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**THE ROLE OF MARKET ORIENTATION IN DEVELOPING
AND SUSTAINING CHANNEL RELATIONSHIPS
— AN EMPIRICAL STUDY IN TAIWAN**

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Dedicated With Love

To: Mimi and Max

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Abstract

Significant work has taken place in the development of our understanding of business dyadic relationships but much work remains to be done in determining the antecedents, particularly our understanding of cultural contexts. This research aims to add to the debate about what counts in developing a long-term orientation in channel relationships by investigating the role of the concept of market orientation; it explores the possible interface existing between the marketing concept and development of channel relationships. The context is relationships between distributors and suppliers in Taiwan. This study examines the relationship literature from a social exchange theoretical perspective and conducts multiple-case in-depth interviews at the dyadic ends to develop an integrated research model for analysing potential effects of market orientation on the relationship factors influencing long-term oriented relationship building.

Quantitative mixed-mode questionnaire surveys were undertaken to test the research model and hypotheses drawn from the model. Data were collected from 158 distributors from four selected business sectors, including both commodity and noncommodity ones. The results confirm the applicability of the marketing concept to an eastern country: Taiwan, and provide empirical evidence that adoption of the marketing concept can be a strategy for stimulating and sustaining long-term oriented channel relationships while mediated by a number of relationship constructs. Communication and shared value are highlighted as the primary mediators while satisfaction signals an inclination to continue a relationship. Market orientation is found to exert significant direct effects on communication and shared value and

indirect effects on the other relationship components: trust, cooperation, commitment, conflict and satisfaction, which all contribute to a continuing relationship.

Keywords: channel relationships, relationship marketing, market orientation, social exchange theory, mediating relationship constructs, Taiwan

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CHAPTER ONE

Introduction

1.1 Introduction

The concepts of market orientation and relationship marketing have been two of the most outstanding fields of research in the marketing discipline over the last two decades. They share many similar operative requirements. However, limited efforts have been made to integrate the association which may exist between them. This study examines the role of market orientation in the development and sustenance of channel relationships, which is a key aspect of relationship marketing, and is set in one of the “Four Asian Tigers” – Taiwan. As the first chapter of the thesis, it is to provide an overview as well as the motivation and research context background of the study. It begins, in section 1.2, with a discussion on the background of the research. Section 1.3 provides a brief introduction to the national context under investigation, followed by a presentation of the research distribution channel context in section 1.4. The research questions and objectives are formulated in section 1.5. This chapter concludes with the organisation of the thesis in the final section 1.6.

1.2 Motivation and background of the research

According to the political economy framework, distribution channels are not only economic systems but also sociopolitical systems (Stern and Reve, 1980). This observation has led to extensive research on the behavioural aspects which characterise the interactions and relationships between channel actors. Although understanding the nature and development of channel relationships has made great progress, the angle of observation can be widened by employing marketing concepts of some kind. This study addresses this research gap by investigating the possible

association between the marketing concept of market orientation and the development of channel relationships. Based on the marketing concept channel members learn whether and how they can coordinate with each other, and thereby develop a viable strategy to manage their dynamic relationships. Herewith the research angle discussing the behaviour patterns of channel members can be extended and aid our understanding into the management of channel relationships.

In the conventional Taiwanese business context, due to the traditional social culture and the nature of small and medium sized enterprise structures, interfirm relationships and social bonds were heavily built on “personal interactions” and “personal relationships”. *Relationships* were regarded as an enabler of doing business. They are similar to *guanxi*, a Chinese term referring to interpersonal connections, first appeared in the west in the 1980s in popular business writings that advised about cultural factors affecting doing business in China. However, today’s business is becoming more international; global competition and maturing domestic markets are making interfirm relationships become sophisticated and are creating competitive pressures and conditions for channel members, which results in increasing tensions of channel relationships. Channel members have been struggling with developing and implementing new strategies with their working partners and learning viable strategies for easing tensions from competition, one of which may be the adoption of market-oriented behaviours (Siguaw et al., 1998). To date, research incorporating the market orientation concept has indicated that market-oriented behaviours in the long run have positive effects on various aspects, such as performance and profitability (e.g. Slater and Narver, 1994; Kirca et al., 2005), employee attitudes (e.g. Jaworski and Kohli, 1993), customer satisfaction (e.g. Webb et al., 2000; Agarwal et al., 2003), and business relationships (e.g. Zhao and Cavusgil, 2006; Elg, 2008). Most of the research

involves examining the effects of market orientation on a firm's outcomes. However, attention to the role, ramification, and construct of market-oriented behaviours in channel relationships is still limited.

In distribution channels, relationships have become "strategic" (Wilson, 1995; Donaldson and O'Toole, 2000). Alternative relationship structures exist. For example, one kind of relationship is characterised by domination and power due to economic dependency. However, there have been signs that to ease competition channel members have been encouraged to evolve away from a phase of market negotiation between adversaries with different degrees of power towards one of developing and maintaining cooperation relationships (Vazquez et al., 2005). In today's stressful environment, channel actors have been learning to look for fewer but more intense relationships with their partners to increase quality, develop just-in-time systems, reduce inventory (Wilson, 1995), improve economic scale and cost effectiveness, and fast target a certain market. Cooperation instead of adversarial competition retains the business relationship where the partners try to maximize their positions.

In terms of cooperative relationships, however, not all suppliers are beneficial for a distributor to develop a long-term orientation. A distributor's long-term orientation is the perception of interdependence of outcomes in which both a supplier's outcomes and joint outcomes are expected to benefit the distributor in the long run (Kelly and Thibaut, 1978). Distributors with a short-term orientation are concerned only with the options and outcomes of the current period, relying on the efficiencies of market exchanges to maximize their profits in a transaction (Ganesan, 1994), and accordingly long-term cooperation may not be the concern. Distributors with a long-term orientation focus on achieving future goals and are concerned with relying

on relational exchanges to maximize their profits over a series of transactions (Ganesan, 1994), even though short-term imbalances in outcomes may occur. As such, long-term cooperation may well become the prime concern and strategy. Figure 1.1 describes a simple 2×2 matrix by the costs and value perceived by the distributor, which is used for identifying potential candidates for developing long-term oriented relationships. The horizontal is the value perceived by the distributor. Value refers to the supplier’s product name recognition, reputation, product innovation, product and service quality and training, just-in-time delivery, or any of the other things adding benefits or value to the distributor. The ordinate is the cost perceived by the distributor. Costs refer to the distributor’s transaction costs, opportunity costs, and operating risk as to supplier failure to provide quality goods, services and training, just-in-time delivery, or any of the other things causing loss to the distributor.

Figure 1.1 The relationship matrix classified by perceived costs and value

Costs perceived by the distributor	High	II	I
	Low	III	IV
		Low	High
		Value perceived by the distributor	

Source: Original

For distributors looking for fewer but closer relationships with some of their channel partners, the supplier, which falls into the *IV* quadrant having potential high value and low costs to the distributor, is perceived to be the partner with most potential to

develop a long-term orientation. Yet, a long-term orientation here should be distinct from the longevity of a relationship. Though duration of an existing relationship is likely to affect a long-term orientation, longevity in itself is not sufficient to capture a long-term orientation (Kelly, 1983). In other words, a long-term orientation in a lasting relationship rather than the length of the relationships appears to be a better indicator of closeness in relationships. Herewith this lasting cooperative relationship is the prime type of distributor-supplier relationship to be discussed in this research.

1.3 The research national context

This empirical study is conducted in the Taiwanese business context, so this section presents a brief country profile including geography, population, economy and some cultural background to give a picture about this country.

Geography

Taiwan, also known as *Formosa* (from Portuguese (*Ilha*) *Formosa*, meaning "beautiful (island)"), is located in East Asia off the southeastern coast of mainland China, across Taiwan Strait, southwest of Japan and north-northwest of the Philippines. It has an area of 36,188 km² or about the size of Switzerland. Seen in a south-to-north direction, its shape is similar to a sweet potato. It is about 394 kilometers long and 144 kilometers wide and consists of steep mountains covered by tropical and subtropical vegetation (Taiwan Tourism Bureau).

Population

The country has a population of approximately 23 million people spread across a land area of 36,188 km², making it a densely populated country with a population density of 640/km². The population includes 84% of Taiwanese, 14% of Mainlander

(Han Chinese and their descendents), and 2% of Taiwanese aborigines (Taiwan Tourism Bureau).

Economy

Taiwan's quick industrialization and rapid growth during the latter half of the twentieth century has developed alongside Singapore, South Korea and Hong Kong, and is one of the industrialized developed countries known as the “Four Asian Tigers”. Today Taiwan has a dynamic capitalist, export-driven economy with gradually decreasing government involvement in investment and foreign trade. Exports have provided the primary impetus for industrialization. The trade surplus is substantial, and foreign reserves are the world's fourth largest in 2007. Taiwan's per capita GDP, adjusted for purchasing power parity (PPP), was approximately \$29,800 in 2007, which was equal to the average of EU countries and was ranked the 24th in the world by International Monetary Fund (IMF). Taiwan’s leading technologies include semiconductor device fabrication, biotechnology and bicycle manufacturing (Economic Statistics Annual, Taiwan Area, ROC, 2007). Table 1.1 provides Taiwan’s economy at a glance. As shown in the Table, the economic growth averaged over 4.5% in the 2003-2006 period and reached 5.7% in 2007. Unemployment was around 4% and industrial production and sale of commerce all kept a positive annual growth.

Table 1.1 Taiwan's economy at a glance

		2004	2005	2006	2007
Industrial Production					
Annual Change in Industrial Production Index(%)		9.82	4.56	4.99	8.10
Annual Change in Manufacturing Production Index (%)		10.52	4.48	5.04	8.81
Structure of Domestic Production					
Agriculture (proportion to GDP)		1.64	1.66	1.62	1.45
Industry (proportion to GDP)		27.57	27.05	26.84	27.50
Manufacturing (proportion to GDP)		23.72	23.21	22.86	23.75
Services (proportion to GDP)		70.79	71.29	71.54	71.06
Commerce (proportion to GDP)		19.08	19.87	20.51	20.72
Foreign Trade					
Exports	Amount (US\$ 100 Million)	1 823.7	1984.3	2 240.2	2 466.8
	Annual Rate of Change (%)	21.1	8.8	12.9	10.1
Imports	Amount (US\$ 100 Million)	1 687.6	1826.1	2 027.0	2 192.5
	Annual Rate of Change (%)	31.8	8.2	11.0	8.2
Balance	Amount (US\$ 100 Million)	136.1	158.2	213.2	274.3
	Annual Rate of Change (%)	-39.7	16.2	34.8	28.6
Export Orders Received	Amount (US\$ 100 Million)	2150.8	2564.0	2 993.1	3 458.1
	Annual Rate of Change (%)	26.5	19.2	16.7	15.5
Sale of Commerce					
Wholesale & Retail Trade, Restaurants	Amount (NT\$ 100 Million)	98 291	104 734	111 770	119 222
	Annual Rate of Change (%)	10.03	6.56	6.72	6.67
Wholesale Trade	Amount (NT\$ 100 Million)	66 175	70 720	77 063	83 286
	Annual Rate of Change (%)	11.14	6.87	8.97	8.08
Retail Trade	Amount (NT\$ 100 Million)	29 375	31 081	31 642	32 735
	Annual Rate of Change (%)	8.29	5.81	1.81	3.45
Eating & Drinking Places	Amount (NT\$ 100 Million)	2 740	2 932	3 065	3 202
	Annual Rate of Change (%)	2.90	7.01	4.53	4.45
Price					
Price Annual Change in Consumer Price Index(%)		1.62	2.31	0.59	1.80
Annual Change in Wholesale Price Index (%)		7.03	0.62	5.63	6.46
Labour					
Unemployment Rate (%)		4.44	4.13	3.91	3.91
Annual Change in Manufacturing Labor Productivity Index (%)		5.89	5.22	4.65	7.47
Annual Change in Manufacturing Unit Labor Cost Index (%)		-4.26	-1.11	-2.37	-5.37
Economic Growth					
	2003	2004	2005	2006	2007
Economic Growth Rate (%)	3.50	6.15	4.16	4.89	5.70
Annual Change in Private Consumption Expenditure (%)	1.48	4.46	2.99	1.76	2.61
Annual Change in Government Consumption Expenditure (%)	0.57	-0.54	1.08	-0.41	0.80
Annual Change in Private Sector Investment (%)	3.65	33.05	0.31	2.96	3.39
Annual Change in Public Enterprises Investment (%)	-3.94	-18.15	16.20	-7.48	3.88
Annual Change in General Government Investment (%)	-1.26	-5.78	-1.92	-6.20	-3.91

Source: Economic Statistics Annual, Taiwan Area, ROC, 2003-2007

Culture

Taiwan and Mainland China (PRC) are both influenced by Chinese cultures, but their societies have been separated and developing independently since 1949. Their living environments and philosophies are different because of their dissimilar political and economic systems. Economically and legally, Taiwan has developed more or less according to the western model of a free-market state, while retaining some traditional Chinese values. Hofstede (1980) employed a personality-centered approach and developed four dimensions of national character: power distance, individualism-collectivism, masculinity-femininity, and uncertainty avoidance. Power distance refers to less powerful members of organisations accepting and expecting an unequal distribution of power (Hofstede, 1980). Taiwanese people are accustomed to getting commands and approval from the top management for business affairs. They may be inclined to be stricter during negotiation with a small company. Individualism versus collectivism refers to the degree to which individuals are integrated into groups. Conventionally, Taiwanese people are comfortable with doing business with those who they are familiar with. Doing business is highly affected by interpersonal relationships. The dimension of masculinity versus femininity deals with sex roles. For example, high masculinity buyers are more concerned about personal achievement. They may make adjustments to purchase requirements when taking personal consequences into account (Chang and Ding, 1995). As for the dimension of uncertainty avoidance, people have more uncertainty avoidance tendency under unstable policy and society.

To truly reflect Chinese cultures in the business world, Chinese Culture Connection (1986) developed an instrument called the Chinese value survey (CVS). CVS identifies four dimensions of values: integration, which concerns integrative social

stability; Confucian work dynamism, which reflects the Confucian work ethic; human heartedness, which deals with gentleness and compassion; and moral discipline, which concerns moral restraint. Although CVS was developed solely as a measure of the basic values held by Chinese people, it has proved to be valuable in identifying significant differences in values among managers in the U.S., PRC, and Hong Kong (Ralston et al., 1992). The roles of integration and Confucian work dynamism are empirically found to have influence on industrial buying selection criteria in Taiwan (Chang and Ding, 1995).

1.4 The research distribution channel context

In today's evolutionary channel relations, fast changing fads and proliferation of competing products both from domestic and international producers as well as the multiplication of retail brands have led to large scale or large chain distributors (including wholesalers, dealers and retailers) harnessing more control over the marketplace. Manufacturers or producers are paying slotting allowances to get their products on distributors' shelves and spending dollars to get a certain shelf space for their products. Sometimes they are even charged for failure fees if a product does not reach a sales target within a given period of time. Distributors have close and intensive interaction with "the market", consider themselves to be "purchase agents of customers", actively grasp market information, and are having an increasing level of influence over other channel actors. This phenomenon has been spectacularly emerging in the Taiwanese channel context during the last three decades since some of the world's leading distributors invested and/or started joint ventures in Taiwan. For example, Carrefour, the leading retailer in Europe and the second largest retail group in the world, established its cooperation in 1987 with Uni-President Enterprises Corporation in Taiwan, which is Carrefour's first presence in Asia. At present, they

have jointly established 48 Carrefour hypermarket chain stores island-wide; Southland Corporation started its cooperation in 1980 with Uni-President Enterprises Corporation to establish its first 7-ELEVEN convenience store in Taiwan and currently there are over 4,000 7-ELEVEN chain stores running island-wide; Mitsukoshi Department Store, the oldest department store in Japan, started the joint venture in 1989 with Shin Kong Department Store, the largest chain department store in Taiwan. Currently, there are 10 Shin Kong Department Stores in Taiwan and 1 store in operation in China.

Other examples also include local distributors such as “3C stores” (i.e. stores carrying computer, communication, and consumer electronic and electrical products). Some local 3C stores are enhancing their economic scales and enterprise scales either by expanding their store sizes or by increasing the number of chain stores or franchisers to capture market share. For example, Tsannkuen 3C Store is currently running over 250 chain hyperstores island-wide and expanding and investing in China, Hong Kong, Japan, and the U.S. by establishing over 60 chain stores or agencies overseas. Another competitor, Elife Mall, is also running over 280 3C chain stores island-wide. Sunfar Computer Co. has established 65 3C hypermarkets specialized in providing IT equipment and device products. The evolution in the marketplace has led distributors to gain more vitality and power over channel relations. This makes the current research interested in investigating the themes in the Taiwanese channel context from the distributor perspective, which is different from the angles of most of the research stream. Meanwhile, this study is designed to investigate the subject from a social perspective, based on the rationale that business relationships include not only economic systems but also social and behavioural systems. An appropriate approach for analyzing the totality of the relationships turns to social exchange theory, which

explicitly views exchange relations as dynamic processes. This theory is also suggested as a framework for analyses of buyer-seller relationships (Dwyer et al., 1987) and studies of market relations (e.g. Anderson and Narus, 1984, 1990; Hallen et al., 1991).

1.5 Research questions and objectives

Market orientation and relationship marketing share many similar operative requirements and particularly both are operationally long-term oriented. However, there is a lack of empirical study to investigate the association which may exist between them. This is a research gap worth exploring. Thus, the central problem of this research is to investigate potential effects of market orientation on the development and sustenance of channel relationships in the Taiwanese business context. Subproblems are indicated by the following questions:

- How does market orientation affect the development and sustenance of channel relationships? Is it a strategic role to affect the continuity of channel relationships?
- What is the possible interface existing between market orientation and a long-term orientation?
- How does the interface mediate the effect of market orientation on the continuity of channel relationships?

To tackle these problems, this study aims to model and evaluate the possible association and interface existing between market orientation and a long-term oriented channel relationship (a key aspect of relationship marketing), so as to provide additional insights and extend our understanding into these two constructs. To achieve

the aim, the following objectives are formulated:

- To clarify the construct of market orientation and to examine the applicability of the marketing concept in the Taiwanese business context;
- To identify the key relational factors and their interactions mediating the interface between market orientation and long-term oriented channel relationships;
- To assess the status and practice of market orientation in the Taiwanese channel context; to investigate the extent to which businesses are being market-oriented.
- To model a research framework drawn from social exchange theory, the relationship literature, and the exploratory in-depth interviews on the effect of market orientation on the relationship factors influencing the development and sustenance of channel relationships; and
- To empirically test the research model in the Taiwanese channel context from the distributor's perspective and identify the role of market orientation in developing channel relationships.

1.6 Organisation of the thesis

The thesis is composed of eight further chapters and they are outlined as follows:

Chapter Two reviews the major research works in the domain of market orientation with the purpose of identifying research gaps and highlighting important issues that need further research. The review covers the major themes in the market orientation literature, including the conceptualisation, consequences and antecedents of market orientation, as well as the environmental factors moderating the effects of market orientation.

Chapter Three reviews the other theme of the research: distribution channel relationships of relationship marketing, and the theoretical underpinning of the study: social exchange theory. The issues covered in the review of relationship marketing include the conceptualisation, the related body of research on distribution channel and interfirm relationships, and a critical evaluation on the related research. Providing the theoretical support for the research model, social exchange theory is reviewed on its roots, development and applicability to channel relationship research. The essential relationship constructs drawn upon the theory are also identified.

Chapter Four presents the overall research design of this study. An overview of general research methodology and the paradigms employed in the marketing field will be presented first. The first phase qualitative study of exploratory in-depth interviews is the focus of this chapter, so its related issues, including justification, sampling issues and data collection procedure, will be discussed in this chapter. To facilitate the construction and discussion of the research model in the next chapter, data from the exploratory study will also be analysed and interpreted in this chapter.

Chapter Five develops and discusses the research model derived from the interviews together with social exchange theory and the channel relationship literature. The model establishes the links between market orientation and the relational factors influencing a long-term orientation. The development of thirteen hypotheses drawn from the model is then discussed in detail.

Chapter Six is devoted to the main research method of this study: a mixed-mode quantitative study mainly by post and supplemented by electronic questionnaire surveys. Issues discussed include measures to enhance the response rate,

measurement and scaling, instrument development and refinement and sampling procedures. Data collection and survey administration will also be presented to provide a picture of how the data are actually collected.

Chapter Seven is concerned with two issues: tests of the scales and analyses on the sample characteristics. To ensure a valid data analysis, statistical tests used to measure reliability and validity of scales are conducted and reported. The sample characteristics on a preliminary analysis of the quantitative data are presented with the purpose of providing the general trends in the data obtained. Then, the descriptive statistics analysis is discussed to assess the patterns and differences of the construct variables on the sample characteristics.

Chapter Eight conducts the hypothesis testing and reports the test results. The choice of the analysis techniques for testing and the fitness of the sample data with the statistical assumptions underlying the chosen techniques are presented prior to the hypothesis testing. The results of the testing are then reported, followed by a substantive interpretation of the findings.

The final chapter, Chapter Nine, offers conclusions against the key research findings and discusses the implications of this study. To reflect the extent to which the objectives of the research outlined in chapter one are achieved, contributions of this study to knowledge are highlighted. The study's limitations and opportunities for future research are also discussed.

CHAPTER TWO

A Review of the Literature on Market Orientation

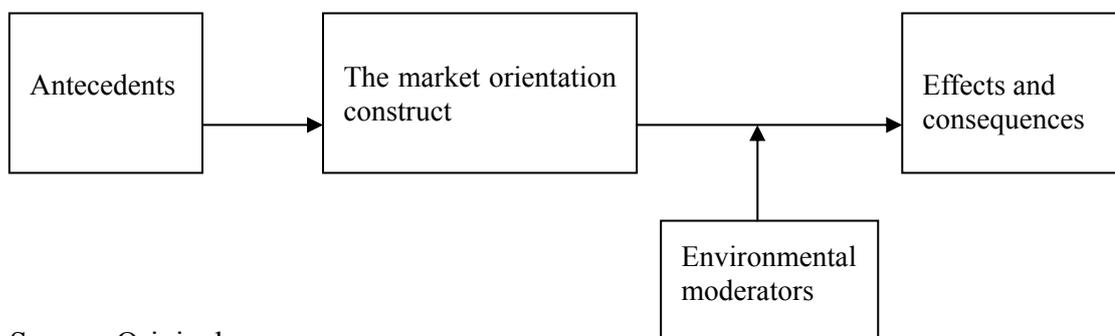
2.1 Introduction

As addressed in the previous chapter, this study brings together two important marketing research streams. One is the marketing concept of market orientation, whose existing literature is to be critically reviewed in this chapter with the purpose of identifying important issues that need further research. The other domain concerning relationship marketing on channel relationships will be discussed in the next chapter.

Market orientation lies at the core of the marketing concept and has been one of the most studied constructs in the field of marketing since the early nineties (Stoelhorst and Raaij, 2004). Academics and practitioners regard it as a business philosophy or a policy announcement, which is based on the notion of satisfying customer needs and wants so as to improve business performance in the long run. Early research in the theory focused mainly on the conceptualisation and measurement of the market orientation construct (e.g. Kohli and Jaworski, 1990; Narver and Slater, 1990; Deng and Dart, 1994; Gray et al., 1998). It has since developed to encompass different consequences and discuss antecedents and environmental moderators (e.g. Narver and Slater, 1990; Jaworski and Kohli, 1993; Kumer et al., 1998; Homburg and Pflesser, 2000), identifying the construct with a multitude of factors. More recently, different contexts for studying market orientation have been pursued including studies of small businesses (Pelham, 1997, 1999, 2000) and international studies in various industries (e.g. Greenley, 1995 (UK); Selnes et al., 1996 (Denmark, Norway and Sweden); Bhuian, 1997 (Saudi Arabia); Gray et al., 1998 (New Zealand);

Hooley et al., 2000 (Hungary, Poland and Slovenia); Felix et al., 2005 (Mexico); Elg, 2008 (Finland)). Following the research themes, this chapter consists of four further sections of discussion on the related market orientation literature. It begins with a review on the major research works on the conceptualisation of market orientation in section 2.2. The works examining effects and consequences of market orientation are presented in section 2.3, followed by discussions in section 2.4 on the studies of its antecedents and section 2.5 on the studies of environmental factors moderating the effects of market orientation. The identified areas and issues which need further study will be concluded in the chapter summary of the last section 2.6. Basically, the major themes in the market orientation domain which are reviewed in this study are outlined in Figure 2.1.

Figure 2.1 Main themes in the market orientation domain to be reviewed in this study



Source: Original

2.2 The conceptualisation of market orientation

The conceptualisation of market orientation has long been developed and discussed. According to Wilkinson (2001), the origins of the construct of market and customer orientation can be traced back to Adam Smith who stated in the eighteenth century in his *Wealth of Nations* that “consumption is the sole end and purpose of all

production and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer". Most articles, however, refer to Drucker (1954) as the roots of market orientation when he explicitly noted that customers should be the foundation of an organisation and the very reason for its existence. This argument was supported by Levitt (1960) who asserted that customer needs must be a firm's core business purpose. For the most part, definitions of market orientation have been developed from conceptualisation of the marketing concept; therefore, the variation in definitions can be attributed to the diverse manner in which the marketing concept has been defined over time. Felton (1959, p.55) defined the marketing concept as "a corporate state of mind that insists on the integration and coordination of the marketing functions that, in turn, are melded with all other corporate functions, for the basic purpose of producing maximum long-range corporate profits". McNamara (1972, p.51) took a broader view and defined the concept as "a philosophy of business management, based upon a company-wide acceptance of the need for customer orientation, profit orientation, and the recognition of the important role of marketing in communicating the needs of the market to all major corporate departments". By the late 1980s, the term market orientation was being used synonymously with the marketing concept (Shapiro, 1988; Webster, 1988). However, it was not until the early nineties that the ramification of the conceptualisation and the strategic issues related to the marketing concept began to be systematically studied. The following subsections present the development of the conceptualisation from different perspectives and meanwhile the constituents of the marketing concept are also discussed.

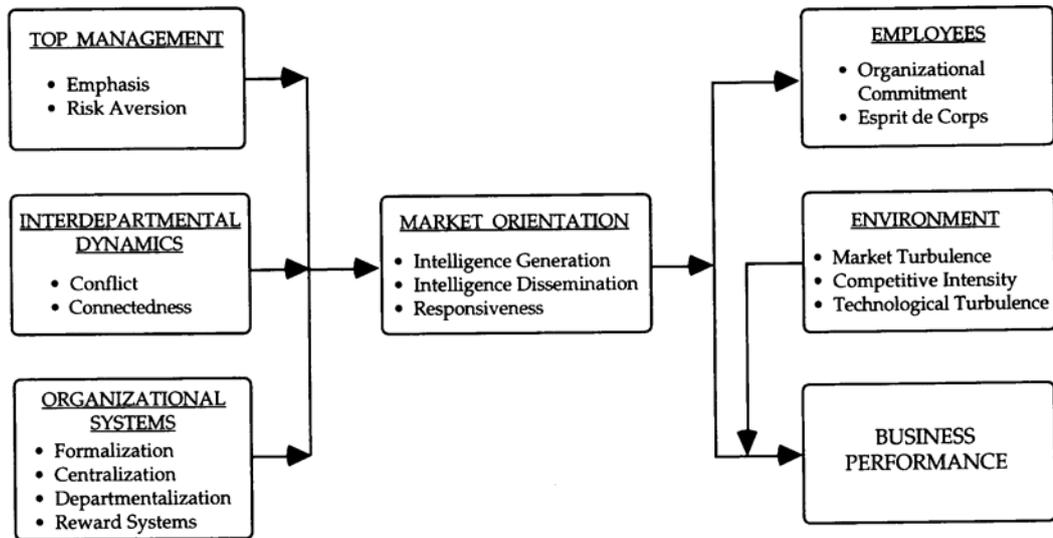
2.2.1 Market orientation from a behavioural perspective

Following King's (1965) and others' approaches, Kohli and Jaworski (1990), the

first researchers to publish exploratory work on the market orientation theory, conceptualise market orientation as the implementation of the marketing concept, implying that market orientation not only is a business philosophy but also involves ongoing behaviours and activities that characterise an organisation as market oriented. They have made a significant contribution to knowledge by clarifying the domain of market orientation, developing research propositions, and constructing an integrating framework that include antecedents and consequences of market orientation and also the moderators of the relationship between market orientation and business performance.

Drawing on the studies of the marketing concept over the last 35 years in the marketing literature and 62 field interviews with managers in diverse functions and organisations in the US, Kohli and Jaworski (1990, p.6) defined market orientation as “*the organisationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it*”. Market intelligence used in the above definition is a broad construct and can be generated from internal and external sources. The construct includes not only current and future needs of customers, but also exogenous market factors, such as competition, regulation, technology and other environmental forces. Market intelligence is generated by the functions throughout the organisation and disseminated to the relevant departments and individuals within the organisation so that the appropriate responses can be initiated. Responsiveness to market intelligence is conceptualised to be two-fold, consisting of response design and response implementation, with virtually all functions participating in responding to market trends. Kohli and Jaworski’s conceptual model is shown as Figure 2.2.

Figure 2.2 Kohli and Jaworski's conceptual model of market orientation



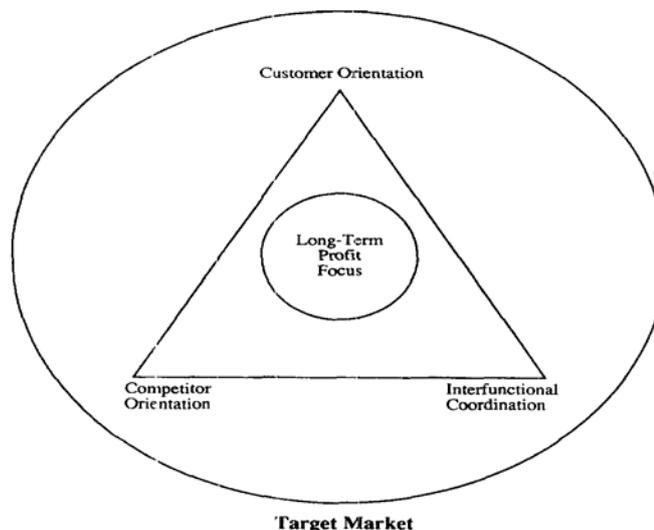
Source: Jaworski and Kohli (1993), p.55

Kohli and Jaworski's (1990) and Jaworski and Kohli's (1993) conceptualisation of market orientation facilitates the operationalisation of the marketing concept by focusing on ongoing behaviours and activities rather than philosophical notions, which addresses the concerns of Barkadale and Darden (1971) who point out that the idealistic policy statements represented by the marketing concept are of severely limited practical value. They consider the major challenge for the marketing concept is the development of operational definitions. Practically, Kohli and Jaworski's emphasis on behavioural perspective also meets practitioners' concerns that it may be more important to focus on what an organisation should do than what it feels important. In addition, their conceptualisation also facilitates measurement of market orientation by avoiding certain difficulties inherent in asking informants to indicate whether or not their organisation is market-oriented. They observe that market orientation is a continuous rather than a dichotomous either-or construct.

2.2.2 Market orientation from a cultural perspective

A different conceptualisation is offered by Narver and Slater (1990), who published the first empirical work to test the association between market orientation and business performance. Narver and Slater (1990) studied 140 SBUs of a major US corporation and provided empirical evidence for the positive market orientation-business performance relationship. They indicate that market orientation consists of three components—*customer orientation*, *competitor orientation*, and *interfunctional coordination*—and two decision criteria—*long-term focus* and *profit objective*. They hold that “*market orientation is the organisation culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business*” (Narver and Slater, 1990, p.21). They see business culture as a driver of behaviour, and market oriented behaviours do not manifest themselves if the culture lacks commitment to superior value for customers. Their culture emphasis was further noted in their later work that market orientation is an important element and a particular form of business culture (Slater and Narver, 1994). Their conceptual model is shown as Figure 2.3.

Figure 2.3 Narver and Slater’s conceptual model of market orientation



Source: Narver and Slater (1990), p.23

Parallel to the above effort in conceptualising market orientation from a cultural perspective, Deshpande et al. (1993) also emphasised the shared values and beliefs in a firm and defined a customer orientation as “*the set of beliefs that put the customer’s interest first, while not excluding those of other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise*”. They argued that customer orientation is a part of overall, but much more fundamental, corporate culture. In their later work, Deshpande and Farley slightly altered the definition of market orientation on the basis of a factor analysis of three market orientation measures. Their definition emphasised a customer orientation: “*The set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs-assessment*” (Deshpande and Farley, 1996, p.13).

2.2.3 A comparison of behavioural and cultural perspectives on market orientation

A comparison of these two main conceptualisations reveals that they share several similarities (Jaworski and Kohli, 1996; Mavondo and Farrel, 2000). First, they both view market orientation as a continuous rather than a dichotomous construct. Second, they treat the customer as a central role in their manifestations. Third, they both acknowledge the importance of being responsive to customers. Believing customers are important is not enough; the organisation needs to react to provide value to them. Fourth, they all entail an external orientation, a focus outside the organisational boundaries, suggesting that the marketing concept involves more than customers. Narver and Slater (1990) explicitly emphasise both customers and competitors. Kohli and Jaworski (1993) hold that the marketing concept additionally entails forces shaping customers needs and expectations (e.g. technology, regulation, competitors). While Deshpande et al. (1993) view customer orientation as putting

customers' interests first, they also point out that interests of other stakeholders are important as well.

From the viewpoint of similarities, Cadogan and Diamantopoulos (1995) also argue that although the behavioural and the cultural perspectives have remarkable differences in their understanding of the marketing concept, they have conceptual and operational overlaps in nearly all dimensions, particularly in their operationalisations. Another empirical study by Avlonitis and Gounaries (1997) further indicates that the attitudinal and the behavioural aspects of marketing orientation are indeed interrelated. Unless a certain attitude is formed, the actions never emerge. Thus, a disassociation of the cultural and the behavioural approach should be avoided (p.398).

Although the similarities between the two conceptualisations are considerable, a couple of differences are also drawn by some studies (Jaworski and Kohli, 1996; Mavondo and Farrel, 2000). The first relates to the use of the terms: market orientation, market driven (Day, 1994), marketing orientation (Avlonitis and Gounaries, 1997), or customer orientation. The existence of diverse terms is understandable given the early stage of the research domain. However, the knowledge can be advanced more rapidly if agreement on the term is made (Grover, 1997). "Customer orientation" focuses the organisation on customers - their needs, expectation, and complaints. While important, this narrow focus does not examine the underlying management characteristics that shape customer needs and entire industries, which can be myopic, with potentially detrimental consequences. The term "market driven" implies a reactive instead of a proactive stance in the generation and responsiveness to market intelligence, which can lose an organisation's competitive position. Another similar term "marketing orientation"

turns to place more emphasis on the marketing department. However, “market orientation” concerns all functions’ coordination; the construct is not exclusively a concern of the marketing department (Shapiro, 1988). The label “marketing orientation” appears restrictive and misleading. In comparison, it seems that the label “market orientation” is a more desirable and acceptable term as it coordinates all functions and actively focuses energy and attention on the broader set of marketplace conditions and stakeholders, not just customers (Kohli and Jaworski, 1990). As such, this term has been generally favoured and used in the literature since the past decade to stand for an organisational culture or implementation of the particular business philosophy.

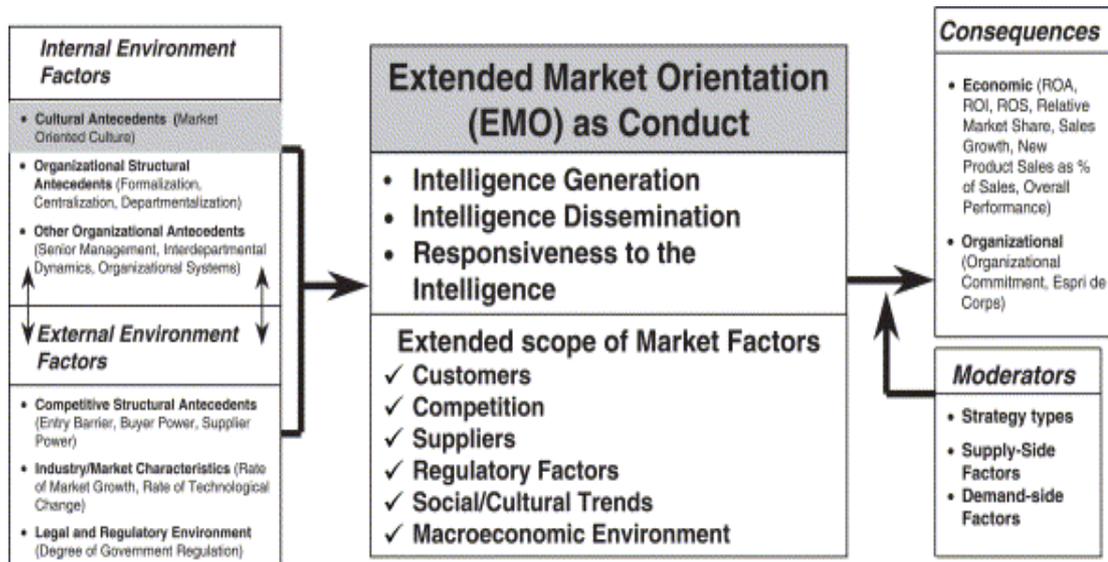
The second distinction is in the conceptual understanding of the marketing concept: a behavioural perspective versus a cultural one. Kohli and Jaworski (1990) focus on ongoing behaviours and activities in an organisation. In contrast, Deshpande et al. (1993) adopt a cultural perspective and emphasise the shared values and beliefs in an organisation. Although Narver and Slater (1990) acknowledge the importance of both culture and behaviour, they conceive culture as a causal antecedent to market oriented behaviour. Their central rationale is that customer-related activities are the manifestation of organisational belief and culture and it is the underlying culture that should be defined and measured as market orientation (Narver and Slater, 1998). Indeed, both perspectives of conceptualisation are valuable and have become the major disciplines in the market orientation domain. Some researchers suggest that, from a measurement perspective, treating market orientation as a set of behaviours and collaborative processes rather than as an aspect of culture may have some benefits (Hurley and Hult, 1998). The measurement of organisational belief and culture may be more prone to the social desirability bias than the measurement of actual actions and

activities. In addition, what an organisation believes important may not be put into practice for a variety of reasons (e.g. talent or resource constraints). Measuring what an organisation actually does rather than what it considers important reflects more practical value. The choice between focusing on values/beliefs or activities/behaviours has a direct implication for research design such as conceptualisation and measurement. The choice for this study will be further discussed in developing the market orientation scale in Chapter Six, research methodology II.

2.2.4 Extended market orientation based on integration of behavioural and cultural perspectives

Attempting to reconcile these two different conceptualisations and operationalisations, Matsuno et al. (2005) built on the classic “structure-conduct-performance” paradigm (Thorelli, 1977) and developed a generic causal model for a broader construct of market orientation. They position ‘cultural construct’ as one of several internal antecedents to conduct, ‘behavioural construct’ as a firm’s conduct, and ‘performance’ as a set of consequences of a firm’s conduct. They label the construct as extended market orientation (EMO) and define it as “*a set of intelligence generation and dissemination activities and responses pertaining to the market participants (i.e. competitors, suppliers and buyers) and influencing factors (i.e. social, cultural, regulatory and macroeconomic factors)*” (Matsuno et al., 2005, p.4). From a theoretical perspective, EMO attempts to integrate and extend the two conceptualisations into a more comprehensive construct and provides a clearer picture of the relationships between the antecedent environment, the firm’s conduct, and performance consequences. As can be seen from their conceptual model shown in Figure 2.4, their focus measurement of the construct is basically an extension of Kohli and Jaworski’s (1990) conception.

Figure 2.4 Matsuno, Mentzer and Rentz's conceptual model of EMO



Source: Matsuno, Mentzer and Rentz (2005), p.3

2.2.5 Market orientation from a system-based perspective

Providing the importance of how a company's management systems can be designed in a market-oriented way, Becker and Homburg (1999) view the marketing concept from a management or system-based perspective. They conceptualise “*market-oriented management in terms of the degree to which management systems are designed in such a way as to promote a business organisation's orientation towards its customers and competitors*” (Becker and Homburg, 1999, p.18). In this approach, the management system is divided into five subsystems: organisation, information, planning, controlling, and human resource management systems.

A comparison of the system-based perspective with the two major disciplines reveals a conceptual overlap. For example, a market-oriented information system in the system-based approach has information generation and dissemination as two of the three sub-dimensions in the behavioural conceptualisation. Furthermore, all system-based dimensions are operationalised with regard to customers and

competitors as well as inter-functional coordination. It seems that the system-based perspective is another approach to integrating the two major disciplines in the market orientation domain but attempts to view this marketing concept from a managerial perspective by answering the question of how management systems can be designed to support market orientation.

2.2.6 Market orientation from a relational perspective

Market orientation studied from a relational perspective has recently received attention since the importance of inter-firm relationships was reinforced. The importance of inter-firm relationships and networks is highlighted for a firm's survival and success in a more global, uncertain and competitive environment (Morgan and Hunt, 1994; Achrol and Kotler, 1999; Day, 2000; Gulati and Higgins, 2003). The notion of competing networks implies that it becomes a key issue for the involved firms to coordinate their activities and develop a superior capability to understand and serve a certain market. This view is also supported by research on marketing channels that regards them as aggregated actors that compete to present the best value to customers (Stern et al., 1996; Ford et al., 1998). Thus, to effectively implement market-oriented behaviours and provide superior offers to customers, an organisation cannot achieve this end without cooperation with its channel partner. This would, in turn, make it relevant to study market orientation from a relational perspective.

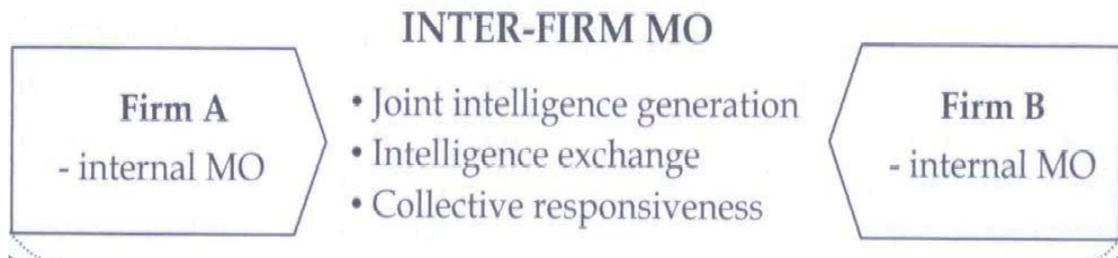
Arguing that relationships are a firm's most valuable resources but all relationships are different, Helfert et al. (2002) consider the overall market orientation of firms needs to be translated to a relationship level to be effective. Testing their model in two German service industries, 405 companies, they conclude that market

orientation on a relationship level can be interpreted in terms of a firm's employed resources and executed activities dedicated to exchange processes. Market orientation translates first into a specific resource availability which is supposed to affect relationship effectiveness, and then into a high degree of relationship task performance.

