

Chapter 37

A Cross-Level Framework of Relational Governance Between Chinese Agricultural Firm and Farmers

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Abstract Relational governance between Chinese big agricultural firm and farmers is an issue which has not been studied in the existing research. This paper establishes a framework of the relational governance between firms and their cooperative farmers.

Keywords Relational governance · Trust · Reciprocity · Interaction intensity · Satisfaction

37.1 Introduction

The alliance between Chinese big agricultural firm and farmers can be seen as a very special economic organization, which is an intermediary mode between market and hierarchy, but different from the organizations of traditional pattern such as strategic alliances, corporate networks, and so on. In this kind of organization, the two parties are not all organizations, but one is corporate, and the other is many natural persons. Therefore, to study the relational governance between Chinese big agricultural firms and farmers have significance both theoretically and practically.

Foreign study of relational governance has been focused on the relationship between more equal enterprises, the rules of relational governance of which followed are generally consistent. But in the situation among Chinese big agricultural firm and farmers, the dominant positions of both sides are unequal. Usually firms

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are implementers of relational governance, and farmers are often passive recipients. Therefore, the paper will execute cross-level research.

37.2 Literature Review

37.2.1 Relational Governance Review

A large number of researches have examined the relational governance's significance for cooperation performance. Zaheer and Venkatraman [1] studied the relational governance of the strategic alliance between insurance companies and insurance agents in insurance industry, and hold that relational governance can improve the performance of the alliance. Zhang et al. [2] found that firms can increase its export turnover by using relational rules to govern the relationship with their foreign distributors. Claro et al. [3] found that trust, corporate network activity, and other relational rules will affect trade performance (including sales growth and trading satisfaction). These studies are all from the respect of one party in the exchange.

Relational governance means bilateral governance practices, but there is little empirical research to examine both sides of the transaction because of the difficulty to obtain data, the limitation of statistical methods, and other reasons. Existing bilateral studies have reflected that relational governance has differences between parties in the transaction from different perspectives. For example, Ferguson et al. [4] examined the commercial banking transaction management model by using bank account managers' and business clients' interview data, and found significant difference in the structure of both models. All of these show the importance of research using the data of both parties in the same time. However, existing research is clearly insufficient in the statistical methods of study. Ganesan's [5] research also examined the data of 124 retail buyers and 52 suppliers to these retailers, but the empirical analysis of both aspects is fragmented. He made structural equation analysis to the retailers' data, and conducted multiple regression analysis to the suppliers' data. Ferguson et al. [4] used multi-group analysis of the EQS software, which only can examine that relational governance has difference between different perspectives of both parties in the transaction, and cannot analyze the interaction of relational governance between them. Although Siguaw et al. [6] study of 179 suppliers and distributors analyzes the interaction of relational governance between both parties in the transaction, it doesn't distinguish them from the level. Instead, it directly corresponds the data of both aspects to the same model, and then verifies the goodness of fit though path analysis. This paper attempts to make up the shortfall in the content and methods in the existing research, using the particular situation of cooperation between Chinese big agricultural firm and farmers, applying hierarchical linear analysis which is a more cutting-edge tool, and executes cross-level research to relational governance of both parties in the transaction.

37.2.2 Review of Agricultural Firm Research

The emergence of the concept of “Chinese big agricultural firm” is closely related with the Chinese unique agricultural environment. Because of China’s large population, scarce land resource, and fragmented distribution of land, our basic land policy cannot make up this limitation through sale of land. The existent agricultural firm reconfigures the land resource in the Chinese particular social and institutional condition, and achieves concentration of land resource directly or indirectly while maintaining the farmers’ right to contract land, and then achieve mass production.

Study found that only applying formal agreement to govern the cooperation between firm and farmers has many deficiencies. Thus, in the situation of lack of public trust in China, informal relational governance is more important for the cooperation between firm and farmer [7, 8].

