



# The influence of *guanxi* on physical distribution service quality availability in e-commerce sourcing fashion garments from China



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## ABSTRACT

The purpose was to investigate the influence of *guanxi* (personal relationships) on availability within physical distribution service quality (PDSQ) for sourcing high street fashion garments from China via e-commerce. The research reviewed articles on *guanxi* and although it is still widely considered important its contribution and nature appears to be changing as Chinese business practises and sourcing policy have matured over time. Qualitative research was used in two Chinese based case study companies with detailed access through semi structured face-to-face and telephone interviews. The findings suggest that personal relationships through *guanxi* can facilitate e-commerce availability of fashion product, particularly where there is limited lead time in the sourcing activity, although its form and application in each case study company and their respective supply network was not as widespread as had been previously reported. The form of *guanxi* was observed as personal relationships but some aspects of co-operative relationships were also found. Since the paper is based on a phenomenological ontology the findings are largely exploratory. Future research should focus on understanding physical distribution service quality and personal relationships in other sectors. *Guanxi* by definition is an unstructured array of socially-based relationships without a simplistic rationale or logic. By understanding how *guanxi* is applied in a supply chain management context will aid those practitioners involved in an e-commerce Chinese business practise.

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## 1. Introduction

Global sourcing, predominantly from South-East Asia and China in particular has brought customers new fashion garments at lower cost but challenged suppliers to provide reliable deliveries to underpin the need of high levels of product availability for the retailer. The long distances and lead times involved, the extended nature of garment supply chains and product availability highlight the physical distribution considerations. However the development of e-commerce via online channels and the customers' insatiable desire for fresh, stylish and trendy clothing continues to place increasing demands on retailers to provide on-time and available products throughout the whole of the selling season.

The concept of physical distribution service quality (PDSQ) has been an important facilitator of product availability to underpin customer service. Previous research had developed an economic understanding of physical distribution service quality by internet retailers in their transactions with customers (Rabinovich and

Bailey, 2004). However sourcing product from China involves personal relationships (*guanxi*) within the Chinese culture which have been recognised as a key trading factor in the South-East Asian trading environment for some time (Arias, 1998; Leung et al., 2005; Abramson and Ai, 1997). The commercial cultural context of engagement between a Chinese supplier and a retailer is often characterised by 'family' style personal relationships (Tsang, 1998). Although the growth of fashion garments sourced through product manufactured in China is well understood (The World Bank, 2010) there has been only limited empirical evidence that explains the involvement of *guanxi* in the online physical distribution service quality process between retailer and producer at an inter business level. This is partly due to the difficulty in gaining access to Chinese businesses and also due to the commercial confidentiality of retailers.

Global sourcing has brought great cost advantages for retailers. The fashion textile manufacturing industry is labour intensive and retailers are constantly squeezing margins, where the response is to reduce labour costs drastically (Towers and Peng, 2006). However the fashion sector is heavily dependant on availability of the full range of product in stores during a relatively short (6/8 week)

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selling seasons (Mason-Jones et al., 2000). Consequently the delivery process has been the subject of much attention aimed at reducing lead-time (Bolunole (2001); Chopra and Meindl, 2007), improving reliability of supply and availability (Yi et al., 2011), and responsiveness to changes in customer demand in the selling season (Zhang and Huang, 2012) through addressing the physical distribution service quality of internet e-commerce retailing (Chang et al. 2013; Rabinovich and Bailey, 2004).

The growing trend is for customers to engage with many channels-to-market as they seek new ways to purchase more fashionable garments. The demand for improvements has resulted in speeding up the supply process such as the use of web-based solutions (Anaza and Zhao, 2013). But the supply side has needed to respond to more efficient and effective methods of delivery from the producer through to the final destination (Forsberg and Towers, 2007).

This leads us to consider that this is an area worthy of study. China continues to produce more than 40% of the global textiles production and customer's desire for fashion is relentless. China has more Internet shoppers than any other country at 220 million in 2014 and is forecasted to overtake the US as having the world's largest on-line retail sales market by total value (Knight, 2014). Total retail sales of consumer goods doubled to 20.7 trillion yuan in 2012 from 2008 (Fung Business Intelligence Center, 2013).

