



# Guanxi practice and Chinese buyer–supplier relationships: The buyer's perspective

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## ABSTRACT

This study explores the different effects of *guanxi* practice on Chinese buyer–supplier relationships in the initiation and the maintenance stages during the buyer–supplier relationship lifecycle. Using survey data collected from the retail industry in China, we find that retailers perceive varying buyer–supplier relationship behaviors in these two relationship stages and, accordingly, *guanxi* practice exerts opposite effects on retailer satisfaction. Specifically, during the relationship initiation stage, *guanxi* practice is negatively related to retailer social satisfaction and commitment. However, during the relationship maintenance stage, *guanxi* practice is positively related to retailer economic satisfaction. The results from this study provide suppliers with managerial implications on when to and when not to practice *guanxi* in China.

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## 1. Introduction

Buyer–supplier relationships have been an important area of marketing research for decades. To date, excellent progress has been made in our understanding of behavioral relationships ranging from early accumulation of knowledge on inter-firm power and dependence to a more recent focus on relationship marketing (see Palmatier, Dant, Grewal, & Evans, 2006 for a review). In relationship marketing, firms strive to develop mutual trust and maintain long-term relationships with channel members in order to manage uncertainties and reduce transaction costs during the value-adding process (Anderson & Narus, 1990; Ganesan, 1994; Geyskens, Steenkamp & Kumar, 1998, 1999; Morgan & Hunt, 1994). As a result, success in managing buyer–supplier relationships has become one of the great sources for achieving sustainable competitive advantage (Dwyer, Schurr, & Oh, 1987; Frazier, 1999; Ganesan, 1994); and social networking and relationship building have become critical for the survival and success of firms around the world (Palmatier, Dant, & Grewal, 2007; Peng & Luo, 2000; Uzzi, 1996).

Parallel to the explosive growth in relationship marketing research, the so called Chinese version of relationship marketing—*guanxi*—has also generated a growing interest among managers and researchers who are interested in China (e.g., Ambler, Styles & Wang,

1999; Davies, Leung, Luk, & Wong, 1995; Liu, Li, Tao, & Wang, 2008; Lovett, Simmons, & Kali, 1999), the world's second largest economy only after the United States (World Bank, 2010). *Guanxi* refers to a special type of personal relationships or social connections based on mutual interests and benefits that bonds the exchange partners through reciprocal obligations and exchange of favors (Davies et al., 1995; Yang, 1994) whereas *guanxi* practice is the activity used to build and maintain *guanxi* (Yang, 1994). Due to the cultural embeddedness of business relations in China, *guanxi* has been described as a pervasive relationship lubricant that increases the efficiency and effectiveness of daily operations (Ambler et al., 1999; Davies et al., 1995; Fock & Woo, 1998; Styles & Ambler, 2003). As a result, for more than three decades, the advice typically given to Western practitioners is to learn how to cultivate *guanxi* and practice it when conducting business in or with China.

Along with the growing interest in *guanxi*, there is one major issue in the extant *guanxi* literature that has limited our understanding—the controversy over the increasing or declining role of *guanxi* practice in the Chinese transitional economy. There are two primary perspectives on this controversy. One perspective, represented by scholars such as Davies et al. (1995), Yang (1994), and Yi and Ellis (2000), views *guanxi* as a deep-seated idiosyncratic cultural fact of Chinese society, and that its intricate and pervasive network has strong implications for interpersonal and inter-organizational dynamics in Chinese society. As such, this perspective suggests that *guanxi*'s importance will continue and *guanxi* practice will increase at an accelerated rate (Yang, 1994). The other perspective, however, views *guanxi* as “an institutionally defined system – i.e. a system that depends on the institutional structure of society rather than on

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culture” (Guthrie, 1998, p. 255). Represented by Guthrie (1998), this perspective proposes that *guanxi* be explained in terms of the weak institutional structure presented by China’s transition to a market-based economy. As the rational–bureaucratic system matures, *guanxi* will eventually disappear (Guthrie, 1998). Interestingly, both of the perspectives have received empirical support. For example, Peng and Luo (2000) find that *guanxi* with business partners and with government officials are significant predictors of firm performance and Zhuang, Xi, and Tsang (2010) confirm the positive influence of *guanxi* on channel cooperation, corroborating the argument of the flourishing role of *guanxi* in business relations. On the other hand, Shi, Hu, and Fu (2006) report the negative effects of *guanxi* on firm performance and Gu, Hung, and Tse (2008) caution that the negative impacts of *guanxi* under the increased competition intensity and technological turbulence, supporting the claim of the diminishing role of *guanxi* in economic exchanges. All of these studies, however, examine *guanxi* in a static rather than dynamic form of business exchanges, ignoring the fact that exchange relationships are often processes in which firms go through a sequence of phases (Dwyer et al., 1987; Frazier, 1983) and various aspects of exchange may have systematically differing effects over the relationship life cycle (Wilson, 1995). We contend that the importance of *guanxi* may be different in different buyer–supplier relationship stages. Thus, to solve the controversy, we propose to study the role of *guanxi* in buyer–supplier relationships and compare the efficacy of the two perspectives in the relationship initiation and the relationship maintenance stages.

