



## Localization in China: How *guanxi* moderates Sino–US business relationships☆



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### ABSTRACT

Understanding and adapting to local cultures has long been considered as an important part of successful localization, yet extant literature has not discussed how the adoption of cultural-specific constructs as tools of localization facilitates successful b2b relationships with local counterparts. Whilst international companies are increasingly concerned with their business performance in China, this study believes b2b firms should engage the cultural-specific concept of *guanxi* (interpersonal ties) as a tool of localization when interacting with Chinese counterparts for better financial performance and long-term orientation. Using data collected from 299 Chinese buyers regarding their Sino–US business relationships, the results reveal that the relations between trust and financial performance and between uncertainty and long-term orientation are moderated by *guanxi*. The findings shed further light on localization literature with evidence highlighting the impact of *guanxi* in localizing b2b relationship activities in China.

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### 1. Introduction

Globalization has attracted considerable interest over the last couple of decades (Levitt, 1983; Ramarapu, Timmerman, & Ramarapu, 1999). However, existing studies tend to agree that standardization offers limited explanation for the behavior of international firms in different markets (e.g., Czinkota & Ronkainen, 1998; Humbert, 1993; Ritzer, 2004). The recognition of such limitation encourages scholars to consider localization as a necessity for international businesses to achieve the desired success in different markets (e.g., Prahalad & Doz, 1986; Samiee, Jeong, Pae, & Tai, 2003; Vrontis, 2003). Whilst previous studies identify situations and conditions in which international businesses can localize their business approaches and marketing mix for better success in various target markets (Calantone, Kim, Schmidt, & Cavusgil, 2006; Dow, 2006; Roth, 1995), most works find the understanding of local culture to be the key force that determines the success of localization (e.g., Czinkota & Ronkainen, 1998; Roth, 1995).

Over the past two decades, China as a market has received significant attention from both academics and practitioners alike for its sheer market size and economic growth. However, despite China's open-door policy, many international firms still struggle to succeed or sustain their business presence in the Chinese market due to their lack of awareness

or understanding of the specific cultural context (Buckley, Clegg, & Tan, 2006). Studies have discussed how international firms could better adapt and localize their business approaches and practices in China, adjusting to the Chinese culture in areas such as advertising (Cui & Yang, 2009; Tai & Pae, 2002), strategy (Fock & Woo, 1998), communication (Hung, 2004), services (Pheng, 1997), direct selling (Luk, Fullgrave, & Li, 1999), retailing (Yip, 1995), and b2b activities (Yan & Gray, 1996).

Nevertheless, despite extensive discussion on Chinese culture (e.g., Lovett, Simmons, & Kali, 1999; Luo, 1997) and how its cultural orientation differs from the West in different ways (Hofstede, 2001), most of the aforementioned studies have not considered utilizing the Chinese notion of *guanxi* as a tool in their discussion of localization in China. Given culture is the collective programming of the mind which distinguishes the people of one country from another (Hofstede, 2001), a close examination of such cultural-specific construct is imperative to assist international firms in localizing their business approaches and practices appropriate to the local cultural context. Acknowledging this gap when studying localization in China, this paper makes the first attempt to bring *guanxi* literature to further enhance localization in China by asking the question as to what extent the relations between relationship constructs and outcomes in international b2b relationships are contingent to Chinese buyers' evaluation of their US suppliers' adaptation to *guanxi*? In other words, what is the moderation effect, if any, of *guanxi* on relationship constructs and outcomes in Sino–US business relationships?

Embedded within the social network theory and regarded as the social capital in China (Zhou, Wu, & Luo, 2007), *guanxi* translates to 'relationships' and 'connections' in English (Luo, 1997; Seligman,

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1999). *Guanxi* refers to the dynamics in personalized networks of influence and emphasizes the possibility of using influence in personal relationships to secure a better position and/or to gain a competitive edge in a business transaction in the Chinese context (Bruun, 1993; Chen, 2001). Considering the importance of *guanxi* in China, this paper argues that international businesses need to engage the notion of *guanxi* as a tool of localization, when dealing with Chinese counterparts. International suppliers that are better at implementing *guanxi* will be considered more favorably by their respective Chinese buyers (Barnes, Yen, & Zhou, 2011), leading to business success via increased performance, buyer satisfaction and relationship longevity (Luo, Huang, & Wang, 2012; Yen & Barnes, 2011). The retail success of Samsung in China is a famous example. Samsung manages to provide good product access to Chinese consumers by collaborating with the top three mobile operators and establishing good *guanxi* with small local Chinese retailers.

To support this theoretical argument, this paper develops a *guanxi* framework that examines the moderating impact of *guanxi* on the relations from favorable relationship constructs (trust, commitment, cooperation, and communication), and unfavorable relationship constructs (emotional conflict, task conflict, opportunism and uncertainty) to financial performance and long-term orientation using survey data collected from 299 Chinese buyers regarding their business relationships with US suppliers. The findings contribute to existing understanding of localization by empirically proving the moderating effect of *guanxi* on financial performance and long-term orientation, confirming its significance as a localization tool for US firms venturing into the Chinese market.

This paper contributes to existing debates in two ways. Firstly, by discussing how cultural-specific notion such as *guanxi* should be considered as tool of localization in China, this paper makes the first attempt to bridge the stream of *guanxi* literature into the study of localization in China. Secondly, by empirically discussing how the sub-dimension of *guanxi*, especially *xinren* (personal trust) and *renqing* (reciprocal favor exchange) can affect financial performance and long-term orientation differently. This paper also sheds new insight to studies on *guanxi*.

## 2. Localization and Guanxi

Firms engaging in international business activities must take account of the specific cultural norms and values of each different market (Hofstede, 2001), as cultural differences directly impact behavioral management practices as well as communications between international counterparts (Buckley et al., 2006). Since the debate on whether to standardize or localize has largely agreed on the use of both strategies simultaneously (e.g., Samiee et al., 2003; Vrontis, 2003), international businesses are encouraged to look for ways that enhance their performance and competitiveness through effective localization (Czinkota & Ronkainen, 1998).

Some studies focus on the degree to which international firms localize their operation management (Ilari & La Grange, 1999; Zhang & Goffin, 2001), some look at the localization of marketing mix in different countries (Calantone et al., 2006; Magnusson, Westjohn, Semenov, Randrianasolo, & Zdravkovic, 2013; Shoham, 1996), whilst others investigate their foreign partners' strategic choices and relational competence, and their impact on localization (Kotabe & Zhao, 2002; Steenkamp & Geyskens, 2013). Hardesty (2008) and Nicholson, Gomez, and Gao (2011) are the only studies that discuss how localization influences firms' financial performance with empirical data. Hardesty (2008) finds that localization increases the cost of processing and distribution in retail. Nicholson et al. (2011) suggest that the cost of localization varies between different regions, hence impacting firms' financial performance, with consequences for their long-term competitiveness.

Although past research has examined and discussed the importance of localization from various aspects, few studies have investigated localization in b2b markets (e.g. Yan & Gray, 1996). Extant research on localization has not discussed how international businesses could achieve better performance through localizing their b2b interactions in the

foreign markets. Specifically, little research attention has explored how sellers' adaptation to local cultural norms can contribute to more fruitful b2b relationships with their respective local buyers. Such scant research attention on localization in relation to cross-border b2b relationships provides some support to the argument made by Coca-Stefaniak, Parker, & Rees (2010, p. 681) that "localization suffers from a rather limited body of knowledge."

