



# The influence of personal relationship as an intermediate on Thai business performance: Thai shippers' view point

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## Abstract

Relationship is a fashionable topic which has been gaining attention from many academics and practitioners. The Chinese concept of Guanxi broadly defined as interpersonal relationship in Chinese society refers to networks of informal, interpersonal connection and reciprocal favor. This study attempts to empirically investigate what the perspective of Thai shipper toward Guanxi as a supportive factor of Logistics performance indicator of cost, time and reliability dimension on business performance is. To do so, a statistical methodology that uses various types of models to measure relationships between variable and latent constructs to determine the extent to which theoretical model accepted by the sample data is applied. All in all, the results revealed that the indirect impact of Logistics performance indicator of cost, time and reliability through Guanxi was found to have a stronger influence than its direct impact on business performance. In contrast, Guanxi alone has no direct impact on business performance. Furthermore, this result also can be used as a guideline in making strategic decisions for Asian businesses and provide better understanding of Guanxi in emerging economies in Thailand. It is expected that this study will be useful for practitioners and academics in applying Guanxi with regard to business performance in Thailand.

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## Introduction

Along with the trend of globalization and accelerated economic growth in many countries, with an increasing in product and service complexity, there has been growing interest in the generation of new edge technological innovation, the shorter product life cycles and rapid change customer preferences. In accordance with business, process is becoming more increasing part of value adding activities which are particularized from another country and the current market for logistics services is also characterized by shortage of capacity, congestion, and more demanding customers. The business companies are encouraged to view their business operations or strategies from a new perspective – to operate from a broader

view in terms of time and space. Supply chain management is established from such a point of view and advocates that organizations should act as a network that is based upon the concepts of collaboration and process integration. This is because in today's global market it is "supply chains that compete rather than companies" (Christopher, 2011)

Recently, one of the most significant business strategies used by many organizations such as Wall Mart's and P&G is collaborative relationship. The greater the environmental uncertainty, the more likely that shippers or entrepreneurs tend to rely on establishing a networking relationship to overcome uncertainty and gain competitive business advantages in the complex business environment (Peng, 2000). Relationship is one of the most fundamental stages of business performance and is defined as a mutually oriented interaction between two reciprocally committed persons. In order to achieve a business goal, a number of shippers establish an increased awareness of

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the need of more solid collaboration among the other business parties in determining the effectiveness of business performance due to the changing business situation.

The term “relationship” in this context has been defined as a significant factor in developing positive business performance (Chao & Anantana, 2014). The value of social connection has considerably been paid to Western business literature that focuses on relationship marketing when engaging in business in Western companies. Many western companies have applied relationship marketing method to establish corresponding interests that minimize information-seeking and that are unlikely to present moral beneficial outcomes, but rather, through coordinating activities, ensure mutual beneficial outcomes (Karanovic, 2005). In recent literature, a number of academics and practitioners have paid much attention to relationship marketing, but only a few have examined the context of relationship in Asia. In contrast to relationship practices in the west, the Chinese concept of Guanxi, broadly defined as interpersonal relationship in Chinese society, can be differentiated from relationship in the West by its emphasis on the utilitarian reciprocation of favors in an unequal dyad (Yi, 1999).

Indeed, many multinational organizations leap at the chance to tap into China’s growing market. However, the way of doing business in China is not similar to the West. Chinese business networks have been important for the economies of many countries in Southeast Asia, including Thailand. Interestingly, China and Thailand are regarded as low-trust cultures whereby trust can be easily gained if there is a connection through family or existing in group network (Ward et al., 2015). Regarding the development of social relationships culture and low-trust society, reciprocity in Thailand mostly supports extra benefit especially in-group network rather than out-group networks. (Chao & Anantana, 2014). In other words, an interpersonal relationship or *guanxi*, considered as a significant factor doing business in China, generally refers to interpersonal relationships or social connections depending on reciprocity interests and benefits (Lu, 2007).

