

## **The role of trust, adaptation and dependence in Chinese business relationships: The case of a multinational pharmaceutical**

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**Keywords:** Chinese relationships, trust, adaptation, dependence, pharmaceuticals, relationship atmosphere.

### **Abstract**

The reduction in trade barriers and increased opportunities to trade in the world's most populous country has resulted in profound interest in the Chinese market. Although there is potential to exploit this market there are fundamentals of business interactions which need to be understood by foreign operators. In recent years, there has been a growing awareness of the need for marketing research which specifically explores relationships in China (Fang, 2001). As many western managers experience difficulties managing business relationships in the Chinese market, the importance of understanding how relationships are developed and managed in China increases (Bjorkman and Kock, 1995; Itthipassagul and Blois, 1999). The limited research that has been conducted into business-to-business relationships in China, suggests that three relationship constructs, adaptation, dependence, and trust are important and interrelated with *guanxi* (Leung et al, 1995; Wong, 1998). The difficulties Western managers are having in managing business relationships (Bjorkman and Kock, 1995; Yeung and Tung, 1996; Itthipassagul and Blois, 1999), needs further investigation (Trimarchi, 2002). This research attempts to understand the role and differences in these relationship concepts in the western and Chinese context. The objective of this research is to explore and describe the role and interplay of trust, adaptation and dependence in Chinese exchange business-to-business relationships. Thirty semi-structured interviews were conducted with managers from a multinational organisation, which is based in China, and fifteen with their nominated local suppliers.

### **Introduction**

In recent years, the growing influence of the Chinese economy in the international environment has increased awareness of the need for marketing research which specifically explores relationships in China (Fang, 2001). Understanding the dynamics of Chinese business relationships is particularly important if western organisations are to be successful within the Chinese market. This paper sets a backdrop and outlines the theoretical framework for the proposed research, which attempts to understand exchange business relationships in China. This paper begins with a brief overview of the importance of the proposed research. This is followed by a description of the theoretical framework, which guides this research and highlights the main constructs that will be explored. The next section focuses on the individual constructs, trust, adaptation and dependence indicating the differences between them in a Western and Chinese context. Finally, a brief summary of the research method is outlined.

### **Necessity of business relationship research in China**

The opening of the Chinese market has resulted in unprecedented change within the global environment. The Chinese economy has shifted from being centrally-controlled by government to a market-orientated one (Child and Tse, 2001; The World Fact book, 2006<sup>1</sup>), and this has impacted upon the growth and rise of the economy. This rise has been reinforced by her accession to the World Trade Organisation (WTO) and China has since become a global economic force (Economist, 2006). China is benefiting from increased access to foreign markets as exports of merchandise increased to US\$ 762.7bn in 2005 (Economist, 2006) as well as becoming the second largest recipient of Foreign Direct

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<sup>1</sup> <https://www.cia.gov/cia/publications/factbook/geos/ch.html> accessed on 30/9/2006

Investment (FDI), and is only surpassed in this respect by the United States. Being viewed as an opportunity to source low cost labour land and potentially 1.2 billion customers, of which 200

Author (Year)	Context (Country/Region)	Research Topic	Contribution
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million are affluent, it is considered as the third largest economy in the world (Davies et al, 1995; Wong and Tam, 2000). Despite this escalating importance of China, “business-to-business research in China is underdeveloped” (Fang 2006:50). Business relationships are central to interactions conducted between foreign and domestic and domestic to domestic organisations. If the Chinese market is of such great magnitude, domestically and globally as suggested by the statistics above, then the need to understand how business-to-business relationships in China is exemplified.