Acknowledging that cultural differences lead to different business approaches and practices, this paper proposes to employ cultural-specific constructs as international firms' tools of localization and regards localization as the adaption of business approaches and practices appropriate to the local cultural context. Bridging the stream of *guanxi* literature to localization, it examines the impact of *guanxi* on the discussion of localization in China, arguing that an international business' relationship performance and longevity with Chinese counterparts are dependent on its adaption to the Chinese *guanxi* practices during their b2b interactions. Whilst generic frameworks and constructs derived from the Western developed countries often fail to explain human interactions across different cultural contexts (Lee & Dawes, 2005; Tsang, 1998; Yen, Barnes, & Wang, 2011), this paper reinforces the need for foreign firms to understand, adapt, and localize their relationship approach following the suggested *guanxi* practices when dealing with Chinese counterparts.

Originating from Confucius's principles of structures, *guanxi* has a prevalent impact on the Chinese way of being (Kipnis, 1997). Chinese businesspeople practice *guanxi* in their daily interactions with others for building, maintaining and enhancing their interpersonal as well as inter-organizational relationships with different counterparts at various levels (Styles & Ambler, 2003; Yen & Barnes, 2011). *Guanxi* consists of three sub-dimensions, namely *ganqing* (affection, emotional bonding), *renqing* (exchange of favor reciprocally) and *xinren* (interpersonal trust) (Kipnis, 1997; Yen et al., 2011). Unlike Western b2b relationships, the Chinese *guanxi* approach is established and nurtured at the individual level via increasing levels of *ganqing*, *renqing* and *xinren*, often between key relational personnel such as sales representatives and procurement buyers on behalf of the firms they represent. As a cultural-specific construct and practiced by all Chinese firms, *guanxi* helps businesses secure better positions and competitive advantage in China (Luo et al., 2012).

The practice of *guanxi* is often referred to as an art (Chen, 2001; Kipnis, 1997), which includes favor exchanging, gift giving, visiting, socializing, and wining, dining and karaoke singing with the aim of increasing the elements of *ganqing*, *renqing* and *xinren* with respective business partners. Nevertheless, corruption and bribery are not the best practices for banking favors or increasing reciprocity (Fan, 2002). Such under-table exchanges are often frowned upon and avoided (Dunfee & Warren, 2001; Su, Sirgy, & Littlefield, 2003). Ethical compromise is never encouraged as the appropriate *guanxi* building practice over the long-term. Through implementing the art of *guanxi*, foreign firms could modify their interactions with local Chinese counterparts and adapt to the Chinese way of developing as well as maintaining relationships.

Business management actions are embedded in societal, economic, cultural and institutional contexts, which influence relational norms (Cayla & Peñaloza, 2012; Muthusamy & White, 2005), hence Buckley et al. (2006, p. 276) suggest that international firms "should mount sustained efforts to build up *guanxi* to give them a competitive edge in their search for an insider position in the China business arena." This paper thus argues that the success of international b2b relationships with Chinese counterparts, shown by financial performance and long-term orientation (Chung, Yang, & Huang, 2015; Luo et al., 2012), is dependent upon their implementation of *guanxi*. By postulating a necessary moderation of *guanxi* from favorable and unfavorable relationship constructs to financial performance and long-term orientation, this framework suggests that foreign firms' business relationships with Chinese counterparts are contingent to their implementation of *guanxi*, as perceived by their respective Chinese buyers.

### 3. Conceptual development

Derived from b2b relationships and *guanxi* literature, this conceptual framework incorporates 11 relevant constructs to explore how *guanxi* moderates the relationships between favorable relationship quality constructs, unfavorable dark side variables, and relationship outcomes (see Fig. 1).

#### 3.1. Favorable relationship quality constructs

The conceptual framework includes four favorable relationship constructs, namely trust, commitment, communication, and cooperation for their significance in b2b relationships (Doney & Cannon, 1997; Morgan & Hunt, 1994; Naudé & Buttle, 2000). Although past studies share different views regarding the combination of the various variables that suggest relationship quality, existing literature generally agrees that trust, commitment, communication and cooperation together reflect the positive atmosphere between buyers and sellers during their b2b interactions (Naudé & Buttle, 2000; Woo & Ennew, 2004; Yen & Barnes, 2011).

Trust represents an expression of confidence (Garbarino & Johnson, 1999), willingness to rely on another party (Ganesan, 1994; Moorman & Miner, 1997), and belief that no exploitation of vulnerability will occur (Dwyer, Schurr, & Oh, 1987). Trust initiates parties' propensity to stay in the relationship, influences parties' long-term orientation (Ganesan, 1994), and contributes to cross-border partnership performance (Yen & Barnes, 2011). In Chinese culture, trust is a basic social and business norm, regarded as the foundation of successful business collaboration. Commitment refers to "an enduring desire to develop and maintain exchange relationships characterized by implicit and explicit pledges and sacrifices for the long-term benefit of all partners involved" (Rylander, Strutton, & Pelton, 1997, p. 60). Commitment is essential for international buyer–seller relationship performance (Skarmeas & Robson, 2008) and often indicates future intentions (Garbarino & Johnson, 1999).

Described as the adhesive in the relational tie between buyers and suppliers (Mohr & Nevin, 1990), communication is the exchange of information between buyer and seller (Cannon & Perreault, 1999). As a process, communication involves both buyer and seller sharing information in a timely manner through formal and informal avenues (Smith & Barclay, 1997). Past studies suggest that effective communication between channel members as well as buyers and suppliers can often contribute to relational outcomes such as satisfaction and sales

performance, as well as enhancing trust and commitment (Morgan & Hunt, 1994; Yen & Barnes, 2011), whilst frequent communication provides the opportunity for both parties to obtain greater familiarity and better understanding of their counterparts (Yen et al., 2007). Inter-firm cooperation is essential to the success of business relationships. In this proposed model, cooperation is "the joint striving towards individual and mutual goals" (Skinner, Gassenheimer, & Kelley, 1992, p. 177). Existing works suggest that cooperation between Taiwanese buyers and Anglo suppliers leads to higher financial performance and long-term orientation between the organizations (Barnes et al., 2011; Yen & Barnes, 2011).

#### 3.2. Unfavorable relationship constructs

Relationship quality can be seriously undermined by variables that, if not managed well, can cause stress to the buyer–seller relationship, leading to the termination of the relationship (Dwyer et al., 1987). Such negative relationship constructs are often referred to as the dark side of relationships (Fang, Chang, & Peng, 2011) and past studies often believe that such negative relationship constructs often reduce the quality of the interactions as well as the outcomes of business relationships (Fang et al., 2011). In the Chinese context, such destructive relational constructs are often negatively correlated with *guanxi* and business relationship performance (Yen & Barnes, 2011; Zhuang, Xi, & Tsang, 2010). In this conceptual framework, four specific negative relational constructs, specifically emotional conflict, task conflict, opportunism and uncertainty, have been identified for their detrimental effect on successful business collaborations (Fang et al., 2011; Rose, Shoham, Neill, & Ruvio, 2007).

