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## Relational governance in supplier-buyer relationships: The mediating effects of boundary spanners' interpersonal guanxi in China's B2B market<sup>☆</sup>

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### ABSTRACT

Based on the literature on relationship marketing and marketing channel research, this study proposes that in a channel relationship, interpersonal guanxi between boundary spanners of channel partners mediates the relationship between a firm's relationship marketing orientation and relational governance. Using the data collected from about 300 Chinese manufacturers and their suppliers, this study shows that relationship marketing orientation positively relates to relational governance, and boundary spanners' interpersonal guanxi mediates this relationship. Relational governance further affects channel partners' opportunistic behaviors. This study also discusses the findings' implications for marketing practitioners and suggestions for future research.

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### 1. Introduction

In the increasingly turbulent business market, firms are looking to build intensive relationships with their business partners in order to leverage the relationship-oriented governance mechanism (Geyskens, Steenkamp, & Kumar, 1998; Macneil, 1980). Consequently, relationship marketing and relational governance, and their antecedents and impacts, are receiving more attention from scholars and practitioners. Relational governance builds on trust and commitment, unlike traditional approaches to business relationships that rely heavily on authority and contract to coordinate interorganizational activities (Weitz & Jap, 1995). Thus relational governance is more stable and effective in the B2B markets (Claro, Hagelaar, & Omta, 2003; Frazier, 2009). For example, research shows that relational governance is able to enhance a firm's competitive position (Jarillo, 1988; Powell, 1990; Thorelli, 1986) and inhibits opportunistic behaviors by building strong mutual commitment and trust (Brown, Dev, & Lee, 2000; Joshi & Stump, 1999). Relational governance can also reduce production and transaction costs by

converting strengthened partnerships into stable and loyal strategic alliances (Hewett & Bearden, 2001).

More research has therefore focused on the antecedents and impact of relational governance, situated in the framework of transaction cost theory and relational exchange theory (Rindfleisch & Heide, 1997). While this line of research has identified several key determinants of relational governance, such as transaction-specific assets, market uncertainty, and social networks (Claro et al., 2003; Gençtürk & Aulakh, 2007; Sheng, Brown, Nicholson, & Poppo, 2006; Zhuang & Zhang, 2011), relationship marketing orientation (RMO) has not received sufficiently attention (Zhuang & Zhang, 2011). RMO reflects a firm's desire to establish mutually empathic, reciprocal trust, and to build bonds between partners (Callaghan, McPhail, & Yau, 1995), and is particularly effective in building and maintaining long-term partner relationships in marketing channels. Consequently, adoption of RMO as a firm's value orientation and guiding idea can improve a firm's performance and its relationship with its partners in B2B exchange activities (Yau et al., 2000). However, even though researchers have already found that RMO is a significant antecedent of relational governance, the mechanism through which RMO impacts relational governance remains understudied (Zhuang & Zhang, 2011).

In addition, boundary spanners' interpersonal guanxi is an essential element in relationship-oriented marketing channel management (Luo, 1997; Wong & Tam, 2000; Zhuang & Zhang, 2011), and scholars have contended that interpersonal guanxi between channel partners' boundary spanners should be an essential factor or embedded tie in business

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exchange relationships (Granovetter, 1985; Uzzi, 1997). The guanxi between boundary personnel in marketing channels directly affects cooperation between their firms. In turn, such cooperation affects how channel members build a mutually beneficial network and govern exchange relationships on a long-term basis (Arias, 1998; Luo, 1997; Wong & Tam, 2000; Zhuang & Zhang, 2011). However, relatively few studies on relational governance have evaluated the possible impact of this important relational factor (Blois, 2002), and even fewer have examined boundary spanners' guanxi as a governance mechanism in channel marketing (Wang, 2007).

To further explore the dynamics of this relationship-oriented governance mechanism – relational governance, this study proposes that RMO has a positive impact on relational governance, and that interpersonal guanxi between boundary spanners mediates the link between RMO and relational governance. This proposed model, which integrates boundary spanners' interpersonal guanxi into the interactive relationship of relational marketing orientation and relational governance, will help enrich the literature on relationship marketing. This study then tests the hypotheses with a sample of 300 supplier-buyer partners in the Chinese context. This study collect data in China because relationship marketing and relational governance seem most relevant in the Chinese context, where interpersonal guanxi is of utmost importance and doing business is essentially building interpersonal guanxi (Luo, 1997; Luo & Chen, 1996). In addition, with the globalized world market and the rapid development of China's economy, examining whether marketing theories developed in the West can be applied to different cultural contexts such as that in China becomes more important. The empirical results support the proposed research model in general, with some interesting findings that differ from those of studies conducted in Western countries. Finally, this study discusses the research findings and their implications, and presents the limitations of this study and suggestions for future studies.

## 2. Conceptual framework

### 2.1. Relational governance (RG)

Palay (1984) defines governance as “a shorthand expression for the institutional framework in which contracts are initiated, negotiated, monitored, adapted, enforced, and terminated” (p. 265). In the organizational context, Heide (1994) makes a distinction between three forms of interorganizational governance: market (contract-based), unilateral (authority-based), and bilateral (relationship-based), which rely on price mechanisms, bureaucratic structures, and socialization processes, respectively, to manage interorganizational activities.

