THE EFFECT OF CHANNEL RELATIONSHIPS
AND GUANXI ON THE
PERFORMANCE OF INTER-PROVINCE
EXPORT VENTURES IN THE
PEOPLE'S REPUBLIC OF CHINA

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Abstract
Relationship marketing in the Peoples Republic of China (PRC) is examined in the context of inter-province trade i.e. “exports” from one province of China to another. In particular, this paper is concerned with dyadic channel relationships between the exporter and the importer/distributor in the new province. The paper first explores the recent adoption of marketing in the PRC and the importance of relationships and guanxi (loosely translated as “connections”). Relationship marketing as it has emerged in the West is briefly presented for comparison. A set of hypotheses is then developed using the hybrid model of export performance from Styles and Ambler (1994). This framework combines variables from both the relational and conventional marketing mix paradigms. The hypotheses are tested using data collected from 102 inter-province export ventures within the PRC. The results suggest that the nature the channel relationships and guanxi has a positive impact on the performance of these ventures.
The effect of channel relationships and guanxi on the performance of inter-province export ventures in the People’s Republic of China

1. Introduction

Under Chairman Mao, China maintained a supply driven economy. Marketing was neither practised nor taught. Since Deng Xiaoping “opened the door” in 1978, marketing has assumed increasing importance. Traditional Chinese marketing through *guanxi* (loosely translated as “connections”) is similar to “relationship marketing” (Berry, 1983; Gronroos, 1994; Morgan and Hunt, 1994) in the West. In Confucian thinking, an individual’s identity is largely determined by one’s place in a network of connections and one’s duties/obligations and roles towards those dyadic partners. The *guanxiwang* (Yang, 1994) is the network of these continuing relationships: for comparison, Kotler (1990) described the new Western paradigm of the market as “a network of value laden relationships”.

Relationship marketing (RM) has yet to be defined in the West in a way acceptable to all scholars - see the Journal of the Academy of Marketing Special Issue 1995 and Proceedings of Relationship Marketing Conference, June 1996. There are two main schools of thought: narrow and broad. Both schools replace the short term
“transactional” view of marketing by a long-term, continuing approach where the sale is more of a beginning than an end (depending on the sector) (Morgan and Hunt, 1994). The narrow view is that RM is the branch of marketing concerned with channels and one-to-one personal relationships. Since brands are not people, for example, it is misleading to apply RM to fast moving consumer goods (fmcg). RM, in this view, is just a special case of marketing to be considered alongside other particular applications such as retail or direct marketing.

The broad view (e.g. Gronroos, 1994) is that RM is a new way of seeing business as a whole. Marketing is a branch of RM, not the other way around. Sheth and Parvatiyar (1995) specifically extend RM to include consumer brand marketing and Fournier (1995) considers consumer-brand relationships. However, since we are concerned primarily with channels, the distinction is not material for this paper.

This paper adopts the broad view and uses the term relational paradigm (RP) (Wilson and Moller, 1992; Ambler, 1994) to examine inter-province business in China. In doing so the export performance framework proposed by Styles and Ambler (1994), which incorporates relational concepts, is used. This is deemed appropriate bearing in mind that China is geographically the size of Europe, has four times the population, and more than one oral language is spoken. Thus, “exporting” into other provinces has similar characteristics to exporting from the UK to other countries in Europe. In essence, therefore, we test an adaption of the UK exports model to the Chinese inter-
province context.

The next two sections cover the adoption of marketing, since 1978, in PRC, and the development of the RP in the West. We then develop a conceptual framework and a model of factors which influence cross-border business performance: environmental, firm and the channel relationship between “exporter” and “importer”. After presenting the methodology, we report and discuss our findings. With data only from 102 cross-border ventures, this paper may be considered exploratory. However, the difficulty of gathering high quality data in China should not be underestimated. It requires its own guanxiwang as the quality of information collected by strangers can be suspect.

With these limitations in mind, we tentatively conclude that the RP is a truly cross-cultural perspective of the marketplace. It applies in China, where its usage dates back to Confucius, as well as in the West where its formal provenance is more recent. Business performance justifies the deliberate building of channel relationships rather than a purely transactional, short-term optimisation of the marketing mix. In particular we found that the performance of these ventures was affected by the nature of the channel relationships and by guanxi especially.
2. The development of marketing in the PRC

During the years marketing that it was becoming a key business discipline in the West, marketing was proscribed in China. In a shortage economy, consumers needed both money and coupons to buy even food and clothing. Factories produced according to centrally co-ordinated plans. It was the task of commercial enterprises to serve or support production by purchasing and selling the output whether the market needed it or not. Reforms have paved the way for marketing to become as important in China as anywhere else, but as always, China will develop marketing in a Chinese way.

The Chinese economy now, in theory, produces goods according to market demand, but the 15 year transition from central planning is far from complete. Under the old system, an organisation would maintain a large buying department whose members were sent all over the country to plead for supply; sales people were unnecessary. Today, many, though not all, adopt the calling practices of the West. They seek new relationships with distributors and make their brands known to consumers. Marketing departments are now mainstream functions in enterprises, marketing courses are given in universities, and more than 200 marketing books published, with millions of individual copies.