Another study exploring market orientation on a relationship level is conducted by Tuominen et al. (2004). In order to assess the relationship between market orientation and customer intimacy in a business-to-business context, Tuominen et al. (2004) propose a contingency framework taking into account business logic and market focus. Testing their model based on 142 member companies of the Federation of the Finnish Metal, Engineering, and Electrotechnical Industries, they found a strong positive association between market orientation and closeness of inter-firm relationships.

Elg (2002) argues that behaviour and activities are feasible to investigate but organisational culture is a social psychological construct, for which corresponding behaviour does not necessarily take place (Kopelman et al., 1990; Scott, 1992; Harris and Ogbonna, 1999). He conceptually develops a model based on Kohli and Jaworski's approach, by adding the idea that market orientation can be captured as an inter-firm phenomenon that involves joint activities of the channel members. Three components on an inter-firm level: *joint intelligence generation*, *intelligence exchange* and *collective responsiveness* are developed from Kohli and Jaworski's three dimensions. His conceptual model is shown as Figure 2.5.

Figure 2.5 Elg's conceptual model of inter-firm market orientation



Source: Elg (2002), p.640

Elg considers market orientation as a relationship property that can be studied at an inter-firm level to bring together joint market-oriented actions. He further asserts in a recent work that inter-firm market orientation can become an important element in a channel's development of unique market values (Elg, 2008). Although Elg advocates the construct of inter-firm market orientation in a series of published papers, most of his work is conducted in a qualitative approach. In order to support and validate his proposed framework and construct, the challenge of developing the operational definition and measurement scales for his construct needs to be conquered, and substantial empirical research needs to be performed to provide a solid ground. This is the void area that can be further researched if we are to fully capture the market orientation theory from a relationship perspective. This gap therefore entails for this research the task of conducting an exploratory study: the first phase research method for this study, with distribution networks having different characteristics. The aim is to evaluate the relevance of Kohli and Jaworski's and Naver and Slater's components from a relational perspective and to explore additional components in order to capture a more comprehensive picture of the market orientation construct.

2.3 Effects and consequences of market orientation

Viewed as a source of sustainable competitive advantage (Hunt and Morgan, 1995), market orientation is expected to result in superior effects and consequences for an organisation. The theoretical basis for this expected link is elucidated early on by McKitter (1958) who highlights that in a competitive environment, organisations need to be highly cognizant and responsive to customers needs, or else rivals will devise products more attuned to those needs and capture their business. Narver and Slater (1990) explicate his view further by arguing that the marketing concept helps to create superior value for customers. Accordingly, based on the superior ability to understand the market and to satisfy customers' needs and preferences, the effect of market orientation not only reflects on organisation effectiveness, such as business performance, product innovation, *esprit-de-corps* working environment, team spirit, etc, but has also been linked to customers and channel relationships. The academic efforts have been extensively focusing on examining the effect of market orientation on business performance, a reflection of the attention to shareholders' interests. By contrast, limited attention has been devoted to the effect on customers and channel partners - another two important stakeholders of a company. The following work presents a brief review and discussion on the studies in each of the three areas of effects of market orientation and then provides the rationale for this study investigating the role of market orientation in channel relationships.

2.3.1 The effect on business performance

Although marketing academics and practitioners have been observing for more than three decades that business performance is affected by market orientation (e.g. Felton, 1959; Levitt, 1960; Webster, 1988), the study conducted by Narver and Slater (1990) was the first systematic empirical analysis of the effects of market

orientation on business profitability. Using a sample of 140 SBUs consisting of commodity and noncommodity businesses in a major US corporation, they found a substantial positive effect of market orientation on business profitability but mixed results for these two types of businesses. The effects of market orientation are positively linked with business performance for noncommodity businesses. A U-shaped association existed in the commodity businesses, with the low and high market orientation businesses showing a higher profitability than the businesses in the midrange of market orientation. A positive relationship is found only among businesses that are above the median in market orientation. Following Narver and Slater (1990), a substantial number of works examining the association appeared, though most of them were studied in the context of developed countries. As studies demonstrate variations in their findings, summaries of the major studies are categorised by the magnitude and direction of the association and are presented in Tables 2.1 ~ 2.4.

Table 2.1 Studies that found a positive MO*-performance association

Study	Country	Sample	Performance measure	MO/performance linkage
Ruekert (1992)	USA	5 SBUs	Sales growth, profitability	Positive
Deshpande Farley, & Webster (1993)	Japan	50 “quadrads” from public firms & their customers	Profitability, size, market share, growth rate	Positive(customers) none (managers)
Jaworski & Kohli (1993)	USA	Sample one: 222 SBUs Sample two: 230 companies	Market share, ROE, organisational commitment, <i>esprit de corps</i> , overall performance	None (objective measures); Positive(judgmental measures)
Fritz (1996)	Germany	144 companies	Competitiveness, customer satisfaction, securing the continuance of the firm, long-term profitabilities	Positive

Table 2.1 Studies that found a positive MO-performance association (continued)

Study	Country	Sample	Performance measure	MO/performance linkage
Pelham & Wilson (1996)	USA	68 small firms	New product success, sales growth/market share, product quality, profitability	Positive
Pitt, Caruana, & Berthon (1996)	UK/Malta	130 UK firms+ 192 Maltese firms	ROCE, sales growth, subjective impressions	Positive (weak association)
Selnes, Jaworski, & Kohli (1996)	USA/ Scandinavia	222 US SBUs + 237 Scandinavian firms	Overall performance (OP), market share (MS)	Positive (OP); none (MS)
Avlonitis & Gounaris(1997)	Greece	444 industrial companies	Profits, ROI, sales volume, market share	Positive
Balabanis, Stable, & Philips (1997)	UK	58 charity organisation	Achievement of short-term & long-term goals, number of volunteers, the expenses to donor distribution ratio	Positive (with reported previous level of the link); none (with current reported level)
Caruana, Ramaseshan, & Ewing (1998)	Australia	84 schools/depts of universities	Overall performance, ability to attract non-government funding	Positive
Chang & Chen (1998)	Taiwan	116 stock brokerage firms	Business profitability	Positive (but mediated by service quality)
Ngai & Ellis (1998)	Hong Kong	73 companies	Business position & profitability	Positive
Caruana, Ramaseshan, & Ewing (1999)	Australia	171 government departments	Overall performance, level of customer services, cost effectiveness	Positive
Hooley et al. (2000)	Slovenia, Hungary, Poland	629 firms from Slovenia, 589 Hungary, 401 Poland	ROI	Positive
Pelham (2000)	USA	235 small and medium-sized manufacturing firms	Marketing/sales effectiveness, growth/share, profitability	Positive
Pulerdran, Speed, & Widing (2000)	Australia	105 companies	Overall performance	Positive

Table 2.1 Studies that found a positive MO-performance association (continued)

Study	Country	Sample	Performance measure	MO/performance linkage
Cervera, Molla, & Sanchez (2001)	Spain	399 samples from local governments	Global performance	Positive
Soehadi, Hart, & Tagg (2001)	Indonesia	159 retailers	Overall performance	Positive
Subramanian & Gopalakrishna (2001)	India	162 manufacturing & service firms	Growth in overall revenue, ROC, new product success, expenses control success	Positive
Raju & Lonial (2002)	USA	293 top executives in 175 hospitals	Quality outcomes, market/product development outcomes, financial outcomes (profits, cash flow, ROA, operating margin, ROI)	Positive (but mediated by service quality)
Agarwal, Erramilli, & Dev (2003)	USA	201 international hotels	Occupancy rate, profitability, market share, service quality, customer satisfaction, employee satisfaction	Positive (but mediated by innovation)
Liu, Luo, & Shi (2003)	China	304 companies	Organisational learning, entrepreneurship, market orientation, performance (sales turnover, market share, ROI)	Positive (but mediated by organisational learning, entrepreneurship)
Sandvik & Sandvik, (2003)	Norway	298 hotels	Product innovativeness, relative price premium, sales growth, capacity utilization, profitability	Positive (but mediated by innovativeness)
Im & Workman Jr. (2004)	USA	206 high-tech firms	New product performance	Positive (but mediated by creativity)
Green Jr. et al. (2005)	USA	173 manufacturers	ROI, profit, profit growth, ROS, market share growth, sales volume growth, sales growth	Positive

*MO denotes market orientation

Table 2.2 Studies that found a positive association but also moderating effects

Study	Country	Sample	Performance measure	MO/Performance linkage
Narver & Slater (1990)	USA	140 SBUs	ROA	U-shaped association. Company type affects the link. Positive(NCF) non-linear (CF)
Slater & Narver (1994)	USA	107 SBUs	ROI, sales growth, new product success	Positive; Environmental moderator effects noted
Kumer, Subramanian, & Yauger (1998)	USA	159 hospitals	ROA/ROI, sales growth, new product success, expenses control, patients retention	Positive; Environmental moderator effects noted
Matsuno & Mentzer (2000)	USA	364 manufacturers	ROI, market share, sales growth, percentage of new product to total sales	Positive; Business strategy type moderator effects noted
Matsuno, Menzer, & Ozsomer(2002)	USA	364 manufacturers	Market share, percentage of new product to total sales, ROI	Positive; entrepreneurial proclivity moderator effects noted
Cano, Carrillat, & Jaramillo (2004)	23 countries (meta-analysis)	12,043	Subjective & objective measures	Positive; Business objectives, industry type, & socio-economic development moderator effects noted
Kirca, Jayachandran, & Bearden (2005)	274 effect sizes	36,150	Overall business performance, profit, sales, market share, new product performance	Positive; Industry type, environmental moderator effects noted

Table 2.3 Studies that found an association only under certain conditions

Study	Country	Sample	Performance measure	MO/Performance linkage
Diamontopolous & Hart (1993)	UK	87 companies	Sales growth & profits relative to industry average	Weak association; Association depends on the environment
Greenley (1995)	UK	240 large service & product companies	ROI, new product success, sales growth	None identified; Association depends on the environment
Appiah-Adu (1998)	Ghana	74 manufacturing and service firms	ROI, sales growth	Not significant; Association depends on the environment
Han, Kim, & Srivastava(1998)	USA	134 banks	Profitability & innovation	Weak association; positive(innovation)
Cadogan et al. (2002)	Finland	783 service & product exporters	Efficiency, sales, & profit performance	Association depends on the types of goods, performance objectives & environment

Table 2.4 Studies that found no significant association between MO and performance

Study	Country	Sample	Performance measure	MO/Performance linkage
Bhuiyan (1997)	Saudi Arabia	92 banks	ROA, ROE, sales-per-employee	Unrelated
Caruana, Pitt, & Berthon (1999)	UK	131 service firms	Overall performance	No significant association
Harris & Ogbonna (2001)	UK	322 companies	ROI & sales growth	None identified

From the above 40 studies, a number of issues emerge. First, the studies exhibit variations in their findings regarding the magnitude and direction of the market orientation-business performance relationship. In the main, the US research shows a positive association, though the link may be mediated by some variables or environmental moderator effects may be noted. However, the replicative studies done in other countries provide mixed results. For example, several researchers report weak or no effects for this association and question its generalisability to all contexts (e.g. Bhuian, 1997; Appiah-Adu, 1998); a few UK studies also fail to find evidence for a significant positive market orientation-performance relationship (Diamontopolous and Hart, 1993; Greenley, 1995; Pitt et al., 1996; Balabanis et al., 1997; Caruana et al., 1999; Harris and Ogbonna, 2001). While Greenley (1995) and Harris (2001) suggest a positive link between market orientation and performance only at low level of market turbulence, Diamontopolous and Hart (1993) indicate that the relationship exists at high level of market turbulence. Cadogan et al. (2002) conclude that market orientation is more beneficial to profit performance in face of high degree of turbulence for service exporters and low degree of turbulence for product exporters, whereas Pulendran et al. (2000) hold that the linkage is positive regardless of market conditions though a stronger relationship is identified at higher degree of market turbulence.

The lack of consistency of evidence suggests that the market orientation-performance association may be context specific (e.g. national differences, industrial differences, economic development differences). Jaworski and Kohli (1993) argue that individual environmental variables such as market turbulence and technological change may act *in tandem* to affect the impact of market orientation on business performance. Therefore, it is likely that a positive market orientation-performance association may

exist under the conditions of both high and low degrees of market turbulence depending on the configuration of other industry factors such as the intensity of competition and technological changes. In other words, the effects of high degree of market turbulence could be cancelled out by the presence of low degree of competition or vice versa. In order to further increase the validity and robustness of the theory, there is a need for testing whether the theory developed primarily in the US is also applicable elsewhere; the market orientation-performance relationship can be investigated in diversified settings, particularly in the eastern countries or developing countries where the empirical evidence is still limited; meanwhile, the moderating effects of environmental influences should be taken into account.

The second issue emerged is that the managerial judgment of performance is mostly used as the measure of performance. While previous studies found high correlations between subjective and objective measures (Dess and Robinson, 1984; Dawes, 1999), there is a possibility that using subjective measures may result in ‘false positive’ associations. As Kirca et al. (2005) conducted a meta-analysis on the market orientation–performance link, they found a significantly stronger association in studies that use subjective measures of performance. Hence, it may be useful to include some objective measures so that such insights as how much investment and resource are needed to develop market orientation to a certain level can be obtained.

Thirdly, the single key informant technique is employed in most of the data collection designs. Philips (1981) argues that the use of information from single source in generating the organisation condition may be misleading as the response can be affected by a number of situational factors such as the informant’s position, working years in the organisation, or available information sources. As the market

orientation construct covers diverse activities within an organisation relating to market intelligence generation, dissemination and responsiveness, Kohli and Jaworski (1993) call for the use of a broader sample of managers and even employees in the organisation as informants so as to improve the validity of the data. Unlike most studies, the study of Deshpande et al. (1993) was based on “dyad pairs” or “quadrads” of Japanese manufacturers and their customers. 50 sets of interviews were held both with two executives from a selling firm and with two executives from a customer firm of that supplier. One interesting finding of this research is that positive market orientation-performance relationship exists only when marketing effectiveness was based on customers’ subjective appraisals. No relationship was observed when managers’ reports of their own company’s customer orientation were used as base for comparison. This lack of correlation between managers’ and their customers’ assessments of the firm’s degree of customer orientation raises the question of the validity of using single key manager as the informant. Deshpande et al.’s (1993) research design represents a promising way of minimizing the bias in the data. However, a difficulty with respect to the identification of appropriate customers as informants is noted here. Typically businesses provide varying levels of service and responsiveness across customers depending on their importance; that is, businesses focus on distinct customer segments and tailor their products and services to primarily appeal to those segments, and by implication, not appeal to other customer segments. Thus, the same firm may be rated differently by different customers depending on whether they belong to the ‘in group’ or ‘out group’. An alternative approach can turn to the technique of multiple informants from different functions of an organisation to cross-validate the data.

Fourthly, most of the studies do not account for the effects of industrial contexts.

While the adoption of such a research strategy may enhance the generalisability of the results, the internal validity of the results may suffer (Dess et al., 1990). Depending on the conditions of the industrial sector, it is possible that a less market-oriented firm in an industry sector, where most of the firms are not market-oriented, may have above average business performance. Though the industry effects may be minimal in the US given the potentially high degree of market orientation in most industrial sectors, the effects could become consequential when a study is conducted in non-US economies where great variations may exist between the industrial sectors. In fact, this may be another reason why the non-US studies produced mixed results regarding the market orientation-performance relationship.

The final issue relates to methodology. Most of the research adopts cross-sectional survey design. The cross-sectional nature of the data restricts conclusions to those of association, not causation (Narver and Slater, 1990). This is because temporal priority, one pre-requisite for inferring causality is not present (Bollen, 1989) and control variables might have lagged effects on performance that cannot be detected in cross-sectional analysis. Additionally, the effect of market orientation on profit performance is also likely to evolve over time and may be lagged. Balabanis et al. (1997) analysed the link between past levels of market orientation and current performance, but their data were gathered at the same point of time. Pelham and Wilson (1996) used a longitudinal design to measure current levels of market orientation and performance, along with other moderator variables at the same time and lagged by one year. Although their finding provides stronger evidence that market orientation affects current performance rather than just associates with it, the focus of their study was only on small US firms and the lagged period was just one

year. Thus, more evidence from other national contexts for small, medium, and large firms by using longer periods of longitudinal data would be valuable for the market orientation-performance causation.

2.3.2 The effect on customers

In the literature, a positive market orientation-customer satisfaction and retention relationship is suggested by most of the studies, based on the rationale that the spirit and function of the marketing concept is basically to satisfy customer expectations and create superior value for them. For example, Webb et al. (2000) found a strong effect of market orientation on customer satisfaction on the basis of a sample consisting of 77 client firms of only one single US corporate bank; Gainer and Padanyi (2002) also suggest a positive market orientation-customer satisfaction association by investigating a sample of 138 nonprofit arts and cultural organisations in Canada. However, the problem emerges from the fact that the study is based entirely on assessment reported by CEOs or other senior managers about their own organisations. It could be argued that they do not report accurately about the esteem in which they are held by customers or peers and have a tendency to inflate the measuring items. Besides, measuring customer satisfaction but not obtaining reports from the customer can be another issue.

Krepapa et al. (2003) looked at differences in perceptions of market orientation and the resulting impact on customer satisfaction. They found that when there is a divergence between customer and service provider perceptions of market orientation, customer satisfaction tends to reduce. The greater the divergence, the lower the level of satisfaction.

Using customer satisfaction as one of the mediators of the relationship between market orientation and objective performance, Agarwal et al. (2003) indicate that market orientation is positively and significantly related to customer satisfaction. However, the study is based on the subjective report of only one key informant from each hotel, and the evaluation may be prone to various cognitive biases. Again, while management-reported assessments are commonly conducted, consumer-reported assessments should be a better indicator of studies on customer satisfaction.

2.3.3 The effect on channel relationships

Given the highly interdependent nature of relationships between organisations involved in a distribution channel and their necessitated reliance on each other, the research on the linkage between market orientation and channel relationships is warranted. However, the studies on the potential impact of market orientation on channel relationships and the ramification of market-oriented behaviours in a dyadic relationship are still limited, though there is a growing interest in this area. Day (1994, p.41) argues that channel bonding is one of the most distinctive capabilities of a market-oriented organisation besides market sensing and customer linking. Research by Siguaw et al. (1998) suggests that market orientation is an important, influential force on channel relationships and a strategy for easing channel relationship tensions.

By examining the effect of market orientation on channel relationships from the distributor's perspective, Siguaw et al. (1998) analysed the data from 179 supplier-distributor dyads and found that a supplier's market orientation has effects on its distributor's market orientation which in turn affects the distributor's trust and commitment to the relationship. Moreover, Baker et al. (1999) conducted another

study from the supplier's perspective by collecting data from 380 suppliers and found market orientation also has an upstream effect. They indicate that a distributor's market orientation towards its customers is an influencing variable for suppliers to deal with distributors. That is, the market orientation of a reseller may enhance the supplier's perceptions and efforts of its relationship with the reseller, as suppliers expect increasing sales and improving profitability from a market-oriented distributor who retains customers by satisfying their expectations and creates customers by word-of-mouth.

Langerak (2001) used 72 matched sets of suppliers, manufacturers and customers in the Netherlands to examine the influence of the manufacturer's market orientation on the behaviours of salespersons and purchasers, and the impact of these behaviours on relationships with customers and suppliers. He found that market orientation positively influences behaviours of salesperson and purchasers, which in turn have a positive effect on the relationship with the manufacturer. In other words, he suggests that the manufacturer is partly dependent upon the behaviours of purchasers and salespersons for using market orientation to build and maintain channel relationships.

By analyzing 179 supplier-distributor dyads in the Spanish ceramic industry, Bigne and Blesa (2003) found that manufacturer's market orientation has direct effects on the distributor's trust and satisfaction with the relationship, though the influence of the dimensions configuring market orientation on the variables studied is uneven.

A study conducted by Zhao and Cavusgil (2006) in the US also shows that supplier's market orientation is significantly related to manufacturer's trust, which affects the

manufacturer's long-term orientation toward the supplier. Meanwhile, they also found that market turbulence moderates the relationships between the supplier's market orientation and manufacturer's trust in the supplier.

A recent study by Hyvonen and Tuominen (2007) was performed in the context of marketing channels to explore the effects of collaborative capability and market orientation on firms' performance advantages. They analysed 545 responses to a survey of small, medium-sized and large companies representing the grocery goods sector (manufacturers, wholesalers and retailers) in nine European countries and concluded that channel collaboration and market orientation enhances positional and performance advantages of firms.

Despite the above endeavour and the establishment of a positive linkage between market orientation and channel relationships, there still remain a number of issues that need to be addressed. First, since most of the existing evidence is based in the western countries, using respondents from different industries based in other geographical regions, particularly in the eastern countries, would be beneficial in determining the stability of the relationships.

The second issue relates to the use of single informant as the respondent, which precludes a thorough analysis of validity and measurement error issues. The use of multiple informants would improve the quality of the data analysis because multiple informants eliminate errors resulting from the one informant's selective perception, thus increasing reliability (Philips, 1981).

Thirdly, although the findings from the above studies are significant to channel relationship research, they are all based on cross-sectional data, which do not fully capture the dynamics of change and connectedness between channel parties.

Finally, most of the above studies collected the data from either the supplier's or the manufacturer's perspective. In order to fully capture the dynamics of channel relationships, it is not sufficient to investigate a dyadic relationship from just one side. This entails this research the opportunity to investigate the market orientation theme from a different channel actor's perspective, a distributor's perspective, in its second phase involving a quantitative study.

Given the issues from the literature review, this research entails the first phase exploratory study involved with different types of channel members in different business networks and multiple respondents from each firm. It is hoped that by avoiding the methodological problems and adopting such a holistic approach, this study would be able to gain more accurate and more fruitful insights into the market orientation subject, both on an intra- and inter-firm level. When moving into testing the theoretical model, the quantitative study will be conducted from the distributor's perspective to complement the research angle.

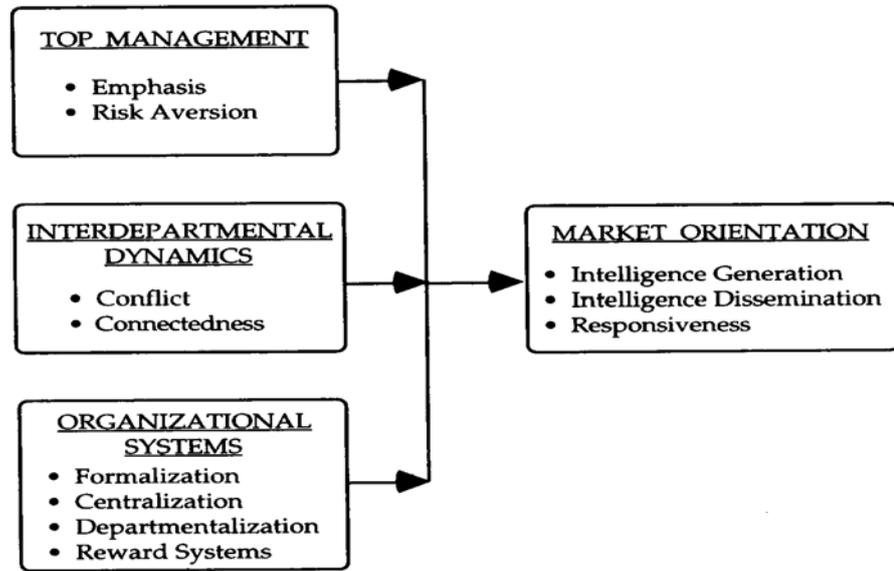
2.4 Antecedents to market orientation

Antecedents to market orientation are factors that enhance or impede the level of market orientation implemented by the company (Kohli and Jaworski, 1990). If market orientation exerts positive effects and consequences on a company, such as superior performance, customer satisfaction and competitive channel relationships as discussed earlier, one of the most challenging questions for researchers is then

how a company can increase its degree of market orientation. What internal factors make some firms more market-oriented than others?

Early research on the organisational antecedents to market orientation was undertaken by Kohli and Jaworski (1990). On the basis of an extensive literature review and field interviews with 62 senior executives from diverse industries, they propose three hierarchically ordered categories of antecedents to market orientation: *senior management*, *interdepartmental dynamics*, and *organisational systems* (see Figure 2.6). Senior management factors include top management's emphasis on the importance of market orientation, risk taking behaviours, formal educational attainment, upward mobility, attitude toward change, and ability to win trust of non-marketing managers to lower interdepartmental conflict. Interdepartmental dynamics consist of the factors of conflict, connectedness, and concern for ideas of other departments. Organisational system is comprised of departmentalization, formalisation, centralization, market-based reward systems and acceptance of political behaviour. Based on their exploratory findings, Jaworski and Kohli (1993) conducted empirical research that examined antecedent variables and the level of market orientation of an organisation. They found that top management emphasis on being market-oriented, interdepartmental connectedness, and a reward-system orientation based on customer satisfaction were related to higher level of market orientation. On the other hand, higher levels of conflict and centralization within firms contributed to lower levels of market orientation. However, no relationship was found between such factors as formalisation and departmentalization and the market orientation level.

Figure 2.6 Antecedents to market orientation proposed by Kohli and Jaworski



Source: Jaworski and Kohli (1993), p.55

Following Jaworski and Kohli's approach from a behavioural perspective to examine the antecedents, a large number of empirical studies indicate that top management plays a key role in profit as well as nonprofit organisations in reinforcing the implementation in initiating and bringing about the changes needed to be market-oriented (e.g. Selnes et al., 1996 (USA/Scandinavia, 222 US SBUs + 237 Scandinavian firms); Egeren and O'Connor, 1998 (USA, 67 service firms); Pulendran et al., 2000 (Australia, 105 companies); Cervera et al., 2001 (Spain, local governments); Zhou et al., 2005 (China, 180 firms); Flavián and Lozano, 2006 (Spain, 48 public universities)).

Kirca et al. (2005) conducted a meta-analysis of the studies on the market orientation antecedents proposed by Jaworski and Kohli (1993). By analyzing 63 effect sizes, their multivariate findings indicate that among the above three categories interdepartmental connectedness has the strongest impact on market

orientation, though top management emphasis and market-based reward systems are also important antecedents to market orientation.

Instead of emphasising the role of senior management and interdepartmental factors in the enhancement of market orientation, Rukert (1992) focused on the impact of organisational support processes such as recruiting personnel, the provision of training and the use of market-based reward system on market orientation. Using a random sample of 400 managers from 5 SBUs of a large US high-tech firm, he found that market orientation organisation in SBUs is significantly affected by use of market-oriented processes in recruiting personnel, provision of customer services training and the use of market-based reward system.

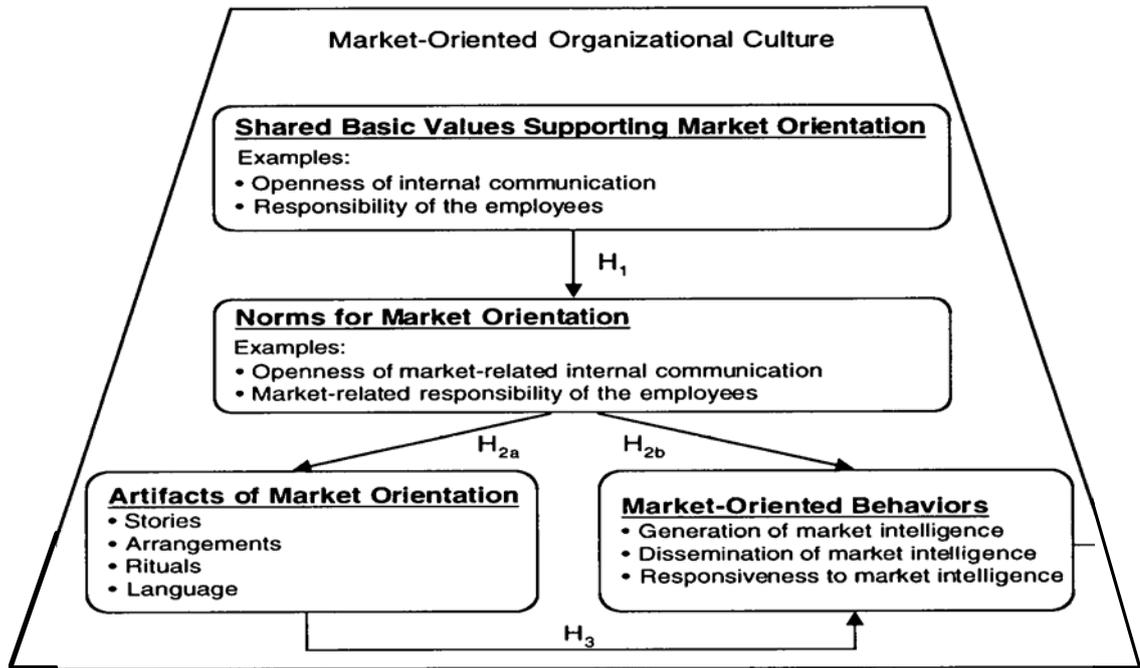
From a cultural perspective to investigate antecedents to market orientation, Harris and Watkins (1998) argue that the use of large firms as research samples would lead to a significant bias towards the identification of structural, strategic, or systems factors as market orientation antecedents. These factors tend to be irrelevant in the case of small organisations. Based on 44 interviews of small hotels, they found that the level of market orientation exhibited by small UK hotels is very low while the barriers to improvement are substantial and complex. They suggested that managers and owners present the most significant obstacles to developing a market focus. The 7 impediments to develop a market orientation in the small UK hotels include ignorance of market orientation, limited resources, perceived inappropriateness, contentment with the status quo, short-termism, an unclear view of the customer and perceived task of competitive differentiation.

Another empirical study investigating the likely resistance within an organisation

was conducted by Harris and Ogbonna (2000). On the basis of two deep case studies involving two UK retailing firms, they found that the likely resistance from the shop-floor employees on the change initiatives is a significant barrier to market orientation. Therefore, they argue that in order for management to anticipate and react to negative front-line employee responses to change, an understanding of the existing culture at each level of the organisation is a proactive process. Meanwhile, in addition to the use of incentives, internal marketing and open communication to increase employee sense of ownership and involvement in the change process, Harris and Ogbonna also suggest the use of employees who are likely to be positive towards change as advocates of the change programmes and encourage them to work on changing the perceptions of their negative counterparts.

A more holistic analysis of the culture to the development of market orientation was provided by Homburg and Pflesser (2000). Adopting an organisational symbolism perspective of organisational culture, Homburg and Pflesser (2000) conceptualised market-oriented culture as a construct including four distinguishable but interrelated components, including (1) organisation-wide shared basic values supporting market orientation, (2) organisation-wide norms for market orientation, (3) perceptible artifacts of market orientation, and (4) market-oriented behaviours (see Figure 2.7). Based on the qualitative research and a subsequent survey of 160 senior managers from five industries in Germany, they found that artifacts play a crucial role in determining market-oriented behaviour while values and norms have only indirect impact on market-oriented behaviour. That is, an organisation that has strong values and norms for market orientation will not exhibit market-oriented behaviour unless the corresponding artifacts are also present. Indeed this research provides fundamental new insights on the nature of market-oriented organisational culture.

Figure 2.7 Antecedents to market orientation proposed by Homburg and Pflesser



Source: Homburg and Pflesser (2000), p.451

The above studies identified the cultural factors that have impact on market orientation but provided little guidance on what an organisation should do to increase its market orientation. This issue was addressed by Slater and Narver (1995) and Narver et al. (1998). On the basis of theoretical reasoning, Narver et al. (1998) argued that creating a market orientation is all about learning. The first necessary learning is gaining an organisation-wide commitment to the continuous creation of superior value for customers. The second learning is creating an understanding of how to implement this norm. These two designed learnings could be achieved from the abstract learning in the “programmatically approach” and the experiential learning in the “market-based approach”. The abstract learning achieves a tentative commitment to the norm and an initial understanding of how to implement it while the experiential learning from actual market success reinforces the wisdom of the norm

and encourages its full acceptance. Indeed, these two learning strategies must be managed as a coordinated joint strategy, rather than as separate strategies, to help create a market orientation culture within an organisation.

2.5 Environmental factors moderating the effects market orientation

The internal factors affecting the development and implementation of market orientation have been discussed. The next concern turns to the question of how the development of market orientation is affected by external factors. Are there external factors influencing or fostering the development of market orientation? What are the environmental factors moderating the effects of market orientation?

Compared with the large body of literature on the internal factors, studies on the external factors that facilitate or inhibit the development of market orientation are relatively limited. While external factors are often thought to be beyond the control of management, given the fact that such factors can have huge impact on a firm's ability and willingness to be responsive to the market (Porter, 1990), they need to be investigated and evaluated.

Some previous studies on the market orientation-business performance relationship have identified a number of variables that are likely to moderate the effects of market orientation. In other words, there are environmental contingencies or conditions under which market orientation is likely to exert different impact on its consequences.

Kohli and Jaworski (1990) argue that market orientation may or may not be desirable depending on the nature of its supply and demand side factors. If market

demand is strong, a company may be better off not to be market-oriented as a market orientation requires the commitment of resources. From their intensive interviews with managers, they conclude that market turbulence and competition turbulence will strengthen the market orientation-business performance relationship, while technology turbulence and general economy will weaken the relationship. However, their later study reveals that the market orientation-performance relationship appears to be robust across market environments (Jaworski and Kohli, 1993).

Narver and Slater (1990) studied 140 SBUs including both commodity and noncommodity businesses and found moderating effects exist. They indicate that market growth and technological change have moderating effects on ROA (rate of return on assets) for both types of business, while buyer power only moderates the effect of market orientation on ROA for commodity businesses. In their later work (Slater and Narver, 1994), they analysed 107 SBUs in two US companies and found different environmental factors moderating the effects of market orientation. Their results indicate that market turbulence has an effect only on ROI (return on investment), while technological change has an effect only on new product success. They point out that market growth is a moderator if measured by sales growth, and provide limited support for a moderator role of the competitive environment. Basically they found limited support for environmental moderators; however they were opposed to the contention that an organisation should adjust its level of market orientation to environmental conditions. In other words, they believe that being market oriented can never be negative regardless of the market conditions firms operate in.

Following these two groups of researchers, the moderator influences have been

investigated in different contexts. A summary of the major empirical studies on the environmental moderators is presented in Table 2.5. Most of the findings support a moderating role in the relationship between market orientation and performance.

Table 2.5 Empirical studies on environmental factors moderating the effects of market orientation

Study	Country	Sample	Environmental factors	Moderating effects
Narver & Slater (1990)	USA	140 SBUs in a corporation	Market growth Seller concentration Entry barriers Buyer power Seller power Technological change	Market growth Technological change Buyer power
Jaworski & Kohli (1993)	USA	222 SBUs+ 230 companies in two samples	Market turbulence Competitive intensity Technological turbulence	No support for moderator role
Slater & Narver (1994)	USA	107 SBUs in two companies	Market turbulence Technological change Market growth Buyer power Competitor hostility Competitor concentration	Market turbulence with ROI Technological change with new product success Market growth with sales growth
Pulendran (1996)	Australia	105 SBUs	Market turbulence Technological turbulence Competitive intensity	Market turbulence
Greenley (1995)	UK	240 large service & product companies	Market turbulence Technological change Market growth Customer power	Market turbulence Technological change Customer power
Pelham & Wilson (1996)	USA	68 small firms	Market dynamism Competitive intensity	Competitive intensity
Appiah-Adu (1998)	Ghana	74 manufacturing & service firms	Market dynamic Competitive intensity Market growth	Competitive intensity

Table 2.5 Empirical studies on environmental factors moderating the effects of market orientation (continued)

Study	Country	Sample	Environmental factors	Moderating effects
Kumer, Subramanian, & Yauger(1998)	USA	159 hospitals	Market turbulence Competitive hostility Supplier power	Market turbulence Competitive hostility Supplier power
Avlonitis & Gounaris(1999)	Greece	444 industrial companies	Buyer power Entry barriers Competitive intensity Technological change Market growth	Buyer power Entry barriers Competitive intensity Technological change Market growth
Homburg & Pflesser (2000)	Germany	173 SBUs from five industries	Market dynamism	Market dynamism
Lonial & Raju (2001)	USA	293 responses from 175 hospitals	Environmental uncertainty	Environmental uncertainty
Rose & Shoham (2002)	Israel	124 exporters from nine industries	Market turbulence Technological turbulence Competitive intensity	Technological turbulence
Cadogan, Sundqvist, Puumalainen & Salminen(2002)	Finland	783 service & product exporters	Environmental turbulence	Environmental turbulence
Cano, Carrillat, & Jaramillo (2004)	23 countries (meta - analysis)	53 studies from 12,043 respondents	National culture	No support for moderator role
Kirca, Jayachandran, & Bearden (2005)	various	418 effects reported in 114 studies	Market turbulence Technological turbulence Competitive intensity National culture	National culture (power distance & uncertainty avoidance)
Cadogan, Cui, Morgan, & Story (2006)	Hong Kong	137 manufacturing exporters	Competitive turbulence Technological turbulence	Competitive turbulence Technological turbulence

2.6 Chapter summary

The major research themes in the market orientation domain have been reviewed in this chapter, including the conceptualisation, consequences and antecedents of market orientation, as well as the environmental factors moderating the effects of market orientation. The purpose of the review is to understand the theory and to highlight research gaps and identify important issues that need further study. While market orientation has become a research domain that has its own theory and related body of empirical findings, a number of substantive and methodological issues still open opportunities for future research. Collectively, this chapter concludes and identifies the following respects that are related to the current study and need further exploration and research. These issues will be investigated in this study.

Firstly, theories related to market orientation are developed primarily from the US. Although empirical findings have been generated across different contexts, mostly in the western countries, to assess whether the concept is culturally bound or universally practicable, there is a need for testing the applicability and transferability of these theories in the eastern countries. This research entails one of the tasks to serve this end to study in the Taiwanese context. It is hoped to add more insights and evidence to the existing knowledge on market orientation. Secondly, although the constituents of the marketing concept have been defined by the two major research disciplines, by applying to an eastern country, the practicability of these components will be investigated and more insights may be yielded. Thirdly, the marketing concept has been studied extensively from behavioural and cultural perspectives. However, given the popularity of the concept and significance of channel relations, research into market orientation from a relational perspective is still limited and is warranted for further study. In addition to extensive research on the market

orientation effect on business performance, the potential effect on channel relationships is an important area worth exploring. By investigating market orientation as a relationship property, it is hoped to explore its influence from a different angle and capture a more comprehensive understanding of the theory. Fourthly, there is inconsistent evidence on the role of moderators in the implementation of market orientation. Whether there are external environmental factors influencing the development of market orientation or if moderating effects exist in such a national context with a high percentage of 97.8% small and medium enterprises is another issue to be explored. Finally, regarding the research design, the methodological problems which have been discussed in this chapter will be noted in the research methodology chapters.

The market orientation theory and the related body of empirical findings have been critically reviewed and discussed in this chapter. The next chapter moves on to reviewing the other theme of the research: relationship marketing, and the theoretical foundation of the study: social exchange theory.

CHAPTER THREE

A Review of the Literature on Relationship Marketing, Channel Relationships and Social Exchange Theory

3.1 Introduction

Analysing dyadic relationships between firms has been a topic in relationship marketing in order to increase the understanding of satisfactory working relationships in business-to-business settings. On the other hand, the development of the marketing discipline based on the concept of relationship marketing has also contributed to emphasise the relevance of maintaining a long-term orientation. Examining interorganisational relationships from a relational, and often enduring perspective, is important for understanding contemporary distribution channel relationships. This chapter reviews the conceptualisation of relationship marketing and the specialized research on distribution channel and interfirm relationships. Furthermore, in order to preliminarily investigate important relational constructs affecting a continuing relationship and their interactions, the theoretical underpinning of the current study, social exchange theory, is discussed. Following the flow, this chapter consists of three further sections. The next section 3.2 reviews the conceptualisation of relationship marketing, followed by a discussion of the research on distribution channel and interfirm relationships in section 3.3, which consists of different theoretical approaches and a comparison of these perspectives. The review of social exchange theory is presented in section 3.4. Its roots, development, and applicability to channel relationship research are discussed. The essential relationship constructs drawn upon the theory are also identified. The chapter summary is presented in section 3.5.

3.2 The conceptualisation of relationship marketing

In the light of the redefinition of the term ‘marketing’ by the AMA in 2004: “Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders”, it reflects a *relational* definition of marketing. The emphasis on relationships as opposed to transaction based exchanges is very likely to redefine the domain of marketing (Sheth et al., 1988). Indeed, the emergence of a relationship marketing school of thought is imminent given the growing interest of marketing scholars in the relational paradigm. A recent review of the current vector of research in marketing, relationship marketing has rapidly emerged as one of the dominant paradigms of marketing (Baker, 1995) and has efficiently created a world-wide forum for discussion since the 1980s (Moller and Halinen, 2000).

The dominant marketing paradigms in the past century evolved from transactional marketing to relationship marketing. The primary focus developed through the first three quarters of the twentieth century was on transactions and exchanges. However, the development of marketing as a field of study and practice has undergone a reconceptualisation in its orientation from transactions to relationships since the 1980s (Webster, 1992). Relationship marketing has gone beyond the traditional approach centred in discrete and punctual transactions, to a view which considers that these transactions take part of a long-term relationship process between the firm and customers or other organisations (Webster, 1992).

The term relationship marketing was first explicitly used by Berry (1983) (see Grönroos, 1991; Kotler, 1992; Hunt and Morgan, 1994; Sheth and Parvatiyar, 1995).

Berry (1983) used the term as part of a critique of services marketing literature, arguing that researchers and businessmen had concentrated far too much on attracting customers to products and services than retaining them. He advocated a switch from a transactional approach, where marketing efforts are focused on customer attraction, to a relational approach, where the attraction of new customers should be viewed only “as an intermediate step in the marketing process” (Berry and Gresham, 1986), and the primary objective is to retain customers. A wide diversity of relationship marketing definitions can be found in the literature. The development of the conceptualisation emanates from different perspectives. It is briefly reviewed in this study from three perspectives: services marketing, industrial (business to business) marketing and a general perspective taking all stakeholders and all types of relational exchanges into account.

Conceptualising from the services marketing perspective, Berry (1983, p.25) defines relationship marketing as “attracting, maintaining and - in multi-service organisations - enhancing customer relationships”. Gummesson (1991, p.62) provides a similar but more detailed conceptualisation: “establishing a relationship involves giving promises, maintaining a relationship is based on fulfillment of promises; and finally, enhancing a relationship means that a new set of promises is given with the fulfillment of earlier promises as a prerequisite”. Berry and Parasuraman (1991, p.133) simply put: “relationship marketing concerns attracting, developing, and retaining customer relationships”. The core of these ideas from services marketing is the interpersonal interaction between buyer and seller.

