



The significance of trust and *renqing* in the long-term orientation of Chinese business-to-business relationships

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ABSTRACT

While business relationships with China are receiving increased attention in both practitioner and academic discourse, very little empirical work however, has been undertaken to isolate and examine measures that focus on business-to-business relationships, and as such, research in this area is somewhat scant. In an attempt to bridge this gap, and add to the knowledge in this emerging discipline, the research aims to develop a conceptual framework to explore the relationship between trust and the long-term orientation in Chinese business-to-business market relationships. Based on a survey with Hong Kong companies that have a buyer-seller relationship with Chinese companies, the empirical findings indicate the mediating role and significance of 'renqing' for enhancing trust and contributing towards the long-term stability in relational exchange. The results highlight several implications for practicing managers to consider when aiming to establish and develop relationships in a Chinese business-to-business context.

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1. Introduction

Chinese business relations are frequently developed and nurtured via personal connections, relationships, obligations, and influence that parties can use to obtain resources through continual cooperation and the exchange of favors (Davies, 1995; Davies, Leung, Luk, & Wong, 1995; Pye, 1992; Wang, Piron, & Xuan, 2001). Developing networks of mutual dependence, and creating a sense of obligation and indebtedness is a key to building successful relationships with Chinese communities, and often serves as a lubricant for exchange (Standifird & Marshall, 2000; Yang, 1994). While a long-term orientation exists in both Chinese and Western relational practice, the underlying mechanism is somewhat different (Wang, 2007).

Compared with Western concepts of marketing relationships, which are often impersonal (Morgan & Hunt, 1994; Wang, 2007), the social capital owned by an individual at the personal level is more apparent in Chinese relations (Fan, 2002). Whilst in a Western context, the long-term orientation is contingent on trust and commitment (Morgan & Hunt, 1994), the underlying mechanism that explains the impact of trust on long-term orientation in Chinese relationships is 'renqing', which refers to one's obligation of repaying favors and showing empathy to partners involved in their business network (Hwang, 1987; Wang, 2007; Yang, 1994).

Over the last two decades an emerging stream of research has emerged that has provided somewhat qualitative overviews of China (Garten, 1998; Kao, 1993; Lieberthal & Lieberthal, 2003; Vanhonacker, 1997), Chinese buying behavior (Ackerman & Tellis, 2001; Graham & Lam, 2003; Klein, Ettenson, & Morris, 1998; Sun, Chen, Fang, & Liang, 2000; Tavassoli & Lee, 2003; Zhou & Nakamoto, 2001), and the fundamentals of business and marketing compared with Western practices (Atuahene-Gima & Li, 2002; Fang, Palmatier, & Evans, 2004; Song, Xie, & Dyer, 2000; Yan, 1998; Zeng & Williamson, 2003).

Despite this, very little empirical work has been undertaken to isolate and examine measures that are associated and apparent within Chinese buyer-seller relationships. Based on data collected from a sample of both Hong Kong buyers and sellers, the study is focused on particular business relationships with their Mainland Chinese partners. The research contributes to the understanding of buyer-seller relations through building a conceptual framework and testing the hypothesized mediation role of *renqing* between trust and the long-term orientation of relational exchange in a Chinese context.

Specifically the linkage between these three constructs is examined to discover the extent to which *renqing* is able to facilitate the relationship between trust and the long-term prospects of buyer-seller relationships, and the general nurturing of exchange. As a result, the findings will make an incremental contribution within the discipline, based on developing a scale to measure *renqing* and reporting new empirical findings relating to trust and the long-term orientation in a Chinese business-to-business context. Through understanding further about the unique underlying mechanisms of

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how Chinese business relationships operate, Western managers and academicians can potentially avoid applying Western based concepts directly in a Chinese context and thus minimize the potential risk of business failure.

The paper is divided into three main sections. It begins by reviewing the relationship between trust and long-term orientation, then discusses the mediating role of *renqing* in such a relationship. The pertinent literature is used to develop a conceptual model that is subsequently tested on a sample of business executives in Hong Kong. The results of the primary research based on 206 usable responses are then reported, and finally some conclusions and managerial recommendations are provided.

2. Background and hypotheses

2.1. Trust and long-term orientation

In the relational exchange and marketing literature, trust is regarded as a key ingredient for the development of long-term business and has been recognized as a highly significant tool for enhancing company relationships (Berry, 1995). Trust is developed by the continuous exchange of information between partners, which helps to reduce anxiety and uncertainty. In this way, trust can help influence the future condition and reduce the likelihood that the other party will act opportunistically (Brandach & Eccles, 1989; Ganesan, 1994; Morgan & Hunt, 1994).

