

THE IMPACT OF GUANXI ON BUSINESS PERFORMANCE: IN THAI SHIPPERS' PERSPECTIVE

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Introduction

One of the most significant archetype transfer of modern business management is that individual businesses no longer compete as solely independent entity, but rather as supply chains (Grea & Shaw, 2002). The higher risk of environmental, the more entrepreneurs rely on social relations to gain competitive advantages (Peng & Yadong Luo, 2000). Relationship is one of the most fundamental stage for business performance that defined as a mutually oriented interaction in between two reciprocally committed persons.

Quite recently, considerable attention has been paid to many Western literatures that investigated the relationship marketing issue between organizations and customers established in Western companies, few have examined the context of relationship in an Asian context. Doing business in China are known for its difficulty and key differences lie in between business practices of managing personal relationship, also known as "Guanxi". The term of Guanxi has been deeply rooted in Chinese confusions study for longs. Guanxi is a Chinese terms used to define the human relationship connections with a general social and cultural construct. In term of business context, Guanxi contains the use of close friends and associates, a network to help with general business activities (Yen, Barnes R., & Wang, 2010).

Encounter with market volatility and diversity in Thailand logistics, influencing of Guanxi connection play a key role in many companies to develop relatively adjustable collaboration with various channel partners to deal with unexpected market demands. As a result of the survey of PwC's 2014, global economic crime has been widely investigated that procurement fraud is a severe problem in Thailand. The outcome of Survey mentioned that at the bid process stage, frauds were often occurred through uncertified suppliers that had undeclared relationships with their employees. Therefore, the findings in Thailand suggest that organizations in Thailand would benefit greatly by suggested vendor to the company via existing employees and performing background double checks suppliers is a good idea.

In the generation of new edge technological innovation and globalization, the shorter product life cycles and swiftly alter customer preferences. As a result, business process increasing part of value adding activities is ordered from outside the physical boundaries of a firm. Therefore, many company seeks to necessitate efficiency collaboration with other company that have an impact on shippers and logistics service provider (LSPs). Both parties are strength on their core businesses and efficiency. Shipper often outsourced to specialized companies but emphasize on price range and efficiency by achieving economies of scale and scope is not the only major criterion. One way to reach such complex economies is collaboration, collaborative partner-relationships between shippers and operators have gained considerable attention in determining the effectiveness of business performance (Chao, 2011).

At present, assessing business performance has become one of the significant issue that have gained a considerable attention from researchers and practitioners. Business performance was expressed as an consideration of both effective ness and efficiency in accomplishing a given task. (Gunnasekaran & McGaughey, 2004). Equally important, Logistics performance index (LPI) that emerged by World Bank use major condition and prioritize scores in order to evaluate the logistics performances of each country. But in order to measure logistics performance closely associate with environment in Thailand, tool developed by Banomyong and Supatn (2011) that used to measure

firms' logistics performance of firm with dimension of cost, time and reliability and 9 key logistics activities are taken into account.

In Thailand, with a population estimated to include 14 percent Chinese and 30-40 of Chinese descent (Chao & Anantana, 2014). In addition, Thai culture tended to rely more on the development of social relationships and addressed to be low-trust society. Therefore, doing business in Thailand mostly rely on personal social connection and provide special benefit to those who comes from associate network. The use of Guanxi has been suggested in this study. Therefore, this study aims to evaluate the impact of Guanxi on business performance from Thai shippers' perspective.

Literature review

Guanxi

As early as the sixth century BC, Confucius compiled the individual, family, and societal ties that expressed a person's proper role and position in their environment (Luo, 1997). Both of Asian and Western academics has discussed the Chinese phrase "Guanxi" by both with the majority of them being ethnically Chinese. Guanxi embeds at the heart of China's social order, economic structure, and institutional landscape (Chao, 2011). Guanxi consisted of two Chinese characters, guan (gate) and xi (connection). One must pass the entrance to attach to connection. As such, Guanxi generally refers to interpersonal relationships or social connections depend on reciprocity interests and benefits (Lu, 2007). "The more network of Guanxi one has, the more opportunity are available for interaction privilege" (Cheng & Tang, 2012).

