

## **Relationality in Business Negotiations: Evidence from China**

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### **ABSTRACT**

Studies on business negotiations have long held an arelational perspective on inherently interdependent and relational phenomena. Focusing on inter-firm business negotiations in a typical high relational social context (i.e., China), this research unraveled the complex mechanism underlying negotiation interactions by analyzing the role of relational elements embedded in negotiators' communication process. The findings revealed positive impacts of relational orientation on both affective and instrumental relational commitment, the negative impact of instrumental relational commitment on information exchange quality, and the mediating role of information exchange quality between affective relational commitment and both dimensions of relational capital. This study supports the saliency of relationality in daily business negotiations.

**Keywords:** Negotiation, Relationality, Guanxi, Relational Orientation, Relational Commitment, Relational Capital

## INTRODUCTION

Business negotiation is a decision-making process through interactive communication to reach agreement between buyers and sellers (Weingart & Olekalns, 2004). Negotiations are a constructive approach to maintaining inter-firm relationship commitments, and enhancing partnerships (De Dreu, Weingart, & Kwon, 2000; Pruitt, 1981; Thomas, Thomas, Manrodt, & Rutner, 2013). The interactive and interdependent nature of negotiation indicates the impact of relationality on negotiation processes and outcomes (Turel, 2010). For example, negotiators' relationship propensity influences their decisions and strategies made in negotiations. Negotiation practices can "reconstitute and reshape relationships" with their counterparts (Thompson, Wang, & Gunia, 2010, p. 502). Despite the recognized importance of understanding relationality in negotiations, only a few negotiation studies have touched upon this topic (e.g., Ariño, Reuer, Mayer, & Jané, 2014; Wieseke, Alavi, & Habel, 2014). This research follows the call for relational perspective in negotiation research (Ingerson, DeTienne, & Liljenquist, 2015). By using China as a typical high relational culture, this study examines how relational determinants of negotiators from a high relational culture, including relational (*guanxi*) orientation and relational commitment on negotiation, affect negotiation communication and outcomes (i.e., economic outcome and relational capital).

## RELATIONALITY IN NEGOTIATIONS

Negotiation has an inherently interdependent structure because "any bilateral negotiation is an interpersonal interaction" (Turel, 2010, p. 111). As a social factor influencing negotiation strategies, relational constructs affect negotiators' decision-making and subsequent outcomes (Tsay & Bazerman, 2009). However, discussions of relationality in the literature have been rare. Many researchers have agreed that the role of relationality has been under-researched and even ignored in negotiation studies (Greenhalgh, 1987). For example, many experimenters adopted an arelational research design which overlooked the social elements embedded in negotiations (Barley, 1991; Gelfand, Major, Raver, Nishii, & O'Brien, 2006). Following this line of argument, this research explores the salience of relationality in negotiations. In so doing, we operationalize relationality as a conglomerate of relational constructs in negotiation phenomena, including relational orientation, relational commitment, and relational capital.

## Relational Orientation

Human relationships are a social phenomenon featuring successive interpersonal interactions over time (Varey, 1998). Among other relational constructs, relational orientation has been used as the converse of transactional orientation in the relationship marketing literature (Gopalakrishna Pillai & Sharma, 2003), and treated as individual differences in management research (Leung, Chen, Zhou, & Lim, 2014). In line with these studies, this research defines relational orientation in negotiation as the propensity of an individual to foster and maintain interpersonal long-term relationships with another.

Chinese culture, like many East and Southeast Asian cultures, is characterized as high relational in contrast to individualistic Western cultures (Ho, 1991). The emphasis on harmony and interpersonal relationships is one of the hallmarks of Chinese society (Hwang, 1987). In Chinese society, the informal relationship network dominates business activities, including negotiations (Lovett, Simmons, & Kali, 1999). Chinese culture is typical of highly relational interaction for this research.

In China, the term “guanxi” is used to describe everyday relationship dynamics. As a pervasive cultural phenomenon, guanxi shapes interpersonal interactions in business negotiations with Chinese (Brunner & Koh, 1988; Brunner & Taoka, 1977). Guanxi has been extensively studied by sociologists and management scholars with attention to its role in constituting behavioral systems (Hwang, 1987), substituting for legal protection (Xin & Pearce, 1996), promoting venture performance (Luo, 1997) and affecting coworker relationships (Chen & Peng, 2008). At the heart of social order, guanxi is critical to every aspect of Chinese life (Zhang & Zhang, 2014). Though interpersonal relationships do not necessarily produce guanxi, it is conceived as a special relationship or particularistic tie (Fan, 2002), implicitly based on reciprocity and mutual trust (Yang, 1995). In particular, guanxi in Chinese social life is associated with a series of relational behaviors such as giving gifts, returning favors and trying to be an “insider” (Ang & Leong, 2000; Hwang, 1987; Leung, Chan, Lai, & Ngai, 2011; Zhang & Zhang, 2014).

Though researchers have suggested that Western negotiators build a productive guanxi network in China (e.g., Brunner, Chen, Sun, & Zhou, 1989), the concept of guanxi has raised substantial controversies over its legitimacy in doing business in China. On one hand, it is seen as the key factor of adapting successfully to China’s volatile environment (Abramson & Ai, 1999; Yeung & Tung, 1996), and a valuable source of sustained competitive advantage (Tsang, 1998). On the other hand, its beneficial role has been associated with malpractice, nepotism and bribery (Fan, 2002; Yang, 1994). Regardless of its claimed benefits or ills, the ubiquity of guanxi derives from the underdevelopment of formal institutions in traditional Chinese society (Qi,

2013). It seems that well-functioning regulations in societies like Singapore would preclude the unethical use of guanxi networks (Qi, 2013, p. 311). Thus relationship alone rather than potential improprieties is inherent in guanxi. This research adopts a neutral perspective to the understanding of guanxi in negotiations.