In industrial marketing, Hammarkvist et al. (1982), working within the arenas of business to business marketing, advance a definition: “all activities by the firm to

build, maintain and develop customer relations” (p.10). Jackson (1985, p.2) refers to relationship marketing as “marketing oriented toward strong, lasting relationships with individual accounts” and Paul (1988) adopts Jackson’s view in the health care marketing area. Doyle and Roth (1992, p.59) indicate that “the goal of relationship selling is to earn the position of preferred supplier by developing trust in key accounts over a period of time”. Definitions similar to the preceding are found in the areas of bank marketing, advertising, and business strategy (Spekman and Johnston, 1986; Prince, 1989; Beltramina and Pitta, 1991).

Taking a firm’s other stakeholders into account in addition to the customer-supplier dyad, Grönroos (1991, p.9) puts forward a more general definition: “Relationship marketing is to identify and establish, maintain and enhance and, when necessary, also terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, and this is done by a mutual exchange and fulfilment of promises”. Extending to a greater objective public, Morgan and Hunt (1994) claim that not all types of relational exchanges have a ‘customer’ or ‘key account’ as one of the exchange participants, such as strategic alliance between competitors, partnerships between firms and government in public-purpose partnerships, and internal marketing. Thus, they propose a definition covering all forms of relational exchange: “Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges” (p.22).

In comparison with the above conceptualisations, although they emanate from different business contexts and separate areas of research, they all share the core spirit of relationship marketing: a relationship between two parties is something that grows in strength through repeated exchanges over time; it is not instantaneously

generated and it needs to be built and managed. Since this study attempts to understand the development and maintenance of relationships within a distribution channel context, it adopts Morgan and Hunt's (1994) broad definition which focuses on marketing efforts and can be applied to a general business context: "*Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges*".

3.3 Distribution channel and interfirm relationships

Some academics assert that the concept of relationship marketing has emerged within the fields of services marketing and industrial marketing (e.g. Berry 1983; Jackson 1985; Gummesson 1987; Grönroos, 1991). Moller and Halinen (2000) categorise the traditions of relationship marketing into two basic types of relationship marketing theories, on the basis of the relationship context: market-based relationship marketing and network-based relationship marketing. In a similar spirit, Eiriz and Wilson (2006) classify the many research studies contributing to the paradigm into the research focusing on consumer markets and the research focusing on organisational markets. Since distribution channels are the discussion context of this study, a review on the research related to distribution channels and interorganisational relationships is the focus of this chapter.

Distribution channels have been viewed as interorganisational systems (McCammon and Little, 1965; Stern and Brown, 1969), which are involved in the process of making a product or service available for consumption (Reve and Stern, 1979). In the 1970s, researchers interested in industrial marketing and marketing channels started to develop frameworks and theories focusing on dyadic relationships between business buyers and sellers. This tradition draws heavily on existing socio-economic theories in

order to provide normative implications for channel management. It aims at explaining governance structures and the nature of dyadic behaviour in the marketing channel context. The focus is on business relationships, and on economic exchange and its efficiency. The assumption about relationships in this tradition is that the relationship is unique and reciprocally interdependent. Its substitutability depends on the availability of alternative buyers and sellers and the amount of switching costs related to relationship-specific investments. The marketing literature of the 1970s on distribution channels (e.g. Stern, 1969; Rosenberg and Stern, 1971; El-Ansary and Stern, 1972) plays an important role in the emergence of relationships as a major issue of research. Some of the main concerns in the study of distribution channels have included topics such as conflict, power and interorganisational relations, which continue to be important dimensions in understanding the dynamics of channel relationship management.

The evolution of this research stream throughout the 1970s led Stern and Reve (1980) to refer to distribution channels as political economies and to note that the traditional literature on marketing channels was influenced by theories derived from microeconomics and the behavioural sciences. That is, a distribution channel dyad can be analysed in terms of its internal economic structure and rationality or, in its behavioural dimension, as a socio-political structure related to the pattern of power-dependence relations between the two members of the dyad (Reve and Stern, 1985). This political economy perspective of relationships in distribution channels is clearly reconcilable with contemporary developments in transaction costs and resource dependence theories.

Research into industrial purchasing and supply chain management has provided a parallel and linked research stream which made important contributions to the management of distribution channel relationships during the 1970s and blossomed during the late 1980s. Currently, there are various theoretical approaches dominating extant research on interfirm relationships and attempting to understand the drivers of successful relationships. These different perspectives are discussed in the next subsections.

3.3.1 The theoretical approaches of interfirm relationship research

Distribution channels provide the richest settings for verification of many interorganisational dimensions and for testing of interorganisational theories. Various theoretical perspectives from a wide range of disciplines have been applied to understand business dyadic relationships. Using research from economics, behavioural psychology and economics anthropology, social exchange theory provides a foundation for two prevalent marketing perspectives. The first, the commitment–trust perspective (Morgan and Hunt, 1994), argues that a party’s commitment to and trust in its exchange partner determines relationship success. The second perspective suggests that the dependence or power structure among exchange partners drives exchange performance and the level of interorganisational conflict (Anderson and Narus, 1984, 1990; Hibbard et al., 2001).

With its roots in economics, transaction cost analysis (Williamson, 1975) contends that transaction-specific investments and opportunism influence exchange parties’ relationship decisions and affect interfirm performance (Heide and John, 1990; Noordewier et al., 1990; Jap and Ganesan, 2000). Building on early work in social psychology (Thibaut and Kelley, 1959) and integrating contract law (Macneil, 1980),

researchers have also investigated the importance of relational norms (Heide and John, 1992; Siguaw et al., 1998). This perspective suggests that the strength of relational norms in an exchange affects the level of cooperative behaviour and relationship performance (Cannon et al, 2000).

Although some other theories, such as social network theory, game theory, the knowledge-based view of the firm, and analytical modeling, represent other theoretical paradigms used to assess interfirm relationships, the related research is relatively limited. The previous four perspectives: (1) commitment–trust, (2) dependence, (3) transaction cost analysis, and (4) relational norms are predominantly used in interfirm research. The following subsections are devoted to these perspectives and their important research, including their focal constructs, outcomes and antecedents.

3.3.1.1 Commitment–trust perspective

Arguing that too many of the marketing strategies treat buyer-seller exchanges as discrete events, Dywer et al. (1987) are some of the pioneering scholars taking buyer-seller relationships as ongoing processes. Ongoing relational exchange participants can be expected to derive complex, personal, noneconomic satisfactions and engage in social exchange. To develop a framework for buyer-seller relationships, they categorise the relationship development process into five general phases: (1) awareness, (2) exploration, (3) expansion, (4) commitment, and (5) dissolution. During the development, particularly during the exploration and expansion phases, five subprocesses emerge: (1) attraction, (2) communication and bargaining, (3) development and exercise of power, (4) norm development, and (5) expectation development. Trust is a pivotal facet of expectation development, and commitment

refers to the most advanced phase of buyer-seller interdependence. At this phase, the exchange partners have achieved a level of satisfaction from the exchange process that virtually precludes other primary exchange partners who could provide similar values.

Research work conducted by Mohr and Spekman (1994) strives at an understanding of characteristics associated with the success of partnerships between firms. In their conceptual framework, they hypothesized three behavioural characteristics related to indicators of partnership success (satisfaction and dyadic sales): partnership attributes, communication behaviour, and conflict resolution techniques. They analysed 124 responses from the dealers in the personal computer industry and indicated that the primary indicators of partnership success are: partnership attributes of commitment, coordination and trust; communication quality and participation; and the conflict resolution technique of joint problem solving.

A classic study built on social exchange theory was conducted by Morgan and Hunt (1994). After conceptualising relationship marketing and discussing its ten forms, they model relationship commitment and trust as key mediating variables in successful relationship marketing. By testing their key mediating variable model using data from 178 automobile tire retailers and comparing it with a rival that does not allow relationship commitment and trust to function as mediating variables, they conclude that commitment and trust are the *key* constructs in relationship marketing, which produce outcomes that promote efficiency, productivity, and effectiveness. Particularly they argue that commitment is the critical precursor to relationship marketing, and commitment and trust both lead directly to cooperative behaviours that are conducive to building strong and successful relationships.

The commitment–trust perspective argues that commitment and trust, not power or dependence, are the focal constructs for successful interfirm relationships. These two constructs, individually or together, positively influence relational behaviours and outcomes, such as sales growth, overall financial performance, cooperative activities, or relationship continuity. The antecedents to these two focal constructs vary widely across studies and often include constructs from other perspectives. In Morgan and Hunt’s (1994) model, shared value, communication and opportunistic behaviour are noted. Other precursors frequently studied in the related literature are, for example, dependence, transaction-specific investments (TSIs) (sometimes are referred to as relationship-specific investments (RSIs)), or relational norms.

Shared value refers to the extent to which partners have beliefs in common about what behaviours, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong (Morgan and Hunt, 1994). Other terms used in the literature are similarity or cultural norms. Shared value is believed to contribute to the development of commitment and trust (Dwyer et al., 1987; Morgan and Hunt, 1994; Zineldin and Jonsson, 2000). Communication refers to the formal as well as informal sharing of meaningful and timely information between firms (Anderson and Narus, 1990) and fosters trust by assisting in resolving disputes and aligning perceptions and expectations (Morgan and Hunt, 1994; Kwon and Suh, 2004). Opportunistic behaviour, which is defined as seeking to support self-interests with guile (Williamson, 1975), is asserted to negatively influence trust because it leads to suspicion of the party’s benevolence and credibility. TSIs are an exchange partner’s idiosyncratic investments that are specialized to a relationship and not easily recoverable (Ganesan, 1994). Buyer TSIs positively affect buyer commitment to a seller (Gilliland and Bello, 2002) through their positive impact on switching costs, which makes the relationship

more important to the buyer and increases the buyer's desire to maintain the relationship (Anderson and Weitz, 1992). On the other hand, buyer TSIs negatively influence buyers' trust in the seller because they increase concerns about vulnerability to unilateral seller actions (Gassenheimer and Manolis, 2001). Seller TSIs are positively related to buyers' trust in the seller because they offer tangible evidence that the seller can be believed and cares for the relationship (Ganesan, 1994). Dependence refers to the need to maintain the channel relationship to achieve desired goals (Frazier, 1983). Both interdependence and dependence asymmetry are suggested to be critical to understanding the impact of dependence in an exchange (Jap and Ganesan, 2000). Kumar et al. (1995) indicate that interdependence positively affects commitment and trust through a reduction in relationship problems and convergence of interests, whereas dependence asymmetry undermines commitment and trust as partners' interests diverge and the structural barriers to the coercive use of power fall. Relational norms have been investigated as both unique norms and a composite construct. Various dimensions are studied related to this construct. Commonly investigated norms are solidarity, mutuality and flexibility (Cannon et al., 2000; Lusch and Brown, 1996). Some researchers argue that specific norms affect a specific aspect of a relationship (e.g., solidarity → commitment, mutuality → trust), but most research employs a composite index of norms that positively affect relational bonds (Siguaw et al., 1998).

3.3.1.2 Dependence perspective

Based on social exchange theory, Anderson and Narus (1984) construct a model of distributor-manufacturer working relationships from the distributor's perspective. In their model, dependence is studied as a critical determinant of interfirm working partnerships. Several consequences of dependence are proposed in their model,

including communication, manufacturer control (power), conflict, and satisfaction. In their later work (Anderson and Narus, 1990), another more comprehensive model of distributor firm and manufacturer firm working relationships is provided. In this model, three more consequences of dependence are proposed: trust, cooperation and functionality of conflict in addition to those contended in their previous work (Anderson and Narus, 1984), and a positive causal path is posited from trust to cooperation. By collecting 488 sets of distributor and manufacturer firms, they found support for their hypothesized construct relations except for the respecification of cooperation as an antecedent rather than a consequence of trust.

The dependence perspective argues that the exchange's dependence structure is essential for understanding interfirm relationships because it determines each partner's ability to influence the other. Dependence has been widely recognised as a critical determinant of interfirm relationships in terms of financial outcomes, cooperation, conflict, satisfaction and relationship continuity. Many different approaches attempt to capture an exchange's dependence structure. Most research accepts the premise that interdependence positively affects exchange performance and relationship continuity because dependence increases both the partners' desire to maintain the relationship and the level of adaptation they undertake (Hallen et al., 1991), and meanwhile to avoid destructive actions (Hibbard et al., 2001). However, dependence asymmetry negatively affects relationships by fostering the coercive use of power and reducing willingness to compromise (Gundlach and Cadotte, 1994). The antecedents of interdependence and dependence asymmetry also vary across studies, including commitment, trust, TSIs, opportunistic behaviours, relational norms, and communication.

As firms invest time and effort to build relational governance structures, they become more dependent on their partner because duplicating relational bonds with a new partner would involve additional investments. Thus, commitment and trust in a partner increase interdependence (El-Ansary, 1975). As partners commit TSIs, they grow more dependent, and switching threats are less credible (Ganesan, 1994; Kim and Frazier, 1997). Thus, TSIs affect interdependence positively. Furthermore, potential partners may engage in opportunism. To find a partner, firms need to expend effort and search costs, which increases dependence on “safe” partners (Palmatier et al., 2007). Building strong relational norms takes time and effort from both exchange partners. Because they are not easily replaced, strong relational norms should represent valuable, difficult-to-duplicate assets for both partners and should result in higher interdependence levels (Palmatier et al., 2007). Interdependence should also increase as the level of communication increases because information typically provides value to each party and is difficult to replace (Frazier, 1983; Mohr and Nevin, 1990). As for dependence asymmetry, because TSIs increase a partner’s dependence, TSIs by one partner should increase its relative dependence, leading to a power imbalance (Kim and Frazier, 1997).

3.3.1.3 Transaction cost analysis perspective

Arguing that powerful suppliers often require retailers to make significant idiosyncratic investments to enhance the supplier's presence in the end market, Jap and Ganesan (2000) examine how a retailer can better manage the hold-up potential of these TSIs. They propose the use of three control mechanisms: supplier's TSIs, the development of relational norms, and the use of explicit contracts. Moreover, they consider the time-dependent nature of these mechanisms by observing the effects of control mechanisms on commitment over the course of a relationship life cycle which

is classified as exploration, build-up, maturity, and decline phases. Empirical results from analysing responses from 1457 retailers indicate that (1) a retailer's TSIs have a negative effect on its perceptions of supplier commitment; (2) a supplier's TSIs and relational norms increase the retailer's perception of supplier commitment, whereas explicit contracts are associated with perceptions of lower supplier commitment; (3) each of the three control mechanisms moderates the negative impact of retailer investments on perceptions of supplier commitment contingent on the relationship phase; and (4) the retailer's perceptions of supplier commitment are positively related to its evaluation of supplier performance and satisfaction and negatively related to conflict.

The transaction cost perspective (Williamson, 1975) focuses on two focal constructs: specific investments and opportunism to predict governance and exchange relationships. Empirical studies have recognised TSIs as an influential factor on relationship commitment, performance, conflict, satisfaction (Jap and Ganesan, 2000) and continuity of relationships and joint actions (Heide and John, 1990; Parkhe, 1993; Smith and Barclay, 1997) and have supported the normative claim that firms should vertically integrate when confronted with investments in idiosyncratic assets or suspicions of opportunistic behaviours by the exchange partner (Rindfleisch and Heide, 1997). TSIs by an exchange partner signal its intent and generate the need to safeguard investments. Because TSIs represent sunk, unredeployable assets in an exchange relationship, they make firms reduce their motivation to behave opportunistically and the credibility of switching threats, which in turn minimizes the partner's need (and costs) to monitor performance or safeguard assets (Palmatier et al., 2007). With fewer opportunism concerns and lower monitoring and safeguarding costs, the exchange becomes more efficient and more prone to joint action and

includes greater expectations of continuity (Heide and John, 1990; Parkhe, 1993; Smith and Barclay, 1997). Generally, researchers agree that opportunism has a negative impact on interfirm relationships because it significantly increases the *ex post* costs associated with monitoring performance and safeguarding investments (Heide and John, 1990; Gassenheimer et al., 1998). Various antecedents are suggested in the literature: such as commitment, trust, interdependence, dependence asymmetry, relational norms and communication.

Relationship commitment and trust contribute to building strong relationships between firms which increase their willingness to make TSIs. Interdependence is also posited to have a positive effect on partners' TSIs because it reduces partners' tendency to behave opportunistically since they do not want to jeopardize a difficult-to-replace relationship. Conversely, dependence asymmetry reduces the exchange partner's TSIs because of its concerns about coercive uses of power. Parkhe (1993) argues that seller TSIs suppress sellers' opportunist behaviours; sellers do not want to forfeit or undermine their nonrecoverable investments by engaging in relationship-damaging behaviours. Research also suggests a positive influence of relational norms on TSIs in that strong norms reduce concerns that either exchange partner will appropriate idiosyncratic investments (Heide and John, 1990, 1992; Noordewier et al., 1990). Moreover, because relational norms embody a promise of fair play and a mutually beneficial, long-term relationship, they provide pressure not to behave opportunistically and support TSIs that often pay returns only in the long run. Transaction cost analysis works on the presumption of bounded rationality and thus posits that effective communication reduces the uncertainties associated with governance related decisions and concerns of opportunism while increasing TSIs (Rindfleisch and Heide, 1997).

3.3.1.4 Relational norms perspective

Motivated by efficiency considerations as specified by transaction cost theory, Heide and John (1992) maintain that relational norms, a deficiency in transaction costs analysis, play a significant role in structuring economically efficient relationships between independent firms. They further identify three dimensions related to this construct: flexibility, information exchange, and solidarity. By analysing responses from the manufacturer-supplier dyad, 155 manufacturer and 60 supplier firms, they suggest that firms should not pursue control as a goal in its own right, but only attempt to acquire control when specific assets are at risk. To be protected against abuse of control, relational norms serve the purpose. The significant economic value of supportive norms is confirmed when specific assets need to be safeguarded.

Assessing the effect of market orientation on channel relationships, Sigauw et al. (1998) propose cooperative norms, in conjunction with the commitment–trust perspective, to exert positive influence on financial performance. Cannon et al. (2000) investigate the performance implications of governance structures involving contractual agreements and relational social norms, individually and in combination (plural form) under varying conditions and forms of transactional uncertainty and relationship-specific adaptation. Testing on a sample of 396 buyer-seller relationships, they found support for the plural form thesis—increasing the relational content of a governance structure containing contractual agreements and relational norms enhances performance when transactional uncertainty is high.

The relational norms perspective is drawn from relational exchange theory. Relational exchange theory rests on two key propositions. First, for contracts to function, a set of common contracting norms must exist (Kaufmann and Dant, 1992). Second, in

contrast to classical legal theory, which assumes that all transactions are discrete events, Macneil (1980) argues that transactions are immersed in the relationships that surround them, which may be described in terms of the relational norms of the exchange partners. Relational norms are suggested to positively affect financial performance and cooperative behaviours (Siguaw et al., 1998; Cannon et al., 2000). Exchanges characterized by high levels of relational norms enable exchange partners to respond more effectively to environmental contingencies, extend the time horizon for evaluating the outcomes of their relationships, and, ultimately, refrain from relationship-damaging behaviours (Kaufmann and Stern, 1988). In other words, relationalism plays a significant role in structuring economically efficient exchange relationships under conditions of uncertainty and ambiguity and therefore should lead to improved financial performance (Heide and John, 1992). Frequent noted antecedents to relational norms include commitment, trust, TSIs, opportunistic behaviours, interdependence, dependence asymmetry and communication.

Commitment and trust promote the emergence of relational norms by facilitating behaviours that support bilateral strategies to accomplish shared goals (Gundlach et al., 1995). Similarly, TSIs positively affect relational perceptions (Bello and Gilliland, 1997); idiosyncratic investments signify the importance a partner attaches to the partnership and have a positive impact on switching costs, which makes the relationship more important to the exchange partner and enhances its efforts to maintain it (Anderson and Weitz, 1992). Opportunistic behaviours have a negative impact on the emergence of relational sentiments (Gundlach et al., 1995) because perceiving a partner as opportunistic undermines extant relational norms and raises the specter that the exchange partner is not concerned with the well-being or fairness of the exchange. Interdependence enhances relational sentiments in that perceptions of

dependence indicate significant stakes in the relationship and increase exchange partners' interest in maintaining the relationship. Conversely, asymmetric dependence promotes the coercive use of power and undermines relational norms (Ganesan, 1994; Lusch and Brown, 1996). As far as the effect of communication on relational norms, it is indicated by researchers to be positive because it is described as being akin to a social 'glue' that holds the channel parties together and helps create an atmosphere of mutual support and participative decision making (Mohr and Nevin, 1990).

3.3.2 A comparison of the theoretical perspectives

To study the complex nature of interorganisational relationships, researchers and marketers have made great efforts to uncover the drivers and key factors influencing interfirm relationship performance and continuity. Several issues emerge from the comparison of the different perspectives in section 3.3. The first is regarding the key factors of interfirm relationships. Each of these perspectives suggests different drivers of exchange performance. Each theoretical approach defines the focal or organizing constructs included in its model, but their antecedents and outcomes vary widely across studies and often include constructs from other perspectives. The frequently noted antecedents to each theoretical approach have been discussed. However, there are still many other factors mentioned in the literature, such as relationship termination costs (or switching costs) (Dwyer et al., 1987; Morgan and Hunt, 1994), relationship benefits (Morgan and Hunt, 1994; Reynolds and Beatty, 1999; Hennig-Thurau et al., 2002), seller expertise (Crosby et al., 1990; Legace et al., 1991), relationship duration (or relationship age or length or continuity) (Doney and Cannon, 1997; Kumar et al., 1995), and interaction frequency or intensity (Crosby et al., 1990; Doney and Cannon, 1997). The outcomes, in addition to the frequently studied ones, may also include word of mouth (Reynolds and Beatty,

1999; Hennig-Thurau et al., 2002; East et al., 2007), customer loyalty (Hennig-Thurau et al., 2002; Doney et al., 2007), decision-making uncertainty (Morgan and Hunt, 1994), and stability (Kumar et al., 1995; Andaleeb, 1996). Furthermore, regarding the question of how the relationship constructs are causally related, different causal ordering of similar constructs are presented in different studies, sometimes depending on the perspectives used but sometimes not. In fact, the close interrelationships exist between different perspectives, as some researchers have recognised (Ganesan, 1994; Siguaw et al., 1998, Palmatier et al., 2007, Terawatanavong et al., 2007). Ganesan incorporates dependence and trust into his conceptual model to be the determinants of long-term orientation in buyer-seller relationships. Siguaw et al. (1998) integrate trust and commitment with norms in their hypothesized model to exert positive influence on financial performance. Palmatier et al. (2007) integrate different theoretical perspectives within a single model of interfirm relationship performance consistent with a resource-based view of an exchange. Terawatanavong et al. (2007) incorporate interdependence, trust, commitment, and cooperative norms into their framework to test their impact on the buyer firm's relationship satisfaction across the relationship lifecycle. From these studies, another perspective may be a combination of the theoretical approaches to investigate interfirm relationships.

Secondly, some studies adopt the ideas of social exchange and link them to the process of interfirm relationships, yet similar constructs represent explanatory variables in some studies but stand for dependent variables in others. For example, Morgan and Hunt (1994) maintain that commitment is a critical independent variable to relationship success; Dwyer et al. (1987) consider commitment as an advanced relationship phase referring to a pledge of relationship continuity and

signaling an outcome of satisfactory exchange process. Mohr and Spekman (1994) regard commitment and trust to be important constructs of attributes of the partnership but do not investigate their interaction. A detailed discussion and understanding of the theoretical support behind the variables may be needed.

Thirdly, the problem of different causal ordering of similar constructs presented in the studies may be due to lack of specification of their models' time frame, time orientation, or relationship development phases; or the time frame and relationship development phases are noted, while the notion that the effects of relational constructs on outcomes vary across phases is established theoretically; there has been little evidence to empirically prove the notion. For example, Dywer et al. (1987) and Jap and Ganesan (2000) classify the relationship development into different phases, yet no empirical evidence support what constructs have the most effects during what phases. This is an important area that can be further empirically studied to provide solid evidence to the constructs in the relationship development process.

Fourthly, the problem of different causal ordering of similar constructs in the studies may relate to methodology too. Most of the research uses cross-sectional data, which restrict conclusions to explaining associations, rather than causation, of the constructs. Cross-sectional data do not capture causal effect and feedback effect of variables. That is, measuring constructs that are dynamic in nature cannot be fully addressed in a cross-sectional study; studies that use cross-sectional data provide little empirical insight to help resolve nomological differences. Longitudinal data which take a more dynamic view and investigate whether key constructs follow natural growth curves and response cycles should help explain and identify causation of constructs.

Finally, many studies ignore environmental moderating effects in their studies. Interfirm relationships occur within an external environment, so the focus on some constructs in some studies and other constructs in other research may be context specific, such as national differences, industrial differences, or environmental uncertainty (e.g. market diversity, market growth, competitive intensity, etc). Different contexts have different key relational factors and structure of relationships, which are greatly affected by environmental conditions. For example, the relationships between channel members in highly concentrated industries may be significantly different from those in industries that are highly fragmented. Contextual contingencies affect what are the focal relational constructs and their correlations in a particular context, and when the constructs have the greatest impact on relationship performance. A theory may work well in some contexts but not in others. Thus, potential generalisability is limited in individual studies. To test the validity and robustness of a certain theory, studies need to be undertaken in diversified settings, for example in the eastern countries or developing countries where the empirical evidence is still limited, and bring environmental moderating effects into account. Additionally, as firms are expanding their business beyond national borders, studies across cultures should provide business practitioners with useful insights into the structure of interfirm relationships and focal relationship constructs in different national cultures.

In the four theoretical approaches discussed above, two prevalent perspectives are based on social exchange theory, which highlights the importance of the *social context* in which the exchange is developed. Indeed, in addition to these perspectives, another theoretical approach: interaction/network approach also indicates that social dimensions, in addition to economic ones, are important for the optimal operation of

the network (Batt and Purchase, 2004). This approach aims at understanding and explaining exchange behaviour between organisations and relationship development at a dyadic level in a network context. According to Gummesson (1999), the network approach accentuates the continuity and stability of relationships (loyalty). The key strategic aspect is managing the wide range of relationships which are connected with the firm adopting a long-term time horizon. This approach involves both aligning the economic goals and aims of the network and the development of the social dimensions, such as mutual trust and commitment. As Easton and Araujo (1994) affirm, “exchange processes are embedded in a dense fabric of social relations and economic exchange is rarely able to rid itself of non-economic exchange baggage such as social exchange, kinship and friendship and sociological elements not liable to be reduced to the standardised metric of money” (p.75); exchange can hardly be seen devoid of social context. The importance of the social context in these fields of research implies that the study of social constructs is of vital relevance in identifying the factors conditioning the development and maintenance of interfirm relationships. In order to identify essential relationship constructs and their interactions, this current study is also based on social exchange theory which provides a framework for exploring relational exchange. The factors identified from the theory will then be verified and integrated with those obtained from the exploratory study, under the potential influence of market orientation, to soundly frame up the research model of this study.

3.4 The theoretical underpinning of the research: social exchange theory

Social exchange theory is an eclectic body of work which derives from different disciplines. To review the social exchange literature, three further subsections are presented next: the roots of the theory, the development of the theory in which

essential relationship constructs are discussed, and the applicability of the theory to investigating channel relationships.

3.4.1 The roots of social exchange theory

Molm (2001) explain that “the philosophical roots of social exchange begin with the assumptions of utilitarian economics, broaden to include the cultural and structural forces emphasized by classical anthropologists, and enter sociology after further input and modification from behavioural psychology” (p.262). Microeconomics, behavioural psychology, and anthropology (in particular, the branch of anthropology known as economic anthropology) have become the sources of social exchange theory (Hall, 2003). Their articulations of the theory differ. First, each discipline makes assumptions about actor behaviour in studies of exchange. To a greater or lesser degree, the “rational actor model” is followed. Similarly, a “learning model” derived from behavioural psychology may be adopted. In this case it is a given that, when making an exchange, operant actors reflect costs and benefits of past behavioural choices without consciously weighing the alternatives. Second, each of the noted disciplines shows a different degree of interest in the three specific exchange structures: (1) direct exchange where two actors are dependent on one another; (2) generalized exchange where there are more than two actors and reciprocal dependence is indirect; and (3) productive exchange where both actors must participate to benefit (Molm, 2001)—for example, the relationship between supplier and retailer.

3.4.1.1 Economics

The use of the exchange view in social analysis has its roots in economics in which Adam Smith, David Ricardo, John Mill, Jeremy Bentham and many others have made

significant contributions. Nord (1973) particularly attributes historical precedence in the theory to Adam Smith by claiming that Smith's most direct role in the development of modern exchange theory was through the influence of his work on economists. His earlier work, *the Theory of Moral Sentiment*, contains the essence of his moral and social thoughts (Nord, 1973). The book develops a moral theory which reconciles two seemingly contradictory, but nevertheless empirically substantiated facts: individual self-love and a social whole. Smith was actually concerned more with social progress and the maintenance of moral standards than with championing individualism. His concern was with the "cement" between individuals which permitted the operation of societies. Like many social exchange theorists, much of his attention centred on actual social behaviour (like Homans) and on how social structure arose out of these exchanges (like Blau) (Nord, 1973).

Smith believed that self-interest, as dictated by certain primary drives, was the basis for socialization and mankind needs permitted individuals to be "shaped" into social beings by their experience with society. The shaping process involved social exchanges. The assumption of exchange embedded in microeconomics is that actors cognitively weigh potential costs and benefits of alternative exchange partners and action (Hall, 2003). Like economics, social exchange theory views exchange as a category of "rational" behaviour in situations of scarcity. Given multiple goals and limited resources, people will choose alternatives they perceive to be most consistent with their most valued goals and ways providing them with the most efficient path to goal achievement. That is, people evaluate alternative courses of action so that they get the best value at the lowest cost from any transaction completed.

3.4.1.2 Economic anthropology

Economic anthropologists discuss exchanges under the label of the “gift economy”. They argue that gift giving supports the circulation of goods that are fundamentally different from those analyzed by economists, and that the associated rituals of gift giving provide insight on group values and behaviours. Unlike economic exchanges, gift exchanges should not involve explicit bargaining, but they generate strong social obligations (Bergquist and Ljungberg, 2001). Any gift that is exchanged represents more than the physical item per se because it is imbued with the knowledge that it is presented by someone with whom the receiver has an ongoing emotional relationship (Kollock, 1999). The understanding of the significance of the “deal” may be different for each party (Galison, 1997). The act of presenting a gift means much more than a simple transaction between actors. For example, it indicates levels of mutual regard/respect of the parties and the power relationship that they share.

Malinowski set the theoretical underpinnings of the gift economy in the early 20th century through his description of the “kula”. Mauss (1954) subsequently developed a fuller systematic study of the custom of gift giving in primitive societies in *Essai sur le don* (The Gift), which becomes a classic in anthropology and continues to be held in high regard (Parry, 1998). He argued that the traditions of gift giving are governed by specific rules that impact on the relationships and interdependencies of social groupings.

3.4.1.3 Behavioural psychology

Learning theory is proposed by putting emphasis on what determines changes in the rate of emission of learned behaviour instead of how the behaviour is learned. Extinction, satiation, and cost, by decreasing the rate of emission of a particular kind

of behaviour, render more probable the emission of other kind of behaviour. This discipline holds that individuals or corporate groups interact for rewards or with the expectation of a reward from their interaction with others (Bandura, 1986). Social exchange theory contends that a basic motivation for interaction is the seeking of rewards and avoidance of punishments (Emerson, 1976; Bandura, 1986). As such, social exchange theory argues that attitudes and behaviours are determined by the rewards of interaction minus the penalty/cost of that interaction. For example, in the context of distribution channel relationships, a supplier makes a contribution to its distributor, via its supply chain management policies. In contributing to its distributor, an expectation forms for the return of a contribution at a later time. The distributor receiving a valued contribution develops a sense of obligation and reciprocates with appropriate attitudinal and behavioural responses.

3.4.2 The development of social exchange theory

Social exchange theory originates in the 1950s and has developed through the cumulative contributions of sociologists. The term “social exchange” is generally applied to interaction in which giving and receiving material or intangible resources is at least partially predicted on the expectations of return or “reciprocity” (see e.g. Blau, 1964; Homans, 1958). The representative scholars developing the schools of the theory include Homans (1958): exchange behaviorism; Blau (1964): exchange structuralism; Thibaut and Kelley (1959): exchange outcome matrix; and Emerson (1972): exchange network. They have made significant contributions to the development of the theory by developing conceptions in their attempts to provide explanatory frameworks that encompass both human behaviour and institutional persistence and change.

3.4.2.1 Exchange behaviourism

Since Homans published his journal work: *Social Behavior as Exchange* in 1958 and further maintained his theoretical conceptions in his book: *Social Behavior: Its Elementary Forms* in 1961 and another journal article: *Bringing men back in* in 1964, these publications have established the foundation of the theory and attracted extensive research attention and development to the theory.

Homans' primary purpose is the study of the "subinstitutional" or "elementary" forms of behaviour. He develops a theory of social behaviour based primarily upon behavioural principles of analysis. He takes as the domain of his explanatory framework (1961, p.3), "the actual social behaviour of individuals in direct contact with one another". He refers to this behaviour as elementary and clearly distinguishes it from behaviour that can be defined as obedience to the forms of a society, including role-related behaviour. Role-conforming behaviour is institutionalized behaviour, thus actual behaviour is defined by Homans as subinstitutional.

Homans maintains that social structures emerge from elementary forms of behaviour and change over time in response to changes in this behaviour by aggregates. However, he does not address the complex interplay between microlevel processes and aggregate level outcomes. He argues that the similar behaviour of enough people can alter existing social structures and institutions and even, under some conditions, replace them. "Sometimes the great rebellions and revolutions, cracking the institutional crust, bring out elementary social behaviour hot and straight from the fissures" (Homans, 1961, p.398). His analysis of social behaviour endures as a classic in sociology precisely because his vision of the underpinnings of social

structure and institutional forms is straightforward and is linked clearly to the actions of individuals (i.e. to their response to rewarding and punishing circumstances) (Cook and Whitmeyer, 1992).

Homans' (1958) propositions about interpersonal behaviour suggest that interaction is a process in which two participants carry out activities directed toward one another and exchange valuable resources. They will continue to interact with each other only if they perceive that the exchange relationship is an **attractive alternative**. Otherwise they might find it more valuable to interact with others who can provide what they need, be it goods or affection. Hence, when two interacting persons face various contingencies, they may have to modify their resources to match each other's needs. In an exchange relationship between two parties, they can be expected to make adaptations to the needs of the counterpart. Exchange and **adaptation**, at least in a dynamic setting, are closely related processes. As in channel relationships, the presence of **adaptation** between firms indicates the existence of relationship. Where the extent of adaptation is great, both firms will make a particular effort to ensure the continuity of the relationship.

On the dynamics of influence process, Homans (1958) refers to the studies by Festinger et al. (1950) and Schachter et al. (1951) and points out two valuable variables mediating social exchange behaviour: **cohesiveness** (anything that attracts people to take part in a group) and **communication** (the frequency of interaction). As Festinger et al. (1950) hold that the more cohesive a group is, the greater the average frequency of interaction of the members, Schachter et al. (1951) propose that the more cohesive a group, too, the greater the change that members can produce in the direction of rendering these activities more valuable. When the

members of a group come to see another member as a deviate, their interaction with him – communication addressed to getting him to change his behaviour – goes up; the faster the more cohesive the group. Applying these concepts to channel relationships, this study argues that the marketing concept may represent an alternative that attracts channel members to take part in a network. In the hope that the relationship is continuous and productive, communication rewards the process by improving understanding as well as resolving disagreement and conflicts.

Social exchange processes, according to Homans, tend to work out at equilibrium to a balance in the exchanges. For a person engaged in exchange, what he gives may be a cost to him, just as what he gets may be a reward, and his behaviour changes less as profit (reward less cost) tends to a maximum. This implies that mutual **satisfaction** is crucial to social bonds and exchange continuity as that to channel relationship continuity.

3.4.2.2 Exchange structuralism

While Homans' work is distinctly microsociological in character, Blau's (1964) major treatise on exchange and power is an explicit statement of the micro-macro linkage problem. Blau's focus is the development of a theory of social structure and institutions based upon a sound microfoundation, a theory of social exchange. Two major features differentiate Blau's work from Homans'. First, Blau does not base his theory of exchange upon behavioural principles; instead he introduces aspects of micro-economic reasoning into his analysis of distinctly social exchange (Heath, 1976). Second, recognizing that social structures have emergent properties, he extends the theory beyond substitutional phenomena.

Blau discusses processes like group formation, cohesion, social integration, opposition, conflict, and dissolution in terms of principles of social exchange. In his view various forms of social association generated by exchange processes over time come to constitute quite complex social structures and substructures. The coordination of action in large collectivities is made possible by common values in the social system which mediate the necessary indirect exchanges. As such, Blau's theory moves beyond direct contact between individual actors by incorporating complex indirect exchange processes. Structural change in both small and large social structures is analysed in terms of social forces like differentiation, integration, organisation, and opposition.

According to Blau, the complex social structures that characterize large collectivities differ fundamentally from the simpler structures of small groups. Since there is no direct social interaction among most members of a large community or entire society, some mechanism must mediate the structure of social relations. **Values consensus and norms** provide this mediating mechanism. Commonly agreed values and norms serve as media of social life and as mediating links for social transactions. They make indirect social exchange possible and govern the processes of social integration and differentiation in complex social structures as well as the development of social organisation and reorganisation in them.

Trust and **commitment** are two important constructs in Blau's theory. Blau (1964) holds that the basic and most crucial distinction between social exchange and strictly economic exchange is that social exchange entails *unspecified* obligations. The fulfillment of the obligations depends on **trust** because it cannot be enforced in the absence of a binding contract. Thus, trust is essential for stable relations and

exchange obligations promote trust. On the other hand, since social exchange requires trusting others to reciprocate, they can demonstrate their trustworthiness by committing themselves to the exchange relationship; that is, the establishment of exchange relations involves making **investments** that constitute **commitments** to the other party. As individuals regularly release their obligations, they prove themselves trustworthy of further credit. Moreover, the investments an individual has made by fostering a friendly relation with another commit him to the relationship. Though commitments themselves constitute opportunity costs, these alternative opportunities forego strength commitments and together with the investments which have been made produce firm attachments. Commitment to a relationship frequently is also believed to result in mutual advantages. According to Blau (1994), the mutual advantages from the associations fortify their social bonds. This implies that mutual **satisfaction** fortifies social bonds and exchange continuity. Taking channel relationships for example, any long-term relationship will virtually require channel partners to fulfill obligations. In turn, these obligations promote trust and commitments to their social relations. Failure to prove oneself trustworthy and comply with the commitments would likely terminate the relationship. In contrast, building up trust and fulfilling commitment as an expectation in a business relationship are posited to drive relationship satisfaction.

During the exchange process, there would be **conflicts** between the obligation to reciprocate and the obligation to accept favours. Meanwhile, it would be typical of social associations that the individuals who establish them have some common and conflicting interests. The coexistence of conflicting and common interests in social associations means that associates always have first choices that conflict but last choices that are identical, and the first choice of either is the second-last of the other,

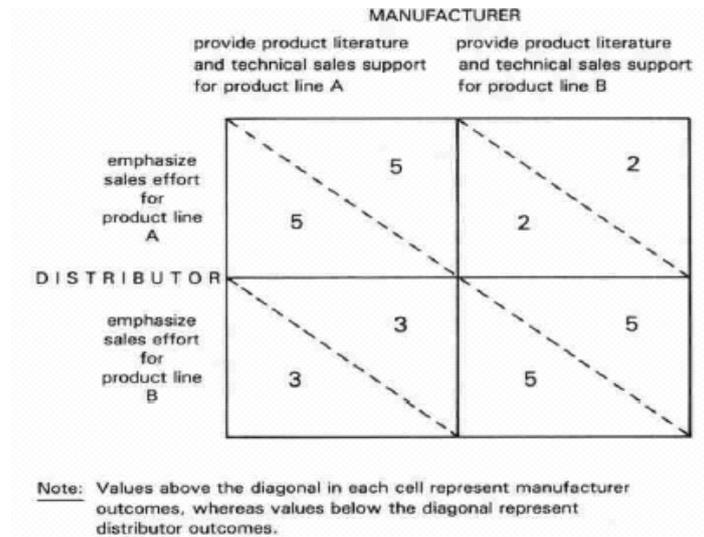
though it may still be preferable to any available alternative (Blau, 1994). These preferences, however, are continually modified in the process of maneuvering between partners and exploring alternative opportunities until relations stabilize.

Another important construct recognized by Blau is social **cohesion**. Integrative bonds of social cohesion strengthen the group in the pursuit of common goals. Group cohesion promotes the development of consensus on normative standards and the effective enforcement of these shared norms. Cohesion increases social control and coordination. Taking channel relationships for example, based on the concerns of satisfying and retaining end customers, channel members are likely to develop integrative bonds to cooperate towards achievement of their concerns.

3.4.2.3 Exchange outcome matrix

Thibaut and Kelley (1959) posit a theory of interpersonal relations and group functioning, where dyadic relationships are primarily considered. The basic conceptual tool used for their analysis of dyadic interaction is the *outcome matrix*, which shows the behaviours each party adopts and the consequences (outcome) of the behaviours which depend on the behaviour of the other party. The outcome of the interactions represents the rewards obtained and costs incurred by each party from conducting a given behaviour. For example, an illustration of a simple 2x2 outcome matrix for a distributor and manufacturer dyad proposed by Anderson and Narus (1984) is displayed in Figure 3.1.

Figure 3.1 An illustration of outcome matrix for a distributor and manufacturer dyad



Resource: Anderson and Narus (1984)

Each cell in the matrix represents a possible event. The manufacturer's outcomes appear above the diagonal in each cell, and the distributor's outcomes appear below the diagonal. The numbers in the cells are interpreted in a relative manner, indicating the value to a firm of alternative actions. In this illustration, the manufacturer slightly prefers to stress product line A, while the distributor slightly prefers to promote product B. However, both of them can obtain a better outcome of 5 if they both support the same product line, through lower costs associated with a **cooperative** sales effort (Anderson and Narus, 1984).

Two constructs are posited by Thibaut and Kelley as bases for evaluation of the outcomes obtained from a particular relationship: the *comparison level* (CL) and the *comparison level for alternatives* (CLalt). CL is defined in the present context as a standard representing the quality of outcomes the distributor (or manufacturer) has come to expect from a given relationship, based upon present and past experience

with similar relationships, and knowledge of other distributors' (or manufacturers') similar relationships. The outcomes obtained from a relationship, compared against this standard, determine the attractiveness of the relationship and the degree of satisfaction the firm experiences from the relationship. By contrast, CLalt is a standard that represents the average quality of outcomes that are available from the best alternative exchange relationship. Thus, CLalt represents the lowest level of outcome a distributor (or manufacturer) will generally accept and still remain in the relationship. As such, values in the outcomes matrix can be scaled as deviations from CLalt, which serves as the zero point. Yet, Kelley and Thibaut (1978, p.71) state that an individual may "remain in the present less rewarding relationship because the social, emotional, or legal costs entailed in moving to the better alternatives are too high". Generally, the level of the outcome obtained, judged against CLalt, determines a participant's **dependence** on the relationship.

