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Relationship stability, trust and relational risk in marketing channels: Evidence from China

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Abstract

This paper provides an integrated framework for examining effects of relationship stability and trust on relational risk and for exploring the moderating effects of guanxi on the relationships between trust and relational risk in marketing channels. The framework is tested with 225 dyads of questionnaires about buyer–supplier relationships in the Chinese household appliances sector. The results indicate that relationship length and dyadic solidarity can reduce the relational risk perceived by buyers through goodwill trust in their suppliers, but can increase the perceived relational risk through trust in their competence. Guanxi helps to weaken the positive relationship between a buyer's trust in suppliers' competence and its perceived relational risk, and dyadic solidarity can directly lower relational risk. This paper makes clear that buyers locked in a stable relationship will face relational risk, and it further identifies the specific variables which impact on the relational risk and the paths from which relational risk comes.

Keywords: Relationship stability; Trust; Guanxi; Relational risk

1. Introduction

The relationship between channel members has attracted increasing attention since the 1980s (Frazier & Sheth, 1985; Morgan & Hunt, 1994; Backhaus & Buschken, 1999; Cannon & Homburg, 2001; Hewitt, Money, & Sharma, 2002; Narayandas & Rangan, 2004; Ulaga & Eggert, 2006). As relationship marketing theory has developed, both buyers and their upstream suppliers have put emphasis on establishing and developing a stable dyadic relationship instead of building adversarial relationships with many partners, to achieve relational benefits and competitive advantages (Spekman, 1988; Kalwani & Narayandas, 1995; Narayandas & Rangan, 2004). Relationship stability is the result of inter-firm strategic relationship development stages (Spekman, Forbes, Isabella, & MacAvoy, 1998). It describes a stable relationship status between relational partners after a period of cooperation. Relationship stability is regarded as a prerequisite for the economic rewards that come with cooperation and partnership (Weitz & Jap, 1995). Hence, it has attracted researchers' attention since the 1990s. For example, Lai, Cheng, and Yeng (2005) explore the effect of relationship stability on a supplier's commitment to product quality. Inkpen and Beamish (1997) point out that a stable relationship is one in which the partners believe the benefits of the relationship exceed the costs of termination. Gundlach, Achrol, and Mentzer (1995) find that relationship stability can reduce the cost of establishing new relationships for channel members, and that a stable relationship can improve efficiency. In the literature about distributor–manufacturer relationships, Anderson and Narus (1990) point out that a stable relationship often is accompanied by a higher

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level of satisfaction among channel members. Relationship stability can be improved by increasing benefits, building trust, avoiding an unfavorable reputation, and undertaking specific investments (Anderson & Weitz, 1989; Celly, Spekman, & Kamauff, 1999).

However, in reviewing the previous literature, we find the following limitations. First, although a few scholars have done some empirical studies on relationship stability (e.g., Celly et al., 1999; Lai et al., 2005), there is no consistent definition and measurement of relationship stability, and the definitions which do exist reflect only one side's attitude without considering that of the partner. Since relationship stability implies a consistent reflection of dyadic favorable relational attitudes of both cooperating parties after a period of cooperation (Leana & Barry, 2000), its nature needs to be explored more deeply. Second, the previous literature has emphasized investigation into the positive consequences of relationship stability (Lai et al., 2005), but has seldom investigated any possible negative effects, such as relational risk, which might reflect any kind of unexpected negative outcomes from cooperative relationships (Miller, 1992). Even though some scholars have considered the partners' opportunistic behaviors in a long-term relationship (John, 1984; March & Shapira, 1987; Narayandas & Rangan, 2004), they have conducted little research into reasons why a stable relationship might bring relational risk for its participants, or into the questions of which specific factors may have an impact on relational risk. Hence, special attention needs to be given to the reasons for uncertainty and risk perception (March & Shapira, 1987), because neglecting investigation into the paths of risk-forming in a long-term stable relationship can bring great loss for relationship participants (Brown, Dev, & Lee, 2000). In view of the fact that trust usually comes with risk (Das & Teng, 2001a) and is associated with future uncertainty, it is meaningful to explore the effects of trust on risk in marketing channels. Third, guanxi is an important factor in Chinese business practice, and it influences all forms of social and commercial life in China (Tseng, Kwan, & Cheung, 1995; Yeung & Tung, 1996; Ambramson & Ai, 1999; Ambler, Styles, & Xiucun, 1999; Standifird, & Marshall, 2000). Some previous researchers have shown that guanxi plays a greater role in explaining performance than do variables such as trust and risk (Ambler et al., 1999), and others have pointed out that relationships built inside the guanxi network do not have a high component of risk (Davies, Leung, Luk, & Wong, 1995; Lee & Ellis, 2000; Standifird & Marshall, 2000). Hence, when guanxi exists between a buyer and a supplier, does the relationship between the buyer's trust and the perceived relational risk change? Unfortunately, this question has been neglected by previous studies.