Relational governance refers to “interfirm exchanges which include significant relationship-specific assets, combined with a high level of interorganizational trust”, and “is embodied in both the structure and the process of an interorganizational relationship” (Zaheer & Venkatraman, 1995, p. 374). Thus, relational governance represents an organization's active and ongoing effort to manage interorganizational activities with relational mechanisms (Gundlach, Achrol, & Mentzer, 1995; Heide, 1994; Lusch & Brown, 1996). To explore interorganizational exchange activities, Vargo and Lusch (2004) introduce the service-dominant logic, which contends that interorganizational exchange activities are inherently relational and collaborative interactions co-created value (Vargo & Lusch, 2004; Vargo, Lusch, & Malter, 2006).

Relational governance stresses social interactions and joint efforts to develop and maintain long-term bilateral relationships, which primarily bases on mutual trust and commitment. More importantly, relational governance stands for a bilateral governance mechanism that forms symmetrical, stable, and perennial channel relationships in marketing channels, and manifests in mutual coordination and self-discipline between channel partners. So from the governance perspective, the core of relational governance is to develop trust and commitment through social interactions of channel partners, reflected in joint actions such

as joint planning and joint problem solving (Bensaou & Venkatraman, 1995; Heide & Miner, 1992). Compared with traditional control mechanisms (authority or contract), relational governance is more effective in reducing transaction costs and coordinating interorganizational activities (Claro et al., 2003; Frazier, 2009).

### 2.2. Relationship marketing and RMO

Berry (1983) introduces the concept of relationship marketing as “attracting, maintaining, and enhancing customer relationships” (p. 25). Grönroos (1991) and Harker (1999) further extend the definition of relationship marketing as a strategic option that, in direct contrast to transaction marketing, focuses on the individual buyer-seller relationship for mutual benefits (Sin, Tse, Yau, Chow, & Lee, 2005). From a firm's perspective, relationship marketing reflects the business philosophy of placing the buyer-seller relationship at the center of the firm's strategic or operational thinking in order to succeed in B2B markets (Sin et al., 2005; Yau et al., 2000). The main goal of relationship marketing is to establish, maintain, and enhance relationships with customers and other parties so as to meet the objectives of all involved parties (Berry & Parasuraman, 1991). Dwyer, Schurr, and Oh (1987) have defined such relationships as being interdependent and long-term oriented, and the long-term orientation is often more important because marketing partners will engage in less opportunistic behaviors in a long-term oriented relationship.

RMO is the guiding idea and value orientation of relationship marketing. RMO emphasizes “marketing oriented toward strong, lasting relationships with individual accounts” (Jackson, 1985, p. 2), and holds that the traditional exchanges characterized by a short-term transaction orientation should be replaced by long-term interorganizational relationships. RMO often leads to cooperative relationships through mutual bonding, empathy, reciprocity, and trust between business partners (Callaghan et al., 1995; Yau et al., 2000). *Bonding* is the relationship component that often results in two parties acting in a unified manner toward a desired goal; *empathy* means seeking to understand the situation from each other's perspective and meet the desires and goals of others; *reciprocity* refers to providing favor or assistance to each other in exchange for similar favor or assistance later (Callaghan et al., 1995), and *trust* is the psychological perception that each party feels that they can rely on the integrity of the promise made by the other party (Callaghan et al., 1995; Morgan & Hunt, 1994). Sin et al. (2005) further designs and empirically tests an instrument to assess RMO from six different aspects: trust, bonding, communication, shared value, empathy, and reciprocity.

### 2.3. Interorganizational relationships and interpersonal guanxi

All marketing has undertaken a systematic and coherent network of relationships (Paulin & Ferguson, 2010). Interorganizational relationships are formal arrangements that bring together tangible and intangible assets of two or more legally independent organizations with the aim of producing joint value (Bachmann & van Witteloostuijn, 2009). A good interorganizational relationship is critical to business partners' success and effective governance, and is an important source of competitive advantage (Dyer & Singh, 1998; Ireland, Hitt, & Vaidyanath, 2002).

At the same time, while relationship marketing typically is impersonal and scholars often study relationship marketing at the organizational level, many have argued that in order to better understand relationship governance, examining boundary spanners' interpersonal guanxi in terms of social connections is necessary (Chadee & Zhang, 2000; Lee & Dawes, 2005; Leung, Lai, Chan, & Wong, 2005). Compared with the general concept of relationship, guanxi is more personal in that guanxi works on the basis of friendship or personal dependence (Wang, 2007; Xin & Pearce, 1996).

Interpersonal guanxi refers to the practice of building and drawing on interpersonal connections in order to secure favors in personal

relationships (Luo, 1997; Luo & Chen, 1996). This connection is an intricate and pervasive relational network which the Chinese cultivate with energy, subtlety, and imagination. Guanxi is one of the major dynamics in China and other similar Confucianism-based societies. As one of the most pervasive personal and also business practices for centuries, guanxi binds millions of Chinese companies into a social and business web (Luo, 1997). Guanxi are thus the delicate fibers woven into every Chinese individual's social life and thus into many aspects of the Chinese society. No company can go far unless this company has extensive guanxi in the Chinese society (Luo, 1997). Guanxi-connected business network helps companies overcome the problem of not having enough resources to accommodate growth while avoiding substantial bureaucratic costs in internalizing operations (Luo & Chen, 1996). For example, when the institutional uncertainties are high, which is often so in most regions of China, Chinese firms would choose a guanxi-based strategy of growth and build guanxi-networks to facilitate economic exchanges.

The guanxi relationship goes beyond mere personal bases such as friendship or kinship. The guanxi relationship also involves the cultivation of personal relationships and networks of mutual dependence, and the manufacturing of obligation and indebtedness (Ma & Zheng, 2009; Yang, 2002). The key elements of the guanxi relationship include favoritism, reciprocity assurance, long-term orientation, and trust (Ma & Zheng, 2009).

