



East meets West: Toward a theoretical model linking *guanxi* and relationship marketing



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ARTICLE INFO

Article history:

Received 1 October 2011

Received in revised form 1 December 2012

Accepted 1 March 2013

Available online 18 June 2013

Keywords:

Relationship marketing

Guanxi

Relationship investment

Retention

Theoretical model

ABSTRACT

This conceptual study critically examines the separate concepts of *guanxi* and relationship marketing, explores the differences between the two approaches, and proposes innovative linkages between them. Chinese *guanxi* develops relationships at the inter-personal level, whereas relationship marketing develops relationships at the inter-organizational level. Both concepts are well known, but a dearth of critical comparison remains in academic literature, even though evidence suggests that managers can use the linkages between the approaches to improve customer recruitment and retention. Through a critical review and synthesis of prior research on *guanxi* and relationship marketing, this study proposes a novel theoretical model that links *guanxi* and relationship marketing and develops theoretical and managerial implications of such linkages. As such, this study offers new and valuable insights and benefits for Asian firms, which employ only *guanxi*-type relationships.

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1. Introduction

Establishing strong and quality relationships with customers is important for firms, especially those in complex and highly competitive markets (Ndubisi & Wah, 2005). This study examines the differences and possible linkages between two important approaches to building relationships: *guanxi* and relationship marketing. *Guanxi*-type relationships work at the inter-personal level (Fan, 2002; Wang, 2007), whereas relationship marketing operates at the inter-organizational level (Gummesson, 1996; Morgan & Hunt, 1994).

The Chinese term *guanxi* refers to inter-personal connections that have significant impacts and powerful implications in most aspects of relationships (Fan, 2002). According to prior research, *guanxi* is one of the most important success factors when conducting business in China because having the right *guanxi* can bring many benefits (Fan, 2002; Yeung & Tung, 1996).

Relationship marketing derives from the fields of services and business-to-business marketing and challenges the traditional marketing approach based largely on transactions and the marketing mix (Berry, 2002; Grönroos, 1994). Accordingly, relationship marketing is an alternative marketing approach that can absorb the dynamics and interactions in customer relationships (Grönroos, 1994).

Ambler (1994) and Björkman and Kock (1995) use the terms *guanxi* and “relationship marketing” interchangeably; that is, they assume that *guanxi* represents a Chinese version of relationship marketing. However, Fan (2002) asserts that this assumption is a misunderstanding of *guanxi* and that many fundamental differences exist between the two approaches. In addition, although previous research explores relationship marketing and *guanxi* extensively and suggests the linkages between the approaches to improve customer retention as well as suggests the importance of transferring *guanxi* from the inter-personal level to the organizational level (Flambard-Ruaud, 2005; Geddie, DeFranco, & Geddie, 2002, 2005; Zhang & Zhang, 2006), no model theoretically and practically links these concepts, a gap this study aims to fill.

Many potential benefits can flow from this linkage. This linkage can help firms using relationship marketing adapt to emerging market economies in Asia and solve problems, such as lack of trust. For example, firms in Asian cultures often prefer to deal with known and trusted partners (Flambard-Ruaud, 2005), and they tend to acquire knowledge of and build trusting relationships with business counterparts before engaging in business (Hutchings & Weir, 2006).

In Asia, firms developing and managing business relationships place more importance on the reputation and trust of their partners than on a legally or contractually defined set of rules (Björkman & Kock, 1995). Thus, *guanxi* involves a kind of trust in the context of building relationships (Flambard-Ruaud, 2005). In addition, *guanxi* plays a vital role in the process of relationship marketing by, for example, enabling managers to gain access to new customers with little cost, retain current clients, and facilitate daily business operations (Dunfee & Warren,

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2001). Conversely, firms might use relationship marketing as an extension to *guanxi* to avoid some of its pitfalls (Geddie et al., 2002, 2005), such as the loss of *guanxi* when an employee moves to a different firm taking the connections with him or her (Arias, 1998).

This study addresses these gaps in the literature. First, this study critically discusses the concepts of *guanxi* and relationship marketing and comprehensively explores their similarities and differences. Second, the study presents a theoretical framework that links *guanxi* and relationship marketing. Third, the managerial implications of this link provide useful insights for Asian firms into how to link *guanxi* and relationship marketing to improve customer retention.

2. Guanxi background

Guanxi is a “Chinese cultural phenomenon” (Fan, 2002, p. 374) that has multiple meanings. For example, *guanxi* can refer to (1) the relationship between people with shared characteristics, (2) active and repeated contact between people, and (3) infrequent, direct communication with people (Bian, 1994, p. 974).

Academic research conceptualizes *guanxi* in various ways. Some scholars refer to *guanxi* as a *relationship*. For example, Alston (1989, p. 28) defines *guanxi* as “special relationships two persons have with each other,” with unlimited exchange of favors and full commitment to each other. Yang (1988, p. 409) considers *guanxi* to be “pre-existing relationships of classmates, people from the same native-place, relatives, superior and subordinate in the same workplace, and so forth.” Other studies view *guanxi* as a *tie*. For example, Bian (2006, p. 312) describes *guanxi* as “a particular and sentimental *tie* that has the potential of facilitating favor exchanges between the parties connected by the tie.” *Guanxi* can arise from many bases (Kiong & Kee, 1998), including locality and dialect, fictive kinship, family, workplace, trade associations and social clubs, and friendship.