Although marketing theory and practice has been learned from the West, transition in such a large country is bound to be slow. There are now 26 MBA schools in the State system (Mockler, Dologite and Chao, 1995) whose marketing curriculum and
textbooks are based closely on US models. In 1994, the vast majority of prices were market determined (Ma, 1994) with government deciding only 5% of retail (consumer) and 15% of trade/production prices. A survey among 1,690 firms by State statistics bureau (Ma and Sun, 1995) showed that 94.7% of enterprises now decide and implement their own marketing strategy.

Similarities between marketing in China and the West include:

• Branding is very effective in China (The Economist, 1996).

• Western market orientations (consumer, immediate customer, competitor) exist in China likewise. There as here, the relative importance of each orientation varies by firm and sector.

• Virtually all the usual marketing services and agencies are available. There are over 10,000 registered advertising agency businesses (Overseas Trade Services, 1993).

• The Four Ps (McCar�y, 1964) approach is widely understood and practised.

• The size of the population and territory, terrain and the consequential infrastructure difficulties have encouraged separate development of China’s many markets. Thus China can be compared with Europe as a whole but not a single country within Europe.
Differences include:

- Per capita discretionary income is low on average but skewed both between rich and poor and between rural and urban. Urban average 260% of rural incomes (Ma, 1994).

- Commercial law has a brief history, few professionals and little enforcement. The protection of intellectual property rights, such as trade marks and brand equity, is particularly difficult.

- Connected with that is the difficulty in selling services relative to goods. Some western firms recourse to attaching the services to some physical goods, which may be unnecessary but are perceived to justify a decent price.

- Similarly, retailing is under-developed, though some marketers would regard the absence of retail chains (and therefore private label) as an advantage.

- The value system and, as part of that, the guanxiwang (network of relationships).

A popular China business introductory book (de Keijzer 1992) underlines the importance of guanxi and the complexity of the concept. One cannot just tap into a network and turn it on. It carries expectations that, sometime, favours will be returned but it is not a bank account where the net favour indebtedness can be measured.
Guanxi cannot be bought and it “means never having to say ‘Sorry’” (p219). The whole system, guanxiwang, can be seen as a complex web of obligations. This positive sense is clearly distinguished from the negative, corruption or “going through the back door” which originally signified a family or friendly, even family, relationship as distinct from the formal callers.

Although the word is relatively new, the concepts are rooted in Confucianism (King, 1991). Man only exists in a social context and guanxi can be understood as the threads that bind the individuals within that context. Thus man is essentially relational. The strength and thickness of the threads will represent the closeness and traffic carrying capacity of the relationships. The invisible threads connect only the visible people. Those outside the network are barely seen as existing at all. “In other words, self-individuation is possible only through a process of engagement with others within the context of one’s social roles and relationships.....the self is always a relational self, a relational being...” (Tao, 1996, p16).

Tseng, Kwan and Cheung (1995) position guanxi as one of the key problems and practices in China’s distribution maze. Yang (1994) traces the influence of guanxi through all forms of social and commercial life in China. In 1982, an application to visit an ordinary local light industry factory making electric fans, took three months and 12 sets of guanxi relationships to resolve. The theme has been developed by Davies (1995), Davies, Leung, Luk and Wong (1995), Ambler (1995), and Wu (1995).
Even buying a train ticket required *guanxi*.

Given that way of thinking, it is inevitable that marketing in China, however much influenced by Western theory and practice, stresses the relational perspective.

3. Relationship marketing in the West

3.1 Overview

The RP developed from diverse disciplines such as economics (Coase, 1937; Williamson, 1988) and social psychology (Thibaut and Kelly, 1957; Caldwell, 1976), as well as different geographical regions, such as Scandinavia (Gronroos, 1990; Gummesson, 1987, 1993; Hakansson 1982) the USA (Berry, 1983; Thorelli, 1964, 1986) and Australia (Ballantyne, 1994). The Fall 1983 special edition of the Journal of Marketing was given over to new marketing theory as alternatives to the traditional, dubbed “neo-classical”, perspective (Arndt, 1983). These strands were brought together as “relationship marketing” (Gronroos, 1990; Christopher, Payne and Ballantyne, 1991; Parvatiyar and Sheth, 1994) and the “Relational Paradigm” (Wilson and Moller, 1992; Ambler, 1994). Distribution channels research has provided much of the relationship marketing literature (Anderson and Narus, 1991). The special issue of the Journal of the Academy of Marketing Science (Fall 1995) contains a collection papers reflecting current thinking in the area.
The RP literature proposes that long term relationships reduce risk as well as transaction costs and are thus beneficial for both parties in a dyad. It is generally both cheaper and easier to retain an existing customer, through good relationship marketing, than obtain a new one (Berry, 1983). The relational importance of trust and commitment have been further reinforced by Moorman et al. (1993), Morgan and Hunt (1994) and Ganesan (1994).