In their subsequent theoretical work, Kelley and Thibaut (1978, Kelley, 1983) elaborate on the concept of the outcome matrix, delineating the *given* matrix from the *effective* matrix. The given matrix represents behavioural choices and related outcomes which "are strongly under the control of factors external to the interdependence relationship itself" (Kelley and Thibaut, 1978, p.16). These outside controlling factors can be environmental, reflecting institutional arrangements, or personal factors such as needs or skills. The outcomes in the given matrix are thus determined without considering the other participant's behavioural choices and related outcomes.

The given matrix is reconceptualised with regard to the behavioural choices through a transformation process, which evokes a change in the participant's psychological

perspective. The nature of the given matrix, as well as the transformations each participant is likely to enact, comes to be known by the participants by means of the **communication** processes of self-presentation and attribution. Each participant provides the other with information through formal and informal communications, actions, and so forth. As a complement to this, each participant is motivated to use this information to arrive at explanations for the other's behaviour, so as to better predict the other's likely actions and reactions. Kelley and Thibaut (1978) discuss the ways in which self-presentation and attribution operate in the development of **trust** and closeness, and obversely, in the escalation of **conflict**.

Through these communication processes and the employment of transformation processes, the given matrix is converted into the effective matrix, which "summarises the set of behaviour-outcome contingencies that are operative at the time the behaviour occurs" (Kelley and Thibaut, 1978, p.16). Acting upon the effective matrix rather than the given matrix can have benefits for both participants, such as "to reduce interpersonal conflict of interest, to provide compromise solutions that are readily agreed upon, to make possible better given outcomes, to reduce intrapersonal uncertainty, and to facilitate interpersonal **coordination**" (Kelley, 1983, p.14). The extent to which benefits from acting upon the effective matrix occur naturally depends on the correspondence between the two partners; outcomes – that **joint performances** of behaviours lead to mutually preferred outcomes. Correspondence can occur through either each participant performing the same or similar behaviour, or alternately, the participants performing different behaviours which are in some way complementary.

3.4.2.4 Exchange network

Emerson develops a behavioural model of individual action but emphasises the shift to a more macro level of analysis through the incorporation of collective actors and networks into his formulation. As Turner (1986, p.304) puts it, Emerson's approach "removes much of the vagueness surrounding Homans' and Blau's conceptualisations of social structures as 'institutional piles' and 'organised collectives'. Social structure in network analysis has a more precise definition as patterns of connections among actors in networks of exchange relations".

In his seminal work on exchange theory, Emerson (1972) produces a well-developed formulation based upon behavioural principles (similar to those found in Homans' work). He embeds his general **power/dependence** principle in the context of an exchange theoretical framework which takes as its psychological base, behavioural principles of reinforcement, satiation, extinction, etc. His work takes social structure as the central subject matter and includes rudimentary theoretical statements regarding mechanisms of structural change.

An actor in Emerson's theory is conceived as "a point where many exchange relations connect" (1972, p.57). The actor can be a person, a corporate group (or collective actor), or a role-occupant. This conception of "actor" makes the theory applicable at different levels of analysis, and the theory has been applied to relations between individuals, organisations, and even nation states (Cook and Whitmeyer, 1992). The primary focus is on exchange relations as the building blocks for more complex social structures called exchange networks or corporate groups (involving intragroup exchanges).

Exchange networks are viewed as connected sets of exchange relations (Cook and Whitmeyer, 1992). An early, important advance is the distinction between positive and negative exchange connections. If an actor's exchange in one relationship is positively related to its exchange in another relationship, the relationships are positively connected; if the relationship is negative, they are negatively connected (Cook and Whitmeyer, 1992). A primary focus of the subsequent theoretical and empirical work has been on specification of the principles of exchange and power that apply to different kinds of network structures which Emerson refers to as "structural prototypes", such as monopoly structures, stratified networks, circles, and chains. In particular, attention has been devoted to the relationship between types of exchange connections and the distribution of power and dependence among actors in various network structures (e.g. Cook and Emerson, 1978; Cook et al., 1983). Structural change is viewed as consequence of various social processes in exchange networks and within corporate groups initiated, in part, because of a power imbalance either within the exchange relation (relational power imbalance) or within the exchange network structure (structural power imbalance) (Cook and Emerson, 1978). Exchange network theory attempts to fuse perspectives previously considered incompatible (Blau, 1975), incorporating both psychological factors and social constraints in terms of alternatives and opportunity structures.

Based on the above review on the social exchange literature, the underlying conceptions and exchange mechanisms of the different schools were discussed and essential relationship constructs in the exchange processes were identified. Table 3.1 summarises the essential constructs drawn upon the schools of the theory.

Table 3.1 A summary of the essential relationship constructs drawn upon social exchange theory

Social exchange theory	Representative references	Related relationship constructs
Exchange behaviourism	Homans (1958, 1961, 1964)	Attraction, cohesiveness, communication, adaptation, equilibrium (satisfaction)
Exchange structuralism	Blau (1964, 1994)	Values consensus and norms, trust, commitment, conflict, cohesion, mutual advantage (satisfaction)
Exchange outcome matrix	Thibaut & Kelley (1959) Kelley & Thibaut (1978) Kelly (1983)	Attraction, communication, conflict, dependence, cooperation (coordination)
Exchange network	Emerson (1972), Turner (1986), Cook & Emerson (1978)	power/dependence

3.4.3 The applicability of social exchange theory to channel relationships research

When channel relationships move from transactional exchanges to relational exchanges, channel relationships are not only an outcome of performance or economical results; the social context should play an important role. Yet, when an organisation or a firm is the unit of analysis, the explanatory variables of social exchange theory, including individual characteristics, situational constraints and process-related factors, may need to be adapted to the object of study (Eiriz and Wilson, 2006). The rationales of applicability of the theory to channel relationships research are provided as follows.

Firstly, social exchange theory argues that individuals or corporate groups interact

for rewards or with the expectation of rewards from their interaction with others; a basic motivation for interaction is the seeking of rewards and avoidance of punishments. As such, social exchange theory argues that attitudes and behaviours are determined by the rewards of interaction minus the penalty/cost of that interaction. This basic proposition can be well applied to the channel relationships. A firm feels about a relationship with another party basically depending on its perceptions of the balance between 'putting in' and 'getting out' of a relationship and the kind of relationship it would like to develop. For example, when a supplier makes a contribution to its distributor, it does so with an expectation of a return of the contribution at a later time. The distributor receiving a valued contribution develops a sense of obligation and reciprocates with appropriate attitudinal and behavioural responses. Or when a distributor looks for a close relationship with some of its channel partners, it evaluates the supplier which has potential high value and low costs as the most potential partner to develop long-term oriented relations.

Secondly, social exchange theory is composed of a series of propositions outlining the system of social exchange. For example, for all actions taken, the more often a particular action is rewarded, the more likely a member to an exchange is to perform that action again (i.e., success proposition). The more valuable to a member of an exchange is the result of the member's action (i.e., reward proposition), the more likely the member of the exchange is to perform the action again (i.e., value proposition). When an exchange member's action does not receive the expected reward, or receives unexpected punishment, the exchange member will aggressively avoid the action in the future (i.e., aggression proposition). Further, in choosing between actions, a member to an exchange will choose the one for which the value of the reward multiplied by the probability of receiving the reward is greater (i.e.,

rationality proposition). The same propositions can be derived from the channel context, which implies that these propositions appropriately apply to interorganisational relational interactions.

Finally, social exchange theory has become one of the most prominent and ambitious theoretical conceptions in contemporary sociology (Cook, 2000). Although its origins are derived from the context of interpersonal relationships and behavioural psychology, it has been applied to other research areas such as information science and social science. As discussed earlier, it often serves as backdrop to research on interfirm relationships, such as buyer-seller relationships (e.g. Dwyer et al., 1987), manufacturer-distributor working relationship (e.g. Anderson and Narus, 1984, 1990), and relationship marketing (e.g. Morgan and Hunt, 1994). In addition, it has also been extensively applied to the analysis of different organisational levels, such as work-family analysis (Tidd et al., 2004) and organisational behaviours (e.g. Jackson and Schuler, 1985; Bacharach et al., 1991). These studies all indicate the applicability of social exchange theory to organisational or interorganisational research, such as to the distribution channel context.

3.5 Chapter summary

The other theme of the research, relationship marketing on distribution channel relationships, and the theoretical underpinning of the study, social exchange theory, were the two focuses of this chapter. The issues reviewed on relationship marketing included its conceptualisation and the related body of research on distribution channel and interfirm relationships. The conceptualisation of relationship marketing comprised that from services marketing, industrial marketing and a general

perspective. Four predominant theoretical approaches used in extant research on interfirm relationships: (1) commitment–trust, (2) dependence, (3) transaction cost economics, and (4) relational norms were presented in terms of their underlying assumptions, focal constructs, outcomes and antecedents. Some important studies were also reviewed. The purpose of the review is to understand the domain and to identify important issues that need to be noted and can be further studied. On the other hand, the theoretical underpinning of this study, social exchange theory, was reviewed on its three sources and four schools. The applicability of the theory to channel relationship research was justified. Essential relationship constructs were identified, which will be subject to further exploration and verification in the exploratory study to adapt to the particular context, under the potential effect of market orientation.

The related body of literature on the two themes of the study: market orientation and relationship marketing on channel and interfirm relationships have been critically reviewed. The next chapter moves on to the research design of this study.

CHAPTER FOUR

Research Methodology I: Research Design and the Qualitative Study

4.1 Introduction

In order to make an area of interest researchable, the research design and choice of research methods must be made. This chapter serves this end by discussing the general methodology first and then justifying the overall research design of this study. As such, it begins with an overview of general methodology in section 4.2 to provide a picture of the paradigms employed in the marketing field. Section 4.3 discusses the research design which includes two-phase studies: a qualitative exploratory study in the first phase and a quantitative conclusive study in the second phase. The first phase exploratory study is the focus of this chapter, so its justification, sampling issues and data collection procedure are presented in section 4.4. The second phase quantitative study will be discussed in research methodology II with Chapter Six after the conceptual model and hypotheses, which are derived from the exploratory study together with social exchange theory and relationship literature, are developed in Chapter Five. Data from the exploratory study are analysed and interpreted in section 4.5 based on the two themes: market orientation and channel relationships. This chapter concludes with a summary in section 4.6.

4.2 An overview of general methodology in the marketing field

Two paradigms of methodology are generally discussed and employed in the marketing research: the interpretivist paradigm and its associated qualitative methods, and the positivist paradigm and its associated quantitative methods. A brief overview and evaluation for each paradigm are presented in the following.

4.2.1 Interpretivist paradigm and its associated qualitative methods

The interpretivist paradigm seeks to explore and understand people's attitudes, perceptions, motivations and behaviours by constructing, analysing and interpreting data that are largely qualitative in nature (Kent, 2007). It includes the more traditional interview-based methods – in-depth interviews and focus groups – along with observational and ethnographical approaches. An indirect investigation method of projective techniques is also becoming increasingly popular in marketing research (Chisnall, 2005).

4.2.1.1 In-depth interviews

Individual in-depth interviews are conducted face to face with the respondent to explore the subject matter of the interview in detail (Aaker et al., 2000). There are two types of in-depth interviews: non-directive and semi-structured interviews. The interviewer is not constrained by precoded questions or even by a fixed sequence of questions. It is more along the lines of a conversation on an agreed topic, and the data are captured in the form of narrative rather than isolated statements. It endeavours to understand the nature and make-up of the area being researched, rather than to measure the size and shape of it. Characteristically, it is a flexible, encouraging approach which will vary to some degree according to the objectives of the research and the type of informant being interviewed. Responses are usually recorded for later analysis and reflection.

4.2.1.2 Focus groups; group interviews/discussions

A distinction is sometimes drawn between focus groups and group interviews/discussions. The former are seen as American-style groups in which the focus is on getting answers out of participants by using structured techniques, while the latter is

European style in which the emphasis is on exploration and understanding in a largely unstructured and free-wheeling discussion (Kent, 2007). However, the term ‘focus groups’ is used more widely and becoming standard to refer to either style of group. The technique is discussed at first on the broadest possible level, and gradually narrowed down through sequentially more restricted channels. The investigator has a list of points which should be covered during the interview. He guides conversation without directly influencing it by formal questioning, so that all the principal points are covered adequately (Chisnall, 2005). It is this interaction – this free exchange of ideas, beliefs, and emotions – which helps to form the general opinion of people sharing common interests and responsibilities. In the atmosphere of a group, people react to one another and the ways in which they influence personal attitudes can be studied. There are different types of focus groups. The major ones are indicated by scholars (Zikmund, 2003; Chisnall, 2005):

- **Extended groups:** use more complex tasks, lots of stimulus material or releasing or projective techniques over an extended period of time, usually 3-4 hours.
- **Creativity Groups:** use brainstorming or synectics for problem-solving in an innovation manner.
- **Sensitivity panels:** the same respondents are used on a number of occasions, attending weekly or two-weekly sessions. Respondents are trained using a variety of different techniques.
- **Reconvened groups:** meet on more than one occasion, e.g. two sessions separated by a week.
- **Conflict groups:** are deliberately designed to stimulate controversy when exploring specific issues, and then attempt to negotiate how these differences

may be settled satisfactorily. It is the task of the group to investigate fully the nature of their different viewpoints.

Whereas in-depth interviews are concerned with the study of one individual, focus groups study the interaction of group members on individual behaviour. In depth interviews the main lines of communication are between interviewer and respondent; in focus groups it is the verbal interactions between respondents that assume a major role (Kent, 2007).

4.2.1.3 Projective techniques

In order to obtain data that cannot be secured through more overt methods, e.g. direct questioning, projective techniques use unstructured and indirect methods of investigation that encourage respondents to project their underlying motivations, beliefs, attitudes or feelings. Specifically, the techniques provide verbal or visual stimuli which, through their indirection and concealed intent, encourage respondents to reveal their unconscious feelings and attitudes without being aware that they are doing so (Zikmund, 2003). Through taking part in non-incriminating exercises, respondents are disposed to reveal emotions and beliefs which they may have suppressed for various reasons. Thus, the techniques are useful for helping to break people's self-defence, barriers of irrationality, self-incrimination, politeness, and the suppression of real feelings. Six main categories of projective techniques are: word association, completion tests, picture interpretation, third-person techniques, role playing, and case studies (Aaker et al., 2000).

4.2.1.4 Observation

This non-reactive research technique, often termed the ‘classical method of investigation’, has several applications in marketing research. It can be used alone or in conjunction with other forms of research to supplement the data collected. It is particularly useful in checking the validity of answers given in a questionnaire (Chisnall, 2005). For many reasons, people may not give completely accurate accounts of their actual behaviour; what they say or they buy may not necessarily coincide with the answers given to an interviewer. Respondents may be inclined to protect their egos, to project favourable images of themselves, and, on occasions, to distort their reputed beliefs and behaviour in order to ‘shock’ those surveying them. Observation can be categorised into participant or non-participant, overt and covert, or direct and indirect observation (Gill and Johnson, 2002). In marketing research, three methods of observation are in general use: audits, recording devices, and watching people’s behaviour as buyers (Chisnall, 2005).

4.2.1.5 Ethnography

A shared culture affects and binds people who share similar values and patterns of behaviour. Ethnography is based on culture as an organising concept and involves the idea of researcher immersion in that culture in order to understand it (Kent, 2007). It is based on what are termed naturalist modes of inquiry within a predominantly inductivist framework and as developed in marketing research, ethnography is a form of participant observation (Chisnall, 2005). However, ethnography involves a sense of research ‘immersion’ in a specific culture at a given physical site and usually for extended periods of time. Ethnography allows a wider and deeper understanding of an area of interest but may require a range of disciplinary skills and involve high costs.

4.2.1.6 Evaluation of qualitative methods

Qualitative methodology research takes place in the natural setting of the everyday activities of the subjects under investigation. This, and the research procedures used, reduces contamination of the subject's behaviour by researchers and the methods they use for collecting data. The main strength is generally considered ecological validity.

However, with its commitment to induction and unstructured methods of data collection, qualitative methodology creates problems regarding replicability, and consequently reliability also appears problematic. Moreover, since qualitative methodology usually entails the intensive study of a small number of cases, its claims to population validity are usually considered limited.

Where qualitative methods are concerned with inductively generating grounded theory, their commitment to naturalism may often obstruct their ability to manipulate independent variables. As such, qualitative methods are often considered to have difficulties regarding the clear establishment of cause and effect relationships and consequently are taken to be low in internal validity. However, it seems that the internal validity of qualitative methods is problematic as it depends largely upon rigorousness and the specific concerns of the researcher. When that entails analytic induction and reflectivity, the internal validity of the researcher's theoretical conclusions may well be high in comparison to many of the deductive approaches.

4.2.2 Positivist paradigm and its associated quantitative methods

The positivist paradigm in marketing research sets out to measure the extent of, or changes in, marketing phenomena and to test ideas about them in order to make

predictions. Quantitative marketing research is based on the construction and analysis of data that are largely quantitative in nature (Kent, 2007). It consists of two types of methods: experiments and surveys.

4.2.2.1 Experiments

Experiments are a research design in which one or more independent variables are manipulated to examine their effects on one or more dependent variables, while controlling for extraneous variables (Kent, 2007). In most fields of scientific enquiry, research is primarily centred around controlled experiments in which efforts are made to hold conditions constant, thus enabling the effects of a particular factor or variable to be studied and measured. Any change observed to have taken place in the test situation is measured, statistically checked by tests of significance, and according to the results of these tests, the change may be held to be attributable to the intervention of the independent variable (Zikmund, 2003).

Marketing is deeply with human behaviour and with the reactions of people. This involvement makes marketing experiments difficult to plan and execute, yet some attempt should be made to apply the principles of experiment, as this is the only research method available for verifying cause and effect relationships in marketing studies (Chisnall, 2005, p.57). Two types of experiment: field experiment, which is conducted in a realistic research environment, and laboratory experiment, which takes place in an artificial environment. Three experimental designs are: true experimental designs, quasi-experimental designs, and action research. The first designs occur through the direct intervention and are usually possible only under laboratory conditions. The latter two attempt to take the research design into the field.

The highly structured nature of true experimental research designs endows this approach with significant strengths of internal validity and reliability. Being highly structured, it is comparatively easy to replicate many aspects of an experimental research design. However, in gaining these strengths through its high degree of structure, experiments are low in ecological validity because of the artificial nature of the research process and context created by their very structure. Another weakness is that it is often low in population validity since it involves small numbers of subjects.

By attempting to undertake research in relatively natural, non-artificial settings, both quasi-experiments and action research are seen to gain naturalism and therefore are relatively higher in ecological validity. However, by increasing ecological validity both approaches trade off internal validity when compared with the ideal experiment. Similarly, in order to preserve the context in which research is undertaken, this reduction in structure will frequently result in a relative decline in reliability as it becomes more difficult to replicate. Also, as with true experiments, these two approaches often fail to give sufficient attention to sampling. This causes problems regarding population validity. While this may be understandable given the difficulties of gaining access in the field, it is not necessarily an intrinsic weakness of these research approaches.

4.2.2.2 Surveys

Surveys entail the capture of data based on addressing questions to respondents in a formal manner and taking a systematic record of their responses (Kent, 2007). The form a survey takes differs considerably depending on the intentions and dispositions of a research. Two directions are concerned with whether the intention

is to test a theory deductively by elucidating cause and effect relationships among a set of phenomena, or whether the aim is to assess the attributes of a population of subjects. A consideration of these issues determines the type of survey to be taken, whether analytic or descriptive survey. Methods of survey enquiries are: personal interviewing, telephone interviews, postal/mail surveys, panel research, audits and diaries. There are also advances in survey techniques based on computer technology and electronic-based systems, such as fax, internet/intranet, e-mail, disk-by-mail (DBM), or computed-assisted telephone interview (CATI), computed-assisted personal interview (CAPI), and computed-assisted panel research (CAPAR) (Chisnall, 2005).

The qualities displayed in survey research give it strength in population validity and reliability (Zikmund, 2003; Chisnall, 2005). Surveys usually entail careful random selection of samples that enable results to be generalized to wider populations with a high degree of confidence. Concurrently, using highly structured questionnaires to gather data in a form that is quantitatively analysable is usually regarded as easily replicable and hence reliable. However this high degree of structure, meanwhile, appears to create a relative lack of naturalism. The respondent might often be constrained or impelled by the prompts of the interviewer or the rubric of a self-completion questionnaire. This may give the respondent little opportunity to articulate the ways he personally conceptualizes and understands the matters of interest. It is usually for these reasons that survey research is often considered to be relatively weak in ecological validity (Zikmund, 2003).

Surveys are also considered to be relatively weak in internal validity; that is, they have difficulties in their control of rival hypotheses. Analytic surveys rely on the use

of the statistical controls of multivariate analysis to control extraneous variables, and this potentially weakens any causal conclusions arrived at. This is because correlation does not prove causation and gives little indication of the direction of causation between independent and dependent variables unless some temporal ordering is evident (Zikmund, 2003).

4.3 Research design

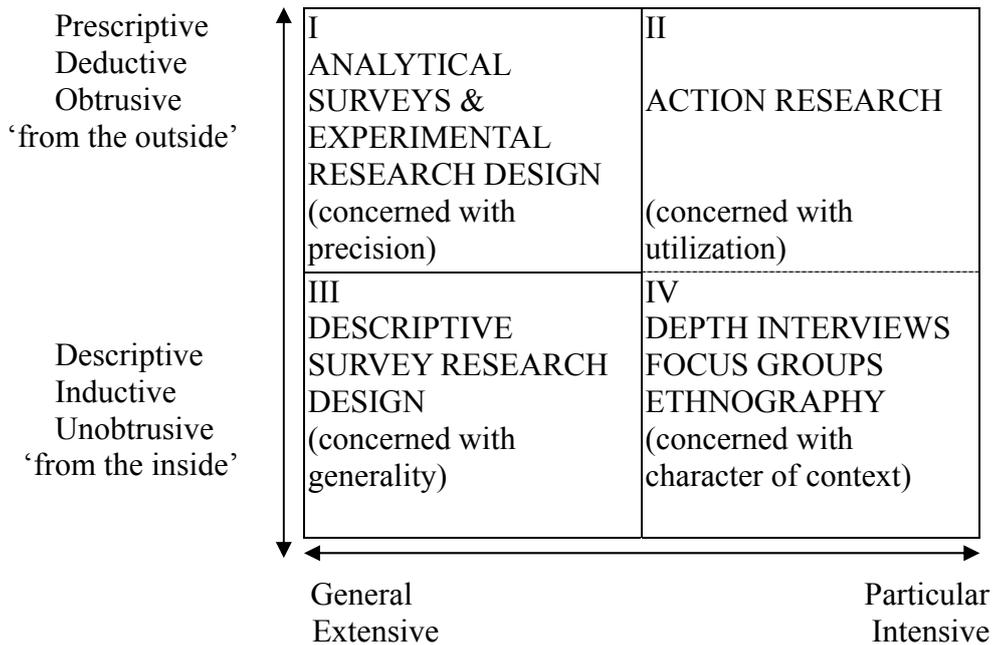
A research design forms the framework of the entire research process; to develop an effective research strategy or design is the central part of research activity. This details the most suitable methods of investigation, the nature of the research instruments, the sampling plan, and the types of data. As discussed earlier, different designs or methods have various strengths and weaknesses, which need to be taken into account in relation to the nature and content of the research question and available resources when a research design is decided. The design of a research study begins with the selection of a topic and paradigm (Zikmund, 2003). The positivist paradigm insists that the knowledge exists independently of the researcher, and it is derived only from empirical evidence. From this perspective, best theory does exist and the criterion is via how well theories correspond with reality. This implies that there could be only one complete description of what is reality. Consequently, the theorists within this tradition are concerned with verifying what has been already discovered by other methods (Deshpande, 1983; Easterby-Smith et al., 2002). As such, the quantitative research methods are often chosen in the positivist camp as they have particular strength in theory verification (Deshpande, 1983). In contrast, for the interpretivist researchers, the only reality is that constructed by the individuals involved in the research situations (Easterby-Smith et al., 2002). Thus, multiple realities exist in any given situation: the researcher, those

individuals being investigated, and the reader or audience interpreting a study. The task of the researcher, therefore, is to explore the multiple realities and to report faithfully these realities by relying on voices and interpretations of informants. Consequently, the qualitative research methods are preferred methods in theory generation.

The field of marketing research is dominated by the positivist paradigm and its associated quantitative methods (Deshpande, 1983). Deshpande (1983) deplores the situation and argues that it has led to marketing science growing more rapidly in the area of hypothesis testing than in the development of new, rich and explanatory theories. He suggests two major directions to remedy this situation. One is to use a triangulation of both quantitative and qualitative methodologies. He argues that the contribution that a set of methodologies can make to one another covers all aspects of theory confirmation - research design, data collection, and data analysis. His views were echoed by Easterby-Smith et al. (2002) who note that “increasingly researchers who work in organisations and with managers argue that one should attempt to mix methods to some extent, because it provides more perspectives on the phenomena being studied” (p.41). In a similar spirit, what has been termed methodological pluralism may be based on the conception, suggested by Smith (1975), that different kinds of complementary data about a “problem” may be acquired by using different techniques in the same empirical study. This methodological pluralism is thought to overcome the bias inherent in a single-method approach (Denzin, 1978; Jick, 1979).

According to the research strategies developed by Gill and Johnson (2002), the following matrix guides a researcher to employ appropriate research method(s).

Figure 4.1 Choosing research strategies



Resource: Gill and Johnson (2002), p.196

This research is designed to model and investigate the possible association and interface existing between market orientation and the development and sustenance of channel relationships. As such, according to the above strategy matrix, this entails a descriptive and inductive research design instead of a prescriptive, deductive one. Prior to the generation and test of the research model, a design of qualitative research, which is appropriate for theory generation, is called for the exploration of the construct of market orientation and the relational factors influencing the development and sustenance of channel relationships. In other words, a combination of both qualitative and quantitative research methods is employed for this study to potentially generate what anthropologists call “holistic work” or “thick description”. This research adopts such a holistic methodology which is different from previous studies in the market orientation and relationship domains. Previous studies focused on the usage of single paradigm. This study is using the pragmatism paradigm which

reconciles the positivist and interpretivist paradigms. An inductive qualitative method, which is concerned with character of context and particularization, is used as the first phase study; a descriptive quantitative approach, which is concerned with generalisation, is adopted in the second phase to test the research model and hypotheses. In so doing, the research design not only serves different research objectives outlined in chapter one by capturing the strengths of each methodology but also allows for cross validation and greater accuracy. Since the construction of the research model is derived from the insights from the first phase exploratory study, together with social exchange theory and the literature, the second phase quantitative study will be discussed in detail in chapter six after the research model and hypotheses are developed in the next chapter. The following discussion is devoted to the first phase qualitative study.

Weiss (1968) notes that “Qualitative data are apt to be superior to quantitative data in density of information, vividness, and clarity of meaning – characteristics more important in holistic work, than precision and reproducibility”. Jick (1979) suggests that qualitative methods are derived from more flexible research tactics and may help to uncover the deviant or off-quadrant dimension of a phenomenon or lead to a synthesis of theories. Ogbonna and Harris (2001) hold that the qualitative methodology is suitable due to the flexibility in the study of organisational idiosyncrasies. As such, a qualitative approach is useful in developing a deep, rich understanding of the market orientation construct as well as dynamics present within settings. Meanwhile, key relational factors influencing the development and sustenance of channel relationships in the particular context can be induced. As for the choice of method for the qualitative study, since projective techniques, observation and ethnography are not suitable for the purpose of the research

questions under investigation, consideration turns to interviews. Concerning the objectives of the qualitative study as well as the time and willingness for the management (the intended informants for this study) to get together for the interview, focus groups are less preferred and in-depth interviews are consequently selected as the method for the first phase exploratory study.

4.4 First-phase exploratory study: in-depth interviews

The first phase exploratory study is the focus of this chapter. This section discusses all the related issues, including the justification for the use in this study, the sampling issues and data collection procedure.

4.4.1 Justification

Firstly, by assessing previous studies on conceptualisation exploration (e.g. Kohli and Jaworski, 1990; Deshpande et al., 1993) and relationship exploration (e.g. Holden and O'Toole, 2004), data collection and analysis often employ a qualitative in-depth interview research method as described by Yin (2003). This method focuses on developing a deep, rich understanding of the concept exploration as well as dynamics present within settings. A quantitative survey cannot achieve this end by constructing structured questions.

Secondly, the existing literature has developed considerable understanding of the concept of market orientation and business relationships in the western countries. Nevertheless, there may exist novel opinions within an Asian business context because of the cultural variances and different business operating environment. Since this study is conducted in Taiwan, the research nature would be initially *exploratory* to attain *particularization* instead of direct generalisation on the

research themes. An exploratory study enables the researcher to gain insights into the particularization. It is crucially important to tap and explore the detailed, contextual information and specific instances in the particular context. Direct application of existing measurement scales borrowed from the western countries could result in measurement errors or marginal mean scores. Apart from the concern of obtaining particularization from the particular context, this research also investigates the transferability of the literature findings to Taiwan. An exploratory study can capture a deeper and more holistic, contextual portrayal of the problem under study.

Thirdly, in terms of channel relationships, not all cooperative businesses are appropriate and necessary for a firm to develop a close and long-term orientation. It is therefore necessary to assess the interactions between channel members and classify their relationships before further exploring the effect of the marketing concept on channel relationships. An exploratory study serves this end by assessing the circumstances and exploring the nature of the relationships efficiently and effectively. Specifically, it efficiently explores the themes from different perspectives to effectively enrich the understanding by allowing for complex and hidden dimensions to emerge.

Fourthly, an exploratory study helps to define the operationalisation of the marketing concept and the relationship variables relating to the construction of the research model. Such insights are thought to be important in that they not only help develop relevant and meaningful hypotheses for later test but also provide this study with reference framework to facilitate the discussion of the research findings. Data from the exploratory study foster the process of building, guiding and pretesting a

quantitative study.

Finally, the relationship established with the practitioners through the interviews facilitates the questionnaire piloting at the second stage of the research.

4.4.2 Sampling issues

4.4.2.1 Target Population

To avoid some methodological problems, which were discussed in the literature review, the in-depth interviews adopt a more holistic approach attempting to capture the dynamics of channel relationships: different types of channel members (distributor-supplier dyads) from different businesses networks and multiple respondents from the firms. Most empirical studies draw their sample from one particular industry. However, since Geyskens et al. (1998) suggest that multiple industries yield more variation in the data than a single industry, this should increase the range on the constructs of interest (p.233). As such, multiple industries and sectors from the business context are selected. To induce the generalisability for the target population as well as the representiveness for each sector, four distribution sectors are chosen to be the target population for this study: department store, car dealer, electrical goods sector, and IT products sector (note: the convenience store and hypermarket sectors are not selected as they basically are centred-controlled (headquarters-controlled) in Taiwan and it is difficult to gain data from them). These four sectors selected are based on the following reasons. The first reason is their reaction to intense competition. Proliferation of competing products both from domestic and international producers have meant that the firms and their supply chains have had to evolve in order to survive. Second, these businesses all deal with consumers on a direct and face-to-face basis; in a competitive environment they are

expected to respond to the market efficiently and effectively, and consequently may develop a certain level of market orientation. Finally, the nature of these sectors normally requires high level of coordination of just-in-time delivery or production, customer-demanded products design, and know-how or technical support from their suppliers. They are expected to develop and maintain collaborative relationships of some kind and obtain the collaborative advantage with their suppliers.

4.4.2.2 Sampling method for candidate companies and for key informants

Since only a limited number of companies are selected for the interviews, based on the researcher's knowledge about the local context, judgement sampling (purposive sampling) is adopted to choose the *distributors*. Different sizes of distributors are needed from the sectors. Snowball sampling method is then employed to interview the distributors' recommended cooperative *suppliers*.

As far as the sampling technique for key informants is concerned, as discussed in the literature review, the use of information from single source in generating the organisation condition can be misleading as the response can be affected by the cognitive bias associated with single informants. The use of multiple informants can improve the quality of the data analysis and increase reliability. Responding to Kohli and Jaworski's (1993) call for the use of a broader sample of managers in the organisation as informants to improve the data validity, the design of multiple informants from different functions of a firm is decided to be the sampling technique for key informants to cross-validate the data.

Senior managers or officers from the selected companies located in Taipei or Kaohsiung City are considered as appropriate informants. The reason for choosing

the cities is that the former is the capital of Taiwan and the latter is the second biggest city in Taiwan, where companies and headquarters are intensively located. The selected informants need to be involved directly with inter-firm relationships and able to report from their direct experiences. The deliberate choice for senior managers or officers is made on the basis of the following considerations. First, their experience and knowledge about marketing practices and about the company are likely to be more abundant than any other in the organisation. Second, their opinions on the policy and strategy making are influential. Finally, their capability and motivation to correspond with the interviewer are expected to be higher.

With regard to the function or department to choose, marketing as well as non-marketing department, e.g. sales, administration, procurement, etc., are needed. The choice is based on Kohli and Jowarski's (1990) contention that being market-oriented, market intelligence is generated by all departments and disseminated to the relevant departments in order to initiate responsiveness, with virtually all departments participating in responding to market trends.

4.4.2.3 Sample size

Concerning the sample size, Patton (2002, p.244) puts that "There are no rules for sample size in qualitative inquiry.....In-depth information from a small number of people can be very valuable, especially if the cases are information rich". The statement implies that the selection of a case has a profound effect on the sample size and quality of research. The number of participants determined in this research is based on the organisational structure, the participants' availability and willingness to respond. A purposive sampling technique is used for the selection of participants. This is in line with Patton's suggestion that the overall aim of purposeful as opposed

to probability sampling is to include ‘information-rich cases for study in depth’ (Patton, 2002). According to the purpose of the interview and the time and resources available, a semi-structured probing interview, in which there is an interview guide to the issues to be covered, is constructed and ideally planned to request the assistance from 15 informants. Although the limited sample size restricts the generalisability of the findings, which external validity refers to, such a limitation is not deemed to be a serious problem at this stage, as the interviews are exploratory in nature and the intent is not to generalise findings as opposed to the quantitative study.

4.4.3 Pilot Study

Prior to the main data collection, one pilot study was carried out. The essence of the pilot study was to test the reliability and validity of the data collection instrument.

In terms of reliability, the standard by which quantitative studies are normally judged, ordinarily this means that a study can be replicated through the use of either the same or alternative research processes. The ability to reproduce findings gives the original findings credibility. However, the uniqueness of an interview study within a specific context mitigates against replicating it exactly in another context (Creswell, 2003). According to Strauss and Corbin (1998), however, there are ways of rethinking reproducibility to extend its meaning. The same theoretical perspective of the researcher could be given, following the same general rules for data gathering and analysis, and assuming a similar set of conditions. In a similar spirit, Yin (2003) also puts statements about the researcher’s positions – the central assumptions, the selection of informants, the biases and values of the researcher – enhancing the study’s chances of being replicated in another setting. He recommends that a

detailed protocol for data collection be developed so that the procedure of qualitative case study might be replicated in another setting and findings be considered reliable. In light of the above suggestions, a detailed protocol for the data collection procedure is developed, and the same general rules and similar conditions are controlled in different settings to meet precision. In addition, the data collection instrument involves the same themes in the same order to meet consistency.

With regard to the validity, internal validity centres on the accuracy of information and whether it matches reality. From the pilot study, the internal validity can be tested against accuracy and usefulness of the data. Meanwhile, it can be tested whether or not what is identified as the ‘cause’ or ‘stimuli’ (in this case market orientation) actually produces what have been interpreted as the ‘effects’ or ‘responses’ (in this case a number of key relational factors and long-term oriented channel relationships).

4.4.4 Data collection procedure

Following the suggestions of Strauss and Corbin (1998) and Yin (2003), a protocol for the data collection procedure was developed prior to the pilot study. After the interview guide was improved by slightly reformulating and modifying questions that cause misinterpretation or inappropriateness from the pilot study, the formal interviews were conducted. The procedure and administration of the interviews are discussed as below.

1. Anticipating reluctance or refusal to assist with the interview, the researcher initially selected and contacted 12 national distributors from the four selected sectors. The first contact was established by a letter on the University’s stationery

sent via mail in which a brief introduction on the research project was given, the significance of the research and the benefits of the interview were highlighted, and a request for cooperation was made. Considering the firm's willingness to offer over two managers to assist with the interview, no more than two managers from each company were solicited for assistance in the first contact. This was followed by a personal phone call after one week to request cooperation and set up the time, location, and informants to be interviewed. To let the informants have an idea about what issues were to be discussed so as to save their time and speed up the interview, the question outline was given two days before the interview. In the meantime, the sample characteristics were collected prior to the interview.

Finally, 5 out of the contacted 12 distributors cooperated and 3 of them provided two managers for the interview. That is, eight informants were from the distributor's side. For the purpose of investigating dyadic dynamics, 5 cooperative suppliers were recommended by the distributors and 3 of them provided assistance with the interview. That is, three informants were from the supplier's side. In total, eleven informants from eight companies were interviewed by the researcher personally. The demographic information of the companies and informants interviewed is presented in Table 4.1.

Table 4.1 Demographic information of the companies interviewed

No.	Company interviewed	Sector	Capital size ^a (NT\$million)	Distributor/ Supplier	Informant's position/years in the co.
1	A	Car dealer	100	Distributor	Sales manager/ 5 yrs
2	A	Car dealer	100	Distributor	General manager/16 yrs
3	B	Insurance Company	500	Supplier (for company A)	Sales manager/ 15 yrs
4	C	Department Store	1500	Distributor	Deputy manager/16 yrs
5	C	Department Store	1500	Distributor	Floor officer/ 5 yrs
6	D	Children's wear & supply	50	Supplier (for company C)	Manager/ 12 yrs
7	E	Department Store	1300	Distributor	Deputy manager/ 10 yrs
8	E	Department Store	1300	Distributor	Marketing manager/9yrs
9	F	Women's wear	80	Supplier (for company E)	Manager/8 yrs
10	G	Car dealer	70	Distributor	Sales manager/ 18 yrs
11	H	3C Store	100	Distributor	Store manager/ 10 yrs

a: exchange rate: GBP: NTD=1: 60

2. The interviews lasted between 90 minutes and two hours and were audiotaped.

Before the interview was recorded, the researcher started up by engaging in small talk to put the interviewee at ease and in cooperation: self-introduction, how the firm was selected to be the sample, and the purpose of the interview. To prevent the danger of response bias and reluctance to mention sensitive or confidential information or critical aspects, the interviewees were reassured confidentiality, anonymity, and non-attribution. During the interview, many things could influence the quality, so the circumstances of the interview were also recorded as

much as possible into the context.

3. In order to cover a topical area in depth, semi-structured probing questions are designed to leave the informants free to respond, as well as allow the researcher to add supplementary questions to probe the content of responses given and to facilitate between-cases comparisons. Two themes were covered in the interview guide: perceptions on the construct and implementation of the marketing concept and the key relational factors mediating the marketing concept and long-term oriented channel relations. The semi-structured interview guide is provided in Appendix I. During the interviews, plain language instead of academic jargon was used to put forward questions. Further explanation and clarification of some of the questions were sometimes necessary so that the interviewees perfectly understood the questions and expressed their opinions as freely as they can. In order to cover both themes, they were reminded about the time when each theme was lasted over one hour.

4.5 Data analysis and interpretation

According to Ereaut (2002), “analysis” and “interpretation” are distinct, but interrelated, aspects of the data analysis process. Analysis involves the physical or functional operations of shifting, comparing, sorting, ordering, summarizing and coding the data; interpretation has more to do with the cerebral, cognitive parts of the process – thinking, asking questions, finding solutions, creating meanings. Since both tasks are interrelated and should be undertaken together and cumulatively, the data from the interviews are reported and analysed first, followed by a discussion on the interpretation and findings in each theme. Prior to the analysis, the analysis approach is presented.

4.5.1 Data analysis approach

The process for analysing qualitative data is described as eclectic (Creswell, 2003), and there is no particular way. That is, the analysis of qualitative data can be undertaken in a number of different ways. There are few commonly agreed techniques and not many clearly defined procedure. Metaphors are as appropriate as open-ended questions. Data analysis involves categorising and making comparisons and contrasts. It also requires the researcher be open to possibilities and see contrary or alternative explanations for the findings. One difficulty in analysing qualitative data is the likelihood of gathering voluminous data more than one needs (Patton, 2002; Creswell, 2003). The amount of data for the current study is fortunately not huge to handle. Following Creswell (2003), the information is sorted into categories and a simultaneous preliminary analysis is conducted as the data collection proceeds. Particularly, the field work is undertaken in Taiwan and the data need to be transcribed and translated back into English, a simultaneous preliminary analysis not only influences the manner in which further field work is performed but also captures the spirits and viewpoints of the informants as precise as possible.

A thematic content analysis approach is used based on the key issues and themes in the interview. Thematic content analysis, a process for encoding qualitative information, is the objective, systematic and quantitative description of the manifest content of mass communications (Kent, 2007) and is thought of as a bridge between the language of qualitative research and the language of quantitative research. It is a useful approach for answering questions concerning the salient issues for particular groups of respondents (Kent, 2007). Unlike the normal approach to qualitative studies where the themes emerge as the study proceeds, the themes for this study are predetermined using pre-assigned coding schemes. Following the interview guide,

the content of the data is analysed based on the two themes of this study but any additional useful theme relevant to the main themes that emerges from the data is also considered. Once relevant concepts and framework emerge from and validate against the data, they are turned to quantitative survey design. In so doing, the qualitative direct the quantitative and the quantitative feedback into the qualitative in a circular, but at the same time evolving, process with each method contributing to the theory in ways that each can.

4.5.2 Data analysis and interpretation

Based on the two themes in the interview guide, the data are analysed and interpreted as follows. To give a concise picture of each theme, the analyses are reported in a conclusive manner.

4.5.2.1 Perceptions on the construct and implementation of market orientation

- What does the term “market” mean to you?

10 out of the 11 interviewees mentioned the word *customers*. For example, the sales manager from car dealer A: “*I think it’s about customers. Keeping existing customers and explore more*”. Another manager: “*Customers, our current customers and potential customers*”. 5 of them noted that *competitors* are too a component in the market. The deputy manager responded that market comprises *buyers (customers), sellers and products or services*. 1 interviewee didn’t explicitly point out the word *customers* but referred market to *an economic concept of demand and supply*. Collectively, they conceptualised *customers* as the focus of market. *Suppliers* (competitors) and *products (services)* are also elements in the concept of market.

- What does the term “market orientation” mean to you? Is it a company culture,

business philosophy, practice or what?

