

The Dark Side of Sino - US Business Relationships: the Role of *Guanxi* in Managing Opportunism, Conflicts and Switching Intention

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Abstract

Prior studies on *guanxi* (關係) focused on how *guanxi* contributes positively to business relationships, without addressing how *guanxi* could be employed to manage the dark side of business relationships. This study investigates *guanxi*'s influence on conflict, opportunism, and switch intention in Sino-U.S. business relationships. Data collected from 273 Chinese firms were used for the analysis. The findings reveal that Chinese buyers' *guanxi* with U.S. suppliers significantly reduces the buyers' switching intention, opportunistic behavior, and the perceived levels of conflict in their relationships. Thus, Chinese buyers employ *guanxi* as a management mechanism to reduce the dark side of business relationships.

Keywords: *guanxi*, opportunism, conflict, switching intention, uncertainty, performance.

Introduction

Along with the globalization and rapid economic development in many Far Eastern countries, especially in greater China, business-to-business relationships between Western and Eastern counterparts have received heightened interest in academic and practitioner discourse (Yen & Barnes, 2011). This has led to a series of studies on the Chinese culture-specific construct of *guanxi* (關係), which can be briefly translated as the "interpersonal connections" among the participants in a relationship (Yeung & Tung, 1996). Over the past 30 years, the concept of *guanxi* has received significant attention because of its overwhelming influence on Chinese firms at both the macro and the micro levels (e.g., Hwang, 1987; Kiong & Kee, 1998; Wong, 2007; Zhuang, Xi, & Tsang, 2010).

However, despite growing interest in the buyer-seller domain and in Chinese business relationship (*guanxi*) research, two noticeable gaps were identified. Firstly, the majority of studies tended to conceptualize *guanxi* relationships that involve Western firms and managers in the same way as conceptualizing *guanxi* within China - between Chinese firms and managers. The literature has overwhelmingly and consistently conceptualized the antecedents of *guanxi* to be based on pure interpersonal variables (e.g., Yeung & Tung, 1996; Zhuang *et al.* 2010). While such conceptualization is appropriate within Chinese-Chinese business relationships, within established *guanxi* relationships that involve Western firms and managers maintaining good *guanxi* require not only interpersonal constructs but also inter-organizational constructs that are necessary for Western managers' continuous investment in their *guanxi* with their Chinese counterparts. Secondly, the extant research tends to examine how *guanxi* enhances relationships, focusing on how it helps to increase trust, commitment, cooperation, and coordination as well as performance (e.g., Kipnis, 1997; Chen, 2001; Zhuang *et al.*, 2010, Luo *et al.*, 2012). Few studies have examined how *guanxi* reduces the so-called negative relationship constructs, categorized by various conflicts and opportunistic behavior (Zhou, Zhang, & Yip, 2007). The only exception is Zhuang *et al.* (2010), who empirically test how *guanxi* can be used to reduce conflict through the mediating effect of exercised power. Studies that overlook relationship barriers such as opportunism and switching intention do not address a critical issue, namely, many Western firms are struggling to maintain their business relationships with Chinese counterparts because of their failure to establish close *guanxi* with the buyers' key relationship managers, despite positive business performance.

To address the above two research gaps and in order to provide better management of the dark side of business relationship where *guanxi* is involved, this study examines the impact of performance and uncertainty on conflict and switching intention through the mediating effect of *guanxi* and reduced supplier opportunism. This study expands the existing theoretical understanding of *guanxi* and examines how it reduces opportunism and decreases the perceived levels of conflict and buyers' switching intention in business relationships. The findings have several implications for Western firms—especially for suppliers who are keen to export into the Chinese market—to better develop and nurture long-term collaboration with their Chinese partners.

The rest of this paper is structured as follows. The review of the extant literature in Section 3 builds on the key theory and discusses pertinent prior research on how *guanxi* influences business relationships, with a particular focus on its impact in reducing conflicts, opportunism, and switching intention. Subsequently, the conceptual framework is outlined, which builds on both the Western buyer–seller relationship and the Chinese *guanxi* literature. The research approach and methodology are detailed in Section 3, and the research findings are presented in Section 4. The findings are discussed further in Section 5. Finally, several theoretical and practical implications are presented in Section 6 before directions for future research are provided.

Conceptual background

The Chinese notion of *guanxi* has received significant research attention within the field of business management since the 1980s. Prior studies attempted to explain the concept of *guanxi* and elaborate how it is practiced in business (e.g., Jacobs, 1979; Ambler, 1995; Kipnis, 1997). Most prior studies agree that *guanxi* is embedded within the social exchange theory; they define *guanxi* as close-knit ties and networks (Yeung & Tung, 1996) that are established through social interactions (Davies *et al.*, 1995). It consists of three sub-constructs, namely, *ganqing* (感情), *renqing* (人情), and *xinren* (信任) (Kipnis, 1997; Yen *et al.*, 2011).

Ganqing (感情) reflects the tenor of a social relationship as well as the emotional attachment that exists among the members of a network (Wong, 2007). It indicates the degree of mutual personal friendship and liking shared between two individuals (Wilson, 1995; Kipnis, 1997). *Renqing* (人情) broadly reflects the concept of “favor” in English, with the added rule of reciprocity (Hwang, 1987; Luo, 2001; Wong & Leung, 2001). The giving and asking of *renqing* is practiced with caution, as the Chinese are wary of revealing one's empathy toward the other party (Hwang, 1987; Wang, 2007). In Chinese culture, *xinren* (信任) represents trust; this concept emphasizes credibility and benevolence (Chen & Chen, 2004) at the interpersonal level (Chen, 2001). Through the advancement of *ganqing*, *renqing*, and *xinren* by engaging in activities such as visiting, exchanging favors, hosting banquets, wining and dining, and the giving and receiving of gifts (Kipnis, 1997; Chen, 2001; Wong & Leung, 2001; Yen *et al.*, 2011), the Chinese continue to cultivate and naturalize *guanxi* in order to help them secure limited resources and obtain more favorable positions and better competitive advantages in everyday life as well as in their business transactions (Standifird & Marshall, 2000; Styles & Ambler, 2003).

While earlier studies tended to be conceptual and explorative in nature, recent studies have begun to investigate *guanxi*'s impact on business relationships, specifically focusing on key relational constructs such as trust, commitment, satisfaction, and business performance, using empirically collected quantitative data (Wong & Leung, 2001; Leung *et al.*, 2005; Liu *et al.*, 2008; Yen & Barnes, 2011). However, most of these studies have three main limitations.