Guanxi is rooted in the Confucian social theory, recognized as one of the most significant building blocks in shaping the Chinese social structure (Berger & Herstein, 2014). Guanxi consists of two Chinese characters, the character “guan” meaning gate, and “xi” referring to a tie or a connection. As such, one must pass the entrance to attach to a connection. In other words, the larger the network of Guanxi that one has, the greater the opportunity available for interaction privilege (Cheng & Tang, 2012). Many researchers use keywords such as “relationship”, “interaction”, “favor”, “connection” and “network” to depict the attribute of Guanxi. The Thai definition is ‘Boon Koon’ (Abosag & Naude, 2014).

Guanxi can be considered as a key success factor in doing business in China. The significant role of Guanxi network can be used to decrease transaction costs related to uncertainties in a competitive environment (Zahng, 2006). Interestingly, a good Guanxi communication assists many organizations seeking valuable knowledge and information to access brand new markets quicker. As such, the logistics business operations need less time to operate. Also, business Guanxi can build up the impact of customer trust on business performance level

and can help organizations to approach the market available in a supply chain, wisely.

A number of business owners believed that several benefits of guanxi include the smooth running of routine business operations, wider access to information about government policies, reduced cost of operating for each activity, and quicker receipt of administrative approvals (Cheng & Tang, 2012). The more guanxi between two organizations, the greater the frequency of their collaboration in their network, especially in the smoothing communication process to establish long-lasting relationships in which mutual trust plays a vital role in forming a relationship (Cheng, Yip, & Yeung, 2012).

As with other East Asian countries such as Japan and Korea, the Chinese are recognized as having been in Thailand in the larger towns or cities, particularly Bangkok. Almost 14 percent out of the 64 million Thai population was Chinese. The culture of China is fundamentally influenced by Confucianism in terms of mode of thinking and ways of behaving, focusing on the inter-personal relationship, which can provide many competitive advantages in doing business as well (Sahakijpicharn, 2007). Also, as previously mentioned, both China and Thailand have a similarity in conducting business. In Thailand, personal relationship has been implemented in most companies due to its low-trust culture and relying on social relations, which can gain access to a much wider network of connections that position a company to benefit in various way (Fan, 2002). Consistent with the research conducted by Chao and Anantana (2014) which stated that many business networks in Thai business are influenced by Guanxi, which can be visualized as a facilitator for business improvement, they found that personal relationships encouraging trust and loyalty on a personal level could elevate firm-to-firm relationships.

Due to Thailand’s economic crisis, many organizations encountered market volatility and uncertain business development. Economic crime in Thailand, which is a substantial concern for all organization sizes and sectors, has been widely investigated. The survey revealed that the supplier-selection process was found to have severe problems due to transparency inadequacy and flat record keeping. Therefore, the findings recommended that many firms would benefit greatly by reinforcing procedures with supplier selection criteria, as a supplier could have been suggested to a company through existing employees, and performing background checks to reduce unpredictable factors. Moreover, it is essential to establish a personal relationship among the business to decrease unpredictably factors according to PwC’s 2014 survey recommendation (Chaikij, 2017).

A Thai economic crime survey implied that personal relationship network may help to reduce unpredictable business environment. As such, this study aimed to establish another way for shippers to improve business performance by means of using one of the most effective ways many Chinese do as the first step in doing business. In order to investigate how Guanxi helps Thai shippers to achieve their business performance, the providing logistics performance indicator, suggested by KPI assessment framework established by (Banomyong & Supatn, 2011) and the financial business

performance factors were used in this study. The KPI assessment framework established by Banomyong and Supatn (2011) was used to measure firms’ business performance. There are three dimensions; cost, time and reliability, with 9 key logistics activities introduced by Grant, Lambert, Stock, and Ellarm (2006); customer service and support, demand forecasting and planning, purchasing and procurement, inventory management, order processing and logistics communication, material handling and packaging, transportation, facilities site selection, warehousing and storage and return goods handling and reverse logistics. In term of business performance, the financial performance dimension of performance is the most appropriate basis for investigating performance output, regardless of company size (Chao & Anantana, 2014). Based on the literature review mentioned above and in order to understand the meditating role of guanxi on the provision of logistics performance indicator and business performance, the following research question are demonstrated in Figure 1 and research hypotheses, which are designed to investigate the causal effects of each factors, are proposed as following:

- H1: Logistics Performance Indicator in Cost Dimension has positive impact on Guanxi
- H2: Logistics Performance Indicator in Time Dimension has positive impact on Guanxi
- H3: Logistics Performance Indicator in Reliability Dimension has positive impact on Guanxi
- H4: Guanxi has a positive impact on Business Performance
- H5: Logistics Performance Indicator in Cost Dimension has positive impact on Business Performance
- H6: Logistics Performance Indicator in Time Dimension has positive impact on Business Performance
- H7: Logistics Performance Indicator in Reliability Dimension has positive impact on Business Performance.