Firstly, the guanxi relationship implies mutual favorable treatment between the guanxi relationship parties (Luo, 1997). Consequently, favoritism in this kind of relationship manifests as being helpful and cooperative, persistently keeping in touch with one's guanxi relationship contacts, and doing more business with them. The main benefit is that guanxi leads to access to local resources as well as valuable and important information resources.

Secondly, the guanxi relationship usually associates with the reciprocal exchange of obligations; individuals who receive favors from other parties have the obligation to reciprocate at the appropriate time. Forgetting your friends after your hour of need has passed is unethical. If the guanxi relationship had only one-way flow of favor, then the guanxi would lose its attraction and the giving-receiving cycle would break (Ma & Zheng, 2009; Yang, 2002). Disregarding the reciprocity rule may impair a business person's social reputation or result in loss of face, or even lead to rejection in future business opportunities.

Thirdly, the guanxi relationship creates long-term moral obligations, mutual interests and benefits, and continual exchange of favors (Pye, 1992; Yang, 2002). Lastly, within a guanxi relationship network, strong ties that lead to personal trust are useful for initiating and completing transactions. The individuals in a guanxi relationship will not only trust one another, but also will trust other parties with whom the partner has guanxi relationships. Thus both partners will find dealing with other parties and establish new business relationships is easier.

In the context of relationship marketing, individual boundary spanners actively handle and manage interpersonal guanxi and commercial connections (Katz & Kahn, 1978). Interpersonal guanxi in the channel relationship is thus a special type of particularistic tie that bonds the boundary spanners of exchange relationships through social activities, reciprocal obligations, and favor exchanges (Davies, 1995; Peng & Luo, 2000). When individuals say "Our guanxi is good", "I have guanxi", or "old guanxi", they mean that they have a good relationship or frequent contact with somebody important.

### 3. Research hypotheses

#### 3.1. RMO and relational governance

Relational governance stresses social interactions and joint efforts to develop long-term bilateral relationships. Relational governance reflects the degree to which involved parties take joint actions in a supplier-buyer relationship, including joint planning and joint problem solving, to meet both parties' interests (Claro et al., 2003). *Joint planning*

refers to making explicit arrangements for future contingencies, and the consequential duties and responsibilities between business partners (Heide & John, 1990; Heide & Miner, 1992). *Joint problem solving* refers to productively resolving disagreements with a partner (Heide & Miner, 1992; Lusch & Brown, 1996).

RMO guides a firm to improve its relationship with partners by monitoring business partners' behaviors and internal processes (Sin et al., 2005). This activity in turn leads to cooperative behaviors that are conducive to successful bilateral relationships and relationship marketing (Morgan & Hunt, 1994). Thus, RMO may have direct impacts on both the joint planning and joint problem solving aspects of relational governance: When the level of RMO is higher, a firm tends to regard its ongoing relationships with other firms as more important (Sin et al., 2005), and prefers to treat other firms with recurring transactions as cooperative partners. If necessary, the firm may establish strategic alliances with those partners in order to obtain a sustainable competitive advantage. Compared with firms with low RMO, firms with high RMO are more likely to have ex ante and ex post communication with their partners, to jointly plan for the future, and to jointly solve problems in the exchange process. Consequently, the higher a firm's RMO in a supplier-buyer relationship, the more likely the firm will endeavor to plan and solve problems together with the partner. Therefore:

**H1a.** In a supplier-buyer relationship, the higher a business partner's RMO, the more likely the partner is to develop joint planning behaviors of relational governance.

**H1b.** In a supplier-buyer relationship, the higher a business partner's RMO, the more likely the partner is to develop joint problem-solving behaviors of relational governance.

#### 3.2. Interpersonal guanxi and relational governance

A good interorganizational relationship brings together tangible and intangible assets of two or more organizations to produce value (Bachmann & van Witteloostuijn, 2009). In interorganizational exchange activities, boundary spanners can internalize interorganizational relationships and recreate them boundary spanners' guanxi orientations toward each other (Zaheer, McEvily, & Perrone, 1998). In particular, boundary spanners are more likely to conduct business within their networks, rather than with those who are new or outside the networks. Consequently, the interorganizational relationships between business partners often base on contacts or bonds with specific individuals, not with organizations (Davies, Leung, Luk, & Wong, 1995), and developing interpersonal guanxi or connections becomes a prerequisite for business relationships (Dwyer et al., 1987; Wang, 2007). In other words, interpersonal guanxi provides partners with a necessary base for mutual trust or credit and an effective tool for reducing or resolving conflicts, and thus helps develop business relationships on a long-term basis (Arias, 1998; Luo, 1997; Wong & Tam, 2000). Moreover, interpersonal guanxi can convert, consciously or unconsciously, to interorganizational connections to reduce institutional distance and to achieve mutual benefits for all partners (Yang, Su, & Fam, 2012).

Therefore, business partners with boundary spanners who have good interpersonal guanxi will be able to strengthen the positive interactions, enhance integrity and loyalty, and minimize harmful friction between involved partners. Boundary spanners with good interpersonal relationships can also help consolidate existing relationships and increase the perception of mutual trust and commitment to increase each other's satisfaction. Therefore, good interpersonal guanxi between boundary spanners helps to develop good interorganizational relationships (Larson, 1992), the quality of which often manifests in a combination of commitment, satisfaction,

and trust (Crosby, Evans, & Cowles, 1990; Dorsch, Swanson, & Kelly, 1998; Hewett, Money, & Sharma, 2002; Ulaga & Eggert, 2006).

