %	Results
SP-FFP	0.164 (2.556)	0.040	0.050-0.241	0.011	H1a-C Accepted
IM-FFP	0.306 (4.688)	0.117	0.172-0.429	0.000	H1b-C Accepted
SA-FFP	0.090 (1.691)	0.013	-0.007-0.201	0.091	H1c-C Rejected
PRN-FFP	0.079 (1.865)	0.015	-0.005-0.160	0.062	H1d-C Rejected
EXN-FFP	0.144 (2.975)	0.032	0.050-0.241	0.003	H1e-C Accepted

SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm Financial Performance.

Source: All Authors.

4.3. Hypotheses confirmation (Study 1, China)

4.3.1. Direct Relationships (Study 1, China)

Table 3 explains the results of the relationship between dimensions of social competence and FFP. The three dimensions of social competence (social perception $\beta = 0.164$, $p = 0.011$; impression management $\beta = 0.306$, $p = 0.000$; and expressiveness $\beta = 0.144$, $p = 0.003$) have a significant impact on FFP. Therefore, H1a-C, H1b-C, and H1e-C are accepted. However, social adaptability ($\beta = 0.090$, $p = 0.091$) and persuasiveness ($\beta = 0.079$, $p = 0.062$) have no significant impact on FFP. Therefore, H1c-C and H1d-C are rejected. Table 3 reports the P-values of the direct relationships. The level of significance is 5%.

4.3.2. Mediation analysis (Study 1, China)

The mediation analysis was performed with the help of the bootstrapping technique by using a 5000 randomly drawn sample with replacements at the 5% level of significance. Table 4 reports the results of the indirect effects. The variance accounted for (VAF) is used for the evaluation of the mediation effects. The VAF criteria regarding mediation analyses are as follows: $VAF \geq 80\%$ = full mediation, $VAF < 80\%$ = partial mediation, and $VAF < 20\%$ = no mediation (Bari & Fanchen, 2017). The VAF values show partial mediation in most of the indirect relationships. Instrumental guanxi mediates the relationship between four dimensions (impression management, $VAF = 20.51\%$; social adaptability, $VAF = 23.07\%$; persuasiveness, $VAF = 21.21\%$; and expressiveness, $VAF = 30.09\%$) of social competence and FFP. Therefore, H2b-C, H2c-C, H2d-C, and H2e-C are accepted. However, instrumental guanxi failed to mediate the relationship between social perception ($VAF = 14.13\%$) and FFP. H2a-C is, thus, rejected. Figure 2 explains the complete results of Study 1.

Table 4. Mediation analysis.

Mediation Relationships	Direct Effect (t-value)	Indirect Effect (t-value)	Total Effect	VAF (%)	Interpretation	Results
SP-IG-FFP	0.164 (2.556)	0.027 (1.820)	0.191	14.13	No Mediation	H2a-C Rejected
IM-IG-FFP	0.306 (4.688)	0.079 (2.523)	0.385	20.51	Partial Mediation	H2b-C Accepted
SA-IG-FFP	0.090 (1.691)	0.027 (1.678)	0.117	23.07	Partial Mediation	H2c-C Accepted
PRN-IG-FFP	0.079 (1.865)	0.021 (1.605)	0.099	21.21	Partial Mediation	H2d-C Accepted
EXN-IG-FFP	0.144 (2.975)	0.062 (2.509)	0.206	30.09	Partial Mediation	H2e-C Accepted

VAF ≥ 80% = full mediation, VAF < 80% = partial mediation, VAF < 20% = No mediation (Bari & Fanchen, 2017), SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm Financial Performance.

Source: All Authors.

