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THE ROLE OF *GUANXI* AND *XINYONG* ON THE RELATIONSHIP BETWEEN SUPPLIER AND RETAILER AMONG CHINESE ENTREPRENEURS IN BEKASI CITY, INDONESIA

Viorencia Octari

Department of Management, Bunda Mulia University

Jakarta, Indonesia

E-mail: Phio.rencia@yahoo.com (Corresponding author)

Edi Purwanto

Department of Management, Bunda Mulia University

Jakarta, Indonesia

Abstract

Purpose: The research objective is to measure the role of *guanxi* and *xinyong* among Chinese entrepreneurs, especially in the partnership relationship between cellular phone retailers and their suppliers at the Giant Hypermall in Bekasi, Indonesia. The research aims to test the effect of supplier competence on conflict handling, the effect of supplier competence on *guanxi*, the effect of supplier competence on commitment, the effect of conflict handling on *guanxi*, the effect of conflict handling on *xinyong*, the effect of conflict handling on satisfaction, the effect of conflict handling on commitment, the effect of *guanxi* on *xinyong*, the effect of *guanxi* on satisfaction, the effect of commitment on *guanxi*, the effect of commitment on satisfaction, the effect of *xinyong* on partnership relationship, the effect of satisfaction on *xinyong*, and the effect of satisfaction on partnership relationship.

Design/methodology/approach – This research used 248 samples and the respondents were cellular phone retailers at Giant Hypermall in Bekasi, Indonesia. This research used SEM analytical technique with Smart Partial Least Squares (SmartPLS).

Findings - The result confirmed thirteen out of fourteen hypotheses, and the fifth hypothesis was unsupported.

Originality/value – This research contributes to the study of *guanxi* and *xinyong* on Indonesian-Chinese business relationships.

Keywords *Chinese business, Guanxi, Xinyong, Personal Relationship*

Paper type Research paper

1. INTRODUCTION

Cellular phones are retailed, especially at Giant Hypermall in Bekasi and are dominated by Chinese retailers. Furthermore, the study was moved by an interesting phenomenon of partnerships between Chinese retailers and Chinese suppliers in retailing cellular phones in Bekasi, Indonesia. Partnership relationship between suppliers and retailers was built as a long term relationship by Chinese entrepreneurs. Personal relationship and trust relationship has been the basis in the overseas Chinese business network (Purwanto, 2014), likewise in this case. In the Chinese social capital model, personal relationship was identified by the term, *guanxi*, and personal trust was identified by the term, *xinyong* (Purwanto, 2014). The retailers build *guanxi* and *xinyong* with suppliers through utilising ethnicity, ethnic language and trust.

The previous studies showed the phenomenon among overseas Chinese entrepreneurs. Leung et al. (2005) found the role of *guanxi* and *xinyong* on partnership relationship in Chinese relationship marketing. Purwanto (2014) found the effect of *guanxi* on *xinyong* and the effect of *xinyong* on Chinese partnership relationship. The study was conducted in Jakarta. Huang et al. (2013) found the effect of *guanxi* on trust in Chinese business, and the trust has a positive effect on Chinese businesses being successful.

Based on above background, the study investigated the role of *guanxi* and *xinyong* on the partnership relationship between supplier and retailer among Chinese entrepreneurs in Bekasi, Indonesia. This conceptual framework was adapted from Leung et al. (2005), to investigate: (1) the effect of supplier competence on conflict handling, (2) the effect of supplier competence on *guanxi*, (3) the effect of supplier competence on commitment, (4) the effect of conflict handling on *guanxi*, (5) the effect of conflict handling on *xinyong*, (6) the effect of conflict handling on satisfaction, (7) the effect of conflict handling on commitment, (8) the effect of *guanxi* on *xinyong*, (9) the effect of *guanxi* on satisfaction, (10) the effect of commitment on *guanxi*, (11) the effect of commitment on satisfaction, (12) the effect of *xinyong* on partnership relationship, (13) the effect of satisfaction on *xinyong*, and (14) the effect of satisfaction on partnership relationship.