Conflict is the disagreement between partners due to real or perceived differences (Dwyer et al., 1987), and may be more challenging to manage in international buyer–seller relationships compared to conflict within the domestic context (Skarmeas, 2006). A high degree of conflict can be destructive in b2b relationships (Chenet, Tynan, & Money, 2000). Judgmental difference related to how to achieve common tasks leads to task conflict, whilst emotional conflict refers to how partners feel towards each other and the relationship, which tends to be personal and denigrates the relationship (Anderson & Narus, 1990; Rose et al., 2007). Some studies find task conflict to have a positive impact on performance (Rose et al., 2007), but others show task conflict to negatively influence performance (Chang & Gotcher, 2010). Whilst this study focuses on Sino–US buyer–supplier relationships, task conflict is assumed to have a negative impact on relationship

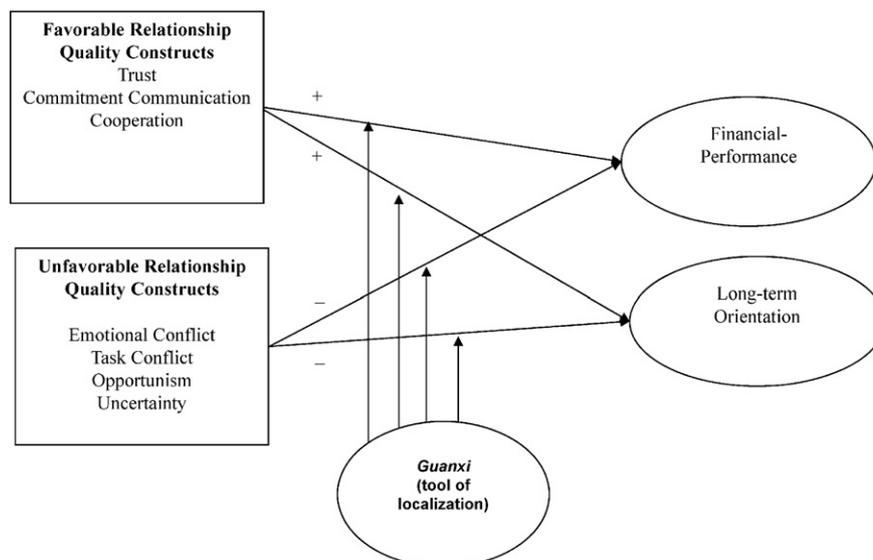


Fig. 1. The proposed framework.

outcomes for its disruptive nature that is often frowned upon by the Chinese. Emotional conflict is often perceived as detrimental to relationship performance (Frazier & Rody, 1991). In China, emotional conflict has traditionally been considered as negative and to be actively avoided (Tjosvold, Hui, & Law, 2001).

Opportunistic behavior is considered to violate implicit or explicit promises between buyers and suppliers. Behaviors such as breach of contract, deception, cheating, cutting corners and withholding information are regarded as manifests of opportunism (Wathne & Heide, 2000). Luo (2007) finds that opportunistic behavior is attributed to partners that are culturally dissimilar. Opportunism is found to negatively impact cooperation (Morgan & Hunt, 1994) and firm performance (Crosno & Dahlstrom, 2008). To protect against opportunism, firms often incur significant financial costs such as monitoring behavior, writing detailed contracts and searching for the right supplier (Williamson, 1975).

Within the cross-border channel relationships' literature, firms face greater levels of uncertainty (Jap & Ganesan, 2000), stemming from differences in culture, management styles and legal systems (Czinkota & Ronkainen, 1998; Samiee & Walters, 2003). Uncertainty is generally associated with unanticipated and unpredictable changes in circumstances around the relationship (Achrol & Stern, 1988). Similar to opportunism, uncertainty affects firms' performance and future orientation negatively (Felstead, 1993).

### 3.3. Relationship outcomes

Favorable and unfavorable relationship quality variables influence business relationship outcomes, including financial performance and long-term orientation. Financial performance is the key outcome (Dwyer et al., 1987; Styles & Ambler, 2003), reflected in aspects such as profit, sales, market share and predicted growth (Katsikeas, Leonidou, & Morgan, 2000). Long-term orientation is also desirable (Ganesan, 1994; Wang, Siu, & Barnes, 2008) because maintaining a reliable partner costs far less than developing and building new relationships (e.g., Anderson & Narus, 1990). Beyond the economics of relationships, long-term orientation derives from relationship quality in which interpersonal trust and liking are essential (Nicholson, Compeau, & Sethi, 2001). Chinese partners tend to like and value relationship longevity due to their cultural preference for long-term orientation (Hofstede, 2001; Mavondo & Rodrigo, 2001; Yen & Barnes, 2011).

## 4. Research methodology

The sheer size and growth of the Chinese economy present a lucrative market for many Western companies (Chuang, Donegan, Ganon, & Wei, 2011). In order to investigate to what extent US suppliers' *guanxi* implementation helps their localization, hence facilitating their business relationships with local counterparts, Chinese buyers based in China are sampled to express their perceptions based on one of their typical Sino-US business relationships. To report the typical relationships, this study adopts the approach by Anderson and Narus (1990) whereby respondents were asked to focus their responses based on the business relationships with their fourth most significant US supplier in terms of business volume (or third largest, if the company did not have at least four relationships) (Bello & Gilliland, 1997).

### 4.1. Data collection

A global marketing research agency specializing in b2b panel data collection in China was employed to assist data collection. This panel includes a list of 536 potential participants, who are Chinese ethnic buyers, living in China, working as key procurement personnel and are familiar with dealing with US suppliers. To further ensure the aptness of the panel members, some screening questions were employed in order to verify if a participant's company is currently buying goods

from US, and if the participant is actively involved as the procurement personnel.

The global marketing research agency launched the survey and sent invites to the 536 members identified in the panel in January 2013. To boost the response rate, two waves of reminder emails were sent during the data collection period between January and February 2013. The global marketing research agency gives reward points as a token of appreciation to those who had successfully completed the survey. The total number of returned questionnaires is 299, including the initial 18 pilot responses, giving a response rate of 56%.

### 4.2. Questionnaire design & translation

The questionnaire includes three sections. The first part assesses the demographics of the participants, e.g., job position and length of employment. The second part investigates the types of business relationships, focusing on size, frequency of interaction, type of imported goods/services, and length of relationships. The third part contains all the scales measuring the constructs proposed in the theoretical model. In total, 67 items measuring 14 constructs were identified and seven-point Likert scales ranging from strongly disagree to strongly agree were used.

The research instrument is first developed in English and then translated into Chinese. Back translation was employed to ensure readability, clarity and linguistic equivalence (Brislin, 1986). The translation began with a forward translation by one of the authors into Chinese, followed by a blind back-translation by another academic member of staff of Chinese origin, who specializes in the area of international business. The two versions were then discussed and changes were made accordingly to ensure face validity. The final version was then passed on to the global marketing research agency to upload online. The online version was then checked by one of the authors and 10 Chinese postgraduate students with the view of eliminating any operational errors.

Before the formal launch of the survey, 18 Chinese respondents from the identified panel participated in the pilot test. They gave very positive verbal feedback regarding the design, the wording and the relevance of the questionnaire, but expressed that some of the questions in reversed scales were confusing. To solve this problem, all the reversed scales were changed to be in green rather than in the default setting of black, as suggested by the marketing research agency.