### **Relational Commitment**

Relational commitment is “an enduring desire to maintain a valued relationship” (Moorman, Zaltman, & Deshpande, 1992, p. 316). This study treats it as a multifaceted variable. It can be viewed as instrumentally motivated “in terms of costs and benefits” (Burgoyne, Reibstein, Edmunds, & Routh, 2010, p. 391). People in a relationship constantly estimate its expected net benefits to decide whether to stay invested in that relationship. Instrumental commitment is therefore associated with negotiators’ perceived need to preserve the relationship given the anticipated termination costs of leaving (Geyskens, Steenkamp, Scheer, & Kumar, 1996). Besides, a relationship could also be affectively maintained if the negotiating parties involved genuinely wish to interact in this relationship. Those “subjective values” generated after negotiations indeed reflect the affective elements felt and captured by negotiating parties throughout their interactions (Curhan, Elfenbein, & Xu, 2006). By dichotomizing negotiators’ general relational commitment on negotiation into two components, this research explores the instrumental and affective dimensions of relational commitment, in order to identify specific aspects of relational commitment to negotiations.

### **Relational Capital**

According to Curhan, Neale, Ross, and Rosencranz-Engelmann (2008), while similar to social capital, relational capital brings negotiators with “mutual liking, trust, and the quality of a dyadic relationship as opposed to a network of relationships among many individuals” (p. 193). This definition is consistent with what has been stated by Gelfand et al. (2006), who claimed that relational capital includes “assets of mutual liking, knowledge, trust, and commitment to continuing the relationship” (p. 437). Accordingly, this research defines relational capital as the relational assets accumulated within negotiation dyads. It encompasses mutual attraction, respect, trust, friendliness, positive expectations and other good impressions, all of which was fostered during negotiators’ interactions.

Chen and Peng (2008) pointed out the mixed nature of the Chinese relationship with both affective and instrumental components. In line with their argument, while the affective aspect of relational capital can be more related to negotiators’ sense of their personal experience out of negotiations, the instrumental aspect of relational capital is more cognitive and reflects problem-oriented and economically based relationships

between negotiating parties. This study investigates the affective and instrumental aspects of relational capital, particularly among Chinese negotiators who value the mixed nature of their personal networks.

### **Information Exchange Quality**

Information exchange takes place when one or both parties provide and seek information in negotiation communications. Though the communication process could be evaluated by how much information is disclosed between negotiators, redundant and irrelevant information may reduce the effectiveness of communication or can be strategically used to confuse and deceive the other party. In this regard, only effective information related to negotiation is useful for negotiators to make decisions, especially in high-context cultures where nonverbal information is exchanged (Han, Zhang, & Wang, 2010). Thus negotiators' perceived communication quality can indicate the effectiveness of information exchange, which determines the extent to which the negotiators share key information and understand each other.

### **HYPOTHESES**

The perception of relationship is composed of trust and feeling—"where trust is cognitive based and feeling is affect based" (Chen & Peng, 2008, p. 64). Likewise, when negotiators develop a sense of commitment to their negotiation relationship, they tend to demonstrate two types of relational commitments: affective and instrumental. As defined earlier, the former is based on a high level of interpersonal affections whereas the latter reflects negotiators' economic purposes and is cognitive. For most ongoing business relationships forged in a high relational context, people engage in dual-intention activities—they pursue both immediate economic gains and long-term relationships.

The relational commitment is affected by negotiators' inclination of *guanxi* development with their counterparts. As an indigenous indication of relationship propensity for Chinese people, *guanxi* orientation results in frequent social interaction behaviors including expressing affective concerns to familiar others, providing and returning favors by offering help and giving gifts (Ang & Leong, 2000). Driven by *guanxi* orientation, negotiators are more likely to engage in *guanxi*-seeking behaviors to develop and maintain long-term business relationships. Therefore, a Chinese negotiator with a high *guanxi* orientation is inclined to focus on interpersonal concerns and relationships rather than the transactional aspects of the negotiation task (Pinkley & Northcraft, 1994). This means that *guanxi* orientation is positively associated with the affective aspect of the relational commitment, which involves non-task concerns.

Negotiators with a strong guanxi orientation tend to secure a long-term relationship with the other party (Ang & Leong, 2000). Thus guanxi orientation renders negotiators to conceptualize the negotiation from a relational rather than a transactional view. Instrumental commitment, in contrast, reflects a “negative motivation” for continuing the relationship with a “cold calculation of costs and benefits” (Geyskens et al., 1996, pp. 304-305). The instrumental commitment to negotiation relationship thus focuses on economic transaction. Instead of being involved in the relational building process with high uncertainties of outcomes, negotiators with a strong instrumental commitment want to capture foreseeable outcomes, which are much more short-term. This contradicts the interest of guanxi orientation and is therefore less favored by negotiators with strong guanxi orientation. The foregoing can be summarized in the following hypotheses:

Hypothesis 1a: Negotiators’ guanxi orientation positively affects their affective relational commitment on negotiation.

Hypothesis 1b: Negotiators’ guanxi orientation negatively affects their instrumental relational commitment on negotiation.

Prior research on the mood effects on negotiation has shown that negotiators’ emotional experiences have important impact on negotiation behaviors and outcomes. Carnevale and Isen (1986) reported that individuals with positive affect were more likely to avoid contentious behavior and achieve higher joint gains. Empirical evidence also showed that negotiators in good moods are more likely to exhibit cooperative behavior to their counterparts (Forgas, 1998). For those negotiators committed to establish relationships within dyads, they are expected to show more positive moods (e.g., happiness) and avoid overt competitive behavior, thus creating an emotionally beneficial spiral between negotiating parties. It can be expected that less contention and more cooperation leads to smoother communication, clear expression, release of key information, and mutual understanding which altogether denote higher quality of information exchange between negotiating parties. Thus relational-building efforts are expected to increase the effectiveness of information exchange.

In contrast, instrumental relational commitment represents a monetary-oriented and non-affect-based concern about negotiation continuance. Negotiators enter the negotiation with an underlying fixed-pie perception which leads them to consider the interest of each party within a dyad as being “diametrically opposed” (De Dreu, Koole, et al., 2000, p. 975). This belief, combined with an overtly expressed instrumental commitment, would lead to a competitive mindset that influences negotiation behavior. Negotiators would be less cooperative and conceal private information to preserve self-

profit. As the quality of information exchange is defined as how effectively the key information (e.g., issue priorities and negotiator preferences) is shared between negotiators, instrumental commitment is negatively associated with information exchange quality:

Hypothesis 2a: Negotiators' affective relational commitment positively affects the information exchange quality in negotiations.