2. LITERATURE REVIEW

2.1. The Role of Guanxi and Xinyong in Chinese Business

Purwanto (2014) found the effect of *guanxi* on *xinyong* and the effect of *xinyong* on Chinese partnership relationship. According to Leung et al. (2005) the managing director of Gree Group Corporation, a large electrical appliance manufacturer in the PRC, mentioned that based on trust or *xinyong*, its sales personnel were able to generate an annual turnover of RMB \$10 billion without signing a single contract with its retailers (Apple Daily News, 21 April 2002). Furthermore, Leung et al. (2005) said that it indicates that *xinyong* is vital to develop partnership relationships between buyers and suppliers among the Chinese. Huang et al. (2013) found that *guanxi* influences trust in Chinese business

and creates successful business. Ai (2006) shows that China's market potential is unparalleled, and previous studies on doing business in China found that the concept of *guanxi* or a social and business relationship network is the key to being a successful business in China. Tavares (2013) found that network is an important thing for Chinese entrepreneurs. According Leung et al. (2010), Chinese managers prefer to negotiate with their old friends or their *guanxi* persons to conduct partnership relationships. Tong and Yong (1998) conducted a study in Singapore and Malaysia and found that personal control, personal *guanxi* relationships, and interpersonal trust or *xinyong* were three key aspects of personalism that had a relationship in business relations.

2.2. Supplier Competence and Conflict Handling

According to Leung et al. (2005) supplier competence is a supplier who has the ability or quality to handle a particular situation. The perceived expertise or competence of suppliers is a major determinant on effective communication between supplier and retailer (Hovland and Weiss, 1951, in Leung et al., 2005). The competence includes technical expertise regarding the product and production methods, and knowledge of the customer's organisation, markets, competitors, and industry (Cravens et al., 1992, in Leung et al., 2005). In his study that used a sample of 400 manufacturing SMEs in Taiwan, Chinomona (2013) found that a dealer has legitimate power on cooperation, relationship commitment, relationship satisfaction and trust. Furthermore, Leung et al. (2005) found that supplier competence impacted on conflict handling in Chinese businesses in China. Therefore, based on the above arguments, we built a hypothesis as below:

H₁: Supplier competence influences conflict handling in the relation between suppliers and retailers.

2.3. Supplier Competence and Guanxi

In general, supplier competence is evaluated based on their product price, product quality, and service quality as assurance that was expected by retailers (Carpenter, 1993; Hutt and Speh, 1995; Leung et al., 2005). According to Leung et al. (2005), *guanxi* has a crucial role in the supplier searching process in Chinese business to build the business network (Bigsten et al., 1998; Macmillan and Woodruff, 1999; Milington et al., 2006). Leung et al. (2005) found that supplier competence has a positive and significant effect on *guanxi*. Therefore, based on the arguments, we build a second hypothesis as below:

H₂: Supplier competence has an effect on *guanxi*.

2.4. Supplier Competence and Commitment

Previous studies show that retailers evaluated suppliers based on their competence, quality of product, and services (Hendrick and Ruch, 1998; Leung et al., 2005) through considering commitment of their supplier. A retailer will evaluate whether a supplier did things appropriate with the agreement that was agreed before, that orientates on a long term partnership relationship. If a supplier has good competence on his commitment, he will give satisfaction in his performance to retailer. To preserve commitment in partnership relationship, sometimes there is a need for sacrifices of a supplier to keep a long term

relationship (Anderson and Weitz, 1992). If either supplier or retailer breaks their commitment, it will impact on their relationship and their dissatisfaction. Leung et al. (2005) found a significant effect of supplier competence on commitment. Based on the arguments, we build the third hypothesis as below:

H₃: Supplier competence influences the level of commitment.

2.5. Conflict Handling and *Guanxi*

Conflict handling on disputes arising in the partnership can improve personal relationships (*guanxi*) between the two parties (Leung et al., 2005). Bian (1997) noted that the most important characteristic of *guanxi* is an obligation to look after each other and reciprocation and conflict handling. Failure to show returning the favour can result in the loss of one's *guanxi* network (Lee et al., 2001; Milington et al., 2006). Good conflict handling can build *guanxi* to be good, but if the conflict handling was conducted by supplier was not good, it will make a *guanxi* and partnership relationship being lost as a result of disappointment on the supplier or otherwise. Leung et al. (2005) found a significant effect of conflict handling on *guanxi*. Based on the arguments, the fourth hypothesis can be built as below:

H₄: Good conflict handling will influence a *guanxi*.

