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**Interpersonal factors
as Drivers of
Quality and
Performance in
Western–
Hong Kong
Interorganizational
Business
Relationships**

RESEARCH METHODOLOGY

Scope of Research

The investigation analyzes business relationships between Western exporting firms from the United States, Canada, Great Britain, Ireland, Australia, and New Zealand and importers located in Hong Kong, a special administrative region of China. Hong Kong represents a suitable location for this type of research for three major reasons: (1) although Hong Kong may have been extensively exposed to Western business practices after many decades of British colonial rule, Chinese cultural values and traditions are nonetheless deeply rooted in the ways that business is conducted and society operates at large among the indigenous Chinese people (Tam and Redding 1993; Tse et al. 1988); (2) since the transfer of the administration of Hong Kong from the United Kingdom to China in 1997, Hong Kong's role in developing trade with the mainland has risen dramatically, with many Hong Kong distributors/agents now spending significantly greater amounts of time on the mainland negotiating deals on behalf of their principal suppliers (Wang, Siu, and Barnes 2008); and (3) due to Hong Kong's historical Anglicized ties and geographic location, the market is often regarded as a gateway for many Western firms to enter China and beyond (Feenstra and Hanson 2004).⁹ These characteristics make collaboration with Hong Kong trading firms particularly attractive to Western firms seeking business success in the region.

Sampling Frame

The population of firms for this study was identified from the Hong Kong Directory (Hong Kong Trade Development Council 2006). This directory comprises 100,000 companies, of which 44,896 are actively engaged in import. Of these importers, we randomly selected a sample of 500 firms that were purchasing goods from Western manufacturers. The nature of the importing activities of these firms was diverse, ranging from electronics and digital entertainment products to garments and textiles. Each firm was precontacted by phone to assess its eligibility for inclusion, identify appropriate key informants, and secure participation in the study. The key informant was a person within the importing firm whose main responsibility was dealing with people in the Western exporting organization.¹⁰

The outcome of this process was that 267 firms (i.e., 53.4%) agreed to take part in the survey. Some of the reasons cited for nonparticipation were lack of available time, absence of the key informant from the office, and ceasing of business operations.

Fieldwork Procedures

Respondents had the option of answering either a Chinese or an English version of the questionnaire. Following three waves of reminders, 208 questionnaires (an overall 41.6% response rate) were eventually collected over a six-month period. We removed 6 questionnaires due to incomplete or missing data, leaving 202 retained for the analysis. To control for the existence of nonresponse bias, we followed Mentzer and Flint's (1997) recommendations: we randomly identified nine items pertaining to each of the key constructs contained in the questionnaire, and we telephoned a group of 30 randomly selected nonrespondents to provide answers to each of these items. We then compared their responses with those gathered from actual respondents using a *t*-test; they revealed no statistically significant differences.

Scale Development

We identified appropriate scales for the focal constructs after a careful review of the pertinent buyer-seller literature (see the Appendix). However, the scales for the three interpersonal constructs—*sijiao*, *xinyong*, and *ganging*—were, to a great extent, self-developed in this study because there was limited previous research examining them.¹¹ We measured interorganizational trust with an eight-item scale adapted from Doney and Cannon (1997). Cooperation comprised five items derived from Leonidou, Palihawadana, and Theodosiou (2006). We used a four-item scale developed by Gilliland and Bello (2002) to measure commitment. We operationalized the construct of satisfaction in line with six items employed in Cannon and Perrault's (1999) study. We measured financial performance on a five-item scale extracted from Lee, Yang, and Graham (2006).¹² We verified the face validity of our scales using the opinions of three academic experts who had extensive experience in the field. The scales were further refined on the basis of insights gained from informal discussions with a group of Hong Kong-based Chinese managers.

