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Relationship versus Transaction Marketing in China: An Institutional Approach

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Abstract

This study takes a transaction governance institutional approach to predict firms' choice between relationship versus transaction marketing in China. Drawing on the literatures on relational versus discrete transactions and their respective governance institutions of social relational governance versus market mechanisms, the paper posits that firms can either practice relationship marketing to reinforce social relational governance to support relational exchanges, or launch transaction marketing to enhance the effectiveness of market mechanisms to promote discrete transactions. The paper further argues that such decisions are determined by institutional, industry, and firm attributes. Empirical results support these arguments which provide strong research and practical implications.

Keywords: relationship marketing, transaction marketing, social relational governance, market mechanisms

1. Introduction

The concept of relationship marketing views marketing as an interactive process embedded in a social context where relationship building and cultivation constitute the major marketing practices (Zinkhan, 2002; Palmatier, 2008; Christopher, Payne, and Ballantyne, 2013). Despite the proposition of the co-existence of relationship and transaction marketing by a few studies (e.g., Li and Nicholls, 2000), some research still touted the emergence of the relationship marketing concept as a paradigm shift (e.g., Grönroos, 1994; Hollensen, 2015). Particularly, they argue that relationship marketing is replacing the traditional integrated marketing communications package as a major institution to influence purchasing decisions, especially in an international context (e.g., Samaha, Beck, and Palmatier, 2014).

The above trend has been well reflected in marketing research in China, especially after the country became a major world market. Given the strong relationship-based collectivist orientation in Chinese culture, most studies have epitomized the Chinese market as a perfect context for relationship marketing (Yau, Lee, Chow, Sin, and Tse, 2000; Kaynak, Wong, and Leung, 2013; Shaalan, Reast, Johnson, and Tourky, 2013; Samaha et al., 2014). Although a few studies have proposed the coexistence of transaction and relationship marketing in China based on such Chinese values as long-term orientation and Taoism (see Styles and Ambler, 2003), the marketing literature on China still lacks an economic explanation of what have caused the variations in marketing practices regarding relationship versus transaction marketing in China. In addition, such a proposition of coexistence between relationship and transaction marketing in China also awaits empirical support.

A major characteristic of relationship marketing research in China is that given the popularity of the social relationship-based Chinese business practice of *guanxi*, nearly all studies have used *guanxi* as a direct or close proxy to study relationship marketing in China (Arias, 1998; Wong and Chan, 1999; Geddie, DeFranco, and Geddie, 2005; Jia and Zsidisin, 2014). Some studies did point out the difference between *guanxi* and relationship marketing (e.g., Wang, 2007), nevertheless, few studies have taken an alternative approach to *guanxi* to study relationship marketing in China.

This study attempts to extend the current marketing research in China by making three contributions. First, theoretically, rather than treating the Chinese market as a context for relationship marketing alone, this study recognizes the coexistence of relationship and transaction marketing in China and provides a theoretically grounded economic explanation of what have caused the variations between those two marketing practices in that market.

Second, empirically, rather than borrowing the Chinese concept of *guanxi* to represent relationship marketing in China (e.g., Yau et al., 2000; Shaalan et al., 2013), this study follows the approaches of Western marketing studies to use major relationship marketing practices such as eating, social drinking, traveling, sporting with clients and other client entertainment activities to measure relationship marketing (Hite and Bellizzi, 1987; Kavali, Tzokas, and Saren, 2001; Oakley and Bush, 2012). By using the Western approach to relationship marketing as an alternative empirical proxy to *guanxi*, this study helps to keep the concept and practice of relationship marketing in China comparable with those in the West.

The third contribution of this study is the practical implications derived from the above theoretical and empirical approaches. Partly attributed to the mindset of seeing the whole Chinese market as a single market featured with relationship marketing, prior research on Chinese firms' marketing practices often focused on relationship marketing (see Arias, 1998; Wong and Chan, 1999; Gu, Hung, and Tse, 2008). A few studies did explore general marketing practices in China, yet they tend to discuss transaction marketing alone (e.g., Liu, 2002; Ho, Keh, and Ong, 2005). Although in reality both relationship and transaction marketing co-exist in the Chinese market (Styles and Ambler, 2003), few studies have compared the two. By providing an economic comparison of what have caused the variations in marketing practices between relationship and transaction marketing in China, this study can help firms make better decisions in allocating scarce marketing communications resources on relationship versus transaction marketing in China.

In order to achieve the above goals, this study takes an institutional approach to propose that the economic transaction governance structure that regulates a firm's transactions with others dictates the firm's choice between relationship and transaction marketing. Particularly, drawing on the conceptualization that economic transactions are governed through a combination of market mechanisms and social relational institutions with the former regulating discrete transactions and the latter for relational exchanges, I argue that firms' decisions on investing in relationship versus transaction marketing are determined by the institutional context within which they operate, the industries they belong in, and their own attributes. I test these hypotheses through a sample of companies listed on the Shanghai Stock Exchange in China. I conclude the paper by outlining its academic and practical implications.

2. Theoretical Background

2.1 Economic Transaction Governance Institutions

How to induce or coerce economic agents to follow the rules of market transactions is a fundamental issue in organizing economic activities (Greif, 2000). Within any given legal framework, market mechanisms and social relational governance combine in numerous ways to generate the binding power to regulate market transactions (Williamson and Ouchi, 1981; Bradach and Eccles, 1989). In the marketing literature, for analytical parsimony, market mechanisms and social relational governance are often put on the two extremes of the marketing strategy continuum in that market mechanisms regulate discrete transactions in transaction marketing while social relational governance facilitates relational exchanges in relationship marketing (Grönroos, 1991; Li and Nicholls, 2000). Particularly, relationship marketing practices like client entertainment and customer relationship management are used to boost the power of social relational governance, and transaction marketing practices of advertising and branding are launched to reinforce market mechanisms respectively to promote sales (Dorsch and Kelly, 1994; Belch and Belch, 2003).