Based on their conceptualisation of market, 6 of them took “market orientation” as *customer orientation*. As the manager from car dealer A put: “*it’s customer orientation?....I think it’s about satisfying customers’ expectations and sometimes we give them even more than they expect as they don’t always know what they want.....keeping the current customers satisfied is no less important than exploiting new customers. We keep making efforts on relationship marketing...*”. The sales manager from insurance company C commented that “*...as you may know this (insurance) industry is so competitive that one (insurance) company just went out of the business last year. We can’t cut the premium as the standard and costs are just there. To survive, we don’t just provide products. We need to customise individual’s needs and wants and also provide them with value-added services*”.

4 informants regarded *competitor orientation* is also part of the conceptualisation of “market orientation”. Consequently they commented that they should not only meet their customers’ needs and wants but also monitor their competitors. However, the floor officer from department store C noted, “*The department store sector is quite mature (in Taiwan), all the competitors have their positions and styles in the market. We monitor competitors’ important activities, such as anniversary sales, seasonal sales or Chinese New Year’s sales, but basically we focus our work on providing superior products and values to our customers.*”

Concerning the practice of market orientation, 6 interviewees took the construct as both a company culture and a business philosophy and all of them agreed that this culture or philosophy needs to be put into practice and that is what they have been doing. 1 manager perceived the construct as a business practice. 1 manager took it as

a marketing concept. 3 managers considered it as a “trend”. The marketing manager from department store E put, “...it’s the trend in the business. We just have to face it and get it into the corporation culture if we want to survive.....I think the impact is positive in the long run”.

- What kinds of things do you think a market-oriented organisation should do?
- 4 interviewees responded that to be market-oriented, **providing superior values to customers, including products and services, is basically what they are doing**. For example, the sales manager from 3C store: “...providing better products and services, improving the physical evidence, procedure, facility and information system... well, many things can be done to be market oriented”. The sales manager from car dealer A: “We are market oriented but from our standpoint as a dealer, we could probably only make efforts on improving services and retaining relationships with our (end) customers..... The headquarters makes most of the decisions and policies. It researches and knows what the market wants but not always follows the market and competitors”.
- 3 interviewees emphasised **interdepartmental and human resource aspects**. For example, “We select a target market and then hire knowledgeable and capable people for that market. For example, we are now targeting the market of young professionals so we don’t hire technicians or sales force over 32 years old when they apply.”; “Integrate the human resources in the organisation, provide them with training of how to face the market, deal with customers.....”.
- 1 manager focused on the establishment of **corporation culture** by saying that “Make all the staff in the company have consensus toward serving customers”.

- 2 informants noted **collecting information**. One manager: *“We can talk about this from different aspects. For example, from the management aspect, to make sure that policies are put into practice and effectively executed, performance of policy implementation are periodically reviewed and discussed in meetings.....From the market aspect, it’s important to know about customers, the market trend, products development, competitors’ activities, etc. We need to catch all we need to know. For example, we care for customer opinions on our products, services or some activities, so customer opinion and suggestion sheets are collected daily and customers will get our feedback within 3 days; questionnaire surveys are collected monthly and discussed by the authorised department.....”*.

- 4 informants responded from the **management perspective** to implement the marketing concept. 1 emphasised standard management system and standard service flow. The manager from the administrative department: *“Standard management system and standard service flow are important. For example, we train all our staff, not only the sales force, the basic service courtesy and flow when answering phone calls or facing customers. Since any one of us can touch with customers somehow, sometime or somewhere, the basic service enthusiasm is a must and the standard service flow is the training. You could lose a customer just because of improper manners or tones of speaking. Let me cite you an example.....”*. The other 3 informants focused on performance management: *“...performance management is about controlling and reviewing what we have done”*; *“.....For example, from the management aspect, to make sure that policies are put into practice and effectively executed, performance of policy implementation are periodically reviewed and discussed in meetings,*

if.....”.

- What do you think of the academic components constituting the construct of market orientation: *market intelligence generation, dissemination and responsiveness?* (they are explained to the interviewees). In addition to these, what other component(s) can you think of is important relating to the construct or implementation of market orientation?

All the interviewees agreed with the three academic components which constitute the flow and procedure of implementing the marketing concept. Additionally, 4 informants mentioned about **controlling** and reviewing the implementation or performance of the concept. For example, “...*controlling and monitoring the implementation of activities*”; “...*controlling the performance of activities*”; “.....*performance of policy implementation should be periodically reviewed and discussed in meetings...*”.

- What are the factors affecting the development or implementation of market orientation? Both internal and external.

Internal factors: 5 informants mentioned **management factors**: such as top management emphasis, standard management system and standard service flow, performance management. 5 informants mentioned **corporate factors**: such as organisational culture, philosophy or policy. 2 mentioned **organisational systems**: such as centralisation, formalisation and departmentalisation.

External factors: interestingly, they put more emphasis on the external factors affecting business operation and the development and implementation of the marketing concept. They are reported as follows:

- Customer power: the sales manager from car dealer A: “ ...currently it’s “*the buyer’s market*” rather than the supplier’s market in most businesses. Maybe the level of the concept existing in organisations is different but I would say the concept does and should exist in the business”.

- Government policies and regulations: the sales manager from insurance company C: “... government sets up the regulation for the public as well as for the companies to follow; **we are heavily influenced by government policies and regulation.** For example, the government years ago liberalised the insurance regulation toward a more free policy which was called “*premium liberalisation*”. I think that is also a reflection of market orientation. However, the companies in the business had to face even fierce premium competition after deregulation. A couple of small-scaled firms just went out of business these years. Years ago we rarely held marketing activities but now we need to be more aggressive to survive”. Another example is that: “We started an attempt in 2001 to establish a strategic alliance with 7-ELEVEN, though convenience stores were not allowed to sell any insurance for insurance companies at that time. We kept making efforts to establish the alliance and waited for 3 years until the deregulation in 2004. Now it is very convenient for people just popping in any 7-ELEVEN to buy a motor insurance”.

- Technological turbulence: the sales manager from insurance company C “...we successfully transformed mainframe IT system into ERP infrastructure... Through A.I. expert system, underwriting results can be completed in 10 seconds ... With regard to digital marketing, after introducing the first online insurance EC website in 1999, we continued enhancing new online services

*and functions to lead e-business development of the industry. We launched EIP and Pocket PC for our sales force **technology greatly helps us serve our customers better***".

- Market growth: the sales manager from car dealer G: *"The market growth in the car industry is very low, sometimes negative, like in this couple of years. We have established our position in the industry and currently are taking a passive position to keep our market share and gradually exploit the market"*.
- Competitive intensity: the deputy manager from department store E: *"...quite a few cosmopolitan, mega department stores were open during the early 90s. Customers have more options to buy what they want and more products to choose. **Intensive supply makes this industry so competitive that market orientation is just a consequential result.** I think this industry is not only customer oriented but also competitor oriented. Competitors are not only from the business but also from more and more boutiques, big shopping centres and shopping malls..."*. The manager from women's wear supplier F: *"...think about this, if we don't capture what the market wants and provide a superior value to our customers, why customers buy our products instead of competitors...?"*
- Social-cultural factor: the manager from women's wear supplier F: *"...there are huge markets abroad ... we investigate the overseas markets and supply them with our different categories of fashionable design. **Different markets have different cultures and characteristics...**"*.

Based on the above concise analysis on the first theme: perceptions on the construct and implementation of market orientation, interpretations and findings are generalized.

Firstly, the marketing concept of market orientation is a trend in the Taiwanese business context no matter whether it brings positive effect on a firm or a firm just has no choice but follows it in order to survive. Some firms also note that they provide not only their products or services but also customization, for example changing offerings so that they solve individual customer's problems better. This is a reflection on Ford et al.'s (1998) contention that even though the same physical product is exchanged or the same service is delivered, the offering can be significantly different in other areas. In some very competitive contexts, such as insurance or IT business, market orientation may just be a general practice; another trend and practice: customization is going on.

Secondly, from the data obtained, it seems that the practitioners in Taiwan have a very good sense of market orientation. The conceptualisation of the marketing concept found from some interviews is akin to that of Narver and Slater (1990), who conceive culture as a causal antecedent to market oriented behaviour. The components of customer orientation and competitor orientation are noted, though not all informants emphasise the importance of competitors. One possible reason may be that the firms interviewed all have an organisation history over 10 years and may be well positioned in their businesses; competitors may not be their main concern. One interesting note from the interviews is that within the same company, the higher position of the interviewee, the more concern about competitors.

Thirdly, concerning the implementation of the marketing concept, all the interviewees agree with the action components of Kohli and Jaworski (1990) – intelligence generation, dissemination, and responsiveness. Some interviewees point out that these activities are what they have been doing (to different degrees). Regarding the component of intelligence dissemination, however, a few informants indicate that their organisations still run in a centralisation and formalisation system. The policies enacted by top management direct the operation of an organisation and market intelligence does not necessarily disseminate across departments; each department may just focus on its own business unless functional coordination is requested by top management. This pinpoints the influential antecedents of top management and organisational factors to the implementation of market orientation. One interesting note from the practice of the marketing concept is that the importance and implementation of *services* are emphasised by most of the distributors but only by one supplier. Maybe distributors do not “manufacture” and possess their own products, so services and added-values are the efforts they can make to offer “superior” value to customers and to compete against competitors, which offer homogenous products. However, since only three suppliers were interviewed in the field work, it is not appropriate to conclude that services are less important for suppliers than for distributors.

Fourthly, with regard to components constituting the construct of market orientation, in addition to Kohli and Jaworski’s three behavioural elements, 4 interviewees point out the importance of *performance controlling*, which reflects the emphasis of performance management in Taiwan. It highlights the significance of actual performance, and comparison and analysis of deviation between actual and expected performance. From an implementation or measurement perspective, indeed this

insight reflects practitioners' concerns of what have been done and what needs to be improved. Thus, this valuable insight is added to the measurement of market orientation in the later quantitative study and labeled as "responsiveness controlling". Responsiveness is the action in response to market needs. However, effects of responsiveness will not be produced if actual actions and performance do not confirm to the design and efforts made by responsiveness.

Fifthly, interestingly, during the interview from time to time the interviewees mentioned quite a few external factors that influence their operation or development of market orientation. This implies that business operation in Taiwan is indeed influenced by external environmental factors and they too seem to affect the development of market orientation. For example, customer power, technological turbulence and competitive intensity may be positively associated with the development of market orientation. Although the findings from a limited number of samples restrict their generalisability, the interviews are exploratory in nature and not intended to generalise findings. The exploratory study generates a picture of the applicability and practice of market orientation in Taiwan. The construct will be further measured in the second phase quantitative study and the antecedents, both internal and external, can be further investigated in future studies.

Finally, based on the findings from the interviews, the following model, which consists of the construct of market orientation and its antecedents, is constructed as Figure 4.2 and concludes the discussion of the first theme.

developing close and intense relationships with some suppliers and (business) groups to get their relatively higher level of involvement and coordination, particularly with “groups”. Some brands or products just belong to business units of a group. We may not retain a relationship with brand A today but may have a relationship with brand B tomorrow, and they are all units of the same group...”.

The sales manager of the insurance company: *“We have been in the industry for 44 years and built up our position and goodwill. Most cooperative partners have maintained long term relationships with us and we would like to develop long term relationships with more distributors”*.

Marketing manager from department store E: *“Mostly long term relationships, depending on the products..... For example, over 60% of women’s apparel brands are different from those 10 years ago, but over 60% of household, men’s wear or children’s wear brands were unchanged during the past 10 years. Some brands are not in the store for the moment, but they may come back and run a temporary sales on our 13th Floor (a floor running sales all year round), or their belonging group may have other brands running in the store or in the other chain stores. So I think we would try to maintain a relationship once we start it”*.

- If the marketing concept is a business practice or a trend in the business context, what are the key relational factors mediating the marketing concept and long-term oriented channel relationships?
- Communication: 7 informants emphasised the importance of communication to develop and maintain a relationship by improving mutual understanding and trust, particularly to mediate the effect of market orientation on the development of a channel relation. It is perceived by the informants as a primary and fundamental element to business relations. Communication according to Anderson and Narus (1990) is categorised into the formal as well

as informal sharing of meaningful and timely information between firms. During the interviews, it seems that “personal communication” and “personal interaction” were more frequently mentioned than formal information sharing between firms and functions.

- Satisfaction: 7 informants noted this key factor to long-term relationships, such as mutual satisfaction, mutual benefits or advantage. Without satisfaction in the short-term or expected mutual satisfaction in the mid-term, long-term relationships are almost impossible. However, when asked about its mediating effects on market orientation, 3 of them were not very positive. One manager: *“If we have similar business philosophy toward the market, we may communicate more easily with each other but not necessarily be more satisfied.....the process to satisfaction is complex which involves many factors and the cooperative process. I don’t see the concept is necessarily associated with satisfaction”*.

- Trust: 8 interviewees mentioned this vital factor to sustaining a relationship and leading to the other relational factors, such as commitment and cooperation. The deputy manager: *“...basic trust is a must to commence a cooperative relationship and we may build up more trust later on upon mutual satisfaction”*. One sales manager: *“...for example, we have cooperated with these suppliers (three car care and supply manufacturers) for over 7 years and have built up mutual satisfaction and trust, so why stop the relationships? If we switch to other suppliers, the switching costs to build up mutual understanding and trust are too high. You know building up trust takes time and efforts...”*. The floor officer: *“...we lately introduce a new brand into the store: Dr. Brandt, which*

runs successfully in the Taipei Hsinyi store, so (based on the belief that the brand has the expertise and ability to perform the job effectively and reliably: trust of the brand name and performance) we launch the new brand in the southern Taiwan and attract admiring customers coming to the store. However, we need its commitment of at least one year's contract of setting up its counter only in the store in the southern Taiwan so we begin the cooperation". When discussing trust, a few terms were also noted, such as *credibility, integrity, reliability* or *honesty*. The former three terms have long been in the relationship literature (e.g. Morgan and Hunt, 1994; Ganesan, 1994). Honesty is also regarded as a facet of trust according to the definition of a few researchers that "trust is the extent to which a firm believes that its exchange partner is *honest* and/or benevolent" (Deutsch, 1958; Larzelere and Huston, 1980).

- Shared value or norm: 4 informants pointed out the importance of having similar culture or business philosophy between business partners by facilitating their communication and cooperation. One manager: *"If we have consensus or similar philosophy toward the market, it will make our cooperation easier..."*. The floor officer: *".....I think most of the suppliers know our culture or practice before they set up counters in the store. We shall communicate first. If they cannot follow the store's culture and policy, they don't set up in the store for long but the cases are few"*.
- Commitment: 3 respondents mentioned about the importance of commitment to sustaining a relationship. One manager: *"We would like to request the suppliers to make commitments of providing our customers with "value", maybe by its goodwill or by a contract..."*. Another manager: *"...when we were looking for*

our IT outsourcing contractor, the reputation and commitment of a firm are imperative factors for us to consider commencing a relationship with it. More commitments it makes, more trust we will have on it as we don't need to worry much about the unexpected or emergent situations...".

- Cooperation (and adaptation and flexibility): 7 interviewees noted the word cooperation in their responses to the question, although 5 of them did not explicitly point out that cooperation is an important factor to long-term relationships. This may be in line with Morgan and Hunt's (1994) contention that "relationship marketing success requires cooperative behaviours" but they may be regarded as automatic behaviours instead of a "factor" to maintain a relationship. When discussing a cooperative process, *adaptation* (*accommodation*) and *flexibility* are sometimes mentioned. One manager: "...we may give a try to cooperate and see how we can adapt to each other. If the suppliers are flexible and able to correspond with us (implying one party's adjustments of the behaviour to the needs of the other), we hope to maintain long term and stable relationships". Another manager indirectly pointed out: "Power used to be a dominant factor but nowadays there are too many upstream suppliers and downstream resellers in every business. No one desperately needs to rely on someone to survive...". Power is a relationship construct explicitly stated in social exchange theory. However, it is not an eminent factor according to the interviews.

Based on the above concise analysis on the second theme: relationships with main channel partners, interpretations and findings are generalized.

Firstly, the development of channel relationships is complex and strategic. When asked about the involved relationship with their main business partners, all the informants responded either harmonious, close relations or bilateral, stable relations which they would like to develop a long-term orientation. This echoes Wilson's (1995) idea that channel actors have been learning to look for fewer but more intense relationships with their partners. A long-term oriented relationship can provide them with a comparative advantage in resource that can result in a position of competitive advantage in the marketplace (Hunt, 1997).

Secondly, with regard to key relational factors mediating the interface between market orientation and long-term oriented relationships, six factors were noted and categorised: communication, satisfaction, trust, shared value or norm, commitment, and cooperation (adaptation, flexibility). The first factor, communication, appears to be the primary factor mediating the effect of market orientation. Its significance is emphasised but efforts may not be made enough. From the data obtained, informal communication (e.g. personal interaction, social activities) still influences the way of doing business and developing relationships in Taiwan. This is not surprising in that in the traditional Taiwanese business context, due to the structure of small enterprises in nature, business relationships were built on "personal interaction" to form up social bonds and *guanxi*, a Chinese term referred by Simmon and Munch (1996) as a Chinese version of relationship marketing. *Guanxi*, defined by Fan (2002) as a process of social interaction that begins with two persons but involves others at a later stage, is the lifeblood of Chinese business communities and a lubricant of business activities. However, building up mutual understanding on a firm level rather than on a personal level should improve the overall efficiency and effectiveness, such as in ongoing transactions or contractual agreements, in the

business context of nowadays.

Thirdly, satisfaction is the factor which signals a long-term orientation according to most of the interviewees. Satisfaction captures not only economic but also non-economic (social) dimensions (Geyskens et al., 1999). However, it is not differentiated in the interview. Although the responses may imply both dimensions, from their make-up that interactive experiences are evaluated from time to time, it according to Scheer and Stern (1992) refers to non-economic satisfaction. This non-economic satisfaction attribution may echo a study conducted in Taiwan investigating the effects of influence strategies on dealer satisfaction. One of the findings indicates that social satisfaction is more important than economic satisfaction in Taiwan's motor industry (Lai, 2007). A further discussion on this construct is presented in section 5.3.8: Satisfaction in the section of research constructs and hypotheses. As for the mediating effect of satisfaction on market orientation, not all the responses are positive. Although the marketing concept is likely to lead to greater customer satisfaction (Kohli and Jaworski, 1990), it can be costly but should lead to higher performance in the *long term* (Greenley, 1995). The effect of market orientation on satisfaction is subject to further test in the quantitative study.

Fourthly, trust and commitment, as expected, are reported as two important factors influencing a long-term orientation. Trust has the most frequency noted by the informants, implying that it is indeed the cornerstone of a continuing relationship. Trust has been widely recognised and reported as a main condition of exchange both in the literature of social exchange theory and business relationships. Like trust, commitment has also been recognised as central in successful relationships. However, a bit surprisingly, commitment is noted only by 3 informants. One

possible reason may be due to the environmental moderating effects. As discussed in the findings of the first theme, business operation is reported to be heavily influenced by external environmental factors. When facing uncertainty from external environment, a firm, particularly a small-sized firm, may not easily commit itself to its business partner for fear of losing flexibility in the time- and quality-based competition. Another reason may be that some of them just don't believe oral commitment so they don't come up commitment as a factor to a continuing relationship. Whether commitment is an influential factor to a long-term orientation and mediates the effect of market orientation will be tested further in the quantitative study.

Fifthly, shared value is considered as a catalyst of communication and cooperation, and also recognised by social exchange theory and relationship literature. If market orientation can be shared as a value or norm between firms, it should have positive influence on this factor, which will be further assessed in the later study. As far as the final factor cooperation is concerned, surprisingly it seldom has been studied explicitly as a construct in social exchange theory and relationship literature. It is viewed by some researchers as a broad conception of a particular kind of inter-organisational relationship (Ring and Van de Ven, 1994), a form of satisfaction (Anderson and Narus, 1984; Geyskens et al., 1998), the inverse of conflict (Gattorna, 1978), or an outcome of relationship dynamics (Thomas, 1976, 1992; Palmatier et al., 2006, 2007). However, some other inter-organisational studies have also included this component in their conceptual models (e.g. Frazier, 1983; Frazier and Rody, 1991; Anderson and Narus, 1990; Skinner et al., 1992; Mangin et al., 2008) and recognised it as a necessary component in *developing* channel relationships. As suggested in the interviews to be an important action factor in a relationship

development (build-up) stage and also asserted by Stern and El-Ansary (1992) that “inter-organisational coordination is a “central theme” of distribution theory and research, cooperation is the *action* to achieve mutual goals for mutual benefits and therefore should be explicitly expressed as a relationship development behaviour. Its role in a continuing relationship and its mediating effect will be subject to the further empirical study.

4.6 Chapter summary

The overall research design and the first phase exploratory study were the main themes of this chapter. Prior to presenting the research design, an overview of general methodology employed in the marketing field was briefly discussed to provide a picture of what methods are available for marketing research. The research design encompasses two-phase studies: an exploratory study of in-depth interviews in the first phase and a descriptive study of mixed-mode questionnaire surveys in the second phase. Since the exploratory study was the focus of this chapter, its related issues were discussed, including the justification, sampling issues and data collection procedure. In order to facilitate the construction and discussion of the research model in the next chapter, data from the exploratory study were analysed and interpreted based on the two themes in the interview guide. The preliminary findings indicated that the marketing concept of market orientation was well recognised by the interviewees. In addition to Kohli and Jaworski’s (1990) three constituent elements, another new component: *responsiveness controlling* was suggested by some informants. Additionally, antecedents, both internal and external, to market orientation were also identified. With regard to the key relational factors mediating the marketing concept and long-term oriented channel relationships, six important factors were categorised and discussed. Based on the findings from the

exploratory study, together with social exchange theory and the relationship literature, the research model is solidly grounded and constructed in the next chapter. The hypotheses drawn from the model are also developed for later test.

CHAPTER FIVE

Research Model and Hypotheses

5.1 Introduction

Based on the findings from the exploratory study, together with the social exchange theory and extensive relationship literature, the research model is developed in this chapter to serve as a framework for the second phase quantitative study. The hypotheses derived from the model are then discussed in detail. As such, the proposed research model is presented in section 5.2 to reflect the research questions, followed by a detailed discussion on the developed hypotheses and constructs in section 5.3. This chapter concludes with a chapter summary in section 5.4.

5.2 Proposed research model

As discussed in the literature review on market orientation in chapter two, although market orientation is suggested as a great source of competitive advantage, most of the related studies focus on its effect on business performance while its effect on other important organisational constructs such as customer retention and channel relationships has received limited attention. Gummesson (1999, p.238) argues that “...one of the main characteristics of the network approach is its emphasis on market oriented management rather than marketing management”. It seems that the degree of market orientation of the firms involved in the focal dyadic relationship positively affects the likelihood of continuity of the dyad in the future. Practically, market orientation and relationship marketing share many similar operative requirements: the need to obtain information on the environment, the importance of the customer-perceived value, the need for interfunctional coordination, etc. (Sanzo et al., 2003). This study aims to integrate these two constructs and investigate

potential effects of market orientation on channel relationships. How does market orientation affect the development and sustenance of channel relationships? What is the interface existing between market orientation and a long-term orientation? And how does the interface mediate the effect of market orientation on the continuity of channel relationships? These research questions are reflected on the proposed conceptual framework.

Market orientation is a broader concept than relationship marketing as it is not always appropriate to use the latter's tools with all objective publics (Jackson, 1985). An effort will not be made to maintain long-term relationships with all business partners, but only with those which are profitable for the firm and have the same time horizon (Jackson, 1985). A firm oriented towards the market knows when to employ relationship marketing. The rationales for the association between market orientation and long-term oriented channel relationships are summarised as follows.

Firstly, market-oriented firms normally adopt a long-term perspective to generate performance satisfaction. Consistently, they are likely to sustain long-term oriented relationships with those who are profitable and have the same time horizon.

Secondly, in order to create and deliver superior value to customers and retain customer satisfaction in the long run, market-oriented firms depend on the relationships with their partners. Thus, predisposition to maintain long-term oriented relationships with them is assumed to be a result of adoption of market orientation.

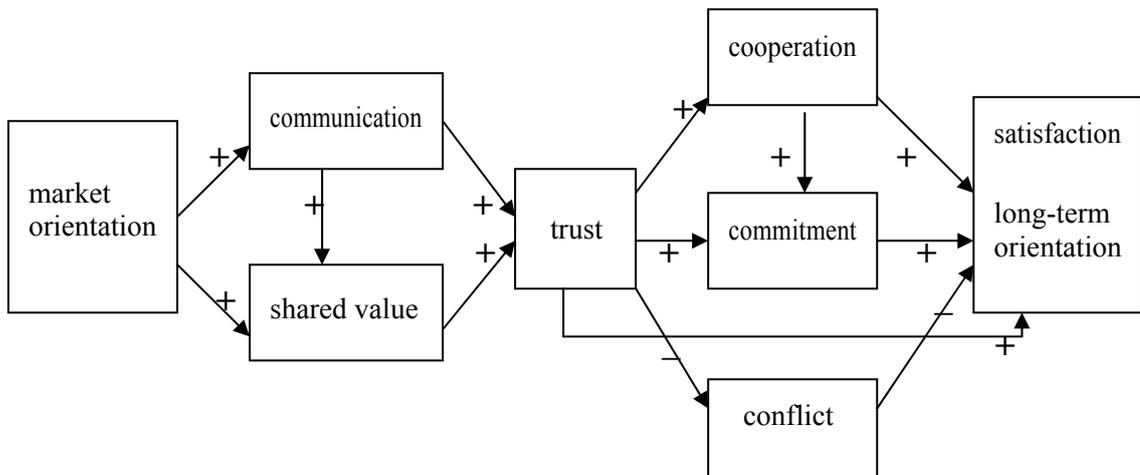
Finally, not all suppliers are beneficial for a distributor to develop relational exchanges. The nature of the exchange, relational or transactional, is mediated by the

strategic nature of the suppliers (Ford et al., 1998). In the case of strategic suppliers, more market-oriented distributors are presumed to be more determined to establish long-term relationships with them (Sanzo et al., 2003).

From the exploratory interviews, on the one hand, most informants indicated that the marketing concept does exist in the Taiwanese business context, no matter whether they have no choice (implying that market orientation is resource consuming) but to face ‘the trend or the climate’, or the marketing concept brings them positive outcomes in the long term. On the other hand, all the interviewees responded that either harmonious, close relations or bilateral, stable relations are the kind of involved relationships with their main channel partners for which they would like to develop a long-term orientation. The preliminary findings further indicate that market orientation can have potential effects on the development and sustenance of channel relationships. However, the association is not expected to be a direct or absolute one. Market orientation is found to act as a business practice, philosophy or culture fostering the development of some relational factors, such as communication, shared value, trust, etc., which influence the continuity of channel relationships.

The relational dimensions identified from the interviews are represented as the interface mediating the effect of market orientation on long-term oriented channel relationships. Based on social exchange theory and the existing relationship literature, the interactions of the relational factors are proposed. The conceptual model of effects of market orientation on the mediating factors towards long-term oriented channel relationships is constructed as Figure 5.1. The relational dimensions and their interactive mediating effects are developed as hypotheses which will be discussed in the next section.

Figure 5.1 The conceptual model of effects of market orientation on the mediating factors towards long-term oriented channel relationships



Source: Original

5.3 Research constructs and hypotheses

The relational dimensions, which mediate the effect of market orientation on long-term oriented relationships, and their interactive relations depicted in the conceptual framework are summarised in thirteen hypotheses. This research model, on the one hand, is meant to represent the working relationship at one period of time, mainly during the build-up stage. That is, it is a static model that provides a single-time-period perspective of ongoing partnerships, in contrast to an inter-temporal perspective. On the other hand, to supplement the research angle in the research stream, the research model is discussed from the distributor's perspective.

5.3.1 Market orientation

Derived from the exploratory study, the preliminary findings indicate that the practitioners in Taiwan seem to have a very good sense of market orientation. Their conceptualisation of the marketing concept is akin to that of Narver and Slater (1990), which consists of three components – *customer orientation*, *competitor*

orientation, and *interfunctional coordination*. Concerning the implementation of the marketing concept, all the interviewees agree with Kohli and Jaworski's (1990) three action components – *intelligence generation*, *dissemination*, and *responsiveness*. In addition, another new behavioural element – *performance controlling* is emphasised. It highlights the significance of actual performance, and comparison and analysis of deviation between actual and expected performance. From an implementation or measurement perspective, indeed the insight reflects practitioners' concerns of what have been done and what needs to be improved. Thus, this valuable insight is added to the measurement of market orientation in the empirical quantitative study and labeled as “responsiveness controlling”.

Comparing these two conceptualisations, Hurley and Hult (1998) suggest that, from a measurement perspective, treating market orientation as a set of behaviours and collaborative processes may have some benefits, which have been discussed in section 2.2.3 on a comparison of behavioural and cultural perspectives on market orientation. Taking into account each one's degree of academic acceptance and utilisation in subsequent studies and the consistency with the theory and scale operationalisation, the operationalisation of market orientation for this study adopts Kohli and Jaworski's (1990) definition and adds the new component from the interviews to be “*the organisationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, responsiveness to market intelligence, and performance controlling to the responsiveness*”.

5.3.2 Communication

The relational factor communication is identified by most respondents in the

exploratory study as the primary, fundamental component mediating the effect of market orientation on long-term oriented relationships. Social exchange theory explicitly recognises the importance of communication, which impacts on the dynamics of the exchanging influence process (Homans, 1958). Blau (1964) holds that social communication is essential to sustain the structure of social relations and the networks of social transactions that integrate large collectivities into a social unit. Kelly and Thibaut (1978) note that, through information sharing, exchanging parties come to understand better the results of their mutual behaviours.

In relationship marketing literature, communication between firms is believed to lead to improved connectedness and value for both (the win-win notion). Because communication processes underlie most aspects of organisational functioning, communication behaviour is critical to relationship success (Mohr and Nevis, 1990). Mohr and Nevis (1990) consider communication is central to channel performance and describe communication as being akin to a social 'glue' that holds the parties together; communication has a moderating role between channel conditions and channel outcomes. Schein (1994) reinforces its importance and emphasises that it is the 'lifeblood' and 'circulatory system' of a relationship. Regular and effective communication between partners encourages perceptions of "special status" (Czepiel, 1990) as well as feelings of "closeness" (Barnes, 1994). From a relationship practice perspective, Hutt et al. (2000) among others have found that communication is both the mechanism by which social bonds occur and tasks are initiated and completed. Indeed, many relationship difficulties stem from a lack of communication at all stages from relationship formation, facilitation of coordination to ongoing relationship sustenance. Communication can act as an indicator of governance or as a tool through which a relationship can be managed (Holden and O'Toole, 2004). Particularly under

turbulent environmental conditions and greater competition nowadays, there is increasing need for more integrated communication strategies.

Communication is defined by Anderson and Narus (1990, p.44) as “the formal as well as informal sharing of meaningful and timely information between firms”. This definition focuses on the efficacy of information exchange rather than the quantity or amount, and the construct inherently taps past experiences (Anderson and Narus, 1990). In line with this definition, the operationalisation of communication for this study is defined as “*the formal as well as informal sharing of meaningful and timely information between channel partners*”.

As defined here, communication captures the utility of information sharing. In order to achieve the benefits of collaboration, effective communication between partners are essential (Cummings, 1984; Mohr and Spekman, 1994). Mohr and Spekman (1994) propose that effective communication includes three facets: communication quality, extent of information sharing between partners, and participation. Quality includes such aspects as the accuracy, timeliness, adequacy, and credibility of information exchanged; information sharing refers to the extent to which critical, often proprietary information is communicated to the partner; and participation refers to the extent to which partners engage jointly in planning and goal setting. Effective communication between partners is expected to exhibit higher levels of communication quality, more information sharing and more participation in planning and goal setting (Mohr and Spekman, 1994)

5.3.2.1 Market orientation and communication

Most of the informants in the exploratory study consider communication as an

essential element to establish a relationship; more importantly, they can communicate and cooperate more easily with their business partners based on similar business philosophy or practice. Provided that market orientation is a widespread business trend or practice as revealed from the data, it is suggested that market orientation can have potential effects on channel relationships through effective communication between channel partners.

In social exchange theory, two variables impact on the dynamics of influence process (Homans, 1958). One is cohesiveness which is a value variable, defined as anything that attracts people to take part in a group. The other is communication or interaction which is a frequency variable. The more cohesive a group is, the greater the average frequency of interaction of the members (Back, 1950). As revealed from the interviews, if market orientation prevails in the particular business context, it should increase cohesiveness between firms when facing the market as the marketing concept represents a fundamental principle and value. The cohesiveness resulted from the fundamental principle and value should then be able to, according to Back (1950), promote communication and interaction between partners.

In addition to the theoretical rationale for the hypothetical association, practically if a distributor is market-oriented, it will be concerned with obtaining information on the different components of the environment (Kohli and Jaworski, 1990; Narver and Slater, 1990) – which increases the chance of communication with its partners to get a better knowledge on the environment. On the other hand, in order to continuously and innovatively create and deliver superior value to customers and retain customer satisfaction, channel partners need to regularly exchange and share each other's knowledge, information, resources, values, as well as resolving disagreement and

conflicts. Communication rewards the process by facilitating understanding and cooperation. Therefore, the association between market orientation and communication appears that communication not only improves the quality and flow of joint activities – intelligence generation, dissemination, and responsiveness, but also effectively integrates functions of channel partners. Furthermore, a distributor with a market-oriented culture that has a long-term focus (Narver and Slater, 1990) is likely to place special interest in its communication with selected suppliers when it comes to choosing them. Collectively, following the above arguments, the first hypothesis is developed.

H1: The level of the distributor's market orientation is positively associated with the generation of communication with the supplier.

5.3.3 Shared value

Shared value is also noted in the interviews as an antecedent to facilitating coordination between channel members. In social exchange theory, Blau (1964) extends the scope of social transactions beyond the range of direct social contacts by putting that the complex social structures that characterise large collectivities differ fundamentally from the simpler structures of small groups. There is no direct social interaction among its members of a large community or entire society; some other mechanism must mediate the structure of social relations among them. *Value consensus* provides this mediating mechanism. The cultural values and norms that prevail in a society are the matrix that forms the social relations among groups and individuals.

According to social exchange theory, shared value can be conceived as media of

social transactions that expand the compass of social interaction and the structure of social relations through social space and time. Consensus on values serves as the basis for extending the range of social transactions beyond the limits of direct social contacts and for perpetuating social structures beyond the life span of human spans. Value standards act as the media to social life and as the connector to social exchange (Blau, 1964).

Values are fundamental to definitions of organisational culture. They reflect culture when they are widely strongly held. Because they provide what many believe to be the best measure of person-organisation fit in employment setting, shared value has become a variable of great interest to organisational researchers (Chatman, 1991) and have also received attention in channel relationships (e.g. Ali and Birley, 1998; Friman et al., 2002). Stieb (2006) points out that few things can be more ethical than loyalty to shared value. When a company and employees both pursue the same value, there becomes no difference between the employees' seeking their best interest and their seeking the best interest of the company (and vice versa). Hence, the way out of the egoist difficulty with loyalty is seeing the shared value. This can also apply to inter-organisational relationships in which when channel partners both have values in common, there becomes no difference between a firm's seeking its best interest and its collaboration with the interest of its partner.

Shared value is defined by Morgan and Hunt (1994, p.25) as: "the extent to which partners have beliefs in common about what behaviours, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong". Norm is conceptually similar to the notion of shared value and is addressed by Homans (1958, p.600) as "a verbal description of behaviour that many members find it

valuable for the actual behaviour of themselves and others to conform to". Norms addressed by Heide and John (1992) are the rules by which values are operationalised; "norms refer to generalized expectations or shared beliefs about appropriate behaviours in the relationship" (Heide and John, 1992, p.34). They indicate that norms differ in their prescribed behaviour towards collective versus individual goals. Individual goals create norms of competitive behaviour whereas relational norms are based on the expectation of mutuality of interest, especially prescribing stewardship behaviour, and are designed to enhance the well being of the relationship as a whole. Shared value encourages both mutuality of interest and stewardship behaviour that will lead to achieving the mutual goals. The spirits of Morgan and Hunt (1994) on shared value and Heide and John's (1992) definition on norms are similar. To be consistent in applying the terminology and precise in the definition, the operationalisation of shared value for this study adopts Morgan and Hunt's (1994) definition that: "*the extent to which partners have beliefs in common about what behaviours, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong*".

5.3.3.1 Market orientation and shared value

In social exchange theory, as discussed earlier, cohesiveness, a value variable, is something that attracts people to take part in a group. The more cohesive a group is, the greater the chance that members can produce in the behaviour of other members in the direction of rendering these activities more valuable (Schachter et al., 1951). Homans (1958) holds that the more cohesive a group is, the larger the number of members that conform to its norms; the more cohesive a group is, the greater the chance that the group can produce a value in common or norm for the members to follow.

Shared value, as revealed from the interviews, plays a role in promoting coordination between firms. This implies that it would be beneficial and easier for a market-oriented distributor to cooperate with a supplier which has similar business philosophy or practice. In other words, a distributor's market orientation urges the pursuit and establishment of shared value with its main suppliers. In distribution channels, channel members can bring to the channel relationship their own defined set of market-oriented behaviours, which are proposed to shape their value and norm and affect the overall channel relationship. Support for this hypothetical linkage can be established using reference group theory. A reference group is "some identifiable grouping to which an actor is related in some manner and the norms and values are shared in that group" (Shibutani, 1955, p.562). According to Kelly (1965), a reference group has two functions. One, the normative, is to motivate people to aspire to goals and norms established by the group. In this case, the group evaluates the group aspirant and can reward or punish actions. The second function, the comparative, is to serve as a standard or comparison point against which the person can evaluate himself and others. These functions suggest that reference groups can have influence on the channel relationships, in addition to on individual consumer behaviour.

A channel relationship can be perceived as a reference group that uses normative influence when, for example, a supplier feels compelled to conform to norms established by the distributor in order to continue the partnership. This implies that a market-oriented distributor can encourage the adoption of market-oriented behaviours by suppliers interested in winning favours from distributors, thereby increasing profits and further cementing the relationship. The comparative function occurs when the supplier examines the behaviours and attitudes of its distributor to

obtain a benchmark or guide for its own behaviour. In selecting business partners, a supplier would find the exchange with a market-oriented distributor rewarding and attractive under the comparison level based on two reasons: (1) the distributor is the best party to perform the assigned task to interact with end customers, and (2) the distributor is behaving in the best interest of the supplier because the distributor satisfies customers and creates customers by word of mouth, thereby increasing sales and improving profitability (Anderson et al., 1994). To conclude the link between market orientation and shared value, a hypothesis is posited as:

H2: The level of the distributor's market orientation is positively associated with the pursuit and generation of shared value in the relationship.

5.3.3.2 Market orientation and communication and shared value

As noted earlier, a distributor's market orientation urges the pursuit and establishment of shared value with its main suppliers. This association can also be established, developed or strengthened through communication, a vital component to mutual understanding and compatibility. Both communication and shared value are suggested in the interviews as the fundamental elements to develop a relationship and to mediate the effect of market orientation on channel relationships.

The culture of market orientation allows coordinated firms to obtain a source of sustainable competitive advantage (Pelham and Wilson, 1996; Hunt, 1997). But for this to take place, it is necessary to translate the values and norms stimulated by this culture into coherent behaviours and activities (Kohli and Jaworski, 1990). One of the strategies is communication. On an inter-firm level, communication is particularly more critical than on an intra-firm level because it involves different

cultures, objectives, and behaviours between firms. Assuring business partners have beliefs in common about what values, goals, or policies are appropriate and important, effective communication improves understanding and compatibility. The frequency and quality of communication are vital to determining the degree to which partners have beliefs in common about mutual behaviours and goals, and then coordinate their efforts to achieve the goals.

Distributors have close and intensive interaction with end customers and actively grasp market information, which may result in different market-oriented behaviours from the supplier's. As a supplier's manager noted that: "*..... retailer is more anxious (than us) to meet customers' immediate needs, we need to communicate and negotiate and find a way...*". It is therefore proposed that a distributor's market orientation stimulates effective communication with its suppliers to establish or develop shared value. Communication leads to better understanding of a relationship. Business understanding is similar to shared value, goal compatibility and congruence (Swaminathan and Reddy, 2000). The relationship between communication and shared value is hypothesized as:

H3: The level of communication between channel partners is positively associated with the generation of shared value in the relationship.

5.3.4 Trust

Trust has the most frequency noted in the interviews to be the factor influencing a long-term orientation, implying that it is indeed the cornerstone of a continuing relationship. Trust has been widely recognised and reported as a main condition of exchange in the social exchange literature. According to Blau (1964), social exchange

tends to engender feelings of personal obligation, gratitude, and *trust*; purely economic exchange as such does not. Social exchange is embedded in trust and trust is essential for stable social relations. It is regarded as a critical factor underpinning social exchanges in that the act of initiating social exchange relationships requires the originator to trust that the recipient will respond in kind (Blau, 1964; Aryee et al., 2002). Trust underpins dyadic relationships where a certain degree of vulnerability or discretionary effort is encountered (Whitener, 1997). Blau (1994) further indicates that large-scale exchange is not likely to occur unless social bonds rooted in trust have been established.

In relationship literature, trust is one of the most widely examined and accepted relational dimensions. It is postulated as the main control mechanism for network governance (Elg, 2002) and the cornerstone of the strategic partnership (Spekman, 1988). Schumacher (2006) suggests that well-performing relationships can be differentiated from low-performers on the basis of trust. Trust levels are a good predictor of successful alliance relationship (Kauser and Shaw, 2004). Trust can increase loyalty and can result in a mutually profitable relationship for suppliers and buyers (Wimmer and Mandjak, 2002). In business-to-business relationships, where outcomes depend on the behaviour and intent of partners, trust is especially crucial. When the parties have trust in one another, there will be ways by which the two parties can work out difficulties (Johnson and Cullen, 2002).

In their commitment-trust theory of relationship marketing, Morgan and Hunt (1994, p.23) conceptualise trust as “confidence in exchange partner’s reliability and integrity”, which parallels the definition of Moorman et al. (1993, p.82) that “trust is a willingness to rely on an exchange partner in whom one has confidence”. Ganesan

(1994) conceptualises trust as a belief, a sentiment, or an expectation about an exchange partner that results from the partner's expertise, reliability, and intentionality. Two components in his conceptualisation: (1) credibility, belief that the partner has the required expertise to perform the job effectively and reliably, and (2) benevolence: belief that the partner has intentions and motives beneficial to the other when new conditions arise, conditions for which a commitment was not made. When channel partners share the common value or philosophy, for example, market orientation, they know they have the common concern for the satisfaction of end users or customers. They will convey favourable motives and intentions and maintain open communication and responsiveness to customer needs, which should convey greater competence and credibility to each other. Therefore, the operationalisation of trust for this study adopts Ganesan's (1994) definition of: "*belief in channel partner's credibility and benevolence*".