2.6. Conflict Handling and *Xinyong*

Previous studies showed that conflict handling is essential to maintain the relationship between suppliers and retailers (Dawyer et al., 1987; Gundlach and Murphy, 1993; Sheth, 1973; Leung et al., 2005). Conflicts between supplier and retailer is one thing that may happen during its building during both short term and long term relationships. According to Anderson and Narus (1990), communication is a strong determinant in building trust (Selnes, 1998). With good skills in handling conflict, the supplier will be able to build *xinyong* of its performance, so it can improve their long-term partnership relationship. But if the supplier cannot handle conflict well, then *xinyong* between them will decrease or decline, it may cause partnership relationship to be ended. Leung et al. (2005) found a significant effect of conflict handling on *xinyong*. Based on the arguments, the fifth hypothesis can be built as follows:

H₅: Good conflict handling will influence *xinyong* between supplier and retailer.

2.7. Conflict Handling and Satisfaction

Previous research showed that Chinese entrepreneurs typically use a system of negotiation to give up something in order to produce a solution to achieve common goals, which can be agreed upon and create satisfaction among all parties (Stewart and Keown, 1989; Leung and Yeung, 1995; Leung et al., 2010). Churchill and Surprenant (1982) and Oliver (1980) predicted that satisfaction is achieved when expectations are met, and if expectations are not met, then the satisfaction is not achieved. When a retailer was satisfied by suppliers' performance or service, it means they judged that the supplier is able to deliver what is expected in terms of problems handling that occurred, thus reducing the risk to switch to another supplier. A higher ability of a supplier in addressing the issue will create higher satisfaction of a retailer toward suppliers' performance (Selnes, 1998). Good communication is expected to become an important

source of satisfaction because it can lead to a common understanding related to performance results and expectations (Selnes, 1998). Leung et al. (2005) found a significant effect of conflict handling on satisfaction. Based on the previous studies, the sixth hypothesis can be constructed as follows:

H₆: Good conflict handling can raise satisfaction of partnership relationship.

2.8. Conflict Handling and Commitment

The previous study shows that commitment can establish a long-term partnership relationship through good conflict handling of the supplier (Morgan and Hunt, 1994). With the good conflicts handling of supplier, it will be influential in building the commitment of both parties to conduct a long-term partnership relationship. Commitment is one important influence in a partnership relationship. Commitment can occur if retailers get good service and good conflict management. If the conflict handling was not done by the supplier, it will damage the commitments established by both parties and may give rise to a sense of injustice. Leung et al. (2005) found a significant effect of conflict handling on commitment. Based on the previous study, the seventh hypothesis can be constructed as follows:

H₇: Conflict handling will influence the commitment of partnership relationship.

2.9. Guanxi and Xinyong

Purwanto (2014) found that *guanxi* has a positive and significant impact on *xinyong*, and *xinyong* a positive impact on the partnership relationship. Huang et al., (2013) found a positive impact of *guanxi* on trust, and trust has a positive impact on the success of Chinese business. According to Kriz and Fang (2003), *guanxi* seems to just be supportive or a background that might act as a door opener of relationships with retailers. Matthyssens and Faes (2006) in Zolkiewski and Feng (2012) showed that building trust is an important element in the Chinese business relations and trust between individuals can strengthen and deepen business relationships. Matthyssens and Faes (2006) and Kriz and Fang (2003) in Zolkiewski and Feng (2012) found that *guanxi* acts as an initiator, while the trust relationship determines how successful the relationship is. With good *guanxi*, it will raise the trust of a person to do an important thing. Leung et al. (2005) found a significant effect of *guanxi* on *xinyong*. Based on the arguments, the eighth hypothesis can be built as follows:

H₈: *Guanxi* has a positive effect on *xinyong*.