2.2 Market Mechanisms and Transaction Marketing

The default type of governance institution for economic transactions is market mechanisms that can support spontaneous market transactions by using the "invisible hand" of price system to regulate economic activities (Smith, 1776/1981; Hayek, 1945). Under such a system, economic actors influence each other's behaviors solely by price based on personal utility preferences (Arrow, 1974). Each actor offers prices to solicit exchanges from others and at the same time makes her own decisions to accept or refuse inducements by others. Sellers agree to trade with whoever offers the highest price in discrete transactions at the arm's length regardless of the buyer's personal identity, prior interactions, or future trading opportunities. Here price plays an important inducive role in curbing inefficient behaviors. For instance, if a buyer feels the seller's price is acceptable, she would reward the seller with more transactions in the future; otherwise, the buyer would punish the seller by simply walking away to find a seller who can offer a better price.

The key element for the price-based market mechanisms to work is smooth information flow that can better influence the buying or selling behaviors of economic actors in the market (Akerlof, 1970; Spence, 1976). Transaction marketing practices such as advertising and branding play a major role in bridging the information gap between sellers and buyers in the market (Nelson, 1974). Transaction marketing conveys the necessary message to buyers about where to find the goods they are looking for, who made them, what their features like price, quality and functions are, and how to buy them (Dyer, 2008). Such information facilitates buyers to make a purchasing decision which they would otherwise fail to do, and therefore reinforces the governance power of price-based market mechanisms.

2.3 Social Relational Governance and Relationship Marketing

The market mechanisms are ideal but not perfect in regulating economic transactions. When market mechanisms fail, which is often the case for most transactions, social institutions arise to govern market transactions (Arrow, 1974). Social relational governance plays the role of an informal institutional supplement to market institutions (North, 1994). Social relational governance has been a rudimentary mechanism that existed to regulate social exchanges long before the emergence of market institutions (Benson, 1999). Social relational governance is an effective mechanism for governing relational transactions that are featured as long-term based and embedded in communal networks (Macneil, 1978). The power of social relational governance can be enhanced through relationship marketing practices which generate trust and common values that harmonize mutual interests of buyers and sellers, thereby eradicating their opportunistic behaviors and forcing them to conform to exchange rules (Ouchi, 1980).

Relationship marketing practices, such as client entertainment activities including dining, wining and gift-giving, can reinforce the power of social relational governance to support relational exchanges (Sun and Chen, 2017). Relationship marketing practices like client entertainment are actually a form of social exchange that has traditionally served a key role in nurturing social relations and facilitating information flow and economic exchanges (Mauss, 1925/1990; LeCount, 2001). In modern societies, relationship marketing practices like client entertainment still play a role in facilitating market transactions (Dorsch and Kelly, 1994). Such practices can trigger reciprocal behavior and enhance long-term orientations between buyers and sellers which greatly enhance relationship duration and quality. By wrapping economic transactions into social exchanges such as relationship marketing practices of client entertainment, the governance power underlying social exchanges are revitalized and integrated into the overall governance structure to support economic transactions (Cropanzano and Mitchell, 2005). Table 1 provides a classification of transaction type, governance institution, and key relationship versus transaction marketing practices.

Table 1. Transaction Type, Governance Institution, and Marketing Strategy

	Relationship Marketing	**Transaction Marketing**
Transaction Type	Relational Exchange	Discrete Transaction
Governance Institution	Social Relational Governance	Market Mechanism
Major Marketing Practice	Client Entertainment	Advertising

3. Hypotheses

As outlined above, relationship marketing can boost the power of social relational governance to support relational exchanges, while transaction marketing reinforces the price-based market mechanisms to govern discrete transactions. Given the constraints of marketing communications budget, firms face the strategic tradeoff of spending on relationship versus transaction marketing to promote sales. I hypothesize that such spending decisions are determined by the relative power of social relational governance versus market mechanisms in the institutional environments where firms operate, the effectiveness of social relational governance versus market mechanisms in the industry firms belong to, and firms' own relational versus market power in transacting with others (namely, firms' ownership structure).

3.1 Social Context

Based on the institutional theory, institutional arrangements dictate firm activities in each particular institutional context (Scott, 1995). Accordingly, the transaction governance institutional environment also determines firms' strategic choice over spending on relationship versus transaction marketing. In an institutional context that is more conducive to the working of social relational governance, firms would spend more on relationship marketing to reinforce the power of relational governance in regulating relational exchanges. In such a context, firms would spend relatively less on transaction marketing.

Traditional Chinese society has been epitomized as having a strong norm-based system which is conducive to the working of social relational governance (Appelbaum, 1998). In this type of social context, most economic transactions are relational exchanges in that people often trade with those whom they know well and such trading relationships are long-term oriented. The long-term nature of business relationships makes possible the enforcement of such social norms like reciprocity, which is a necessary condition for the effective working of social relational governance (see Fehr, Gachter, and Kirchsteiger, 1997). In addition, low human mobility in traditional Chinese society also allowed rich social fabrics to be woven into dense social networks that can easily expose the behaviors of its members to mutual monitoring, which in turn makes social relational governance even more effective in regulating economic exchanges (Zhou and Xu, 2012). Consequently, economic transactions in China are often negotiated and enforced through commonly accepted rules, and disputes are mediated based on social norms rather than formal law (Hamilton, 2006). As such, the Chinese market is featured with relational exchanges supported by social relational governance where relationship marketing is the dominant marketing practice (Ambler, 1995). On the contrary, market mechanisms play a less important role in regulating economic transactions in traditional China.

