

How Is Customer Relationship Investment Transformed into Relationship Commitment: The Case of China

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Abstract

There is a growing research interest in relationship marketing that is closely related to a special term of *guanxi* in China. However, very little empirical research has been conducted to understand how and why business partners will commit themselves in such a relationship in China. *Renqing*, the underlying mechanism of the transformation from relationship investment into relationship commitment, is the key to explain the cultivation and maintenance of an enduring *guanxi*. This study examines the mediating role of *renqing* between customer relationship investment and relationship commitment in insurance industry. The authors investigated 245 policyholders of car insurance in China. The findings show that *renqing* that explains a significant proportion of the variance in customer relationship commitment did mediate customer relationship investment into relationship commitment. This result could provide valuable insights and suggestions as to how to increase customer relationship commitment in China.

Keywords: *Guanxi*, *Renqing*, Relationship investment, Relationship commitment

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Introduction

In Chinese context, *renqing* is very important for individuals to build and maintain relationships with others within his social network (Yang, 1994; Guo, 2001; Leung, Heung, & Wong, 2008). Nevertheless, very little empirical work has been undertaken on the role of *renqing* in relationship marketing. *Renqing* refers to one's obligation of repaying favors and showing empathy to partners involved in their business relationship (Guo 2001) in Chinese context. For the first time, Wang, Siu, & Barnes (2008) have conducted an empirical research on the mediating role of *renqing* between trust and long-term orientation in business to business relationship in China. However, their research has not addressed the role of *renqing* in the relationship between relation antecedents and relation consequences of a business relationship (Morgan & Hunt, 1994). In Western context, trust is usually considered as a relational mediator between relationship antecedents (e.g. relationship investment) and consequences (e.g. relationship commitment) as numerous research results have shown (Palmatier et al., 2006). Therefore, the question this paper is trying to answer is: Whether or not *renqing* has played a mediating role between relationship investment and relationship commitment in the Chinese relationship marketing?

To respond to the above research question, the main objective of this paper is to examine whether and how relationship investment is transformed into relationship commitment via *renqing* in Chinese businesses. More specifically, For this purpose, the authors will build a conceptual framework and research hypotheses based on relationship investment, *renqing*, relationship commitment while the control variables include relationship value and termination cost. Then the hypotheses will be tested using the empirical data from the agent-policyholder relationship in the Chinese car insurance industry.

Background and Hypotheses

Relationship Commitment and Relationship Investment

Relationship commitment is one of the constructs that are most often studied in relationship marketing (Palmatier et al., 2006). This study adopts a simple definition of relationship commitment: "a party's intention to continue the relationship" (Kumar, Scheer, & Steenkamp, 1995). Relationship investment refers to a customer's perception of the extent to which a salesperson devotes resources, efforts, and attention in order to maintain or enhance relationships (Palmatier et al., 2006). Baker, Simpson, & Siguaw (1999), for instance, reported that consumers were more satisfied with sellers when sellers made extra efforts toward them. Thus it is hypothesized that:

H1. Relationship investment is positively associated with Relationship commitment.

Guanxi and renqing

Guanxi (pronounced as guan-shee) is so important in China that it dominates business activities throughout China, affecting firm performance across industries and regions (Lovett, Simmons, & Kali 1999). In a business context, it refers to personal relationships or social connections based on mutual interests and benefits (Yang, 1994). To understand *guanxi*, it is essential to understand the unique meaning of *renqing* in Chinese culture. The most important social norms of *renqing* are that one should show his or her empathy to others in need and has the obligation to repay favors (Wang, 2007). To maintain a healthy *guanxi* (interpersonal relationship), Chinese people highly value the obligation of reciprocation.

According to the reciprocal rule of *renqing*, if an exchange partner has a higher degree of *renqing*, that means that he or she owes *renqing* to the counter partner and has moral obligation to pay it back in the future, and as such, his or her commitment to the exchange relationship should be higher. Thus it is hypothesized that:

H2. Renqing is positively associated with Relationship commitment in Chinese business relationships.