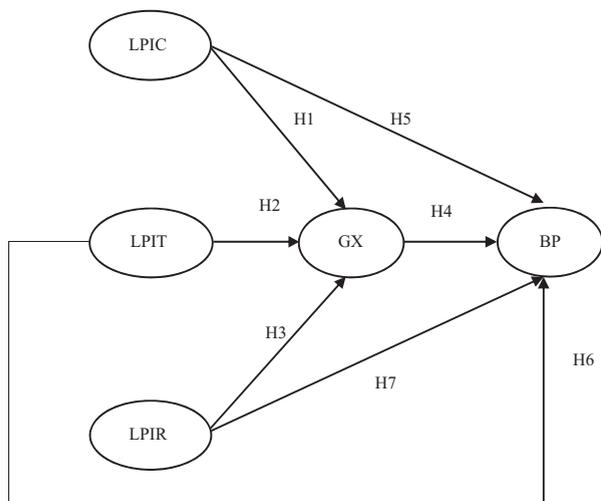


Figure 1 Research model

The construct of each of the factors in the proposed research model (Guanxi, Dimension of cost, time, reliability in logistics and business performance) is primarily based on the theory to form casual relationships from previous study. Therefore, if there is some alternation in one variable, then it is presumed to lead to change in another variable. The strength of assuming causation includes both analytical methods chosen and theoretical justification to support analysis. The structural equation model was implemented to measure the correlation among independent and dependent variables in order to discover the total set of relationships among latent constructs that are predicted by multiple measures defining a research model and for differentiating between indirect and direct relationships among the latent constructs. The following empirical study in the next section discusses the procedure of research method to indicate the research process and the instruments used to evaluate the impact of logistics performance indication in terms of cost, time and reliability dimension, Guanxi and business performance.

**Methodology**

To collect the empirical data, this study developed a questionnaire survey as a data collection method. There are four major parts relating to factors; the first three parts are Five-Likert-scaled subjective questions to test the level of satisfaction of each dimension namely; LPI (Cost), LPI (Time), LPI (Reliability), Guanxi and Business Performance. The latter part of questionnaire is basic background information that is not used to measure in structural equation model, but instead is aimed at providing a better understanding of the respondents and their perspectives toward their company.

The questionnaire comprises of 61 self-administered questions; of which, LPI – 27 (was adopted from Banomyong and Supatn (2011) framework with regard to operationalize the subjective measurement), Guanxi – 22 (to identify the satisfaction level of Guanxi through a list of extracted factors based on shipper’s perspective), Business Performance – 12 (to indicate the level to which each individual item in the business performance is against competitors) and 10 background general information questions. The meaning of each term such as LPI and Guanxi were added on separate sheet of paper from academic wording. The questionnaire contents investigated the possibility of actual data conditions to avoid misleading interpretation by the logistics degree academic professors to find a wording error, sequencing and explanation. The questionnaires were distributed through email to 2787 respondents in this paper using the database from Thai National Shipper Council (TNSC) lists.

**Table 1** Measurement Model Validity

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

Source: Chao (2011)

The validity test is an important step used to evaluate the overall model fit in structural equation model. In this study, five indicators were used, namely:  $\chi^2/df$ , GFI, RMSEA, CFI and TLI. To validate a model with a high number of observations,  $\chi^2$  value and the associated degree of freedom with ration 3 to 1 ( $\chi^2/df < 3.0$ ) is recommended to indicate goodness-of-fit (Hair, Black, Babin, & Anderson, 2010). Moreover, a recommended GFI value should be more than 0.8, the RMSEA index which measures the discrepancy should be less than 0.08, the suggested cut-off value of CFI and TLI should be more than 0.90 to indicate a good model fit (Hair et al., 2010). A summary of the measurement validity indices is illustrated in Table 2 and the CFA measurement suggests a good overall fit with verified unidimensionality (Table 2).