Research Instrument

The questionnaire had a structured format and consisted of three sections. The first part included questions relating to the background and history of the working relationship. To eliminate potential selection bias pertaining to the business relationship in question, each respondent was asked to focus his or her response on the fourth-most-significant relationship with a Western exporting firm in terms of business volume (Anderson

and Narus 1990; Bello and Gilliland 1997). The second section focused on the key constructs in question and consisted of a series of statements referring to the specific relationship with the Western exporter, measured on seven-point Likert scales (1 = “strongly disagree,” and 7 = “strongly agree”). The final part included organizational demographic questions and further particulars relating to the key informant. To avoid possible key informant bias, we incorporated a set of questions into the end of the questionnaire measuring the familiarity, knowledge, and confidence of the respondent in answering questions relating to the relationship with the Western supplier (Cannon and Perreault 1999). The questionnaire was initially developed in English and then translated into Chinese. To achieve linguistic equivalency, the instrument was later back-translated into English and adjusted accordingly. The questionnaire was pretested with ten trading companies in Hong Kong, and we made minor changes to improve its flow and workability.

STUDY FINDINGS

To test the hypothesized associations among constructs in the conceptual model, we adopted structural equation modeling (SEM) and employed a confirmatory modeling strategy whereby the fit of the conceptual model was considered.¹³ The analysis is divided into three parts: the first provides the results of the measurement model, the second highlights the findings derived from the structural model, and the third presents the results of the moderation analysis.

Measurement Model

To assess the validity and reliability of the measurement scales, we conducted a series of tests. First, all scales were initially purified through item-to-total correlation and exploratory factor analytical procedures (Gerbing and Anderson 1988). We excluded items that exhibited a low item-to-total correlation or high cross-loadings. We then used the remaining items for confirmatory factor analysis. As Table 1 shows, although the chi-square statistic was significant ($\chi^2 = 1,172.88$, d.f. = 542, $p = .000$), all other indices revealed an acceptable model fit ($\chi^2/\text{d.f.} = 2.16$; normed fit index [NFI] = .95; non-normed fit index [NNFI] = .97; comparative fit index [CFI] = .97; root mean square error of approximation [RMSEA] = .07). All items loaded significantly on their designated constructs, providing evidence of convergence validity (Anderson and Gerbing 1988).

We assessed discriminant validity in two ways. First, we observed that the confidence interval around the correlation estimate χ^2 standard errors) for each pair of constructs examined never included 1.0 (Anderson and Gerbing 1988), thus providing preliminary evidence regarding the discriminant validity of the constructs (see the correlation matrix in Table 2). Second, following the more stringent procedures Fornell and Larcker (1981) propose, the average variance extracted (AVE) for every latent construct had to be greater than the squared latent correlation of that construct’s measure with the measures of all other constructs in the model. All variance extracted estimates compared favorably with the corresponding squared correlations, thus satisfying the criterion for discriminant validity.

To assess the possibility of common method bias, we administered three complementary tests. The first employed Harman’s single-factor test, whereby all indicators incorporated in the structural model were included in a principal components analysis (Podsakoff and Organ 1986). Using a Varimax rotation, we extracted the number of factors necessary to account for the variance in the variables from the unrotated factor solution. Eight factors emerged with eigenvalues greater than 1.0, accounting for 73% of the variance, while no general factor was evident. Second, we estimated a confirmatory factor analysis model in which we restricted all indicators included in the structural model to load on a single factor (Venkatraman 1990). A worse fit for the one-factor model from the measurement model would suggest that common method bias does not pose a serious threat (Olson, Slater, and Hult 2005). The fit indices obtained from this analysis indicated a poor model fit ($\chi^2(1,080) = 7,307.43$, $p <$

.000; $\chi^2/\text{d.f.} = 6.77$; NFI = .78; NNFI = .80; CFI = .81; RMSEA = .17). Finally, we administered a third test following Lindell and Whitney’s (2001) partial correlation technique, in which a marker variable (i.e., a construct theoretically unrelated to the other constructs in the model) is highlighted in advance, so there is an a priori justification for predicting a zero correlation. For our study, we chose the firm’s importing experience (i.e., the number of years the firm has been purchasing from abroad) to serve as a marker variable (rM). To conduct this test, we computed the common method variance (CMV)—adjusted correlation between the variables under investigation using the formulas provided by Malhotra, Kim, and Patil (2006). We identified no significant correlations between the marker variable and any of the study’s constructs, and the differences between the original and the CMV-adjusted correlations were small and not significantly different at $p < .05$. We can safely con-

clude that CMV does not seem to be a problem in this study.