Hypothesis 2b: Negotiators' instrumental relational commitment negatively affects the information exchange quality in negotiations.

Affectively committed negotiators genuinely like working with their counterparts and enjoy the negotiation relationship (Cater, 2007; Geyskens et al., 1996). For the purpose of fostering an enduring relationship, they would affectively invest in relational efforts such as willingness to accommodate (Rusbult, Verette, Whitney, Slovik, & Lipkus, 1991), a demonstration of higher trust in the counterpart (Geyskens et al., 1996) and cooperation for joint benefits (Morgan & Robert, 1994). Compared with negotiators with an instrumental focus, affectively committed negotiators are more likely to conduct "relational negotiation" (Ingerson et al., 2015), which features strong relationality. As a result, affective commitment leads to a high level of relational capital within the dyadic relationship, both affective and instrumental: mutual respect, satisfaction, perceived behavioral similarity, trust and comfort, support and understanding, smooth cooperation on conflicting issues and anticipation of future negotiation (Curhan et al., 2008). Therefore affective commitment not only improves negotiators' affective relational experience but also encourages them to communicate in good faith about the issues that may jeopardize their joint economic gain.

Instrumentally committed negotiators maintain their negotiation relationships for calculative reasons such as termination cost and the consideration of alternative sellers or buyers (Cater, 2007). People's perception of the relationship subject to interpersonal influences. For people in high relational cultures like China's, relationships are grounded on interpersonal harmony and avoidance of conflict (Friedman, Chi, & Liu, 2005). People tolerate disagreements for the sake of softening negative feelings and maintaining harmony (Zhang & Zhang, 2014). The hidden instrumental motivation of preserving a relationship, if any, is thus suppressed by affective causes. In other words, negotiators tend not to reveal the instrumental motivation in the pursuit of economic undertakings with counterparts. Once the instrumental commitment becomes salient, it would only correlate with negotiators' concerns for solving negotiation problems and improving profit, but does not reinforce long-term relationship development. Hence instrumental commitment is expected to affect the instrumental element of relational

capital, with no impact on affective relational capital.

Hypothesis 3a: Negotiators' affective relational commitment positively affects their affective relational capital as a result of the negotiation.

Hypothesis 3b: Negotiators' affective relational commitment positively affects their instrumental relational capital as a result of the negotiation.

Hypothesis 3c: Negotiators' instrumental relational commitment positively affects their instrumental relational capital as a result of the negotiation.

The quality of information exchange reflects the effectiveness of communication on key issues. Thompson (1991) reported that information exchange, regardless of whether one negotiator or both seek and provide information, positively influences the creation of mutually beneficial agreements which promotes joint outcome. Prior research also found that higher information quality leads to more accurate perception of counterparts, in other words, less judgment error (Kemp & Smith, 1994), and eventually more joint value created from a win-win solution (Schei, Rognes, & Shapiro, 2010). The enhanced joint outcome expands the profitable zone for both negotiators in a dyad, hence promoting the dyadic economic outcome. But the impact of information exchange on self-profit of either party cannot be directly predicted as one's gain may incur the other's loss over certain issues in dyadic decision-making interactions.

The quality of information exchange affects both the joint economic outcome and negotiators' perceived relational capital. Paese and Gilin (2000) found that negotiators made less demanding offers, exaggerated less and told the truth more when their counterparts truthfully shared the private information. In East Asian countries with a relational culture, the communication tradition emphasizes relational harmony in conflict resolution (Zhang & Zhang, 2014). It thus can be expected that, in high relational cultures, the communication among negotiators has affective functions. Information sharing increases trust and leads to comfort in interpersonal relationships. It also results in a higher level of negotiation efficiency by helping negotiators identify priorities and making tradeoffs (Schei et al., 2010). Negotiators' perceived affective and instrumental relational capital would be solidified as a result of the high-quality information exchange. Thus positive links between the quality of information exchange and negotiation outcomes could be summarized in the following hypotheses:

Hypothesis 4a: The quality of information exchange in the negotiation positively affects negotiators' affective relational capital as a result of the negotiation.

Hypothesis 4b: The quality of information exchange in the negotiation positively affects negotiators' instrumental relational capital as a result of the negotiation.



Hypothesis 4c: The quality of information exchange in the negotiation positively affects negotiators' joint outcome as a result of the negotiation.

The proposed model can be illustrated in Figure 1:

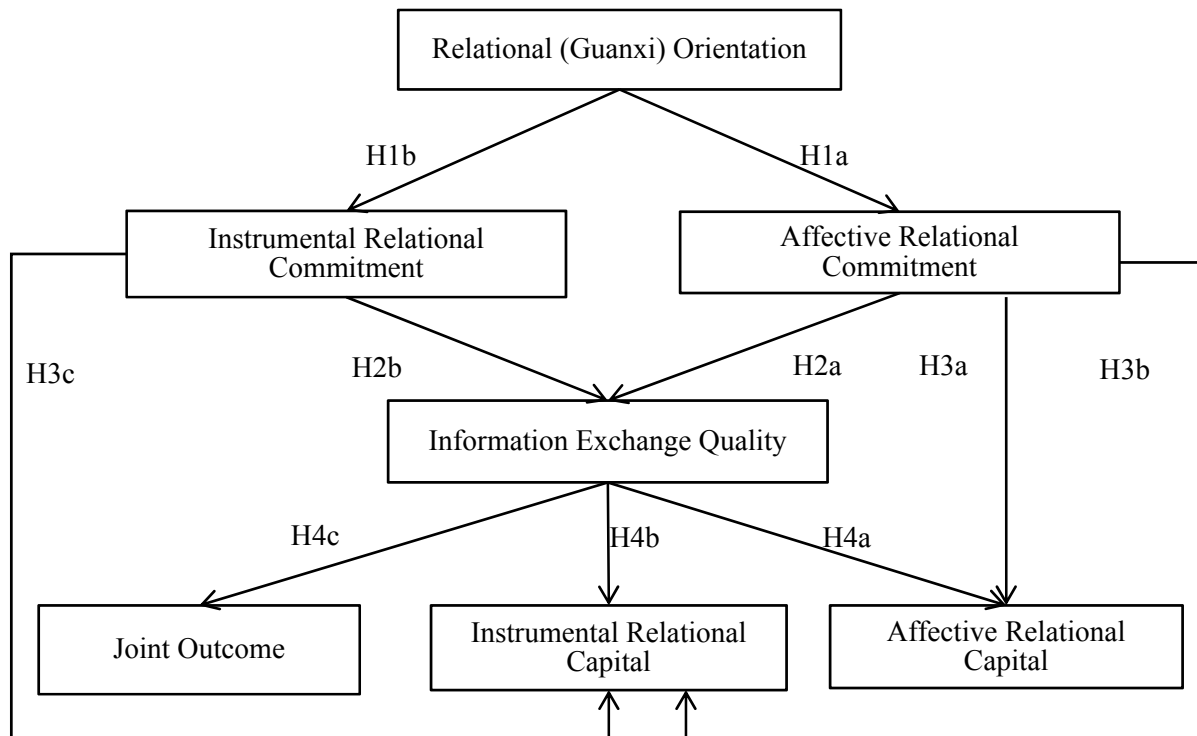


Figure 1 The Theoretical Model

## METHOD

We designed a single-session negotiation simulation in our study. Behavioral simulation has been adopted in many negotiation studies, because it allows researchers to measure negotiators' behavior in controlled situations and to establish causalities (Ribbink & Grimm, 2014). We used structural equation modeling to conduct Confirmatory Factor Analysis (CFA) in LISREL to test the unidimensionality and validity of scales, and hierarchical regression analysis in SPSS to test our hypotheses. The following sections present the details of data collection and analysis.

### Data Collection

The sample for this study consisted of 52 MBA students from a Chinese university in Shanghai: 31 males (59.6%) and 21 females (40.4%), with an average age of 31.2 years. We randomly assigned participants to dyads and conducted a one-on-one negotiation simulation as an in-class exercise during a business course. Subjects were given materials containing assessment questions and instructions about the negotiation

task before the negotiation. They were then allowed 10 minutes to read instructions, prepare the task, and provide scores on questionnaire items for guanxi orientation and relational commitment. Then they were given 30 minutes to complete a simulated negotiation. After negotiation tasks, participants were asked to answer other self-assessment questions about the quality of information exchange and relational capital based on the reflection of their experience in the simulated negotiation.

The simulated negotiation task involves buying/selling a laptop. This task is similar to the integrative negotiation exercise developed by Kelley (1966) and then used by Graham, Mintu, and Rodgers (1994). Within each dyad, one buyer and one seller were asked to negotiate three issues regarding the purchase of a certain model of laptop: warranty (two to 18 months), price (from CNY 8400 to CNY 10,000) and configurations (from standard 1 as the lowest configuration to premium 3 as the highest) (Table 1). The instruction sheet given to each negotiator contained a list of points associated with each level of these three issues. As illustrated in the payoff matrix, the simulation has both competitive and cooperative characteristics. Each of the three terms had nine options that were associated with various levels of points. Price was distributive between them while warranty and configuration together had integrative potentials for participants to make beneficial agreements through information sharing and trade-offs. The theoretical range of joint dyad outcome ranged from 560 (e.g., a solution of IEA) to 1040 (e.g., a solution of AEI), which could be achieved by a total compromise between warranty and configuration. So the task allows negotiators to arrive at a better agreement by trading points from their lower-priority issues to acquire more points from higher-priority issues. All participants reached agreements within the 30-minute time limit.

Table 1 Payoff Matrix for the Negotiation Task

<u>Warranty</u>		<u>Price (CNY)</u>				<u>Configuration</u>		
Alternative	Buyer	Seller	Alternative	Buyer	Seller	Alternative	Buyer	Seller
2 months	0	400	10000	0	240	Standard 1	0	160
4 months	20	350	9800	30	210	Standard 2	50	140
6 months	40	300	9600	60	180	Standard 3	100	120
8 months	60	250	9400	90	150	Enhanced 1	150	100
10 months	80	200	9200	120	120	Enhanced 2	200	80
12 months	100	150	9000	150	90	Enhanced 3	250	60
14 months	120	100	8800	180	60	Premium 1	300	40
16 months	140	50	8600	210	30	Premium 2	350	20
18 months	160	0	8400	240	0	Premium 3	400	0

## Measures

The pro-relationship scale of Liu, Friedman, and Hong (2012) was selected to operationalize the guanxi orientation of Chinese negotiators. To capture negotiators' pro-relationship mindset, they used a five-item scale in their first study. In their research, the word "relationship" is rendered as "guanxi" in Chinese characters when applied to Chinese subjects. There are several reasons to consider guanxi orientation as a reflective construct and not as a composite. First, this study examines Chinese negotiators' belief in guanxi. Considering guanxi orientation as formative may lead to a broadly defined construct which is substantially vague in terms of which aspects of guanxi predict certain consequences. Second, another disadvantage of using formative approach is the probability of missing information when items are selected and aggregated into a composite indicator. Lastly, the differences between guanxi (in Chinese) and relationship (in English) are expected to be sufficient for Chinese participants to associate these items with their indigenous conceptualization of relationship instead of a generic one. For all these reasons, this scale (Liu et al., 2012) was adopted to measure Chinese negotiators' guanxi orientation.

By referring to the scale of Kumar, Hibbard, and Stern (1994) on relational commitment, we developed a six-item scale to measure negotiators' affective and instrumental relational commitment. Typical items were "I genuinely enjoy the relationship with my partner, that's why I continue the negotiation" for affective relational commitment, and "Continuing negotiating with my partner is necessary since there is no better alternative" for instrumental relational commitment. Geyskens et al. (1996) reported high reliability coefficients for both dimensions ( $> 0.80$ ). Participants were required to rate these items before the negotiation tasks.