The Mediating Role of Renqing

According to the rule of *renqing*, if a personal relationship partner gets into difficulties, the other partner should help him or her, and after the recipient has received the favor, he or she should return it as soon as the opportunity arises (Guo, 2001; Hwang, 1987). Reciprocal favor is a strong social norm and is morally binding for Chinese people, and those who do not repay favors are considered to have “no credibility,” to have “no conscience,” and to be “mean,” and they lose face, reputation, and ultimately personal relationships and their peers’ trust (Lee & Dawes, 2005). Therefore, if a salesperson invests his or her time, efforts to help his or her customer, the customer would feel that he or she owes the salesperson a *renqing* and is obligated to reciprocate a favor in the future. Thus it is hypothesized that:

H3. Relationship investment is positively associated with renqing in Chinese business relationships.

While relationship investment is hypothesized to positively associate with relationship commitment, such a relationship is incumbent upon whether one follows the rules of *renqing*. When a salesperson invests his or her time, efforts, and attention in order to maintain or enhance the relationship with his or her customer, the customer who receives the investment does not have the legal obligation to maintain the business relationship because there is no contractual agreement that will bind them to do so. However, in Chinese business relationships, the customer would have the moral obligation to continue the business relationship if he or she follows the rules of *renqing*, since he or she should pay the benefactor back after receiving a favor according to the rules of *renqing* (Leung, Heung, & Wong, 2008).

Yang (1994) rightly pointed out that when a Chinese says “I owe him a *renqing*”, he actually accepts the fact that it is very difficult to decline a request for help or fail to repay a debt of *renqing* in the future. Thus it is hypothesized that:

H4. Renqing plays a positive mediating role between Relationship investment and Relationship commitment in Chinese business relationships.

Control Variables

We also include in our model two control variables, namely relationship value and termination cost, that have been consistently identified as affecting relationship commitment in the pertinent literature. The conceptual framework (Fig.1) is presented along with hypotheses H1 to H4 below.

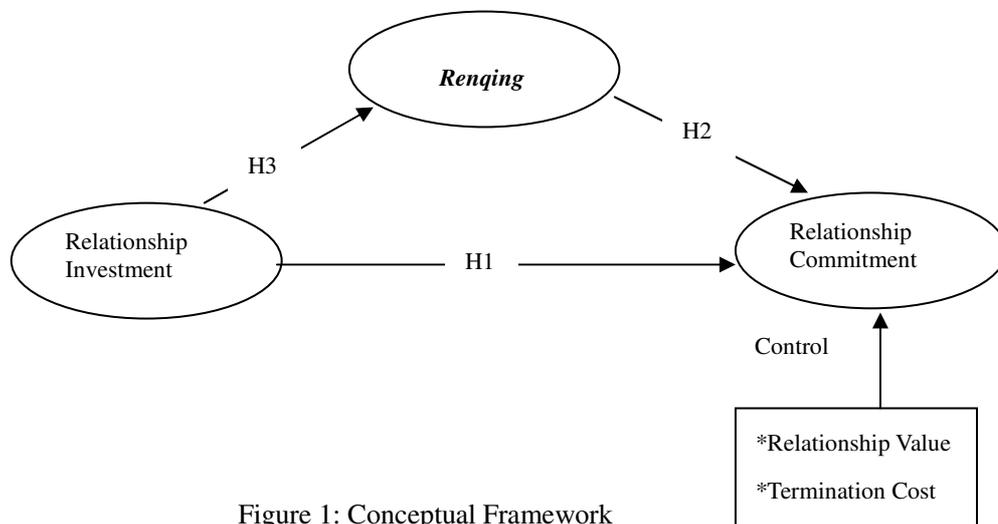


Figure 1: Conceptual Framework

Research method

Research Context

The agent-policyholder relationship in the Chinese car insurance industry was chosen as the research context for this empirical testing. Since insurance agents normally want to continue their relationship with insurance policyholders anyway, it is enough to use the data from policyholders to test the hypotheses.

Measures

Renqing was operationalized based on the aforementioned conceptualization of reciprocity and empathy (Wang, 2007). The measures for *renqing*, relationship investment, relationship commitment, relationship value and termination cost demonstrated good reliability (Cronbach’s alpha ranging from 0.74 to 0.88).

