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Drivers of supplier-customer relationship profitability in China: Assessing International Joint Ventures versus State Owned Enterprises

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ABSTRACT

Business relationship performance depends on the context(s) in which the relationship is being conducted, including the cultural context and the nature of the organizations participating in them. Here, we examine the drivers of performance in Chinese supplier-customer relationships for two types of Chinese suppliers - International Joint Ventures (IJVs) and State Owned Enterprises (SOEs). The results indicate there are marked differences in the links between relationship drivers and perceived relationship profitability for these different types of suppliers. The profitability of SOEs' customer relations is associated with ongoing personal and hierarchical linkages, whereas for IJVs, it is associated with interactive product adaptation and production planning. Drivers with significant associations for both types of suppliers include relational quality and financial exchange factors. This research has implications for the ongoing management of international supplier-customer relationships, Chinese government policy with regard to SOEs as well as the inclusion of organization types as a consideration for business marketing relationship and value creation theory.

1. Introduction

A firm's performance and behaviour depends both on its own efforts, resources and skills and on those of other connected firms and networks (Anderson, Hakansson, & Johanson, 1994; Hakansson & Snehota, 1995). Managing business relationships effectively to improve performance is of increasing concern to executives (Gummesson, 2004; Richards & Jones, 2008; Sullivan, Peterson, & Krishnan, 2012; Wilkinson, 2010).

There is, however, some dissatisfaction with relationship management approaches and their associated measures of performance. These can confuse rather than facilitate practitioners managing relationships profitably. The results of a McKinsey Quarterly survey, for example, showed that < 10% of companies using a Customer Relationship Management (CRM) approach were satisfied with the results (Richards & Jones, 2008).

It is suggested here that some of the difficulties experienced by practitioners can be attributed to the inappropriate use of performance management tools. There is an expectation that one approach will ‘fit all’ business relationships regardless of the importance global and organization context plays in determining performance outcomes. The research to date has exacerbated this. For example, investigations into the drivers of supplier-customer relational performance, in the main, have been carried out in Western countries and/or with Western informants and generally do not consider organizational structure and other characteristics that are likely to influence managerial culture and expectations.

The over-arching purpose of this research is to show that psychosocial drivers of supplier-customer relationship profit may vary depending on the nature (in this case the nature of the supplier's owners, managers and associated contextual focus) of the organization itself. This paper addresses the research question: do the drivers of relational profit associated with supplying a customer differ systematically for different kinds of supplier business organizations and in what ways? This question is addressed by first identifying the key drivers of profitability according to different relational management approaches. We focus on CRM, account portfolio analysis and value creation theory. The Industrial Marketing and Purchasing (IMP) model is used to compare and reconcile the drivers emerging from the three approaches. The associations between profitability and these relationship drivers' characteristics are then compared for Chinese International Joint Ventures' (IJV) and State Owned Enterprises' (SOE) customer relationships.

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This multi-tiered comparative approach highlights reasons for the possible oversights of previous work. The past examination of relationship performance and profit management often over-emphasized the application of drivers focused on a particular approach rather than focusing on relational context. A focus on multiple perspectives, however, exposes the need for the rationalization of different approaches and their drivers because there are considerable differences in drivers, their conceptualized roles and assumptions about relationship context by perspective.

An examination of the association between the perceived profitability of IJV and SOE supplier-customer relationships in China and their characteristics is an important research area for several reasons. China is now the world's largest trading nation with imports and exports in 2012 in excess of US$3.87 trillion (White, 2013). The continuing need for knowledge about relationship practices within China is reflected in a growing collection of related research; for a review see Zolkiewski, Khan, and Wilson (2013). And, profit continues to be a significant indicator and component of high performing supplier-customer relationships as it results from the effective exchange of products or services which underpins a supplier's income stream.

IJVs and SOEs are pervasive within the strictly regulated business environment of China. 'IJVs in China are a "growing and significant phenomenon that are of timely concern for managers" (Yao, Yang, Fisher, Ma, & Fang, 2013 p. 2) and account for up to 36% of China's foreign direct investment (Folta, 2005). SOEs dominate strategic industries (Economist, 2012). Moreover, as these are contrasting business organization types (with varied ownership, structural and cultural profiles), each is likely to manifest differing relational interaction characteristics. Therefore, comparison of these provides potential for considerable insights to emerge as to the way relationships function in different contexts and the way this functioning impacts on performance. This is consistent with institutional theory which suggests that organizational behaviour patterns are influenced by contextual factors which include the national regulatory environment as well as socio-cultural norms and values (Du & Boateng, 2015).