Research exploring how to develop and manage business relationships in China is predominantly conducted by academics with Chinese origins (Buttery and Wong, 1999; Wong and Chan, 1999; Wong and Tam, 2000; Lee et al, 2001) and it is questionable if this provides a systematic and coherent insight based on western perceptions and frameworks of business relationships. The existing relationships and networks literature focuses on Southeast Asian networks and relationships (Itthipassagul and Blois, 1999; Kriz and Ward, 1999; Purchase and Ward, 2002). Researchers that have adopted western frameworks to understand business-to-business relationship in the east, note the emphasis on the interpersonal aspect of the relationships (Fang and Kriz, 2000; Kriz and Ward, 1999, Itthipassagul and Blois, 1999). Summary table 1 highlights the main research and conceptual contributions made to this area. Limited research has been conducted in Mainland China, which focuses particularly on relationships. This research examines the perceptions of managers in business relationships in China. The next section explores the development of the theoretical framework, and how the research constructs of trust, adaptation and dependence were derived, and why it is important to study these three constructs in the context of Chinese business relationships.

Itthipassagul and Blois (1999)	Relationships (Thailand)	Mcniel's (1985) five norms used to illustrate the complexities of relationships in Thailand	Thai-Western and Thai eastern relationship differ in the relationship substance.
Kriz et al (1999)	Relationships & Networks (Thailand)	AAR model used to illustrate the differences between Western and Asian relationships	Modification to the AAR model. Actor substance should be split into individual and corporate bonds
Fang and Kriz (2000)	Relationship and Networks (China)	Illustrate factors which make Chinese business culture different from Western.	Modification to the AAR model. Individual's position at company level, Individual bonds at relationship level web of individuals at network level.
Wilson and Brennan (2001)	Relationship and Networks – UK-China (Conceptual paper)	Comparison of Chinese and (IMP) Western Approaches to relationships	Western and Chinese approaches to relationships are similar but also differ
Purchase and Ward (2002)	Networks (Australia and Thailand )	Uses AAR model in Thai context to establish a universal model	Modifications of the AAR model to include, actor bonds negative and networks constraints
Shu (2004)	Relationships (China)	Explores the interaction of Guanxi, Western relationship marketing and transactional marketing paradigms.	Transaction marketing and RM can co-exist. Guanxi and RM can co-exist but is context dependent – eg market structure, industry, strategy.
Zolkiewski and Feng (2005)	Portfolio of relationships (China)	Explores Guanxi in the context of relationship portfolios in a Chinese business context	Relationship Portfolio management differs in Chinese/ Western Context Relationship is supporting rather than critical dimension
Jansson and Ramstrom (2005)	Networks (Finnish/Swedish and China)	Comparison of different of Nordic and Chinese networks Effect when two networks meet.	A new network forms when these two networks meets – Mixed network The Chinese networking model began to resemble Nordic network
Ramstrom, et al (2006)	Networks and relationship (Conceptual- Russia, China, West Europe)	A conceptual comparative analysis of Chinese, Russian and Western European Networks, based on cognitive, normative and regulative structures	

**Table 1: Business-to-business Asia studies**

## Theoretical framework

Relationship atmosphere is essential in both understanding and managing business-to-business relationships (Roehrich and Spencer, 2001). Relationship atmosphere is a key component of the interaction approach (Hakansson, 1982). Business relationships develop and form through interactions which take place in an “emotional setting”; it is this setting which has been described as relationship atmosphere (Hallen and Sandstrom, 1991) which is a product and a by-product of the relationship (Hakansson, 1982; Roehrich and Spencer, 2001). Relationship atmosphere has five constituent elements, power/dependence, trust/opportunism, closeness/distance, cooperation/conflict and expectation (Hakansson, 1982). Relationship atmosphere is a product of the relationship (Hakansson, 1982) change in any of the constituent element of atmosphere will affect the relationship atmosphere and therefore the relationship. If relationship atmosphere is linked to the relationship, then relationship atmosphere provides a theoretical framework from which to determine the constituent elements that are important and that may influence business relationships in China.

There are similarities in the constructs which are considered to be important in developing and managing relationships in both western and the Chinese context (Fang and Kriz, 2000).