Firstly, many of the extant studies used relational constructs developed in the Western context to measure *guanxi*. For example, measures of social bonding were used to measure *ganqing* and reciprocity in order to infer *renqing* (Mavondo & Rodrigo, 2001). Since *guanxi* differs from relationship marketing in terms of the personal and particularistic nature of the relationship (Wang, 2007), these studies lacked validity because they used Western constructs when measuring

relationships with Chinese counterparts within the Chinese context (Tsang, 1988; Lee & Dawes, 2005). To address this issue and to reflect how *guanxi* is deeply rooted in the Chinese cultural context, Yen *et al.* (2011) used data related to Taiwanese buyers to propose and validate an authentic *guanxi* measurement scale that incorporates the three Chinese cultural-specific sub-constructs of *guanxi*, namely, *ganqing* (affective bond), *renqing* (reciprocation and favor), and *xinren* (personal trust).

Secondly, despite their effort to collect empirical data to further examine the influence of *guanxi*, prior studies tended to focus only on the positive side of *guanxi*'s influence. They explored how *guanxi* enhances and improves business relationships positively, focusing on cooperation and coordination (Buckley, Clegg, & Tan, 2006; Barnes *et al.*, 2011), commitment (Shi *et al.*, 2011; Chen *et al.*, 2011), trust (Lee & Dawes, 2005), and firm performance (Standifird & Marshall, 2000; Li & Sheng, 2011; Luo, 2012). Few prior studies discussed how *guanxi* could be used to manage and reduce the impact of negative relational constructs such as conflict and opportunism within business relationships (Zhuang *et al.*, 2010); thus, they overlooked the role of *guanxi* in reducing the dark side of business relationships.

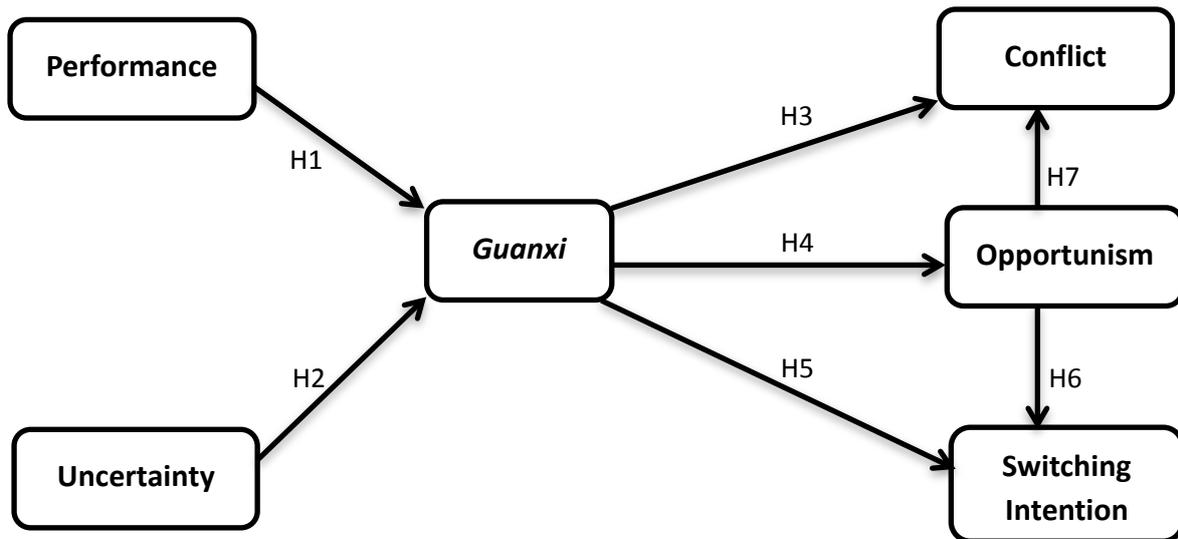
Thirdly, prior studies conceptualized the antecedents mainly from Chinese-Chinese relational context (e.g. Park and Luo, 2001; Lee and Dawes, 2005) and applied such conceptualization to *guanxi* relationships that were established and maintained with Western organizations. Within Western logic, it makes no sense to invest and continue *guanxi* relationships when business performance of the relationship is low. Thus, conceptualization of the antecedents of *guanxi* relationships with Western organization should not be the same as within Chinese-Chinese *guanxi* relationships.

To determine the influence of *guanxi* in reducing negative relational constructs, a conceptual model that has *guanxi* as the focal construct is proposed in this study. Performance and relationship uncertainty are positioned as the antecedents that contribute (positively or negatively) to *guanxi*. While prior studies have positioned performance as an output construct of *guanxi* (e.g. Luo, 1997; Barnes *et al.*, 2011; Luo, Huang and Wang, 2012), we argue that managing *guanxi* relationships with Western organizations must be driven and directly influence by business performance. The context of *guanxi* relationships that involve Western organizations is different from the usual Chinese-Chinese context. Thus, this study investigates whether business performance and relationship uncertainty between managers of the two organizations enhance/undermine *guanxi* between foreign suppliers (e.g., sales representatives) and local Chinese buyers (e.g., procurement managers). Finally, three negative relational constructs—opportunism, conflict, and switching intention—are positioned as outcomes to determine whether better *guanxi* between business partners reduces opportunistic behavior, level of conflict, and buyers' switching intention at the organizational level. This conceptual framework is presented in Figure 1, along with the seven hypothesized linkages, which are explained in conjunction with the constructs in the following sub-sections.

Performance

Performance is often viewed as the most significant outcome in studies of business relationships (e.g., Luo, 2002; Zhou *et al.*, 2010; Luo, 2012). Unlike satisfaction, which reflects the relationship manager's subjective evaluation of the relationship, performance is considered as a more objective gauge of a successful business relationship, often consisting of two dimensions, namely, operational and economic performance (Luo, 2012). Operational performance focuses on competitive and social indicators such as being productive, worthwhile, effective, and rewarding (Piercy, Katsikeas, & Cravens, 1996; Skarmeas *et al.*, 2002). Economic performance considers financial and market indicators; specifically, it directly represents the financial perspective of cost savings, profitability, sales targets, and market share (Moorman & Miner, 1997; Hewett & Bearden, 2001; Lee *et al.*, 2004).