The measurement of information exchange used the scale developed by Han et al. (2010) in Chinese, who applied eight items to operationalize the quality of information exchange process using samples of MBA students from China. They reported a 0.87 reliability using this scale. These items ask participants to what extent they would resolve differences, communicate clearly and listen attentively to each other, which altogether indicate the quality of information exchange process. Participants answered these questions after the negotiation task.

As discussed earlier, relational capital among Chinese negotiators can be considered as their perceived guanxi closeness as the consequence of negotiation. Thus the scale measuring relational capital is primarily adapted from the relationship (guanxi) closeness scale developed by Chen and Peng (2008) which was initially used in a Chinese workplace. The scale had been reported with a 0.91 high reliability (0.80 for the affective subscale and 0.90 for the instrumental subscale). Considering the

contextual differences in negotiation simulations, we selected six items out of nine from the scale (three from each subscale) added two items, and then changed the wording by substituting the workplace context for the negotiation context when “work” is mentioned in the prior items. Hence there were eight items for relational capital scale with four items in each subscale. The objective negotiation outcome, joint gain, was calculated by adding up the points gained by both negotiators in a dyad.

Participants provided their responses on five-point scales anchored by “strongly disagree” and “strongly agree” for all items. All materials were written in Chinese because it was the participant’s native language. The survey items originally in English were translated and back translated to ensure equivalence between the Chinese and the original.

### **Pilot Study**

Before the main study, we conducted a two-round pilot study. A total of 42 Chinese postgraduate students (14 male, 28 female, average age 22) were recruited. Twenty students participated (eight male, 12 female, average age 20) in the first round, and the other 22 participants (six male, 16 female, average age 23.3) joined in the second round. The first round pilot study resulted in a repeated back-translation process and reworded material instruction to minimize the potential misunderstanding by participants, to ensure that the same meaning of items was delivered in Chinese language. Based on the revised negotiation materials, the second round pilot study resulted in a decision to remove one item (“negotiation for economic gain”) from the subscale of instrumental commitment. The reliability for instrumental relational commitment improved substantially to 0.7 in the second round pilot study.

### **Scale Purification**

All self-reported factors in the main study were tested for reliability, validity and unidimensionality. Cronbach’s alpha was used to assess reliability, reported in Table 2. For the guanxi scale, the coefficient increased from 0.66 to 0.70 after one item was deleted (“Intend to develop a good relationship with the other party”). As it did not affect the interpretation of the guanxi orientation scores, the four-item was then used in further analysis. Cronbach’s alpha for the scale of affective and instrumental relational commitment was 0.6 and 0.61 respectively, both of which are considered acceptable as they reached the 0.6 lower bound indicated by Flynn, Schroeder, and Sakakibara (1994) for new scales, and the 0.55 lower bound of acceptance suggested by Van de Ven and Ferry (1980). EFA revealed that these two subscales together showed good convergent and discriminant validities with factor loadings larger than 0.60 on their own factors, and less than 0.40 on the other factor ( $KMO > 0.500$ , p-value of Bartlett's Test of

Sphericity<0.001). Other scales had adequate reliability coefficients greater than 0.70 (Nunnally, 1978). In addition to Cronbach's alpha, we presented the value of composite reliability (CR) for each construct in Table 2.

To assess convergent validity and unidimensionality, CFA was conducted using structural equation modeling in LISREL. We conducted CFA first for the scales of guanxi orientation, affective and instrumental relational commitment, and information exchange quality; and then for the scales of relational capital to compare its two-factor model with a one-factor model. Items generating standardized loadings lower than 0.40 were removed from the measurement model (three items for information exchange quality). All remaining factor loadings were significant (demonstrated by T-values). Maccallum, Browne, and Sugawara (1996) have suggested root mean square error of approximation (RMSEA) values less than 0.05, 0.08 and 0.10 indicative of close, fair and mediocre fit respectively, with value larger than 0.10 a sign of poor fit. Thus for scales used before negotiation simulations, overall fit demonstrated marginal acceptance ( $\text{Chi}^2=90.18$ ,  $df=71$ ,  $\text{Chi}^2/df=1.27<3$ ,  $\text{RMSEA}=0.073$ ,  $\text{CFI}=0.85$ ,  $\text{IFI}=0.89$ ,  $\text{NNFI}=0.85$ ,  $\text{GFI}=0.80$ ). CFA test for the scales of relational capital also showed that the measurement model generally fit the data ( $\text{Chi}^2=31.71$ ,  $df=19$ ,  $\text{Chi}^2/df=1.67<3$ ,  $\text{RMSEA}=0.1$ ,  $\text{CFI}=0.95$ ,  $\text{IFI}=0.95$ ,  $\text{NNFI}=0.93$ ,  $\text{GFI}=0.87$ ). Consistent with the findings of Chen and Peng (2008), this two-factor model of relational capital was significantly better than a one-factor model ( $\text{Chi}^2=61.81$ ,  $df=20$ ,  $p<0.001$ ), clearly distinguishing the instrumental and affective components of the relational capital. Table 2 also presents all the post-purification items used for further analysis.

To determine discriminant validity, we added the square root of AVEs for each self-reported construct at the diagonal cells in Table 3. The rationale for using AVE is to identify how much item variance could be explained by the intended latent factor than by other constructs. We found that for each construct, the square root of its AVE is greater than its correlations with other constructs, thus demonstrating satisfactory discriminant validity (Fornell & Larcker, 1981).