To better evaluate the quality of Guanxi, it is essential to comprehend the three closely related constructs: Ganqing, Renqing and Xinren (Cheng & Tang, 2012). Ganqing can be interpreted into English as "feelings" and a sense of faithfulness and unity, the reluctance to take care of each other under all circumstances. It has been found that Guanxi could be developed and maintain directly by cooperating into Renqing similar to the owing of a 'favor' in an English context (Yen, Barnes, & Wang, 2010). Renqing is a special interpersonal treatment, the providing of resources to another party as a 'gift' in the process of a market transaction. Another way to maintain Guanxi is to trust, which refer to Xinren in Chinese language. The higher tier of xinren, the stronger links between two parties, thus the better Guanxi they may have (Cheng & Tang, 2012).

With a population over billion and years of double digit economic growth since 2000, China has been attracted investment company from major multinational corporations and much attention from both academics and managers. Undoubtedly, in China, Guanxi encourage real economic advantages to the economy so, Chinese people will undertake first step to the linkages of Guanxi to found business. In consequence, employment of the Guanxi network has turn into a considerable attention basis for gaining competitive advantages beyond competitors as well as reducing conflict in the global trade environment (Chao, 2011). The business circumstances in China overlaps with prevalent personal Guanxi networks dominating the reciprocal favor through three rules: obligation, depend on people mostly offer treatments to others degree of relationships; reciprocity that should to be returned when asking; and empathy, demanding a sense of goodwill between individual.

Regardless, in the Western world the portrayal of dark sides of Guanxi can be jeopardized, which can lead to unethical behavior, corruption and bribery that stem from China's marketing economy. However, Guanxi and corruption are not necessarily to connect. As a result of legal purposes which do not violate on public interests, Guanxi can be a considerable benefit tools for network as long as follow legitimate personal or business affairs, whereas Guanxi would be corrupted in case of exchanging or transaction out of the law.

Relationship Marketing

The evolution of business has transfer from a production direction to a selling direction, later marketing direction, and eventually to a Relationship Marketing Orientation (Dhanushanthini, 2011). Relationship marketing categorized by reciprocal, interconnection, committed and long-term relationship among sellers and customers (Sin, et al., 2005). Another terms is focuses on attracting new customers as a first step in marketing activities while maintaining or retaining customers bonding (Shalan A. S., 2013). As stated in principle of relationship marketing and social exchange, most of an important construct in relationship marketing strategy belongs to trust, also trust has been found to be complicated factor that compass the integrity, honestly and confidence from one party to another (Coulter & Coulter, 2003). Some studied claimed that relationship marketing has been expressed as all marketing action directed towards establishing, developing, and supporting successful mutual exchange, which could gain a competitive edge for company, and to have a positive effect on organizational and supply chain performance (Alrubaiee, 2010).

The Difference between Guanxi and Relationship Marketing

Criteria	Guanxi	Relationship Marketing
Network type	Social network	Business network
Network nature	Particularistic	Universalistic
Network foundation	China and emerging Asian markets	Western markets
Network level of working	Individual	Organizational
Relationship nature	Personal	Impersonal
Relationship established	By individuals	By organizations' people
Consequence of relationship and transaction	Personal relationship leads to transaction	Satisfactory transaction leads to relationship
Orientation	Tactical	Strategic
Exchange type	Favors and affection	Commercial and economic
Exchange partner's role expectations	Implicit	Explicit
Commitment type	Affective	Calculative
Relational behaviors	Care and favors	Cooperation
Motives for reciprocal behaviors	Face-saving	Mutuality
Promises type	Implicit	Explicit
Deadline for fulfilling promises	No deadlines	Well-defined deadlines
Customer position	Company and customer become one cooperative unit	Customer viewed as more of a subset than a merged partner
Measure of customer expectations and satisfaction	Complex to measure for most promises	Mostly measurable
Importance of trust development	Relatively more important in guanxi than relationship marketing	Relatively less important in relationship marketing than guanxi