Figure 1: The conceptual model



Prior studies often position performance as the outcome of *guanxi* (Grayson & Ambler, 1999), suggesting that a manager’s *guanxi* ties can directly and indirectly increase the company’s performance (Davies *et al.*, 1995; Chadee & Zhang, 2000; Luo & Peng, 2000; Shou, Chen, Zhu, & Yang, 2014). *Guanxi* ties between two partners could contribute to better financial performance because of the collaboration between the two firms (Yen & Barnes, 2011). Although the relation between *guanxi* and performance has been investigated in depth (e.g., Grayson & Ambler, 1999; Lee, Pae, & Wong, 2001; Shou *et al.*, 2014), few prior studies explored whether good relationship performance between two firms could lead to better *guanxi* between the relationship partners at the interpersonal level over time. Since good relationship performance between two firms will result in better individual performance appraisals and rewards, the sales representatives and procurement managers involved in such buyer–supplier relationships are more likely to work on their *guanxi* with each other. The strong performance achieved will motivate managers from both firms to engage in social interactions such as wining and dining to enhance their *guanxi* further. Based on the preceding discussion, hypothesis H1 is postulated:

H1: High levels of performance at the organizational level lead to increased *guanxi* at the interpersonal level.

Uncertainty

Uncertainty refers to the degree to which an organization cannot anticipate or accurately predict the future of its relationship with its business counterpart because of the unavailability of adequate, relevant, and timely information (Pfeffer & Salancik, 1978). Business relationships have varying degrees of dynamism; therefore, continuous anticipation, adaptation, and flexibility are required to ensure benign interaction (Park, Lee, Lee, & Truex, 2012). Incompatible interaction causes emotional instability, leading to doubts and uncertainty about the interaction (Berscheid & Walster, 1978); further, it encourages the questioning of the validity of the counterpart’s views (Tedeshi & Lindskold, 1976). Thus, business relationships are not free from uncertainty at any stage of development (Ford, 1980; Williamson, 1975). Conflicting and disagreeable interaction leads to misunderstanding and increased uncertainty about behavioral intention (Zaheer & Venkatraman, 1995). Thus, relationship uncertainty is particularly high in the development of the relationship (Ford, 1980) when new products or services are introduced (Park *et al.*, 2012), and when there is information inadequacy (Lee, 1998), lesser joint decision-making (Rosson & Ford, 1980), lack of clarity (Katsikeas, 1992), and high dynamism and complexity in the interaction (Siggelkow & Rivkin, 2005; Child &

Rodrigues, 2011). Relationship uncertainty reduces relationship attractiveness and results in a less comfortable and pleasant relationship (Ellegaard, 2012). Relationship uncertainty poses a challenge to the relationship: while it encourages the relationship partners to conceal information (Williamson, 1975), it requires swift action through increased flexibility in acquiring, processing, and interpreting the necessary information (Auh & Menguc, 2005).

Guanxi-based relationships are not exempt from uncertainty, as these relationships are equally dynamic and complex. Thus, relationship uncertainty influences the ability of the *guanxi* partners to predict their behavior and future intentions. According to Kiong and Kee (1998, p. 80), “*guanxi* is not static, but it changes over time.” Such changes necessitate the continuous anticipation and prediction of the future of the relationship (Gadde & Snehota, 2000). While relationship uncertainty is particularly challenging when the relationship involves a foreign buyer or supplier, it is arguably more impactful when evaluating *guanxi* with foreign partners. This is because the *guanxi* relationship exists at a personal level, which requires greater emotional closeness. According to Skarmeas *et al.* (2008, p. 26), “uncertainty may hinder the establishment of an importer's sense of unity and rapport with its foreign supplier.” Therefore, we argue that relationship uncertainty negatively undermines the strength of the *guanxi* relationship and could lead to weaker *guanxi*, unlike the case of environmental uncertainty, where it is argued that *guanxi* helps protect against and reduce environmental uncertainty (e.g., Standifird & Marshall, 2000; Fan, 2002; Wellman, Chen, & Dong, 2002).

H2: High levels of relationship uncertainty at the organizational level negatively influence *guanxi* at the interpersonal level.

Guanxi (關係)

Unlike prior studies on channel relationships that show that relational norms could be used to reduce opportunism (Gundlach *et al.*, 1995; Achrol & Gundlach, 1999; Brown *et al.*, 2000; Lai *et al.*, 2005), most prior research in the Chinese context tends to focus on the negative impact that opportunism has on *guanxi* (e.g., Lee *et al.*, 2001). However, in the industrial engineering literature, a recent study by Zai-xiao and Ming-li (2013) reported that *guanxi* reduces opportunism in business relationships. While this provides some support for the long-standing argument that *guanxi* relationships can create the capacity required to reduce the transactional costs associated with opportunism (Standifird & Marshall, 2000), this finding has not been tested within the context of the Western buyer–Chinese supplier relationship. Therefore, we propose that *guanxi* contributes to reduced supplier opportunism within a business relationship. Thus, we address Ryu, Jang, Lee, and Lee's (2012, p. 1311) call that “the relational aspects of *guanxi* may have negative effects on opportunistic behaviors...future research should determine the effects of *guanxi* and the interaction effects of *guanxi* on opportunistic behaviors.” Buyers could utilize their *guanxi* with suppliers as a strategic tool to reduce the suppliers' opportunistic behavior by emphasizing interpersonal trust, emotional attachment, and the reciprocal exchange of favors among key relationship partners. Based on this discussion, hypothesis H3 is postulated:

H3: High levels of *guanxi* at the interpersonal level lead to reduced supplier opportunism.

According to Zhuang *et al.* (2010), closer *guanxi* between key relationship partners could help to resolve conflicts more easily because the managers from both firms could serve as informal but easy-to-use communication channels to better justify and explain the matters of disagreement, hence reducing the intensity of conflicts (Su, Yang, Zhuang, Zhou, & Dou, 2009). In buyer–supplier relationships, *guanxi* is likely to be developed between key relationship managers such as procurement officers and sales representatives. When conflicts occur, better *guanxi* could prompt these relationship managers to adopt a more cooperative approach instead of a competitive approach to conflict management (Wong & Tjosvold, 2010). Hence, we propose that in buyer–supplier relationships, *guanxi* may reduce the frictions that are likely to cause conflicts, hence reducing the intensity of conflicts. Therefore, Hypothesis H4 is proposed:

H4: High levels of *guanxi* at the interpersonal level lead to reduced conflicts in the relationship.

The switching intention of a buyer refers to a customer's propensity to switch suppliers (Jones *et al.*, 2003). Empirical evidence shows that the costs of acquiring new customers often exceed the investments required to retain and/or build relationships with existing ones (Berry, 1995). Extant research shows that *guanxi* is often employed as a strategy to strengthen the ties between the sales representatives and procurement managers (Lee *et al.*, 2005). Yen *et al.* (2011) reported that better ties between sales representatives and procurement managers could contribute to better business coordination and cooperation at the organizational level. Within buyer–seller relationships, sales representatives are often the primary contact point for their procurement managers (Crosby *et al.*, 1990), and they can work on enhancing their *guanxi* with procurement managers directly. Gu, Hung, and Tse (2008) argued that *guanxi* can inhibit opportunistic behavior as well as switching intentions. Thus, sales representatives participate in the advancement of *guanxi*, and they are more likely to increase the buyers' favorability regarding the business relationships, thereby reducing their propensity to switch. Therefore, we propose hypothesis H5:

H5: High levels of *guanxi* at the interpersonal level reduce the buyers' intention to switch the supplier.