37.3 Proposition and Model

37.3.1 Relational Governance Between Big Agricultural Chinese Firms and Farmers

This paper argues that in the relational governance between agricultural firm and farmers, the firm is on the active side of relational governance. Therefore, the constituent elements of relational governance that this paper chooses must conform to the following two conditions: (1) to abide by firms and farmers, or (2) firms are initiative to offer and farmers can directly recognize it. So this paper selects the following three relational norms:

“Trust” is the relational rule first to be posed. A large number of empirical studies have shown that relational governance was associated with trust [1]. Trust is the important factor constituting relational governance between agricultural firm and farmers.

This paper examines basically the same variables within “reciprocity”, “mutuality [9],” mutuality of interest, combined with the concept of reciprocity in Chinese traditional culture and research interviews to Chinese big agricultural firms and farmers, and then extract the variable of “reciprocity” as another constitute factor of relational governance.

There is a kind of variable that stands for the frequency of the informal contacts in the transaction to measure the interaction between parties. There are a lot of informal interactions directly affecting cooperation performance in the alliance formed by agricultural firms and farmers. For example, there are no rules or contract terms to qualify the help that firms offer for the farmers in the production. All of these are spontaneous behaviors. Even some enterprises give farmers help in life, such as housing, supporting learner, etc. [8]. Combining the literature of

relational governance with the actual research to agricultural firms and farmers, this paper will name the variable of the frequency of interaction that agricultural firms implement for farmers as “interaction intensity”.

In summary, this paper chooses three factors of trust, reciprocity, and interaction intensity. The principles of trust and reciprocity are the rules that firms and farmers should abide by, while interaction intensity is the rule mainly implemented by firms and farmers can directly realize.

37.3.2 Relational Governance and Satisfaction

Examining the performance level of economic organizations is the ultimate goal of the general management research, so the improvement in performance of the alliance formed by agricultural firm and farmers is also the goal of relational governance. Many strategic alliance literature defined the performance of the alliance as the level of satisfaction that the parties in the transaction felt with the alliance relationship (e.g., Poppo and Zenger [10], Claro et al. [3]), which is a compound way of defining and measuring. Satisfaction is the main result of working partnership, which can not only measure the efficiency, but also predict alliance partners’ future actions. At the same time, this definition has avoided the measurement of the governance cost, and focus on the evaluation of the optimal governance level, which can examine these potential variables such as relational governance more easily. A number of literature have demonstrated that the relational governance has a positive effect on satisfaction. For example, Poppo’s and Zenger’s [10] empirical analysis found that relational governance and formal governance have a positive impact on satisfaction complementally. Now the paper builds hypothesis about the relationship of the three relational governance variables of trust, reciprocity, and interaction intensity with satisfaction below.

37.4 Trust and Satisfaction

Claro et al. [3] found that trust, corporate network activity, and other relational rules will affect trade performance (including sales growth and trading satisfaction). Ganesan [5] points out that trust has a positive correlation with the satisfaction of both buyers and sellers. During actual research, Chinese agricultural firms and farmers all agreed that trust has a major impact on cooperative performance. Wan [7] pointed out that trust can reduce the transaction cost of companies and farmers, improve the compliance rate of both sides, and then make them feel more satisfied with the cooperation. So we propose the hypothesis as follows:

Proposition 1 *The higher the degree of trust of firm layer is, the higher the firms’ satisfaction will be.*

Proposition 2 *The higher the degree of trust of farmer layer is, the higher the farmers' satisfaction will be.*

37.5 Reciprocity and Satisfaction

Empirical studies of Fink et al. [9] have found that reciprocity can improve the performance level of relational transaction. Some researchers hold that reciprocity helps form a common vision, and a common vision will help create long-term value, thus affect the satisfaction of both partners. Wan [7] pointed out that as long as each transaction achieves reciprocity, it can satisfy both parties and then enhance their willingness to cooperate again. So we propose the hypothesis as following:

Proposition 3 *The higher the degree of reciprocity of firm layer is, the higher the firms' satisfaction will be.*

Proposition 4 *The higher the degree of reciprocity of farmer layer is, the higher the farmers' satisfaction will be.*

37.6 Interaction Intensity and Satisfaction

Claro et al. hold that network intensity can be defined as the amount of valuable information obtained from the corporate network, so the network activity can reduce information asymmetry, and reduce the risk brought by the uncertainty of business environment, through increasing the exchange of information with certain firms. Uzzi [11] pointed out that social interaction, particularly face-to-face interaction, can promote good exchange of information. Therefore, interaction intensity will reduce information asymmetry, concerns both parties about the uncertainty brought by the environment and transaction, and then enable them make rational decisions, create a more harmonious atmosphere of cooperation, so the relationship of both parties is more harmonious. Above we have mentioned that firm's Initiative and farmers' interaction will improve the level of farmers' commitment, and enable farmers more willing to cooperate with firm, thus increase the firm's satisfaction accordingly. So we propose the hypothesis as following:

Proposition 5 *The higher the interaction intensity of firm layer is, the higher the firms' satisfaction will be.*

Proposition 6 *The higher the interaction intensity that farmers feel is, the higher the farmers' satisfaction will be.*

3 Interaction of Two Layers

Because of the initiative status in relational governance that firm as an organization and legal person, the difference in the level of firm layer's relational governance will lead to the difference in relational governance the farmers feel,

then cause the difference in farmers’ satisfaction. So we propose the hypothesis as follows:

Proposition 7 *The satisfaction of farmers that cooperate with different firms are significantly different.*

Siguaw et al. [6] analyzed the interaction of relational governance between both parties, and found that suppliers would influence distributors. The relational governance variable of Chinese big agricultural firm will also affect the corresponding relational governance variable of farmers. The characteristics of Chinese rural society will also reinforce this effect. For example, Chinese people advocate “courtesy demands reciprocity”, “Cast with papaya, react with fine jade”. These features are called the Chinese “face view”, “human game” by sociologists, and these concepts have deeply influenced the activities of Chinese economic organization. Thus, we propose the following hypothesis:

Proposition 8 *In cooperation, the higher the level of firm’s general trust on farmers is, the higher the level of Individual farmers’ trust on firm will be, then the higher the farmers’ satisfaction will be.*

Proposition 9 *In cooperation, the stronger the firm’s sense of reciprocity is, the stronger the individual farmers’ sense of reciprocity will be correspondingly, then the higher the farmers’ satisfaction will be.*

Proposition 10 *In cooperation, the higher the firm’s interaction intensity to the overall farmers is, the higher the interaction intensity that farmers feel will be, then the higher the farmers’ satisfaction will be.*

Based on the theoretical framework and propositions above, this paper proposes the overall research as following (Fig. 37.1):

37.7 Conclusion and Discussion

In summary, this study illustrates the importance of relational governance in the cooperation between agricultural firms and farmers through empirical analysis: not only the relational governance consisted with trust, reciprocity, and interaction intensity can improve the satisfaction of the firm layer and farmer layer, but also

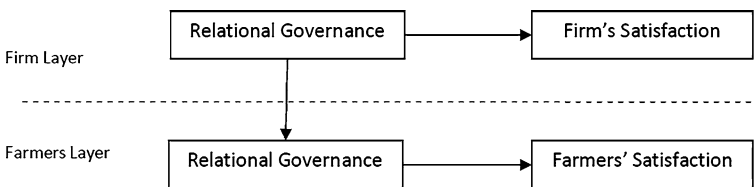


Fig. 37.1 Overall research model

the initiative of the relational governance of the firm layer can promote the farmers' perception of relational governance, and then improve the farmers' satisfaction. This study makes up the blank in the previous research field in relational governance and agricultural firm research, and provides a new direction for future research.

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