Table1: Guanxi and Relationship Marketing Differentiation

Source: (Reast, Johnson, Tourky, & Shalan, 2007)

In term of business performance, many research has emphasized on relationship marketing from the both of academics and practitioners since 1900s. Coupled with a several studied interest in Guanxi, which has been identified as the Chinese version of relationship marketing or business connection (Wang C. L., 2007). Guanxi including with relationship marketing have both principle differences and certain commonalities (Flambard-Ruaud, 2005; Wang, 2007). Several scholars examine the similarities and differences between Guanxi and relationship marketing from various perspectives (Shaalán, Reast, Johnson, & Marwa, 2013).

The difference of social interaction between the West and Guanxi in China is that, in China a person may introduce a business favor and return them a personal favor instead such as a logistics service provider might suggest better knowledge or introduce competence supplier and might provide faster service to a friend's firm because shipper help them with personal issue. On the other hand, in Western cultures people are strongly divide interpersonal or social and business relationships (Cao, Baker, & Schniederjans, 2013). in context of Western cultures, exchanging the equivalent favor and advantages to both parties widely appear in Western culture whereas in Guanxi, a less powerful business may ask for a personal favor without unequal social position (Cai & Yang, 2013). Notably, Western society enforce legality and rules in context of relational exchange, but in China are controlled by morality and social norms in principles of relational behaviors (Wang C. L., 2007).

Logistics Performance Index

Recently, World Bank has developed the first measurement index to evaluate the countries' logistics performance index in accordance with certain standard and arrange them based on their scores. Logistics performance index (LPI) is an international index that developed to evaluate the countries' logistics performances according to certain criteria and ranks them based on their scores. In order to measure logistics performance closely associated with Thai business context, Banomyong and Supatn established KPI assessment framework based on 9 logistics activity (Customer service and support, Demand forecasting and planning, Purchasing and procurement, Inventory management, Order processing and logistics communications, Material handling and packaging, Transportation, Facilities site selection, warehousing and storage and Return goods handling and reverse logistics) and 3 dimension (Cost, Time and Reliability) to evaluate logistics performance.

Business Performance

According to the manifold and potent marketplace, many organizations investigate several ways to monitor and control the administration of strategic goals to meet customer requirement. Periodic evaluation of company performance is conducted for several motive: it assists investors to develop their

expectations concerning the future earning potential of firms; it support a probable feedback on how well the company has achieved its goals (Venanzi, 2012). Business Performance was expressed as an consideration of both effectiveness and efficiency in accomplishing a given task. Regarding to business performance academic literature, there are two widely used performance measurements which are financial and non-financial measurement. For non-financial measurement aspects, sales growth and market share seem to be the most common used of measurement. Conversely, financial performance considers the effectiveness and efficiency in complete a given business task that

H1	Guanxi has positive impact on logistics performance index in cost dimension (Chung et., 2011)
H2	Guanxi has positive effect of logistic performance index in time dimension (Shaalán et., al, 2006)
H3	Guanxi has positive effect of logistic performance index in reliability dimension (Chung, 2011)
H4	Logistics performance index in cost dimension correlates positively to business performance (Franco et., al, 2007)
H5	Logistics performance index in time dimension has positive impact on business performance (Adeyingka, 2012)
H6	Logistics performance index in reliable dimension has positive impact on business performance (Konya et., al, 20114)
H7	Guanxi has positive impact on business performance (Chao, 2011)

regularly operated to measure the productivity of a certain ratio of real output and real input.

According to intensive literature review and theoretical justification gather from previous studies, this section subsequently considers the relationships between each key elements and established research model bellows.