Table 2 Reliability Assessment and CFA

Factors and Items (Before Negotiation)	Standardized Loadings	T-value
Guanxi Orientation (Cronbach's Alpha=0.70; CR=0.71)		
<i>Focus on relationship development</i>	0.43	2.87
<i>An opportunity to develop relationship</i>	0.52	3.62
<i>Willing to adjust</i>	0.71	5.18
<i>Willing to compromise</i>	0.79	5.92
Affective Relational Commitment (Cronbach's Alpha=0.60; CR=0.62)		
<i>Striving to maintain relationship</i>	0.62	4.39
<i>Feel upset if partners do not maintain relationship</i>	0.54	3.75
<i>Genuinely enjoy the relationship</i>	0.62	4.39
Instrumental Relational Commitment (Cronbach's Alpha=0.61; CR=0.70)		
<i>No better alternatives</i>	0.97	3.53
<i>Troublesome to terminate</i>	0.45	2.54
Information Exchange Quality (Cronbach's Alpha=0.84; CR=0.85)		
<i>Knew my priorities</i>	0.66	5.09
<i>Solved discrepancies</i>	0.87	7.41
<i>Attention to my words</i>	0.76	6.12
<i>Attention to the other party</i>	0.51	3.74
<i>Communicated very well</i>	0.82	6.83
Instrumental Relational Capital (Cronbach's Alpha=0.88; CR=0.89)		
<i>The other party's interest</i>	0.67	5.28
<i>Respect each other</i>	0.83	7.09
<i>Communicate the problems</i>	0.95	8.89
<i>Negotiate in the future</i>	0.78	6.66
Affective Relational Capital (Cronbach's Alpha=0.90; CR=0.91)		
<i>Trust each other</i>	0.91	8.29
<i>Each other's interest</i>	0.76	6.31
<i>Felt comfortable</i>	0.77	6.44
<i>Similar style</i>	0.93	8.70

## RESULTS

An overview of correlations among the variables is presented in Table 3. Gender was coded using a dummy variable with male = 1 and female = 0. As a control variable, it did not significantly correlate with any other variables.

Hypotheses were tested using multiple hierarchical regressions in SPSS with relational commitment, information exchange quality, relational capital and joint gain as the dependent variables, as shown in Table 4. Statistics showed that multicollinearity was not a problem in any of the cases ( $VIF < 3.33$ , condition index  $< 30$ ) (Diamantopoulos & Sigauw, 2006; Velleman & Welsch, 1981). The results of one-way ANOVA showed that none of the self-reported variables differed across dyads ( $p > 0.5$ ). Hypotheses were thus tested on the individual level ( $n = 52$ ), except for H4c which was tested on the dyadic level ( $n = 26$ ) as joint gain is a dyadic outcome.

Table 3 Correlation Table of Self-report Constructs

Variable	Mean	s. d.	1	2	3	4	5	6	7
1. Gender	0.60	0.50	1						
2. Guanxi orientation	4.01	0.79	-0.13	<u>0.63</u>					
3. Affective relational commitment	3.71	0.82	0.01	0.48***	<u>0.59</u>				
4. Instrumental relational commitment	2.83	1.20	0.14	0.24 <sup>†</sup>	0.24 <sup>†</sup>	<u>0.76</u>			
5. Information exchange quality	4.11	0.83	-0.11	-0.11	0.28*	-0.27 <sup>†</sup>	<u>0.74</u>		
6. Affective relational capital	4.11	0.90	0.16	-0.03	0.34*	-0.04	0.50***	<u>0.81</u>	
7. Instrumental relational capital	4.32	0.76	0.15	-0.02	0.36**	-0.08	0.64***	0.76***	<u>0.85</u>

Note:  $n = 52$  individuals for all variables. <sup>†</sup> $p \leq 0.10$ , \* $p \leq 0.05$ , \*\* $p \leq 0.01$ , \*\*\* $p \leq 0.001$ , two tailed.

Table 4 Hierarchical Regression Results

Predictors	Relational Commitment		Info. Exchange		Relational capital			Joint gain	
	Affective	Instrumental	Quality		Affective	Instrumental			
<i>Control</i>	M 1	M 2	M3	M4	M5	M6	M7	M8	M9
Gender	0.08	0.18	-0.23	-0.13	0.14	0.20	0.15	0.23*	
<i>Main effects</i>									
Guanxi Orientation	0.49***	0.27 <sup>†</sup>	-0.13	-0.30 <sup>†</sup>	-0.21	-0.08	-0.20	-0.02	0.07
Affective Relational Commitment				0.49**	0.47**	0.25	0.49**	0.19	-0.27
Instrumental Relational Commitment				-0.29*	-0.12	0.01	-0.17	0.01	0.11
<i>Mediator</i>									
Information Exchange Quality						0.45**		0.62***	0.01
R <sup>2</sup>	0.24	0.09	0.03	0.27	0.19	0.34	0.22	0.49	0.06
F	7.75**	2.41 <sup>†</sup>	0.85	4.24**	2.77*	4.71**	3.23*	9.00***	0.36
$\Delta R^2$				0.23		0.15		0.28	
$\Delta F$				7.42**		10.27**		25.35***	

Note: Standardized coefficients are presented. <sup>†</sup> $p \leq 0.10$ , \* $p \leq 0.05$ , \*\* $p \leq 0.01$ , \*\*\* $p \leq 0.001$ , two tailed. Joint gain was standardized before regression.

H1a and H1b proposed that negotiators' guanxi orientation positively affects affective relational commitment and negatively affects instrumental relational commitment. Regression results revealed that guanxi orientation significantly increases affective relational commitment ( $\beta = 0.49$ ,  $p < 0.001$ , Model 1). Thus H1a was

supported. Guanxi orientation was observed to have a marginal positive significant effect on instrumental relational commitment ( $\beta = 0.27$ ,  $p = 0.06 < 0.10$ , Model 2). Since this effect was opposed to the hypothesized negative direction, H1b was not supported.

H2a and H2b predicted a positive effect of affective relational commitment and negative effect of instrumental relational commitment on the quality of information exchange. Results of multiple regression showed that guanxi orientation alone has no impact on the quality of information exchange (Model 3). When affective relational commitment and instrumental relational commitment are added to the equation, the model reached significance ( $F = 4.24$ ,  $p < 0.01$ , Model 4), and the explanative power improved substantially compared to Model 3 ( $\Delta R^2 = 0.23$ ,  $\Delta F = 7.42$ ,  $p < 0.01$ ). Since the positive effect of affective relational commitment ( $\beta = 0.49$ ,  $p < 0.01$ , Model 4) and the negative effect of instrumental relational commitment ( $\beta = -0.29$ ,  $p < 0.05$ , Model 4) on information exchange quality are both significant controlling for gender. Thus the results supported both H2a and H2b.