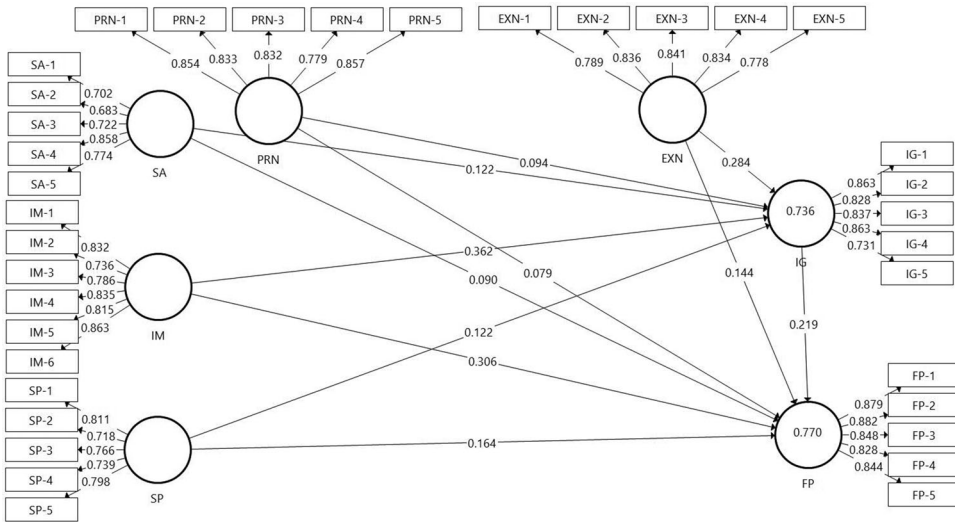


Figure 2. China model.

Source: All Authors.

4.4. Reliability and convergent validity analysis (Study 2, Pakistan)

All indicators indicate the reliability and validity of the current model. The factor loadings of all items are > 0.7, which confirms the reliability of the model (Hair et al., 2013). However, for robustness, items were trimmed. Thus, a few items were discarded for having factor loadings < 0.7: two items from impression management and one item from instrumental guanxi. Construct reliability was conducted via Dijkstra-Henseler’s rho criteria. All values are above 0.70 and meet the threshold level (Table 5) (Hair et al., 2014). Convergent validity is ensured via the AVE. All construct values meet the threshold level > 0.50 (Sarstedt, Ringle, Smith, Reams, & Hair et al., 2014). R² values of instrumental guanxi and FFP indicate a robust model.

4.5. Discriminant validity (Study 2, Pakistan)

The test for discriminant validity was the same as that adopted in Study 1 regarding China (Table 6).

Table 5. Model measurement.

Variables	R ²	Loadings	CR	α	Rho-A	AVE
Social Perception		SP1- 0.832				
		SP2-0.807	0.881	0.830	0.832	0.597
		SP3-0.788				
		SP4-0.713				
		SP5-0.719				
Impression Management		IM1-0.701				
		IM2-0.702				
		IM3-0.828	0.909	0.880	0.890	0.628
		IM4-0.834				
		IM5-0.858				
		IM6-0.830				
Social Adaptability		SA1- 0.814				
		SA2-0.879				
		SA3-0.854	0.912	0.895	0.895	0.704
		SA4-0.827				
		SA5-0.819				
Persuasiveness		PRN1-0.817				
		PRN2-0.852				
		PRN3-0.850	0.916	0.886	0.887	0.687
		PRN4-0.837				
		PRN5-0.786				
Expressiveness		EXN1-0.803				
		EXN2-0.783				
		EXN3-0.887				
		EXN4-0.846				
		EXN5-0.871				
Instrumental Guanxi		IG1- 0.735				
		IG2- 0.695				
	0.575	IG3- 0.723	0.846	0.782	0.811	0.525
		IG4- 0.780				
		IG5- 0.735				
Firm Financial Performance		FFP1-0.867				
		FFP2-0.840				
	0.761	FFP3-0.840	0.920	0.890	0.895	0.628
		FFP4-0.868				
		FFP5-0.751				

CR = Composite Reliability, α = Cronbach alpha reliabilities, AVE = Averagre Variance Extracted, SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm Financial Performance.

Source: All Authors.

Table 6. Discriminant validity.

	Fornell-Larcker Criterion							HTMT Ratios						
	EXN	FFP	IG	EXN	PRN	SA	IM	SP	FFP	IG	EXN	PRN	SA	IM
FFP	0.835													
IG	0.700	0.725							0.773					
EXN	0.804	0.659	0.839						0.899	0.718				
PRN	0.756	0.640	0.776	0.829					0.850	0.707	0.868			
SA	0.742	0.701	0.783	0.718	0.839				0.829	0.806	0.874	0.802		
IM	0.811	0.682	0.808	0.698	0.757	0.792			0.889	0.759	0.890	0.781	0.847	
SP	0.672	0.568	0.673	0.606	0.668	0.746	0.773	0.778	0.643	0.780	0.700	0.774	0.886	

SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm Financial Performance.

Source: All Authors.

4.6. Hypotheses confirmation (Study 2, Pakistan)

4.6.1. Direct relationship (Study 2, Pakistan)

Table 7 explains the results of the relationship between dimensions of social competence and FFP. The three dimensions of social competence (impression management

Table 7. Direct relationships.