Through trust, the parties involved in a relationship develop confidence, which over the long-term, allows any short-term inequities to be balanced and long-term benefits to be yielded. It also serves to reduce any negative impact of interdependence asymmetry that may occur over time (Dwyer, Schurr, & Oh, 1987; Ganesan, 1994). Long-term orientation is based on an assumption that the relationship is stable and will last long enough for the parties to realize the long-term benefits (Anderson & Weitz, 1992). It should capture both the desire and utility associated with doing business over a long-term perspective, whereby buyers and sellers focus on achieving the type of goals that are based on both current and future outcomes (Ganesan, 1994).

Compared to Western exchange, the influence of trust on relational orientation varies somewhat in a Chinese cultural context. In particular, the Western concept relating to a belief in the benevolence of human nature, may play an insufficient role in Chinese business networks, where assurance appears to be critical. Members of a collectivist society (as are the Chinese), seek more utility in dealing with specific people in relationships, and networks of committed relations or mutual assurance play a more prominent role (Yamagishi & Yamagishi, 1994).

Chinese business relationships are therefore frequently long-term oriented, as members in the network are tied together through an invisible and unwritten code of reciprocity. For example, in the West, trust is often placed on the system or organization, in order to reduce the reliance of personal integrity and guarantee. Hence, when two business parties sign a written agreement, they place dependence on the law to bind the contract (Kiong & Kee, 1998). A related term for trust in Chinese — ‘*xinyong*’, is less based on legal contracts, but more on a person's past history and reputation to keep his or her promise and fulfill an obligation. Whilst enjoying the benefits of a relationship, parties hold a reciprocal obligation that must be ‘repaid’ in the future (Hwang, 1987). Disregarding this obligation can seriously damage one's social reputation and lead to loss of prestige or face — ‘*mianzi*’, which is a social expectation held by the group whom one is interacting, and therefore, is a concept of central importance among Chinese because of its pervasive influence in interpersonal relations (Yau, 1988).

As a result, the following hypothesis (H1) is postulated:

H1. Trust will be positively related to the long-term orientation of Chinese business-to-business relationships.

2.2. The significance of *renqing*

In Chinese culture, trust is often only exercised with immediate or extended family members, and there is a lack of trust outside of the family (Redding, 1993). As *xinyong* only applies in close relationships, business tends not to be enforced by legal systems, but rather through interpersonal interaction. The Chinese judge others by evaluating the extent to which parties keep their promises, and this is why verbal agreements instead of legal contracts are often used to bind business transactions (cf. Leung, Lai, Chan, & Wong, 2005). Where conflicts emerge, a more ‘humanistic’ rather than a ‘legalistic’ approach would be the ideal resolution strategy for most Chinese business people (Wang, Xiaohua, Chan, & Yizheng, 2005). In short, often within Chinese circles, trust depends on an individual's credit rating, and is based on some degree of reciprocity (Wang et al., 2001), which is commonly known and referred to in Chinese business networks as *renqing*.

According to Hwang (1987), *renqing* represents a resource that one can present to another person as a gift in the social exchange process and, or is a set of social norms that one should follow to get along well with others. As a result, reciprocal behavioral guidelines and constraints are provided for the parties involved. If a party fails to follow the reciprocity rule, they are regarded as not following *renqing* and will lose *xinyong*. This may have serious repercussions, as not only will the party lose face and be unable to function in the former relationship, but the incumbent may also lose an opportunity to develop future interactions within the scope of the wider business network.

Renqing can be understood in terms of two basic items, ‘reciprocity’ and ‘empathy’, depending upon the role as either recipient or benefactor (Wang, 2007). Reciprocity is more related to the behavior of a recipient, and is regulated by the social norm that when one receives a favor, the recipient is said to owe *renqing* to the benefactor, and should be ready to re-pay the debt of gratitude when needed. Empathy, on the other hand represents more of the behavior of a benefactor to offer financial or emotional support to others when in need. As Hwang (1987) noted, a person who is versed in *renqing* is well equipped with empathy.

If an individual can understand other people's emotional responses to various circumstances of life i.e. feeling happy or sad when and as others do, or even catering to their tastes and evading or avoiding whatever they resent, then it may be claimed that such a person knows *renqing*. Empathy refers to an understanding of a situation from someone else's point of view. Hence, the greater the degree of empathy between parties, the fewer the barriers to relationship development (Conway & Swift, 2000). As a direct response, hypothesis (H2) suggests that:

H2. *Renqing* will be positively associated with the long-term orientation of Chinese business-to-business relationships.

2.3. The mediating role of *renqing*

Whilst the establishment of trust between exchange parties is hypothesized to lead to a long-term orientation in relational exchange (H1), such a relationship is incumbent upon whether one follows the rules of *renqing*. Therefore in order to generate a long-term orientation in Chinese business relationships, without *renqing*, trust cannot work appropriately. Likewise, a failure in *xinyong* may also be recovered through the mediating role and influence that *renqing* has on the business relationship (Kiong & Kee, 1998).

In terms of maintaining relational exchange, should one party experience problems with their business or run into trouble, the other is likely to show sympathy and provide a helping hand in an attempt to overcome these. In reply, one is expecting the other to return the compliment in the distant future. In Chinese business, a long-term

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