2.10. Guanxi and Satisfaction

Numerous studies show that *guanxi* has an influence on satisfaction in building partnership. *Guanxi* can develop and maintain a partnership relationship (Lin, 2011; Huang et al., 2013). People tend more likely to cooperate with people who are close and not those who are new (Bian, 1994; Milington et al., 2006). Relationships that are built through *guanxi* can create satisfaction of performance accomplishments for their brotherly relationship. Furthermore, Leung et al. (2005) found a significant effect of *guanxi* on satisfaction. Based on the arguments we made the ninth hypothesis as follows:

H₉: *Guanxi* influences satisfaction in partnership relationship.

2.11. Commitment and *Guanxi*

Guanxi in business relationships are a commitment to do the best for one another with the social norms of reciprocity and social obligations (Hwang, 1987; Luo, 1997). That is, if you get help based on human obligations, you are obliged to pay back in the future. Damaging this norm will damage someone's reputation and would cause a loss of face (Dong- Jin and Wong, 2001). Commitment is an agreement that was agreed by both parties. High commitment will create *guanxi* between Chinese people. Leung et al. (2005) found a significant effect of commitment on *guanxi*. Based on the arguments, we made the tenth hypothesis as below:

H₁₀: High commitment will influence good *guanxi*.

2.12. Commitment and Satisfaction

Commitment is the strongest antecedent of partnership relationship between the two parties (Morgan and Hunt, 1994; Parasuraman et al., 1985; Leung et al., 2005). Maintaining a commitment in a partnership relationship can reduce the risk of loss of partnership (Morgan and Hunt, 1994; Wong et al., 2008). Commitment can encourage satisfaction of retailers (Selnes, 1998). Adjustment of both products and services of the supplier with retailer demand will increase partnership satisfaction. However, if the supplier does not ignore demand or expectation of retailers, it will create dissatisfaction. Leung et al. (2005) found a significant effect of commitment on satisfaction. Based on the arguments, we made the eleventh hypothesis as below:

H₁₁: Commitment has an impact on satisfaction in partnership relationship.

2.13. *Xinyong* and Partnership Relationship

Trust is the key in building a partnership relationship, and trust is a way to preserve the partnership relationship (Morgan and Hunt, 1994). Crosby et al. (1990) found that trust and satisfaction are an important aspect of the relationship quality that lead to future purchase intentions. Chua et al. (2009) found that trust becomes an important variable in the process of establishing partnership relationship. Mutual trust was far more important than a written contract or agreement in Chinese business. If several violations occurred in the purchase agreement, both parties tend to negotiate these issues face-to-face rather than go to court. Through trust in the partnership relationship between suppliers and retailers, a good long-term partnership will be established. But if one of the parties undermines the agreement, he will lose trust and network. Leung et al. (2005) found a significant effect of trust or *xinyong* on partnership relationship. Based on the arguments, we made the twelfth hypothesis as below:

H₁₂: There is effect of *xinyong* on a long-term partnership relationship.

2.14. Satisfaction and *Xinyong*

The previous study shows that when the supplier did business properly, then it will create trust for the

retailer. The retailer will feel secure and satisfaction and that will then generate a good evaluation on the supplier and will create a good long term partnership relationship (Revald and Grönroos, 1996; Leung et al., 2005). The satisfaction that was felt by the retailer will raise trust on the supplier’s performance in the partnership relationships. But if the supplier cannot give satisfaction towards the retailer, it will not create good trust in a partnership between the two parties. Based on the arguments, we build the thirteenth hypothesis as below:

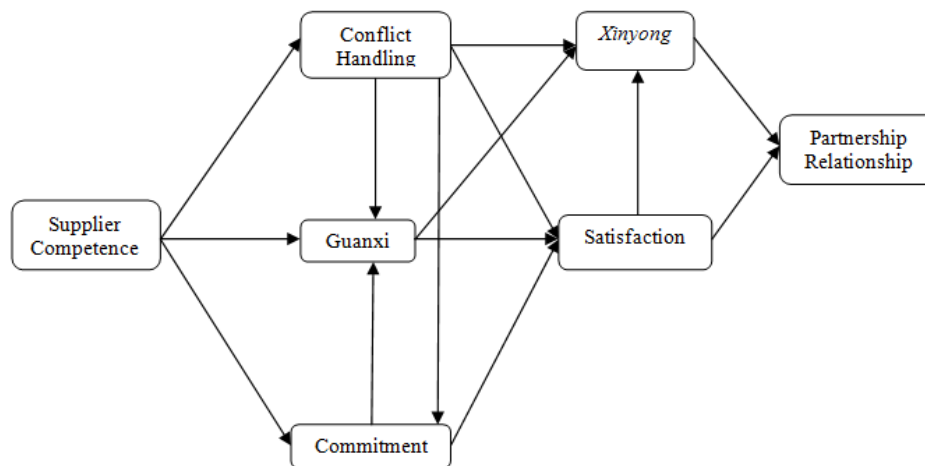
H₁₃: Satisfaction has an effect on *xinyong* partnership relationship.