We addressed construct reliability by estimating composite reliability scores, the Cronbach's alpha coefficient, and the AVE. The composite reliability for all the factors ranged from .75 to .90, exceeding the threshold level of .60 (Hair et al. 2006). Cronbach's alpha coefficients ranged between .79 and .95, well above the .70 cutoff point (Nunnally and Bernstein 1994). In addition, the AVEs for each construct ranged from .51 to .61, which are also within acceptable levels, in that they capture more than half the variance in their observable measures (Bagozzi and Yi 1988). These results indicate a reliable measurement of the theoretical constructs as elements of the structural model.

Structural Model

We tested the hypothesized links between the constructs by estimating the structural model, using the elliptical reweighted least squares (ERLS) technique.¹⁴ The analysis revealed a good structural model fit, as demonstrated by the ratio of chi-square to the degrees of freedom ($\chi^2/d.f. = 2.47$) and the results of the alternative fit indices employed (NFI = .94; NNFI = .96; CFI = .96; RMSEA = .08). The R-square for each major dependent construct was 68% for trust, 84% for relationship quality (a higher-order construct), and 65% for financial performance. These figures point to a strong explanation of the dependent variables by their hypothesized

independent variables. Table 3 presents the standardized path coefficients together with the corresponding t-values of the structural model.¹⁵ Importantly, all the hypotheses examined were statistically significant and in the hypothesized direction.¹⁶

As we predicted, all three interpersonal factors were confirmed to be conducive to the development of interorganizational trust in Western exporter–Hong Kong importer working relationships. Specifically, we found trust to be positively affected by *sijiao* ($\beta = .29, t = 3.61, p = .00$), *xinyong* ($\beta = .21, t = 3.43, p = .00$), and *ganqing* ($\beta = .51, t = 6.09, p = .00$), thus confirming H1, H2, and H3, respectively. This means that Western manufacturers must first have good personal relations with representatives of their Hong Kong counterparts if they want to establish trustful working relationships at the firm level. The findings also support prior research on the importance of interpersonal relations as a critical precondition to cultivating sound interorganizational relationships (e.g., Lee and Dawes 2005; Ramström 2008; Wang 2007).

In line with previous research in a Western context (Ganesan 1994; Geyskens, Steenkamp, and Kumar 1998; Leonidou, Palihawadana, and Theodosiou 2006), we found that trust positively affected relationship quality (which was a higher-order construct comprising cooperation, commitment, and satisfaction), thus confirming H4 ($\beta = .92, t = 9.63, p = .00$). This finding also underscores the central role of trust among the Chinese

in achieving harmonious, healthy, and lasting working relationships among business organizations (Yau et al. 2000). Thus, trust is a behavioral trait that is highly appreciated by both Western and Chinese managers as the heart of any business relationship and, as such, must be systematically cultivated and carefully preserved (Gu, Hung, and Tse 2008).

Finally, we found relationship quality to be a statistically significant predictor of financial performance ($\beta = .81, t = 8.70, p = .00$), thus providing support for H5. This validates previous theoretical arguments and empirical findings that working with cooperative, committed, and satisfied parties is conducive to achieving productive, rewarding, and effective results that improve financial performance (Anderson and Narus 1991; Chu and Fang 2006). This is particularly crucial in international buyer–seller relationships, whose chances of financial success are already limited due to high environmental turbulence and competitive intensity (Leonidou 1999).

Moderation Analysis

We employed multigroup analysis to test the moderating effects depicted in H6–H9. For this purpose, we divided the data into two groups (i.e., small vs. large importer size, U.K. vs. non-U.K. supplier origin, low vs. high relationship age, and proactive vs. reactive relationship initiation) and two models: (1) a free model, in which we allowed all parameter estimates to vary between the two groups, and (2) a restricted model, in which we imposed an equality constraint on the hypothesized moderated link between the two groups (see Table 4, Panels A–D).

A moderation effect is evident if a significant chi-square difference ($\Delta\chi^2(1) > 2.71, p < .10$) emerges.

With regard to importer size, the results suggest that there is a moderating effect on the *sijiao* and trust link ($\Delta\chi^2(1) = 4.80, p < .10$) because this link becomes stronger when the importer is small ($\beta = .56, t = 4.92, p = .00$), in support of H6a. We also obtained similar results for the *xinyong*–trust link ($\Delta\chi^2(1) = 4.00, p < .10$), where, again, smaller importers demonstrated stronger effects ($\beta = .33, t = 3.05, p = .00$), thus confirming H6b. However, we found no moderating effects in the case of importer size influencing the association between *ganqing* and trust ($\Delta\chi^2(1) = .26, p > .10$), which does not support H6c.