Some of the main constructs in the relational paradigm can be seen from Wilson and Moller (1991) who compared seven studies (their table 5.1, p104):
Frequency of Construct

<table>
<thead>
<tr>
<th>Construct</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>5</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>4</td>
</tr>
<tr>
<td>Transaction specific or irretrievable investment</td>
<td>4</td>
</tr>
<tr>
<td>Power of buyer &amp; seller</td>
<td>3 each</td>
</tr>
<tr>
<td>Dependence on buyer/seller</td>
<td>3 each</td>
</tr>
<tr>
<td>Communication</td>
<td>3</td>
</tr>
<tr>
<td>Outcome of value performance</td>
<td>3</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>3</td>
</tr>
<tr>
<td>Age of relationship</td>
<td>3</td>
</tr>
<tr>
<td>Expectations</td>
<td>3</td>
</tr>
<tr>
<td>12 others</td>
<td>2 each</td>
</tr>
<tr>
<td>10 others</td>
<td>1 each</td>
</tr>
</tbody>
</table>

3.2 Relational approaches to Exporting

A firm’s international evolution consists of identifiable stages: pre-engagement, initial and advanced levels of internationalisation (Johanson and Vahlne, 1977; Cavusgil, 1982). Exporting is the most frequent mode of first engagement in international business (Leonidou and Katsikeas, 1995). In Johanson and Vahlne’s (1977) theory of internationalisation, developed inductively by observing the behaviour of Swedish firms, the exporter begins by forming relationships that will deliver “experiential
knowledge” about a market (i.e. knowledge gained through personal interactions in the local market), and then commits resources in accordance with the degree of experiential knowledge it progressively gains through these relationships. This is akin to the distinction between “tacit” and “explicit” knowledge (Polanyi, 1966; Nonaka and Takeuchi, 1995) in that business success is ascribed to acquiring tacit or experiential knowledge and then converting it into explicit knowledge in ways that provide competitive advantage.

Madsen (1989) concluded that "...good personal contact and joint decision-making with the channel members have a positive bearing on performance. The rationale must be sought in the fact that increasing personal contact will lead the firm to better understanding of customer and channel member needs and behaviour." (p.50) Other studies have also found a positive relationship between the number of visits to a foreign market and export performance (Cunningham and Spigel, 1971; Kirpalani and MacIntosh, 1980; Amine and Cavusgil, 1986). Similarly, Rosson and Ford (1982) found that contact and resource intensity with distributor had a positive and significant association with export performance. These findings differs from the traditional view of exporting (e.g. Root, 1987; Kotler, 1994) in which large amounts of objective data should be gathered by the firm and rationally analysed to calculate the optimal payback.
4. Conceptual framework and hypotheses

4.1 Overview

Trade between provinces within China can be considered in the same way we view exporting between countries. Some provinces are separated by large physical distances (e.g. Beijing is approximately 2,300 km from Guangzhou) as well as by substantial psychic distance (e.g. different oral languages and cultural history). We therefore adapt Root’s (1982) definition of inter-country exporting to fit the inter-province case:

*Inter-province exporting is where a final or intermediary product is manufactured outside the target province and subsequently transferred to it.*

Given this definition, and the importance of relationships and *guanxi* in China, the conceptual framework used in this study is the hybrid model of export performance developed by Styles and Ambler (1994) - see Figure 1. This model expanded previous export performance models (e.g. Aaby and Slater, 1989) by including variables relating to local market relationships. These were added to traditional variables relating to the firm, marketing strategy and the local market environment. The hybrid model was described as a combination of two contrasting paradigms in marketing, the traditional neo-classical (Arndt, 1983), or marketing mix (Turnbull, 1987; Gronroos, 1994) paradigm, and the RP.
4.2 Hybrid model of export performance

The dynamics of the hybrid model are as follows (see Figure 1 adapted from Styles and Ambler, 1994):

**Figure 1: Hybrid model of export performance**

- **Firm:**
  - management
  - competencies

- **Strategy:**
  - marketing mix

- **Export performance:**
  - sales
  - share
  - profitability

- **Relationships:**
  - intensity
  - reciprocity
  - commitment

- **Environment:**
  - market attractiveness

Internal influences

External influences
**Firm:** The key firm variables concern management, such as commitment to the venture and the market, and competencies, such as product quality. These elements determine a firm’s ability to acquire and use information and other resources.

**Relationships:** The firm’s relationship with the key local partner, e.g. the distributor, provides information to the firm and facilitates better decision-making. Key variables are the intensity of the relationship (trust, reciprocity, communication, co-operation) and long-term commitment.

**Strategy:** Elements of marketing strategy, such as the marketing mix, are consequences of the firm factors and its local market relationship. Thus, strategy development is seen as an interactive channel process, between the distributor (buyer) and the exporter (seller), within the overall context of the environment.

**Environment:** The firm, its local market relationships and marketing strategy all operate within a specific market environment. Key variables include the attractiveness of the local industry in terms of competitive intensity.

**Performance:** The outcome, or dependent variable, of the model is export performance. This can be conceptualised and measured in a variety of ways, including sales growth, profitability and market share.
Applying this framework to inter-province trade in China, we now develop a set of hypotheses.