Where good interpersonal guanxi exists between boundary spanners, their integrity toward each other can effectively reduce market uncertainty for both business partners (Crosby et al., 1990). Good interpersonal guanxi can positively affect decision makers in the channel partnership; for example, a boundary spanner's positive and favorable assessment of the business partner can increase the likelihood that decision makers will adopt relational governance. Good interpersonal guanxi between boundary spanners further affects the extent to which transactions will be fairly negotiated and commitments are to be upheld (Anderson & Narus, 1990), which in turn ensures that transactions and coordination between partners can go on successfully and that partners can resolve conflict smoothly and with sufficient communication. The coordination and communication will further help improve the level of joint planning and joint problem solving. Therefore:

**H2a.** In a supplier-buyer relationship, the better the interpersonal guanxi of the boundary spanners between a firm and its partner, the more likely the partners are to develop joint planning behaviors of relational governance.

**H2b.** In a supplier-buyer relationship, the better the interpersonal guanxi of the boundary spanners between a firm and its partner, the more likely the partners are to develop joint problem-solving behaviors of relational governance.

### 3.3. The mediating role of interpersonal guanxi

RMO highlights the importance of establishing mutual benefits, interdependence, joint growth, and long-term relationships with business partners, and is likely to facilitate the development of high quality relationships (Fukuyama, 1995). With a high level of RMO, business partners are more willing to engage in long-term collaboration and to believe that the maintenance of the long-term relationship will pay off in the long run (Anderson & Weitz, 1989). In addition, when faced with conflict and difficulty in strategic alliances, business partners with a good relationship are also more likely to base their problem solving on trust, reciprocity, and communication. In other words, a high level of RMO will lead to a good relationship between business partners, which further leads to the use of relational governance in managing channel relationships.

According to organization theory, individual boundary spanners build and develop interactive actions between organizations over time, and these actions may gradually evolve into established and taken-for-granted organizational structures and routines for interorganizational exchange activities (Dwyer et al., 1987; Su & Littlefield, 2001). On the one hand, RMO as a guiding idea for firms to maintain cooperative relationships among channel partners, often manifest through individual behaviors of boundary spanners, and thus can exert influence on communication, conversation, and interaction of boundary spanners based on mutual trust and reciprocity, which will facilitate the development of good interpersonal guanxi between boundary spanners. On the other hand, the favoritism, mutual trust, emotional attachment, and long-term reciprocity assurance (Ma & Zheng, 2009) embedded in the interpersonal guanxi between boundary spanners of business partners also influence decision makers in the channel partnership. If a firm's boundary spanners have maintained good interpersonal guanxi with a business partner's boundary spanners, they are more likely to provide favorable information about and positive assessments of that business partner. Consequently, the firm and the business partner will be more likely to employ relational governance. Therefore, RMO will help improve boundary spanners' interpersonal guanxi, and

that boundary spanners' guanxi facilitates the use of relational governance.

**H3a.** In a supplier-buyer relationship, a partner's RMO is positively related to the interpersonal guanxi of the boundary spanners between the firm and its partners.

**H3b.** In a supplier-buyer relationship, boundary spanners' interpersonal guanxi mediates the relationship between a partner's RMO and its use of relational governance.

### 3.4. Relational governance and opportunism

Research shows that opportunism in B2B markets manifests in two aspects: distortion of information and reneging on commitments (Jap & Anderson, 2003). Distortion of information includes overt behaviors such as lying, cheating, and stealing, as well as more subtle behaviors such as shirking, misrepresenting by not fully disclosing information, and failing to fulfill promises and obligations. Reneging includes behaviors that explicitly or implicitly violate mutual commitments. For instance, selling behaviors beyond agreed areas by suppliers can improve the sales of suppliers, but will destroy the benefits of buyers.

The purpose of a firm's engagement in opportunism is to pursue more benefits, while at the same time avoiding contract violation (Brown et al., 2000; Joshi & Stump, 1999). Therefore, employing various control mechanisms (in particular, relational governance to minimize business partners' opportunism) to restrain related behaviors within tolerable limits, and to protect a firm's transaction-specific assets is important.

With relational governance, business partners will show their willingness to fulfill their obligations and responsibilities and to commit resources to relationship maintenance. Since relational governance gives priority to social interactions and joint efforts to develop and maintain long-term relationships, business partners with relational governance will be less likely to engage in opportunistic behaviors that might destroy this long-term based cooperative relationship (Yu, Liao, & Lin, 2006).

**H4a.** In a supplier-buyer relationship, a partner's joint planning behaviors of relational governance will lead to less opportunism.

**H4b.** In a supplier-buyer relationship, a partner's joint problem-solving behaviors of relational governance will lead to less opportunism.

The research model shown in Fig. 1 summarizes the hypotheses discussed above. This study expects that in a business relationship, RMO has a positive impact on relational governance, and interpersonal guanxi further mediates this positive impact on relational governance. Relational governance will also reduce opportunistic behaviors in the business relationships.

## 4. Method

### 4.1. Pilot study and the sample

This study uses a self-administered questionnaire to collect data in the Chinese manufacturing sector. This study collects data in China because relationship marketing and relational governance seem most relevant in the Chinese context and in China doing business is essentially building interpersonal guanxi (Luo, 1997; Luo & Chen, 1996). The globalized world market and the rapid development of China's economy also create a necessity to examine whether marketing theories developed in the West can be applied to different cultural contexts such as that in China.