Trust to a large extent depends on the parties' previous experiences and cooperative efforts (Baker et al., 1999; Bart et al., 2005), but can also be based on the general reputation a firm has built up through its earlier behaviour (Parkhe, 1993). On the other hand, Elg (2002) proposes that trust has a propensity to favour long-term advantages generated by the relationship over short term gains achieved by opportunistic behaviour. Trust has a historical focus (Miyamoto and Rexha, 2004) as well as a future-oriented focus (Selnes, 1996).

5.3.4.1 Communication and trust

The association between communication and trust has long been discussed. Some researchers contend that communication is a prerequisite for building trust; meaningful communication between business partners is a necessary antecedent of

trust (e.g. Anderson and Narus, 1990; Morgan and Hunt, 1994; Selnes, 1998; Kwon and Suh, 2004). Timely, accurate, open, and adequate communication helps to develop a shared understanding, improves the atmosphere of the relationship, and enhances trust between the partners (Dyer and Chu, 2003). Social interactions between partner companies, characterised by high quality communication, create the perception that the partner acts out of care and concern and fosters positive attributions about benevolence and goodwill of the partner (Ring and Van de Ven, 1994), hence generating trust (Bstieler, 2006). Other works, however, have also established that trust can be an antecedent to communication (Dwyer et al., 1987). The justification of the communication–trust relationship upheld by Geyskens et al. (1998) stems from studies carried out by Anderson and Weitz (1989) and Anderson and Narus (1990). The explanation lies in the fact that, when channel members are asked to provide an assessment for their level of trust, they rate their perception of it at that moment, whereas if asked about communication they refer to recent past experiences of their relationship (Geyskens et al., 1998). Although in the market orientation literature, the direct effect of market orientation on generation of trust in the relationship is suggested by some researchers (Bigne and Blesa, 2003; Zhao and Cavusgil, 2006), communication, however, is indicated in the interviews by most of the informants as the primary factor mediating the effect of market orientation. Indeed, the direction leading from communication to trust is also noted by some informants in the interviews; the marketing concept appears to act as an indirect antecedent to trust through communication. Collectively, communication appears in the model to be a determinant for trust and their relationship is posited as:

H4: The level of communication between channel partners is positively associated with the level of the distributor's trust in the supplier.

5.3.4.2 Shared value and trust

Dwyer et al. (1987) theorise that shared value contributes to the development of trust. In line with the contention, the positive relationship between shared value and trust is also supported by some relationship studies (e.g. Morgan and Hunt, 1994; Mayer et al., 1995; Ali and Birley, 1998; Zineldin and Jonsson, 2000). In the market orientation literature, Kohli and Jaworski (1990) conceptualise a causal relationship between market orientation and repeat business from customers; Narver and Slater (1990) empirically test and find support for an association between market orientation and customer retention. Based on their arguments, a supplier is likely to have more trust in a market-oriented distributor because the latter performs a good job of satisfying and interacting with end customers and retaining customers. Furthermore, once they develop the shared value of market orientation, similar culture and value encourage both mutuality of interest and stewardship behaviours that will encourage more trust between partners to achieve mutual goals. Thus, the linkage between shared value and trust based on the arguments is developed as:

H5: The level of shared value in the relationship is positively associated with the level of the distributor's trust in the supplier.

5.3.5 Cooperation

Cooperation is implicit in social exchange theory. Blau (1964) holds that integrative bonds of social cohesion strengthen the group in the pursuit of common goals. Cohesion promotes the development of consensus on normative standards and the effective enforcement of these shared norms. Cohesion increases social control and coordination. Cooperation also implies in game-theoretic representations of interpersonal relationships. People caught up in conflict reconceptualise the situation

to relieve tension. By transforming conflict into cooperation, people resolve interpersonal conflict and reduce the inner agony of making hard decisions (Kelly and Thibaut, 1978). In addition to social exchange theory, in the political economy framework (Stern and Reve, 1980) and interaction model (Hakansson, 1982) cooperation is also a key aspect. Stern and Reve's (1980) discussion in their political economy framework proposes that cooperation between channel members leads to higher levels of profits attainable to the channel as a whole. Furthermore, Stern and El-Ansary (1992) point out that a "central theme" of distribution channel theory and research is that "interorganisational coordination is required within a marketing channel". This is extended by Morgan and Hunt's (1994) notion that relationship marketing success, in all its contexts, requires cooperative behaviours. Cooperation indeed plays a central role in achieving coordination in channels of distribution (Anderson and Narus, 1990; Morgan and Hunt, 1994).

Stern and Reve (1980, p.57) conceptualise cooperation as "the process of coalescing with others for a good, goal, or value of mutual benefit. It involves a combination of object- and collaborator-centred activity which is based on a compatibility of goals, aims, or values". Anderson and Narus (1990, p.45) define cooperation as "similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time". Humphries and Wilding (2004) define cooperation as "working together/ jointly to bring resources into a required relationship to achieve effective operations in harmony with the strategies/objectives of the parties involved, thus resulting in mutual benefit". Based on these references, the operationalisation of cooperation for this study is defined as: "*coordinated and complimentary actions between channel partners to achieve mutual goals for mutual benefit based on a compatibility of*

goals, aims, or values".

As defined here, cooperation does not imply one party's acquiescence to another's needs but rather that both parties behave in a manner that suggests they understand that they must work together to be successful. For example, two firms may be *flexible* – which is stressed by some informants in the interviews – in response to changing conditions and treat problems as joint responsibilities. Some researchers use the term "coordination" for similar activities. This is reflected in the statement by Young and Wilkinson (1997, p.55) that "activity undertaken jointly in collaboration with others which is directed towards common interests or achieving rewards may be defined as cooperation". Narus and Anderson (1987) suggest that successful working relationships are marked by coordinated actions directed at mutual objectives that consistent across organisations.

Cooperation cuts across many of the relational norms proposed by Macneil (1980), including flexibility in response to changing conditions (Heide and John, 1992) and solidarity, where the preservation of the relationship is an important end (Kaufmann and Stern, 1988). Researchers have used different features to characterise the construct of cooperation, including joint technical problem solving, reciprocity, continuity (Hakansson, 1982), concern with profitability, willingness to make cooperative changes, and owing favours (Cannon and Perreault, 1999). Having reviewed the relevant literature, Anderson et al. (1994) propose that several processes and constructs can be constructed as compatible with the concept of cooperation, including value-creating exchange, mutually pre-agreed activities, part of the initiation and expansion phases in the relationship development, joint action, and specific investment. As suggested in the interviews, the conception of

cooperation in this study is prone to mutually pre-agreed activities which involve the actors' coordinated actions and flexible adjustment.

As Elg (2008) suggests that if inter-firm market orientation activities are to become a significant strategic resource, the support of a cooperative relationship atmosphere is required. The joint activities associated with inter-firm market orientation require collaboratively collecting and responding to information and knowledge regarding customers needs and wants. In order to adequately respond to these revealed customers needs and wants, channel partners are likely to share information, exchange intelligence, or initiate joint market programs in cooperative efforts. Based on the concern about satisfying end customer needs, the channel members are likely to perceive the norms of the relationship as cooperative to work towards the mutual goal of need satisfaction.

5.3.5.1 Trust and cooperation

In Thibaut and Kelley's (1959) game-theoretic representations of interpersonal relationships, the authors propose that people caught up in conflict reconceptualise the situation to relieve tension. Through communication, trust builds up and cooperation increases dramatically. Once trust is broken, it is hard to restore joint collaboration. Cooperation reflects the belief that both parties must combine their efforts to achieve their mutual goals. They need to put trust in each other so they can bring resources into a required relationship to achieve effective operations. Both cooperation and trust contain an element of benevolence, or concern for each other and a joint effort directed at benefiting each other (Siguaw et al., 1998).

Morgan and Hunt (1994) use commitment-trust theory to explain cooperation and

indicate that trust leads to cooperation. Partners putting trust in the relationship will develop cooperative activities of some kind with each other because they all want the relationship to work out. Anderson and Narus (1990) also state that once trust is established, firms learn that coordinated, joint efforts will lead to outcomes that exceed what the firm would achieve if acted solely in its own best interests. Firms would not undertake cooperative activities without a sufficient level of trust (Johnston et al., 2004). Trust enables cooperative behaviour, promotes improved relationships, reduces harmful conflict and allows effective response in a crisis (Doney and Cannon, 1997; Mohr and Spekman, 1994). Higher levels of trust precede higher levels of cooperative activity (Smith and Barclay, 1997; McCutcheon and Stuart, 2000; Payan and Svensson, 2007). Trust leads directly to cooperative activities that are conducive to relationship success (Zineldin and Jonsson, 2000). Conducting a meta-analysis on the factors influencing the effectiveness of relationship marketing, Palmatier et al. (2006) also indicate that trust is the most critical factor for cooperation compared with other mediators.

In the market orientation literature, Bigne and Blesa (2003) indicate that manufacturer's market orientation has direct effects on the distributor's trust; Zhao and Cavusgil (2006) also show that supplier's market orientation is significantly related to manufacturer's trust, which affects the manufacturer's long-term orientation toward the supplier. A distributor will come out some kind of cooperative activities with a market-oriented supplier based on its trust that the latter will make efforts to monitor and design a response to the distributor's need to satisfy end customers. Likewise, a supplier having trust in a market-oriented distributor will also come out cooperative activities of some kind based on the belief that the distributor has good interaction with end customers, satisfies customers and retain

customers, thereby increasing sales and improving profitability for both of them. Collectively, the association between trust and cooperation is expected that:

H6: The level of the distributor's trust in the supplier is positively associated with the level of cooperation with the supplier.

5.3.6 Commitment:

Like trust, commitment has long been central in the social exchange theory (Blau, 1964; Thibaut and Kelly, 1959). Blau (1964) points out that the establishment of exchange relations involves making investments that constitute commitments to the other party. The effective achievement of collective goals requires organisations with committed members. Cook and Emerson (1978, p.728) characterise commitment as “a variable we believe to be central in distinguishing social from economic exchange”. In relationship literature, commitment also has been recognised by scholars as an essential ingredient for successful long-term relationships (e.g. Dwyer et al., 1987; Morgan and Hunt, 1994; Garbarino and Johnson, 1999) and refers to as an attitudinal component signifying a durable intention by the parties to develop and sustain a long-term relationship (e.g. Anderson and Weitz, 1992).

Channel commitment is considered as an important outcome variable in channel relationships (Morgan and Hunt, 1994; Geyskens et al., 1998). In their commitment-trust theory of relationship marketing, Morgan and Hunt's (1994) definition of commitment corresponds with that developed by Moorman et al. (1992, p.316): “commitment to the relationship is defined as an enduring desire to maintain a valued relationship”. It is based on the belief that a relationship is worth the effort

to be maintained. Anderson and Weitz (1992) view commitment as inherent in the nature of long-term orientation toward the relationship. They conceptualise “commitment to a relationship entails a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship” (Anderson and Weitz, 1992, p.19). Corresponding to their definition, the operationalisation of commitment for this study is defined as: “*a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship*”.

Commitment implies importance of the relationship to the partners and a desire to continue the relationship to the future. Hardwick and Ford (1986) point out that commitment assumes that the relationship will bring future value or benefits to the partners. As such, committed relationship partners are unlikely to switch even if a competing supplier outperforms the incumbent’s value offer. Consequently a high level of commitment helps to stabilize the relationship. Morgan and Hunt (1994) point out commitment encourages marketers to (1) work at preserving relationship investments by cooperating with exchange partners, (2) resist attractive short-term alternatives in favour of the expected long-term benefits of staying with existing partners, and (3) view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically, and the empirical evidence also reveals that commitment engenders cooperation and establish the foundation for long-term relationships. Virtually any long-term relationship will require that channel partners fulfill obligations and behave predictably (Zaheer et al., 1998) since failure to comply with the commitments would likely terminate the relationship. Commitment ensures that partners are approaching toward long-term

orientation.

Four characteristics of relationship commitment are commonly used to describe commitment: loyalty (Geyskens et al., 1996), willingness to make short-term sacrifices (Anderson and Weitz, 1992), long-term orientation (Ganesan, 1994), and willingness to invest in the relationship (Gundlach et al., 1995). Current literature identifies two types of commitment: affective and calculative commitment (Johnson et al., 2001; Fullerton, 2003; Hansen et al., 2003). Calculative commitment is the colder, or more rational, economic-based dependence on product benefits due to a lack of choice or switching costs (Anderson and Weitz, 1992; Heide and John, 1992). Affective commitment is a hotter, or more emotional, factor that develops through the degree of reciprocity or personal involvement that a customer has with a company, which results in a higher level of trust and commitment (Morgan and Hunt, 1994; Garbarino and Johnson, 1999). Sharma et al. (2001) distinguish three types of commitment based on their underlying motives – affective commitment, cost-induced commitment, and obligation-based commitment.

5.3.6.1 Trust and commitment

A direct link between trust and commitment often has been reported in the literature. Trust is considered as a key determining factor for commitment in the relationship structure (e.g. Dwyer et al., 1987; Morgan and Hunt, 1994; Achrol, 1991; Zineldin and Jonsson, 2000). In a study of user-researcher relationships, Moorman et al. (1992) indicate that trust by marketing research users in their research providers significantly affects user commitment to the research relationship. Spekman (1988) postulates that trust is the cornerstone of the strategic partnership and that relationships characterised by trust are so highly valued that parties will desire to

commit themselves to such relationships. Commitment entails vulnerability, so parties seek only trustworthy partners. Ganesan (1994) suggests that trust lessens potential risk and vulnerability within the relationship, thus leading to a greater long-term orientation. Furthermore, trust reduces transaction costs since there is no need to set up control mechanisms within the relationship (Jap and Ganesan, 2000). As a consequence, these lower costs make it more likely that the relationship will continue in the future and the commitment to the relationship will become greater.

Social exchange theory explains this causal relationship through the principle of generalized reciprocity, which holds that “mistrust breeds mistrust and as such would also serve to decrease commitment in the relationship and shift the transaction to one of more direct short-term exchanges” (McDonald, 1981, p.834). Drawn on the evidence and support from the literature and theory, accordingly, it is expected that:

H7: The level of the distributor’s trust in the supplier is positively associated with the level of commitment to the supplier.

5.3.6.2 Cooperation and commitment

Cooperation is seen as essential to maintain a successful business relationship especially when it is linked with commitment to the achievement of shared, realistic goals (Stern and Reve, 1980; Sheth and Sharma, 1997). Although process frameworks typically have cooperation and commitment leading to one another over time, their causal ordering in a given exchange episode has varied. The works of Axelrod (1984) and Anderson et al. (1994) support the position that for a given exchange episode, commitment is viewed as an outcome of cooperation. Zineldin and Jonsson (2000)

view cooperation as occurring within the relationship maintenance and commitment process. Cooperation is a part of intention to develop relationship commitment. In line with these arguments, this study also posits that cooperation causes commitment since an established cooperative environment is a necessary precursor to commitment in the relationship build-up stage. In fact, channel relationships are dynamic, and thus in subsequent periods, this accumulation of commitment should lead to more future cooperation between partners. This research model is a static model that provides a single-time-period perspective, the build-up stage, of ongoing relationships, in contrast to an inter-temporal perspective, and the data are cross-sectional as opposed to longitudinal. Thus, a positive path is posited from cooperation to commitment in this study.

In the market orientation literature, Kohli and Jaworski (1990) suggest that the activities and behaviours associated with a market orientation necessitate the commitment of resources. A supplier that perceives its trading partner as willing to take on the added costs of behaving in a market-oriented fashion is likely to reward the partner by being more cooperative, especially when the partner's actions improve customer relationships with the supplier's end users. Furthermore, for a distributor to respond to information regarding customer needs, it will be likely to share information and engage in cooperative activities and consequent commitment with the supplier to meet customers' needs. Therefore, based on these arguments, the association between cooperation and commitment is expected that:

H8: The level of the distributor's cooperation with the supplier is positively associated with the level of commitment to the supplier.

5.3.7 Conflict

The factor conflict is not explicitly indicated by the informants in the interviews. One reason may be when they were asked about the question: “what are the key relational factors mediating the marketing concept and long-term oriented channel relationships?” they mostly took positive attitude towards the factors fostering the link between the two concepts. However, a review of the literature on social exchange theory, it explicitly recognises the role of conflict in organisational relationships. In addition, in the channel relationship literature Dwyer et al. (1987) hold that there always will be disagreements or conflict in relational exchanges. This view is also shared by Anderson and Narus (1984, 1990) and Mohr and Spekman (1994). Potential conflict among channel actors seems to be inevitably inherent, pervasive, and potentially disruptive due to the inherent interdependencies and conflicting interests. Thus, based on the theory and specialized literature as well as the nature of channel relationships, the construct of conflict should be included in the relationship development process and is thus depicted in the research model.

Social exchange theory explicitly recognises the role of conflicts in organisational relationships. Blau (1964) points out that during the exchange process, there are conflicts between the obligation to reciprocate and the obligation to accept favours. Imbalance of obligations incurred in social transactions produces differences in power, and concurrently potential conflict may exist. On the other hand, it would be also typical of social associations that the individuals who establish them have some common and conflicting interests.

Organisations strain toward maximizing their autonomy; however, mutual interdependencies tend to create conflicts of interests (Schmitt and Kochan, 1977). In

vertical marketing systems, the strain toward autonomy will be juxtaposed to the desire to co-operate, so a mixture of conflictual and cooperative motives will be present (Schimdt and Kochan, 1977; Stern and El-Ansary, 1990). In the study of distribution channels as political economics, Stern and Reve (1980) propose that cooperation and conflict are two dominant sentiments and behaviours which characterise the interactions between channel members. A common example is found in channel relationships ordered by long-term contracts. They reflect basically cooperative sentiments, but conflicts take place regarding the interpretation of contractual details and problem-solving approaches. Conflictual and cooperative processes often exist simultaneously in all channels (Stern and Reve, 1980).

Conflict has been defined several ways in the channel literature. It has been referred to in terms of (1) a feeling of stress, tension, or hostility of one channel member toward another (affective conflict); (2) the antecedent conditions of behavioural conflict (latent conflict); (3) actual conflictual behaviour (manifest conflict); and (4) the perception of conflict level (perceived conflict) (Gattorna, 1978). Anderson and Narus (1984, p.66) define conflict as “the frequency and intensity of disagreement between the distributor and manufacturer”. Geyskens et al. (1999, p.225) call conflict as “the level of tension, frustration, and disagreement in the relationship when one channel member perceives that another channel member is engaged in behaviour that is preventing or impeding it from achieving its goals”. Palmatier et al. (2006) simply put conflict as “overall level of disagreement between exchange partners”. Referring to the above definitions, the operationalisation of conflict for this study is defined as “*the level of tension, frustration, and disagreement between channel partners*”.

Conflict is sometimes termed or distinguished as “affective”, “latent”, “manifest” or “perceived” conflict, which is different from another term: “functional conflict”. Functionality of conflict is an evaluative appraisal of the results of recent efforts to resolve disagreements (Anderson and Narus, 1990). Functional conflict may increase productivity in relationship marketing and be viewed as “just another part of doing business” (Anderson and Narus, 1990, p.45). The rationale for this is that conflict is not always “dysfunctional” or “destructive”, when disagreements or disputes can be resolved amicably, such conflicts can be referred to “functional”, “constructive”, or “productive” because they prevent stagnation, stimulate interest and curiosity, and provide a “medium through which problems can be aired and solutions arrived at” (Deutsch, 1969, p.19). For this study, since the key relationship variables identified is basically based upon social exchange theory in addition to the exploratory study, the construct “conflict” instead of “functional conflict” is explicit in the theory and accordingly is adopted by the study. Another reason is that this study is meant to represent the working relationship at the build-up stage, to test the link between the variables, conflict may occur pervasively before it goes through time, experiences, and history to reduce recurring conflicts, learn to discuss productively and become “functional”. Thus, “conflict” is depicted and tested in the model, and manifest and perceived conflicts, which are often used in terms of conflict, are measured in this study.

5.3.7.1 Trust and conflict

Trust and conflict are inherent issues of any inter-organisational arrangement. Working partners often anticipate conflicts of interests to exist, yet they can often be counterbalanced by trust and efforts at unity (Dwyer et al., 1987). Anderson and Narus (1990) propose a negative causal relationship between functional conflict and

conflict. Firms that have the ability to resolve conflicts have a lower overall level of conflict in their working relationship. They further assert that firms that have developed strong trust are more likely to work out their disagreements amicably and accept some level of conflict as being “just another part of doing business” (Anderson and Narus, 1990, p.45). This view is shared by Morgan and Hunt (1994) that trust leads a partner to perceive that future conflictual episodes will be functional. In turn, this implies that firms which have strong trust in a relationship are more likely to have a lower overall level of conflict. Conducting a comparative longitudinal analysis of inter-organisational relationship performance, Palmatier et al. (2007) confirm a direct impact of trust on conflict from the commitment-trust theoretical perspective.

As previously discussed in the construct of shared value, with communication and shared value of market orientation as antecedents to trust, similar culture and value encourage mutuality of interest and stewardship behaviours that will promote trust between channel partners to achieve mutual goals, and thereby the level of conflict is likely to be low or they are more likely to apply some kind of resolution techniques to lower the level of conflict, such as the use of joint problem solving or persuasion. This study consequently proposes a negative causal link between trust and conflict.

H9: The level of the distributor’s trust in the supplier is negatively associated with the level of conflict with the supplier.

5.3.8 Satisfaction

Research in equity and social exchange theory suggests that (in)equitable outcomes

affect behaviours in subsequent periods (Kelly and Thibaut, 1978). Social exchange occurs when social bonds have been established. The mutual advantages from the associations fortify their social bonds (Blau, 1994). This implies that mutual satisfaction is crucial to social bonds and exchange continuity. In a continuing relationship, satisfaction with past outcomes indicates equity in the exchange (Ganesan, 1994). One way to achieve strong and continuing relationship is to ensure that channel partners are satisfied. Satisfaction affects channel members' morale and resulting incentive to participate in collective activities (Schul et al., 1985). It helps in developing integrated logistics management and just-in-time inventory systems (Brown et al., 1991). Satisfied channel members are less prone to exit the channel, less inclined to file lawsuits against other channel members, and not likely to seek protective legislation (Hunt and Nevin, 1974). Thus, Dwyer (1980) views channel member satisfaction as the key to long-run channel viability.

Satisfaction is the overall evaluation of the relationship between two channel members (Anderson and Narus, 1990). Ruekert and Churchill (1984, p.227) call satisfaction a fundamental aspect of channel relationships and define it as "the domain of all characteristics of the relationship between a channel member and another institution in the channel which the focal organisation finds rewarding, profitable, instrumental, and satisfying". Channel member satisfaction is defined by Anderson and Narus (1984, p.66) as "a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm". Focusing on the overall appraisal of all aspects of a working relationship, the operationalisation of satisfaction for this study adopts Anderson and Narus's (1984) definition that: "*satisfaction is a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another channel partner*".

Satisfaction captures not only economic but also non-economic (social) dimensions (Geyskens et al., 1999). Economic satisfaction is described as “a channel member’s evaluation of the economic outcome that flows from the relationship with its partners such as sales volume, margins and discounts”. Social satisfaction on the other hand is defined as a channel member’s “evaluation of the psychological aspects of its relationship in that interactions with the exchange partner are fulfilling, gratifying and facile” (Geyskens and Steenkamp, 2000, p.13). Non-economic satisfaction refers to the evaluation of interactive experiences (Scheer and Stern, 1992) and it has been linked with exchanges that reflect the good psychological behaviour of the members (Gassenheimer and Ramsey, 1994). Since the financial performance of adopting a market orientation may not be expected in a short term and this study is designed to use satisfaction to signal the continuity of a relationship, the measurement for this construct in this study adopts a social dimension instead of an economic perspective to represent relational satisfaction. This social dimension echoes a study conducted in Taiwan investigating the effects of influence strategies on dealer satisfaction, in which social satisfaction is found to be more important than economic satisfaction in Taiwan’s motor industry (Lai, 2007).

5.3.8.1 Trust and satisfaction

Relationship marketing literature shows a positive link between trust and satisfaction, although the causal order is not altogether so clear. Some authors have established trust as an antecedent of satisfaction (e.g. Anderson and Narus, 1990; Andaleeb, 1996; Geyskens et al., 1998; Siguaw et al., 1998), whereas other researchers have proposed the opposite: satisfaction is an antecedent of trust (Ganesan, 1994; Geyskens et al., 1999; Selnes, 1998).

It is considered in the study that the distributor's trust in the supplier's credibility and benevolence is an antecedent of non-economic satisfaction in relationships. Satisfaction appears to be an overall evaluation of the fulfillment of all aspects of a working relationship and thus “trust could make a significant contribution” (Geyskens et al., 1998). When a distributor trusts a supplier, a sense of security will arise due to the implicit belief in the supplier's actions generating positive results. This evaluation will lead to greater satisfaction (Andaleeb, 1996). Bstieler (2006) explains the association between trust and satisfaction in more detail by putting that partnerships characterised by higher levels of trust between buyers and suppliers are likely to result in more time-efficient product development as the parties can focus on the product development itself rather than on managing or even struggling to maintain the partnership, thus making any coordination or decision-making more efficient. Higher levels of trust are also expected to result in higher financial performance because trust reduces transaction costs, thereby increasing profitability (Dyer and Chu, 2003). On a general level, a distributor holding greater trust in its partners is more likely to exhibit higher satisfaction with the partnership itself. Thus, the association between trust and satisfaction is expected that:

H10: The level of the distributor’s trust in the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

5.3.8.2 Conflict and satisfaction

In distribution channel literature, conflictual relationship may signal that the channel members are not satisfied with the relationship. In studying conflict measurement in distribution channels, Rosenberg and Stern (1971) propose that the degree of dissatisfaction of distributors with dealers and of dealers with the manufacturers is

related to the degree of conflict between these dyads. Dwyer (1980) and Skinner et al. (1992) also suggest that the level and nature of conflict affect directly the level of channel members' satisfaction. Satisfaction results from perceptions of past performance, autonomy, and structure, and it is inversely related to level of conflict (Schul et al., 1981). Disagreements tend to block achievement of the firm's goals, eliciting frustration, and thereby cause feelings of unpleasantness and dissatisfaction about the relationship (Frazier, 1983; Anderson and Narus, 1990). As conflicts develop in the channel relationship and the accomplishment of channel goals is hindered (Stern and Reve, 1980), it is expected that the overall appraisal of the relationship will be less favorable (Scheer and Stern, 1992). Thus, a negative effect of conflict on satisfaction is predicted.

H11: The level of the distributor's conflict with the supplier is negatively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

5.3.8.3 Commitment and satisfaction

Commitment and satisfaction have been identified as two key characteristics of successful relationship. In an ongoing relationship, the parties expect each other to be committed to what they have in common (Cook and Emerson, 1984). Commitment can manifest itself in various ways like making adjustments to standard products or services, or by investing in the relationship (Johanson et al., 1991). Commitment is also a way of responding to customer needs and is a key dimension of being market oriented (Kohli and Jaworski, 1990).

Commitment to a relationship frequently is believed to result in a higher satisfaction

level (e.g. Stern and El-Ansary, 1990; Selnes, 1998). However, the empirical findings regarding the relationship between commitment and satisfaction are equivocal. Some works indicate that relationship satisfaction is a source or a dimension to commitment (Wetzels et al., 1998; Ulaga and Eggert, 2006; Sahadev, 2008). Other studies (e.g. Siguaw et al., 1998; Jap and Ganesan, 2000; Palmatier et al., 2006) maintain a positive relationship between commitment and performance. Kumar et al. (1994) further indicate that affective commitment results in better organisational performance, whereas calculative and moral commitment results in lower performance. Holm et al. (1996) find that relationship commitment has a strong effect on relationship profitability.

In this work, it is considered that if the distributor is committed, it may strive to work at the relationship. In this way and through a joint effort to reach individual and collective goals and obtain mutual benefits, the perception of compatibility between the parties increases (Jap and Ganesan, 2000). This compatibility, linked to the possibility of obtaining better results and improving customer service and product quality, favours the appearance of greater satisfaction that enforces the preservation of the relationship. Commitment is like an expectation within a business relationship, and fulfilling this expectation is thus postulated to drive relationship satisfaction. Confirmation/disconfirmation theory (e.g. Churchill and Surprenant, 1982) predicts that satisfaction is achieved when expectations are fulfilled (confirmed), that negative disconfirmation of expectations will result in dissatisfaction, and that positive disconfirmation will result in enhanced satisfaction. When a distributor is satisfied with a supplier, it knows that the supplier is able to deliver what is expected, and thus the perceived risk associated with choosing a familiar supplier (who fulfils expectations) is less than the perceived risk associated

with choosing an unfamiliar supplier, or a familiar supplier who has not met expectations in previous experiences (Selnes, 1998). Based on the arguments, it is proposed that commitment is positively related to satisfaction in the interchange.

H12: The level of the distributor's commitment to the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

5.3.8.4 Cooperation and satisfaction

Stern and Reve's (1980) discussion in their political economy framework proposes that cooperation between channel members leads to higher levels of profits attainable to the channel as a whole. The rationale is that cooperative behaviour facilitates coordination and programming of activities within the channel which, in turn, provides potential cost advantages and improved competitive strength (Stern and Reve, 1980, p.60). Some channel researchers have also suggested that a positive relationship exists between cooperation and satisfaction (e.g. Dwyer, 1980; Anderson and Narus, 1990; Skinner et al., 1992; Geyskens et al., 1998; Payan and Svensson, 2007; Terawatanavong et al., 2007; Mangin et al., 2008). By using a laboratory simulation of marketing channels, Dwyer (1980) holds according to the correlation evidence that satisfaction stems from perceived cooperativeness of partners in the channel. Members seeking to stipulate the behaviour of others in the channel and to preserve a wholesome channel system and environment must do so through cooperative means. Anderson and Narus (1990) assert a positive path from cooperation to satisfaction through the perceptions of compatibility and the fulfilment associated with attaining desired outcomes.

Cooperation will involve some kind of improvement in economic outcomes, either by cutting costs, improving company image or increasing profits from the channel cooperation. Additionally, cooperation can involve greater contact and more information sharing between partners, which will link directly into enhanced social satisfaction. Some cooperative activities can improve competitiveness satisfaction, e.g. a faster product cycle, a better company or brand image, greater value according to customer perception, access to new information technologies leading to more productivity, new product launches, etc. (Vazquez et al., 2005). Thus, the cooperative efforts of channel partners should result in greater channel efficiency and the achievement of goals that the firms cannot have met individually, which leads to higher levels of satisfaction. In sum, this study posits that satisfaction is an aggregate evaluation at some higher level than cooperation, and cooperation is an important source for satisfaction.

H13: The level of cooperation between channel partners is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

5.3.8.5 Satisfaction and long-term oriented relationships

The mediating factor of satisfaction according to most informants in the interviews is the key to a long-term oriented relationship. Without perceived satisfaction during the development of a relationship or expected satisfaction in the future, long-term relation is almost impossible. This is in line with some studies asserting that satisfaction has been suggested and empirically documented as affecting the buyer's decision to continue a relationship (e.g. Anderson et al., 1994) and conversely reduce the likelihood of exit from the relationship (e.g. Singh, 1988). Anderson and Narus (1990) contend that satisfaction, by its nature, is not only a close proxy for concepts such as

perceived effectiveness, but also may be more predictive of future actions by partner firm managers. Ring and Van de Ven (1994) propose that a decision to continue an interorganisational relationship is based on an assessment of economic efficiency and fairness of past transactions, and thus satisfaction with the supplier. A positive effect of customer satisfaction on retention and continuing relationships is also maintained by Gustafsson et al. (2005) and a negative effect of satisfaction on propensity to terminate a relationship is put by Abdul-Muhmin (2005). Following the arguments in the relationship literature, a distributor's satisfaction with the supplier should have positive effect on the repurchase and continuance of the relationship.

In social exchange theory, Homans (1958) proposes that interaction is a process in which two participants carry out activities directed toward one another and exchange valuable resources. They will continue to interact with each other only if they perceive that the exchange relationship is an attractive alternative. Otherwise they might find it more valuable to interact with others who can provide what they need, be it goods or affection. Following the theory and the findings from the interviews, it is proposed that only when channel members perceive that the exchange relationship is an attractive alternative which has provided satisfaction or will generate satisfaction, their behaviour changes less, thereby possibly continuing the relationship.

As previously discussed on the market orientation effect on performance in section 2.3.1, the literature has mostly provided support for the marketing assumption that market orientation results in satisfaction and better performance in the long term. Based on the preliminary data from the exploratory study, on the one hand, long-term oriented relationship is the main concern for the channel partners in the

particular business context; on the other hand, satisfaction signals a long-term orientation. Theoretically, the market orientation philosophy would exert potential effects on the development and maintenance of a long-term exchange relationship because it results in satisfaction in the long run. Collectively, drawn from the findings from the exploratory study, the support from the market orientation theory, together with the discussions on the relationship literature and rationales from social exchange theory, satisfaction is proposed as the focal consequence and outcome of channel relationships in the conceptual framework and parallels a long-term orientation.

To summarise the above discussions, Table 5.1 presents the operational definitions and their references for each relational mediating factor in the research model. Table 5.2 provides a summary of the thirteen hypotheses, which will be empirically tested in the second phase quantitative study, and their supporting theories.

Table 5.1 A summary of operational definitions and references for each variable

Variable	Operational definition	Reference
Market orientation	the organisationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, responsiveness to market intelligence, and performance controlling to the responsiveness	Kohli and Jaworski (1990)
Communication	the formal as well as informal sharing of meaningful and timely information between channel partners.	Anderson and Narus (1990)
Share value	the extent to which partners have beliefs in common about what behaviours, goals, and policies are important or important, appropriate or inappropriate, and right or wrong	Morgan and Hunt (1994)
Trust	belief in channel partner's credibility and benevolence	Ganesan (1994)
Cooperation	coordinated and complimentary actions between channel partners to achieve mutual goals for mutual benefit based on a compatibility of goals, aims, or values	Stern and Reve (1980) Anderson and Narus (1990)
Commitment	a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship	Anderson and Weitz (1992)
Conflict	the level of tension, frustration, and disagreement between channel partners	Geyskens et al. (1999) Anderson and Narus (1984)
Satisfaction	a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another channel partner	Anderson and Narus (1984)

Table 5.2 A summary of thirteen research hypotheses

Hypothesis	Supporting theory
H1: The level of the distributor's market orientation is positively associated with the generation of communication with the supplier.	Social exchange theory Reference group theory
H2: The level of the distributor's market orientation is positively associated with the pursuit and generation of shared value in the relationship.	Social exchange theory
H3: The level of communication between channel partners is positively associated with the generation of shared value in the relationship.	Social exchange theory
H4: The level of communication between channel partners is positively associated with the level of the distributor's trust in the supplier.	Social exchange theory Commitment-trust theory
H5: The level of shared value in the relationship is positively associated with the level of the distributor's trust in the supplier.	Social exchange theory Commitment-trust theory
H6: The level of the distributor's trust in the supplier is positively associated with the level of cooperation with the supplier.	Social exchange theory Commitment-trust theory
H7: The level of the distributor's trust in the supplier is positively associated with the level of commitment to the supplier.	Social exchange theory Commitment-trust theory Political economy theory
H8: The level of the distributor's cooperation with the supplier is positively associated with the level of commitment to the supplier.	Social exchange theory
H9: The level of the distributor's trust in the supplier is negatively associated with the level of conflict with the supplier.	Social exchange theory Commitment-trust theory
H10: The level of the distributor's trust in the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.	Social exchange theory
H11: The level of the distributor's conflict with the supplier is negatively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.	Social exchange theory
H12: The level of the distributor's commitment to the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.	Social exchange theory Confirmation theory
H13: The level of the distributor's cooperation with the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.	Social exchange theory Political economy theory

5.4 Chapter summary

This chapter discussed the conceptual framework and the hypotheses that make up the framework. The interface, which exists between market orientation and a long-term orientation, and the relational mediating dimensions were basically identified and clarified from the first phase exploratory study. Drawn from social exchange theory and synthesized with extensive relationship literature, the interactions of the relational factors were proposed. Together, an integrated research model was developed for analysing the effect of market orientation on the mediating factors towards long-term oriented channel relationships. In the model, market orientation is proposed to be mediated initially through communication and shared value, followed by trust, cooperation, commitment, conflict, and the factor signaling a long-term oriented relationship, satisfaction. Upon development of the hypotheses, in the next chapter, the research methodology for the second phase quantitative study employed to test the hypotheses is discussed.

CHAPTER SIX

Research Methodology II: The Quantitative Study

6.1 Introduction

In order to potentially generate what anthropologists call “holistic work”, as discussed in the research design of chapter four, this study employs the pragmatism paradigm which reconciles the interpretivist and positivist paradigms. The first phase inductive qualitative study is concerned with character of the context and particularization, aiding the exposure of the marketing concept as well as the business dynamics to facilitate development of the variables for the conceptual model and hypotheses. The second phase descriptive quantitative study is concerned with generalisation, testing the theoretical model and the hypotheses developed from the qualitative study synthesised with social exchange theory and existing relationship literature. The task of this chapter is to present the design of the quantitative study for testing the hypotheses and to describe the data collection procedure. Section 6.2 discusses the quantitative method employed in this study, which includes mixed-mode self-administered questionnaire surveys, followed by the issues related to this method. The issues include measures to enhance the response rate (section 6.3), measurement and scaling (section 6.4), instrument development and refinement (section 6.5) and sampling procedures (section 6.6). Data collection and survey administration are presented in section 6.7, followed by the final section 6.8 with a chapter summary.

6.2 Quantitative method for the study

A self-administered questionnaire survey approach is adopted for the quantitative study to measure the marketing concept and verify its effect on the mediating factors as well as their interactions toward developing and sustaining channel relationships.

Two popular survey modes are widely employed in today's quantitative data collection with a certain length of questionnaire: postal and electronic surveys. Comparatively, most marketing academic research trusts and prefers the quality information secured by the post mode due to the inherent coverage and non-response problems of the electronic device. However, with rapid and dynamic development and expansion of technology, the quick evolution of electronic surveys has made them become commonplace nowadays. The Internet has now being extensively used for collecting primary information in mainstream marketing, though with caution (Aaker et al., 2000). Based on the value of Internet and postal surveys, there is an increase in the occurrence of the mixed-mode surveys (Biemer and Lyberg, 2003; De Leeuw, 2005), and mixed-mode surveys have become the increased need in the survey world as a means of reducing overall survey error (Dillman, 2007). In addition to the popularity of adoption of the mixed modes, practically in view of apparent decline in survey response rates and limited resources for the study, a mixed-mode survey approach, mainly by post and complemented by Internet, is employed to increase the opportunity to improve overall responses.

Postal surveys are the dominant quantitative data collection device in the field of marketing research due to its scientific underpinnings. As for the electronic device, although its use as a research tool is arguable, the feasibility behind the choice for the study is based on the following rationales. First, concerning the accessibility, since the sample elements of this research are business units rather than end users or customers, the great majority of them can be accessed via Internet, though a national online directory is not easy to be obtained. Secondly, the target informants are the management, and their capability of computer skills to answer the request online is

generally assumed. Meanwhile, an option of a replacement paper questionnaire is also provided. In practice, forwarding the e-mail and web questionnaire to the key informant presents another problem, which can significantly lower response rates. Nevertheless, the problem of answering the request by *target* informants instead of their delegation is also embedded in the post mode. The purpose of using the Internet device is to improve the overall responses; it is not designed to solely rely on this instrument. Thirdly, using a web survey is warranted by its prominent advantages of eco-friendliness, speed and costs-saving promises. This is particularly valuable for a research with limited resources. Finally, success in constructing a valid web questionnaire needs experience. Thus, learning to design an effective web survey as well as experiencing the implementation process is another rationale for adopting this advanced and widely used instrument in this study.

The concerns for choosing postal and electronic surveys over other survey methods such as telephone or face-to-face personal surveys are four-fold. The first advantage is the feature of anonymity. Without revealing their identity when answering the request, the respondents, particularly from the postal mode, are more willing to reveal their true opinions in lieu of socially desirable answers. Secondly, better quality answers are more likely to be secured as the respondents are given sufficient time to consider the questions, check the answers, and complete the questionnaire at their convenience. In addition, elimination of the bias from interviewers also improves the quality of answers. Thirdly, postal and electronic surveys enable information to be gathered in a relatively large amount from wide geographic areas at relatively low costs. Finally, with such a length of questionnaire, it is practically difficult to carry out via telephone or personal surveys.

Although the main advantages for the mail survey well justify its use in the study, a number of disadvantages should also be recognised. For example, one of the main weaknesses of mail survey is its low response rate, a relatively low data reliability and validity being affected by non-response error (Tull and Hawkins, 1984). A number of measures have long been discussed and suggested to enhance response rates. The next section presents the major techniques suggested in the literature.

6.3 Measures to enhance the response rate

There is a large body of literature on strategies to make a survey more effective. The pros and cons of the measures enhancing the response rate are discussed below and those used in the study are consequently decided.

- **Cover letter:** Cover letters have been becoming a part of most questionnaire surveys. Research by Dillman (2007) and others has shown that the messages contained in a self-administered questionnaire's cover letter will affect the response rate. Accordingly, the questionnaire is accompanied by a cover letter in which a brief introduction and the purpose of the research project, and the individual, non-commercial academic nature are stressed. Additionally, the significance of the study, the importance of their assistance, and the assurance of confidentiality and anonymity of the response are highlighted. In order to provide a further incentive to the respondents, a synthesised final result of the questionnaire is offered via e-mail (an option provided at the end of the questionnaire).
- **Prenotice and follow-ups:** Multiple contacts are essential for maximizing responses for mail surveys and have been shown to be more effective than any other

technique for increasing responses (e.g. Fowler, 1993; Churchill, 1999; Dillman, 2007). Recent research confirms that this is also true for electronic surveys (Schaefer and Dillman, 1998). For the electronic survey, five contacts are adopted for the study - prenotice, the web questionnaire, e-mail reminder, telephone call follow-up, and replacement of another web or paper questionnaire. As for the postal survey, five contacts are suggested by Dillman (2007): prenotice, the paper questionnaire, a post card or thank you reminder, a replacement questionnaire, and invoking of special procedures such as by special mail or telephone. In consideration of the time, labour and resources available on a relatively big sample size, three contacts - the paper questionnaire, a telephone call follow-up and a replacement questionnaire - are used for the study. The other two contacts of prenotice and thank you reminder are considered comparatively resource-consuming and less functional to the other contacts and are hence skipped in the study.

- **Returned envelopes with prepaid postage:** The inclusion of a stamped return envelope is a generally accepted and widely used practice in postal surveys. Armstrong (1990) recommend that business reply postage should never be used in survey research. Actual stamps may make the respondents gain the feeling of respect and the significance of the questionnaire. Sending a real stamp represents a goodwill gesture (Dillman, 2007). Accordingly, return envelopes with real stamps affixed are sent together with the paper questionnaire to prompt the reply.