Yet, China is a huge country with cross-regional variations in social structures. Such variations became even larger over the past four decades after economic modernization further changed the social structure. Following economic development, hundreds of thousands of migration workers relocated to coastal areas and set up new cities like Shenzhen, which ruptured the traditional social fabrics that are necessary for social relational governance to function effectively. More importantly, frequent interactions with the outside world, especially through long distance trade with developed nations, exposed some Chinese communities to mimetic and normative pressures, leading to institutional assimilation with the West that also reshuffled the traditional social structure (see DiMaggio and Powell, 1991). As a result, the social context has been changed in a way that makes social norms less a binding mechanism in regulating interpersonal relationships. Such changes, nonetheless, were staged unevenly across China. Regions that have greater exposure to the West, such as the coastal provinces, have experienced changes that distorted the social context for social relational governance to function effectively. The inland areas, on the contrary, still keep the traditional social context that enables social relational governance to work effectively to regulate economic transactions, which are predominantly relational exchanges.

The variation of social contexts means the conduciveness to the working of social relational governance differs in different regions, which in turn dictates firms' spending on relationship versus transaction marketing. In those regions with a social context that features more social relational governance in regulating economic transactions, firms will comparatively spend more on relationship marketing, but less on transaction marketing. As such, I predict that,

Hypothesis 1a: Chinese firms operating in a social context that is more conducive to the working of social relational governance will spend more on relationship marketing.

Hypothesis 1b: Chinese firms operating in a social context that is more conducive to the working of social relational governance will spend less on transaction marketing.

3.2 Market Infrastructures

Similar to social context, market institutions will also affect Chinese firms' spending strategy on relationship versus transaction marketing. Holding the efficiency level of social relational institutions constant, in an institutional context where market mechanisms are well developed and efficient in governing discrete transactions, firms would be more likely to launch transaction marketing to promote sales. In such institutional contexts, the price-based market mechanisms that are believed to be the "ideal type" (Hayek, 1945) of economic transaction governance institution would work better in regulating discrete market transactions. As such, firms would have less need to engage in relational exchanges and hence spend less on relationship marketing.

China is widely known as having inefficient market infrastructures, where social relations are placed above market rules in conducting economic transactions (Fried, 1953). In Chinese history, the collectivist nature of Confucian teachings stratified the social hierarchy as respecting the literati and belittling merchants which discouraged commerce and prohibited the emergence of a market economy. As such, labor, land, and capital all failed to become commodities in Chinese history, which is a necessary condition for a capitalist market system to emerge (Hamilton, 2006). Such a tradition of lacking efficient market infrastructures had persisted till China adopted the open-door policy to develop a modern market system in early 1980s, which has gradually improved the market-based institutions in China.

Given the experimental and incremental nature of the Chinese economic reforms, however, uneven market development has occurred in China. Some coastal provinces set up special economic zones that allow market mechanisms to regulate economic activities similar to that in mature market economies in developed countries. In coastal areas, the modern marketing concept is applied in firms' daily marketing operations in that firms formulate subtle strategies in product design, pricing, promotion, and channel management to sell their products in discrete transactions. Transaction marketing practices such as advertising and branding become the major means to spread information to influence consumers' purchasing behavior. The in-land areas, to some degree, still maintain the traditional agrarian economic system that relies heavily on social relations to govern economic exchanges. In inland provinces, market mechanisms still play a lesser role in regulating economic transactions and firms still practice less transaction than relationship marketing to promote sales. Accordingly,

Hypothesis 2a: Chinese firms operating in regions with efficient market infrastructures will spend less on relationship marketing.

Hypothesis 2b: Chinese firms operating in regions with efficient market infrastructures will spend more on transaction marketing.

3.3 Client Type

The power of social relational governance versus market mechanisms and hence the likelihood for firms to use more relationship versus transaction marketing also depends on factors that differ across client types. One way to classify client types is the distinction between business customers and individual consumers, where the buyer-seller relationships are regulated through different combinations of social relational governance and market mechanisms, given the different market breadth, channel length, product complexity, and transaction frequency in selling to those two types of clients (Stanton, 1981). Accordingly, firms face the strategic choice of practicing relationship versus transaction marketing to promote sales of different types of products to different clients.

First, when selling industrial products to corporate clients, firms are more likely to encounter the small-number situation that weakens the power of market mechanisms in regulating exchange relationships (Kotler and Armstrong, 2001). Social relational governance, instead, would be used more intensively to govern business-to-business transactions. In contrast, in business-to-consumer transactions, the large number of individual consumers expands market breadth and hence improves market efficiency that requires less social relational governance.

Second, industrial products are often distributed through shorter channels, where the buyer-seller relationship tends to be more personal that allows social relational governance to play a bigger role in regulating the behaviors of sellers and buyers (Crosby, Evans, and Cowles, 1990). Conversely, consumer goods are usually sold through broader distribution networks where the impersonal buyer-seller relationship is regulated mainly through market institutions such as branding and advertising and rarely with social relational governance (Telser, 1964).