We found exporter's origin to significantly moderate the association between each of the three interpersonal dimensions and trust ($p < .10$), and thus, we accept

H7a–c. Specifically, there were stronger effects on the paths between *sijiao* and trust ($\beta = .37, t = 3.35, p = .00$), between *xinyong* and trust ($\beta = .25, t = 3.10, p = .00$), and between *ganqing* and trust ($\beta = .80, t = 4.69, p = .00$) when Hong Kong importers dealt with U.K. exporters, as opposed to other Western suppliers.

The age of the relationship between the Hong Kong firm and the Western export supplier was the third moderating variable. Our results show that this variable significantly influenced two paths—namely, those of *sijiao* with trust ($\Delta\chi^2(1) = 9.52, p < .10$) and *ganqing* with trust ($\Delta\chi^2(1) = 2.91, p < .10$). In both cases, the effect was stronger when the relationship was longer, in support of H8a ($\beta = .85, t = 4.00, p = .00$) and H8c ($\beta = .56,$

$t = 5.90, p = .00$). However, we must reject H8b ($\Delta\chi^2(1) = .23, p > .10$), despite the finding that the effect of *xinyong* on trust was also significant ($\beta = .20, t = 2.73, p = .00$) among Hong Kong importers that had long relationships with Western exporters.

Finally, with regard to relationship initiation, our moderation analysis confirmed that a proactive initiation of the working relationship with the Western supplier by the Hong Kong importer strengthens the link between *sijiao* and trust ($\Delta\chi^2(1) = 4.58, p < .10$) and between *xinyong* and trust ($\Delta\chi^2(1) = 2.76, p < .10$), thus confirming H9a and H9b. Notably, we found both paths to be statistically significant (at $p < .00$) in the “proactive initiation” group but nonsignificant in the “reactive initiation” group. We rejected H9c because we found no significant differences between proactive and reactive relationship initiation ($\Delta\chi^2(1) = .78, p > .10$).

CONCLUSIONS AND IMPLICATIONS

This research has substantially demonstrated that, in a Chinese context, a key prerequisite for the development of successful interorganizational relationships is the prevalence of healthy interpersonal relations. The open communication between people from the interacting organizations, the gradual gaining of personal credibility, and the cultivation of personal affection are paramount in building trust at the organizational level. In general, we found that this effect of interpersonal factors on interorganizational trust became stronger when

(1) the Hong Kong importer was smaller rather than larger, (2) the foreign supplier was of U.K. origin rather than from other Western countries, (3) the relationship has existed for a longer as opposed to a shorter period, and (4) the initiation of the relationship was proactively rather than reactively established. We also found that high levels of trust improved relationship quality at the interorganizational level, which in turn is conducive to better financial performance.

Although economic interests are of strategic importance in both Chinese and Western societies, research has suggested that social and personal links must be in place initially for business to prevail. Our findings reiterate the importance of understanding different cultures in international business and advocate the notion that building effective interpersonal relations with Chinese managers can help achieve the benefits that such long-term business can bring. Western firms are therefore encouraged to take note and focus on these dimensions

to strengthen their business relations with the Chinese community overall.¹⁷

This study has helped increase our explanatory leverage in international marketing research on theoretical, methodological, and empirical grounds. Theoretically, although prior buyer–seller literature has examined some of the associations among the constructs (e.g., Anderson and Narus 1990; Armstrong and Yee 2001; Morgan and Hunt 1994), the constructs had not yet been assembled in an integrated model, as we propose in this investigation. Most importantly, our study successfully connects interpersonal relationship attributes with interorganizational relationship constructs across countries. It also extends its contribution by demonstrating the impact of these behavioral interactions on financial performance. Methodologically, our model has successfully transferred theories, concepts, and ideas developed in domestic buyer–seller relationships to an international platform, following the example of previous studies (e.g., Ding 1997; Kim and Oh 2002). We have also assembled, combined, and successfully tested three important interpersonal constructs for their positive effects on enhancing interfirm relational exchanges. Such interpersonal attributes have only received scant attention among business scholars in previous research. Empirically, although there has been an increasing volume of publications on doing business in a Chinese setting in the past decade, there is a dearth of empirical research focusing on the behavioral aspects of the working relationship involving Western–Chinese exchange parties. The particular context of this investigation with Hong Kong Chinese trading firms is critical, bearing in mind the importance of Hong Kong as a gateway for Western firms entering China and the significant growth in trade to and from the mainland since Hong Kong’s handover to China in 1997.