### 4.3. Measurement scales

The measurement of trust is taken from Doney and Cannon (1997) who used eight items to measure the buyer's general trust in the supplying firm. These questions measure the supplying firm's credibility (e.g., keeping promises, honesty, providing accurate information) and benevolence (e.g., genuine concerns, keep the buyer's interest in mind), and include some global measures of trust (e.g., trustworthiness, the need to be cautious with the supplier). The operationalization of commitment is adapted from Gilliland and Bello (2002), using seven items to measure both calculative and affective commitment. The first three items measure the potential loss and gain associated with leaving the supplier and the remaining four items measure the buyer's intention to stay with the supplier based on loyalty, family-like feelings and allegiance.

Communication scales include six items, adapted from Parente, Pegels, and Suresh (2002). Together they take into account the ease of talking to anyone in the organization, informal talk among individuals from both organizations, feeling comfortable calling when the need arises, discouragement from talking unless work related (reverse item), and ease of scheduling meetings between managers. The measurements of cooperation are taken from Leonidou, Katsikeas, and Hadjimarcou (2002), using five items to reflect the differences between harmonious relationships and problematic ones. For example, the scale measures the buyer's willingness to cooperate and their current cooperative behavior towards the supplier.

The measurements of emotional conflict and task conflict are both adapted from Jehn (1994) and Rose and Shoham (2004). Emotional conflict looks at friction, anger, personality clashes and emotional tensions within the buyer–supplier relationship. Task conflict reflects the judgmental differences between buyers and suppliers about the best way to achieve common goals, including required tasks, current work, task performance and future tasks. Opportunism reflects the temptation of “self-seeking behavior with guile” (Williamson, 1975, p. 26), and contains six measures, adopted from John (1984); Gundlach, Achrol, and Mentzer (1995), and Rokkan, Heide, and Wathne (2003). Together they reflect the behavior of lying and not keeping promises (John, 1984), breaking the contract, breaching an informal agreement (Gundlach et al., 1995), taking advantage of ‘holes’ in the contract and finally using unexpected events to force concessions (Rokkan et al., 2003). Jorgensen and Petelle’s (1992) scale was employed to measure uncertainty. The seven-item measure reflects on the respondents’ ability to predict accurately their suppliers’ behaviors, attitudes, values, preferences and the future of their relationships.

The construct of performance was measured with five items adjusted from Moorman and Miner (1997); Hewett and Bearden (2001) and Lee, Sirgy, Brown, and Bird (2004). They measure the performance of the buyer–seller relationship in terms of cost savings, profit and general financial performance, and the buyer’s performance in relation to the supplier’s products on sales and market share. Long-term orientation investigates the buyer’s intention for engaging in a long-term relationship with a particular supplier (Ganesan, 1994). These seven items measure the buyer’s prediction of having a profitable relationship over the long-term, the importance of maintaining a long-term relationship and achieving long-term goals, their willingness to sacrifice short-term loss, concessions and their own outcome for the long-term relationship.

Finally, the ‘*guanxi*’ scale is adopted from Yen et al.’s (2011) GRX model. Together the 11 items measure to what degree *guanxi* is practiced between the buyer and the supplier’s representative. The first four items measure *ganqing*, focusing on being open and friend-like with the supplier as well as being considerate to the supplier’s feelings. The next four measure *renqing*, which reflects the exchange of help and the give and take of favors. The final three items measure *xinren* using reversed items, which measure the supplier representative’s trustworthiness and selfishness. Full details of the constructs and measurement items from the research instrument are included in the Appendix A. The Cronbach’s Alphas for each construct ranged from 0.75 to 0.93, which are comfortably above the recommended threshold of 0.70 (Hair, Black, Babin, Anderson, & Tatham, 2006).

## 5. Findings and results

A descriptive overview of the sample (see Table 1) shows that most of the respondents are between 30 and 39 years old (47%), male (57%), and acting as one of the senior managers of the company (69%). The majority of respondents have been working for the company for more than two years (95%), and trading with the supplier for more than two years (80%). The size of the surveyed firms tends to be medium, employing 100 to 499 employees (70%) and in the manufacturing industry (55%), currently at the mature stage of the business relationships (63%). To calculate how well *guanxi* is between respondents and their supplier’s representatives, a new variable named the ‘total quality of *guanxi*’ is computed using the average of the 11 GRX items (Yen et al., 2011). The new variable shows a mean score of 5.5, STD: 0.96, with the minimum value of 3 and the maximum value of 7, indicating that very few participants regard their *guanxi* with supplier’s representatives as being bad.

To further conceptualize and group the responses based on the quality of *guanxi*, the sample was then divided into three groups based on the total quality of *guanxi*: a) modest (mean scores between 3 and 4.9); b) good (mean scores between 5 and 5.9); and c) very good

**Table 1**  
An overview of the Chinese buyers and businesses.

<b>Age</b>	%	<b>Gender</b>	%
18–29	23	Male	57
30–39	47	Female	43
40–49	26	<b>Size of the firm</b>	%
50 and above	4	Small	22
<b>Position in the company</b>	%	Medium	70
Owner	6	Large	8
One of the senior managers	69	<b>Industry sector</b>	%
One of the buyers	22	Manufacturing	55
Others	3	Services	35
<b>Length of working in this company</b>	%	Construction	4
Less than 2 years	5	Others	6
2–5 years	33	<b>Business relationship stage</b>	%
6–9 years	35	Introductory stage	4
10 or more years	27	Growth stage	31
<b>Length of trading with the supplier</b>	%	Mature stage	63
Less than 2 years	20	Decline stage	2
2–5 years	37	<b>Level of guanxi</b>	%
6–9 years	35	Modest (Mean 3–4.9)	35
10 or more years	8	Good (Mean 5–5.9)	26
		Very good (Mean 6–6.9)	39

(mean scores between 6 and 7). Table 1 reveals that 35% of respondents experienced modest levels of *guanxi* with their supplier’s representatives, whilst 26% experienced good *guanxi* and 39% experienced very good *guanxi*.

### 5.1. Guanxi with suppliers

To evaluate whether the key constructs of the relationships may change over different *guanxi* levels, a series of one-way analyses of variance (ANOVA) tests and Pearson-correlation tests were run (see Table 2). The positive relationship quality constructs across the three *guanxi* groups reveal higher means for those relationships of relatively better *guanxi* with the supplier’s representatives, confirming that the variables do progress in a positive linear direction over increasing levels of *guanxi*. Specifically, the results of the ANOVA test show that trust ( $F$ -value 127.71,  $p \leq 0.001$ ), commitment ( $F$ -value 93.46,  $p \leq 0.001$ ), communication ( $F$ -value 41.38,  $p \leq 0.001$ ), and cooperation ( $F$ -value 158.01,  $p \leq 0.001$ ) all develop in a positive direction between moderate and good *guanxi* as well as between good and very good *guanxi*.