Structural Path	Path Coefficients (t-Value)	(t-value) Effect size (f^2)	Confidence Interval (95 %)	P value (5 %)	Results
SP-FFP	0.046(0.969)	0.004	-0.045-0.143	0.333	H1a-P, Rejected
IM-FFP	0.322(3.580)	0.107	0.147-0.499	0.000	H1b-P, Accepted
SA-FFP	0.034(0.545)	0.001	-0.083-0.162	0.586	H1c-P, Rejected
PRN-FFP	0.209(3.095)	0.064	0.077-0.336	0.002	H1d-P, Accepted
EXN-FFP	0.228(3.466)	0.051	0.099-0.355	0.001	H1e-P, Accepted

SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm financial Performance.

Source: All Authors.

Table 8. Mediation analysis.

Mediation Relationships	Direct Effect (t-value)	Indirect Effect (t-value)	Total Effect	VAF (%)	Interpretation	Results
SP-IG-FFP	0.046(0.969)	0.001(0.098)	0.047	2.127	No Mediation	H2a-P, Rejected
IM-IG-FFP	0.322(3.580)	0.036(2.253)	0.359	10.027	No Mediation	H2b-P, Rejected
SA-IG-FFP	0.034(0.545)	0.058(2,249)	0.092	63.043	Partial Mediation	H2c-P, Accepted
PRN-IG-FFP	0.209(3.095)	0.024(1.464)	0.233	10.30	No Mediation	H2d-P, Rejected
EXN-IG-FFP	0.228(3.466)	0.002(0.136)	0.230	0.869	No Mediation	H2e-P, Rejected

VAF \geq 80% = full mediation, VAF < 80% = partial mediation, VAF < 20% = No mediation (Bari & Fanchen, 2017), SP = Social Perception, IM = Impression management, SA = Social Adaptability, PRN = Persuasiveness, EXN = Expressiveness, IG = Instrumental Guanxi, FFP = Firm financial Performance.

Source: All Authors.

$\beta = 0.322$, $p = 0.000$; persuasiveness $\beta = 0.209$, $p = 0.002$; and expressiveness $\beta = 0.228$, $p = 0.001$) have a significant impact on FFP. Therefore, H1b-P, H1d-P, and H1e-P are accepted. However, social perception ($\beta = 0.046$, $p = 0.333$) and social adaptability ($\beta = 0.034$, $p = 0.586$) have no significant impact on FFP. Therefore, H1a-P and H1c-P are rejected. Table 7 reports the P-values of the direct relationships. The level of significance is 5%.

4.6.2. Mediation analysis (Study 2, Pakistan)

The mediation analysis was performed with the help of the bootstrapping technique by using 5000 randomly drawn samples with replacements at the 5% level of significance. The mediation effect is calculated using the VAF method. The VAF criteria regarding mediation analyses are as follows: VAF \geq 80% = full mediation, VAF < 80% = partial mediation, VAF < 20% = no mediation (Bari & Fanchen, 2017). Table 8 reports the results of mediation. The VAF values show that there no mediation between most of the proposed relationships. Instrumental guanxi only mediated the relationship between social adaptability (VAF = 63.043%) and FFP. Therefore, H2c-P is accepted. However, instrumental guanxi did not mediate the relationship between the other four dimensions (social perception VAF = 2.127%, impression management VAF = 10.027%, persuasiveness VAF = 10.30%, and expressiveness VAF = 0.869%) of social competence and FFP. Hence, H2a-P, H2b-P, H2d-P, and H2e-P are rejected. Figure 2 explains the complete results of Study 2 (Figure 3).

5. Discussion and conclusion

This study evaluated the impact of social competence on FFP in the Sino-Pak textile industry, and how instrumental guanxi mediates the relationship. Given the