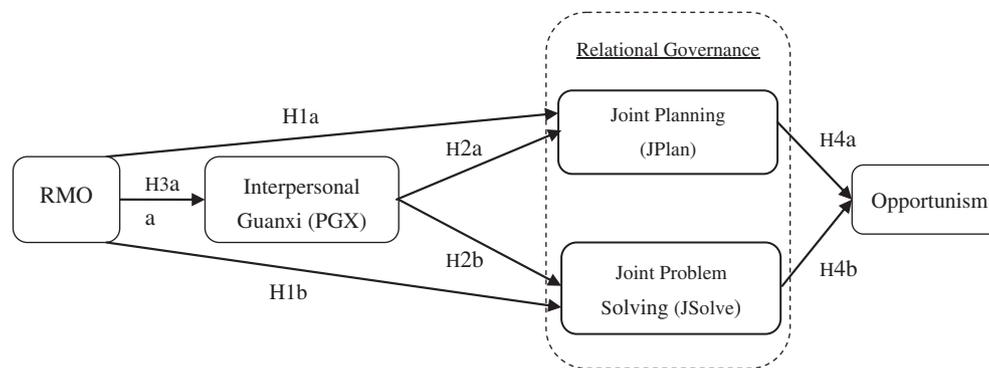


Fig. 1. The research model of relationship marketing orientation, guanxi, and relational governance.

This study first conducts a pilot study prior to the main research to determine the key informants and to pre-test the instruments adapted and developed from previous research. All adapted instruments used in this study are translated into Mandarin, following the translation and back-translation procedures described by Brislin (1986). This study interviews two groups of people during the pilot study. First, five doctoral students evaluate the questionnaire to identify any possible problem, and the investigators of this study then revise the questionnaire accordingly. Then, to identify the key informants for this research and refine the appropriateness of the questionnaire, the investigators consult five distributor managers who work for different companies in different industries in China. Their feedback indicates that the dyadic relationship between manufacturers and local distributors is appropriate for this study, and that sales managers who often manage their relationships with distributors are appropriate informants for this study. The investigators once again revise the questionnaire based on the feedback from these distributor managers before sending the questionnaire sent out for the main study.

The investigators then contact manufacturers and distributors who are in a marketing channel relationship in China. The manufacturers serve as suppliers for local distributors in various industries, including the medical device, electronic device, and auto part industries. The distributors are buyers located in different cities in China, including Shanghai, Beijing, Shenzhen, Xi'an, Nanjing, Shenyang, and Qingdao. All the respondents are sales managers from participating companies, who have worked for those companies for more than one year and are familiar with the relationship condition between their firms and the suppliers/distributors.

The investigators distribute 280 copies of the finalized questionnaires to the identified key informants in this study, including 180 paper copies and 100 email copies. After two rounds of follow-up, the investigators collect 235 questionnaires (the response rate is 83.9%), resulting in 211 usable copies for the study (an effective response rate of 75.4%), including 148 paper copies and 63 email copies. A *t*-test shows that differences between the two types of data are not significant ( $p > 0.05$ ).

## 4.2. Measures

The questionnaire uses a 5-point Likert scale to measure the four key variables shown in Fig. 1: relationship marketing orientation, interpersonal guanxi of the boundary spanners, relational governance, and opportunism. These multi-item scales, ranging from 1 (totally disagree) to 5 (totally agree), are adapted versions of those from previous studies, with revisions based on the feedback from the pilot study. The questionnaire also collects demographic data for the analysis.

### 4.2.1. Relationship marketing orientation (RMO)

This study measures RMO with a 14-item scale adapted from the one used in the study by Yau et al. (2000) to assess to what extent a firm emphasizes relationship marketing in its marketing activities. The scale has

four subscales measuring bonding, empathy, reciprocity, and trustworthiness, respectively, with sample items including “Our firm’s achievement builds on our reliance on each other”.

### 4.2.2. Interpersonal guanxi of the boundary spanners (PGX)

The PGX scale measures the quality of interpersonal guanxi of the boundary spanners, that is, sales managers from participating companies. The six PGX items, which focuses on the perceived relationship between dyadic spanners, are the adapted version of those used in Zhuang, Xi, and Tsang (2010) and Lee and Dawes (2005). Sample items include “I take our business partner as a friend, I deal with him honestly”, “Our relationship has lasted for a long period of time”, “I like to do business with them, and they like to do business me”.

### 4.2.3. Relational governance (RG)

The RG scale is an adapted version of the one used in Claro et al.’s (2003) research on relational governance, and includes nine items to assess the extent to which a firm uses relational governance in the manner of joint planning (JPlan) and joint problem solving (JSolve). Items include “Our company plans volume demands for the next seasons together with our business partner” and “This buyer and our company deal with problems together that arise in the course of the relationship”.

### 4.2.4. Opportunism (OP)

The OP scale is the adapted version of the scale used by Achrol and Gundlach (1999), which measures the degree of falsity and alteration of facts, distortion, exaggeration of needs, sincerity, truthfulness in dealings and faith bargaining, and breach of agreements engaged in by a business partner. OP scale is a self-reported measure of one’s business partner’s opportunistic behaviors. This study makes minor revisions based on the feedback from the pilot study with Chinese managers to fit in with the Chinese context. Sample items include “Our business partner always exaggerates needs in order to get what they desired”. *Control variables.* This study includes two control variables that might affect the relationships examined in the model. These variables are (1) the degree of interorganizational dependence, with three items: “We are dependent on our distributor”, “Our distributor would be difficult to replace”, and “Our distributor would be costly to lose”; and (2) the tenure of the sales manager to measure how long he or she has been working for the supplier, with 1 representing “not > 1 year”, 2 for “1–3 years”, and 3 for “> 3 years”.