Third, transactions with business clients versus individual consumers can also be distinguished by the technical complexity of the products involved. Products sold to business clients often feature a higher level of technical complexity, which requires both pre-sales client education and after-sales product service. Technical complexity inevitably weakens the power of market mechanisms in regulating business-to-business transactions and thus calls for the use of social relational governance (Webster Jr, 1992). In addition, given the fact that complicated contracts are costly and not always exhaustive, social relational governance may end up playing a bigger role in regulating a firm's relationship with business clients. On the contrary, goods sold directly to individual consumers tend to feature a lower level of technical complexity, which can be supported mainly by market mechanisms and reduces the role of social relational governance in regulating the buyer-seller relationships.

Finally, many business-to-business transactions are repetitive over a long term. Concentration of business in a few long-term clients leads to high-volume orders and leaves room for bargaining, rather than following market rules, to determine price. In addition, repeated interactions in long term-based business to business transactions can also promote mutual trust and commitment, where the norm of reciprocity is more powerful in nourishing a cooperative relationship. As such, social relational governance will play a bigger role in regulating business-to-business transactions. In business-to-consumer transactions, however, face-to-face interactions between the producer and the end-user are rare, since most deals are reached at arm's length through retail settings based mainly on market principles. Social relational governance hence plays a limited role in regulating such discrete exchange relationships.

Taken together, social relational governance is used more often in regulating transactions between business clients, while market mechanisms play a more important role in selling to individual consumers. Thus, Chinese firms selling mainly to business clients are expected to spend more heavily on relationship marketing but less on transaction marketing to promote sales, while others selling mostly to individual consumers will spend less on relationship but more on transaction marketing.

> *Hypothesis 3a: Chinese firms selling mainly to business clients will spend more on relationship marketing than others selling to individual consumers.*
>
> *Hypothesis 3b: Chinese firms selling mainly to business clients will spend less on transaction marketing than others selling to individual consumers.*

3.4 Firm Ownership Structure

Ownership structure is another important factor that influences the activities of a Chinese firm (Park and Luo, 2001), including its use of social relational governance versus market mechanisms to coordinate economic transactions and hence the spending on relationship versus transaction marketing to promote sales.

The gradual introduction of a market system to the planned economy in China has created three categories of enterprises in terms of ownership structure, i.e., privately owned, collective-hybrid, and State-owned enterprises (SOEs). Among the three, the SOEs have the greatest advantage in the market due to their direct access to governmental resources and their multiple roles of rule-maker, game-player, and arbitrator in business deals. In some extreme cases, they even use administrative interferences to seek cooperation from trading partners (Rawski, 1994). As such, SOEs have less need for either market mechanisms or social relational governance in trading with business partners and thus spend less on either relationship or transaction marketing to promote sales (although they are more likely the target of relationship marketing spending).

Compared with SOEs, non-State-owned firms face substantial institutional disadvantages in the marketplace. Privately owned companies in China rely more on market mechanisms to sell products and acquire resources, but they often lack the necessary market power as required in discrete transactions. They are also more vulnerable to arbitrary interferences from government agencies that impose illicit levies and enforce discriminatory regulations on them on the one hand, and restrict their access to critical resources on the other hand (Nee, 1992). Accordingly, non-State-owned firms have to simultaneously use relationship and transaction marketing extensively to enhance both relational governance power and market mechanisms to obtain cooperation from trading partners (Chen and Chen, 2004). As such, I propose that,

Hypothesis 4a: The higher the proportion of State-ownership, the less a firm will spend on relationship marketing.

Hypothesis 4b: The higher the proportion of State-ownership, the less a firm will spend on transaction marketing.

4. Methods

4.1 The Sample

I tested the above hypotheses with a sample of public firms listed on the Shanghai Stock Exchange in China (Shanghai Stock Exchange, 2009). I believe this empirical setting is ideal for verifying the transaction governance approach to relationship versus transaction marketing in China for two reasons. First, as pointed out earlier, China still has a relatively immature market system featuring an agrarian tradition that is different from the modern market system in industrialized societies. Economic reforms in the past four decades have led to developmental disparities in China, which have caused variations in institutional environment for economic transaction governance across different regions of the country. Second, the sample provides perfect control for other country-level factors such as national culture or political system that also affect firms' spending on relationship versus transaction marketing.

The Shanghai Stock Exchange listed 860 firms as of December 2007, of which I excluded service firms in telecom, hotel, or banking industries that spread operations across regions, to provide a more accurate comparison of different institutional contexts. Previous studies have found that financial data reported by public firms listed on the Shanghai Stock Exchange are reasonably reliable (Allen, Qian, and Qian, 2005).

I collected data backward from 2007 to 2003, a stable economic growth period that was after the recovery from the 1997 Asian financial crisis and the Internet meltdown in 2000, but preceded the 2008 global recession. It is safe to say that during this five-year period, Chinese firms were experiencing relatively stable and smooth growth. In addition, the consumer price index in China was steady and thus inflation adjustments to data were not necessary.

This sampling procedure yielded a list of 227 firms and a panel of 1135 firm-year observations over the period between 2003 and 2007.

4.2 The Models

The hypothesized relationships were tested through a pair of time-series, cross-sectional models specified below:

$$RM_{it} = \alpha + \beta 1X1_{it} + \beta 2X2_{it} + E_{it}$$
$$TM_{it} = \alpha + \beta 1X1_{it} + \beta 2X2_{it} + E_{it}$$

where RM_{it} and TM_{it} are the dependent variables representing relationship versus transaction marketing spending respectively for Firm *i* in Year *t*. $X1_{it}$ is a vector of independent variables that measure the institutional, industry, and firm level attributes for Firm *i* in Year *t*; $X2_{it}$ stands for a vector of control variables that may affect Firm *i*'s relationship versus transaction marketing spending in Year *t*, α is the intercept, $\beta 1$, *and* $\beta 2$ are parameter estimates, and E_{it} is the error term for Firm *i* in Year *t*.

