

EXAMINING THE RELATIONSHIPS BETWEEN ENVIRONMENTAL FORCES, KEY ELEMENTS OF INTERORGANIZATIONAL GUANXI, AND EXCHANGE OUTCOMES

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ABSTRACT

We propose that there are three key elements constituting interorganizational Guanxi, namely, personal Ganqing and two types of Renqing, such as collaborative communication and business support. We further argue that, due to the utilitarian nature of interorganizational Guanxi, environmental dynamism and dependence would significantly affect the development of personal Ganqing, as well as the Renqing offered by one company to the other. Finally, we propose that the operational performances of two companies engaged in interorganizational Guanxi are affected by personal Ganqing, and the two elements of Renqing. For this study, we develop and test our hypotheses from the retailer's perspective in the context of Chinese manufacturer-retailer relationships in the cellular phone industry by analyzing data collected from one major Chinese cell phone manufacturer and its 297 retailers.

Key Words: Interorganizational Guanxi, China, environmental dynamism, dependence

INTRODUCTION

In recent years, researchers have paid increasing attention to Guanxi (connections), which is one of the major dynamics in Chinese society that greatly affect business behaviors (Luo, 1997). However, our understanding of the mechanism relating Guanxi to interorganizational relationships still remains unclear, with two critical issues yet to be fully examined. First, much of the prior literature on Guanxi has focused on the relationships at the interpersonal level. However, little research has been conducted to empirically investigate the specific mechanisms of how interpersonal Guanxi ultimately leads to interorganizational Guanxi. Next, little attention has been paid to the following two critical factors that could directly influence interorganizational relationships: environmental dynamism and dependence. Arguably, these two factors should affect companies' intentions to form Guanxi with others by defining the nature of their interorganizational relationships.

In this study, we attempt to address the aforementioned important two issues by developing and testing a research model that relates environmental dynamism and dependence to interpersonal and interorganizational Guanxi, thereby subsequently

affecting exchange outcomes such as trading partners' business performance.

THEORETICAL FOUNDATION

The word "Guanxi" in Chinese refers to the concept of drawing on connections or networks in order to secure favors in personal or business relations (Luo, 1997). Between two individuals, Guanxi often involves the development and exchanges of, in Chinese, Ganqing (emotion) and Renqing (favor) (Fan, 2002; Langenberg, 2007; Luo, 1997). Similarly, we maintain that interorganizational Guanxi is based upon *personal* Ganqing established between two individuals in their respective organizations, which subsequently leads to the *interorganizational* level of Renqing such as collaborative communication and business support.

Ganqing

Ganqing refers to the extent to which two parties have good rapport or emotional commitment within a social relationship (Langenberg, 2007; Luo, 2007; Yang, 1989). As an indicator of closeness of two parties, Ganqing determines the favorability and sustainability of Guanxi (Luo, 2007). Ganqing between two parties often implies an obligation of gift giving, favors, and even help when one party is in trouble (Kipnis, 1996; Yang, 1996).

Renqing

Renqing refers to the favors exchanged between parties in a Guanxi relationship (Wang, 2007). At the individual level, the favors exchanged could be broadly categorized into two groups: informational and physical assistance (Langenberg, 2007). Accordingly, we maintain that such favors, at the interorganizational level, are manifested by two types of activities: collaborative communication and business support.

RESEARCH MODEL

Personal Ganqing and organizational Renqing

Arguably, Ganqing lays the foundation for any Guanxi-type interrelationships. The establishment of Ganqing at the personal level implies the mutual obligations to help with each other. Thus, one manager is able to fulfill his/her personal obligations toward the other in a partner firm by proactively helping the counterpart obtain the favorable assistance from his/her own company. In this sense, personal Ganqing consequently leads to the organizational Renqing (i.e., favors) offered by one firm to the other, such as collaborative communication and business support.

Therefore, we hypothesize that:

H1: The personal Ganqing of the retailer's purchasing manager toward the

manufacturer's sales manager is positively related to the retailer's collaborative communication as a form of organizational Renqing.

H2: The personal Ganqing of the retailer's purchasing manager toward the manufacturer's sales manager is positively related to the retailer's business support as a form of organizational Renqing.

Concerning the relationship between the two elements of organizational Renqing, the literature (Mohr et al., 1996) suggests that the retailer's collaborative communication should affect the retailer's business support. It has been pointed out that maintaining two-way communication in a proactive and timely manner is essential for establishing an atmosphere conducive to mutual support (Mohr et al., 1996). Therefore, we hypothesize that:

H3: The retailer's collaborative communication with the manufacturer is positively related to the retailer's business support for the manufacturer.

The roles of environmental dynamism and dependence

We argue that both environmental dynamism and dependence could affect boundary spanners' motivation to establish personal Ganqing with their counterparts.

Environmental dynamism refers to the extent to which variability of changes exist in a market, which may create uncertainty and risk for the companies (Cannon and Perreault, 1999). TCA has suggested that, under conditions of uncertainty, firms tend to introduce more relational elements into their purchasing arrangement, in order to gain cooperation from their suppliers (Cai and Yang, 2008; Cannon and Perreault, 1999; Noordewier et al., 1990). Guanxi could be regarded as one of such relational mechanisms in China. Therefore, we hypothesize that:

H4: The environmental dynamism in the retailing market is positively related to the personal Ganqing of the retailer's purchasing manager toward the manufacturer's sales manager.

Similarly, when the retailer is heavily relying on the manufacturer's products and services, the retailer and its purchasing manager would regard the manufacturer and its sales manager as a party offering benefits. From the retailer's purchasing manager perspective, Ganqing, or affective closeness toward his/her counterpart, would be readily established. Therefore, we hypothesize that:

H5: The retailer's dependence on the manufacturer is positively related to the personal Ganqing of the retailer's purchasing manager toward the manufacturer's sales manager.