A discriminant validity is used to analyze whether factors or measurement that are not supposed to be related are actually unrelated for each pair of factors. The seven factors have been compared to measure the value of the constrained and unconstrained.

Table 3 illustrates the discriminant validity measurement which revealed seven possible pairs of constructs. The results showed that the difference in chi-square values for the constrained and unconstrained in the final model reached 3.84, which indicate that the traits are not perfectly correlated. Thus, the scale reliability and discriminant validity are proven and are ready for the structural model (Lu, 2010). The following empirical study in next chapter discusses the result, conclusion and future research.

**Table 2** Summary of Latent Variable

Construct	Item	$\chi^2/df$	GFI	TLI	CFI	RMSEA
LPI(C)	4	2.611	0.878	0.922	0.923	0.075
LPI(T)	7	2.122	0.823	0.912	0.921	0.078
LPI(R)	4	1.003	0.921	0.964	0.943	0.034
GX	15	1.121	0.911	0.977	0.926	0.042
BP	7	1.226	0.932	0.987	0.976	0.044

$\chi^2/df = 2.584$ , GFI = 0.853, TLI = 0.932, CFI = 0.952, RMSEA = 0.052

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

**Table 3** Discriminant Validity Test

Pair of Construct	CMIN (df)		CMIN(df) Difference
	Constrained Model	Unconstrained Model	
LPI(Cost) vs GX	563.128(292)	596.030(291)	32.902(1)
LPI(Time) vs GX	568.438(199)	513.326(198)	55.112(1)
LPI(Reliability) vs GX	462.879(175)	422.120(174)	40.759(1)
GX vs BP	625.124(224)	576.115(223)	49.009(1)
LPI(Cost) vs BP	511.124(80)	457.221(79)	53.903(1)
LPI(Time) vs BP	498.142(50)	438.216(49)	59.926(1)
LPI(Reliability) vs BP	628.341(76)	530.844(75)	97.497(1)

**Table 4** Hypothesis Testing

Paths	Estimates	SE	t-value	p	Results
H1: LPIC → GX	0.788	0.141	5.588	***	Supported
H2: LPIT → GX	0.837	0.121	6.917	***	Supported
H3: LPIR → GX	0.883	0.112	7.883	***	Supported
H4: GX → BP	-0.543	0.532	-1.020	0.122**	Not Supported
H5: LPIC → BP	0.544	0.212	2.566	***	Supported
H6: LPIT → BP	0.433	0.243	1.781	***	Supported
H7: LPIR → BP	0.644	0.122	5.278	0.006**	Supported

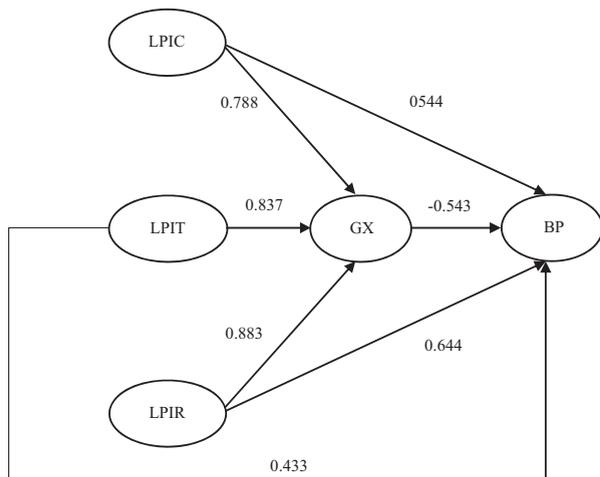


Figure 2 Path Analysis

## Results

The outcome of hypothesis testing demonstrated that six out of seven hypotheses were significant. Logistics performance indicator in cost, time and reliability dimension had a significant relationship with Guanxi (estimate = 0.788,  $t$ -value > 5.588; estimate = 0.837,  $t$ -value = 6.917; estimate = 0.883,  $t$ -value = 7.883, respectively). Again, logistics performance indicator in cost, time and reliability dimension was found to have a positively significant influence on business performance (estimate = 0.544,  $t$ -value = 2.566; estimate = 0.433,  $t$ -value = 1.781; estimate = 0.644,  $t$ -value > 5.278, respectively). In contrast, Guanxi alone had no significant relationship with business performance (estimate = -0.543,  $t$ -value = -1.020).