Although limited research has been conducted into business-to-business relationships in China, the research that has suggests that three relationship constructs, adaptation, dependence, and trust are important. The next section explains why it is important to understand these constructs.

Trust and dependence are two of the five constituents of relationship atmosphere, trust is possibly the most studied relationship atmosphere constituent in the IMP tradition and amongst other groups of scholars, and dependence is also widely discussed (Roehrich and Spencer, 2003). Research that has studied Chinese business relationships have found that the same relationships atmosphere constructs, trust (Armstrong and Yee, 2001, Kriz and Fang, 2003, Lee and Dawes 2005, Leung et al, 2005) and dependence (Zhuang and Zhou, 2004) are important in Chinese business relationships. The importance of the constructs both in eastern and western business relationships was a key determinant for their focus in this research. If the same constructs are important within Chinese business relationships (Leung, 1995; Wong, 1998) as western business relationship models (IMP), *why* are western managers having so much difficulty in understanding, establishing and managing relationships in China (Bjorkman and Kock, 1995; Yeung and Tung, 1996; Itthipassagul and Blois, 1999; Trimarchi, 2002).

Adaptation, although not a part of relationship atmosphere, is an important construct in dyadic relationships and the interaction model (Hallen et al, 1991; Brennan and Turnbull, 1995; 1996; 1997; 1998; Brennan et al, 2003). If adaptation can affect the relationship and therefore, the relationship atmosphere, understanding adaptation could help to further our knowledge of the relationship in a holistic fashion. Understanding trust, dependence, and adaptation which are important and similar, both in western and Chinese business-to-business relationships may extend our knowledge of how these relationship constructs differ in the west and China. Therefore, trust, dependence and the relationship construct of adaptation are identified as theoretical frameworks for this research.

If the same constructs are important in eastern and western relationships, it is important to understand *what* is different about these concepts (adaptation, trust and dependence) *how* does the role of the concepts differ in Chinese business relationships. If Chinese business relationships and

western business relationship consider the constructs, of trust, adaptation, and dependence to be important, describing the role and interplay of these constructs, can assist researchers in furthering their existing understanding of Chinese business relationships. The interrelation between the selected research constructs will be explored, immediately below.

Trust can be considered as a behavioural aspect of the relationship and dependence an economic aspect of the relationship (Izquierdo and Cillan, 2004). In a relationship where both parties are mutually dependent, the existence of trust is likely to result in a greater desire to maintain the relationship, (Izquierdo and Cillan, 2004). Trust can increase the willingness of parties to accept dependence and the intention to maintain long-term relationships (Svensson, 2004). Increased dependence, on the other hand, may have negative implications on trust (Gao, et al, 2005). The level of dependence is likely to affect the relationship atmosphere, as high levels of mutual interdependence may result in closer relationships (Izquierdo and Cillan, 2004) and unbalanced levels of inter-dependence may have negative impact on relationship atmosphere. Trust is also linked to adaptation; the willingness to adapt in a relationship can demonstrate the level of trust in the relationship (Hallen et al, 1991). The following section will discuss trust, adaptation and dependence, respectively, in the context of western versus Chinese relationships.

Each of the subsections begins with a summary of what the construct is in western relationships, which is followed by a discussion of the limitations of adopting western definitions and meanings for eastern relationships. Following this, a summary of the existing research which relates to the individual construct in Chinese business relationships and its limitations are presented. The gap in the existing literature and the limitations of previous research are used to derive the potential research questions.

## Trust

Trust in western relationships is considered to be a powerful determinant of business relationship success (Young and Wilkinson, 1989; Morgan and Hunt, 1994; Håkansson and Snehota, 1995; Child, 2001; Friman et al, 2002; Wong and Sohal, 2002), that can take place at an organisational or individual level and is considered as a combination of calculative or emotional feelings, that can be multidirectional. There are limitations with this understanding of trust, as there is no conceptual and operational clarity (Miyamoto et al, 2002; Gali and Nardin, 2003) or common linguistic expression for definitions and consensus on attributes amongst researchers (Blois, 1999). Such limitations are exacerbated when attempts are made to apply western understandings of trust to eastern business relationships, because the equivalent of western trust may not be present, therefore, there is a need to understand trust from a Chinese perspective, particularly, when attempting to understand the differences, as *“China provides a distinctive context for research on trust testing the limits of theories emanating from modern western societies”* (Child and Mollering, 2003, pg 69).