4.3 Hypotheses development

4.3.1 Firm variables

Management commitment: Management commitment to exporting and an export market has consistently been found to be positively related to export performance, though there are differences in the way commitment has been operationalised:

- having a separate export organisation (Tookey, 1964);
- top management effort devoted to exporting (Kirpalani and MacIntosh, 1980);
- top management support/priority (Madsen, 1989; Koh, 1991; Naidu and Prasad, 1994);
- number of managers involved (Amine and Cavusgil, 1986);
- commitment to a specific venture (Cavusgil and Zou, 1994); and
- the amount of resources committed to an export venture and the degree of commitment by the firm to the export market (Johanson and Vahlne, 1977).

Size: Some studies have found that larger firms, because of greater resources, are more likely to export (e.g. Cavusgil and Nevin, 1981; Christensen et al., 1987). Others
(e.g. Bilkey and Tesar, 1978) found size not to be an important determinant of export
behaviour. Amongst exporters, Cooper and Kleinschmidt (1985) found a significant,
negative association between firm size (number of employees and annual turnover) and
export performance (export intensity and export growth), while Madsen (1989),
McGuinness and Little (1981) and Naidu and Prasad (1994) found no such link.

On balance, we hypothesise that the scale of China translates to firm size (number of
employees) being an important success factor.

**Quality:** Product quality is strongly related to export success (Madsen, 1989; Styles
and Ambler, 1994). Burton and Schlegelmilch (1987), in their study of 310 UK and
West German mechanical engineering and food processing firms, found that compared
with non-exporters, “(e)xporters are more committed to the development of new
products, and in consequence allocate more resources to R&D and pay closer attention
to customers’ preferences and product quality.” (p.47) Similar considerations applied
in a study of 152 Brazilian firms (Christensen et al. 1987).

We conclude that the business performance of an inter-province export venture is
positively associated with:

H1: Commitment to the provincial export market

H2: Firm size
4.3.2 Relationship variables


In terms of empirical work, Anderson and Narus (1984) used social exchange theory (Thibaut and Kelley, 1959) to develop a model of distributor/manufacturer working relationships, with constructs such as satisfaction, co-operation, conflict, communication and comparison levels (of alternative/similar relationships). Anderson and Weitz (1989) examined the continuity of channel relationships, including trust, communication, and power. They found that stable channel relationships are characterised by cordial interpersonal relationships and trust, which is in turn strongly influenced by the level of communication within the dyad.

The construct of commitment (to a channel relationship) was tested empirically by Anderson and Weitz (1992) and found to be important to business performance, particularly for the manufacturer. Morgan and Hunt (1994) developed and tested a commitment-trust theory of relationship marketing in the context of distributor/supplier relationships. Commitment was defined as: “an exchange partner
believing that an on-going relationship with another is so important as to warrant maximum efforts at maintaining it: that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely” (p.23). Trust was defined as: “existing where one party has confidence in an exchange partner’s reliability and integrity” (p.23). Significant associations were found between communication, co-operation, commitment and trust, and these, in turn, with performance (p.34).

We conclude that the business performance of an inter-province export venture is positively associated with:

H4: Co-operation between the exporter and distributor.

H5: Trust between the exporter and distributor.

H6: The exporter’s satisfaction with the performance of the distributor.

H7: The exporter’s long-term commitment to the relationship with its distributor.

Matthyssens and Faes (1985) identified previous business relationships as advantageous and Dwyer et al. (1987) saw buyer-seller relationships as building incrementally with success. The RP in its general emphasis on continuing shared experience, as distinct from separate transactions rests on the assumption that prior mutual experience should be beneficial.
Guanxi is holistically person to person and does not separate the business from the personal contexts (Yang, 1994). It is commonly said in China that one should develop personal friendship first and then business may develop from it. If it does not, at least one has the friendship. The West, conversely, might regard that as “insider trading”: business should be arm’s length. Any business contacts which develop into personal friendships should be treated with care.

Asian business people see personal relationships, i.e. bonding, as essential first steps to business (Dyer and Ouchi, 1993) but this can be the source of misunderstandings with Westerners in a hurry to do business (Pye, 1992). We therefore expect to see personal friendships developing as an integral part of business success.

We conclude that the business performance of an inter-province export venture is positively associated with:

H8: Prior relationships with distributors (prior guanxi).

H9: Personal friendships with distributors.

4.3.3 Marketing strategy

Clearly firm and relationship factors are mediated by marketing strategy, planning and implementation, whether explicit or tacit, before they are translated into business performance. Under the RP, strategy is product/market specific and an outcome of
firm and distributor interaction (Styles and Ambler, 1994; Turnbull, 1987).

For the purposes of this paper, we have adopted a “black box” approach under which we consider the antecedents and consequences, without seeking to analyse the processes through which these firm and relationship factors integrate to become marketing actions.

4.3.4 Environment

The model being developed is concerned with the short-term, defined as the first five years of an export venture. Within this time frame, the local environment is assumed to be fixed. That is, the exporting firm has limited control over environmental conditions. Nonetheless, the effect of these environmental conditions on business performance should be considered (Aaby and Slater, 1989; Styles and Ambler, 1994).