I used client entertainment to measure relationship marketing. Based on previous studies, client entertainment is a major form of relationship marketing practice for marketing managers to promote sales (Dorsch and Kelly, 1994), which is the closest proxy in public data for relationship marketing. I used firms' advertising spending as the measure for transaction marketing. Advertising is considered an ideal proxy for transaction marketing because in the marketing literature it is the key element in the marketing communications mix for arm's length transaction marketing that facilitates consumers to make a purchasing decision (Nelson, 1974; Dyer, 2008). In the financial statements of Chinese public firms, client entertainment and advertising expenses are the only economic data that are related to relationship and transaction marketing respectively. Assume that firms can make rational and optimal decisions on these spending, and also assume that there is no variance in firms' other investments in relationship and transaction marketing, these two items should be considered the best proxies for relationship and transaction marketing.

4.3 Independent Variables

I used four independent variables, which are specified below, to test the multilevel factors that could affect Chinese firms' spending on relationship versus transaction marketing.

Social context. Previous studies found that in each specific social context, social relational governance and legal contracting can work as substitutes or complements to regulate market transactions (Poppo and Zenger, 2002). Social relational governance works better in a social context where economic activities are embedded in social fabrics that in turn make impartial rule of law difficult or impossible (Portes and Haller, 2005). As such, a social context that relies more on the legal system in commercial contracting and dispute resolution indicates less reliance on social relational governance and vice versa. Accordingly, I used the number of commercial cases processed by the court system each year in a firm's home province to inversely measure the variable *social context*, based on the rationale that all else held constant, more commercial disputes going through the legal system implies less reliance on social relational governance. The data are collected from the Chinese Yearbook of Lawyers (2005). As suggested by Hypotheses 1a and 1b, this variable was expected to carry a negative sign on relationship marketing, but a positive coefficient on transaction marketing.

Market infrastructures. A number of studies have used the index of free market mechanism development, which was compiled by the National Economic Research Institute (NERI) of China, to test the efficacy levels of market infrastructures across Chinese provinces (e.g., Gao, Murry, Kotabe, and Lu, 2010). I used the same index to measure *market infrastructures*. This index captures two sub-indices: the percentage of products with market-determined prices and the reduction of local protectionism that affects a firm's ability to decide where and at what price to sell their products. As proposed in Hypotheses 2a and 2b, I expected this measure to carry a negative sign on relationship marketing, but a positive sign on transaction marketing.

Client type. Following the industry classification approach proposed by Balasubramanian and Kumar (1990), I created a dummy variable, with "0" representing firms selling consumer products whose customers are the ultimate consumers of their products (i.e., for their own end use), and "1" representing firms selling industrial products whose products help other firms to make products for ultimate consumers. As proposed in Hypotheses 3a and 3b, I expected the product dummy variable to carry a positive sign on relationship marketing, and a negative sign on transaction marketing.

Firm ownership structure. I used the percentage of stake controlled by the State in a firm to measure its ownership structure. As suggested by Hypotheses 4a and 4b, I expected this variable to have a negative impact on a firm's spending on both relationship and transaction marketing.

4.4 Control Variables

This study focuses on the transaction governance factors at institutional, industry, and firm levels to predict firms' spending on relationship versus transaction marketing. To isolate the main effects, I controlled for other environmental, industry, and firm level factors, as described below.

GDP per capita. At the regional level, I used provincial GDP per capita to control for disparities of economic development that may affect firms' relationship versus transaction marketing spending. I expected this variable to carry a positive sign on both dependent variables.

Annual sales. I used a firm's total annual sales to control for the scale effect, expecting this variable to carry a positive sign on both relationship and transaction marketing.

Firm size. I used a firm's total employees to control for the size effect, expecting the variable to carry a negative sign in both models.

Firm age. I also controlled for firm age, expecting that older firms may have a larger business network to maintain and therefore spend more on relationship marketing, and older firms have a larger package of products to offer which leads to more spending on transaction marketing. I used firms' inception year to measure firm age which inversely indicates a negative sign on both relationship and transaction marketing.

Interaction between relationship and transaction marketing. Given the budgetary constraints in marketing communications spending, firms often face the tradeoff in allocating funds on relationship versus transaction marketing in that spending more on one will reduce the expenses on the other. Hence, I controlled for the interaction between the two. I created the interaction term by mean-centering the two variables.

Industry dummies. To control for unaccounted industry effects, I also included 14 dummies in the model to represent the sample's 15 industries at the level of Chinese industry classification that is equivalent to the 2-digit Standard Industry Classification (SIC) level, using farming (SIC 11) as the base industry.

The statistics of all variables and the correlation matrix are given in Table 2. The variance inflation factors (VIFs) generated from ordinary least square (OLS) tests for both models are below the critical value of 10, indicating that multicollinearity is not a concern in the dataset.