## 4.3. Common method bias

Given that this study uses the same informants to collect the data about RMO and other dependent variables, common method bias is potentially an issue. Therefore, the investigators of this study apply Harman’s single-factor test as suggested in Podsakoff, MacKenzie, Lee, and Podsakoff’s research (2003). The investigators load all the items of the variables in this study into an exploratory factor analysis and

examine the unrotated factor solution to determine the number of factors that are necessary to account for the variance in the variables. The unrotated factor analysis reveals five factors with Eigenvalue higher than 1, and these factors account for 68.58% of the total variance. Meanwhile, the first unrotated factor of all items explain 27.58% of all variances, which is below 40%. Therefore, the common method bias is not a problem in this study (Lindell & Whitney, 2001; Podsakoff et al., 2003).

## 5. Results

Table 1 reports the descriptive statistics and correlation coefficients, including the mean, standard deviation, and correlation coefficient for each variable in the research model. This study also calculates the reliability indicators for all variables with more than three items. The results show that the values of Cronbach  $\alpha$  are all above 0.70, the commonly accepted threshold (Garver & Mentzer, 1999; Hair, Anderson, Tatham, & Black, 1998). This study then applies a confirmatory factor analysis (CFA) by fitting the measurement model with the collected data, with GFI = 0.91, IFI = 0.95, TLI = 0.92, CPI = 0.94, and RMSEA = 0.072 all at acceptable levels, indicating a good level of fit (Garver & Mentzer, 1999; Hair et al., 1998). Convergent validity is also adequate, with all constructs having an Average Variance Extracted (AVE) of at least 0.5 (Fornell & Larcker, 1981) and items loading highly on their associated factors.

This study then conducts hierarchical regression analysis to test the research model. This study controls for the impact of interfirm dependence and the period a sales manager has been working in the supplier/buyer firm. Table 2 summarizes the results of the hierarchical regression analyses to test H1a, H1b–H4a, H4b of the integrated research model shown in Fig. 1.

Regarding the effect of RMO on relational governance, the results show that RMO positively relates to joint problem solving (Models 3 & 4), but the impact of RMO on joint planning is not significant (Models 1 & 2). The results thus provide support for H1b, but not for H1a. The impact of RMO on interpersonal guanxi is also significant (Model 5), supporting H3a, which suggests that a business partner's RMO positively affects boundary spanners' interpersonal guanxi among business partners. In other words, when a business partner has a higher level of RMO, its boundary spanners are more likely to develop high quality interpersonal guanxi with their counterparts in the B2B markets.

The results also show that both the impact of boundary spanners' interpersonal guanxi on joint problem solving and the impact of boundary spanners' interpersonal guanxi on joint problem solving are significant (Models 2 & 4). Thus H2a and H2b are supported, confirming the expectation that the quality of interpersonal guanxi between business partners' boundary spanners positively affects the relational governance of a supplier-buyer relationship.

Regarding the impact of relational governance behaviors on opportunism, the results show that joint planning behaviors actually increase, not reduce, opportunistic behaviors in a supplier-buyer relationship,

and joint problem solving behaviors have no significant impact on opportunistic behaviors (Models 6 & 7). In addition, boundary spanners' interpersonal guanxi also positively relates to opportunistic behaviors. This result seems to suggest that strong interpersonal guanxi as well as joint planning behaviors of relational governance provide opportunities for business partners to engage in, rather than restrain, dishonest behaviors in the interorganizational exchange activities. Consequently, neither H4a nor H4b is supported. However, the significant negative relationship between RMO and opportunism (Model 7) seems to suggest that a high level of RMO helps reduce opportunistic behaviors in supplier-buyer relationships.

Finally, given the significant relationships identified above, this study tests the proposed mediating effects using the procedure recommended by Baron and Kenny (1986). The significant relationship between RMO and joint problem solving behaviors of relational governance is expected to disappear or become weaker when interpersonal guanxi is added to the regression equation, to support a full or partial mediating effect of interpersonal guanxi. The regression results indeed showed that the previously highly significant effect ( $\beta = 0.33, p < 0.001$ ) of RMO on joint problem solving behaviors of relational governance becomes much weaker, although still significant ( $\beta = 0.14$  after adding interpersonal guanxi to the regression as in Model 4,  $p < 0.05$ ). The results support the prediction that interpersonal guanxi mediates the relationship between RMO and joint problem-solving behaviors of relational governance, although only partially, thus in support of H3b (please refer to Fig. 2).

## 6. Discussion and conclusion

Research on relationship marketing and relational governance has underlined the importance of interpersonal guanxi, which emphasizes individuals' social connections, in building loyal and committed customer relationships (Park & Luo, 2002). Relationship marketing orientation (RMO) as a guiding philosophy for developing long-term partner relationships not only encourages a firm to build mutual trust and commitment for long-term cooperation, but also promotes interpersonal guanxi of boundary spanners in the process of relational governance (Perrone, Zaheer, & McEvily, 2003). This study is to help better understand the impact of RMO on interpersonal guanxi, relational governance, and opportunistic behaviors in a supplier-buyer relationship. This study tests the model in the Chinese context. The results of this study provide important insights into the dynamics of relational governance, as well as its related antecedent factors in an international context.