Opportunism

Opportunism is often considered as a negative aspect of buyer–supplier relationships (Heide *et al.*, 2007; Hawkins *et al.*, 2008). The most commonly cited definition of opportunism stems from Williamson (1975), who refers to opportunism as self-interest seeking behavior with guile. According to Mooi and Frambach (2012), guile involves exploiting opportunities with little regard for principles or consequences. Typical examples of opportunistic behavior include cheating, breach of contract, dishonesty, withholding information, deception, and revealing partial truth to disguise one's other purposes (Anderson & Gerbing, 1988; Morgan & Hunt, 1994; Hawkins *et al.*, 2008). Opportunism is a form of aggressive selfishness (Williamson, 1975; Lai *et al.*, 2005) where one party acts only with its own self-interest in mind. From a buyer's perspective, a supplier's opportunistic behavior does not consider the possible inconvenience or damage to the buyer, thereby inhibiting the attainment of a mutually beneficial relationship. Such opportunistic behavior could easily cause conflicts within the buyer–supplier relationship at both the functional and the emotional level (Rose *et al.*, 2007). Therefore, hypothesis H6 is proposed:

H6: High levels of supplier opportunism lead to increased conflict in the relationship.

A relationship partner's opportunism could decrease the other party's satisfaction with the relationship (Gassenheimer *et al.*, 1996), leading to changes in relational attitude and behavior (Raven & Kruglanski, 1970; John, 1984), and initiating the relationship termination process (Alajoutsijarvi *et al.*, 2000). Buyers who have suffered because of a supplier's opportunistic behavior are likely to be neither pleased with the relationship nor happy about working with the supplier on a continuous basis. The opportunistic behavior of a supplier in a buyer–supplier relationship could easily cause direct damage to the buyer's business performance in the form of increased cost, reduced profitability, lesser financial performance, and the general loss of efficiency and productivity (Low, 1996; Zaheer *et al.*, 1998; Doney & Cannon, 1997). Therefore, we propose that a supplying firm's opportunistic behavior could reduce the buyer's willingness to continue their collaboration and increase the buying firm's intention to switch and find an alternative supplier. Thus, hypothesis H7 is postulated:

H7: High levels of supplier opportunism increase buyers' intention to switch the supplier.

Method

Responding to the calls made by Barnes *et al.* (2011) and Yen *et al.* (2011), we chose China as the context of study based on several important considerations. Firstly, *guanxi* is more prevalent in China than in other Chinese markets such as Taiwan. Secondly, the sheer size and growth of the Chinese

economy attract Western companies to the Chinese market. Thirdly, given that the objectives of this study are to understand the mediating role of *guanxi* and its influence on conflict, opportunism, and switching intention, and since the literature has found buyer–supplier relationships to be significantly and negatively impacted by the distance that exists in relationships (Vaalan, Haugland, & Purchase, 2004; Lionidou, Barnes, & Talias, 2006), the relationships between Chinese importers and U.S. exporters are ideal to examine whether *guanxi* reduces the influences of conflict, opportunism, and switching intention.

Data collection

A global marketing research agency specializing in business-to-business (B2B) panel data collection in China was employed to assist with the data collection process. From the agency's existing panel, Chinese buyers currently involved in procurement from U.S. suppliers were identified. Once the potential participants were identified, an online email invitation was sent to invite the buyers to participate in the survey. To encourage participation, reward points were given by the market research agency to those who successfully completed the survey. Two waves of reminder emails were sent during the data collection period, between January and February 2013, to boost the response rate. The total number of returned questionnaires was 302. Cases involving firms at the introductory phase of their relationship were removed because of their lack of sufficient knowledge of the business relationships. Thus, 29 questionnaires were eliminated from the analysis, yielding a final sample of 273.

The questionnaire comprises three parts. The first section focuses on identifying the type of relationships that exist in the sample; there are questions about the size and frequency of interaction, type of imported goods/services, length of relationships, etc. The second part contains all the scales for measuring the constructs in the theoretical model. The third part includes demographic questions about the sample. The research instrument used in this study was first developed in English and then translated into Chinese. In order to ensure readability, clarity, and linguistic equivalence, the method of back translation was employed (Brislin, 1986). The process began with a forward translation of the questionnaire into Chinese by one of the authors, followed by a blind back translation by another academic staff of Chinese origin who specializes in international business. The two versions were discussed and compared, and necessary changes were made to ensure face validity. The final version was passed onto the market research agency, which produced and uploaded an online survey questionnaire. The questionnaire was subsequently checked by one of the authors and 10 Chinese postgraduate students to eliminate any operational errors.

Sample

The respondents included in the study were all Chinese companies. They were asked to relate their answers to their firms' fourth largest U.S. industrial supplier in order to avoid positive evaluation bias (Barnes *et al.*, 2006). The length of the relationships between the Chinese importers and their U.S. suppliers was 1–3 years (35.3%), 4–6 years (39.7%), 7–9 years (13.7%), and over 10 years (11.3%). The majority of the Chinese importers had actively sought their U.S. supplier (86.7%); only 13.3% of the suppliers were unsolicited. Of the 273 respondents, 62.7% stated that they are the sole distributor for their U.S. supplier in China, which could reflect some degree of the supplier's dependence on the buyer in the relationship. The respondents were asked to describe their relationship with their U.S. counterparts. Most of the respondents (62.3%) described their relationship as stable and mature. Of the remaining respondents, 30.7% stated that their relationships were in a state of rapid growth, 4.3% were at an early stage, 2% were in a state of slow decline, and only 0.3% of the relationships were in a state of rapid decline. Further, the respondents were asked to indicate the degree of standardization versus customization of purchased components in the exchange. Most purchases (62.4%) were of a customized nature, 29% of the purchases were of a standardized nature, and only 8.7% of the purchases involved both standardization and customization.