Existing research into trust in Chinese business relationships, classifies the Chinese as a low trust society (Fukuyama, 1995 cited in Fang and Kriz, 2000). Trust is reserved for kin and the Chinese generally do not trust outsiders and strangers (Bjkorkan and Kock, 1995) and, therefore, do not do business with people they do not trust (Herbig and Drew, 1998). In the Chinese business context trust is emotional, moral and contextual, this can be both opportunistic and constraining for business activities (Lui, 1998), and social and interpersonal aspects are a prerequisite for relationship management and development (Fang and Kriz, 2000). Personal trust is considered to be more important in China than any other location (Bjkorkan and Kock, 1995). Xiren is defined as deep personal trust in interpersonal relationships (Kriz and Fang, 2003) and is believed to differ from western trust. The level and depth of trust in Xiren is deeper and equates to emotional feelings (Kriz and Fang, 2003).

The orientation of trust differs in Chinese and western business relationships. In Chinese business relationships trust is “in group trust”, which is personal, in contrast to western business relationships where trust is “system trust” at an organisational level and is impersonal (Fukuyama, 1995 cited in Fang and Kriz 2000; Kiong and Kee, 1998; Child, 2001). Westerners trust the system rather than individuals (Wang, 2007). Thus, the Chinese attribute more importance to “rule of man” rather than “rule of law” (Groen et al, 2003). This inherently results in difficulties in trusting the legal system (system trust). Therefore, the Chinese tend to place their trust in individuals and on personal agreement rather than on contracts (Wang, 2007) and their commercial practices are largely dependent on “ingroup trust” (Leung et al, 2005), thus reinforcing the low trust nature of the Chinese, and the differences in orientation. The themes that prevail within the articles that address trust in Chinese business relationships are the differences in orientation of trust, the interpersonal nature of trust and trust and guanxi. Table (2) list the main differences in a western and Chinese context for all the constructs. Although, research that addresses trust specifically is not discussed individually, the findings are in the discussion above, and for purposes of completeness previous empirical research on trust, adaptation and dependence in Chinese business relationships is summarised in appendix (1). The limitations of these studies are noted immediately below.

The conceptual research on trust in Chinese business relationships, is predominantly from a personal perspective of trust in relationships and networks (Kiong and Kee 1998, Chua and Morris 2006). Empirical research that has attempted to study how the Chinese perceive trust in the business context has taken a one-sided perception of trust (Kriz and Fang, 2003, Lee and Dawes 2005, Leung et al, 2005), or is limited because of the sample focusing on one industry (Leung et al, 2005). Armstrong and Yee’s (2001), and Lee and Dawes’ (2005) study take a dyadic perspective, but are limited because they are not conducted in China, and therefore, cannot be considered to represent Chinese business relationships, (Itthipassagul and Blois, 1999).

It is important to note that none of the above mentioned research provides an understanding of trust in buyer-seller relationships in China, which is one of the primary goals of this research. Trust is considered to be integral to human relationships (Child, 2001) and because it is a human characteristic arguably trust will be determined by the culture of the individual. If trust is considered to be important in Chinese business relationships, then the knowledge about the role of trust and how it differs in the east from the west is imperative to further our knowledge of Chinese business relationships, and invaluable for academics and practitioners. Therefore, the following research questions will be addressed:

- *What is the role of trust in Chinese business relationships?*
- *How does this differ from the role of trust in western business relationships?*