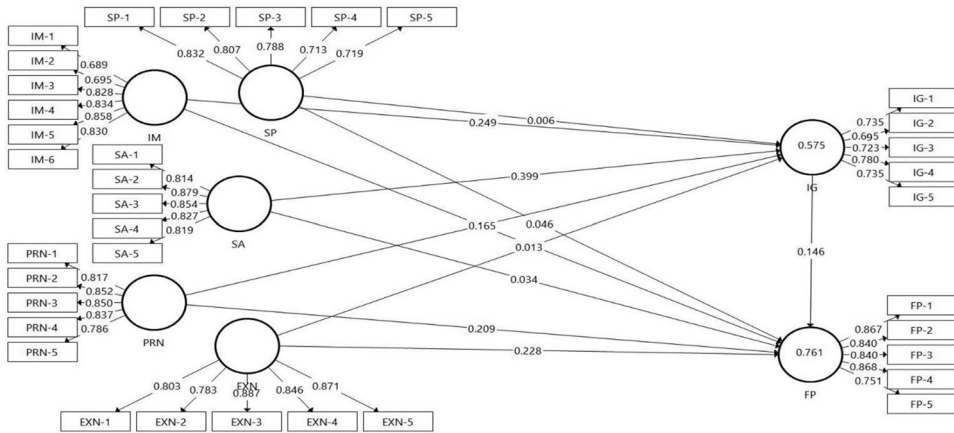


Figure 3. Pakistan model.
 Source: All Authors.

competitive edge theory and CPEC, the study measures which country’s entrepreneurs excel in social competence and instrumental guanxi and the emergent mutual benefit that can occur. Study 1 supports the proposition that the better entrepreneurs’ social competence, the higher their FFP. The empirical investigation of Chinese firms confirms that there is a positive relationship between entrepreneurs’ social competence and FFP. Moreover, instrumental guanxi helps Chinese entrepreneurs enhance the impact of social competence on FFP. However, Study 2 partially supports the proposition. Moreover, instrumental guanxi has no significant role in enhancing the impact of social competence on FFP.

In-depth analyses of both studies explain that different dimensions of social competence in both contexts have a different impact on FFP directly with instrumental guanxi as a mediator. For instance, three dimensions of social competence (social perception, impression management, and expressiveness) have a significant impact on the FFP of China. However, two dimensions (social adaptability and persuasiveness) have no significant impact. Instrumental guanxi played a partial mediating role between all dimensions of social competence and FFP, except for social perception. The case of Pakistani entrepreneurs is different. The three dimensions of social competence (impression management, persuasiveness, and expressiveness) have a significant impact on FFP. However, two dimensions (social perception and social adaptability) have no significant impact. Moreover, instrumental guanxi almost failed to mediate the impact of social competence dimensions on FFP, except for social adaptability, which has a direct insignificant impact (instrumental guanxi renders it to be partially significant). In both contexts, social adaptability has an insignificant direct impact on FFP. Notably, Baron and Markman (2003) suggest that the term social adaptability may create confusion for respondents, and ‘social boldness’ (the capability to approach and interact with strangers) may be a more suitable substitute for social adaptability. Furthermore, both nations have a closed culture, and the people have strong ties to their culture. Thus, social adaptability may be an issue for the entrepreneurs of both nations.

In both contexts, different dimensions of social competence impact FFP differently. For instance, social perception has a significant impact on FFP in China. However,

the social perception has an insignificant impact on FFP in Pakistan. Similarly, persuasiveness has an insignificant impact on FFP in China. However, persuasiveness has a significant impact on FFP in Pakistan. These results are in line with previous studies (Baron & Markman, 2003; Baron & Tang, 2009; Hoehn-Weiss et al., 2004). Various factors may explain the difference in the results of the Sino-Pak studies. For instance, the national and organisational cultures of Sino-Pak are different. Chinese working behaviour is more flexible than Pakistan. Moreover, demographic factors may play a role. For instance, the China study has more female respondents than that of Pakistan; the age and education demographics of Chinese and Pakistani entrepreneurs are also different. Despite these differences, social competence impacts FFP in both studies.

The case of instrumental guanxi as a mediator is different from social competence. Although instrumental guanxi is a Chinese business term, it is considered and explained as analogous to social capital for a better appreciation of Pakistani entrepreneurs. However, the results of both studies are completely different. The Chinese entrepreneurs accept the role of instrumental guanxi in FFP. Table 4 shows that instrumental guanxi partially mediates the impact of all dimensions of social competence except social perception. However, Pakistani entrepreneurs do not consider the significant mediating role of instrumental guanxi between dimensions of social competence and FFP, except for social adaptability (Table 8). That is, social competence is equally important to enhance FFP even if the case of instrumental guanxi is different.