The findings imply that, for the business relationships surveyed, Chinese buyers have significantly lower perceptions of trust, commitment, communication and cooperation when they only have modest *guanxi* with their supplier’s representatives. Also the findings suggest that Chinese buyers consider trust, commitment, communication and

**Table 2**  
*Guanxi* of relationships.

Relationship constructs	Moderate <i>guanxi</i>	Good <i>guanxi</i>	Very good <i>guanxi</i>	Summary	F-value	Pearson r
Trust	4.7	5.4	6.1	+	127.71***	0.77**
Commitment	4.8	5.4	6.1	+	93.46***	0.70**
Communication	4.8	5.2	5.9	+	41.38***	0.55**
Cooperation	5.1	5.9	6.5	+	158.01***	0.80**
Emotional conflict	3.8	2.8	1.8	–	83.34***	–0.60**
Task conflict	3.9	2.9	2.0	–	76.81***	–0.60**
Opportunism	4.1	3.2	2.1	–	76.13***	–0.58**
Uncertainty	3.5	2.8	2.0	–	119.53***	–0.75**
Financial performance	4.8	5.3	6.0	+	73.02***	0.66**
Long-term orientation	4.8	5.5	6.2	+	112.11***	0.76**

Notes:

\*\*\*  $p \leq 0.001$ ; \*\*  $p \leq 0.01$ ; \*  $p \leq 0.05$ .

+, denotes an increasing mean between low, moderate and good.

–, denotes a decreasing mean between low, moderate and good.

cooperation to be more apparent when enjoying relatively better *guanxi* with supplier's representatives, confirming existing works (Barnes et al., 2011; Mavondo & Rodrigo, 2001).

On other hand, Table 2 also shows that Chinese buyers having relatively better *guanxi* with supplier's representatives tend to experience consistently lower perceptions of the negative relationship constructs, such as emotional as well as task conflict, opportunism and uncertainty, suggesting that the variables progress in a negative linear direction when *guanxi* with the supplier's representatives increases. The results of the ANOVA test show that emotional conflict ( $F$ -value 83.34,  $p \leq 0.001$ ), task conflict ( $F$ -value 76.81,  $p \leq 0.001$ ), opportunism ( $F$ -value 76.13,  $p \leq 0.001$ ), and uncertainty ( $F$ -value 119.53,  $p \leq 0.001$ ) decrease in a negative direction between modest and good *guanxi*, and between good and very good *guanxi*. The findings suggest that Chinese buyers consider both emotional and task conflicts as well as supplier's opportunism and relationship uncertainty less apparent or damaging when they perceive better *guanxi* with the supplier's representatives, echoing the existing findings of Lai, Liu, Yang, Lin, and Tsai (2005) and Zhuang et al. (2010).

Finally, Table 2 also reveals that Chinese buyers having relatively better *guanxi* with a supplier's representatives tend to hold progressively higher perceptions of the outcome constructs of financial performance and long-term orientation. The data suggests that the outcome variables progress in a positive linear direction when *guanxi* with a supplier's representatives increases. The results of the ANOVA test show that financial performance ( $F$ -value 73.02,  $p \leq 0.001$ ) and long-term orientation ( $F$ -value 112.11,  $p \leq .001$ ) improve in a positive direction between modest and good *guanxi*, and between good and very good *guanxi*. The findings show that Chinese buyers perceive their business relationships as having better financial performance and more apparent orientation towards working long-term, when they hold relatively better *guanxi* with suppliers' representatives. The findings provide support for existing *guanxi* literature, suggesting that when Chinese buyers perceive there to be better *guanxi* with suppliers' representatives, they are more likely to also perceive their business collaborations in a positive light (Barnes et al., 2011; Yen & Barnes, 2011).

5.2. Moderated multiple regression analysis

In order to verify whether *guanxi* moderates the relationships between favorable and unfavorable relationship constructs and outcome variables of financial performance and long-term orientation, several moderated multiple regressions were adopted to test the interaction terms, following the recommended procedure of Jaccard, Wan, and Turrisi (1990), and Jaccard and Turrisi (2003), taking into account that the independent variables and the moderator are all measured on the Likert scale as continuous variables (Irwin & McClelland, 2001). Table 3.1 reveals the results of the moderated regression analysis on

the relationships between communication, trust, commitment, cooperation, emotional conflict, task conflict, opportunism, uncertainty and financial performance may be dependent on the *guanxi* perceived by Chinese buyers. The first column suggests that all the positive relationship quality variables have positive and significant impact (univariate  $\beta$  varies from .53 to .78,  $p \leq 0.01$ ); whilst negative relationship constructs have significant negative impact on financial performance (univariate  $\beta$  varies from  $-.20$  to  $-.75$ ,  $p \leq 0.01$ ). The moderator of *guanxi* is also found to be significant and positively correlates to financial performance (univariate  $\beta = .60$ ,  $p \leq 0.01$ ).

The second column (Model 3A) shows that when all relationship constructs and the moderator of *guanxi* are included in the equation, seven out of the eight relationship constructs, as well as the moderator of *guanxi* are all proven to have significant influence on financial performance ( $R^2 = .68$ ,  $p \leq 0.01$ ). Communication (multivariate  $\beta = .10$ ,  $p \leq 0.01$ ), trust (multivariate  $\beta = .13$ ,  $p \leq 0.01$ ), commitment (multivariate  $\beta = .24$ ,  $p \leq 0.01$ ), cooperation (multivariate  $\beta = .28$ ,  $p \leq 0.01$ ) and emotional conflict (multivariate  $\beta = .15$ ,  $p \leq 0.01$ ) all demonstrate positive and significant influence on financial performance, whilst task conflict (multivariate  $\beta = -.15$ ,  $p \leq 0.01$ ), uncertainty (multivariate  $\beta = -.36$ ,  $p \leq 0.01$ ), and the moderator of *guanxi* (multivariate  $\beta = -.13$ ,  $p \leq 0.1$ ) show significant negative correlations with performance. Opportunism is the only construct that does not yield a significant impact on performance.

Model 3B then evaluates the interactions between the moderator of *guanxi* and each of the relationship constructs found to be significant in Model 3A. Whilst the  $R^2$  has a slight increase in value  $R^2 = .68$ ,  $p \leq 0.01$ , the results show that *guanxi* has a significant moderating effect on the relation between trust and financial performance (interaction multivariate  $\beta = .13$ ,  $p \leq 0.05$ ), suggesting that trust's influence on financial performance could be moderated by *guanxi*. The equation shows that, by adding the regression coefficients of the independent variable, the moderator, and the interaction between the independent variable and the moderator [ $-0.60$  (*trust*)  $- 1.27$  (*guanxi*)  $+ 0.13$  (*interaction*)  $= -1.74$ ], increasing *guanxi* can significantly weaken the trust's influence on financial performance. Hence Chinese buyers perceiving there to be higher levels of *guanxi* with their supplier representatives will place less emphasis on trust between the organizations to achieve financial performance.

Considering *guanxi* consists of the sub-dimensions of *ganqing*, *renqing* and *xinren* (Yen et al., 2011), another moderated regression analysis was run to explore if any of the sub-dimensions could act as significant moderators to offer further insight (see Table 3.2). Model 3C ( $R^2 = .68$ ,  $p \leq 0.01$ ) reveals that the dimension of *xinren* is significant and negatively correlates to financial performance (multivariate  $\beta = -.08$ ,  $p \leq 0.01$ ), suggesting its possible role as a moderator on financial performance. Model 3D then shows that *xinren* can significantly

Table 3.1  
*Guanxi* moderated regression analysis on financial performance.