To address these challenges, this paper provides a clear definition and dyadic measurements of relationship stability, investigates relationship stability's direct influence on the risks perceived by the buyer and its indirect influence through the path of two different kinds of trusts that buyers have in their suppliers, and explores the moderating effects of guanxi on the relationships between trust and perceived relational risk. The purpose of this study, in short, is to explore empirically what are the specific reasons and paths of buyer-perceived relational risk-forming in a stable relationship between a buyer and a supplier, by finding linkages among relationship stability, trust, guanxi, and perceived relational risk.

In the next section, we first develop a comprehensive and integrative framework reflecting the interrelationship of relationship stability, trust, guanxi and perceived relational risk. Then we describe our methodology and test the framework with 225 dyads of questionnaires about buyer–supplier relationships in the Chinese household appliances sector. In the closing section, we discuss the implications of our research for both academics and managers and conclude by outlining study limitations and directions for further research.

2. Theoretical background

2.1. Relationship stability

Stability of relationships always implies the adoption of long-term orientation towards the relationship (Dwyer, Schurr, & Oh, 1987). It goes beyond a simple, positive evaluation of the other party based on considerations of current benefits and costs associated with the relationship (Lai et al., 2005). In the supply relationship between overseas suppliers and global buyers, Celly et al. (1999) proposed that, from the buyers' perspective, relationship stability includes two aspects: relationship length and relational attitude. Relationship length refers to the number of years the buyer has been dealing with the supplier. Relational attitude is treated as a supplier's overall attitude toward investing in and continuing the exchange relationship with a particular buyer. Here the definition of relational attitude reflects only the supplier's attitude without considering that of the buyer. According to Leana and Barry (2000), "Stability is related on a social-cognitive level to a tendency to generate beliefs and attitudes that reflect and project consistency to oneself as well as to others" (p.757). This implies that, when studying relationship stability, we need to consider whether the dyads in the relationship agree with each other on key issues instead of our focusing on the attitude from only one side. In the research on the relationship between supplier and manufacturer, Lai et al. (2005) suggest that "Relationship stability is defined as the extent to which the buyer–supplier relationship is steady and both parties are engaged in an active and long-term working relationship" (p.401). Accordingly, this study defines relationship stability as a consistent reflection of dyadic favorable relational attitudes in an active working relationship which continues for a period of time. It contains two dimensions, i.e., relationship length and dyadic solidarity. Relationship length refers to the continuing length of time of the dyadic relationship. Dyadic solidarity is defined as a channel member's sense of unity that binds it to its exchange partner (Kim, 2000). It measures the perception of dyadic value similarity and the embodiment of a friendly and intimate relationship between the two sides (Voss et al., 2000).

According to social exchange theory, the development of a cooperative relationship is similar to a marriage relationship, and a stable relationship is directly associated with the development of trust (Anderson & Narus, 1990; Ganesan,