## Dependence

It is impossible for any organisation to internally generate all the resources that they require, as a result interdependencies arise. The degree of dependence will depend on how much value is attributed to the resources the organisation requires (Hakansson, 1982). There are five underlying dimensions of dependence: time, economic, knowledge, social and technical dependence (Hakansson and Snehota, 1995). Dependence is determined by the extent to which the relationship is asymmetrical or symmetrical. The level of interdependence affects relationship orientation. Dependence and power are implicitly related, a causal relationship has been identified: the more dependent an organisation is, the higher their perception of their counterpart’s power (El-Ansary and Stern, 1972; Frazier, 1983; Gaski, 1984; Buchanan, 1992).

The causal relationship between power and dependence is reversed in Chinese culture (Zhuang and Zhou, 2004). Western organisations seek balanced relationships, as soon as one organisation

becomes more powerful and there is imbalance in the relationship, the less powerful organisation takes steps to reduce the imbalance. In Chinese marketing relationships individuals are consistently striving to become dependent on socially recognised and powerful individuals (Zhuang and Zhou, 2004). Therefore, a conscious or unconscious decision is made to depend on a source (individual) based on their power. This suggests that dependence is an important construct in Chinese business relationships.

The Chinese culture encourages harmony and inequality in relationships (five cardinal relationships), and thus, dependence is considered positively. If dependence is considered to be culturally specific then it is likely to differ in the causality and way it is approached by individuals, in the West. Therefore, understanding the role of dependence and *how* it differs from dependence in western relationships will enable western organisations operating in the Chinese environment to develop relationships more effectively with their Chinese counterparts and further our existing knowledge of this construct in eastern relationships. Therefore, the following research questions will be addressed:

- *What is the role of dependence in business Chinese relationships?*
- *How does this differ from the role of dependence western business relationships?*

## Adaptation

The concept of adaptation is enshrined in the interaction model (Canning and Brennan, 2004) and core in the analysis of buyer seller relationships (Brennan et al, 2003). Within the interaction approach episodes of exchange take place, such as social, financial, informational. It is within the elements of exchange that adaptation takes place; this can be for a single/major transaction or over a series of interactions (Canning and Brennan, 2004). Both buyer and seller within a business relationship can implement adaptation, which can take different forms such as formal/informal, conscious/unconscious, planned/unplanned, ‘ad hoc’ or tacit (Brennan and Turnbull, 1997) or minor/major (Canning and Brennan, 2004) adaptations. Adaptation on both the buyer and seller parts is an investment into a particular relationship which indicates commitment to that relationship and takes place continuously at different stages within the relationship (Ford, 1980).

Adaptation is influenced by culture (Fang, 2001). The behaviour of individuals who conduct interactions in relationships is inherently influenced by cultural aspects, therefore, differences in meanings, approaches and importance of adaptation may be attached to adaptation in western and Chinese business relationships. Therefore, it is important to understand the differences in the process of western and Chinese inter-firm adaptation. Appendix (1) provides a summary of the research that has studied adaptation in Chinese business relationships.

Furthermore, the investigations into adaptation have been from a Chinese perspective, specifically exploring the impact of culture (Wong, 1998; Buttery and Wong, 1999; Fang, 2001), and therefore lack an insight based on western understanding and perceptions. The proposed research aims to overcome these limitations and those of the previous empirical contributions. This can be achieved by attempting to understand Chinese perceptions of adaptation in buyer seller relationships from a western perspective. If adaptation is affected by culture, then it is important to understand what the role of adaptation in Chinese business relationships is and how this differs from western business relationships. Therefore, the following research questions will be addressed:

- *What is the role of adaptation in Chinese business relationships?*
- *How does this differ from the role of adaptation in western business relationships?*