These results indicate that Pakistani entrepreneurs are less aware of the importance and practice of instrumental guanxi in FFP, although studies confirm the significant role of instrumental guanxi in the success of entrepreneurs (Chen et al., 2015; Huang & Wang, 2011; Ju et al., 2019; Shao & Pan, 2019; Sigmund et al., 2015). However, the effective use of instrumental guanxi is an important instrument of Chinese textile entrepreneurs. Even so, CPEC creates business opportunities for both entrepreneurs. Nonetheless, international reports depict higher financial and non-financial performance and skills of Chinese entrepreneurs than those of Pakistan at individual and national levels (Schwab, 2018). For instance, as per the report (Global Competitiveness Report 2018) of the world economic forum, China has a better position in different economic indicators, such as business dynamism, technical skills, innovation capabilities, than Pakistan (Schwab & Sala-I-Martin, 2018). The report further indicates that Pakistan has a better position in social capital (105/136) than China (125/136). However, this measurement of social capital is based on personal and social relationships, social norms, civic participation in society, and more trust among people. This measurement scale is not based on business ties and networking or instrumental guanxi perspectives. Thus, Pakistani society is generally more social than Chinese. From a professional perspective, however, Pakistani entrepreneurs are not as capable as those of China. The study results contribute two things to the literature. First, better social competence can enhance entrepreneurs' financial performance. Second, social competence is not only the reason for better performance; factors such as personal characteristics, industry behaviours, business dynamics, market forces, and legal and political conditions affect entrepreneurial success (Baron & Markman, 2003; Lamine et al., 2015; Shane & Venkataraman, 2000).

Research implications

This study presents several theoretical and managerial implications for Chinese and Pakistani textile entrepreneurs from the CPEC perspective. Regarding the theoretical implications, this study is among the first to provide empirical evidence on the role of instrumental guanxi as a mediator between different dimensions of social competence and FFP. It highlights the cultural impact on the application of different dimensions of social competence. The study explains that different dimensions of social competence perform differently; for instance, persuasiveness is insignificant in one context (China), while social perception in the other (social perception, Pakistan). This behaviour of social competence dimensions explains their contingent role in different contexts or cultures. Instrumental guanxi is specific to China and works better in Chinese organisational culture. However, in another context, it is not as effective. Therefore, properties of guanxi are required to investigate a better understanding of guanxi and its application.

From a managerial implications perspective, first, entrepreneurs in the Sino-Pak textile industry should understand and recognise the importance of different dimensions of social competence and enhance FFP. Moreover, they must appreciate their entrepreneurial competitive advantages. Second, by sharing and exchanging innovative knowledge and technologies, both entrepreneurs can enhance their firms' performance. Third, Chinese entrepreneurs are comparatively more experienced and successful in international markets. Therefore, Pakistani entrepreneurs can learn from Chinese entrepreneurs to increase international-market shares. Fourth, guanxi, specifically instrumental guanxi, is a key strategic tool of Chinese entrepreneurs. Guanxi is simply not merely social networking, as in the West. Chinese cultural values, personality attitude, and behaviour determine the properties of guanxi. Hence, Pakistani entrepreneurs can learn the art of guanxi, especially instrumental guanxi, from Chinese entrepreneurs. Fifth, CPEC creates business opportunities for both entrepreneurs, specifically Chinese entrepreneurs. Nevertheless, Chinese entrepreneurs are not much aware of the religious and social norms of Pakistani society and business culture. Therefore, Chinese entrepreneurs should learn the social behaviours of Pakistani entrepreneurs and customers before setting up businesses in Pakistan. The seminars and social interactions between Chinese and Pakistani entrepreneurs from the textile industry are good strategies to share knowledge and learn business practices mutually.

Limitations and future research directions

Similar to other studies, this study has certain limitations. First, it investigated the mediating role of instrumental guanxi between social competence and FFP. However, other dimensions of guanxi, such as socio-affective guanxi and mixed guanxi, remain unexplored. Second, this study is cross-sectional and comparative with respect to two countries. Future studies can employ time lag and longitudinal data to confirm and improve the results. Third, this study employed five dimensions of social competence to evaluate the performance of entrepreneurs. Further studies can investigate other dimensions, such as emotional intelligence. Fourth, this study employed instrumental

guanxi as a mediator in both contexts (Sino-Pak). However, the results of instrumental guanxi in Pakistan were not encouraging. Thus, future research can consider social capital as a mediator in both contexts to confirm the theory. Fifth, this study investigates only the textile industry. Other industries can be explored via the model of this study.

Declaration of interest

No potential conflict of interest was reported by the authors.

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