- **Personalisation of correspondence:** Although personalisation is suggested to show a positive effect on response rates and is an integral part of tailored design (Dillman, 2007), it is however argued by Kumar et al. (2002) that this technique is not

proven to increase response rates. Personalisation of correspondence is not used in this study due to two concerns. The first is considering the privacy of the elite groups. Without obtaining their initial cooperation, which is difficult and resource-consuming to obtain their names and approval to survey them, the potential respondents may be surprised and puzzled when receiving the questionnaire and may get a feeling that their privacy is intruded. The second concern is mobility. Without obtaining or confirming the names of the key respondents prior to mail outs, personalisation based on the information from the sampling frame may have a detrimental effect on the response rate because of mobility. Due to these concerns, the questionnaire is only directed to the general manager or director (depending on the type of the organisations which give different titles to the person in charge), with no personalisation. Since not all organisations have the positions or titles of procurement, sales or marketing manager, particularly in small-sized retailers, the questionnaire addressed to the general manager/director would be considered appropriate and safe. These target respondents are normally regarded the most knowledgeable and perhaps the most interested persons to discuss the subject. Meanwhile, it is mentioned in the cover letter that should the general manager not be able to help with the questionnaire, he or she is kindly solicited to pass or forward it to the company's most appropriate informant to assist with the request.

- **Offer of incentives:** Offer of material or small, token monetary incentives is a widely used and effective approach to enhance the response rate. However, concerning the costs and the target body of informants for the study, which is the management rather than the consumer, an incentive of a synthesised final result is considered appropriate and offered to motivate the management to assist with the questionnaire.

In sum, the measures to enhance the response rate for the study include: the use of a cover letter, an optional offer of a synthesised final result, a stamped return envelope, and multiple contacts.

6.4 Measurement and scaling

A structured questionnaire is designed for the study to collect data from a relatively big size of samples. The questions in the study are mainly involved with attitude or perception measurement. “Measurement is a standardized process of assigning numbers or other symbols to certain characteristics of the objects of interest, according to prespecified rules. Scaling is the process of creating a continuum on which objects are located according to the amount of the measured characteristic they possess” (Aaker et al., 2000, p.274). Measurement and scaling are basic tools used in the scientific method and are used in almost every marketing research situation (Aaker et al., 2000). The assignment of numbers is made according to rules that should correspond to the properties of whatever is being measured. Four types of scales are usually categorised for attitude measurement (Churchill, 1999; Kumar et al., 2002; Hair et al., 2006):

1. Nominal scale: assigns numbers as a way to label or identify subjects or objects.
2. Ordinal scale: serves to order or rank objects according to some characteristics.
3. Interval scale: not only separates objects by rank order but also represents equal increments of the attribute being measured.
4. Ratio scale: is a special kind of interval scale that has a natural or absolute zero point, one for which there is universal agreement about its location. This is the only type of scale that permits comparisons of absolute magnitude.

The above scales from nominal to ratio are considered to become increasingly powerful and more precise measurement. The more powerful scales allow stronger comparisons and conclusions to be made (Churchill, 1999). It is argued that many of the constructs in marketing possess no more than interval measurement and some even less (Churchill, 1999). In order to develop appropriate measures to capture the construct as conceptualised, care needs to be taken in the instrument development procedures. Following the methodology and suggested procedure for developing better measures proposed by Churchill (1979) and Gerbing and Anderson (1988), the questionnaire design develops the multi-item measures, indicators, and items on the variables in the conceptual model. Among the existing multi-item scales, Likert scale (also called summated scale) of 7-point multi-item measures is employed to measure the constructs. The choice of multi-item Likert 7-point scale is based on the following reasons.

Firstly, it is argued that individual items usually have considerable uniqueness or specificity in that each item tends to have only a low correlation with the attribute being measured and tends to relate to other attributes as well (Churchill, 1979). While the case of multi-item measures, the specificity of items can be averaged out when they are combined. Thus, the multi-item measures enable the scale to capture the different underlying facets of the theoretical construct. Take the market orientation construct for example, it includes multi-faced activities that are conducted in a firm, each of which should be identified in the scale and in this sense, multi-item scale should perform a better job than a single-item scale.

Secondly, compared with multi-item measures, the measurement error for an

individual item is often considerable; the same scale position is unlikely to be checked in successive administrations of an instrument. In contrast, with multiple items, the reliability and validity of a scale tend to improve and measurement error decreases as the number of items increases (Peter, 1979; Churchill, 1979).

Thirdly, compared with other popular scales such as Thurstone scale, semantic differential scale or Staple scale, Likert scale is relatively easy to construct and administer (Tull and Hawkins, 1984, p.314) and for informants to respond. Practically, in marketing research most of the empirical quantitative studies have proved Likert scale as valuable and useful measures.

Finally, concerning the number of points in such scales, no clear-cut rule is given for the number or odd or even numbers should be used. It is argued that the increasing number of scale points should result in more precise measurement (Nunnally, 1978). However, caution should be noted that this also increases confusion and difficulty for informants to respond. Thus, rating scales used in most surveys usually range from 5 to 9 categories. Following the popular “magic seven” rule (Guilford, 1954) and the previous studies on the measurement of market orientation (e.g. Narver and Slater, 1990; Becker and Homburg, 1999; Matsuno et al., 2005) and relationship constructs (e.g. Morgan and Hunt, 1994; Siguaaw et al., 1998; Sanzo et al., 2003), the number of 7 scale points is adopted. Having decided the appropriate measuring instrument, the questionnaire is subject to standard research design and pretests are conducted to refine the draft prior to development of the final questionnaire. The process of the instrument development and refinement for the study is discussed next.

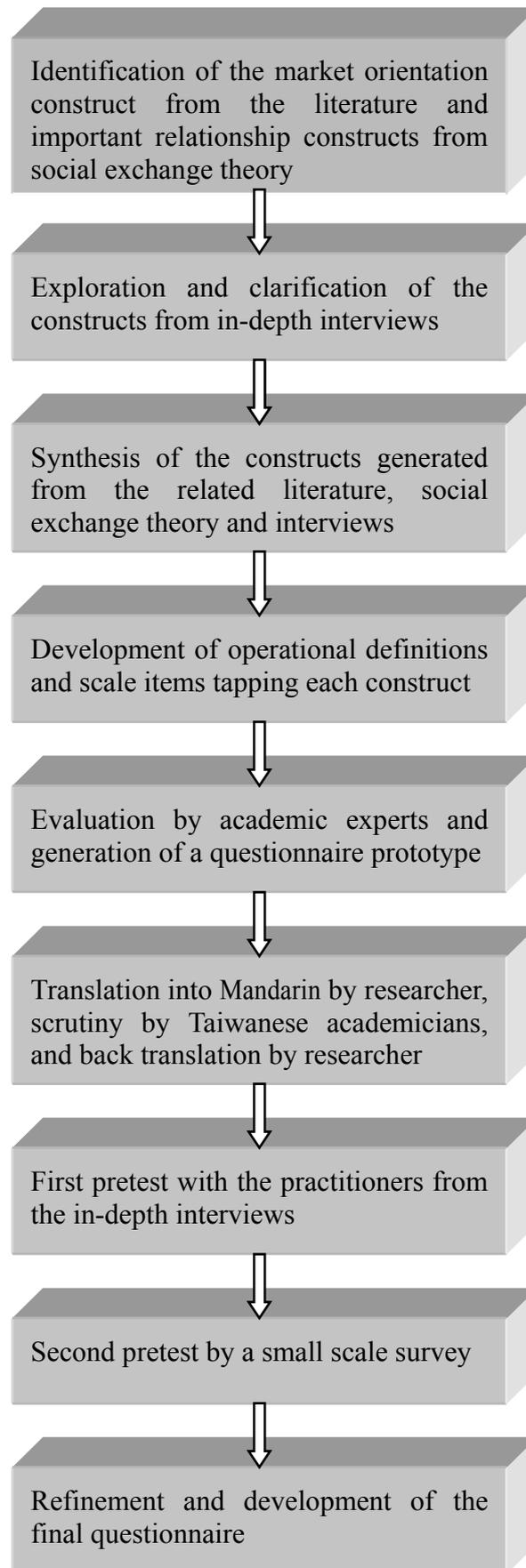
6.5 Instrument development

Developing a multi-item scale is an iterative process. Although the scales used in this study are mostly borrowed from the literature and are widely recognised and used by previous studies, they are subject to vigorous refinement and modification, given the uniqueness of the particular context in which these scales are tested. The iterative procedure of the instrument development and refinement is presented in Figure 6.1.

6.5.1 Procedure of the instrument development and refinement

As shown in Figure 6.1, first of all, by conducting a thorough review of the literature on the market orientation theory and social exchange theory, the domain of the two thematic constructs: market orientation and important relationship constructs are specified. An exploratory study of in-depth interviews is then conducted to further explore and clarify the constructs in the particular context. On the basis of social exchange theory, in-depth interviews and extensive literature review, the constructs and scales used in the study are integrated and are finally decided. The next step entails the development of the operational definitions for each construct and a list of items tapping each scale's underlying dimensions. The operational definitions for the measurement scales were presented in the previous chapter. A detailed discussion on development of the items tapping each scale is presented in the next subsection. Care has been taken to select items that not only tap the domain as closely as possible but also convey "different shades of meaning" (Churchill, 1979, p.68). The generated items are then presented to a marketing professor for quality review, including the representativeness and specificity of the items and clarity of construction. Upon completion of the questionnaire prototype in English, it needs to be translated into Mandarin Chinese to be conducted in Taiwan.

Figure 6.1 Procedure of the instrument development and refinement



Source: Original

Two main types of errors may occur in any type of survey research (Tull and Hawkins, 1984). The first type is random error which results from chance variation even if all aspects of the research are executed properly. As such, this type of error cannot be avoided but can only be reduced by designing a sampling plan carefully or increasing the sample size. In contrast, the second type of error is systematic error or bias, the results from flaws in the research design or execution. For example, a systematic error can occur during the process of developing a questionnaire. Thus, in order to minimise such error and the results from flaws in the research design, the translation process becomes a critical step for the study.

The questionnaire prototype was initially translated into the local language with care by the researcher and then presented to a Taiwanese associate professor who works in the marketing department of a national university for evaluation of the content and wordings. A back translation into English was also undertaken to ensure that the essence of the questionnaire was not lost, distorted or diluted by translation. Due to limited resources, the back translation was done by the researcher, who had experience in carrying out translations of this nature in previous employment. The back translation version was then compared with the original (English) version. Most parts of the translation version were accurate except that a few questions required the adaptation of some wordings from the original (while retaining the underlying meaning) to create a better understanding for the informants. When conducting international research, the most immediate crucial problem faced is categories of demographics and question wording; the intent and ways of expression need to be meaningful to and appreciated by the respondents (Aaker et al., 2000). Hence, the next two steps involving two rounds of pretests not only improve the translation

quality but also ensure the development of a meaningful and effective final questionnaire. Indeed, most of the empirical methodological literature suggests the use of certain techniques or pretests to improve the face and content validity of the questionnaire (Bailey, 1982). In addition, it is argued that qualitative field work can make contributions to the proper implementation of the survey such as yielding valuable information about the receptivity, frames of reference, and span of attention of respondents (Sieber, 1973). In the study, both qualitative and quantitative techniques were used to pilot the questionnaire prior to the large scale survey.

The first pretest of the Chinese version was done with seven of the practitioners from the in-depth interviews. In the pretest, they were requested to complete the questionnaire and indicate any ambiguity or difficulty in responding to the questions. Additionally, issues such as the relevancy and redundancy of the items, flow, length and layout of the questionnaire, or any suggestions or concerns were also probed. A number of insights emerged from the pretest and were fed back into the improvement of the questionnaire. For example, a few questions required the adaptation of some wordings from the original to create a better understanding for informants to respond. Some questions were not suitable for small firms and required adaptation, explanation or specification. Indeed, this insight is valuable, particularly for the market orientation construct. Since the scale was developed in the US, which was not designed for small enterprises, direct application of some items could result in inappropriateness and marginal scores. For example, small firms may have only a few employees and do not have distinct ‘departments’, direct application or translation of such as ‘interdepartmental meetings’, ‘data disseminated at all levels in the organisation’, ‘activities of different departments are well coordinated’, or ‘marketing people discuss

customer needs with other departments' may result in difficulty for the respondents from small firms to answer. Apart from these inputs, a couple of informants noted that the time needed for answering the questionnaire was too long. The format of the questionnaire was later redesigned and a few questions were deleted or modified. Although one informant complained about the confusion and time spent answering the questions based on the 7-point scale, to avoid obtaining marginal mean scores, the number of scale points was retained to ensure a more precise measurement. Together, on the basis of the practitioners' feedback, a revised version was produced and then pretested by a small scale of samples.

According to Kumar et al. (2002, p.289), small samples of 15-25 representative respondents are usually sufficient to identify problems with a questionnaire. Accordingly the revised questionnaire was then mailed out to 20 samples randomly selected from the sampling frame (*2006 Taiwan Business Directory*) of the study. With a telephone follow-up, 11 completed questionnaires were received. A close comparison of these responses suggested non-existence of such problems as socially desirability bias, acquiescence bias or skipping questions (Tull and Hawkins, 1984, p.287). These pretest data provided a basis for a preliminary statistical evaluation, such as item response distribution, estimates of scale reliability, item-total correlations, and item-scale discrimination. At this stage, only minor refinements were made. Upon the refinement, the final questionnaire was developed.

6.5.2 Scales and items development

Structured close-ended questions are the design of the questionnaire. Aaker et al. (2000) suggest that the scale development should be well grounded in theory. As

revealed in the previous chapter of research model and hypotheses, two themes of scales developed in the questionnaire were well grounded in the related theories: the market orientation theory, social exchange theory and relevant relationship marketing theories. Development of the two groups of scales and items - market orientation and relationship constructs - is presented next.

6.5.2.1 Market orientation scale

As discussed in the market orientation construct in research hypotheses (see section 5.3.1), the operationalisation of market orientation for this study adopts Kohli and Jaworski's (1990) definition and adds a new component from the in-depth interviews. Kohli and Jaworski's (1990) conceptualisation reflected on the market orientation scale which was labeled as MARKOR scale in the study of Kohli et al. (1993). This scale is a one-dimension, three-component construct. These components include: 1) market *intelligence generation*, referring to the extent to which a firm generates market intelligence pertaining to current and future customer needs, competitors' activities, and various environmental forces that shape customers' needs; 2) *intelligence dissemination* to the relevant departments and individuals within the organisation; and 3) *responsiveness* to market intelligence, which consists of response design and response implementation, with virtually all functions participating in responding to market trends. The new component from the in-depth interviews is labeled as: 4) *responsiveness controlling*, referring to the comparison and analysis of deviation between actual and expected performance.

After the domain of the market orientation construct is specified, the next step entails the generation of scale items to capture the domain as specified. The items are mainly

derived on the basis of MARKOR scale and partly adopted or modified from the scales of Narver and Slater (1990), Deng and Dart (1994), and Becker and Homberg (1999). Kohli et al.'s proposed 20-item MARKOR scale is the basis on which the market orientation scale for the study is developed. In the MARKOR scale, Kohli et al. use six items tapping market intelligence generation. From the findings of the in-depth interviews, some informants pointed out the importance of monitoring competitors' marketing activities. Indeed, in their conceptual work, Kohli and Jaworski (1990) also argue that the market intelligence is a broader concept and should include information relating to a company's stakeholders other than customers. A close examination of the items in the MARKOR scale, however, reveals that the scale does not include any items that tap the domain of such important stakeholder. Thus, two items (Q5, Q6 in Table 6.1) on competitors modified from the scales of Narver and Slater (1990) and Deng and Dart (1994) are added in the intelligence generation subscale. Besides, since this questionnaire is surveyed from the distributor's perspective, two items in MARKOR scale pertaining to intelligence generation are considered unsuitable and are not retained in the current scale. These two items are: 'In the business unit, we meet with customers at least once a year to find out what products or services they will need in the future' and 'We poll end users at least once a year to assess the quality of our products and services'. Instead, from a distributor's perspective, customer service and satisfaction play a more important role. Thus, one item (Q7 in Table 6.1) emphasising customer satisfaction is adopted from Deng and Dart (1994). Collectively, 7 items for the intelligence generation subscale are developed for the current study; four items are derived from the MARKOR scale and three items are adopted or modified from the scales of Narver and Slater (1990) and Deng and Dart (1994). These items are shown in Table 6.1.

The second subscale for measuring market-orientated activities is intelligence dissemination. There are five items pertaining to intelligence dissemination in the MARKOR scale. Four items are retained in the current scale. One item: 'We have interdepartmental meetings *at least once a quarter* to discuss market trends and developments' is modified. It is found from the interviews that given the nature of the research context, the distributors in Taiwan tend to have frequent meetings to share information and interact with different departments. A reason may be the social and business culture which emphasises building relationships with colleagues through meetings. Thus, the frequency in this item is modified as 'We have interdepartmental meetings *at least once a month* to discuss market trends and developments'. Apart from the five items from MARKOR scale, market information to be shared with all departments is considered an important indicator of intelligence dissemination. Such item (Q13) is borrowed from Deng and Dart's (1994) scale. Collectively, 6 items are developed for the intelligence dissemination subscale. (see Table 6.1).

The third subscale is responsiveness to market intelligence which includes response design and response implementation. There are nine items tapping this component in the MARKOR scale. Eight items are retained in the current scale. One item: 'When we find that customers would like us to modify a product, the departments involved make concerted efforts to do so' is considered unsuitable for a distributor to respond and is therefore dropped from the current scale. Apart from the eight items, two items (Q22, Q23) from Kohli et al.'s (1993) initial 32 items are added. One is regarding the responsiveness to competitors' pricing structure. The nature of small and medium enterprises is normally sensitive to environmental changes which include competitors' pricing changes. Thus, such an item is added to the current scale as Q22 in Table 6.1.

The other item deals with customer *dissatisfaction* with provided services. As revealed from the interviews, *services* are stressed by most of the distributors to be an indicator of offering “superior” value to customers. Responsiveness to customer dissatisfaction is important. Indeed, it is considered that what differentiates market oriented firms from less market oriented ones is judging their responsiveness to customer *dissatisfaction* rather than their responsiveness to customer satisfaction. Thus, such an important indicator to responsiveness is added to the current scale as Q23 in Table 6.1. The final item for the subscale is modified from Narver and Slater’s (1990) scale. Arguing that after-sales service is also an important indicator of market-oriented behaviours, which however is not included in the MARKOR scale, such an item as Q24 in Table 6.1 is modified from Narver and Slater’s (1990) scale to improve the subscale’s validity. Collectively, 11 items are designed for the responsiveness subscale.

The final subscale for the market orientation measurement: responsiveness controlling is derived from the in-depth interviews. Due to the fact that the interviewees in the exploratory study are either top, marketing/sales managers or other officials, they often view organisational activities from a management perspective. Thus, the new component is considered valuable as the market orientation construct can be developed more thoroughly by adding a managerial perspective. Items for this component are drawn from Becker and Homberg’s (1999) systems-based scale. Five items from market-oriented controlling system are added to the responsiveness controlling subscale as presented in Table 6.1.

Although the larger the scale the greater the reliability, consideration of informants’

willingness to respond needs to be taken into account. Hence, a balance has to be struck between brevity and reliability. According to the relevant literature, the optimal scale length for the market orientation scale would fall in 30 questions. Thus, in sum, 4 subscales, 29 items were initially developed for this construct. When these 29 items were subjected to two rounds of pretests, three items were indicated by the informants to be unimportant indicators or a bit overlapped with some other questions. In response to a couple of informants' complaint about the length of the questionnaire, these items marked by asterisk in Table 6.1 were eliminated. This resulted in a total of 26 items developed for the market orientation scale in the final questionnaire.

It is acknowledged that due to these modifications made to the original MARKOR scale of Kohli et al. (1993), the reliability for the current scale is not guaranteed. The reliability of the modified scale will be tested in the next chapter.

Table 6.1 Market orientation scale

Subscales	Items
Intelligence generation	<p>Q1. In the business unit, we do a lot of in-house market research. *</p> <p>Q2. We periodically review the likely effect of changes in our business environment (e.g. regulation) on customers.</p> <p>Q3. We are slow to detect changes in our customer's preferences. (R)</p> <p>Q4. We are slow to detect functional shifts in our industry (e.g. competition, technology, regulation). (R)</p> <p>Q5. The management regularly discusses competitors' strengths and weaknesses. (modified from Narver and Slater's scale, 1990)</p> <p>Q6. We regularly monitor and analyse our competitors' marketing programs. (modified from Deng and Dart's scale, 1994)</p> <p>Q7. We measure customer satisfaction on a regular basis. (Deng and Dart, 1994)</p>
Intelligence dissemination	<p>Q8. We have interdepartmental meetings at least once a month to discuss market trends and developments. (modified from MARKOR scale)</p> <p>Q9. When something important happens to a major customer of market, the whole company knows about it in a short period.</p> <p>Q10. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.</p> <p>Q11. When one department finds out something important about competitors, it is slow to alert other departments. (R)</p> <p>Q12. Marketing personnel in our business unit spend time discussing customers' future needs with other functional departments.</p> <p>Q13. Market information is shared with all departments. (Deng and Dart, 1994)</p>

Table 6.1 Market orientation scale (continued)

<p>Responsiveness</p>	<p>Q14. It takes us forever to decide how to respond to our competitor's price changes. (R) *</p> <p>Q15. For one reason or another we tend to ignore changes in our customers' product or service needs. (R)</p> <p>Q16. We periodically review our product development efforts to ensure that they are in line with what customers want.</p> <p>Q17. Several departments get together periodically to plan a response to changes taking place in our business environment. *</p> <p>Q18. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.</p> <p>Q19. The activities of the different departments in this business unit are well coordinated.</p> <p>Q20. Customer complaints fall on deaf ears. (R)</p> <p>Q21. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion. (R)</p> <p>Q22. We are quick to respond to significant changes in our competitors' pricing structure.</p> <p>Q23. When we find out that customers are unhappy with the quality of our services, we quickly take corrective action.</p> <p>Q24. We provide our customers with a rapid and efficient after-sales service. (modified from Narver and Slater's scale, 1990)</p>
<p>Responsiveness controlling</p>	<p>Q25. We regularly compare actual customer satisfaction assessments with our customer satisfaction objectives.</p> <p>Q26. In this business unit analyses of deviation are based upon extensive information on customers.</p> <p>Q27. In this business unit analyses of deviation are based upon extensive information on competitors.</p> <p>Q28. In this business unit analyses of deviation are based upon basic market conditions.</p> <p>Q29. In this business unit corrective action is taken immediately after the analysis of deviation has been terminated.</p>

(R) denotes reverse coded item.

* refers to deletion of item after completion of pretests

6.5.2.2 Relationship construct scales

Based on an integration of social exchange theory, in-depth interviews and extensive literature review, 7 relationship constructs mediating the effect of market orientation on the development and continuity of channel relationships are developed. They are communication, shared values, trust, cooperation, commitment, conflict and satisfaction. The development of items for the current scales is based on a combination of items tapping each scale in the relevant literature, since the items identified from any individual scale are neither complete nor totally suitable for the current study. Table 6.2 summarises the representative references for the scales of each relationship construct. A list of items tapping each scale and their references are presented next.

Table 6.2 Relationship construct scales and their representative references

Relationship construct scale	Representative references
Communication	Mohr and Spekman (1994), Nielson (1998), Wilson and Vlosky (1998), Sharma and Patterson (1999)
Shared values	Morgan and Hunt (1994), Zineldin and Jonsson (2000)
Trust	Ganesan (1994), Morgan and Hunt (1994), Doney and Cannon (1997), Wetzels et al. (1998), Wilson and Vlosky (1998)
Cooperation	Skinner et al. (1992), Jap (1999), Joshi and Stump (1999), Zineldin and Jonsson (2000)
Commitment	Anderson and Weitz (1992), Morgan and Hunt (1994)
Conflict	Anderson and Weitz (1992), the researcher
Satisfaction	Skinner et al. (1992), Jap and Ganesan (2000), Sanzo et al. (2003)

Communication: (7 items)

1. It is expected that both companies will only provide information according to prespecified agreements. (R) (Mohr and Spekman, 1994)
2. We do not volunteer much information regarding our business to the main supplier. (R) (Mohr and Spekman, 1994)
3. We share proprietary information with the main supplier. (Mohr and Spekman, 1994)
4. There are regular changes of information between our two companies at multiple levels and areas. (Wilson and Vlosky, 1998)
5. The main supplier keeps us informed about any change, question, or development that could be of interest. (Wilson and Vlosky, 1998)
6. The main supplier never hesitates to explain to us the pros and cons of the recommendations they make to us. (Sharma and Patterson, 1999)
7. If we ask for some type of information, whether it is strategic, technical or operating, they supply it rapidly without any difficulty. (Nielson, 1998)

Shared values: (6 items)

1. To succeed in this relationship, it is often necessary to understand and comprise one's ethics, customs and norms. (Zineldin and Jonsson, 2000)
2. To succeed in this business, it is often necessary to comprise one's ethics. (Morgan and Hunt, 1994) *
3. If an employee is discovered to have engaged in unethical behaviour that results primarily in personal gain (rather than corporate gain), he or she should be promptly reprimanded. (Morgan and Hunt, 1994)
4. Employees at the main supplier have values similar to ours. (Zineldin and Jonsson,

2000)

5. To succeed in this relationship, it is often necessary to have common goals.
(Zineldin and Jonsson, 2000)
6. To succeed in this relationship, it is often necessary to have common policies.
(Zineldin and Jonsson, 2000)

Trust: (9 items)

1. Promises made by the main supplier are reliable. (Ganesan, 1994)
2. The main supplier has knowledge about the market and market trends. (Ganesan, 1994)
3. We believe the information that the main supplier provides us. (Doney and Cannon, 1997)
4. When making important decisions, the main supplier considers our welfare as well as its own. (Doney and Cannon, 1997)
5. We trust the main supplier keeps our best interests in mind. (Doney and Cannon, 1997) *
6. Though circumstances may change, we believe that the main supplier will be ready and willing to offer us assistance and support. (Wetzels et al., 1998)
7. Transactions with the main supplier have to be closely supervised. (R) (Wilson and Vlosky, 1998)
8. We are convinced that the main supplier respects the confidentiality of the information they receive from us. (Wilson and Vlosky, 1998)
9. The main supplier is trustworthy. (Doney and Cannon, 1997)

Cooperation: (7 items)

1. Our future goals are best reached by working with this rather than against this main supplier. (Skinner et al., 1992)
2. Our future profits are dependent on maintaining a good working relationship with the main supplier. (Skinner et al., 1992)
3. The main supplier will support our marketing activities. (Zineldin and Jonsson, 2000)
4. Both companies participate in joint projects that are tailored to our needs. (Jap, 1999)
5. We both work together to exploit unique opportunities. (Jap, 1999)
6. The cooperation with the main supplier is such that each of us feels part of the other's organisation. (Joshi and Stump, 1999)
7. We both are cooperative and are concerned to take part in cooperative activities. (Joshi and Stump, 1999)

Commitment: (7 items)

1. We defend the main supplier when outsiders criticize the company. (Anderson and Weitz, 1992)
2. We are continually on the lookout for another supplier to replace or to add to our current supplier. (R) (Anderson and Weitz, 1992)
3. If another supplier offered us better coverage, we would most certainly take them on, even if it meant dropping the main supplier. (R) (Anderson and Weitz, 1992)
4. We are patient with the main supplier when it make mistakes that make us trouble. (Anderson and Weitz, 1992)
5. We are willing to dedicate whatever people or resources it takes to grow sales for

the main supplier. (Anderson and Weitz, 1992)

6. The relationship that we have with the main supplier is something we are very committed to. (Morgan and Hunt, 1994) *
7. The relationship that we have with the main supplier deserves our maximum effort to maintain. (Morgan and Hunt, 1994)

Conflict: (7 items)

1. The main supplier has survived some rocky periods with us. (R) (Anderson and Weitz, 1992) *
2. We have survived some rocky periods with the main supplier. (R) (Anderson and Weitz, 1992)
3. The main supplier has had more than the usual amount of ups and downs in dealing with us. (Anderson and Weitz, 1992) *
4. At one point, the main supplier came close to terminating its relationship with us. (Anderson and Weitz, 1992) *
5. At one point, we came close to terminating our relationship with the main supplier. (Anderson and Weitz, 1992)
6. In this relationship with the main supplier, differences of opinion between us often cause conflicts. (Researcher)
7. We have difficulty openly discussing solutions with the main supplier when problems arise. (Researcher)

Satisfaction: (7 items)

1. We would discontinue selling products manufactured by the main supplier if we could. (R) (Skinner et al., 1992)

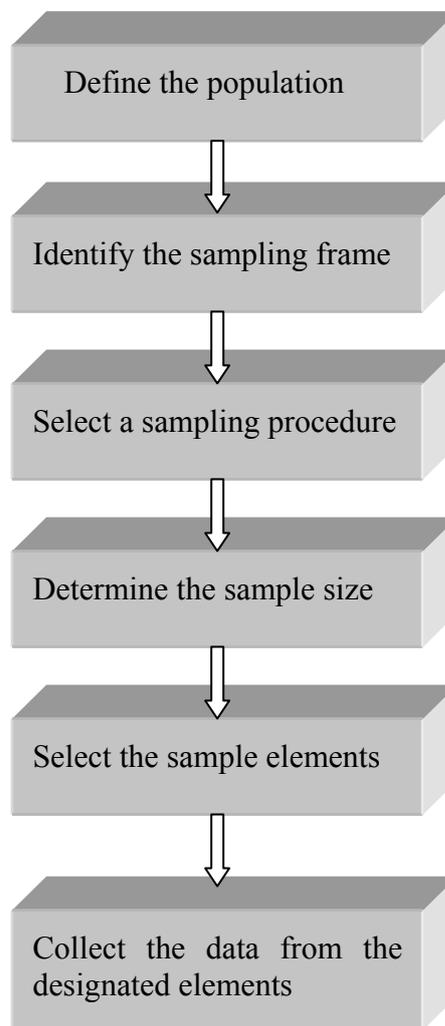
2. The main supplier provides the services needed to perform our business operations. (Skinner et al., 1992)
3. The main supplier is a good company to do business with. (Skinner et al., 1992)
4. We would recommend other firms to do business with this supplier. (Skinner et al., 1992)
5. The personal working relationship with the main supplier is very satisfactory. (Sanzo et al., 2003)
6. If we had to select a supplier again for the product, we would doubtlessly choose this current supplier. (Sanzo et al., 2003)
7. The main supplier's products perform much better than the competitors'. (Jap and Ganesan, 2000) *

In sum, 51 items were initially developed for the 7 relationship construct scales. Some wordings were unified to be consistent, such as the business unit, manufacturer, supplier, retailer or distributor in the referenced studies. Some adaptation of the wordings to the particular context was also made. After the 51 items were presented to two rounds of pretests, incorporating total eighteen respondents, some items were reported ambiguous or difficult to answer. Subject to the preliminary statistical evaluation, some items showed low item-total correlations. Collectively, eight items were eliminated. This resulted in a total of 43 items for the relationship construct scales to be tested in the actual survey. The developed final questionnaire, which consists of 26 items for the market orientation scale and 43 items for the relationship construct scales, together with demographics is provided in Appendix II.

6.6 Sampling procedures

Once the data collection instrument has been developed, the next step is to select the elements from which the information will be collected. Following Churchill's (1999) process for drawing a sample, a six-step sampling procedure is suggested as Figure 6.2.

Figure 6.2 Sampling procedure



Source: Churchill (1999), p.536

6.6.1 Target population

To complement the research stream angle, the quantitative study is conducted from the distributor's perspective. The population of the sample comprises distributors (including agents, dealers and retailers) from the four selected sectors. Although agents, dealers and retailers may represent different types of channel intermediaries, they all deal with end customers on a daily basis in the particular business context and are not differentiated in this study. The possible difference existing between them is not tested for. The target population for the quantitative study is the same as that for the first phase qualitative study: department store, car dealer, electrical goods distributor, and IT products distributor in Taiwan. The rationale for the choice was addressed in the qualitative study (see section 4.4.2.1). Although some of the units in the population are joint ventured such as some department stores, the four sectors are basically domestically owned. The investigation does not differentiate respondents from different types (international or domestic) of units.

6.6.2 Sampling frame

Having decided the population of the sample, the next step is to choose the sample frame against which the samples are drawn. Three characteristics of a good sample frame proposed by Fowler (1993) are: comprehensiveness, probability of selection, and efficiency. Based on these criteria, *2006 Taiwan Business Directory* published by China Credit Information Service, Ltd., the largest business information provider in Taiwan, is used as the sampling frame for the study. This *Directory* contains business information on over 25,000 companies in Taiwan, covering all business sectors and industries. It provides the names of companies, addresses, telephone numbers, the president and general manager/managing director. It also supplies information on the

capital and employee size, as well as the sector or industry a company belongs to. It is easy and efficient to search target population and facilitate sample selection by setting up selection criteria such as area, sector, capital, etc. using the DVD provided. It is considered by academics and professional market researchers as a comprehensive and efficient source and has been extensively used in business research.

6.6.3 Sampling method

A critically important decision for a quantitative study involving a sample is how the sample units are to be selected. The decision requires the selection of a sampling method. The choice between probability and non-probability sampling methods often involves both statistical and practical considerations. Statistically, probability sampling allows the researcher to demonstrate the sample's representativeness, an explicit statement as to how much variation is introduced, and identification of possible biases (Kumar et al., 2002, p.306). In contrast, non-probability samples allow the investigator no objective method for evaluating the adequacy of the sample (Churchill, 1999, p.501). Practically, applying probability sampling procedures tends to be more time and costs consuming, requires a certain level of statistical training to use effectively, and assumes that a suitable sampling frame is available (Diamantopoulos and Schlegelmilch, 1997, p.14). Since there are pros and cons for different sampling techniques, Saunders et al. (2003) suggest that in the exploratory stages of a research project, a non-probability sample may be the most practical. Subsequent to this, probability sampling techniques may be used. Following this suggestion, the current research employs non-probability sampling techniques in the exploratory stages, such as the first phase exploratory study and the pilot survey. In this second phase quantitative study, samples are drawn from a national population.

Probability sampling is considered appropriate for such a survey-based study. According to Fowler (1993, p.16), almost all samples of populations of geographic areas are stratified by some regional variable so that they will be distributed in the same way as the population as a whole. Because some degree of stratification is relatively simple to accomplish and it never hurts the precision of sample estimates, as long as the probability of selection is the same across all strata, it usually is a desirable feature of a sample design. Stratified sampling improves the sampling efficiency by increasing the accuracy at a faster rate than the costs increase (Kumar et al., 2002). In the study, since the data in the sampling frame are considered comprehensive and can be easily divided into strata based on the business sector and regional variables, a proportional stratified sampling technique for the postal survey is adopted.

6.6.4 Sample size

Sample size provides a basis of the estimation of sampling error. It has a direct impact on the appropriateness and the statistical power of multiple regression. The determination of the final sample size involves judgment as well as calculation. According to Kumar et al. (2002, p.318), four factors determine the sample size: the number of groups within the sample, the value of the information and the accuracy required of the results, the cost of the sample, and the variability of the population. From a calculation perspective, the required sample size using multiple regression as a major form of analysis depends on the desired statistical power, alpha (α) level, and number of independent variables (Saunders et al., 2003). For example, according to Hair et al. (2006, p.195), to achieve a power (probability) level of .80 at the significant level (α) of .05, with up to 10 independent variables and with a minimum R^2 value of .15 required, a minimum sample size of 100 is needed. That is, there are 4 sectors

within the sample and a minimum sample size of 25 is needed for each sector.

Another approach to determine the sample size using regression analysis is to calculate the ratio of cases per independent variables. Green (1991) suggests that a desirable sample size should be more than or equal to $50+8m$ (m is the number of independent variables) for testing the multiple correlation, and $N=104+m$ for testing individual independent variable. Accordingly, since there are eight independent variables in the study, a minimum sample size of 114 is thus needed for testing the multiple correlation and 112 for testing individual independent variable. Another guideline is suggested by Hair et al. (2006). They argue that sample size could affect the generalisability of the results by the ratio of observations to independent variables. The ratio level should never fall below 5: 1 and the desirable ratio is between 15 to 20 observations for each independent variable. When the level is reached, the results should be generalisable if the sample is representative. Using their guideline, a minimum sample size of 120 should meet the requirement of desirability.

6.6.5. Key informant technique

To reflect Kohli and Jaworski's (1993) call for the use of a broader sample of managers as informants to improve data validity, the multiple-informant technique was designed in the first phase exploratory study. In the second phase quantitative study, however, single key informant technique is employed. As Kumar et al. (1993) note, researchers who want to conduct quantitative, large-scale research of inter-organisational relationships often face a lack of archival data. The report from key informants provides an effective alternative. For the study it is assumed that company directors, general managers or marketing managers are potential key informants. This

deliberate choice was addressed in sampling method of the first phase exploratory study (see section 4.4.2.2). In addition, there are also a few concerns on adoption of the multiple-informant approach. Because of the entrepreneurial structure in the particular business context, which shows a high percentage of 97.8% small and medium sized firms, a limited number of managers may be hired in small firms. Potential sample bias due to nonparticipation or incomplete participation by the relatively small firms is possible (John and Reve, 1982). Also, discussion between the multiple informants may occur when mail surveys are employed. Furthermore, according to the experience from the exploratory study, it is difficult to get multiple informants from a single company. Therefore, to avoid the scenario of single informants from some companies and multiple informants from others, to be consistent the single key informant technique is employed in the quantitative study.

6.7 Data collection and survey administration

The actual survey was carried out between August and September of 2007. During this investigation period, referring to Table 1.1: Taiwan's economy at a glance in Chapter One, Taiwan's economic growth averaged over 4.5% between 2003 and 2006 and a stable economic growth of 5.7% continued in 2007. The economic environment was basically typical during the investigation. Although the general economy continued to grow moderately during that period, some respondents from the car dealer sector noted that the car market was into slight recession in Taiwan due to the persistent increase in oil prices. Therefore it is worth noting that the survey was not conducted in a boom time in the car dealer sector.

As discussed in quantitative method for the study (see section 6.2), a mixed-mode

self-administered questionnaire survey method is employed, mainly by postal and complemented by electronic surveys. The data collection and administration for each mode are detailed in the following.

6.7.1 The electronic survey

An electronic survey is employed in this study as the first mode to try out its effectiveness in the Taiwanese business context. Although the final questionnaire was developed after two rounds of pretests, transforming a paper format into an electronic one can be a demanding task; to develop a clear and easy to answer web questionnaire a number of technology problems and designing skills should be noticed as the intentions of the designer for the creation, sending, and receipt of the questionnaire are mediated through the hardware, software, and user preferences. Following the design principles for both e-mail and web surveys (Dillman and Bowker, 2001; Dillman, 2007), the web questionnaire was cautiously constructed by using a packaged on-line program. The next step is to select the sample elements from the sample frame. Since no national business online directory of e-mail addresses was available, 711 distributors in the four target sectors were found their e-mail addresses, which were mostly public, services or sales ones, listed in the sampling frame of *2006 Taiwan Business Directory*. In fact, since the online directory source still remains limited, coverage error often represents a big threat to the representativeness of sample surveys conducted via the Internet. Nevertheless, the electronic mode for the study is not the sole survey method but a complement to the postal mode. Applying the electronic survey is in the hope of increasing the opportunity to improve the overall response rate, although the possibility of difference between the mixed-mode responses needs to be assessed. Of the 711

sample units for each sector, half of them were found to be based in the IT products category and the rest were about averagely distributed among the other three sectors.

Multiple contacts are essential for maximizing responses both for electronic survey and for post survey (Dillman, 2007). Five contacts - prenotice, the web survey, e-mail reminder, telephone call follow-up (for about 100 firms), and replacement of another web or paper questionnaire - were used for the electronic survey. First of all, beginning the contact sequence with a prenotice was deemed to take on somewhat greater importance for electronic surveys because it is extremely easy to discard e-mail after reading. The purpose of the prenotice is to leave a positive impression of importance so that the recipient will not immediately discard the questionnaire when it arrives (Dillman, 2007). Thus, a short notification was sent out three days prior to delivering the web questionnaire. In the prenotice, a number of problems emerged to block or return the e-mails. For example, the addressee's e-mail system set-ups (such as the server set up to detect or filter the sender's address or e-mail content), protection set-ups (such as protection from unknown senders to prevent virus or spam), incorrect e-mail addresses, the person owning the address no longer in the company and so on. As such, out of the sent 711 e-mails, 160 e-mails were blocked or returned, leaving 551 to be the effective sample base to reach the addressees.

The second contact was the web questionnaire embedded within an e-mail solicitation requesting the addressees to kindly forward to the key informant. A third contact of an e-mail reminder was sent out one week later. Within two weeks time, only 17 out of the 551 sample elements responded. In view of this low response, the fourth contact of a telephone call then followed up, in which only about 100 firms

were able to be contacted due to limited resources and time. Since most of the e-mail addresses were public, services or sales ones instead of the key informants', there was concern that the intermediaries might not forward the questionnaire to the key informant and thus, the key informant might not read the e-mails at all. This justified the use of a phone call follow-up to reach to the key respondent. From these telephone calls, it was not surprising to learn that some of these e-mails were categorised into spam mail, directly deleted without reading, or as expected, not forwarded to the key informant. These problems represent another threat to the response rate of conducting an electronic survey. In the follow-ups, the e-mail addressee was reminded to kindly forward the web survey to the key respondent at his/her earliest convenience, or another web survey was re-sent directly to the key respondent, or a replacement paper questionnaire was mailed out if the respondents preferred. By doing these follow-ups, 43 informants replied. This resulted in a total of 60 responses, which were all valid and usable, from the electronic survey and resulted in the response rate of 10.9% for the electronic survey device.

6.7.2 The postal survey

Three contacts - the paper questionnaire, a telephone call follow-up (for about 100 firms) and a replacement questionnaire - were adopted for the postal mode. A proportional stratified sampling technique was employed to select the sample units from the sampling frame. Based on the attributes of regions, cities and sectors, four strata were decided. A random sample was then drawn from each of the strata. A review of recent empirical research conducted in Taiwan revealed that the response rate for the postal survey was between 15% and 30%. In order to secure around 100 responses, under the expectation of a 20% response rate with the aid of the response

enhancement measures, a decision was made to sample 500 companies by post. Thus, a respondent-friendly questionnaire was designed in accordance with visual principles of design for comprehension and easy response. The questionnaire together with a cover letter and a stamped return envelope was mailed out by post to the selected 500 companies, including 125 for each sector, during August of 2007. Among the 500 mailouts, 8 companies could not be reached because of incorrect addresses, resulting in an effective sample base of 492 for the post mode. Two weeks after posting the questionnaire, concerning the time available as well as the culture of the business context, a telephone call instead of a thank you postcard reminder followed up. The reasons for conducting telephone call follow-ups are three-fold. First, without obtaining the initial cooperation from these elites or sending a prenotice before surveying them, a telephone contact can make up to directly express the researcher's appreciation for their assistance with the request. Secondly, a replacement questionnaire can be sent out immediately if the initial questionnaire was missing, misplaced, or not received. Finally, to avoid delegating to other staff, a direct telephone communication can be an effective approach to get the target informants to respond in person. Again, due to limited resources and time, about 100 sample units were able to be contacted by the follow-up.