2.15. Satisfaction and Partnership Relationship

Previous studies show that satisfaction of a retailer based on the products and services that were provided by suppliers were important to preserve a partnership relationship (Fornell, 1992; Hirschman, 1970; Leung et al., 2005) and vice versa if satisfaction is not perceived by the retailer, which will cause a negative impact on the performance of a supplier (Richins, 1983; Singh, 1988; Leung et al., 2005). Ganesan (1994) found that the relationship quality, such as satisfaction in relationships has a correlation with long-term orientation in partnership relationship (Lee and Wong, 2001). Leung et al. (2005) found a significant effect of satisfaction on partnership relationship. Furthermore, based on the arguments, we made the fourteenth hypothesis as below:

H₁₄: Satisfaction will influence partnership relationship.

Figure I – Conceptual Framework



3. METHOD

This study was conducted in Giant Hypermall in Bekasi, Indonesia. We shared the questionnaires to cellular phone retailers with the use of non-probability technique sampling. The sample in the study had 248 samples. All scale items, measurement scale of supplier competence, commitment, conflict handling,

guanxi, *xinyong*, satisfaction, and personal relationship used the measurement scale by Leung et al. (2005). Furthermore, in the study we used Structural Equation Modelling (SEM) technique with Smart Partial Least Squares (SmartPLS).

4. RESULTS

4.1. Validity and Reliability

In Table I, convergent validity shows outer loadings values > 0.60, as referred to by Hair et al. (2011) and Hair et al. (2012) in which squared standardised outer loadings should be higher than 0.70, but if it is an exploratory research, 0.4 or higher is acceptable (Hulland, 1999, in Wong, 2013). Therefore, all indicators were valid. Likewise, AVE value was > 0.50, as referred to by Chin (1995) in which AVE should be higher than 0.50; Therefore, all constructs were valid. Composite Reliability value of all constructs were > 0.70, as referred to by Hair et al. (2012) in which composite reliability should be higher than 0.70; Therefore, all constructs were reliable.

Table I - Reflective Outer Models

Items	Outer Loadings	Convergent Validity	Composite Reliability
Commitment		AVE= 0.55	0.79
Item 1	0.71		
Item 2	0.74		
Item 3	0.77		
Conflict Handling		AVE= 0.62	0.87
Item 1	0.78		
Item 2	0.84		
Item 3	0.85		
Item 4	0.67		
<i>Guanxi</i>		AVE= 0.53	0.82
Item 1	0.66		
Item 2	0.78		
Item 3	0.79		
Item 4	0.68		
Personal Relationship		AVE= 0.54	0.82
Item 1	0.67		
Item 2	0.73		
Item 3	0.78		
Item 4	0.75		
Satisfaction		AVE= 0.58	0.85
Item 1	0.78		

Item 2	0.72		
Item 3	0.76		
Item 4	0.79		
Supplier Competence		AVE= 0.53	0.82
Item 1	0.71		
Item 2	0.74		
Item 3	0.76		
Item 4	0.69		
Xinyong		AVE= 0.54	0.77
Item 1	0.76		
Item 2	0.65		
Item 3	0.78		