Managerial Implications

Our findings tend to support the prevailing view that the Chinese often initially assess their interpersonal relationships with others quite early and then try to judge whether they can be incorporated into their business strategies and goals (Ambler, Styles, and Xiucun 1999; Mavondo and Rodrigo 2001). At a conceptual level, we observe a proven significant linkage between such interpersonal dimensions and trust at the company level. Exporters are therefore strongly encouraged to bear these factors in mind and initially work on developing such interpersonal nuances—*sijiao*, *xinyong*, and *ganqing*—as facilitators for building organizational trust,

rather than hastily promoting the company at the first opportunity. Inexperienced exporters, particularly those with little cultural understanding of and insights about doing business with the Chinese, would be well advised to employ or draw on personnel with appropriate inter-personal skills to better manage and facilitate such inter-national relationships.

For Western exporting companies with limited resources, which often do not have the finances available to appoint such personnel, it is critical to maintain, rather than rotate, existing personnel with key contacts in the region for longer periods of time because it would be constructive in cultivating personal relationships with their Chinese counterparts. It is essential to facilitate greater interpersonal interaction between those involved in managing the business relationship, thus facilitating communication, developing credibility, and generating attachment. Such attributes are critical for providing a foundation on which interorganizational trust can develop and the quality of the relationship can be improved. When such trust is established, the Chinese are more willing to commit the organizational resources, time, and energy required to make the venture successful. Our findings do not imply that interpersonal relations cease to play an important role after the interfirm relationship begins. On the contrary, face-to-face relations are used to maintain harmony in the interorganizational relationship through open-ended, constantly evolving relational conduct.

Although, when developing business relationships, interpersonal connections may play a more important role in a Chinese cultural context than organizational affiliations or legal formalities, they take significant time, effort, and resources to be developed (Lee and Xu 2001). Western exporting firms must first help their personnel further understand the idiosyncrasies of the Chinese culture through factual (e.g., books), analytical (e.g., case studies), and experiential (e.g., field trips) training (Black and Mendenhall 1991). The use of a cultural assimilator could prove particularly useful in this respect because he or she would expose the exporter's personnel to different business scenarios with potential Chinese customers and help them improve their interpersonal skills. Government export promotion schemes can subsidize these training programs as well as organize trade visits or exhibitions to China that would help build familiarity with the personnel of local import buyers.

A key observation of this study is the positive connection between relationship quality and financial perform-

ance. Although developing and cultivating relationships with the Chinese represents a social investment that may require a great deal of time and resources to develop, the financial return may well justify the effort made. Western managers should therefore be congenial, patient, and flexible to facilitate the relationship-building process with their Chinese counterparts. This is particularly imperative now because rapid market changes, increasing competitive pressures, and more demanding end users make the formation and nurturing of sound interfirm relationships necessary to achieve competitive advantage and secure a foothold in the lucrative Chinese market.

Research Implications

Our study shows that constructs developed within the more refined field of domestic business relationships (e.g., trust, commitment, cooperation, satisfaction) can be successfully transferred to an international business setting. Of course, the role of cultural differences should be taken into consideration in the application of these constructs, especially if the analysis focuses on such contrasting cultural settings as those of Western societies (low context) and China (high context) (Craig and Douglas 2005). In particular, the study reveals that a buyer-seller relationship perspective can be a useful tool in explaining company internationalization phenomena (Leonidou 2003). For example, the Western firm's export advancement in China could be viewed as a process of establishing, developing, and sustaining relationships with import buyers at both strategic and tactical levels. The degree of an exporter's success in the Chinese market will therefore largely depend on the performance of its behavioral relationship with these buyers.