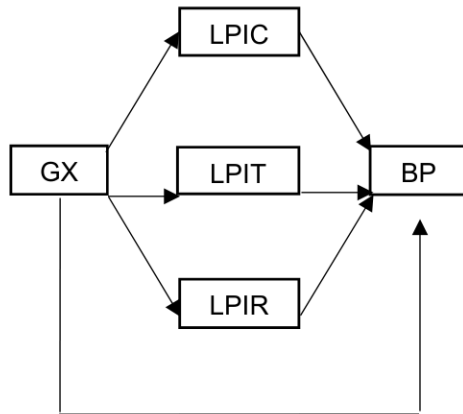


Fig.1 Research Model

Methodology

In order to gather the empirical data, this study uses a questionnaire survey. There are four sections. The first three sections are Five-Likert-scaled subjective questions to test the satisfaction level of each factor used in this study such as Guanxi, LPI (cost), LPI (time), LPI (reliability) and business performance. The latter is general background information that is not used in the structural equation model. The questionnaire composit of 61 self-administered questions: (of which, Guanxi- 22, LPI – 27 and business performance – 12) and 10 background questions. The definition terms such as Guanxi and LPI were provided on separate sheet of paper from academic wording. The questionnaires were examined the possibility of actual data conditions by distributed to academic professors with logistics degree to find and error in wording, sequencing, layout and clarity. The database of respondent in this study was from Thai National Shipper Council (TNSC) lists. We distributed questionnaire by email to the 2787 Thai shipper lists in TNSC.

Validity Test

Validity		Criteria
Overall model fit or Unidimensionality	Absolute Fit Index	$\chi^2/df < 3.0$
		GFI > 0.8
		RMSEA < 0.08
	Incremental Fit Index	CFI > 0.9
		TLI > 0.9

Table3. Measurement Model Validity

Source: Chao (2014)

It is necessary to measure the overall model fit and validity test in structural equation model. Model fit was evaluated using the norm chi-square according to standard criteria, values of chi-square should be less than 5 are considered a good fit. A major incremental fit indices include, Comparative fit index (CFI; Bentler, 1990), Tucker-Lewis index (TLI; Tucker & Lewis, 1973). The most widely used residual-based index is standard root mean square residual (SRMR) that should be less than 0.10 [15]. Root

mean square error of approximation (RMSEA), model fit is considered good at values less than equal to 0.05. A summary of the measurement model validity indices is shown in Table 3. The CFA results suggest a good overall fit with verify unidimensionality (Table 4). Discriminant validity was assessed by determining the confidence interval around the correlation for each pair of factors. We compared the seven possible pairs of construct to measure the value for the constrained and unconstrained.

Construct	Item	χ^2/df	GFI	TLI	CFI	RMSEA
GX	15	1.581	0.928	0.925	0.938	0.050
LPI(C)	4	2.822	0.958	0.949	0.968	0.089
LPI(T)	7	2.200	0.965	0.976	0.985	0.073
LPI(R)	4	1.094	0.995	0.998	0.999	0.020
BP	7	2.366	0.960	0.950	0.967	0.077

Table4. Model Fitness of Overall Model

Note: X^2 - Chi-square; df – degree of freedom; GFI Goodness-of-fit; RMSEA – Root Mean Square Error of Approximately; CFI – Comparative Fit Index, TLI – Tucker-Lewis Index.

Pair of Construct	CMIN(df)		CMIN(df) Difference
	Constrained Model	Unconstrained Model	
GX vs LPI(Cost)	995.060(299)	963.228(298)	31.832(1)
GX vs LPI(Time)	1033.576(299)	1028.238(298)	5.338(1)
GX vs LPI(Reliability)	927.710(275)	890.279(274)	37.431(1)
LPI(Cost) vs BP	377.261(90)	351.224(89)	26.037(1)
LPI(Time) vs BP	408.706(90)	398.442(89)	10.264(1)
LPI(Reliability) vs BP	300.844(77)	238.341(76)	62.503(1)
GX vs BP	837.725(324)	795.364(323)	42.361(1)