H3a, H3b and H3c predicted that affective relational commitment positively affects both affective and instrumental capital, whereas instrumental relational commitment positively affects instrumental relational capital. The regression supported both H3a and H3b in that the effect of affective relational commitment was significantly positive for both affective relational capital ( $\beta = 0.47$ ,  $p < 0.01$ , Model 5) and instrumental relational capital ( $\beta = 0.49$ ,  $p < 0.01$ , Model 7). However, H3c was not supported since no significant relationship was discovered in the analysis (Model 7).

H4a, H4b and H4c hypothesized that the quality of information exchange positively affects affective and instrumental relational commitment, together with economic joint gain. When information exchange was added into the equation, the explanative power of the model increased significantly compared with Model 5 ( $\Delta R^2 = 0.15$ ,  $\Delta F = 10.27$ ,  $p < 0.01$ , Model 6) and Model 7 ( $\Delta R^2 = 0.28$ ,  $\Delta F = 25.35$ ,  $p < 0.001$ , Model 8). Aligned with the hypotheses, the effect of information exchange on both dimensions of relational capital was significantly positive ( $\beta = 0.45$ ,  $p < 0.01$ , Model 6;  $\beta = 0.62$ ,  $p < 0.001$ , Model 8). Therefore the results lent support to H4a and H4b. The main effect of information exchange on joint gain was tested with no significance revealed (Model 9). Thus H4c was not supported.

Following the steps suggested by Baron and Kenny (1986), we assessed the potential mediation effects of information exchange quality between relational commitment and relational capital. As presented in Table 4, both the significance and magnitude of the effects of affective relational commitment were substantially reduced with the addition of information exchange quality to the models. Effects on affective relational capital decreased from 0.47 ( $p < 0.001$ , Model 5) to 0.25 (*n.s.*, Model 6)



(Sobel test:  $z = 2.33$ ,  $p < 0.05$ ). The effects on instrumental relational capital decreased from 0.49 ( $p < 0.01$ , Model 7) to 0.19 (*n.s.*, Model 8) (Sobel test:  $z = 2.83$ ,  $p < 0.01$ ). The analysis indicates a full mediation effect of information exchange quality on the relationships between affective relational commitment and both dimensions of relational capital. Since instrumental relational commitment had no significant effect on either aspect of relational capital (Model 5 and Model 7), information exchange quality was not a mediator between instrumental relational commitment and relational capital.

Because of the small sample used in this study, we adopted bootstrap procedures for all hypotheses to test the robustness of our results (Efron, 1979). We constructed bias-corrected 95% confidence intervals (BC 95%-CI) based on 1000 random samples, and found that all statistical results remained the same. Therefore, these results based on a small sample can still hold if the study is replicated with a larger sample.

## DISCUSSION

The results are consistent with the predictions that relationality plays a salient role throughout negotiation process and impacts on the outcomes. Using an indigenous sample in China, we found that negotiators' perception of guanxi in negotiations enhances their affective relational commitment, which increases the quality of their information exchange in negotiation. Their instrumental relational commitment decreases the quality of information exchange. Negotiators' affective as well as instrumental relational capital is reinforced by their affective relational commitment and the quality of information exchange process. Furthermore, the quality of information exchange mediates the relationships between affective relational commitment and affective (and instrumental) relational capital.

By setting its context in a high relational society, this study has identified a path through which relationality influences negotiation processes and outcomes. The impact is traceable from the pre-existing propensity and pre-negotiation initial stage to communication interaction and final relational outcomes. This study provides evidence that Chinese negotiators' relational propensity positively links to the affective component of negotiation commitment, which also affects negotiation communication process and relational capital. Instrumental commitment was found not to connect with relational capital. This result indicates that affective elements play a more active role in shaping bilateral negotiation relationships.

Unexpectedly, several hypotheses were not supported in this study. Contrary to the expected negative correlation hypothesized in H1b, findings indicated that guanxi orientation could even have a slight positive effect on instrumental relational

commitment. This counterintuitive result shows that strong guanxi orientation can promote both the affective and instrumental aspect of commitment to negotiation relationship. An ad hoc explanation is from the theory of mixed guanxi (Chen & Chen, 2004; Chen & Peng, 2008), which points out the co-existence of affective and instrumental elements in certain types of guanxi (e.g., relationships among colleagues or classmates). According to Hwang (1987), a mixed-tie guanxi typically occurs when relationship participants are neither close in-group members nor total strangers, but in between. This finding indicates that the relationship among negotiators fits into this category in a high relational culture. In other words, the importance of affective pursuit is not necessarily prioritized at the cost of economic interest, indicating the co-existence of relational and instrumental objectives.

Another unsupported hypothesis was H3C, which proposes a positive effect of instrumental relational commitment on instrumental relational capital. The analysis showed that the instrumental commitment has no impact on the instrumental component of relational capital. When negotiators consider instrumental commitment, they are more likely to focus on the cost of negotiation termination (Geyskens et al., 1996). However, negotiators can become benefit-driven regarding relationship evaluation. The two orientations at different stages of negotiation may explain why no effect was found between the two variables. More research is needed to investigate if the same pattern exists in low-relational cultures. In addition, future research can adjust the measurement of the two variables to be consistent in dimensions. For example, researchers can measure whether the benefit concern of negotiation continuance is associated with instrumental relational capital.

H4C was not supported in this study. No correlation was identified between information exchange quality and joint gains. This result can be attributed to the use of self-report scale items. Self-report measurement is a time-saving and straightforward way to capture many psychological factors and it has been widely applied in laboratory studies. But this method has a limitation. Inferences based on the analysis of self-reported data are subject to immediate post-negotiation memory (Adler & Graham, 1989). For example, participants may be influenced by irrelevant information when making judgment of the negotiation process; hence they are not able to recall the actual process accurately. To address this issue, future research can combine the self-report measure with the content-analysis technique. Researchers in early studies have called for the application of this method (Graham et al., 1994), because it accurately captures the communication process by analyzing observational data coded from audio-taped conversations.