The literature in industrial economics has provided many explanations of unequal rates of return that are linked to industry conditions. The classical view (Bain, 1951; Scherer, 1980) suggests that the main drivers of a firm’s profitability are industry characteristics, such as market concentration and entry barriers. Differences among firms are considered transitory and unimportant. Empirical support for this view was provided by Schmalensee (1985), although this was later challenged by Rumelt (1991). Others (Demsetz, 1973; Rumelt, 1982) believe that differences between firms do persist which lead to varying levels of growth within an industry. Despite these
theoretical differences, competitive intensity is likely to have an adverse effect on a venture’s business performance (Madsen, 1989). Thus:

H10: Competitive intensity in the export province is negatively associated with performance in a provincial export market.

These hypotheses are brought together in Figure 2.
Figure 2: Model of inter-province export performance

Firm factors:
H1: Market commitment
H2: Firm size
H3: Product quality

Relationship factors:
H4: Co-operation
H5: Satisfaction
H6: Trust
H7: Relationship commitment
H8: Prior guanxi
H9: Personal friendships

Environmental factors:
H10: Competitive intensity

Marketing strategy

Business performance
5. Methodology

5.1 Sample

The sample comprised 102 Chinese SMEs (small and medium sized enterprises) which had either recently begun trading with a new distributor either because they had entered a new province or because they had recently started business. Note that in China “small” and “medium” sized businesses are defined differently from the West. They have up to 450 and 3,000 employees respectively whereas in the West the upper limits would be 99 and 499 (OECD, 1994). The respondent in each case was the proprietor or a senior manager. Products ranged widely from basic commodities to shoes, hats and fur products, household electrical appliances and industrial production equipment.

Table 1 sets out the firm sizes by number of employees, and home and “export” provinces.
**Table 1: Sample profile**

<table>
<thead>
<tr>
<th>Size (no. employees)</th>
<th>Consumer goods</th>
<th>Industrial goods</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 450</td>
<td>28</td>
<td>15</td>
<td>7</td>
<td>50</td>
</tr>
<tr>
<td>450 - 900</td>
<td>12</td>
<td>6</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>900 - 3000</td>
<td>14</td>
<td>13</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
<td>34</td>
<td>14</td>
<td>102</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Home province</th>
<th>&quot;Export&quot; province</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heibe</td>
<td>The north</td>
</tr>
<tr>
<td>The north</td>
<td>Beijing</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>The south</td>
</tr>
<tr>
<td>The north</td>
<td>Huabei</td>
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</tbody>
</table>

**5.2 Procedure**

An English language questionnaire was developed for the survey based on the revised model and translated, after checking for cultural/language sensitivities, into Chinese in July 1995. Independent back translation into English revealed only one misunderstanding. The corrected Chinese language version was piloted in Beijing. Only minor adjustments were needed. Most of the questions required answers on 7 point Likert scales.
Anecdotal experience as well as theory (King, 1991) indicated the unreliability of surveys based on questioning strangers. Chinese managers put a high value on information and on their own time. Notwithstanding the implicit lack of randomness, we determined that one of the author’s own guanxiwang would provide a more reliable set of respondents. This procedure brings some lack of randomness and possible bias, but research in China, and, to a lesser extent East Asia as a whole, presents a choice of difficulties. By administering the survey in two waves using separate guanxiwang, albeit both connected with one of the authors, we sought to identify any such bias. None was apparent. Note Jao’s use of connections in collecting business alliances data in Taiwan (1996, p113).

Anecdotal experience also indicated that the survey instrument should be completed on the basis of face to face interviews with trained interviewers. Response rates to mail questionnaires are poor and face to face interviews ensure that the questions are fully understood. We have to remember that surveys and marketing are not as widely understood in China as they are in the West. In this procedure the response rate was 100%. A 50 Yuan (US $6) gift was provided to the respondent where appropriate. The data was collected in two waves of 52 in September 1995 and 50 in February 1996. There were no significant differences between the two waves.

5.3 Measurement

Performance: The performance of an inter-province export venture is measured in
terms of the sales growth in each year over the first five years of the venture’s operation (Cavusgil and Zou, 1994). In past export performance studies, authors have used a variety of performance measures, including export sales relative to domestic sales (Madsen, 1989), sales growth (Cavusgil and Zou, 1994), and profitability (Bilkey, 1982). Sales growth was chosen for two main reasons. First, it is relatively straightforward for respondents to give answers about (e.g. it does not require comparisons to be made with domestic province sales or any other benchmark). Second, it avoids problems associated with accounting profit, which is a relatively new concept in China and therefore its use and interpretation varies considerably across firms. Sales growth, to some extent, also encapsulates cash flow and market share.

**Firm commitment to the export province**: Four indicators from Cavusgil and Zou (1994) were brought together as a reflective scale of the firm’s commitment to the export province. These cover both the amount of resources committed to the export market and the degree of that commitment (Johanson and Vahlne, 1977). Specifically: i) the extent of formal planning for the venture; ii) the extent of management commitment to the venture; iii) the extent of resource allocation to the venture; and iv) the extent of resource allocation to exporting in general. All indicators were measured on a 7-point scale anchored by ‘little’ and ‘considerable’.

**Size**: Firm size was measured in terms of the number of employees (Cooper and
Kleinschmidt, 1985; Cavusgil and Zou, 1994).