H1, which stated that logistics performance indicator in cost dimension relates positively to Guanxi with its logistics service providers, was accepted. In the same way, the predicted positive relationship between logistics performance indicator in dimension of time was found to have a positive effect on Guanxi (H2). And again H3, the logistics performance indicator in reliability dimension associating positively to Guanxi, was supported. The results provide support for H4, indicating a positive relation between shipper's business performance with logistics performance indicator with cost dimension. Similarly, H5, which assumed logistics performance indicator in time dimension with its business performance, was accepted. Additionally, H6, which posited logistics performance indicator with its business performance, was supported. In contrast, the predicted positive relationship between Guanxi and business performance was not supported (H4). The total structural model yielded a GFI value of 0.853, supposing to be a good fit between the data and model. Additionally, the CFI (0.952) and TLI (0.932) values were greater than 0.9 cut-off value. RMSEA (0.052) also exceeded the validity criteria (<0.08). Generally, the goodness-of-fit indices suggested that the model exceeded the suggested threshold and can be accepted.

## Discussion and Recommendations

One of the major contributions of this study has been the development of a comprehensive study of interpersonal relationship and business networks for Thai business performance according to Thai shippers' perspective. More specifically, this study aimed to investigate how Guanxi helps Thai shippers to achieve their business performance. In this study, the model structure established in this research was found to have an adequate fit with the data gathered and the construct validity of the measurement items are developed along the process used in this study.

According to the results of this study, the indirect effect logistics performance indicator in cost, time and reliability dimension proposed a stronger impact than the direct effect. The indirect effect of H1, logistics performance indicator in cost dimension with Guanxi, was found to have a good impact on business performance. According to prior research, the motive behind entering into a Guanxi relationship could be a goal of super profits, reduced cost of operating in any activities (Chao, 2011). H2, assumed that the influence of logistics performance in time dimension with Guanxi has a more positive effect on business performance than the direct effect. Generally, good Guanxi communication assists many organizations to access a new market quicker or to be the first mover in the market, therefore, many business tasks need less time to operate (Shalan, 2013). Moreover, the result of H3 was valid, therefore, the logistics performance indicator in reliability dimension with Guanxi has positive impact on business performance. This assumption was a major part on business performance among the other hypotheses. It has been stated that Guanxi can be used to help customer to achieve a higher level of customer satisfaction, build up customer trust and according to shippers' perspective, Guanxi can be used as a supportive factor to help the organization gaining higher business performance due to an interpersonal relationship, reliability, responsive to support customers (Chung, 2011).

In contrast, the effect of Guanxi alone was not supported to be positively associated with business performance. This suggests that even with a positive Guanxi between shippers and logistics service providers, a more stable business-to-business relationship should be a focus. This particular phenomenon might be as a result of fear of the negative impacts of Guanxi that might threaten the business if relied on too much. In addition, the insignificant relationship between Guanxi and business performance may be motivated by demographic characteristics of responding company. Guanxi could offer a better role in small and medium-sized companies as a result of their limited economic influence, than in larger companies. The small and medium-sized firms may need an appropriate strategic behavior (interpersonal relationships) to boost their business performance. The manager of a small or medium-sized company shows dependent relationships via interaction between different channel members to assist them accommodate external changes (Chao, 2011).

According to literature review, methodology and empirical studying, Guanxi was successfully incorporated within the structural model. According to the respondent's perspective, the level of business performance is influenced by the

managing cost, time and reliability of logistics performance through effect management of Guanxi. The paper also recommended that although business Guanxi is necessary, it is an insufficient factor for the survival of firms, which requires a formal and institutional tool to protect their own interests. This study also has some limitations, which have to be pointed out, the most obvious being the use of examining the shippers' point of view. For further research, the research model could be tested from the perspective of manufacturers, suppliers, retailers and wholesalers. Other type of qualitative method, such as case study, focus group or Delphi studies could be tested to respond to this particular study. Moreover, the application of the model could be taken in other geographical area to cross-validate the findings of this study to verify and increase in confidence of research model applicability.

### Conflicts of Interest

There is no conflict of interest.

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