	Model 3A Guanxi		Model 3B Guanxi multivariate	
	Univariate $\beta$	Multivariate $\beta$	Main effect $\beta$	Interaction $\beta$
	$R^2 = .68^{***}$		$R^2 = .69^{***}$	
Guanxi $\rightarrow$ FP	.60***	-.13*	-1.27**	-
Communication $\rightarrow$ FP	.53***	.10***	.15	-
Trust $\rightarrow$ FP	.72***	.13***	-.60	.13**
Commitment $\rightarrow$ FP	.78***	.25***	-.29	-
Cooperation $\rightarrow$ FP	.78***	.28***	.53	-
E-conflict $\rightarrow$ FP	-.20***	.15***	.20	-
T-conflict $\rightarrow$ FP	-.24***	-.15***	-.10	-
Opportunism $\rightarrow$ FP	-.23***	.01	-	-
Uncertainty $\rightarrow$ FP	-.75***	-.39***	-.81***	-

\*\*\*  $p \leq 0.01$ ; \*\*  $p \leq 0.05$ ; \*  $p \leq 0.1$ .

Table 3.2  
*Xinren* moderated regression analysis on financial performance.

	Model 3C GRX		Model 3D Xinren multivariate	
	Univariate $\beta$	Multivariate $\beta$	Main effect $\beta$	Interaction $\beta$
	$R^2 = .68^{***}$		$R^2 = .69^{***}$	
Ganqing $\rightarrow$ FP	.69***	.03	-	-
Renqing $\rightarrow$ FP	.67***	.01	-	-
Xinren $\rightarrow$ FP	.19***	-.08***	-.47	-
Communication $\rightarrow$ FP	.53***	.10***	.03	-
Trust $\rightarrow$ FP	.72***	.13***	-.06	.06*
Commitment $\rightarrow$ FP	.78***	.21***	.11	-
Cooperation $\rightarrow$ FP	.78***	.24***	.25	-
E-conflict $\rightarrow$ FP	-.20***	.13***	.03	-
T-conflict $\rightarrow$ FP	-.24***	-.15***	.06	.06**
Opportunism $\rightarrow$ FP	-.23***	.01	-	-
Uncertainty $\rightarrow$ FP	-.75***	-.36***	-.45***	-

\*\*\*  $p \leq 0.01$ ; \*\*  $p \leq 0.05$ ; \*  $p \leq 0.1$ .

moderate the impact from task–conflict to financial performance (multivariate  $\beta = .06, p \leq 0.05$ ) and has a relatively weaker moderating effect on the relation between trust and financial performance (multivariate  $\beta = .06, p \leq 0.1$ ). The accumulated coefficients of *xinren*'s moderating effect on the relation between task–conflict and financial performance suggest that *xinren* can significantly reduce the negative impact of task conflict on financial performance [ $0.06$  (*task conflict*)  $- 0.47$  (*xinren*)  $+ 0.06$  (*interaction*)  $= -0.35$ ], as well as weaken the positive influence of trust on financial performance [ $-0.60$  (*trust*)  $- 0.47$  (*xinren*)  $+ 0.06$  (*interaction*)  $= -0.47$ ]. Therefore, when Chinese buyers perceive there to be better *xinren* with their US suppliers' sales representatives, both the positive effect of trust and the negative impact of task–conflict on financial performance would be debilitated.

Following the same procedure, another moderated regression analysis was conducted to examine the relationships between favorable relationship constructs, unfavorable relationship constructs, the moderator of *guanxi* and long-term orientation. Table 4.1 shows that all the positive relationship quality variables have positive and significant impact (univariate  $\beta$  varies from .49 to .81 at  $p \leq 0.01$ ) whilst negative relationship constructs have significant negative impact on financial performance (univariate  $\beta$  varies from  $-0.29$  to  $-0.70$  at  $p \leq 0.01$ ). The moderator of *guanxi* is also found to positively correlate to long-term orientation (univariate  $\beta = .71, p \leq 0.01$ ).

In Model 4A, wherein all relationship constructs and the moderator of *guanxi* are included in the equation ( $R^2 = .68, p \leq 0.01$ ), commitment (multivariate  $\beta = .12, p \leq 0.01$ ), and cooperation (multivariate  $\beta = .37, p \leq 0.01$ ) demonstrate a positive and significant effect on buyers' long-term orientation. Emotional conflict (multivariate  $\beta = -0.09, p \leq 0.01$ ) and uncertainty (multivariate  $\beta = -0.25, p \leq 0.01$ ) demonstrate significant negative influence on long-term orientation, whilst *guanxi* as a moderator is also found to have a significant and positive impact on long-term orientation (multivariate  $\beta = .13, p \leq 0.1$ ). To further investigate the moderating effect of *guanxi*, Model 4B then explores the interactions between the moderator of *guanxi* and each of the relationship constructs tested significant in Model 4A. The results show that *guanxi* has a modest moderating effect on the relations between uncertainty and long-term orientation (interaction multivariate  $\beta = .09, p \leq 0.1$ ). In effect, higher levels of *guanxi* would weaken the negative impact of uncertainty on long-term orientation [ $-0.06$  (*uncertainty*)  $- 0.87$  (*guanxi*)  $+ 0.09$  (*interaction*)  $= -1.55$ ]. The findings reveal that when Chinese buyers perceive there to be better *guanxi*, the negative effect of uncertainty on long-term orientation could be weakened and cause a less detrimental impact on buyers' willingness to commit to the long-term.

Model 4C (see Table 4.2.) was run using the sub-dimensions of *ganqing*, *renqing* and *xinren* instead of *guanxi* and the results show that the dimension of *renqing* can significantly and positively correlate to long-term orientation (multivariate  $\beta = .32, p \leq 0.01$ ), suggesting its

Table 4.1

*Guanxi* moderated regression analysis on long-term orientation.

	Model 4A Guanxi		Model 4B Guanxi multivariate	
	Univariate $\beta$	Multivariate $\beta$	Main effect $\beta$	Interaction $\beta$
		$R^2 = .70$ ***	$R^2 = .70$ ***	
Guanxi $\rightarrow$ LT	.71 ***	.13**	-.87*	-
Communication $\rightarrow$ LT	.49 ***	.06	-	-
Trust $\rightarrow$ LT	.67 ***	-.06	-	-
Commitment $\rightarrow$ LT	.71 ***	.12 ***	-.10	-
Cooperation $\rightarrow$ LT	.81 ***	.37 ***	.03	-
E-conflict $\rightarrow$ LT	-.31 ***	-.09 ***	-.20	-
T-conflict $\rightarrow$ LT	-.30 ***	.04	-	-
Opportunism $\rightarrow$ LT	-.29 ***	-.02	-	-
Uncertainty $\rightarrow$ LT	-.70 ***	-.25 ***	-.77 ***	.09 *

\*\*\*  $p \leq 0.01$ ; \*\*  $p \leq 0.05$ ; \*  $p \leq 0.1$ .

Table 4.2

*Renqing* moderated regression analysis on long-term orientation.