**Quality:** Three reflective measures of product quality were used: i) quality of product design; ii) manufacturing quality; and iii) perception of overall quality. All measures took the form of 7-point scales anchored by *much better* (than competition) and *much worse*, with *about the same* as the mid-point. These measures are based on Madsen’s (1989) single measure of quality broken down into three separate indicators.

**Co-operation:** Based on the measures used by Morgan and Hunt (1994) and Rosson and Ford (1982), respondents were asked to indicate the extent to which their firm and the distributor co-operate in eight specific areas e.g. product strategy, sales promotions on a 7-point scale anchored by ‘little co-operation’ and ‘substantial co-operation’. An index of co-operation was created by summing these ratings and taking the mean.

**Satisfaction:** Three reflective measures of satisfaction from Anderson and Narus (1984) were used: a) if the relationship has been a happy one; b) whether the firm would choose the same distributor if it could do it over again (both on a seven point agree/disagree scale); and c) an overall satisfaction rating (7-point scale anchored by ‘very satisfied’ and ‘very dissatisfied’).

**Trust:** A set of four reflective measures are used, three from Morgan and Hunt (1994) and one item from Anderson and Narus (1990). For the first three items,
respondents were asked to assess on a 7-point agree/disagree scale whether the distributor: a) can be trusted at times; b) can be counted on to do what is right; and c) has high integrity. For the final item, respondents were asked, based on their past and present experience, how they would characterise the level of trust their firm has in its working relationship with the distributor (7-point scale anchored by ‘don’t trust the distributor’ and ‘trust the distributor completely’).

**Long term commitment to the distributor relationship:** Three reflective items were taken from Morgan and Hunt (1994). Respondents were asked to assess on a 7-point agree/disagree scale whether the relationship with their distributor: a) is something they are very committed to; b) is something their firm intends to maintain indefinitely; and c) deserves their firm’s maximum attention.

**Prior guanxi:** Three reflective indicators of the level of guanxi that existed between the exporter and the distributor prior to the beginning of venture were used: I) extent to which the firm had a good relationship with the distributor; ii) extent to which company had worked with the distributor; and iii) extent to which a key person in the exporting firm had good connections with a key person in the distributor firm. Ratings were given on a 7-point agree/disagree scale.

**Personal friendships:** Respondents were asked to rate six aspects of their relationship with the distributor: I) families know each other, ii) exchange of gifts; iii)
do personal favours for each other; iv) spend social time together; v) key managers banquet together; and vi) overall personal friendships. Ratings were on a 7-point scale.

**Competitive intensity:** The reflective measures of competitive intensity were used based on Madsen (1989) and Cavusgil and Zou (1994). Specifically, respondents were asked to rate the following vs. the domestic market: i) number of competitors in their product category; ii) extent of price competition; iii) and intensity of rivalry between competitors, all on a 7-point scale anchored by ‘low’ and ‘high’. Ratings refer to the venture market relative to the domestic market.

Factor analysis and Cronbach alpha were used to test the internal consistency and reliability of the measures. The results are displayed in Table 2. Note that the trust and satisfaction measures loaded onto a single factor. Thus, a combined construct, labelled “relationship valence” (Iacobucci and Ostrom, 1996), was formed with the trust and satisfaction indicators. This is considered a broader measure of overall value of the distributor relationship to the exporter (Styles and Ambler, 1996).

### 5.4 Model estimation

The measure of performance was regressed on the variables hypothesised to influence it:

\[
Perf_i = \beta_0 + \beta_1 \text{Commit}_i + \beta_2 \text{Size}_i + \beta_3 \text{Qual}_i + \beta_4 \text{Valence}_i + \beta_5 \text{Coop}_i + \beta_6 \text{Long}_i
\]  

(1)
\[ + \beta_2 \text{Prior}_i + \beta_3 \text{Friend}_i + \beta_9 \text{Comp}_i + u_i \]

where, for venture \(i\):

- **Perf** = Business performance
- **Commit** = Market commitment
- **Size** = Firm size
- **Qual** = Product quality
- **Valence** = Relationship valence
- **Coop** = Cooperation with distributor
- **Long** = Long term commitment to the distributor relationship
- **Prior** = Prior guanxi
- **Friend** = Personal friendships
- **Comp** = Competitive intensity

