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Managing customer relationships in the emerging markets – guanxi as a driver of Chinese customer loyalty[☆]

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ABSTRACT

Guanxi, a social exchange mechanism built on mutual favors, is an integral part of Chinese culture and a necessary relationship management tool for businesses operating in the People's Republic of China (PRC). This paper uses the cognition-affect-conation trajectory to illustrate the subtle differences between guanxi approach and the conventional relationship marketing approaches on customer loyalty and word-of-mouth intentions. This process is mediated by calculative trust and affective attitude toward the service provider, while operationalizing the in-group identification construct to gauge in-group membership. Findings from a field-survey with Chinese retail-banking customers (N = 420) support most of the hypotheses. Besides extending relationship marketing literature by highlighting the need to incorporate unique aspects of different cultures (especially in the emerging markets), this paper also provides many useful managerial implications and directions for future research on phenomena similar to guanxi (e.g., “blat” in Russia, “wa” in Japan and “inhwa” in Korea).

1. Introduction

Relationship marketing is an important topic in marketing theory because of its crucial role in helping develop and maintain mutually profitable and sustainable relationships among buyers and sellers (Gruen, Summers, & Acito, 2000; Morgan & Hunt, 1994; Samaha, Beck, & Palmatier, 2014). In this context, a recent meta-analysis of 170 studies in 36 countries reveals significant differences in the effects of relational mediators such as trust and commitment across different cultures (Samaha et al., 2014). However, there is not much research into the underlying socio-cultural mechanisms that may drive these differences, such as some unique cultural factors that drive relationship marketing process around the world (Gap 1).

Interestingly, there is also a large body of research on guanxi, a social exchange mechanism built on mutual favors, which is considered an important strategic asset by most Chinese people and businesses (Davies, Leung, Luk, & Wong, 1995; Park & Luo, 2001). Guanxi has played a major role in the Chinese society throughout its long history (Alston, 1989) and the modernization and globalization of the Chinese economy in the last few decades has even forced multinational companies to look for ways to establish their own guanxi networks in China (Davies et al., 1995). However, despite some attempts to compare the

concepts of relationship marketing and guanxi (e.g., Ambler, Styles, & Xiucun, 1999; Leung, Lai, Chan, & Wong, 2005; Shaalan, Reast, Johnson, & Tourky, 2013; Wong & Chan, 1999), the exact roles played by guanxi and its underlying dimensions in mainstream relationship marketing, particularly their impact on customer loyalty in the services context, are still not very clear or well-established (Gap 2).

People's Republic of China (PRC) is the most populous country in the world and the largest economy, as measured on purchasing power parity (PPP) basis, well ahead of United States and European Union (Central Intelligence Agency, 2016). China is also culturally very different from the Western countries, with strong collectivistic values and high long-term orientation (Hofstede, 2001). Hence, it is not surprising to see that international relationship marketing studies find Chinese firms twice as effective in using relationship marketing to drive performance as those in the United States (e.g., Samaha et al., 2014). However, despite growing evidence about the differences in the business and cultural practices between China and the rest of the world (Sharma, 2010), past research on relationship marketing, especially its impact on customer loyalty, has generally ignored China and focused on Western cultures (Sharma, 2011) (Gap 3).

Finally, past research on the role of guanxi in the Chinese context has mainly focused on buyer-seller relationships in the business-to-

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business (B2B) context and on organizational performance outcomes such as sales growth (e.g., Barnes, Leonidou, Siu, & Leonidou, 2015; Barnes, Yen, & Zhou, 2011; Leung, Chan, Lai, & Ngai, 2011; Park & Luo, 2001; Yang & Wang, 2011). Samiee, Chabowski, and Hult's (2015) meta-analysis of international cross-border relationship marketing studies also shows that most studies focus on B2B context with very few studies on business-to-consumer (B2C) relationships. Hence, it is not clear to what extent the same relationship marketing constructs and models can apply in B2B and B2C contexts, and what could be the theoretical differences between them (Gap 4).

This paper addresses all the above research gaps by exploring the link between relationship marketing and guanxi with a focus on the services context in China, which is the largest emerging market in the world. To explore the role played by guanxi in driving customer loyalty behavior in a services context, the authors develop and test a conceptual model using insights from many well-established but diverse perspectives, ranging from relationship marketing and customer loyalty to social ties in social networks and guanxi. To summarize, this paper addresses the following specific research questions:

1. What role does guanxi play in relationship marketing in the People's Republic of China, especially in terms of its impact on customer loyalty behaviors?
2. Which factors may mediate the impact of guanxi on the customer loyalty behaviors in the People's Republic of China?

This paper begins with a review of extant research on relationship marketing and guanxi, with a focus on the services context. Next, it develops specific hypotheses about the process by which guanxi and in-group identification affect both short- and long-term customer loyalty behavioral intentions and the mediating role of calculative trust and affective attitudes toward the target object in this process. Next, the paper describes a field-survey with 420 retail banking customers in China, which shows support for most of the hypotheses. Finally, the authors discuss the theoretical contribution and managerial implications of their findings along with some limitations of their study and directions for future research.