Data Collection

In order to increase the response rate and improve the data quality, this study adopted a face to face interview instead of the commonly used mail survey because the former has a higher response rate and more reliable. In total, we have got a total of 245 usable questionnaires for the main study.

Results

Table 1 provides a summary of the analysis results. The relationship between the predictor variable of relationship investment, and the dependant variable of relationship commitment was first verified and the relationship tested significant ($\beta = 0.28, p < 0.001$), leading to the acceptance of H1. Second, the research examined whether the mediating variable of *renqing* was a useful predictor for relationship commitment. The result suggests a significant effect ($\beta = 0.42, p < 0.001$), thus confirming the acceptance of H2. It was also found that relationship investment and *renqing* were positively associated ($\beta = 0.52, p < 0.001$), leading to the acceptance of H3.

Table 1
Regression Analysis Coefficients (Beta)

| | Relationship Commitment (H1) | Relationship Commitment (H2) | <i>Renqing</i> (H3) | Relationship Commitment (H4) |
|----------------------------|---------------------------------|---------------------------------|------------------------|---------------------------------|
| Relationship Investment | .28*** | | .52*** | .14* |
| <i>Renqing</i> | | .42*** | | .37*** |
| Relationship Value | .41*** | .29*** | | .29*** |
| Termination Cost | .19** | .21*** | | .15** |
| R Square | .40 | .48 | .27 | .49 |
| F-Value | 56.59*** | 77.01*** | 90.94*** | 60.12*** |

***p<.001 **p<.01 *p<.05

Finally, the findings suggest that by adding the second predictor to the regression equation, the previously highly significant effect ($\beta = 0.28, p < 0.001$) of relationship investment on relationship commitment was found to be much less significant ($\beta = 0.14, p < 0.05$). *Renqing*, however, still remained as a strong predictor of relationship commitment ($\beta = 0.37, p < 0.001$). This result supports H4 that *renqing* plays a positive mediating role between Relationship investment and Relationship commitment.

Conclusion, implication, and future direction

For Western firms wishing to do business in China, it is essential to understand the implicit nature of *renqing* and its significant role in forming behavioral norms associated with successful relationship marketing (Wang et al., 2008). The study has examined the mechanism that explains the relationship between relationship investment and relationship commitment in the context of the agent-policyholder relationship in the car insurance industry in China and

has confirmed the mediating role of *renqing* in such a relationship.

At the theoretical level, the findings of this study contribute to our enhanced understanding of relationship marketing in China by answering the research question: what is the mediating role of *renqing* between relationship investment and relationship commitment? This study indicated that *renqing* does play a mediating role between relationship investment and relationship commitment in the salesperson - customer relationship in China, that is a salesperson's relationship investment causes the customers to feel that they owe *renqing* to the salesperson and have the moral obligation to continue the business relationship. According to Table 1, *renqing* proved to be a dominant determinant of relationship commitment (Regression coefficient = 0.39). It provides an empirical evidence that *guanxi* marketing in China is more personal than the relationship marketing in Western societies (Wang, 2007) since *renqing* is personal emotional feeling of the customer.

At managerial level, the findings of this study provide implications for practitioners in the personal selling industries like car and life insurance. A traditional way to increase customer relationship commitment is by providing better value to the customer. But the empirical results of this study show that *renqing* explains a very large proportion of the variance in customer relationship commitment. This results show that relationship investment that creates value to customer who perceived that as a big *renqing* given by the salesperson will help enhance the commitment of the customer into the relationship. By training and motivating salesperson to make investment that can increase the perceived *renqing* by customers, such as greeting for holidays, provision of personalized help in need, and tailor made advices as professionals, the company can reap the resulting benefits in terms of improved relationship commitment.

However, this study has some limitations which weaken the generalizability of the findings. Future research may also examine other antecedents, such as preferential treatment, tangible rewards and interpersonal communication, of relationship investment (Wulf et al., 2001; Yoon, Choi & Sohn, 2008) and their association with *renqing* that will make valid contributions theoretically and practically.

Appendix A Measurement items are available from authors upon request.

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