The model was estimated using Ordinary Least Squares.
<table>
<thead>
<tr>
<th>Construct</th>
<th>Indicators</th>
<th>Factor score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Market commitment</td>
<td>Management commitment to venture</td>
<td>0.82</td>
</tr>
<tr>
<td>- alpha = 0.79</td>
<td>Extent of formal planning</td>
<td>0.85</td>
</tr>
<tr>
<td>- eigen value = 1.41</td>
<td>Resource allocation to venture</td>
<td>0.70</td>
</tr>
<tr>
<td>- Resource allocation to exporting</td>
<td></td>
<td>0.52</td>
</tr>
<tr>
<td>2. Firm size</td>
<td>Number of employees</td>
<td>na</td>
</tr>
<tr>
<td>3. Product quality</td>
<td>Product design</td>
<td>0.71</td>
</tr>
<tr>
<td>- alpha = 0.84</td>
<td>Manufacturing quality</td>
<td>0.84</td>
</tr>
<tr>
<td>- eigen value = 4.01</td>
<td>Overall quality</td>
<td>0.85</td>
</tr>
<tr>
<td>4. Relationship valence</td>
<td>Distributor can be trusted</td>
<td>0.79</td>
</tr>
<tr>
<td>- alpha = 0.86</td>
<td>Distributor can be counted on to do what is right</td>
<td>0.76</td>
</tr>
<tr>
<td>- eigen value = 3.68</td>
<td>The distributor has high integrity</td>
<td>0.75</td>
</tr>
<tr>
<td>- Firm would choose same distributor</td>
<td></td>
<td>0.81</td>
</tr>
<tr>
<td>- Very satisfied with distributor</td>
<td></td>
<td>0.80</td>
</tr>
<tr>
<td>5. Co-operation (formative)</td>
<td>Sum of 8 areas of co-operation</td>
<td>na</td>
</tr>
<tr>
<td>6. Relationship commitment</td>
<td>Committed to relationship</td>
<td>0.80</td>
</tr>
<tr>
<td>- alpha = 0.76</td>
<td>Mill maintain indefinitely</td>
<td>0.89</td>
</tr>
<tr>
<td>- eigen value = 1.74</td>
<td>Relationships deserves maximum effort</td>
<td>0.69</td>
</tr>
<tr>
<td>7. Prior guanxi</td>
<td>Firm had good prior relationship with distributor</td>
<td>0.80</td>
</tr>
<tr>
<td>- alpha = 0.80</td>
<td>Firm had worked with distributor</td>
<td>0.88</td>
</tr>
<tr>
<td>- eigen value = 2.29</td>
<td>Key person in firm had good connections with key person in distributor firm</td>
<td>0.83</td>
</tr>
<tr>
<td>7. Personal friendships</td>
<td>Importance of friendships overall</td>
<td>0.72</td>
</tr>
<tr>
<td>- alpha = 0.87</td>
<td>Families know each other</td>
<td>0.69</td>
</tr>
<tr>
<td>- eigen value = 4.05</td>
<td>Exchange of gifts</td>
<td>0.79</td>
</tr>
<tr>
<td>- Do personal favours for each other</td>
<td></td>
<td>0.83</td>
</tr>
<tr>
<td>- Spend social time together</td>
<td></td>
<td>0.78</td>
</tr>
<tr>
<td>- Key managers banquet together</td>
<td></td>
<td>0.81</td>
</tr>
<tr>
<td>8. Competitive intensity</td>
<td>Number of competitors</td>
<td>0.80</td>
</tr>
<tr>
<td>- alpha = 0.77</td>
<td>Extent of price competition</td>
<td>0.87</td>
</tr>
<tr>
<td>- eigen value = 2.06</td>
<td>Intensity of rivalry</td>
<td>0.81</td>
</tr>
<tr>
<td>9. Sales growth (formative)</td>
<td>First five years sales growth</td>
<td>na</td>
</tr>
</tbody>
</table>
### Table 3: Parameter estimates

<table>
<thead>
<tr>
<th>Variable</th>
<th>Co-efficient</th>
<th>T-statistic</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-3.48</td>
<td>-3.53</td>
<td>0.001</td>
</tr>
<tr>
<td><strong>Firm</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market commitment</td>
<td>0.27</td>
<td>2.93</td>
<td>0.004</td>
</tr>
<tr>
<td>Product quality</td>
<td>0.15</td>
<td>1.56</td>
<td>0.123</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.13</td>
<td>1.52</td>
<td>0.133</td>
</tr>
<tr>
<td><strong>Relationships</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship valence</td>
<td>0.10</td>
<td>1.03</td>
<td>0.306</td>
</tr>
<tr>
<td>Co-operation</td>
<td>0.13</td>
<td>1.41</td>
<td>0.163</td>
</tr>
<tr>
<td>Long-term commitment</td>
<td>0.35</td>
<td>3.89</td>
<td>0.000</td>
</tr>
<tr>
<td>Prior guanxi</td>
<td>0.38</td>
<td>4.25</td>
<td>0.000</td>
</tr>
<tr>
<td>Personal friendships</td>
<td>0.29</td>
<td>3.23</td>
<td>0.002</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>0.05</td>
<td>0.60</td>
<td>0.55</td>
</tr>
</tbody>
</table>

Adjusted R-square = 0.44; F-statistic = 9.42 (P<0.001)
6. Results and discussion

The parameter estimates of equation (1) are provided in Table 3. The F-test shows a significant equation (p<0.001) and an adjusted R-square of 0.44.

6.1 Firm variable

As hypothesised, commitment to a provincial market is a strong predictor of business performance ($\beta = 0.27$, $t = 2.93$). Thus, as in the West, firms that commit considerable time and resources to export ventures, and have management that are positively disposed to exporting, will tend to be more successful than those with less commitment. However, contrary to our expectations, neither firm size ($\beta = 0.15$, $t = 1.56$) nor product quality ($\beta = 0.13$, $t = 1.52$) were significantly associated with performance. The result with respect to firm size supports Madsen (1989), McGuinness and Little (1981) and Naidu and Prasad (1994) in the West.