The respondents described their companies as small (21.7%), medium (70.3%), or large (8%). In terms of the U.S. suppliers' size, the respondents described their U.S. supplier as small (37%), medium (58.3%), or large (4.7%). The respondents had been working for their companies for different durations: less than 2 years (5.3%), 3–5 years (32.6%), 6–9 years (35%), or over 10 years (27%). The respondents had different positions in the firms: owner (6.3%), senior manager (69%), manager in the purchasing department (22%), and other (2.7%). The respondents' average age was 38 years, and their gender distribution was 57% male to 43% female. Thus, the respondents are directly involved in managing the relationship with their U.S. suppliers and are well qualified to address the issue under consideration.

Measures

The questionnaire comprised measures and scales from established studies that were previously and repeatedly tested for validity and reliability. All the items' statements were measured on a 7-point Likert scale, ranging from 1 ("strongly disagree") to 7 ("strongly agree"). The scale for measuring *guanxi* (關係) was adopted from Yen *et al.*'s (2011) GRX model. The first four items measure *ganqing* (感情), focusing on being open and friend-like with the supplier and being considerate to the supplier's feelings. The next four items measure *renqing* (人情), which reflects the exchange of help and the giving and receiving of favors. The final three items measure *xinren* (信任) using reversed items, which measure the trustworthiness and selfishness of the supplier's representative.

The scale for overall conflict was adapted from Jehn (1994) and Rose *et al.* (2004). This scale contains measures for both emotional conflict and task conflict (thus combining both dimensions of conflict), as we are interested in measuring overall conflict. The measures for emotional conflict reflect friction and personality clashes in the relationship, whereas task conflict is measured by the disagreement regarding existing/historic tasks and forthcoming tasks. Opportunism reflects the temptation of "self-seeking behaviour with guile" (Williamson, 1975, p. 26). The measurement for opportunism was adopted from Rokkan, Heide, and Wathne (2003); the scale contains six measures. Two measures related to lying and not performing the promised behavior were developed by John (1984). Two other measures were developed by Gundlach, Achrol, and Mentzer (1995), which reflect "not acting in accordance with the contract" and "breaching an informal agreement." The last two measures were developed by Rokkan *et al.* (2003); they reflect partners taking advantage of "holes" in the contract and using unexpected events to force concessions. In this study, we use only the two measures developed by Rokkan *et al.* (2003), as close examination of the first four measures revealed an overlap in meaning with the measures of conflict. Therefore, we decided to use only Rokkan *et al.*'s (2003) two measures as these fit well with the definition of opportunism.

The switching intention consisted of one item: "willingness to substitute this supplier with an alternative in the near future." This measure is consistent with the approach used in prior studies that measured behavioral intention (Liu, Furrer, & Sudharshan, 2001; van Birgelen, de Jong, & de Ruyter, 2006). Given the B2B nature of this study, this single-item scale is considered to be suitable for measuring behavioral intention as it is consistent with prior research using a similar measurement (Williams, Khan, Ashill, & Naumann, 2011). Similar to the scale for conflict, the scale for performance includes financial performance and relational performance. Combining these two dimensions of business performance, this study adopted two measures from Skarmeas *et al.* (2002) for relational performance ("time and effort have been worthwhile" and "the relationship has been effective"). Two other measures were adopted from Moorman and Miner (1997), Hewett and Bearden (2001), and Lee *et al.* (2004). These two measures focus on profitability that has increased because of the successful sales of the supplier's products.

Uncertainty was measured using the scale developed by Glattebuck (1976), which was modified by Jorgensen and Petelle (1992). The scale contains seven items: the ability to predict supplier's behavior, certainty that the supplier likes to do business with the buyer, sharing similar values,

accuracy in predicting the supplier's attitude, ability to predict supplier's preference well, knowing the supplier well, and difficulty in predicting the future of the relationship (negative item).

Results

In order to ensure that the measures are appropriate for testing the hypotheses, all the measures were subjected to a rigorous assessment of reliability and validity. The assessments were conducted using LISREL 8.8. Structural equation modeling enables the verification of statistical efficiency and the effective testing of multiple relationships among the constructs simultaneously (Hair, Anderson, Tatham, & Black, 2006). Table 1 presents the scales, the items retained, the mean and standard deviation, Cronbach's alpha, average variance extracted, and the factor loadings.

Table 1: Mean, standard deviation, average variance extracted, Cronbach's alpha, and factor loading

Constructs/Statements	Mean (S.D.)	Cron. α	AVE	Statement Loading
Performance:				
- The relationship between our firm and this supplier has been very productive.	5.6 (.94)	.91	71.4	.887 (*)
- The relationship between our firm and this supplier has been very effective.	5.7 (.89)			.852 (19.4)
- We have a very rewarding relationship with this supplier.	5.6 (.92)			.824 (18.2)
- There were significant cost savings resulting from doing business with this supplier.	5.3 (1.0)			.757 (15.7)
- The relationship with this foreign supplier helped us perform better financially.	5.5 (.94)			.851 (19.4)
- This supplier's brand/products have achieved the market share to original objectives for the most recent annual fiscal period.	5.5 (.92)			.878 (20.7)
Uncertainty:				
- Generally, we are able to predict our supplier's behavior.	2.73	.85	64.05	.692 (*)
- We are sure that our supplier shares same values as we do.	(1.1)			.777 (11.7)
- We are accurate at predicting our supplier's attitudes.	2.37			.814 (12.2)
- We can predict our supplier's preference well.	(.90)			.815 (12.3)
- We know our supplier very well.	2.75			.890 (13.2)
	(.93)			
	2.62			
	(.89)			
	2.35			
	(.92)			
Guanxi:				
- My supplier's representative and I are able to talk openly as friends.	5.5 (1.1)	.81	73.33	.823 (*)
	5.6 (.98)			.840 (15.6)
- If I were to change this business supplier, I would lose a good friend.	5.5 (.96)			.750 (13.5)
- I would consider whether my supplier's representative's feelings would be hurt before I made an important decision.	5.7 (1.0)	.80	83.16	.870 (*)
- I feel a sense of obligation to this supplier's representative for doing him/her a favor.	5.8 (.94)			.840 (17.1)
- The practice of "give and take" of favors is a key part of the relationship between my supplier's representative and me.	5.1(1.7)	.95	91.90	.940 (*)
	5.3(1.7)			.968 (34.8)
- This supplier's representative is only concerned about himself/herself.	5.4 (1.8)			.937(30.6)
- The people at my firm do not trust this supplier's representative.				
- This supplier's representative is not trustworthy.				