Table5. Discriminant Validity Test

Note: df – degree of freedom. **p < 0.05

Paths	Estimates	S.E	t-value	p-value	Results
H1: GX → LPIC	0.806	0.241	7.214	***	Supported
H2: GX → LPIT	0.937	0.141	8.119	***	Supported
H3: GX → LPIR	0.799	0.120	7.993	***	Supported
H4: LPIC → BP	0.394	0.222	1.958	0.050**	Supported
H5: LPIT → BP	0.892	0.171	7.333	***	Supported
H6: LPIR → BP	0.532	0.223	2.741	0.006**	Supported
H7: GX → BP	-0.543	0.468	-3.300	***	Not Supported

Table6. Hypotheses Testing

Result

The result of hypothesis testing shows that six of seven hypotheses were significant. Guanxi was found to have a positively significant effect on Logistics Performance Index in Cost, Time and Reliability Dimension (estimate = 0.806, t-value = 7.214; estimate = 0.937, t-value = 8.119; estimate = 0.799; t-value = 7.993, respectively) but not with Business Performance (estimate = -0.543, t-value = -3.300). In addition, Logistics Performance Index in Cost, Time and Reliability Dimension were found to have positively significant impact on Business Performance (estimate = 0.394, t-value = 1.958; estimate = 0.892; t-value = 7.333; estimate = 0.532, t-value = 2.741, respectively).

Conclusion

In this manuscript, the measurement model in this research appears to adequately fit with the data gathered and the construct validity of the measurement items are developed with the procedures used in this research. According to the result of hypotheses testing, H1 has shown a positive impact on Logistic Performance Index in Cost Dimension. As stated in survey of Hong Kong Chinese by regarding the significant role of Guanxi connection can be decreasing transaction costs related with uncertainties in competitive environment. These benefits included the smooth running of routine business operations, considerable penetrate wider information about government policies, reduce cost of operating each activity, and quicker receipt of administrative approvals (Cheng & Tang, 2012). H2, which assumed that Guanxi has positive effect of Logistics Performance Index in Time Dimension was supported. Guanxi also can use more flexible and decrease time to conduct business transactions with lower risks. So in logistics process or business tasks need less time to operate. (Lu, J., & Omta, 2006). In addition, the result of H3, business Guanxi can also have a positive effect of Logistics Performance Index in Reliability Dimension. In this regard, good Guanxi with associated partners is inevitably essential for companies to make these resources obtained with higher efficiency.

H4 was valid, therefore, Logistics Performance Index in Cost Dimension correlates positively to Business Performance. Collaboration along the supply chain, reducing costs, shorter lead time, cross docking, direct delivery, increase reliability with logistics service providers is one of the key element to improve the business performance (Hou & Liu, 2011). H5, Logistics Performance Index in Time Dimension has positive impact of Business Performance was supported. Powerful time management is an access to reach the highest business performance levels. (Adeyinka, 2012). As the same way, H6 was supported, therefore, correspondingly to withstand in a competitive business environment, it is important for companies to specially emphasize on consumer (Konya, Missouri, & Ball, 2014). So as to increasing customer satisfaction and tie in a personal relationship with customer to exceed business performance, provide customer a trust and reliability of products or services.

The effect of Guanxi was not supported to be positively associated with Business Performance. This was unexpected result because there is a prior research stated that engaging with Guanxi relationship could bring many benefits to business performance. The result shows that indirect effect of Guanxi with Business Performance proposed a stronger than the direct effect. The indirect effects of GX → BP were: GX → LPIC → BP, GX → LPIT → BP and GX → LPIR → BP. This suggests that even with a positive Guanxi between shippers and logistics service providers, a more stable business-to-business relationship should take into account. This particular phenomenon might be caused by a fear of the negative impacts of Guanxi that might jeopardize the business if relied on too much (Chao & Anantana, 2014). Moreover, the insignificant relationship between Guanxi and business performance may be motivated by demographic characteristics of responding company. Guanxi plays a greater role in small and medium-sized companies, due to their limited economic influence than in larger companies. Small and medium firms may need specific strategic behavior (relationships) to enhance their business performance. Manager of small of medium firms shows dependent relationships via interaction between different channel members in order to help them accommodate external changes (Chao, 2011).

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