This research uses a substantial international database of business relations collected as part of the Industrial Marketing and Purchasing IMP2 project. Within it are many different types of global business relations including some with Chinese IJVs and SOEs as relationship partners. To our knowledge, this is the only available data which both identifies Chinese IJV and SOE supplier organization types and includes their perceptions of customer relationship characteristics and relational performance in terms of profit. The IMP2 questionnaire used to collect this data is comprehensive and includes multiple items that represent the relationship drivers of interest as well as profit outcomes (Wiley, Wilkinson, & Young, 2006). More details of this database are given below.

This research establishes new insights into which relational drivers are and are not associated with the perceived profitability of particular types of relationships. The review of three approaches to optimizing relational performance shows that each contains only a limited set of relational drivers. A richer and more meaningful profile of relational differences is revealed if a more extended set of drivers is examined, particularly if there is also greater consideration of the organization characteristics and cultural context which can drive relational performance and interaction.

The remainder of the paper is organized as follows. In Section 2, existing theories of business marketing relationship management are presented with particular emphasis given to the IMP perspective. The focus then turns to theories that are particularly related to relationship performance. On the basis of their commonalities, a framework is proposed that integrates these various theoretical perspectives. Emerging from this, in Section 3, a number of hypotheses are presented about how the different types of drivers of relationships are associated with their profitability. In Sections 4 and 5, the methodology used to gather the data is described, followed by the research findings. The paper concludes with a discussion of the research findings, their implications and directions for further research.

2. Drivers of supplier-customer relationship performance

Managers want to know that the investment required to sustain productive business relationships does not exceed returns (Ford et al., 1996 in Iacobucci, 1996), i.e. does 'relationship marketing pay?' (Gummesson, 2004 p. 136). Many factors associated with successful and profitable supplier-customer business relationships have been identified through practice-based approaches, including customer relationship management (CRM), account portfolio analysis and value co-creation (Gök, 2009; Gummesson, 2004; Prahalad & Ramaswamy, 2004; Richards & Jones, 2008; Sullivan et al., 2012; Wilkinson & Yeoh, 2005; Zolkiewski & Turnbull, 2000). These approaches identify different drivers that are difficult to directly compare as they are informed by different theoretical perspectives. However they can be somewhat reconciled through the common framework of the Industrial Marketing and Purchasing (IMP) model, thus enabling a systematic analysis of relational management.

A central premise of industrial relationship management is that the effective functioning of relationships is critical to success in ongoing business ventures (Ford, 1980; Hakansson, 1982; Moller & David, 1995). Benefits result from relationship partners exchanging and creating information and resources to improve market offerings and to reduce costs (Hakansson, 1982; Walter, Ritter, & Gemunden, 2001; Wilkinson, 2010). For example, the exchange of technology and skills related to production processes can improve supplier offerings, boost innovation and increase customer sales and profits (Chesbrough, 2006; Wilkinson, 2010); the joint use of facilities and linked administrative systems can reduce transaction costs (Hakansson, 1982); through relationship partners, firms gain access to information and ideas they would not otherwise get (Walter et al., 2001; Wilkinson, 2010); and benefits accrue from synergies that evolve over time, transcending what either firm can achieve alone (Snehota & Hakansson, 1995).

The IMP interaction model of business relations provides a useful theoretical framework for rationalizing relationship performance approaches because it captures important paradigmatic dynamics rather than the minutiae of organizational interplay (Hakansson, 1982). Interactions take place over time among the actors involved in a business relation, which result in the formation of actor bonds and a relationship atmosphere, as well as activity links, resource ties and schema couplings (Snehota & Hakansson, 1995; Welch & Wilkinson, 2002). These episodes of interaction take place in the context of other connected relations, the history of past interactions, as well as a social-cultural, market and economic environments. Over time these processes and the context in which they occur evolve based on the experience and outcomes of the interactions taking place, affecting relational performance. A particular focus is on the nature of the relationship atmosphere that develops, which refers to the various types of perceptions and attitudes the actors develop toward each other, including power/dependence, trust, satisfaction, understanding, commitment and conflict. The IMP framework is consistent with other, more focused models of buyer seller relations proposed in the literature, which emphasize some of the same dimensions, especially power, conflict, trust and commitment (Anderson & Narus, 1990; Morgan & Hunt, 1994; Wilson, 1995) and their development over time (Dwyer, Schurr, & Oh, 1987).

Measuring the costs and benefits of business relationships is not easy because of complex interdependencies among different types of costs, the different time scales involved and the intangible nature of many cost drivers (Snehota & Hakansson, 1995). Costs and benefits emerge at different times making them difficult to track (Gummesson, 2004; Snehota & Hakansson, 1995). This is so even when objective measures are used, such as the number of individuals involved, the tasks performed, levels of hierarchy and the time involved (Turnbull, Ford, & Cunningham, 1996 p. 54). There are also difficulties in