Additionally, we study whether environmental dynamism and dependence could directly affect collaborative communication and business support exchanged between companies located in China. We hypothesize that:

H6: The environmental dynamism in the retailing market is positively related to the retailer's collaborative communication with the manufacturer.

H7: the environmental dynamism in the retailing market is positively related to the retailer's business support for the manufacturer.

H8: the retailer's dependence on the manufacturer is positively related to the retailer's collaborative communication with the manufacturer.

H9: The retailer's dependence on the manufacturer is positively related to the retailer's business support for the manufacturer.

Interorganizational Guanxi and exchange outcomes

For the present study, we examine the effects of three elements of interorganizational Guanxi on exchange outcomes, such as the manufacturer's and the retailer's operational performance.

First, collaborative communication and business support offered by the retailer could generate various strategic benefits that help improve the manufacturer's performance. Therefore, we hypothesize that:

H10: The retailer's collaborative communication is positively related to the manufacturer's operational performance.

H11: The retailer's business support is positively related to the manufacturer's operational performance.

When the retailer proactively engages in collaborative communication with the manufacturer, the retailer can have better opportunities to make the manufacturer understand its changing business strategies and local market trend, solicit support from the manufacturer, and eliminate potential conflicts and improve coordination with the manufacturer, thereby enhancing its own operational performance. When the retailer offers business support to manufacturer, it is the manufacturer's responsibility to return the favor, when the retailer needs the manufacturer's assistance. This could result in the retailer's own operational performance improvement. Therefore, we hypothesize that:

H12: The retailer's collaborative communication is positively related to the retailer's operational performance.

H13: The retailer's business support is positively related to the retailer's operational performance.

As discussed earlier, personal Ganqing could affect exchange outcomes via facilitating collaborative communication and business support. In addition to such indirect effects on exchange outcomes, personal Ganqing may also exert direct effects on exchange outcomes. To test the effects, we hypothesize that:

H14: The personal Ganqing of the retailer's purchasing manager toward the manufacturer's sales manager is positively related to the retailer's operational performance.

H15: The personal Ganqing of the retailer's purchasing manager toward the manufacturer's sales manager is positively related to the manufacturer's operational

performance.

RESEARCH METHODOLOGY

To test our hypotheses, we chose manufacturer–retailer dyads in the Chinese cell phone industry. A leading domestic cell phone manufacturer (hereafter, the manufacturer) agreed to cooperate with us for the survey. We sent the questionnaires to the key informants from the selected retailers and their matched sales managers from the manufacturer. After pairing the retailer questionnaire and the manufacturer’s sales manager questionnaire, 297 dyads of usable questionnaires were obtained for analysis.

We adopted multi-item measures from previous studies and design two versions of the survey questionnaires for the manufacturer’s sales managers and the retailers’ managers. The measurement models were tested on the full dataset by using the EQS 6.1 program. The goodness-of-fit indices suggested an excellent model fit for the model: Chi-square value with 207 degrees of freedom was 287 ($p = 0.00$; Ratio of chi-square to the degrees of freedom = 1.39), NNFI = 0.94, CFI = 0.95, IFI = 0.95, and RMSEA = 0.039. The scale also exhibited satisfactory composite reliability (>0.7), average variance extracted (AVE) (>0.5), and discriminant validity.

We tested our hypotheses by using the maximum likelihood procedure of the EQS (Bentler, 1995). The structural model test results showed a satisfactory model fit: Chi-square with 215 degrees of freedom = 330 ($P=0.00$; Ratio of Chi-square to degrees of freedom =1.53), NNFI = 0.92, CFI = 0.93, IFI = 0.93, and RMSEA = 0.045. As depicted in Figure 1, our analysis results supported H1, H3, H4, H5, H9, H13, H14, and H15 at the significance level of 0.05 or higher, and marginally supported H11 and H12 at the significance level of 0.10.

DISCUSSION

Our analysis revealed that the retailer’s collaborative communication with the manufacturer significantly affects its business support for the counterpart. This is probably because maintaining two-way communication in a proactive and timely manner is essential for establishing an atmosphere conducive to mutual support. Especially, such effective communication tends to develop collaborative attitudes by highlighting shared interests and common goals (Mohr et al., 1996).

On the other hand, our analysis also showed that the personal Ganqing of the retailer’s purchasing manager does not directly affect the retailer’s business support for the manufacturer. This is probably because the purchasing manager alone is not able to determine the retailer’s business support for the manufacturer, since such a decision involves strategic implications and organization-wide efforts to its implementation,

and thus should be determined by the executives of a firm at the organizational level. This result highlights the limitations of the role of personal Ganqing in the context of business relations. However, note that the personal Ganqing indirectly influences business support through collaborative communication that can be initiated and led by the purchasing manager as an organizational boundary spanner.

When it comes to the effects of three key elements of interorganizational Guanxi on exchange outcomes, our analysis results indicated that the retailer's collaborative communication does not have a direct effect on both the retailer's and the manufacturer's operational performance. This finding is consistent with Kulp et al. (2004), suggesting that in a retailer-manufacturer dyadic relationship, sharing information alone does not automatically improve manufacturers performance beyond allowing firms to earn an average industry profit margin. In other words, without exerting joint efforts to implement plans and solve problems occurring between two parties in the implementation process, sharing information alone does not contribute much to the improvement of operational performance, such as quality and stock-out levels. Thus, as argued by Kulp et al. (2004), it should be noted that working as partners, rather than simply transferring information, leads to greatest benefits. In addition, both the personal Ganqing of the retailer's manager and the retailer's business support have significant and positive impacts on both the retailer's and the manufacturer's performance.

References and questionnaire are available upon request