The link we identify between interpersonal relations and interorganizational relationships provides a significant research implication. In the relationship management literature, there is often a tendency to examine interfirm relationships in isolation from the interactions taking place among people representing these organizations (Lee and Dawes 2005). However, the nature of these interpersonal interactions is of paramount importance in determining the quality and outcomes of the working relationship at the interfirm level. The study has also confirmed the central role of trust in providing a bridge between relationships at the interpersonal and interorganizational levels. Notably, similar findings have also been reported in other business fields, such as in the case of sales management, in which researchers have found a

salesperson's trust to be conducive to organizational trust (Doney and Cannon 1997).

This study also brings to the surface three relatively unknown constructs to the Western literature—namely, *sijiao*, *xinyong*, and *ganqing*—which are particularly crucial in building interpersonal relations in a Chinese context. Despite their importance, these constructs have only received scant and isolated empirical attention among academics, and thus, their instrumental role in laying the foundation to successfully develop interorganizational trust between buyers and sellers has been ignored. Our study has also ascertained the repeatedly cited existence of a positive association between trust and the various dimensions of relationship quality. Our findings are also in line with the findings of other studies examining cross-border buyer–seller relationships (Armstrong and Yee 2001; Kim and Oh 2002).

With regard to performance, the study shows that the financial success of the business venture between Western exporters and Chinese import buyers is dependent on high levels of interorganizational relationship quality, expressed in terms of commitment, cooperation, and satisfaction (LaBahn and Harich 1997). Thus, financial performance in international (as well as domestic) markets is not an end in itself, but financial success can be achieved if the interacting parties pay more attention to the quality of their relationship. This finding provides support to the notion that export (or import) business performance depends not only on how well economic elements (e.g., products, finance, promotion) are handled but also on how the behavioral interactions (e.g., cooperation, commitment, satisfaction) with buyers (or sellers) are managed (Evangelista 1996). Thus, research on selling and buying organizations operating in international markets should focus not only on their transactional associations but also on their collaborative interactions.

LIMITATIONS AND FUTURE DIRECTIONS

Although we selected Hong Kong as an ideal location for this investigation, we realize that for some mainlanders, Hong Kong is not a typical Chinese market. Further research is therefore needed to extend the study by drawing on a sample of trading firms in key areas of China, such as Beijing, Shanghai, and Guangzhou. Although currently there may be a greater tendency to explore China directly through the mainland, for inexperienced firms and even for those with considerable

market knowledge, a Hong Kong company with experience in China is still likely to be valued as a supporting mechanism for geographically dispersed exporters. However, exporters must realize that appointing distributors or agents in Hong Kong will come at a cost, and as China becomes increasingly market driven, it may be more cost effective to work directly with buyers or such trading firms on the mainland.

Our research is also limited in terms of the cross-sectional and self-reported measures that we administered in this study. It would therefore be worthwhile to undertake further longitudinal research to explore relationships between the constructs over time and try to incorporate objective financial results. By drawing on a data set of importing firms, the focus of the research provides views from the buyers' perspective alone; data could also be collected from corresponding exporters to analyze import–export dyadic relationships. In this way, it would be possible to explore whether a common understanding or relationship gap is evident between the exchange parties, and such research might place exporters in a better position to identify and remedy any potential gaps that could harm the relationship's long-term potential.

This study has been confined to the working relationship between Hong Kong Chinese import buyers and their Western exporters. However, Western multinational corporations operating in the region are typically more accustomed to such Chinese cultural nuances, and therefore, we would expect a different handling of such relationships with their local partners compared with small to medium-sized exporters.¹⁸ Apart from investigating these differences between Western exporting firms and multinational corporations operating in the Chinese market, it would be useful to also draw relationship comparisons with Chinese buyers among companies adopting different modes of direct investment (e.g., licensing, joint venturing, wholly owned production) in this market. Such comparative analysis could also be conducted between firms (either exporters or multinationals) based in Western countries and those headquartered in other high-context societies (e.g., Japan, South Korea, India).