This study shows that relationship marketing orientation has a direct impact on joint problem-solving behaviors of relational governance, but not on joint planning. The finding that firms with a high level of RMO do not jointly plan with their partners may be due to the underdeveloped market system and the lack of transparency in Chinese economic policies, which causes great uncertainty and market risk in the Chinese market. As a result, the manufacturers and their buyers do

**Table 1**  
Means, standard deviations, and correlations for variables.

Variables	Mean	1	2	3	4	5	6	7
1. Degree of Dependence	9.21	<b>(0.92)</b>						
2. Tenure of the respondents	2.46	−0.07	–					
3. Relational Marketing Orientation (RMO)	42.35	0.37***	−0.01	<b>(0.89)</b>				
4. Interpersonal Guanxi (PGX)	50.33	0.39***	−0.01	0.63***	<b>(0.90)</b>			
5. Joint Planning (JPlan)	16.60	0.14*	−0.14*	0.06	0.14*	<b>(0.77)</b>		
6. Joint Problem Solving (JSolve)	14.68	0.33***	−0.21**	0.41***	0.48***	0.39***	<b>(0.77)</b>	
7. Opportunism	13.44	−0.20**	−0.06	−0.57***	−0.43***	0.02	−0.26***	<b>(0.88)</b>

Note: The numbers in bold along the diagonal are Cronbach alphas.

\*  $p < 0.05$ .

\*\*  $p < 0.01$ .

\*\*\*  $p < 0.001$  (two-tailed test).

**Table 2**  
Results of hierarchical regression analysis.

Dependent variables	Control variables		Independent variables				F-value	R <sup>2</sup>	Adj. R <sup>2</sup>
	DEP	TENURE	RMO	PGX	JPlan	JSolve			
JPlan									
Model 1	0.13*	−0.07	0.05				0.91	0.03	−0.00
2	0.10	−0.08	−0.06	0.14*			0.98	0.04	−0.00
JSolve									
Model 3	0.21**	−0.04	0.33***				3.93*	0.21	0.18
4	0.19*	−0.05	0.14*	0.33***			9.81**	0.27	0.24
PGX									
Model 5	0.02	0.18**	0.56***				26.17***	0.42	0.41
OP									
Model 6	0.01	−0.09	−0.55***	0.33**			11.97**	0.37	0.34
Model 7	0.00	−0.09	−0.53***	0.38***	0.12*	−0.08	8.84**	0.38	0.34

Note:  
\*  $p < 0.05$ .  
\*\*  $p < 0.01$ .  
\*\*\*  $p < 0.001$  (two-tailed test).

not want to, or actually cannot, make joint plans, even when their inter-organizational relationship is good. But with a strong desire to build and maintain a long-term partnership (RMO), they can definitely work together to solve any problem occurring in the interorganizational exchange activities (joint problem solving). Therefore, in supplier-buyer relationships in China, the influence of RMO on relational governance is mainly through joint problem-solving behaviors rather than joint planning behaviors.

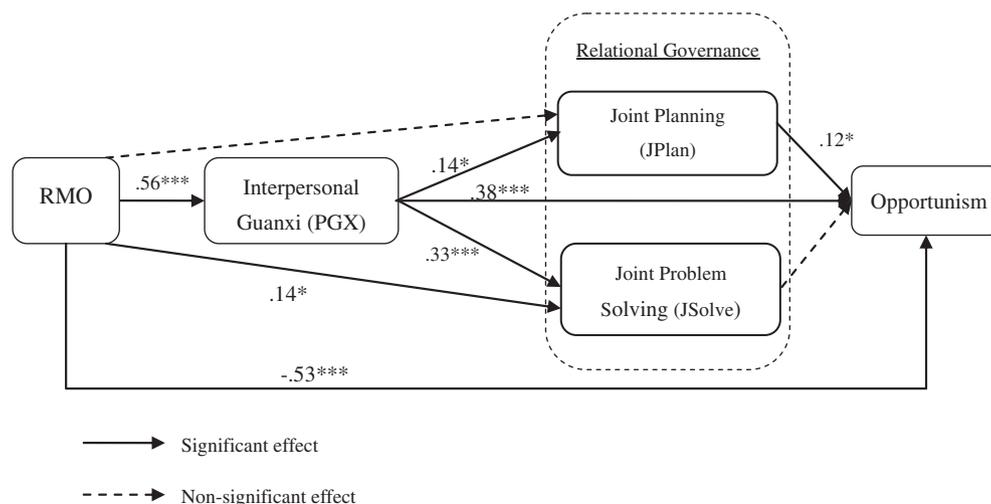
In addition, the mediating effects of boundary spanners' interpersonal guanxi on the relationship between RMO and relational governance found in this study show that while RMO can directly impact relational governance behaviors, its main effect on relational governance has to go through boundary spanners' interpersonal guanxi. In other words, while RMO is an important antecedent of relational governance, RMO is less influential if not accompanied by mutual trust and commitment of business partners, as reflected in the personal connections of boundary spanners, that is, their interpersonal guanxi.