Table 2. Descriptive Statistics & Correlations [a]

	Minimum	Maximum	Mean	S. D.	1	2	3	4	5	6	7	8	9
1. RM	.12	616.82	8.39	27.72									
2. TM	.00	766.32	19.38	37.45	.16***								
3. Provincial GDP	5,787	57,695	25,362	15,549	.19***	.07*							
4. Annual sales	19.68	76,180	2,627	5,112	.39***	.22***	.19***						
5. Firm size	24	94,269	4,953	9,811	.15***	.11***	.07*	.56***					
6. Firm age	1981	2006	1996	3.76	-.05	-.06	-.11***	.05	.17***				
7. Social context	2.50	10.41	7.60	1.90	.15***	.09**	.73***	.21***	.16***	.04			
8. Market	23.3	946.40	310.28	259.83	.12***	.05	.82***	.09**	-.05	-.22***	.43***		
9. Client type	0	1	.56	.49	-.09**	-.15***	-.13***	.04	.16***	.07*	-.06	-.12***	
10. State ownership	.17	74.59	39	16.15	.04	-.02	.11***	.20***	.27***	.28***	.03	.03	.18***

1. [a]n = 1135.

2. * P < .05; ** P < .01; *** P < .001 (2 tailed p-value).

5. Results

I ran two independent tests on relationship and transaction marketing. The analyses are based on a panel data set that can increase sample size and capture both individual effects from each section and dynamic effects from the whole sample (Kmenta, 1986). The flipside of pooling repeated entries of observations is that it may cause within-unit autocorrelation and cross-sectional heteroskedasticity. As such, to correct for potential autocorrelation and heteroskedasticity issues, I followed the approach suggested by Sayrs (1989) to use a generalized least square (GLS) approach.

Through the Wooldridge Test suggested by Drukker (2003), I found that autocorrelation presents in both datasets ($F = 7.36$ and $p < .01$ for the relationship marketing model; $F = 2.92$ and $p < .10$ for the transaction marketing model). Results from a Breusch-Pagan/Cook-Weisberg Test indicate that heteroskedasticity also exists in both panels (Chi-Square = 9,686.45 and $p < .001$ for the relationship marketing model; Chi-Square = 889.06 and $p < .001$ for the transaction marketing model). Thus, I applied Prais-Winsten tests that can correct for autocorrelation and heteroskedasticity.

The results of the FGLS regressions are reported in Table 3. Models 1a and 1b include the five control variables (i.e., *GDP per capita*, *sales, size, firm age,* and *the interaction term of relationship versus transaction marketing*). Most control variables are significant as predicted. In Models 2a and 2b, I added the independent variable *social context*. As expected, the variable carries a negative sign on relationship marketing and a positive sign on transaction marketing that are significant at the 0.01 and 0.10 levels respectively. Those results lend support for Hypotheses 1a and 1b, suggesting that Chinese firms operating in social contexts that are more conducive to social relational governance will spend more on relationship marketing but less on transaction marketing.

Table 3. Results of Prais-Winsten Tests for Relationship and Transaction Marketing

	Relationship marketing					Transaction marketing				
	Model 1a	Model 2a	Model 3a	Model 4a	Model 5a	Model 1b	Model 2b	Model 3b	Model 4b	Model 5b
GDP	1.0E–04** (2.9E – 05)	2.9E–04** (9.0E–05)	5.1E – 04** (1.7E – 04)	4.8E- 04** (1.5E- 04)	4.8E – 04** (1.6E – 04)	1.2E– 04* (5.6E- 05)	–1.11E – 06 (4.7E – 05)	–3.2E – 04** (1.2E – 04)	– 4.2E – 04** (1.3E – 04)	– 4.2E – 04** (1.2E – 04)
Sales	1.3E – 03*** (3.4E – 04)	1.3E–03*** (3.4E–04)	1.3E – 03*** (3.4 E – 04)	1.3E-03*** (3.3E – 04)	1.3E – 03*** (3.4E – 04)	5.6E– 04* (2.7E – 04)	5.4E – 04* (2.7E – 04)	5.5E – 04* (2.8E – 04)	5.2E – 04† (2.7E – 04)	5.4E – 04† (2.8E – 04)
Size	3.4E – 05 (1.7E–04)	8.3E–05 (1.8E–04)	9.1E – 05 (1.8E – 04)	9.2E – 05 (1.8E – 04)	9.3E – 05 (1.8E – 04)	1.5E – 04 (1.7E – 04)	1.4E – 04 (1.7E – 04)	1.4E – 04 (1.7E – 04)	2.1E – 04 (1.6E – 04)	2.3E – 04 (1.5E – 04)
Firm age	–.36** (.13)	–. 27* (.01)	–. 30* (.12)	–. 29* (.12)	–.36* (.14)	–.55* (.25)	–.61* (.26)	–.56* (.25)	–.52* (.25)	–. 40 (.27)
RM x TM	1.1E–03*** (8.5E – 05)	1.1E–03*** (8.3E – 05)	1.1E – 03*** (8.4E – 05)	1.2E-03*** (8.6E – 05)	1.1E–03*** (8.4E – 05)	8.6E–03*** (1.3E – 04)	8.6E – 03*** (1.2E – 04)	8.6E– 03*** (1.2E – 04)	8.5E – 03*** (1.1E – 04)	8.6E – 03*** (1.2E – 04)
Industry	Included									
Social context		–.21** (.07)	–.30** (.11)	–2.9** (.09)	–.30** (.11)		.14† (.09)	.28* (.11)	.32** (.11)	.32** (.11)
Market			–1.36** (.52)	–1.36** (.49)	–1.36* (.53)			2.08** (.75)	2.10** (.77)	2.09** (.76)
Client type				–3.15** (1.06)	–3.22** (1.12)				–14.91*** (3.68)	–14.79*** (3.62)
Ownership					.05** (.02)					–.09* (.05)
Constant	736.31** (268.86)	538.21* (238.60)	613.24* (257.97)	604.13* (247.91)	730.55* (295.25)	1,099.77* (491.83)	1,228.98* (520.35)	1,112.38* (503.98)	1,056.87* (509.61)	821.87 (540.32)
Wald X^2	4.51E + 08***	2.09E +08***	7.37E + 08***	941.29***	1.05E +12***	6,773.37***	3.93E+06***	275,965***	2.04E+11***	71,422***

1. n = 1135, 2. † P < .10; * P < .05; ** P < .01; *** P < .001 (2 tailed p-value). 3. Enclosed in parentheses are standard errors.