	Model 4C GRX		Model 4D Renqing multivariate	
	Univariate $\beta$	Multivariate $\beta$	Main effect $\beta$	Interaction $\beta$
		$R^2 = .72$ ***	$R^2 = .72$ ***	
Ganqing $\rightarrow$ LT	.64 ***	-.07	-	-
Renqing $\rightarrow$ LT	.73 ***	.32 ***	.06	-
Xinren $\rightarrow$ LT	.26 ***	-.02	-	-
Communication $\rightarrow$ LT	.49 ***	.06	-	-
Trust $\rightarrow$ LT	.67 ***	-.04	-	-
Commitment $\rightarrow$ LT	.71 ***	.09	-	-
Cooperation $\rightarrow$ LT	.81 ***	.28 ***	.22	-
E-conflict $\rightarrow$ LT	-.31 ***	-.11 ***	-.35 ***	.05**
T-conflict $\rightarrow$ LT	-.30 ***	.03	-	-
Opportunism $\rightarrow$ LT	-.29 ***	-.02	-	-
Uncertainty $\rightarrow$ LT	-.70 ***	-.22 ***	-.25	-

\*\*\*  $p \leq 0.01$ ; \*\*  $p \leq 0.05$ ; \*  $p \leq 0.1$ .

moderating effect on long-term orientation. Model 4D then shows that *renqing* can significantly moderate the impact on long-term orientation from emotional conflict (interaction multivariate  $\beta = .05, p \leq 0.01$ ). Furthermore, higher levels of *guanxi* would diminish the negative impact of emotional conflict on long-term orientation [ $-0.35$  (*emotional conflict*)  $+ 0.06$  (*renqing*)  $+ 0.05$  (*interaction*)  $= -0.24$ ], indicating that, when Chinese buyers perceive there to be higher levels of *renqing*, the negative effect of emotional conflict on long-term orientation would be weakened.

## 6. Discussion and implications

Extending previous debate on how localization requires international businesses to better understand and adapt to the local cultural values and norms (Czinkota & Ronkainen, 1998; Ferle, Edwards, & Lee, 2008; Roth, 1995), this study makes the first attempt to theoretically argue that cultural-specific relational notions should be considered as tools of localization to facilitate successful b2b relationships in foreign markets. Bridging the stream of *guanxi* literature to study localization in China, this paper empirically examines how the cultural-specific notion of *guanxi* and its sub-dimensions moderate that effect of relationship constructs on financial performance and long-term orientation.

Empirical data collected from Chinese buyers regarding their Sino-US business relationships confirms *guanxi*'s significance as a localization tool in two ways. Firstly, whilst *guanxi* significantly replaces the positive impact of trust on financial performance, the finding advises that in the Chinese context, *guanxi* between sales representatives and procurement managers at a personal level also substitutes the requirement of organizational trust that is needed for achieving better financial performance, explaining why *guanxi* can replace the need of having a contract in the Chinese perspective (Yen et al., 2007). Secondly, when *guanxi* significantly weakens the negative impact of uncertainty on long-term orientation, the outcome suggests that *guanxi* provides a safeguard to maintain relationship longevity, counterbalancing the negative impact of uncertainty (Jorgensen & Petelle, 1992).

Upon further analysis, the findings show the sub-elements of *guanxi* can also affect the relations between relationship quality constructs and outcomes. For example, *xinren* is proved to weaken the effect of uncertainty and trust on financial performance, whilst *renqing* reduces the impact of emotional conflict on long-term orientation. By specifically discussing the impact of *xinren* and *renqing* on relationship outcomes, the paper also sheds new light on studies of *guanxi*. Whilst *ganqing*, *renqing* and *xinren* are often grouped together to reflect the notion of *guanxi* (Berger, Herstein, Silbiger, & Barnes, 2015; Yen et al., 2011), the findings suggest that these three dimensions have different relations to financial performance and long-term orientation and their impact needs to be assessed separately.

*Xinren* is the cognitive component of *guanxi* and often refers to the deep trust established at the interpersonal level between sales representatives and procurement managers within b2b relationship dyads, based on an individual's prior history, reputation and experience relating to previous dealings (Berger et al., 2015; Yen et al., 2011). Different to trust established at the firm level based on evaluation of the counterpart's business activities, the findings suggest that *xinren* can substitute the need of trust and reduce the impact of task conflict on financial performance. Therefore, when Chinese buyers perceive the suppliers' representatives as more trustworthy, they will in return require less trust at the organizational level within the b2b relationships to achieve the same level of financial performance. Such personal trust can also counterbalance the negative impact of having different opinions on the tasks required (Rose et al., 2007) on financial performance. Overall *xinren* at the interpersonal level is fundamental to successful business relationships (Luk, Albaum, & Fullgrave, 2013) and has the potential to replace organizational trust in the Chinese context.

*Renqing* represents the conative component of *guanxi* (Shi, Shi, Chan, Liu, & Fam, 2011), referring to the reciprocal exchange of favors with empathy (Barnes et al., 2011; Yen et al., 2011). The understanding of *renqing* is fundamental for every Chinese business, as *renqing* helps lubricate the interactions between dyadic business firms as well as among network members. The findings reveal that *renqing* can significantly weaken the harmful impact of emotional conflict on long-term orientation. Hence when Chinese buyers perceive there to be higher levels of favor exchange and empathy with their suppliers' representatives at an interpersonal level, emotional conflict occurring at an organizational level as a result of relationship friction, anger, personality clashes and emotional tensions (Jehn, 1994; Rose et al., 2007) will have a less damaging effect on the buyers' long-term orientation.

Finally, the findings also aid existing understanding of *guanxi* by confirming that, when Chinese buyers perceive there to be better *guanxi*, they are more likely to evaluate such Sino-US business relationships in a positive way, indicated by increased trust, commitment, communication and cooperation, as well as decreased emotional conflict, task conflict, opportunism and uncertainty, affirming existing works (Barnes et al., 2011; Yen & Barnes, 2011; Zhuang et al., 2010). Additionally, the results show that Chinese buyers' perception of financial performance and their willingness to engage the relationships over the long-term would increase when they perceive there to be higher levels of *guanxi* with their suppliers (Lee & Dawes, 2005; Luo et al., 2012).

## 7. Managerial implications

Overall, the findings confirm that understanding and adapting to the cultural-specific notion as a tool of localization can facilitate successful b2b relationships in the local markets. Chinese buyers having established more advanced *guanxi* with their sales representatives are more likely to evaluate such Sino-US business relationships in a positive light. The *guanxi* ties established between sales representatives and the procurement buyers can replace the significance of trust and offset the negative impact of uncertainty. Hence, managers of international firms aiming to enter the Chinese market are advised to adapt to the *guanxi* notion by actively encouraging their key relational personnel to initiate and establish connections with Chinese counterparts and consider the following managerial implications to modify their approaches and practices for building and maintaining fruitful b2b relationships in China.

Firstly, international businesses need to acknowledge that, different from the Western relationship marketing paradigm, *guanxi* is established at an inter-personal level between the key actors involved in such business relationships (Bruun, 1993; Luo, 1997). Hence, sales managers/directors of international firms are encouraged to actively

participate in and initiate social events, wherein they have the opportunity to socialize with key personnel working for their Chinese counterparts and cultivate their *guanxi* ties (Berger et al., 2015). Although social events held by the organizations, such as charity balls and company parties, present great networking opportunities for all members involved, sales managers of international firms are also recommended to host their own private parties, wherein social ties could be nurtured at more casual and friendly occasions, through wining and dining, and karaoke singing, which are perceived as popular *guanxi* practices in China.

Over time, the *guanxi* connections established through key relational personnel can help position the firms in a more favorable light against competitors during buyers' performance review of suppliers. Furthermore, when new opportunities and tenders are available for bidding by all suppliers, the *guanxi* ties established between the sales representative and the procurement buyers can often replace the requirement of organizational trust and offset the negative impact of uncertainty wherein new businesses may suffer.