Conflict:					
- There is friction in our relationship with the supplier.	3.0 (1.6)				.843 (*)
- There is anger in our relationship with the supplier.	2.4 (1.5)				.935 (21.2)
- There are personality clashes in our relationship with the supplier.	2.6 (1.6)	.93	79.03		.906 (20.1)
- People in my firm disagree with people from the supplier's firm regarding the work they do for us.	2.7 (1.5)				.857 (18.2)
- We disagree with our supplier regarding the up-coming tasks.	2.9 (1.4)				.841 (17.6)
Opportunism:					
- On occasion, this supplier lies about certain things in order to protect its interests.	2.7 (1.7)				
- This supplier sometimes promises to do things without actually doing them later.	2.9 (1.6)				.857 (*)
- This supplier does not always act in accordance with our contracts.	3.3 (1.8)	.90	73.86		.852 (18.2)
- This supplier will try to take advantage of "holes" in our contract to further their own interests.	3.1 (1.7)				.742 (14.5)
- This supplier sometimes uses unexpected events to force concessions from our firm.	2.8 (1.6)				.888 (19.6)
					.901 (20.1)
Switching Intention:					
- Our company will try to substitute this supplier with an alternative supplier in the near future.	3.6 (1.4)	n/a	n/a		n/a

* Value was fixed to 1 to set the metric for the other items.

The reliability of all the constructs ranged from .80 to .95. The average variance extracted for the constructs ranged from 64.05 to 91.9. All the results were well above the threshold of .60 for reliability (Fornell & Larcker, 1981) and .50 for variance extracted (Hair *et al.*, 2006). Evidence of convergent validity is provided by the *t*-values for statement loadings greater than 2 (Segars, 1996; Diamantopoulos & Schelegelmilch, 2000). The *t*-values (ranging between 11.7 and 34.8) are well above the threshold, providing very good support for the convergent validity for all loadings. The range of R² for all the indicators varies between .40 and .85. Finally, discriminant validity was assessed using Fornell and Larcker's (1981) method, where the shared variance between two constructs is compared with the average variance extracted (AVE) for each construct in the model. An AVE value that is greater than the shared variance is evidence of discriminant validity. Table 2 presents the correlations, squared correlations, and the AVE. Table 2 shows that the AVE is greater than the squared correlations for all the constructs. Thus, discriminant validity is established.

Table 2: Correlation matrix, squared correlations, and average variance extracted

	1	2	3	4	5	6
1- Guanxi	.77	.404	.391	.173	.417	.453
2- Conflict	-.636	.79	.644	.077	.132	.162
3- Opportunism	-.626	.803	.73	.079	.139	.154
4- Switching intention	-.416	.403	.282	-	.067	.078
5- Uncertainty	-.646	.364	.374	.260	.64	.514
6- Performance	.673	-.402	-.392	-.280	-.717	.71

Note: Correlations are below the diagonal (significant at $p < .01$); squared correlations are above the diagonal; AVE estimates are on the diagonal.

Further evidence was established using unidimensionality tests. The unidimensionality test for the constructs was performed as suggested by Anderson and Gerbing (1988). All the constructs passed the unidimensionality tests, the results of which are shown in Table 3. Since the scale for *guanxi* contains three dimensions (*ganqing*, *renqing*, and *xinren*), these three dimensions were all included in a single measurement model, resulting in the deletion of only two items, thereby achieving a good statistical

fit. Since switching intention was measured using a single measure, it was not possible to include switching intention in the unidimensionality tests. Using these results, which demonstrate sufficient validity and reliability of the data, we tested the theoretical structural model.

Table 3: Unidimensionality tests

	X^2 (df)	CFI	NFI	GFI	AGFI	RMSEA
Performance	11.07 (9)	.99	.99	.98	.96	.029
Uncertainty	12.2 (5)	.99	.98	.98	.94	.072
Guanxi	43.89 (17)	.98	.98	.96	.92	.076
Conflict	8.10 (5)	.99	.99	.98	.96	.048
Opportunism	8.51 (5)	.99	.99	.98	.95	.064

To test for mediation, we followed Zhao *et al.*'s (2010) suggestions. Since *guanxi* is the only mediator in the model (opportunism was not found to be a mediator), the structural model had to be subjected to different mediation tests using an unmediated/direct effects model, a partial (direct effects and with mediator) mediation model, and a full mediation model. Of these models, the partial mediation model provided the weakest statistical fit; none of the direct links were found to be significant. The unmediated model provided a better, but not significant, fit. The full mediation model showed a markedly improved statistical fit, and better and significant coefficients for all the hypotheses. Therefore, we used the full mediation model to assess the hypotheses. Table 4 presents the results of the mediation tests.

Table 4: Mediation tests

Relationship	Direct without mediator	Direct with mediator	Indirect mediation
uncertainty – opportunism	.143 (NS)	-.106 (NS)	Sig. (Indirect-only mediation)
uncertainty – conflict	.134 (NS)	-.130 (NS)	Sig. (Indirect-only mediation)
uncertainty – switch intention	.62 (.001)	-.107 (NS)	Sig. (Full Mediation)
performance – opportunism	-.48 (.02)	-.115 (NS)	Sig. (Full Mediation)
performance – conflict	-.61 (.001)	-.107 (NS)	Sig. (Full Mediation)
performance – switch intention	-.20 (.05)	-.154 (NS)	Sig. (Full Mediation)
CFI	.95	.84	.99
GFI	.94	.83	.98
RMSEA	.220	.441	.020
X^2 (df)	35.1(3)	131(3)	5.63(7)

The hypothesized links among the constructs in the theoretical model were tested. Following Hu and Bentler's (1999) suggestion for the structural model, the incremental fit measures used were CFI and IFI (greater than .90). For the absolute fit measures, we used χ^2 statistic, RMSEA (less than .06), GFI (greater than .90). The estimation of the model resulted in a very good fit: χ^2 (df) = 5.63 (7), p -value = .57, GFI = .98, IFI = .99, CFI = .99, RMSEA = .02. All the indices showed a good fit, reflecting the robustness of the model. Table 5 presents the estimation of the model, including total effect, direct effect, and indirect effect.

The estimation of the model provides good support for all the hypotheses in the theoretical model. The results show that uncertainty significantly decreases *guanxi* among Chinese buyers, as was predicted (H1: $\beta = -.320$, $p < .001$). Since uncertainty negatively affects the *guanxi* relationship among Chinese buyers, uncertainty significantly increases opportunism indirectly as well as through the reduced *guanxi* (H1a: $\beta = .200$, $p < .001$). Similarly, uncertainty indirectly and significantly increases the level of conflict in the relationship (H1b: $\beta = .204$, $p < .001$) and the possibility of switching from the relationship (H1c: $\beta = .133$, $p < .0025$). Thus, the impact of uncertainty on the relationship is negative as it directly reduces the positive construct of *guanxi* and indirectly increases the dark side of the relationship.