It is therefore of great importance to retailers to understand how the established *guanxi* (personal relationships) will continue to support their specific needs to provide high levels of product availability to ever demanding customers (Tsang, 1998). This paper makes a theoretical contribution to the *guanxi* literature by analysing it in terms of an e-commerce delivery process between companies in a supply chain rather than describing it in the context of Confucian values or from a market perspective. The developed research question that underpins this research is “does the network of personal relationships (*guanxi*) facilitate e-commerce physical distribution service quality in sourcing fashion textile garments from China?” This leads to the general proposition that personal relationships have significant influence on successful e-commerce trading between retailers and suppliers and that successful *guanxi* contributes to their reliability of delivery performance.

The paper is structured as follows. We start with a literature review of the physical distribution service quality concept and an overview of the significance of the Chinese concept of *guanxi*. This is followed by a review the supply chain structure. A detailed discussion of two distinct case studies including the adopted methodology is followed by an analysis of our findings. The paper concludes with suggestions for further research.

## 2. Literature review

### 2.1. Physical distribution service quality distribution service quality (PDSQ)

Global sourcing of fashion garments has led to a greater emphasis on reliable and timely product delivery from different channels to an ever demanding customer. Maltz and Maltz (1998) suggested that customer service has two aspects. Firstly it involves order cycle time, on-time delivery and inventory availability. These traditional measures are easily quantified and objectives can be measured internally. The second customer service aspect of responsiveness represents the channels' ability to adapt to market-driven changes. Although a seller has sophisticated information systems its survival in a competitive market depends on servicing the customer in an efficient (fast) and effective (accurate) manner (De Vita et al., 2011). According to Karmarkar and Pitbladdo

(1995), the relationship between the physical distribution service quality (PDSQ) and cost efficiencies is drawn from service production such as the intangibility of service output, the lack of inventories, the difficulty of portability and the complexity in definition and measurement. The difficulties in measurement have immediate implications for pricing and market mechanisms. The establishment and continuous monitoring of key performance indicators allow users to compare achieved and expected service levels, with examples of such measures include delivery timeliness and accuracy, order fill rates and inventory turns (Wilding and Juriado, 2004).

Mentzer et al. (1989) synthesize 26 elements of physical distribution and customer service that have been reported in the logistics literature over more than two decades to arrive at a three dimensional model. Rabinovich and Bailey (2004) refer to it as the three tangible result aspects of product availability, timeliness in the duration of order delivery cycle, and reliability in order fulfilment.

Product availability or inventory availability also refers to order release quantities and inventory capacity. The Chinese e-commerce context particularly reinforces this requirement due to the long distances involved internally in producing garments and the subsequent distances to the destination markets. Stockouts are believed to have a significant negative impact on customer satisfaction and loyalty but it is difficult to quantify the financial impact of these lost sales (Keebler et al., 1999). Reliability is an overarching measure (Mentzer et al., 1989), which captures the ability of the retailer to maintain the performance of PDS and the customer's perception of PDS performance (Hutchison and Stolle, 1968). This means that the improvement of PDS performance could be achieved by improving product availability, a core requirement for connecting internal transportation to onward international methods of transport. The higher the level that a retailer improves the PDS performance the closer it will get to match the customers' expectation and the more reliable the customer will perceive the retailer. Improvements in PDS quality should be achieved through improving product availability and the reliability of the service.

It has long been recognized that personal relationships have a relatively high importance for business practises in China compared to the enforcement of technical and contractual specifications elsewhere (Lovett et al., 1999; Ambler et al., 1999). Personal relationships have been seen to play a significant part in the context of Chinese trading environment and *guanxi* has been considered as being embedded in the business process within China (Wilson and Brennan, 2010). As physical distribution service is a measure of the retailer's trading activity there is a dependence on the presence of good *guanxi* to support this process.

The above discussion leads to the proposition of:

**P1.** Physical distribution service quality, PDSQ is a measure of delivery performance for fashion sourcing.

Mentzer et al. (2001) described a Physical Distribution Service Quality (PDSQ) framework shown in Fig. 1 below as a process with two stages. The first stage was referred to as the order placement stage, which included personnel contact in the sourcing process of order placement and has positioned *guanxi* contributing to product availability within the network of suppliers, arranging order release quantities, ordering information quality and ordering procedures. Mentzer et al. (2001, p86) describe order placement to include “perceptions of interactions” with company personnel which can often be as a result of informal relationships between suppliers. As online customers sometimes do not receive orders as expected they will then come to the service provider for compensation.

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