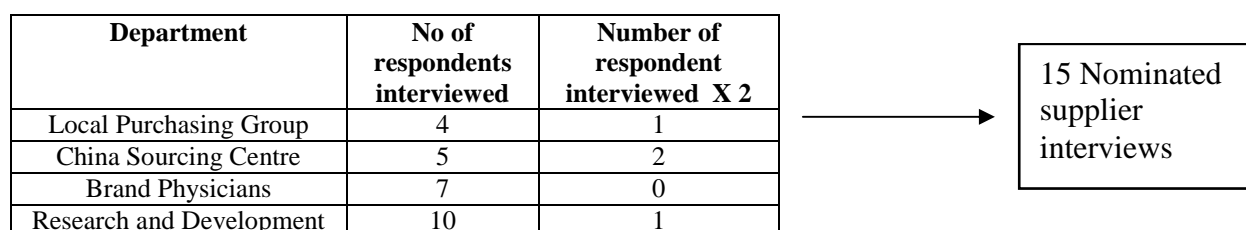
Construct	Western context	Chinese context
Trust	High trust	Low trust
Trust	System trust	Personal trust
Dependence	Balanced relationships	Unbalanced relationships
Adaptation	Positive adaptations	Negative adaptations

**Table 2: Comparison of constructs in Western and Chinese context**

## Research methods

Data was collected within a multinational pharmaceutical organisation which has operations in China. The researcher was based within the organisation and collected data from June 2007 December 2007. A qualitative approach was taken to the data collection and was conducted in two stages. The first stage involved interviewing managers within the organisation, and the second involved interviewing the suppliers. The unit of analysis was the perception of managers in business relationship in China.

Interviewing the managers within the organisation allowed the researcher to familiarise herself with the research context. Twenty-six semi-structured interviews were undertaken and four respondents were interviewed twice (See figure 1), observations during meetings, access to the corporate intranet and experiences whilst collecting data in the organisation was used as supporting evidence. Each interview lasted approximately one hour.



**Figure 1: Representation of internal and external interviews**

The four local purchasing managers who were interviewed in the first stage nominated suppliers that they considered to be important for the second stage of the interview process. The suppliers were categorised according to the complexity and importance of the resources to the buyer organisations, strategic, collaborative and opportunistic, respective orders of importance. The sample represented suppliers from all categorisations. In depth interviews were carried out with fifteen current suppliers across a range of industries, such as printing, advertising agencies, recruitment agencies, conference organiser and brand reminder suppliers. The interview questions were used to provide descriptions and examples and explanations of the respondent's perceptions related to the constructs, of trust, adaptation and dependence. Supplier interviews were translated externally, internal respondents were all fluent in English, and all interviews were transcribed by a third party. The internal and external data was analysed separately using a thematic approach, and a cross case comparison was conducted on the supplier interviews according to the categorisation provided by the buyer organisation. The results from the analysis will be presented at the conference.

## Conclusion

There is evidence to suggest that the three relationship constructs are important, however, there is no research to the author's knowledge that explores these relationship constructs in business relationships in China taking both buyer-seller perspectives. It is the belief of the researcher that adopting both buyer-seller perspectives will enhance our existing understanding of business

relationship in China. Further research is, therefore, required to fully understand these constructs in business relationships in China, and their difference in comparison to western relationship constructs.



Appendix 1: Previous empirical research on t

struct	Country	Context of study	Perspective of study
Yee	Malaysia	1.SME controlled by ethnic Chinese 2.Retailing, manufacturing, etc	Dyadic (matched Buyer-seller
(2003)	China	Variety of business organisations	Business manage
s (2005)	Hong Kong	Government and private sector	Buyer's
05)	Guanzhou, Guandong, regions of China	Clothing organisation managers	Clothing organisation suppliers
95)	Hong Kong	Range of industries, trading, manufacturing, retailing, servicing,	Supplier
in (1999) 'ong tion	Hong Kong	Range of industries, trading, manufacturing, retailing, servicing,	Supplier
	Chinese/ Danish	Shipping builders, ship owner	Supplier- Buyer, for some of the relationships
ou	China -Xi'an	Department stores and Suppliers	Supplier perspective

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