Finally, it would also be fruitful to incorporate into the analysis various other constructs that shape interpersonal relationships in a Chinese context, such as *renqing* (reciprocated actions), *mianzi/lien* (face saving), and *tiaohe* (harmony) (Wang 2007; Yen, Yu, and Barnes 2007). The roles of other interorganizational constructs—such as

power, dependence, and adaptation—should also be examined in conjunction with interpersonal factors. Of particular usefulness is the construct of “shared values” (Morgan and Hunt 1994), which might have a moderating effect on the association between interpersonal and interfirm factors. It is also important to explore the role of various demographic characteristics of the business relationship (e.g., relationship stage) in controlling associations between the constructs of the model (Dwyer, Schurr, and Oh 1987).

NOTES

1. Despite the recent recession of the global economy, the impact on China has been milder than in Western countries, with many experts claiming that its recovery arrived sooner. Indeed, during the first half of 2014, China’s gross domestic product increased by more than 7.3%, and production output experienced growth of 8.7% (*The Economist* 2014).
2. There are idiosyncrasies in each country in the way interpersonal relationships are conducted, ranging from *guanxi* in China (i.e., using personal connections bounded by implicit psychological contracts to maintain long-term relationships, mutual commitments, loyalty, and obligation; Chen and Chen 2004), to *blat* in Russia (i.e., tying together friends/acquaintances in an intricate weave of favors and counterfavors to facilitate access to products/services that are in short supply; Sahlins 1972), to *wasta* in Arab Gulf states (i.e., achieving goals through personal links, often derived from family relationships or close friendships with key people in the society; Smith et al. 2011). Thus, although the use of interpersonal relationships is a universal phenomenon, the way it is practiced in various regions is country specific (Gu, Hung, and Tse 2008). As such, it is important to understand these idiosyncrasies to more effectively and efficiently handle them in a way that benefits interfirm business interactions.
3. Certainly, the three interpersonal relationship attributes used in our study (i.e., *sijiao*, *xinyong*, and *ganqing*) are not the only ones that explain Chinese interpersonal relationships. However, when we discussed these issues with a small sample of Hong Kong-based business executives and academics during an exploratory qualitative research stage, these interpersonal relational dimensions were considered critical in influencing the quality of business relationships. Various publications focusing on Chinese buyer–seller relationships have also confirmed the importance of these dimensions (Leung et al. 2005; Shou et al. 2011), although in most cases, they were discussed in isolation from one another.
4. Although after 150 years of British rule, Hong Kong has developed into a sophisticated free market where Western lifestyles have influenced the way business is conducted, most of the indigenous population adheres to traditional Chinese cultural values and ethical standards when conducting business (Tam and Redding 1993; Tse et al. 1988). Notably, most Hong Kongers have adopted Chinese traditions, and since the handover to China in 1997, more are speaking Mandarin and have regular interactions with people from the mainland.
5. Although *guanxi* is deeply rooted in Confucian philosophy, which has influenced the societies of many Asian countries, it is a unique sociological phenomenon that stresses the role of personal ties or social bonds in Chinese business ecology (Xin and Pearce 1996). As such, it is applicable, with minor variations, in all countries influenced by the Chinese culture—namely, mainland China (and its special administrative region of Hong Kong), Taiwan, and Singapore (Yeung and Tung 1996).
6. Despite variations in the way interpersonal relations are conducted between Chinese and Westerners, empirical research (e.g., McCrae and Costa 1997; McCrae and John 1992) has shown the existence of five personality traits (i.e., extroversion, agreeableness, conscientiousness, neuroticism, and openness to experience) that are universally applicable. Although it is crucial to understand the role of these personality traits in how interpersonal buyer–seller relationships are conducted, this was beyond the scope of the current investigation.
7. The Chinese judge the credibility of a person by evaluating the extent to which she keeps promises using her past history and reputation (Leung et al. 2005). This is of fundamental importance when initiating a business relationship and must be established before any transactions can take place (Hitt et al. 2000).
8. A person may trust an employee in a specific organization but distrust the organization overall, and vice versa. Indeed, this is the essence of our thesis, in which we examine how interpersonal factors (e.g.,

personal credibility) affect trust at the organizational level. In their study, Lee and Dawes (2005) elaborate on the difference between interpersonal trust and interorganizational trust.