2. Theoretical background and hypotheses

2.1. Guanxi and relationship marketing

Guanxi is a major part of Chinese culture, known since the time of Confucius (551–479 BCE), the philosopher whose ideas form the basis of modern Chinese business and cultural practices (Dawson, 2005). Guanxi in the business context represents the “durable social connections and networks a firm uses to exchange favors for organizational purposes” (Gu, Hung, & Tse, 2008, p. 12). However, there is no literal translation or consistent understanding of the term guanxi in the Western cultures (Haley, Haley, & Tan, 2004; Tsui & Farh, 1997).

The conceptual definition of guanxi has evolved from a unidimensional construct based on early qualitative and descriptive studies (e.g., Davies et al., 1995) to a more complex multidimensional measurement construct (e.g., Yen, Barnes, & Wang, 2011), consisting of three dimensions, namely renqing, xinren and ganqing. Renqing is a set of social norms used by the members of a network as a coping strategy to maintain harmony within their social circle (Hwang, 1987; Leung, Heung, & Wong, 2008; Wang, 2007). Xinren relates to the trustworthiness aspect of guanxi that is considered as a credit (Chen & Chen, 2004). Ganqing represents shared feelings among the members of a network that indicate the closeness of guanxi (Wang, 2007, p. 82). All these dimensions are operationalized as three sub-scales that are used to measure the guanxi construct in empirical studies with quantitative methodologies (Chen & Chen, 2004; Kipnis, 1997; Wang, 2007; Yen et al., 2011).

While guanxi is clearly a well-entrenched traditional way in which

relationships are created and managed in Chinese culture, the modern view of relationship marketing has focused on its role in helping businesses develop and maintain meaningful relationships with their customers (Morgan & Hunt, 1994). A recent meta-analysis of 170 studies across 36 countries shows many cross-cultural differences in the impact of important constructs such as trust and commitment (Samaha et al., 2014); however, it only makes a passing reference to guanxi and cites only one study (Lee & Dawes, 2005). Therefore, it seems very important to understand the conceptual overlap between the traditional concepts such as guanxi and the relatively more modern ones, such as relationship marketing.

In fact, there are a few studies that do examine the similarities and differences between guanxi and relationship marketing (e.g., Ambler et al., 1999; Leung et al., 2005; Shaalan et al., 2013; Tomás Gómez Arias, 1998; Wang, 2007; Wong & Chan, 1999; Yau, Lee, Chow, Sin, & Tse, 2000). For example, Shaalan et al. (2013) describe guanxi as a set of affective, implicit, personal and tactical trust-based relationships among the members of a social network, and relationship marketing as calculative, explicit, impersonal and strategic relationships among the members of a business network. Others focus on the differences in the nature of relationships (Tomás Gómez Arias, 1998), focus on long-term versus transactional relationships (Wang, 2007) and the emphasis on “bonding, reciprocity, trust and empathy” in guanxi (Yau et al., 2000, p. 20).

Differences between guanxi and relationship marketing can be grouped in three major categories. First, there is no consensus on which relational constructs drive customer loyalty in these two perspectives. Generally, trust, satisfaction and commitment are most common in relationship marketing discipline (Palmatier, Dant, Grewal, & Evans, 2006); whereas guanxi researchers use a more complex and nuanced view by decomposing it into its three dimensions, namely renqing (reciprocity), ganqing (bonding and empathy) and xinren (trust). Apart from this multidimensional nature of guanxi (ganqing, xinren and renqing), Shaalan et al. (2013) also highlight that face-saving is the motive for reciprocity in guanxi, whereas it is mutuality in relationship marketing. In addition, affection, face and mutual trust are also identified as unique features in relationship marketing studies with Chinese consumers (Tomás Gómez Arias, 1998). These findings suggest that it may be useful to use guanxi as one of the key relationship marketing mechanisms in China, rather than rely only on the more popular relationship marketing process developed in the Western cultures.

Second, relationship marketing studies focus on relationships within dyads (Björkman & Kock, 1995) while guanxi studies focus on relationships within personal networks and on social exchanges (Björkman & Kock, 1995; Tomás Gómez Arias, 1998). Shaalan et al. (2013) use network theory to describe guanxi as an individualistic and particularistic system formed within a closed social network (Farh, Tsui, Xin, & Cheng, 1998) and relationship marketing as an open, institutional, universalistic and impersonal system.

Third, in relationship marketing, loyalty develops over time and goes through different stages (Dick & Basu, 1994), under the impact of various marketing actions (Ngobo, 2016). However, guanxi is tactical in orientation, whereas relationship marketing is strategic. Exchange, relational and commitment behaviors in guanxi involve *implicit* favors, affection and promises with *undefined* timelines, whereas relationship marketing is commercial, economic, calculative, cooperative and explicit, with clear deadlines (Shaalan et al., 2013; Tomás Gómez Arias, 1998).

All these differences between guanxi and relationship marketing approaches highlight the need for more research in order to provide a deeper understanding of the process by which guanxi affects customer loyalty behavior, especially due to the implicit and yet particularistic nature of interpersonal relationships under guanxi. Research on relationship marketing shows that it has a strong impact on loyalty and profitability (Reichheld, 1990); hence, a study of guanxi's impact on loyalty behaviors would extend our knowledge of relationship

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