4.2. Hypotheses Test

The output of PLS shows that except H₅, all of the hypotheses were supported, in which the *t*-value was > 1.96 as on Table II. Firstly, the supplier competence is a significant influence to conflict handling, both in keeping a good communication and partnership relationship. This finding supported the research findings by Anderson and Weitz (1989), Swan et al. (1985) and Selnes (1998) and Leung et al. (2005). Secondly, the study proved that supplier competence influences *guanxi* between suppliers and retailers. This finding supported the research findings by Carpenter (1993), Hunt and Speh (1995), Leung et al. (2005), and Milington et al. (2006). Thirdly, the study found that supplier competence influenced commitment of suppliers to give their best to retailers. Its finding supported the research finding by Leung et al. (2005). Fourthly, the study proved that conflict handling can lead *guanxi* between suppliers and retailers. Its finding supported the research findings by Lee et al. (2001) and Milington et al. (2006). Fifthly, the study found a positive effect of conflict handling on *xinyong*, but not significant. Its finding did not support the research finding by Anderson and Narus (1990) and Leung et al. (2005). Sixthly, the study found that the conflict handling ability of a supplier has a significant effect on retailers' satisfaction. Its finding supported the research findings by Churchill and Surprenant (1982), Oliver (1980), Selnes (1998) and Leung et al. (2005). Seventhly, the study proved that conflict handling has an effect on commitment and it supported the research findings by Morgan and Hunt (1994) and Leung et al. (2005).

Table II – *t*-value and β -value

Hypotheses		<i>t</i> -value	β -value
Supplier Competence >Conflict Handling	H1	6.97	0.560
Supplier Competence > <i>guanxi</i>	H2	3.25	0.253
Supplier Competence >Commitment	H3	3.72	0.330
Conflict Handling > <i>guanxi</i>	H4	3.36	0.232
Conflict Handling > <i>xinyong</i>	H5	0.54	0.038
Conflict Handling >Satisfaction	H6	2.61	0.685
Conflict Handling>Commitment	H7	4.43	0.355
<i>Guanxi</i> > <i>xinyong</i>	H8	2.23	0.191

<i>Guanxi</i> >Satisfaction	H9	6.80	0.434
Commitment > <i>guanxi</i>	H10	3.01	0.234
Commitment >Satisfaction	H11	4.32	0.293
<i>Xinyong</i> >Personal Relationship	H12	2.95	0.256
Satisfaction> <i>xinyong</i>	H13	4.10	0.371
Satisfaction>Personal Relationship	H14	5.04	0.390

Eighthly, the study found that *guanxi* (personal relationship) has a positive and significant effect on *xinyong* (trust relationship) and it supported the research findings by Matthyssens and Faes (2006), Zolkiewski and Feng (2012), and Leung et al.(2005). Ninthly, the study proved that *guanxi* influenced the satisfaction in the partnership relationship. It supported the research findings by Bian (1994) and Milington et al. (2006) and Leung et al.(2005).

Tenthly, the study found that commitment of a supplier to give their best built good *guanxi* and it supported the research findings by Hwang (1997), Luo (1997), Lee and Wong (2001), and Leung et al.(2005). Eleventhly, the study found that commitment influenced the retailer's satisfaction and it supported the research findings by Johanson et al. (1991) and Selnes (1998), and Leung et al.(2005).

Twelvethly, the study proved that *xinyong* relations influenced partnership relationships in Chinese business and it supported Morgan and Hunt (1994) and Leung et al.(2005). Thirteenthly, the study found that retailers' satisfaction can build *xinyong* relations and it supported research findings by Revald and Gronroos (1996), but it did not support research findings by Leung et al. (2005). Fourteenthly, the study found that satisfaction created a partnership relationship between suppliers and retailers in Chinese business. It supported the research findings by Garbarino and Johnson (1999), Fornell (1992), Hirschman (1970), Selnes (1998), Richins (1983), Singh (1988) and Leung et al. (2005).

CONCLUSION

The study shows that except the fifth hypothesis, all hypotheses are accepted. It shows that the roles of *guanxi* and *xinyong* in Chinese partnership relationships in business are crucial. Although the level of acculturation of Indonesian Chinese with indigenous cultures is deep (Suryadinata, 1999), the Chinese business values however still has similarity with other overseas Chinese and Chinese in China Mainland. *Guanxi* and *xinyong* are still playing important roles in business networks or partnership relationships between Chinese retailers and suppliers in cellular phones retailing in Bekasi, Indonesia.

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