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Governing B2B alliances in Taiwan: Management practices that nurture effective relationships

Firms that work together need effective business-to-business (B2B) management practices to govern their alliance. In East Asia, this governance tends to be “relational”, in the sense of being built on trust and informal, self-enforcing safeguards against either side taking advantage. Relational governance reflects the importance of relationships in East Asian business at large: think Korean *yongo*, Japanese *keiretsu*, and *guanxi* in Mainland China and Taiwan. All have been linked to Confucian values, including harmony and loyalty.

The authors of a recent study**, aware of this background of Confucianism in Taiwan, surveyed 182 Taiwanese firms with foreign or domestic B2B alliances. Senior staff answered questionnaires. The researchers statistically tested the results for overall management practices that might predict when relational governance was effective, specifically at fostering collaborative behaviours like conflict resolution, relationship building, and solving problems for joint benefit. They also broke results down into various scenarios.

Overall, three factors turned out to predict effective relational governance: management practices showing partners were trustworthy; fair and transparent decision-making procedures; and connectivity. Consistent with B2B research elsewhere, connectivity scored highest. Rather than purely virtual, it included sharing physical spaces as well as other ways to get ideas, experiences, and know-how flowing back-and-forth. Importantly, respondents said that wherever relational governance was effective at fostering those collaborative behaviours, they felt alliances performed well financially and altogether, and thought their partners felt the same way.

The researchers then broke results down into four scenarios by foreign/domestic partner and contractual/equity-based alliance. (Equity normally meant investing in a joint project.) In different scenarios different sets of management practices predicted more effective relational governance, which always predicted high-performing alliances.

In the foreign/equity scenario, connectivity was the sole predictor. The researchers reasoned that not only physical but “psychic” distance, which typically includes unfamiliar national cultures and values or languages, disadvantaged foreign firms trying to forge relationships. Even if taking equity stakes helped bridge that distance by integrating partners more financially, the foreign firms were still disadvantaged as “outsiders” whom Taiwanese counterparts might be chary about sharing information with. Forming guanxi through connectivity might be easing that.

In the foreign/contractual scenario, connectivity again mattered but contracts had to be clear, too. Drafting contracts collaboratively to catch misunderstandings might help bridge psychic distance and in turn make foreign firms look less like suspect outsiders.

Even domestic partners battle with being outsiders if they lie beyond their counterpart’s trusted network. In the domestic/equity scenario only fair procedures predicted effective relational governance. Connectivity, the researchers speculated, might be superfluous here because these relationships were already strengthened by equity alliances, plus of course shared nationality. For domestic/contractual partners, connectivity, fair procedures and demonstrating trustworthiness all predicted effective governance.

This study shows how closely effective relational governance predicts high-performing alliances in a country where Confucian values still resonate. Regardless of national or cultural origin, firms strategically partnering with Taiwanese businesses can emulate the most effective management practices for whichever scenario they are either in or plan to enter.

** The full study results are available in an article authored by Chia-Ling Eunice Liu, Noemi Sinkovics and Rudolf R. Sinkovics: “Achieving relational governance effectiveness: An examination of B2B management practices in Taiwan”. Industrial Marketing Management, 90, 453-465, 2020. doi.org/10.1016/j.indmarman.2020.08.004

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