9. Evidence has suggested that since Hong Kong's hand-over to Mainland China in 1997, the value of re-exports has more than doubled (from HK\$1.1 billion in 1998 to HK\$3.4 billion in 2012), with re-exports to and from the mainland representing a significant portion (Information Services Department 2013).
10. Although matched paired dyadic relationships between import buyers and their foreign suppliers could provide useful insights in the way behavioral issues are perceived from different angles, the existence of great geographic, cultural, resource, and other constraints involved in carrying out research on a global scale makes such a task difficult (Craig and Douglas 2005).
11. To establish a cross-cultural equivalency of the scales used for *sijiao*, *xinyong*, and *ganqing* developed for our study, we contacted a small group of import managers based in the nearby country of Taiwan and had a qualitative discussion with them regarding our scales' appropriateness. The outcome of this discussion was that these scales would also be applicable, without any modification, in a Taiwanese context.
12. Although it would be more appropriate to complement this subjective scale of financial performance with more objective measures (e.g., sales, profits, return on investment), such measures would be difficult to obtain from either private or public sources. However, there is strong evidence in the literature indicating that both objective and subjective measures of financial performance are highly correlated (Dollinger and Golden 1992; Powell 1992; Shoham 1998).
13. We used SEM analysis for three major reasons: (1) it allows for assessment of relationships between the constructs of the model in a comprehensive, systematic, and holistic manner; (2) it takes a confirmatory rather than an exploratory approach to the data analysis; and (3) it takes into account explicit estimates of measurement error, whereby the fit of the conceptual model is considered (Byrne 2006; Hair et al. 2006).
14. The fact that our study employed Likert-type scales indicates, by definition, that our data are not normally distributed. Indeed, the greater the variance in the data, the closer the central tendency is to the scale's extreme points and the greater the possibility for the data to violate the assumption of normality. Nevertheless, we checked for multivariate normality in our data by examining the Mardia coefficient in our measurement model. The value produced was greater than 5, which suggests that the sample is nonnormal (Bentler 2006). Mardia's kappa coefficient, which gives an indication of nonnormality, was .24, showing that although nonnormality was present in the data set, it did not constitute a serious problem. For this reason, we employed the ERLS estimation technique, which assumes a multivariate elliptical distribution, as opposed to a more generalized form of the multivariate normal distribution assumed by the maximum likelihood estimation procedure (Mohr and Sohi 1995). The reason for using the former technique in our structural model is justified in that the ERLS technique has been proved to perform equally well with maximum likelihood for normal data and to be superior to other estimation methods used for nonnormal data (Sharma, Durvasula, and Dillon 1989).
15. We used the Lagrange-multiplier test in EQS to uncover any additional paths that needed to be added to our structural model. Notably, both univariate and multivariate Lagrange-multiplier tests revealed two additional significant paths (i.e., relationship quality \leftrightarrow trust and *sijiao* \leftrightarrow financial performance) ($\chi^2 > 3.84$, d.f. = 1, $p < .05$). Although changing the sequence of the trust-relationship quality is not consistent with our conceptual development, the results reveal a significant relationship between the two factors ($\beta = .72$, $t = 7.49$, $p < .01$). Similarly, a subsequent structural model revealed that *sijiao* was a significant predictor of financial performance ($\beta = .22$, $t = 2.72$, $p < .01$). However, in both cases, there was significant deterioration in all fit indices of the model. For this reason, we did not include these paths in the final model.
16. We also reran SEM analysis using the CMV-attenuated correlation matrix. The path results we obtained were similar to those presented in our main structural model, thus providing further credibility that our original results were free of any CMV effects.

17. By default, buyer–seller relationships imply a two-way process, whereby both parties can either benefit or lose from their interaction (Cunningham 1980; Ford 2002). Thus, to have a win–win situation, it is also essential for Chinese managers to understand the Western approach of doing business and appropriately adjust their behavior, tolerance, and decisions. Ultimately, both Western and Chinese firms should be prepared from the beginning to make sacrifices, settlements, and compromises to ensure relationship continuity, prosperity, and success (Worm and Frankenstein 2000).

18. Whereas Western multinational firms operating in the Chinese market often directly employ local people who have familiarity with the local culture, most small to medium-sized exporters tend to have a much lower cultural understanding, due mostly to their limited hands-on experience as a result of their great geographical distance and infrequent visits to the market. For these reasons, Western exporters tend to rely more on their local import distributors/agents for providing the necessary in-market feedback to help customize their offerings to local conditions (Chee and Harris 1998).



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