In Models 3a and 3b, I added the variable *market index* that measures the market infrastructure development in a firm's home province. The variable bears a negative coefficient on relationship marketing and a positive sign on transaction marketing that both are significant at the 0.01 level, supporting Hypothesis 2a and 2b which proposed that Chinese firms operating in better developed market infrastructures will spend less on relationship marketing but more on transaction marketing.

Models 4a and 4b test the impact of *client type* on relationship marketing versus transaction marketing. This variable carries a negative coefficient that is significant at the 0.001 level for transaction marketing, supporting Hypothesis 3b, which proposed that firms selling industrial products will spend less on transaction marketing than others selling consumer products. But surprisingly, the results fail to support Hypothesis 3a, indicating that Chinese firms selling industrial products also spend less on relationship marketing than those selling consumer products. The unique distribution system in China may have caused this opposite result. As a practice inherited from the command economy era, most industrial products in China have been allocated under government directives which doesn't require either relationship or transaction marketing to promote. On the other hand, excessive relationship marketing is required to distribute consumer products to limited retail outlets.

Models 5a and 5b are full models that consider the effect of ownership structure on firms' relationship versus transaction marketing spending. As predicted, State-owned firms spend less on transaction marketing, which supports Hypothesis 4b ($p < .05$); but opposite to Hypothesis 4a, the results are significant and positive ($p < .01$), suggesting higher relationship marketing spending for firms with higher percentage of state ownership. I speculate that agency problem might be a factor that affects the relationship between State-ownership and relationship marketing (Jensen and Meckling, 1976). Previous studies have found that SOE managers are more likely to engage in relationship marketing practices like entertainment activities for their own private benefit at the company's expense (Cai, Fang, and Xu, 2011). Future studies can explore such possibilities.

In the full models, major variables keep carrying similar signs at similar or stronger significant levels and the Wald Chi-Squares keep significant at the $p < .001$ level, which indicates consistent model fit.

6. Discussion

In this paper, I take a transaction governance institutional approach to predict the strategic choice between relationship and transaction marketing among Chinese public firms. Conceptually, I argue that firms' decisions over spending on relationship marketing to reinforce relational governance versus investing in transaction marketing to enhance market mechanisms are determined by the institutional environment where they operate, the industry they belong in, and their own firm level attributes. Empirically, I verify this institutional explanation for relationship versus transaction marketing through a sample of Chinese public firms. The results indicate that firms located in regions featuring a social context that is more conducive to social relational governance, and in regions that have inefficient market systems will spend more on relationship marketing but less on transaction marketing. The results also show that firms in regions with efficient social relational governance and less developed market infrastructures, firms selling industrial products, and firms with higher proportion of State ownership will spend less on transaction marketing.

The theoretical approach, together with its empirical results, addressed the issues raised earlier in the paper and made important contributions to marketing research. International marketing managers and policy makers can draw useful implications from this study. I also point out promising directions for future research to advance the study on relationship versus transaction marketing.

6.1 Research Contributions

This study contributes to the marketing literature in three ways. First, it takes a transaction governance institutional approach to provide a systematic account and generate empirical evidence for the coexistence of relationship versus transaction marketing and further verified the hybrid nature of marketing practices in each single national market. Second, this study contributes to research on relationship marketing in China by exploring alternative approaches to the convenient proxy of *guanxi* to examine the concrete relationship marketing practices directly, as done conventionally in the West. This approach allows for the comparison of relationship versus transaction marketing empirically which can also be generalized beyond China to other markets. Third, this study identified the multilevel factors that dictate firms' strategic choice between investing in relationship versus transaction marketing.

The primary contribution of this study is using a transaction governance institutional approach to build a theoretically grounded model that can account for the variations of relationship versus transaction marketing and empirically verify the co-existence of these two marketing practices in China. Prior studies have often treated China as a single context for relationship marketing without recognizing the hybrid nature of marketing practices in that market. A few studies did propose the co-existence of the two marketing approaches in China, they nevertheless neither provided an economic rationale for their proposition, nor tested their arguments empirically. This paper's institutional approach provides an economic explanation and empirical support on the proposition of the co-existence of relationship and transaction marketing in China based on the variations of institutional environments in different regions as well as industry and firm level variables. To the best of my knowledge, this is the first study that applies an economic transaction governance theory to examine the co-existence and variations between relationship versus transaction marketing and then conducts an empirical examination of those two marketing strategies.

Second, former studies simply borrowed the concept of *guanxi* in studying relationship marketing in China. *Guanxi* in business settings are actually social relationships that are built through relationship marketing practices like client entertainment (Yang, 1994). This study uses client entertainment as a concrete measure for relationship marketing by arguing that such practices can enhance social relational governance to facilitate relational exchanges. In comparison, advertising is used as the measure for transaction marketing that is proposed to reinforce market mechanisms to support discrete transactions. Such an approach enables marketing concept and practices in China be comparable to those in the West and facilitates marketing research and practice in China. In making such a contribution, this study also provides generalizable principles for marketing practices in other national markets, taking into consideration the various combinations of social relational governance and market mechanisms at different levels. For instance, at the institutional level, the U.S. comparatively relies more on market mechanisms and less on social relational governance in regulating economic transactions, and as a result, transaction marketing is a more prevalent marketing strategy than relationship marketing in the U.S.