Fan (2002, p. 372) views *guanxi* from a problem–solution perspective and defines the term as “a process of social interactions that initially involves two individuals A and B. A may or may not have special relationships with B. A asks B for assistance (favor) in finding a solution to a problem. B may have the solution at hand, or more often, has to seek further assistance from other connections.” In line with Fan’s perspective, Yeung and Tung (1996) suggest that firms focused mainly on the Chinese market need *guanxi*, as do less-experienced executives who are more dependent on *guanxi* to break the ice and small and medium-sized firms that tend to rely on obtaining favorable arrangements and resources.

However, although many firms consider *guanxi* an important factor for conducting business in China and a necessary condition for success, in itself *guanxi* is not sufficient to persuade customers to buy their products (Tsang, 1998).

3. Relationship marketing background

Grönroos (1994) views relationship marketing as a strategic alternative to the traditional marketing approach with the power to enhance the dynamics and interactions in firms’ relationships with customers. Berry (2002, p. 61) further defines relationship marketing as “attracting, maintaining and enhancing customer relationships.” This definition “focuses on the significance of attracting new customers as a first step in marketing activities” (Bruhn, 2003, p. 10) and also stresses the importance of maintaining or retaining customers (Berry, 2002; De Burca, Brannick, & Meenaghan, 1995). Shani and Chalasani (1992, p. 34) add that “relationship marketing is an integrated effort to identify, maintain and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value-added contacts over a long period of time.”

Adopting a relationship marketing approach involves changing traditional ways of managing marketing at the strategic and tactical

level (Grönroos, 1996). An important strategic issue in relationship marketing is establishing partnerships and networks capable of handling the service process. Three typical elements constitute the tactical level: direct contact with customers and other stakeholders, databases that contain necessary information about customers and others, and a customer-oriented service system (Grönroos, 1996). Relationship marketing also stresses the building and management of relationships in a social context (Grönroos, 1994), in which such relationships focus on people and partners rather than products and firms (Webster, 1992).

As part of the process of bonding with customers, and to minimize customer loss, firms often develop relationship marketing investment strategies (e.g., adoption of policies, provision of small favors or gifts) to generate customer gratitude, which in turn leads to reciprocal behaviors and customer retention (Palmatier, Jarvis, Bechhoff, & Kardes, 2009). In general, relationship marketing investment comprises three types of programs: social, structural, and financial (Berry, 1995).

Social relationship marketing programs, which include individual treatment, meals, and personalized information, aim to enhance relationships and to persuade customers to repurchase (Palmatier, Gopalakrishna, & Houston, 2006). Structural relationship marketing programs include tailored order-processing systems, dedicated personnel, and customized packaging, which increase productivity and efficiency for customers who, in turn, become reluctant to switch to other suppliers (Berry, 1995; Palmatier et al., 2006). Financial relationship marketing programs include discounts, free products, membership, or other financial benefits that reward customer loyalty (Palmatier et al., 2006).

The success of relationship marketing yields many benefits, including larger market share, boosts in profits, greater customer retention and loyalty, and lower costs in many areas (Bruhn, 2003; Morgan & Hunt, 1994). Rosenberg and Czepiel (1984) argue that attracting one new consumer costs firms five times more than retaining one loyal consumer. Reichheld (1993) finds that profits climb steeply when firms increase their customer retention rates.

Håkansson and Snehota (1995) note the possible limitations of relationship marketing and argue that firms should weigh the time, cost, and effort involved in developing relationships against the expected gains. In addition, relationship marketing is a Western concept and, as such, must cope with local changes influenced by non-Western forms and concepts of relationships and the contextual background of generating relationships with customers (Flambard-Ruaud, 2005; Gilbert & Tsao, 2000).

4. Comparison of *guanxi* and relationship marketing

Guanxi and relationship marketing have both fundamental differences (Fan, 2002; Wang, 2007) and certain commonalities (Flambard-Ruaud, 2005; Wang, 2007). Several scholars (Arias, 1998; Flambard-Ruaud, 2005; Geddie et al., 2005; Wang, 2007; Yau, Lee, Chow, Sin, & Tse, 2000) consider the similarities and differences between *guanxi* and relationship marketing from various perspectives. However, no comprehensive analysis of these similarities and differences exists. Table 1 summarizes comparisons of *guanxi* and relationship marketing from the literature, thereby facilitating the development of a theoretical framework derived from a critical review of the major similarities and differences between them.

4.1. Similarities

Both *guanxi* and relationship marketing involve the notion of relationship or connection between two or more parties (Alston, 1989; Arias, 1998; Flambard-Ruaud, 2005). They also share the goal of maintaining long-term relationships with partners rather than building relationships from a single transaction (Flambard-Ruaud, 2005). Wang (2007, p. 82) refers to this goal as “long-term orientation,” in which the

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