Table 5: Model estimation results

	Hypothesized effect	Estimates
H3: Guanxi → Opportunism	(-)	-.626*
H4: Guanxi → Conflict	(-)	-.220*
H5: Guanxi → Switch intention	(-)	-.190*
H6: Opportunism → Switch intention	(+)	.363*
H7: Opportunism → Conflict	(+)	.665*
Dual effects of uncertainty: total effect		
H1: Uncertainty → Guanxi (direct effect)	(-)	-.320*
H1a: Uncertainty → Guanxi → Opportunism (indirect effect)	(+)	.200*
H1a: Uncertainty → Guanxi → Conflict (indirect effect)	(+)	.204*
H1a: Uncertainty → Guanxi → Switch intention (indirect effect)	(+)	.133**
Dual effects of performance: total effect		
H2: Performance → Guanxi (direct effect)	(+)	.454*
H2a: Performance → Guanxi → Opportunism (indirect effect)	(-)	-.284*
H2a: Performance → Guanxi → Conflict (indirect effect)	(-)	-.289*
H2a: Performance → Guanxi → Switch intention (indirect effect)	(-)	-.189*

*significant at $p < .001$; **significant at $p < .0025$ (1-tail)

Contrary to the role played by uncertainty in the relationship, performance as a key positive driver of relationships was found to directly and positively increase *guanxi* among Chinese buyers (H2: $\beta = .454$, $p < .001$). Additionally, performance—indirectly and through *guanxi*—was found to significantly reduce opportunism in the relationship (H2a: $\beta = -.284$, $p < .001$) and the level of conflict (H2b: $\beta = -.289$, $p < .001$), and to reduce switching intention in the relationship (H2c: $\beta = -.189$, $p < .001$). These findings indicate that while uncertainty negatively affects the relationship, performance has a more significant and positive impact on the relationship, both directly and indirectly.

The full mediating role of *guanxi* in the model clearly shows the importance of *guanxi* among Chinese buyers. The direct influence of *guanxi* on the dark side of the relationship is significant. *Guanxi* is found to directly and negatively reduce opportunism in the relationship (H3: $\beta = -.626$, $p < .001$). Similarly, *guanxi* is found to directly and negatively influence the level of conflict in the relationship (H4: $\beta = -.220$, $p < .001$). Further, *guanxi* is found to significantly reduce the intention of relationship partners to switch to a new partner (H5: $\beta = -.190$, $p < .001$). Thus, *guanxi* is found to be essential in dealing with the dark side of business relationships, not only directly but also indirectly, as *guanxi* indirectly helps to reduce the impact of the negative constructs on the relationship. However, *guanxi* is always threatened by uncertainty, which should be understood and managed accordingly.

Finally, the output variables were found to have significant influence. Opportunism in the relationship was found to increase switching intention (H6: $\beta = .363$, $p < .001$). In turn, opportunism was found to significantly increase conflict in the relationship (H7: $\beta = .665$, $p < .001$). Although these findings are not necessarily new, they are significant in the context of the *guanxi* relationship involving Chinese buyers.

Discussion

The extant *guanxi* literature generally focused on exploring and investigating *guanxi*'s positive impact on business relationships. This study makes the first attempt to empirically investigate *guanxi*'s influence on reducing and minimizing negative relationship constructs, such as conflict, opportunism (Zhou *et al.*, 2007; Zhuang *et al.*, 2010), and the buyer's switching intention (Jones *et al.*, 2003). The findings suggest that when buyers perceive better *guanxi* at the interpersonal level with the supplier's sales representative, they perceive the suppliers as being less opportunistic, and the business relationships as having less conflict, which will reduce their intention to switch to another supplier. The findings extend the existing understanding of *guanxi* by showing that *guanxi* can promote positive relationship outcomes such as trust, commitment, and satisfaction (e.g., Lee & Dawes, 2005; Yen & Barnes, 2011; Barnes *et al.*, 2011). Moreover, *guanxi* is influential in reducing unwelcome relationship constructs such as conflict, opportunistic behavior, and ultimately the switching intention in Sino-U.S. business relationships. These findings are important in that they confirm Gu *et al.*'s (2008) argument that *guanxi* impedes negative relational behavior, including opportunism and switching intention.

Further, the findings confirm that relationship performance at the organizational level significantly contributes to better *guanxi* at the interpersonal level between relationship managers such as sales representatives and procurement managers, extending the debate about the causal relationship between *guanxi* and performance (Luo *et al.*, 2012). While it is known that better relationship performance between the dyadic firms leads to *guanxi* at an interpersonal level, this study suggests a new way of examining the interplay between interpersonal *guanxi* and inter-organizational business relationships, indicating that there is a reciprocal influence between *guanxi* and performance. This interaction between *guanxi* and performance resembles the Chinese concept of Yin (陰)–Yang (陽), which is ascribed to the ancient Chinese philosopher Laozi (fifth century BC). The concept of Yin and Yang describes how two contrary forces (e.g., the female and the male; the moon and the sun) are actually complementary and interconnected, giving rise to each other as they interrelate to each other. The concept of Yin and Yang explains how duality forms a whole; it can also explain how *guanxi* at the interpersonal level complements performance at the inter-organizational level, and how, together, they strengthen the relationship bonds between the actors involved in a relationship dyad.

Additionally, uncertainty is proven to significantly reduce *guanxi*, suggesting that when buyers are less certain about the suppliers' attitudes and are unable to clearly predict suppliers' relational behaviors, they become less engaged in *guanxi*. While most extant studies on the relationship between *guanxi* and uncertainty focus on the role of *guanxi* in reducing uncertainty (e.g., Standifird & Marshall, 2000; Fan, 2002; Wellman *et al.*, 2002), our findings confirm the negative impact of relationship uncertainty on *guanxi*, especially in the context of Sino–U.S. buyer–supplier relationships. Contrary to Lee *et al.*'s (2001) finding that uncertainty positively enhances *guanxi*, our findings show that relationship uncertainty weakens *guanxi* in the relationship. Thus, dealing with and managing the level of uncertainty within the relationship is important for maintaining and enhancing strong *guanxi*, and ultimately, for ensuring the success of the relationship.

Further, *guanxi* is established as a mediator that affects the relationships among performance, uncertainty, conflict, opportunism, and switch intention. The findings show that uncertainty has a positive, indirect-only effect on conflict and opportunism through reduced *guanxi*, while uncertainty increases switching intention through the full-mediation of *guanxi*. These findings related to *guanxi*'s mediation effects confirm that uncertainty—through reduced or weakened *guanxi*—increases opportunism, conflict, and switching intention in the relationship. Thus, foreign suppliers of Chinese buyers need to be vigilant about sources of relationship uncertainty and should aim to minimize relationship uncertainty by involving their Chinese counterparts in decision-making, sharing of information, and clarifying issues related to their interaction.