Whilst findings highlight the moderating impact of *xinren* and *renqing* on financial performance and long-term orientation, international firms are encouraged to better understand *guanxi*'s sub-dimensions so that they can facilitate *xinren* and *renqing* with their respective Chinese buyers. For example, to increase Chinese buyers' *xinren*, sales representatives are advised to adopt a more open, friendly, and caring approach in all forms of communications with their Chinese counterparts (Yen et al., 2011). Sincerity and trustworthiness need to be demonstrated during interactions; selfishness and an over-calculative approach should be avoided at all times. Whilst the engagement of favor exchange is criticized for being unethical (Fan, 2002), international firms can still increase *renqing* by actively giving help and support to Chinese counterparts at both organizational as well as interpersonal levels. When specific help is requested, managers of international firms are recommended to go the extra mile to lend a hand, as this will initiate the exchange of favor between the two parties. Although the return of favors may be unforeseeable, giving help when asked would certainly position the selling firms in a more positive light perceived by the Chinese buyers. Nevertheless, caution should be exercised when giving favors (Dunfee & Warren, 2001), in particular paying attention to the fine line between gifts with significant monetary value and bribery (Yen et al., 2011).

## 8. Limitations and future directions

With data collected from 299 Chinese buyers regarding their relationships with US suppliers, this paper reveals how *guanxi* as a tool of localization facilitates successful Sino-US business relationships. The contributions made by this study open avenues for further research. Recognizing how foreign firms' engagement with *guanxi* reflects their understanding of the local Chinese cultural context in b2b relationships, future studies are advised to measure *guanxi* as a tool of localization from both sides of the relationship dyads (Barnes, Naudé, & Michell, 2007). This will enhance the empirical discussion, taking account of the perceptual difference from US suppliers' *guanxi* engagement to Chinese buyers' evaluation of their supplier's *guanxi* implementation.

Whilst this paper confirms that adopting the cultural-specific construct of *guanxi* as a localization tool significantly contributes to b2b relationship success in terms of financial performance and relationship longevity in China, future research is recommended to explore other cultural-specific notions such as 'Et-moone' in Saudi Arabia (Abosag & Lee, 2012; Abosag & Naudé, 2014), 'Blat' in Russia (Michailova & Worm, 2003), and 'Jugaad' in India (Berger, 2014) by investigating their employment as tools of localization to facilitate successful business outcomes in their respective markets.

## Appendix A. Constructs, items and sources

Constructs	Item description	Source
Trust ( $\alpha = 0.83$ )	This supplier keeps the promises s/he makes to our business This supplier is not always completely honest with us (reversed) We believe the information that this supplier provided us with This supplier is genuinely concerned that our business succeeds When making important decisions, this supplier considers our welfare We trust this supplier keeps our best interests in mind This supplier is trustworthy We find it necessary to be cautious with this supplier (reversed)	Doney and Cannon (1997)
Commitment ( $\alpha = 0.83$ )	Changing this supplier would be too disruptive for our business so we continue to work with this one Even if we wanted to shift business away from this supplier, we couldn't as our losses could be high We need to keep working with this supplier since leaving would create hardship Our loyalty to this supplier is a major reason why we continue to work with him/her We want to stay associated with this supplier because of our allegiance to him/her We will continue working with this supplier because we are 'part of the family' Given the things we have done with this supplier over years, we ought to continue	Gilliland and Bello (2002)
Communication ( $\alpha = 0.75$ )	Between the two firms, it is easy to talk to anyone we need to regardless of ranking or position There is ample opportunity for informal talk among individuals from our firm and our supplier People from the two firms feel comfortable to call each other when the need arises Our managers discourage employees from talking to supplier counterparts unless it is work related (reversed) People from our supplier are quite accessible to those in our firm Junior managers in our firm can easily schedule meetings with the supplier counterparts	Parente et al. (2002)
Cooperation ( $\alpha = 0.90$ )	Our firm is conscientious and responsive about maintaining a cooperative relationship Our firm is willing to collaborate with this supplier to have a smooth relationship Our firm often acts in a way that promotes mutual interest and welfare with this supplier Our firm is interested in assisting this supplier to achieve business objectives and goals There is a team spirit in the	Leonidou et al. (2002)

## Appendix A (continued)

Constructs	Item description	Source
Emotional conflict ( $\alpha = 0.93$ )	relationship with this supplier in tackling common problems There is friction in our relationship with the supplier There is anger in our relationship with the supplier There are personality clashes in our relationship with the supplier There are emotional tensions in our relationship with the supplier	Jehn (1994); Rose and Shoham (2004)
Task conflict ( $\alpha = 0.92$ )	We hold different opinions from our suppliers regarding the tasks that they are required to do People in my firm disagree with people from the supplier's firm regarding the work they do for us We disagree with our supplier about their task performance We disagree with our supplier regarding the up-coming tasks	Jehn (1994); Rose and Shoham (2004)
Opportunism ( $\alpha = 0.92$ )	On occasion, this supplier lies about certain things in order to protect its interest This supplier sometimes promises to do things without actually doing them later This supplier does not always act in accordance with our contracts This supplier sometimes tries to violate informal agreements between two parties to maximize their own benefit This supplier will try to take advantage of "holes" in our contract to further their own interest This supplier sometimes uses unexpected events to force concessions from our firm	Gundlach et al. (1995); John (1984); Rokkan et al. (2003)
Uncertainty ( $\alpha = 0.87$ )	Generally we are unable to predict our supplier's behavior We are uncertain that our supplier likes doing business with us We are unsure that our supplier shares the same values as we do We are inaccurate at predicting our supplier's attitudes We can predict our supplier's preference well (reversed) We know our supplier very well (reversed) We find it difficult to predict our future relationship with this supplier	Jorgensen and Petelle (1992)
Financial performance ( $\alpha = 0.90$ )	There were significant cost savings resulting from doing business with this supplier Our firm's profitability has increased because of this supplier	Hewett and Bearden (2001); Lee et al. (2004); Moorman and Miner (1997)
Long-term orientation ( $\alpha = 0.88$ )	The relationship with this supplier helped us perform better financially This supplier's products have successfully achieved the sales relative to original objectives This supplier's products have achieved the market share to original objectives	Ganesan (1994)
	In the long run our relationship with this supplier will be profitable If we had our way, we would	

## Appendix A (continued)

Constructs	Item description	Source
Guanxi ( $\alpha = 0.91$ )	attempt to strengthen the relationship with the supplier	Yen et al. (2011)
	Maintaining a long-term relationship with this supplier is important for us	
	We focus on the long-term goals of the relationship with this supplier	
	We are only concerned with our outcomes in the relationship with this supplier (reversed)	
	We expect this supplier to be working with us for a long time	
	Any concessions we make to help out this supplier will even out in the long run	
	My supplier representative and I are able to talk openly as friends	
	If I were to change this business supplier, I would lose a good friend	
	I would consider whether my supplier representative's feeling will be hurt before I make an important decision	
	I would try my best to help this supplier representative when he/she is in need because he/she is a friend of mine	
	I feel a sense of obligation to this supplier representative for doing him/her a favor	
	I think that "calling in" favors is part of doing business with this supplier representative	
	The practice of "give and take" of favors is a key part of the relationship between my supplier representative and me	
	I am happy to do a favor for this supplier representative when he/she is in need	
This supplier representative is only concerned about himself/herself (reversed)		
The people at my firm do not trust this supplier representative (reversed)		
This supplier representative is not trustworthy (reversed)		

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