We do not believe that product quality has no effect on performance in China. An examination of the descriptive statistics reveals that 95% of respondents rated the quality of their product to be as good as or better than competition i.e. had a composite score of 3.5 or above in the 7-point scale. Further, 50 had scores between the narrow range of 4.75 and 6.00. Thus, too little variation in these measures may explain the null result. Further research is needed to investigate this issue.
6.2 Relationship variables

Table 3 indicates that firms committed to their distributors operated more successful ventures. (β = 0.35, t = 3.89). However, the data did not support an association between performance and co-operation (β = 0.13, t = 1.41) and performance and valence (β = 0.10, t = 1.03). Both prior guanxi (having a relationship with the distributor before the venture) and current friendships are positively associated with performance (β = 0.38, t = 4.25; β = 0.29, t = 3.23).

These results suggest that manufacturer relationships are indeed important to business performance. However, it seems that continuity in relationships and the personal aspects of the relationship (connections and friendships) have a greater impact on performance than venture oriented interaction (co-operation on running the business) and assessment (satisfaction with performance). This gives strong support for commentaries on Asian business that emphasise personal relationships, which include periods of bonding, as a critical preconditions for effective business (Dyer and Ouchi, 1993). This reflects a key difference to Western approaches where task orientation and speed are seen as important (Pye, 1992).

6.3 Environmental variables

The final hypothesis predicted a negative association between competitive intensity and venture performance. Table 3 shows that the data did not support this relationship (β
= 0.05, t = 0.60). This would seem to be contrary to economic theory. However, an examination of descriptive data again reveals a possible explanation. Specifically, 75% of respondents had a composite intensity score (reversed) of just over the mid-point of the 7-point scale (3.67), indicating little competition in “export” markets. The highest score was 5.33. This may be explained by the recency of commercial competition in China. Thus, like quality, the limited variation in the competitive intensity measures makes it difficult to interpret the non-significant result. Future research could focus on specific industries where there are a number of competitors in operation.

7. Conclusions

Conducting research in China is difficult and we were faced with a number of challenges and unknowns. We were mindful of the King-Hall (1924) dictum: “there are few remarks concerning China of which the exact opposite cannot be said with equal truth.......China, like statistics, can be made to supply apparent truth for any preconceived notion.” Specific limitations of this study included the following:

- **Sample size:** About 100 respondents is a small base and may explain the non-significant results for some variables (e.g. quality). The relatively small, networked sample also limits the generalisability of the results. Thus, this research should be viewed as exploratory.

- **Response bias:** Gathering data through a network of personal contacts, albeit two
independent sets, introduces the possibility of bias, though comparison between the
two groups showed no apparent distortion.

- **Cross-sectional versus longitudinal design:** The non-transactional nature of RM
  implies the need for longitudinal research. However objectively respondents may
  look back, some rationalisation is possible.

- **Association versus causation:** This is a problem with any cross-sectional study.
  However, some conditions (firm factors, prior guanxi) are clearly antecedents to
  performance.

Despite the above limitations, this study does provide comparison and contrast to
Western research and literature. For example, business performance has long been
considered a question of economics in the West until the emergence of relational
thinking has brought attention to inter-personal issues. China, on the other hand, has
never distinguished business from personal contacts. Indeed, they have seen personal
contacts as stepping stones to business.

This research examined inter-province trade in China to determine whether prior
relationships and personal friendships play a significant role in performance outcomes.
It seems that they do. They may well play a similar role for exports in the West but
this has not been researched.
Findings pertaining to other hypotheses are similar to Western findings: commitment to both venture/market and the relationship with the local distributor is important to venture success. The non-significant result for the effect of firm size was also similar to findings from Western data. Conclusions concerning quality and competitive intensity are difficult to make given the restriction of range problems encountered in the data. It seems unlikely that competition in China is any less important but we cannot discount the possibility that a more focused development of personal relationships acts also to differentiate the offerings and create competitive barriers.

We conclude that the Chinese approach to marketing, at least so far as inter-province channels are concerned, bears comparison with relationship marketing in the West. Future RM research, we suggest, should consider both Western and Chinese contexts as we have much to learn from one another. Specifically, future research in China should consider:

- whether firm size, product quality and competition do in fact have more association with performance than we discovered;

- replication of Western relationship marketing research; and

- longitudinal work both to see how China is changing and to investigate causality.

Conversely, Western relationship marketing research, both for single market
distribution channels and exports, should consider previous and current personal relationships (guanxi) in explaining business success.

China today is a huge once-off experiment in marketing using both its own considerable history and learning from Western markets. This study has implications for managers in China and also in the West. We cannot be sure of the extent to which China and the West truly are different until we test both ways of thinking about marketing in both situations. Until we have that full understanding, it would be unwise to assume that any aspects in China and the West are either different or the same. All that seems certain is that, as we learn from each other, they will converge and that those who learn faster will do better.
References


Kotler, Philip (1990), “From Transactions to Relationships to Networks”, *Address to the trustees of the Marketing Science Institute*, (November) reported in the MSI Review (Spring) 1991.