The findings also show that relationship performance has an indirect effect on all outcome constructs through the full-mediation of *guanxi*. Performance helps reduce conflict, opportunism, and switching

intention in the relationship. Without *guanxi*, performance and uncertainty cannot significantly influence conflict, opportunism, or switch intention, suggesting that reduced *guanxi* is bad for the relationship as it allows for an increase in the dark side of the relationship, while enhanced *guanxi* is good for the relationship as it helps to protect the relationship from this dark side. Thus, *guanxi* is essential in foreign supplier–Chinese buyer relationships.

Finally, the findings contribute to the existing debate on how opportunism can often lead to negative outcomes by revealing that suppliers' opportunistic behavior significantly increases conflict as well as buyers' intention to switch (Gassenheimer *et al.*, 1996; Morgan & Hunt, 1994). When buyers perceive the suppliers as being aggressively selfish (Williamson, 1975; Lai *et al.*, 2005), the buyers may see the relationship as having greater incompatibility both at the functional task level and at the emotional level (Rose *et al.*, 2007), which would inevitably increase the buyers' propensity to transfer their business to another supplier (Morgan & Hunt, 1994).

Managerial relevance and conclusion

Although the concept of *guanxi* has been the subject of various prior studies that focused on how *guanxi* helps to increase and strengthen trust, commitment, cooperation, and performance (e.g., Kipnis, 1997; Chen, 2001; Wong, 2007; Zhuang *et al.*, 2010; Luo *et al.*, 2012), its role and significance in the reduction of negative constructs such as conflict, opportunism, and switching intention have not received much research attention. In order to understand the role of *guanxi* in relation to these so-called negative constructs, a clearer understanding of how *guanxi* reduces these constructs and the mediating role it plays would add significantly to the extant literature. Addressing how *guanxi* could be employed to manage the dark side of business relationships from theoretical and empirical perspectives yields fruitful findings for managers, especially those from Western firms exporting to China. The findings identified several ways in which managers could deploy effective management mechanisms using *guanxi* to reduce the levels of conflict, opportunism, and switching intention in their relationships with their Chinese counterparts.

The findings suggest that when Chinese buyers perceive better *guanxi* at the interpersonal level with U.S. suppliers, they are more likely to perceive such Sino–U.S. business relationships as having less conflict and the suppliers as being less opportunistic; therefore, the buyers are likely to have a lower intention to switch. The findings highlight the significance of engaging in *guanxi* practices when doing business with Chinese counterparts (Yen & Barnes, 2011). Through social interactions such as wining and dining, the reciprocal exchange of favors, and demonstrating honesty and integrity in daily conduct of behavior (Chen, 2001), U.S. suppliers can further advance *ganqing*, *renqing*, and *xinren*, thereby nurturing their *guanxi* with the Chinese buying firms' relationship managers (Yen *et al.*, 2011). Similarly, when Chinese buyers acknowledge that there is better *guanxi* with the suppliers' sales representatives, they are more likely to perceive the business relationships as less troublesome and as having less conflict (Rose *et al.*, 2007). Further, these established bonds may help to reduce the buyers' switch intention, thereby securing their business relationships with the Chinese buying firms.

Additionally, given the interconnected relations between relationship performance and *guanxi*, managers would need to work on further enhancing their business relationship performance, focusing on increasing the operational effectiveness and economic output of the two counterparts. When buyers perceive the relationship as being more productive and worthwhile, with increased profitability, reduced costs, and better sales targets (Skarmeas *et al.*, 2002; Hewett & Bearden, 2001; Lee *et al.*, 2004), the buyers would be more willing to invest their effort and time in advancing their *guanxi* with such suppliers. This is especially important for Western firms that wish to enter the Chinese markets. *Guanxi* can only be built over time; instead of focusing all efforts on how wining and dining and other social interactions could facilitate *guanxi* at the interpersonal level, it is important to deliver good business performance at the inter-organizational level. This would lead to win–win relationships that are considered fruitful at both the organizational as well as interpersonal levels, resulting in yin–yang harmony for the buyer and supplier firms as well as the procurement and sales personnel involved in such business relationships.

Further, the findings about the correlation between relationship uncertainty and *guanxi* and the mediating role played by reduced *guanxi* are significant: foreign firms aiming to take their relationships with their Chinese counterparts to an even higher level of cooperation need to be aware of the undermining effect that relationship uncertainty has on *guanxi*. Thus, relationship managers must be vigilant about sources of relationship uncertainty by focusing on clarifying their relational behavior through clearer communication, increased joint decision-making, regular interaction, and sharing of information. Managers of business relationships that involve foreign suppliers and Chinese buyers must appreciate the effects of cultural and psychological distance on relationship uncertainty. Thus, while establishing *guanxi* in the relationship is most helpful, overtime, *guanxi* must be protected from the relationship uncertainty caused by the inability to predict the *guanxi* partner's relational behavior and the lack of understanding of what each party expects from the other.

Limitations and future research

This study examined overall *guanxi* as a first step in studying the mediating role of *guanxi* between uncertainty and performance on the one hand, and conflict, opportunism, and switching intention on the other. Future studies could examine the mediating role of the sub-dimensions of *guanxi*, namely, *ganqing*, *renqing*, and *xinren* (Yen *et al.*, 2011). We believe that the examination of these dimensions would reveal more interesting and useful findings. In addition, future studies could examine the mediating role of *guanxi* between these constructs within the context of the domestic Chinese supplier–Chinese buyer relationship. This would shed more light on the effect of the antecedents of *guanxi* (relationship uncertainty and performance), and whether *guanxi* is reduced/enhanced by these constructs. Further, an examination of the impact of *guanxi* on the outcome constructs (conflict, opportunism, and switching intention) within an all-Chinese context would help to understand the role of relationship context.

Our study shows that relationship uncertainty has a significant negative influence on *guanxi*, which contradicts Lee *et al.*'s (2001) finding. Future studies need to examine the relationship between these two constructs more thoroughly. Future studies could examine the relationship between these two constructs and additionally test the relationship between relationship uncertainty and the three dimensions of *guanxi* (*ganqing*, *renqing*, and *xinren*). Thus, a deeper understanding could be gained, which would have significant implications for managers.

Finally, future studies could consider testing the model using an Asian (non-Chinese) sample with a sample of Chinese buyers. Such an examination may reveal findings that are different from those obtained in this study.

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