The purpose of this study is to advance our understanding of the role of *guanxi* in the buyer–supplier relationship life cycle. Specifically, we test and compare the impacts of *guanxi* practice on other relational constructs during the buyer–supplier relationship initiation and maintenance stages in China using data collected from retailers. The paper is organized as follows. First, we review relationship marketing and *guanxi* literature and propose corresponding hypotheses related to the buyer–supplier relationship initiation and maintenance stages. This is followed by a description of our method for testing the hypotheses. We conclude with a discussion of results, implications, limitations, and directions for further research.

## 2. Conceptual framework and hypotheses

Buyer–supplier relationship research, initially rooted in social psychology, has built on and adapted theories from a variety of disciplines. Power, dependence, and conflict were traditional foci of relationship studies (Cannon & Perreault, 1999; Geyskens et al., 1998); since the early 1980s, however, marketing researchers have provided new insights about behavior in and characteristics of buyer–supplier relationships. This change in focus stemmed from a genuine paradigm shift: from the study of discrete exchange to an emphasis on relational exchange (Dwyer et al., 1987). Defined by Morgan and Hunt (1994), relationship marketing is “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges” (p. 22). In contrast to transactional marketing which concerns about short-term discrete exchange – manifested by money on one side and commodity (goods) on the other – and excludes relational elements (Macneil, 1980), relationship marketing thrives on relational exchange and “transpires over time with each transaction viewed in terms of its history and its anticipated future” (Dwyer et al., 1987, p. 12). As one of the popular and effective marketing strategies, most research and practice believe that relationship marketing efforts promote strong customer relationships and firm performance (see Palmatier et al., 2006).

*Guanxi* and *guanxi* practice have been considered as the Chinese version of relationship marketing (Ambler et al., 1999; Davies et al.,

1995). However, more recently researchers have questioned the construct equivalence of the two concepts (see Wang, 2007). Specifically, Wang (2007) argues, despite the relational foci and long-term perspectives that the two concepts share in common, *guanxi* and relationship marketing have several differences. First, *guanxi* is a special type of personal relationship at a personal level whereas relationship marketing is typically impersonal and mostly at the organization level. Second, *guanxi* is a particularistic relationship for ingroup members only, such as the family or the immediate group, whereas relationship marketing has a universalistic tendency because it can be open to any exchange partners. Third, *guanxi* and relationship marketing have different underlying mechanisms. While relationship marketing functions through trust and long term commitment, *guanxi* operates through *xinyong* and *renqing*, which are unspoken codes directing behavioral norms in China and implying reciprocity and empathy. Trust, a key component in relationship marketing, does not have the construct equivalence with *xinyong*, which means one’s ability to fulfill his/her promise and obligation; thus, trust is not associated with the development and maintenance of *guanxi*. Following the above arguments, in our study, we do not equivalent *guanxi* with relationship marketing; rather, we propose *guanxi* as a potential driver of buyer–supplier relationships, together with other behavioral determinants (i.e., role performance) and relationship characteristics (i.e., dependence), during the relationship initiation and maintenance stages.

### 2.1. *Guanxi* and *guanxi* practice

*Guanxi* has many definitions. *Guanxi* in the context of a buyer–supplier relationship is defined as a special type of personal particularistic ties that bonds the boundary spanners of exchange partners through social activities, reciprocal obligations and favor exchanges (Davies et al., 1995; Peng & Luo, 2000). The practice and activity to build and maintain this special personal relationship refers to *guanxi* practice (Yang, 1994). In this sense, *guanxi* sounds similar to personal relationships developed by social networking, which has long been recognized in the Western business literature (see Doney & Cannon, 1997). However, in a Chinese context, *guanxi* is different from pure personal relationships or friendship. It characterizes a special kind of interpersonal relationship, which always involves reciprocity, obligation, and indebtedness characterized by the continued exchange of favors in personal interactions with other people (Yang, 1994). According to Yang (1994), *guanxi* practice involves the exchange of gifts, favors and banquets; the cultivation of personal relationships and networks of mutual dependence; and the manufacturing of obligation and indebtedness.

Comparing Chinese *guanxi* with personal relationships in the West, there are at least three differences. First, the Chinese concept of *guanxi* can be distinguished from personal relationships in the West by its focus on reciprocation of favors in an unequal sense (Yi & Ellis, 2000), that is, one person gives a favor and the other person must repay the favor and increase the value of the favor given. Second, Chinese *guanxi* always involves the cultivation of long-term personal relationships through rituals such as gift-giving and wining-and-dining for the purpose of obtaining some goods and services (Yang, 1994), while personal networking in the West does not necessarily involve these forms. Third, *guanxi* is utilitarian rather than emotional (Luo, 1997); it is based entirely on the exchange of favors, not on emotional attachment (such as friendship). Thus, *guanxi* does not necessarily involve friendship. According to Hwang (1987), *guanxi* between buyers and suppliers are typically connected by “instrumental” or “mixed” ties used as tools for the exchange of goods and services, and the relationship maintenance.

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