Moreover, different from the results of many studies conducted in the West (Brown et al., 2000; Joshi & Stump, 1999), this study shows that relational governance seems *not* able to restrain opportunism in the Chinese context. Instead, joint planning behaviors of relational governance actually provide more room for opportunistic behaviors, which may be because joint planning behaviors of relational governance require sufficient information sharing with each other in the partnership,

and this transparency gives a firm's partners the opportunity to use the information to engage in dishonest business activities. This result also explains why Chinese business partners are less likely to engage in joint planning behaviors in relational governance. Furthermore, while the Chinese market is guanxi oriented, and that doing business in China is almost impossible without a certain level of social ties or interpersonal guanxi, strong interpersonal guanxi as the informal mechanism of relational governance also provides more opportunities for business partners to engage in opportunistic behaviors, which is against the objective of the long-term oriented governance method. While future research needs to explore the reasons why strong interpersonal guanxi leads to more opportunistic behaviors, the informal nature of interpersonal guanxi, which is unlike other types of governance methods and thus involved parties cannot use legal actions to enforce this relationship, has left room for business partners to engage in dishonest behaviors and breach of agreements. Future research will be able to understand the dynamics between guanxi, B2B activities, and opportunism.

6.1. Theoretical implications

This study has important theoretical implications, and the results of this study make important contributions to a better understanding of relationship marketing and relational governance in the international



**Fig. 2.** Regression results of relationship marketing orientation and relational performance.

context. The results show that relationship marketing orientation affects relational governance through the mediating effect of boundary spanners' interpersonal guanxi. This study relates relationship marketing orientation to a different *interfirm* relationship, that is, interpersonal guanxi between boundary spanners, and considers its effects on relational governance. The results not only confirm Zhuang et al.'s (2010) framework of interpersonal guanxi, but also provide empirical evidence for the notion that RMO can influence both the guanxi state (interpersonal guanxi) and guanxi-oriented behaviors (relational governance).

This study also examines the micro-level interfirm relationship (boundary spanners' personal guanxi) in the B2B markets, and considered the impact of interpersonal guanxi on relational governance in supplier-buyer relationships. This research thus provides empirical evidence that guanxi marketing in China is even more personal than relationship marketing in the West (Wang, 2007), which helps us better understand the interactions between business partners in Chinese marketing channels. Specifically, good interpersonal connections and guanxi between boundary spanners of a firm and its partners lead to high quality joint problem-solving behaviors in relational governance.

Future research should consider interpersonal guanxi as an essential factor or embedded tie in marketing channels. With good interpersonal guanxi, boundary spanners' frequent connections and communications will increase organizational perception of mutual trust and commitment, and thus interorganizational activities will develop and improve. With more Chinese companies entering international markets, scholars should examine scenarios where a large number of Chinese companies with a grounded guanxi business culture take over Western businesses and enter those markets, a new challenge for marketing scholars and practitioners.

## 6.2. Managerial implications

This study also has important managerial implications. The findings of this study can help marketers improve the effectiveness of supplier-buyer relationship management, especially when doing business in China. This study shows that interpersonal guanxi plays a significant role in domestic Chinese marketing channels, mediating the relationship between RMO and relational governance behaviors. Marketing practitioners in the Chinese market thus should consider encouraging and helping their boundary spanners (mostly sales managers) to build stronger interpersonal guanxi between themselves and the boundary spanners of their business partners, in order to develop and establish better interorganizational relationships and to facilitate relational governance based on trust, commitment, and communication.

This study also finds that RMO is important in the Chinese context. RMO can increase interorganizational bonds through boundary spanners' guanxi (interpersonal guanxi) and promote relational governance behaviors. In addition, RMO can significantly reduce opportunistic behaviors in a supplier-buyer relationship. Therefore, marketing practitioners in China should consider how they can improve the level of RMO with other firms, in order to change the way they do business with their customers, improve interorganizational relationships, and maintain long-term relationships with their business partners by reducing the opportunism in the process of interorganizational exchange activities.

## 6.3. Limitations and future research

This study has weaknesses that may limit the application of the results, and readers should exercise caution in generalizing the findings of this study. First, the sample is relatively small due to the difficulties in data collection, and the data are from the same informants, which may affect the generalizability of the findings. To improve external validity, future studies should use a larger sample, and data for different variables should be from different informants. This study only collects

data from one side of the supplier-buyer relationships and collecting data from both sides of the partnerships can lead to more reliable and interesting results. Future studies should replicate this study using the data from both parties of a supplier-buyer relationship.

Furthermore, this study only considers one type of control mechanism: relational governance in a supplier-buyer relationship. Future research could examine the impact of RMO and interpersonal guanxi on the other two control mechanisms – contract-based governance and authority-based governance – and to explore possible mediators or moderators embedded within the partner relationship. This study also shows that boundary spanners' interpersonal guanxi only partially mediates the relationship between RMO and relational governance. But this study only examines one group of boundary spanners (sales managers); future research can obtain more fruitful results by studying another group of important boundary spanners – the top management team – and their interpersonal guanxi with partner firms' top management teams. The positive relationship between guanxi and opportunism, as well as the positive relationship between joint planning and opportunism, contrast with the negative relationship between RMO and opportunism. Future research can explore this contradiction to identify other potential factors that mediate the dynamics between RMO and opportunism.

In addition, since this study finds that relational governance is not a good method to reduce opportunism in China, different from the research findings in the West, future research could explore whether the other two control mechanisms – or a more developed business contract system – would help reduce opportunistic behaviors in China. Future research may also examine other possible important antecedents, such as transaction-specific investment and transaction risk perception of relational governance, and the degree to which they affect interpersonal guanxi as well as relational governance behaviors. Moreover, examining the process of relationship building (initiating, maintenance, dissolving), environment uncertainty, and relationship structure, as well as the key elements of boundary spanners' interpersonal guanxi (such as favoritism, trust, and reciprocity assurance), can make important contributions to a better understanding of relational governance in supplier-buyer relationship management.

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