An additional finding is the discovery of the mediation effect of information exchange quality between affective relational commitment and both dimensions of relational capital. This finding indicates the importance of the quality of ongoing interaction in fostering relationships among negotiating parties. If the quality of information exchange decreases, relational capital will be undermined despite the existence of affective relational commitment. The maximum gain of relational capital comes from high affective relational commitment coupled with effective management of communication process in negotiations.

### **Theoretical Implications, Future Directions and Limitations**

This research is among the few empirical investigations of the role of relationality in negotiations (Curhan et al., 2008; Tenbrunsel, Wade-Benzoni, Moag, & Bazerman, 1999). It examines the association among a full range of relational constructs in a high relational culture. This study substantiated that affective considerations, rather than instrumental considerations, gain more saliency in relational interactions among negotiators in a high relational culture. The finding sheds light on the importance of the affective commitment in maintaining negotiation relationship. This implication can be extended to other issues, such as partner choice in marketing channel relationship, and employee turnover in organizations, where affective commitment can play a prominent role. Furthermore, this study explores how communication can strengthen relational outcomes. Most prior research emphasized the economic function of information exchange (Thompson, 1991; Van Beest, Steinel, & Murnighan, 2011). This study identified and attested to the social function of information exchange in terms of relational capital accumulation. Future studies can discuss the role of other process variables in shaping relational consequences in negotiations.

In the domain of buyer-seller relationship, the literature has only measured commitment through questionnaire sent to firms (Geyskens et al., 1996; Morgan & Robert, 1994). Hardly any negotiation research has investigated commitment in a controlled laboratory environment. This research measures two dimensions of relational commitment with a simulated negotiation context. This research design ensures a strong internal validity regarding the analysis of associations among relational commitment and other negotiation constructs. As a result, this study provided empirical evidence that different dimensions of relational commitment have distinct influences on communication process and relational consequences. Furthermore, the literature has proposed obligation-based normative (or moral) commitment as another independent dimension of commitment to buyer-seller relationships (Allen & Meyer, 1990; Kumar et al., 1994). In future laboratory research, it would be promising to expand the research

scope by introducing the normative component as the third aspect of commitment in shaping negotiation relationships.

Most of the literature in relational orientation and commitment has focused on relationship management to secure long-term partnerships. Our study did not discover the negative effect carried by guanxi orientation on instrumental relational commitment, but instead, a positive trend between these two variables. This finding brings a fresh perspective to the literature to reconsider and reinterpret the impact of relationality on negotiation. It strongly resonates with the recent theoretical statement that the socially embedded relationality can coexist with the self-fulfilling nature of instrumentality (Ingerson et al., 2015). In a word, relationship orientation is not necessarily in conflict with pursuit of economic interest. These two dimensions of relational commitment could be intertwined through a complicated mechanism, which deserves more research.

This study used student sample as the data source to generate findings. Though student sample may cast some doubt on the generalizability of research conclusions (Ma, 2007), many negotiation simulations have applied student samples in the experimental design. As studies have also shown that the characteristic difference between managerial and student sample is negligible (Ribbink & Grimm, 2014), the results of this study can benefit professional negotiators. Another limitation could be the small sample size employed in the main study. For this reason, further studies are needed with a larger sample pool to validate our findings concerning relationality in negotiations.

### **Managerial Implications**

Negotiators with high guanxi orientation are not simply committed to relationship maintenance in negotiations but instead, both affectively and instrumentally motivated. This fact bears significant managerial importance. A well-established guanxi network matters in a high relational society such as China (Davies, Leung, Luk, & Wong, 1995). However, it should not be taken for granted that strong guanxi orientation invariably leads to relational activities. Facing negotiators with high guanxi orientation, managers should also recognize their counterparts' economic needs which can be equally as important as their needs for relationship establishment.

While guanxi orientation is a negotiator propensity indigenous to Chinese culture with strong relationality, the adoption of these strategies cannot be solely explained by cultural differences. Relational commitment as a whole can be managed by negotiators as coping strategies to achieve negotiation goals. Managers are advised to determine their commitment intensity based on the understanding of the monetary and relational needs of their negotiating counterparts. Since guanxi orientation can predict both dimensions of relational commitment, managers may also refer to the behavioral

representations of guanxi orientation of their counterparts to design better coping and persuasion strategies in negotiations. For example, when business managers negotiate with Chinese professionals, they may pay heed to their counterparts' guanxi efforts (Shou, Guo, Zhang, & Su, 2011), such as offering help and returning favors, to formulate a level of commitment to the negotiation relationship.

Some negotiators may wonder whether they should emphasize an affective relational commitment at all in one-off transactional negotiations. As this study has shown, the role of affective commitment is more salient than instrumental commitment in terms of its significant positive associations with other negotiation variables. In support of the advice made by Kumar et al. (1994) and Geyskens et al. (1996), the study substantiated that while instrumental commitment does have a negative impact on negotiations by undermining the quality of information exchange, affective commitment strengthens the communication and the relationship even in a one-shot negotiation, hence generating more long-term favorable consequences than instrumental commitment. Therefore, negotiating managers should invest substantial efforts in fostering affective commitment, particularly in a high relational culture.

Affective relationship commitment has both direct and indirect effects on the achievement of relational goals. The indirect impact through quality of information exchange indicates that to maximize the effectiveness of this commitment strategy, managers should also invest considerable effort in communication interaction throughout negotiation interactions, such as being more transparent and honest in information exchange (Van Beest et al., 2011). Moreover, a proper management of communication process is likely to buffer the negative effect of instrumental commitment on information exchange, enhance communication quality, and improve the relational experiences.

## **Conclusion**

When a negotiator focuses on a long-term partnership, s/he would be more affectively committed to the ongoing negotiation, hence, more willing to reinforce the communication effectiveness by disclosing more quality information to the counterpart. This leads to a higher relational capital within dyads. Our research contributes to the literature on buyer-seller negotiations by identifying negotiators' relational concern and exploring its effects on the negotiation process and consequences in Chinese culture. Following the emerging relational perspective in negotiation research, our study serves as the initiative to investigate relationality in business negotiation practices.

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