Finally, prior studies have not yet provided suggestions for firms to allocate marketing communications resources on relationship versus transaction marketing. Building upon the theoretical framework of economic transaction governance, this study identified the institutional, industry, and firm level factors that dictate firms' strategic choice between investing in relationship versus transaction marketing, which provides guidelines for firms to manage those two different marketing practices based on institutional, industry and firm level factors. Building upon this framework, marketing scholars in future studies can empirically examine how different marketing strategies could affect firm performance.

6.2 Managerial and Policy Implications

This study has strong implications for practitioners, particularly multinational enterprise (MNE) managers who run marketing operations in emerging markets like China that are often perceived as requiring prevalent relationship marketing practices. Presumably, such firms have the need to adopt local business practices, including relationship marketing practices of client entertainment to reinforce social relational governance to support relational exchanges. In some well-publicized examples, nevertheless, MNEs often put too much weight on relationship marketing and over-practiced client entertainment that frequently pushed them off the slippery slope to bribery allegations in the name of excessive client entertainment (Sun, 2016). Based on this study, such firms should reexamine their marketing strategies in the emerging markets. While relationship marketing can play a powerful role in initiating and facilitating exchange relationships, firms must also be aware of the hybrid nature of marketing practices and recognize the coexistence of relationship and transaction marketing in every single national market. For instance, in the coastal Chinese regions where such firms often operate, transaction marketing practices of advertising and branding are good enough to promote products just like they do in those well-developed Western markets. They do not need to rely too much on relationship marketing that involves in excessive client entertainment practices which can easily slide towards corruption.

Local managers in emerging markets should realize the change in their institutional environment for marketing practices. In some areas, the traditionally dominant relationship marketing practices like client entertainment are gradually replaced with modern transaction marketing practices based on the marketing concept of product, price, promotions, and place, where market mechanisms reinforced by advertising are more efficient in promoting sales. Depending on the institutional, industry, and firm level attributes, these managers can use their discretions to choose between relationship versus transaction marketing in product promotions and sales. Such rules also apply to domestic marketing managers in developed countries.

To policy makers, this study suggests that governments in the emerging markets such as China must understand that although social relational governance and relationship marketing have once been dominant in their market, modern marketing institutions are also developing and available there along with their gradual economic integration with the West. While permitting firms to practice relationship marketing such as client entertainment within their legal framework, they should also make greater efforts to develop market infrastructures and thereby reduce firms' reliance on social relational governance to regulate business transactions and hence relationship marketing to promote sales. Relationship marketing practices like client entertainment are indeed a double-edged sword that not only facilitate sales but also corrupt social institutions if excessively used.

Governments in the developed world should also reconsider their policies in regulating the marketing behaviors of MNEs in the international market. In October 2007, for instance, a German court fined Siemens 201 million euros on allegations that its employees in international markets, including China, were involved in “illegal activities,” such as using the relationship marketing practice of client entertainment to secure contracts (The New York Times, 2007). Based on this study, relationship marketing like client entertainment is a necessary practice in emerging markets where transaction marketing is relatively new and plays a less important role. A simple fining penalty on a multinational enterprise for their marketing behaviors that are considered illegal at home but actually necessary and legal in host markets will not root out the problems. In regulating marketing behaviors overseas, to a certain degree they should allow firms to engage in relationship marketing activities like client entertainment that play a constructive role in promoting sales in host countries that lack efficient market mechanisms.

6.3 Limitations and Future Research

To the best of my knowledge, this is the first study that takes a transaction governance view to examine relationship versus transaction marketing by comparing their respective dominant marketing practices of client entertainment versus advertising. Inevitably, it cannot offer an exhaustive account. There are three major limitations in this study that also point out promising directions for future scholars to further extend our understanding of relationship versus transaction marketing.

First, I used a pair of financial variables to measure relationship versus transaction marketing and then predict their correlations with institutional, industry, and firm level factors. I understand that other factors, which have few public data available, may also affect those relationships. For example, product quality and life cycle may also affect advertising investment in transaction marketing, and relationship duration and quality also determine client entertainment spending. Future research can collect survey data to test those factors. Due to the limitations of public data, this study used the best available proxies of relationship versus transaction marketing, i.e., firms’ spending on client entertainment versus advertising, to test the theory. Future studies can use other proxies such as investment in customer relationship management (CRM) to test relationship marketing.

Second, the models in this study are tested through a set of data collected from different regions of the same national market (i.e., China). While this single-nation sample provides perfect control for all country-level factors that also affect relationship versus transaction marketing spending, it also limits the generalizability of the findings to other markets, although the theory is applicable to all markets. Also, the sample of public firms may not be representative of all firms including private firms. Future studies can extend the models to compare relationship versus transaction marketing across countries or expand the sample to cover private firms.

Third, I only tested the factors that dictate firms’ choice between investing in relationship versus transaction marketing. Given the limitations of this empirical setting, I was unable to test how such choices of spending would affect firms’ performance. Future studies can collect relevant data to explore the performance implications of such choices.

7. Conclusions

This is the first study that takes an institutional approach to examine the determinants of firms’ choice between relationship versus transaction marketing in China. The conceptual arguments and empirical findings also contribute to literatures on relationship marketing and marketing literature in general. This study offers new and useful guidelines for business practitioners to manage international marketing campaigns and for policy-makers to regulate firms’ marketing behaviors in the global market. It also draws a roadmap for future research to explore other aspects of relationship versus transaction marketing.

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