After six week's cut-off time for the postal survey, 115 responses were received, resulting in a response rate of 23.4% for the post survey. This response rate is considered moderate and comparable to the rate found in other studies. Of these 115 paper responses, 10 questionnaires were incomplete or answered inconsistently and 7 were done by sales people or secretaries, who were not considered appropriate informants for the study due to their limited knowledge about the operation of the

organisation and about the relationship with business partners. Thus, to avoid the bias from these non-management personnel, these 7 questionnaires were considered invalid and unusable. This resulted in a total of 98 completed and usable paper questionnaires, representing an effective response rate of 19.9% for the postal survey.

Based on the results from the electronic and postal surveys, a total of 175 responses were obtained, representing the overall response rate of 16.8%. After excluding the unusable 17 questionnaires, a total of usable 158 responses result in the effective response rate of 15.2% for this study. A summary of the responses and response rates for each survey mode is presented in Table 6.3. Table 6.4 presents a summary of responses and response rates for each of the four distribution sectors.

Table 6.3 A summary of the responses and response rates for the web and postal surveys

Responses(rate) Survey mode	Sample units	Total responses	Overall response rate	Effective responses	Effective response rate
Web survey	551	60	10.9%	60	10.9%
Postal survey	492	115	23.4%	98	19.9%
Total	1043	175	16.8%	158	15.2%

Table 6.4 A summary of the responses and response rates for the four sectors

Responses (rate) Distribution sector	Responses from web survey	Responses from postal survey	Total responses	Overall response rate	Effective responses	Effective response rate
Department store	18	33	51	23.9%	45	21.1%
Car dealer	4	35	39	18.3%	36	16.9%
Electrical goods distributor	12	18	30	14.1%	27	12.7%
IT products distributor	26	29	55	13.6%	50	12.4%
Total	60	115	175	16.8%	158	15.2%

6.8 Chapter summary

In order to test the research model and hypotheses developed in the previous chapter, the second phase descriptive quantitative study was the focus of this chapter. A mixed-mode self-administered questionnaire survey, mainly by post and complemented by Internet, was employed for the quantitative study. The related issues, including five main measures to enhance the response rate, the measurement scale adopted by the study, the iterative process of the instrument development and refinement as well as a six-step sampling procedures, were discussed in detail in this chapter. Since the execution of the survey played an influential role in what information was secured, the procedure and administration of the actual surveys were also detailed to provide a picture of how the data were collected. Prior to analysing the data, the measures used in the study need to exhibit acceptable levels of reliability and validity to ensure the validity of the analysis. Thus, the statistical tests of the measures are discussed in the next chapter.

CHAPTER SEVEN

Tests of Measures and Descriptive Statistics Analysis

7.1 Introduction

Progressing from data collection to analyses of the data collected, the reliability and validity of the measuring scales need to be assessed to ensure valid data analyses. This is particularly important for this study since a few of the scales have been modified to adapt to the particular business context. Although preliminary statistical evaluation was done in the pilot stage, tests of the measures can be more assured based on a larger scale of samples. As such, this chapter is concerned with two major issues: tests of the scales and analyses on the sample characteristics. The statistical tests used to measure reliability and validity of the scales are discussed in section 7.2. In order to facilitate the discussion on data analyses, comparisons of responses between the web and postal surveys need to be made, which is presented in section 7.3. Following the evidence that the scales used in the questionnaire have acceptable levels of reliability and validity, section 7.4 discusses the characteristics of the sample units, based on the frequency distribution, with a purpose of providing the general trends and patterns in the data obtained. On the basis of the sample characteristics, the descriptive statistics analyses are discussed in section 7.5, followed by the chapter summary in the final section of 7.6.

7.2 Tests of the measures

Wilks (1961, pp. 6-7) suggests that there are three requirements of measurement. First, measurement must be an operationally definable process. Second, measurement should be valid or accurate (validity). Third, the outcome of the measurement process must be reproducible (reliability). The total error of a measurement consists of

systematic errors, which involve with validity test, and random errors, which are measured by reliability test (Aaker, 2007). A number of methods are available for testing reliability and validity of scales. The differences among the methods and the technique specifically used for this study are discussed as follows. The next subsection presents reliability tests, followed by a discussion of validity issues.

7.2.1 Reliability tests

Reliability refers to the extent to which the application of a scale produces consistent results if repeated measures are taken (Kent, 2007). It is basically classified according to whether it is concerned with the stability of results over time or internal consistency of items in a scale. Three methods for assessing the reliability of a measurement scale are suggested by Peter (1979): test-retest, internal consistency, and alternative forms. All three methods attempt to determine the proportion of variance in a measurement scale that is systematic. The basic difference among the three methods is in what the scale is to be correlated with to compute the reliability coefficient (Peter, 1979). In test-retest, the *identical set* of measures is applied to the same respondents *at two different times*. The two sets of obtained scores are then correlated. Retest (stability) coefficients are a measure of how well test scores hold up over time. Comparatively, in alternative forms, *two similar sets* of items are applied to the same respondents *at two different times*. The resulting scores from the two administrations of the alternative forms are then correlated. Alternative forms are a measure of assessing the equivalency of content of sets of items. In the method of internal consistency, *a measurement scale* is applied to respondents *at one point in time*; subsets of items within the scale are then correlated. Internal consistency coefficients are a measure of the "here-and-now, on-the-spot" reliability (Charter,

2003) and are the most widely employed for the interpretation of the respondents' scores.

Based on the main concern of time, resources, and the number of responses obtained, the internal consistency method is adopted to evaluate the reliability of the scales in this study. Both retest and alternative forms methods require conducting the survey twice, hence leading to higher data collection costs and reduction of usable responses due to respondent's unwillingness to engage in a second survey (McDaniel and Gates, 1996). In addition to this main concern, there are some problems associated with both methods. For the retest method, the time interval and a change in the phenomenon between two tests can produce different results. Additionally, the substantial correlation between tests can be partially attributed to the correlation of items with themselves which might be much higher than those found between items. Thus, Peter (1979) suggests that this method should be supplemented with internal consistency estimates for each administration. As far as the alternative forms is concerned, how to develop substantially equivalent alternative measures and how to 'prove' the two measures are equivalent in content are both difficult. As such, these two methods are not deemed feasible and the internal consistency method is therefore considered the most appropriate for this study.

Internal consistency is concerned with the homogeneity of individual items to other items measuring the same construct (Peter, 1979). KR-20, split-half, and Cronbach's coefficient α are the most common internal consistency approaches. KR-20 produces the same value as α but is used for dichotomous data, which is not suitable for this

study. In split-half, items scores obtained from the administration of a scale are split in half and the resulting half scores are correlated. Thus, depending on how the items are split in half, different results may be obtained. Consequently, “a researcher is faced with the bothersome question of which is the ‘real’ reliability coefficient” (Peter, 1979). Cronbach’s coefficient α , on the other hand, is able to overcome the above problem since it determines the mean reliability coefficient for all possible ways of splitting a set of items in half. Due to this advantage, Cronbach α is the most commonly used approach for assessing the reliability of a measurement scale with multi-point items.

The value of α , which ranges from 0 to 1, represents the level of the reliability in the measurement. The closer the value of α to 1, the better the reliability. If the value is low, either there are too few items or there is little commonality among the items (Churchill, 1979). No fast rules have been offered for evaluating the magnitude of reliability coefficients; they usually depend on the purpose of the research. Threshold composite reliability values of .5 for basic research and .6 for exploratory research are suggested by Nunnally (1967). The value is later adjusted to 0.7 by Nunnally (1978) and is also recommended by Hair et al. (2006).

The coefficient α for the different constructs is computed using the reliability procedure in the computer program SPSS (version 15). The reliabilities of the *market orientation scale* and the *relationship element scales* are presented in Table 7.1 and Table 7.2 respectively. In order to improve the internal consistency of the scales, items that exhibit low inter-item correlations are eliminated and the results of the scales reliabilities after purification are summarized in Table 7.3.

As presented in Table 7.1, the values of coefficient α for the four components of *market orientation scale* all exceed .7. When computed as one-dimension construct with 26 items, the overall market orientation scale shows a very high α value of .914, suggesting that the market orientation scale in the study is a highly reliable scale, based on its internal consistency. Although the items and subscales of the market orientation construct are drawn from the input of the in-depth interviews and a detailed analysis of several existing studies in the specialized literature, they have been modified to adapt to the Taiwanese business context and have exhibited satisfactory reliability based on the statistical tests. The reliability of the market orientation scale in this study compares favourably with the past studies in this field, such as studies of Narver and Slater (1990) (α value: .81), Deshpande et al. (1996) (α value: .71) and Pulendran et al. (2000) (α value: .87).

Table 7.1 Results of the reliability of the market orientation scale

Scale	α value	Cronbach's α	Cronbach's α if Item Deleted
Market orientation scale		.914 (26 items)	
Intelligence generation		.723	
MO 1			.687
MO 2			.688
MO 3			.748
MO 4			.663
MO 5			.649
MO 6			.673
Intelligence dissemination		.734	
MO 7			.707
MO 8			.663
MO 9			.671
MO 10			.791
MO 11			.692
MO 12			.658
Responsiveness		.791	
MO 13			.799
MO 14			.766
MO 15			.759
MO 16			.757
MO 17			.757
MO 18			.812
MO 19			.769
MO 20			.758
MO 21			.757
Responsiveness controlling		.876	
MO 22			.849
MO 23			.852
MO 24			.861
MO 25			.845
MO 26			.844

Table 7.2 Results of the reliability of the relationship element scales

Scale	α value	Cronbach's α	Cronbach's α if Item Deleted
Communication		.646 (7 items)	
COM27*			.741
COM28			.677
COM29			.549
COM30			.535
COM31			.568
COM32			.568
COM33			.595
Shared value		.874 (5 items)	
SV34			.845
SV35			.870
SV36			.882
SV37			.814
SV38			.821
Trust		.841 (8 items)	
TR39			.790
TR40			.801
TR41			.798
TR42			.801
TR43			.792
TR44*			.930
TR45			.811
TR46			.801
Cooperation		.927 (7 items)	
COR47			.915
COR48			.921
COR49			.924
COR50			.912
COR51			.908
COR52			.918
COR53			.909
Commitment		.285 (6 items)	
COMT54			.224
COMT55*			.593
COMT56			.219
COMT57			.228
COMT58			.230
COMT59			.211
Conflict		.151 (4 items)	
CON60*			.463
CON61			-.261
CON62			-.135
CON63*			.136
Satisfaction		.843 (6 items)	
SAT64*			.898
SAT65			.832
SAT66			.795
SAT67			.803
SAT68			.781
SAT69			.782

Table 7.2 presents the α value for each of *the relationship element scale*. As seen from this Table, for many scales α value increases significantly if certain items are removed from the scales. After their theoretical importance was considered and it was decided that they were expendable, these items, which are marked by asterisk, were accordingly removed. The α value after purification for each scale is highlighted in Table 7.2. For the scale of *shared value*, since the α value is not significantly affected ($<.04$) after the removal of a certain item, all 5 items are therefore retained in this scale. As for the scale of *conflict*, examination of correlation among individual items indicates that a pair-wise pattern of correlation exists among the items. By removing the two items asterisked in the conflict scale, the α value would substantially increase to .640. In all, as a result of the above purification for the scales, Table 7.3 presents the final results of the refined scales' reliabilities. It demonstrates satisfactory reliability coefficients for most of the scales, except the scales of commitment and conflict whose coefficients only reach an acceptable level of .6.

Table 7.3 Results of the scales' reliabilities after purification

Scale	α value	Cronbach's α
Market orientation		.914 (26 items)
Communication		.741 (6 items)
Shared value		.874 (5 items)
Trust		.930 (7 items)
Cooperation		.927 (7 items)
Commitment		.593 (5 items)
Conflict		.640 (2 items)
Satisfaction		.898 (5 items)

7.2.2 Validity tests

Validity is concerned with the extent to which a test or instrument measures the

attributes that it is supposed to measure (Easterby-Smith et al., 2002). It is concerned with the accuracy of measurement. Since one never has direct evidence of the ‘true’ value of the concept under measurement, validity assessment is a complex issue. There are three basic approaches to estimate the validity of an instrument: content validity, criterion validity, and construct validity.

Content validity

Content validity, also called face validity, refers to the degree to which the domain of a characteristic is adequately sampled by the measure (Kent, 2007). The key to content validity lies in the procedures used to develop the instrument. McDaniel and Gates (1996) suggest four systematic steps to develop a content valid instrument. They are: (1) carefully defining what is to be measured; (2) a careful literature and interviews with the target population; (3) the scale can be checked by experts; and (4) the scale could be pre-tested and also an open-ended question should be asked that might identify additional items to be included in the scale. As discussed in section 6.5, an iterative procedure was developed for the instrument development and refinement, which corresponds to McDaniel and Gates’s four systematic steps. Particularly, there was a translation process which involved the scrutiny by a Taiwanese academician, two rounds of both qualitative and quantitative pretests with the practitioners and by a small scale survey. Following the iterative procedure, clarity, wording and appropriateness of the content are ensured and it seems reasonable to expect that the scales in this study are possessive of the content validity.

Criterion validity

Criterion validity is related to the degree of correlation of a focal measure with other

variables (Kumar et al., 2002). The criterion validity of a measure can be ascertained in terms of its ability to distinguish individuals who differ in their present status (concurrent validity) or to distinguish individuals who will differ in the future on some behaviour (predictive validity) (Kumar et al., 2002). The concurrent validity has not been widely used in the field of marketing research due to the difficulties in specifying an appropriate criterion. One approach of assessing the predictive validity of the measurement for the key construct in this study, market orientation, is to regress the market orientation measures on, for example, the measurement of communication or shared value. The results ($t= 6.631$, $p<.001$, $R^2 = .220$ for communication; $t= 9.407$, $p<.001$, $R^2 = .362$ for shared value) seem to suggest the market orientation scale has a good predictive validity, though a caution should be noted that the relationships between market orientation and communication or market orientation and shared value are two of the hypotheses this study is set out to test, and this will be discussed thoroughly in the next chapter of hypothesis testing.

Construct validity

Construct validity is concerned with the extent to which a measure relates to other measures to which it should be related (Kent, 2007), which lies at the very heart of the scientific process and is the type of validity receiving most of the attention in social science (Churchill, 1979). To establish this type of validity, two categories of construct validity normally need to be determined: convergent validity and discriminant validity. The former refers to the degree to which the scale correlates in the same direction with other measures of the same construct, i.e. the items shows *homogeneity* within the same construct. The latter is concerned with the extent to which a measure is distinct from other measures, i.e. it shows *heterogeneity* between

different constructs (Malhotra, 1996). Ideally an item is expected to be related with other items that measure the same constructs (convergent validity), but differ from items which measure different constructs (discriminant validity) (Peter, 1981). Both categories are commonly evaluated by using factor analysis.

Factor analysis attempts to identify underlying variables, or factors, that explain and summarise the patterns of correlations among variables and to reduce a large number of variables to a smaller number of variables (Hair et al., 2006). Of the factor extraction methods, principal components analysis or the method of principal axes is the most often used to reduce the number of variables in the data file. When interpreting factors, the most important tool is factor rotation. As maintained by most researchers that most unrotated solutions are not sufficient, in most cases rotation will improve the interpretation by reducing some of the ambiguities that often accompany the preliminary analysis. The major option of rotation is to choose orthogonal or oblique rotation method. The former assumes that the theoretical underlying dimensions are uncorrelated with each other, while the latter does not have such an assumption and is therefore regarded as more flexible and realistic (Hair et al., 2006). By assuming that the underlying factors are not correlated, when used for testing the construct validity, the process of the orthogonal method will effectively produce discriminant validity because it attempts to maximize the factor loadings on some variables and minimize the loadings on others. In practice, the orthogonal rotation approach is more frequently used than oblique rotations because analytical procedures for performing oblique rotations are not as well developed and are still subject to some controversy (Hair et al., 2006, p.126). In light of these arguments, the orthogonal rotation method is chosen in this study. Of the different

orthogonal rotation methods, VARIMAX rotation is adopted as it minimizes the number of variables that have high loadings on each factor and simplifies the interpretation of the factors. Hair et al. (2006) argue that the VARIMAX method has proved very successful as an analytic approach in obtaining an orthogonal rotation of factors. Collectively, the principal components method of extraction with a VARIMAX orthogonal rotation procedure is decided to be undertaken in this study to examine the construct validity. The decision regarding the cut-off points chosen for factor loading considered significant is made on the basis of the guidelines suggested by Hair et al. (2006). They propose a table (Table 7.4) which contains the sample sizes necessary for each factor loading value to be considered significant with the stated objective of obtaining a power of 80 percent, the use of a .05 significant level, and the proposed inflation of the standard errors of factor loadings. Following the guideline in the table, the cut-off point for factor loading is a minimum .45 for the sample size of 158 in this study. The results of the factor analysis are detailed next.

Table 7.4 Guidelines for identifying significant factor loadings based on sample size

Factor loadings	Sample size needed for significance
.30	350
.35	250
.40	200
.45	150
.50	120
.55	100
.60	85
.65	70
.70	60
.75	50

Source: Hair et al. (2006, p.128)

- **Construct validity of the market orientation scale**

Before applying factor analysis to examine the construct validity of the market orientation scale, KMO measure of sampling adequacy and Bartlett test of sphericity are performed to assess the appropriateness of using factor analysis. The former is a measure to quantify the degree of correlations among the variables. This index ranges from 0 to 1. The closer the value to 1, the more significant the correlations among the variables. Bartlett test of sphericity provides the statistical probability that the correlation matrix has significant correlations among at least some of the variables. By conducting these tests, the result of KMO test is .897 and the significance level for Bartlett test is $<.001$, both suggesting a high degree of correlations among the scale items. It is hence concluded that factor analysis is an appropriate approach to assessing construct validity of the market orientation scale.

Hair et al. (2006) argue that in deciding when to stop factoring, a researcher should begin with some predetermined criterion, such as the percentage of variance or latent root criterion, to arrive at a specific number of factors to extract. Accordingly these criteria were applied and comparisons were made. Exploratory factor analysis (principal components extraction with VARIMAX orthogonal rotation to allow factors to correlate) was used to provide a broad indication of the performance of the scale. The results are presented in Appendix III. Using an eigenvalue greater than 1 as the cut off, a six-factor solution resulted. The six-component extraction accounts for 66.4% of the total variance. The communalities for the majority of the items exceed or very close to .60. The convergent validity of the scale is suggested by the higher eigenvalue of the first factor of 10.13 explaining 38.94% of the variance, while in contrast the eigenvalue of the second factor is 2.05 only accounting for

7.89% of the total variance and the differences between successive eigenvalues are very small. The results suggest that there is one dominant principal component for the market orientation scale; market orientation should be interpreted as one instead of four constructs. Compared with the scree plot, it also shows that the scree begins after the first eigenvalue, supporting the likelihood of one dominant underlying dimension.

The six-factor extraction in this study did not show any intelligible structure and no clear factor structure was detectable. When a four-factor solution was requested, loading was not clean and the resulting factors captured only 57.61% of the variance. This inclusiveness as to the factor solution is consistent with Pulendran et al. (2000) whose duplicate study of Jaworski and Kohli (1993) in Australia did not show support for the three-component factor structure of the market orientation construct. Pulendran et al. (2000) argue that given the tight connection between the scale items and a lack of distinction between the subscales, indicating a high level of homogeneity among items comprising the scale, the discriminant validity of the construct cannot be established. Furthermore, referring to the previous reliability test, the internal consistency of the overall market orientation scale shows a high value of .914. The high convergence of items justifies the use of an overall market orientation construct in the later analysis.

- **Construct validity of the relationship element scales**

This study proposes seven key relationship elements to develop and sustain a relationship between organisations. The factor analysis of assessing the construct validity for each element scale is then detailed as the following.

1. Communication scale

By adopting KMO measure of sampling adequacy and Bartlett's test of sphericity, the results indicate the appropriateness of applying factor analysis to assess the construct validity (KMO=.796, Bartlett's test: $p < .001$). Factor analysis is then conducted and the results are shown in Table 7.5. As seen from the Table, two factors are extracted which account for 65.43% of the variance. The factor loadings of the items presented in Table 7.6 are .717 or above, and the communalities range from .541 to .733. In comparison with the reliability test in the previous subsection 7.2.1, however, if the item COM27 is deleted, the α value will increase significantly from .646 to .741, which exceeds the desirable α value recommended by Hair et al. (2006). From the item-total statistics, the corrected item-total correlation for COM27 is -.012; from the theoretical importance, the item COM27: "It is expected that both companies will only provide information according to prespecified agreements" has the underlying similarity with the item COM28: "We do not volunteer much information regarding our business to the main supplier". Therefore, in order to ensure an accurate measure is *both* reliable and valid, the item COM27 is eliminated from the communication scale, although it does not demonstrate a low factor loading and communality in the construct validity test.

Table 7.5 Total variance explained of the communication construct

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.186	45.509	45.509	3.186	45.509	45.509	3.178	45.402	45.402
2	1.394	19.916	65.425	1.394	19.916	65.425	1.402	20.023	65.425
3	.697	9.950	75.375						
4	.584	8.343	83.718						
5	.491	7.015	90.733						
6	.387	5.524	96.257						
7	.262	3.743	100.000						

Extraction Method: Principal Component Analysis

Table 7.6 Rotated component matrix and communalities of the communication construct

	Component 1	Component 2	Communalities
COM27	-.135	.783	.631
COM28	.112	.814	.675
COM29	.717	.164	.541
COM30	.819	.143	.690
COM31	.823	-.054	.681
COM32	.847	-.124	.733
COM33	.754	-.247	.629

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalization

2. Shared value scale

The appropriateness of applying factor analysis is confirmed by both the KMO index (.824) and Bartlett's test ($p < .001$). As seen from the factor analysis of the shared value construct presented in Table 7.7, all five items converge on one common construct as only one component is extracted. The factor loadings of these items displayed in Table 7.8 are .719 or above and the communalities range from .517 to .840, which suggest that a high convergent validity exists.

Table 7.7 Total variance explained of the shared value construct

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.402	68.041	68.041	3.402	68.041	68.041
2	.636	12.716	80.757			
3	.501	10.016	90.773			
4	.352	7.039	97.812			
5	.109	2.188	100.000			

Extraction Method: Principal Component Analysis

Table 7.8 Component matrix and communalities of the shared value construct

	Component 1	Communalities
SV34	.828	.686
SV35	.733	.537
SV36	.719	.517
SV37	.917	.840
SV38	.907	.822

Extraction Method: Principal Component Analysis

3. Trust scale

The appropriateness of applying factor analysis is also confirmed by both the KMO index (.907) and Bartlett’s test ($p < .001$). As shown in Table 7.9, all 8 items converge on one common construct when only one component is extracted, and the factor loadings presented in Table 7.10 are .808 or above except that the item TR44 marked by asterisk shows a negative correlation and low factor loading. This item is therefore to be removed from this scale. Compared with the previous subsection of reliability test, TR44 is also confirmed to be omitted to improve the reliability from .841 to .930.

Table 7.9 Total variance explained of the trust construct

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.180	64.751	64.751	5.180	64.751	64.751
2	.852	10.648	75.399			
3	.566	7.076	82.475			
4	.477	5.959	88.434			
5	.276	3.456	91.890			
6	.256	3.200	95.090			
7	.207	2.587	97.678			
8	.186	2.322	100.000			

Extraction Method: Principal Component Analysis

Table 7.10 Component matrix and communalities of the trust construct

	Component 1	Communalities
TR39	.874	.764
TR40	.827	.683
TR41	.838	.702
TR42	.821	.674
TR43	.871	.759
TR44*	-.485	.235
TR45	.808	.653
TR46	.842	.709

Extraction Method: Principal Component Analysis

4. Cooperation scale

The KMO index (.862) and Bartlett's test ($p < .001$) confirm the appropriateness of applying factor analysis to assess this construct validity. Table 7.11 presents the factor analysis of the cooperation construct and all seven items are loaded onto one factor, which explains 69.93% of the variance. The factor loadings of these items displayed in Table 7.12 are above or close to .80 and communalities for the items exceed or close to .60, indicating the existence of a high degree of convergent validity.

Table 7.11 Total variance explained of the cooperation construct

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.895	69.928	69.928	4.895	69.928	69.928
2	.746	10.660	80.587			
3	.436	6.232	86.819			
4	.342	4.891	91.710			
5	.243	3.473	95.183			
6	.216	3.086	98.269			
7	.121	1.731	100.000			

Extraction Method: Principal Component Analysis

Table 7.12 Component matrix and communalities of the cooperation construct

	Component 1	Communalities
COR47	.845	.715
COR48	.797	.635
COR49	.765	.586
COR50	.855	.731
COR51	.887	.788
COR52	.816	.665
COR53	.881	.777

Extraction Method: Principal Component Analysis

5. Commitment scale

The appropriateness of applying factor analysis is also confirmed by both the KMO index (.631) and Bartlett's test ($p < .001$). As shown in the factor analysis of the commitment construct (see Table 7.13), three components are extracted. However when seen from the rotated component matrix (see Table 7.14), only the item COMT55 marked by asterisk shows a very high correlation with component 3. Referring to the previous reliability test subsection, the reliability will be substantially improved from .285 to .593 if the item COMT55 is removed. Also, the standard deviation is very high for this item (5.279) and its corrected item-total correlation is .08, very close to 0. These all point to the conclusion that this item should be eliminated without question. Accordingly this item is omitted and by doing so there will be only two components extracted from the factor analysis as displayed in Table 7.15. Table 7.16 presents the high factor loadings of the retained five items (.701 or above) on one of the two extracted components.

Table 7.13 Initial total variance explained of the commitment construct

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.275	37.911	37.911	2.275	37.911	37.911	1.964	32.734	32.734
2	1.109	18.480	56.391	1.109	18.480	56.391	1.382	23.033	55.767
3	1.057	17.624	74.015	1.057	17.624	74.015	1.095	18.248	74.015
4	.733	12.210	86.225						
5	.568	9.474	95.699						
6	.258	4.301	100.000						

Extraction Method: Principal Component Analysis

Table 7.14 Initial rotated component matrix of the commitment construct

	Component 1	Component 2	Component 3
COMT54	.434	.652	.003
COMT55*	-.118	.165	.900
COMT56	.539	-.338	.519
COMT57	.076	.849	.088
COMT58	.874	.193	-.090
COMT59	.837	.238	.005

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalization

Table 7.15 Total variance explained of the commitment construct after purification

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.284	45.673	45.673	2.284	45.673	45.673	1.806	36.128	36.128
2	1.103	22.055	67.728	1.103	22.055	67.728	1.580	31.600	67.728
3	.779	15.583	83.311						
4	.575	11.501	94.813						
5	.259	5.187	100.000						

Extraction Method: Principal Component Analysis

Table 7.16 Rotated component matrix and communalities of the commitment construct after purification

	Component 1	Component 2	Communalities
COMT54	.311	.716	.610
COMT56	.701	-.304	.583
COMT57	-.043	.819	.672
COMT58	.783	.382	.759
COMT59	.760	.404	.741

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalization

6. Conflict scale

There are only four items in this scale and the KMO index (.559) and Bartlett's test ($p < .001$) allow the application of factor analysis to assess this construct validity. By conducting factor analysis, all four items are loaded onto one factor (see Table 7.17). As seen from Table 7.18, two items (CON60 and CON63) marked by asterisk demonstrate low factor loadings and communalities. In accordance with the previous reliability test, by removing these two items, the α value will substantially increase to .640, though there will be only two items left in this scale. Accordingly CON60 and CON63 are omitted from the conflict scale, and the factor loadings for both of the remaining two items (CON61 and CON62) become .861, and the communalities are .741 for both of them.

Table 7.17 Total variance explained of the conflict construct

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.637	40.933	40.933	1.637	40.933	40.933
2	.986	24.641	65.573			
3	.869	21.723	87.297			
4	.508	12.703	100.000			

Extraction Method: Principal Component Analysis

Table 7.18 Component matrix and communalities for the conflict construct

	Component 1	Communalities
CON60*	-.507	.258
CON61	.814	.663
CON62	.778	.606
CON63*	.333	.111

Extraction Method: Principal Component Analysis

7. Satisfaction scale

The KMO index (.854) and Bartlett's test ($p < .001$) confirm the appropriateness of applying factor analysis to assess this construct validity. As seen from the factor analysis for the satisfaction construct shown in Table 7.19, all six items are loaded onto one factor, which explains 61.743% of the variance. The factor loadings of these items displayed in Table 7.20 are .699 or above except the item SAT64 marked by asterisk, which shows a low factor loading and communality. By removing this item, the reliability can be improved from .843 to .898 and the construct validity can also be improved.

Table 7.19 Total variance explained for the satisfaction construct

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.705	61.743	61.743	3.705	61.743	61.743
2	.920	15.336	77.079			
3	.608	10.138	87.217			
4	.351	5.853	93.070			
5	.291	4.849	97.919			
6	.125	2.081	100.000			

Extraction Method: Principal Component Analysis

Table 7.20 Component matrix and communalities for the satisfaction construct

	Component 1	Communalities
SAT64*	.396	.157
SAT65	.699	.489
SAT66	.836	.699
SAT67	.832	.693
SAT68	.917	.841
SAT69	.909	.826

Extraction Method: Principal Component Analysis

In summary, 6 items out of the total 69 items of the eight scales are removed in the reliability and validity tests. Surprisingly, five of these six problematic items are associated with reverse-worded questions. Indeed, the reverse-worded items (RWI) in this study display somewhat lower reliability and weaker item-to-total correlations than their positive-worded counterparts (PWI). Furthermore, when subjected to factor analysis, they also show a lower factor loading or even load on a separate factor. The design of this study employing mixed wording was intended to reduce the dangers of response bias such as acquiescence and straight-line responding as Churchill (1979) and Nunnally (1978) suggested. However, this mixture seems to lessen a scale's internal consistency and disrupt its dimensionality. By reviewing the specialized literature, the use of mixed-worded scales indeed has a long and controversial history. Problems with mixed-worded scales most often arise for members of subcultural groups and are more pronounced in cross-cultural settings (e.g. Schmitz and Baer, 2001; Steenkamp and Burgess, 2002). This study provides another evidence of the difficulties posed by mixed-worded Likert scales. Because of the widespread nature of these problems, great caution should be taken when future mixed-worded scales are employed and the fit should be examined between PWI and RWI within each culture investigated. Alternatively, some psychometricians (e.g. Schriesheim and Eisenbach,

1995) suggest that researchers should administer scales that employ only PWI (or at least all items in the same direction), or replacing the Likert scale's statements with a set of questions to enhance the validity of mixed-worded scales in cross-cultural applications (Wong et al., 2003).

Overall, the measure tests have provided the evidence that the scales used in this study have satisfactory reliability and validity after purification, and therefore should be able to allow valid descriptive statistics analysis in the following discussion and hypothesis testing in the next chapter.

7.3 Comparisons of responses between the web and postal surveys

To facilitate the discussion on the sample characteristics, two issues need to be recognised and addressed. The first issue relates to the comparison of responses between the modes to investigate whether answers the management provides to a web survey differ significantly from those provided on paper. The next concern is the non-response bias.

Although the same questionnaire content is presented to the informants, significant difference could exist between different survey modes. The possible difference is assessed by independent-samples t-test to compare means for two groups of cases; that is, to examine differences in the respondents' values between the mixed modes on a number of construct variables including market orientation and the relationship elements. As can be seen from Table 7.21, the results of the tests indicate that a significant difference is not found between these two modes on either the level of market orientation ($t=-.024$, $p=.981$) or relationship elements ($F=1.35$, $p=.179$). Thus,

informant bias between the mixed modes does not appear to be a concern in this study.

Table 7.21 T-tests between mixed-modes on the variables of market orientation and relationship elements

variable		Levene's Test for Equality of Variances		t-test for Equity of Means		
		F	Sig.	t	df	Sig.(2-tailed)
Market orientation	Equal variances assumed	.394	.531	-.024	156	.981
	Equal variances not assumed			-.024	129.123	.981
Relationship elements	Equal variances assumed	2.870	.092	1.350	156	.179
	Equal variances not assumed			1.378	133.120	.170

Non-response bias has been criticized for both electronic and postal surveys, particularly when the response rate is not high. Indeed, there is always potential for non-response bias in any data collection procedure that relies on respondent co-operation. If persons who respond differ substantially from those who do not, the collected samples are difficult to be used to generalise about the population. Several approaches are suggested in the literature to evaluate or estimate non-response bias. For example, to compare the characteristics of the respondents to those of the population from which the sample was drawn, which however is not possible for the study. Following Armstrong and Overton's (1977) extrapolation methods, the non-response bias is assessed by comparing the scores on the variables between the early and late respondents. This approach is based on the assumption that persons responding later are more like non-respondents in terms of attributes and behaviour. Thus, any significant difference between early and late respondents would suggest the existence of non-response bias in this study.

By conducting t-tests to examine the scores between early respondents (the first wave, two weeks prior to the cut-off time for web survey and three weeks for the post) and late respondents on the respondents' characteristics and level of market orientation, the results are presented in Table 7.22. As shown in this Table, no significant difference is found for most of the variables except the characteristic of capital size. Examining the means between early and late respondents on this variable, they are 1.63 and 2.05 respectively based on 3 levels of capital size (small: under £1.59 million, medium: £1.6-15.9 million, and large-sized: over £16 million). The means suggest that the results may be biased towards small and medium capital sized distributors. This may result from difficulties of the questionnaire reaching the management of large companies and busyness or scheduling difficulties of the management to assist with this study. On the other hand, however, small and medium-sized companies are indeed the main entrepreneurial bodies in Taiwan. According to Taiwan Ministry of Economic Affairs, the percentage of the total number of small and medium enterprises (including all business types) in 2006 Taiwan is 97.8%. Therefore, the bias towards small and medium capital sized distributors seems to be a reflection of this dominant number of entrepreneurial bodies in Taiwan. Additionally, this bias also reflects on the variable of employee size, which is marginally significant ($p=.053$). Other than capital size and employee size, no significant differences are found on the other characteristic variables between early and late respondents. Hence, it can generally be assumed that the non-response bias has no major impact on this study, except that the results may be biased towards small and medium capital sized distributors, which in fact is a reflection of the entrepreneurial structure of the Taiwanese business context.

Table 7.22 Non-response bias test by conducting t-tests between early and late respondents on the variables

test variable	Levene's Test for Equality of Variances		t-test for Equity of Means		
	F	Sig.	t	df	Sig.(2-tailed)
Distribution sector	5.407	.021	.768	155.881	.444
Informant's position	.031	.861	-.395	156	.693
Employee size	.670	.414	-1.950	156	.053
Capital size	1.583	.210	-3.221	156	.002
Organisation history	7.402	.007	.283	136.575	.777
Informant's working years in the organisation	.055	.815	1.444	156	.151
Degree of market orientation	1.342	.248	1.526	156	.129

7.4 Sample characteristics

In total, 158 usable responses from the four selected distribution sectors were obtained by a mixed-mode of web and postal surveys. Since the informant bias between the mixed modes and non-response bias do not appear to be a concern in the study, the characteristics of the sample units are to be discussed in combination based on the frequency distribution. This is to provide the general trends and patterns in the data collected.

7.4.1 Distribution of responses by distribution sector

Table 7.23 presents the distribution of responses by the distribution sector, which displays a good coverage of the four distribution sectors by the sample, with the most responses from the IT products sector (50 sample units). The higher responses from

the IT sector are mainly due to the responses obtained from the electronic mode. Since this group occupies a larger electronic sampling base, it is logical to give more responses than the other three sectors. Furthermore, the respondents from this group are accustomed to and familiar with the use of IT facilities, and accordingly they may not reject the electronic mode if they are willing to answer the request.

Among these four distribution sectors, the electrical goods group displays the lowest responses (27 sample units). Given the characteristics of this group, there are two possible explanations for its slightly lower responses. In Taiwan, some large electricals and technology distributors are carrying both consumer electrical and electronic products in the same store in different departments and they are often called “3C stores”, labeling stores carrying computer, communication, and consumer electronic and electrical products. With ever so rapid development and expansion of the electronic and IT products, these stores may categorise themselves in the IT sector as their electronic products often occupy over half of total running items in the store. In fact, due to the possible overlap existing between electrical goods and IT products distributors, the questionnaire specifies that if the items and turnover of the electronic products are over those of electrical products in the store, it is categorised in the IT sector. In contrast, if electrical goods, such as home electric appliances, are running over 50% of the total items in the store, the electrical goods sector is the choice. From the operation status quo of the 3C stores, the IT sector may often be their choice.

Another possible explanation for the lower response rate from the electrical goods sector is that if traditional electrical goods distributors do not expand their size and still run in a conventional business fashion as a family enterprise, they do not have

high annual turnovers and may not be interested in this strategic subject. Indeed, no response was received from a micro-sized (under 5 employees) distributor in this study. Statistically, the representation of the sample is assessed by the Chi-Square Goodness-of-Fit test, which is used in determining whether a population distribution has a particular form. The results ($\chi^2=7.823$, $df=3$, $p=.051$) indicate that only a marginal significant difference is found on the distribution of responses from different sectors, meaning the electrical goods sector is not significantly under-represented by the sample.

Table 7.23 Distribution of responses by distribution sector

Distribution sector	Frequency	Percent
Department store	45	28.5
Car dealer	36	22.8
Electrical goods distributor	27	17.1
IT products distributor	50	31.6
Total	158	100.0

7.4.2 Distribution of responses by employee size

The staff size of the respondent organisations is presented in Table 7.24. According to the classification of Taiwan Ministry of Economic Affairs, the distribution organisation is basically categorised into four groups by the number of staff:

- under 5 employees: micro enterprise;
- 5-49 employees: small enterprise;
- 50-199 employees: medium enterprise;
- over 200 employees: large enterprise.

The sample units for this study are both on a firm level and a SBU level. Distributors on a firm or a SBU level are both typical in the Taiwanese distribution context. It is specified in the beginning of the questionnaire that the organisation in this questionnaire denotes the present unit, branch or subsidiary which is being surveyed if it is an SBU of a business group or a subsidiary of a large corporation. Thus, if the surveyed unit is an SBU, a branch or a subsidiary, it is requested to indicate the number of full time equivalent staff only in that unit or subsidiary instead of the total number in the group. Of the responses obtained, the smallest employee size was 5 people from the IT products distribution sector and none of the responses was from the micro enterprise group (1-4 employees), a reflection of the small population of this group in the sampling frame as well as the low interest in this strategic subject from a micro enterprise. Apart from this group, Table 7.24 displays a good coverage of the other three employee sizes by the sample, with the highest response rate from the small enterprise (43%), followed by the large-sized (31%) and the medium-sized distributors (26%). Almost 70% of the responses were secured from small and medium enterprises.

Table 7.24 Distribution of responses by employee size

Number of employees	Frequency	Percent
1-4 employees	0	0
5-49 employees	68	43.0
50-199 employees	41	26.0
200-500 employees	49	31.0
Total	158	100.0

7.4.3 Distribution of responses by capital size

Table 7.25 presents the distribution of the respondent samples by their capital size and all sizes are well covered by the sample. This study groups the samples into three sectors according to the common classification for distribution organisations in Taiwan:

- small-sized: under £1.59 million;
- medium-sized: £1.6-15.9 million;
- large-sized: over £16 million.

As seen from Table 7.25, the small-sized companies also constitute the largest group of the responses (43.7%), followed by the large-sized (29.1%) and medium-sized distributors (27.2%). Corresponding to the previous characteristic of staff size, small and medium-sized distributors dominate about 70% of the responses, a reflection of the entrepreneurial structure in Taiwan. Meanwhile, since the distribution industry basically is a labour intensive industry, 31% of the responses are from distributors with staff size over 200 employees, and 29% are from large capital sized distributors.

Table 7.25 Distribution of responses by capital size

Capital size	Frequency	Percent
£0-1,599,999	69	43.7
£1,600,000-15,999,999	43	27.2
£16,000,000+	46	29.1
Total	158	100.0

7.4.4 Distribution of responses by organisation history

The distribution of the respondent organisation history is provided by Table 7.26. As

displayed in this Table, half (50%) of the respondent units have a running history between 10 to 19 years and 29.7% of the respondent organisations are running over 20 years. That is, about 80% of the respondent units have an organisation history over 10 years, which means they have over 10 years' working relationship with their suppliers or working partners. Such a period of working relationship between organisations is quite appropriate for the exploration of the relationship subject of this study. Whether significant difference exists between units with running histories over and under 10 years on the levels of the market orientation and relationship elements will be examined in the descriptive analysis of section 7.5.

Table 7.26 Distribution of responses by organisation history

Organisation history	Frequency	Percent
0-9 years	32	20.3
10-19 years	79	50.0
20+ years	47	29.7
Total	158	100.0

7.4.5 A profile of the respondents

Table 7.27 presents the position profile of the informants. Since 7 questionnaires from non-management informants were regarded invalid and excluded from the data analysis, the usable 158 responses were all from the management. Of these respondents, about 56% belong to top management and 44% are middle management. Although at the first glance the respondent percentage from “the general manager” is low, this is due to the cultural difference of management position titles in Taiwan. The designations for a person practically in charge of an organisation are various and can be basically labeled into three sectors. If organisations are agents or business partners

of American companies, the person in charge is usually designated as general manager, such as the respondents from some car dealers and a few department stores. On the other hand, if the distributors are agents or business partners of Japanese companies, the titles of top management are usually labeled as something like directors instead of managers, such as those from Toyota, Mitsubishi, Mazda, etc. As for some department stores with joint venture or business cooperation with Japanese ones, the title general manager is only given to the person in charge of the headquarters. The top person of a branch or subsidiary is usually designated as (store) manager or sales manager. This is also the case for some dealers of European cars. As for the independent stores with no foreign business relationships, the designations for the top management are mixed, either managers or directors. In sum, general managers, deputy general managers, directors, store managers or sales managers are all grouped into top management in this study, and procurement/marketing managers are deemed as key informants for this relationship subject. On the other hand, as expected, some of the answering responsibilities are delegated to middle or lower management by the target informants. About 44% of the respondents from non top management or procurement/marketing managers are labeled as 'other officials'.

Concerning whether the respondents' working experience in the distribution sector and in the company impacts on the perception of the company's market orientation and development of relationship elements, the profiles of respondents' working years in the distribution sector and in the company are also considered as characteristic variables and presented in Tables 7.28 and 7.29 respectively. Since the distribution industry is labour-intensive but full of mobility, working for just a few years in the sector or in the company may be common, even for the management. Thus, to assess

whether the respondents are new to the distribution sector or to the company makes a difference in their recognition of the marketing concept and relationship elements, the first level is classified as working under 5 years. As shown in Table 7.28, about 61% of the respondents have worked over 10 years in the distribution sector, and 39% have working experience under 10 years, with 15% working under 5 years. A dominant percentage of 47% of the respondents have worked 10 to 19 years in the distribution sector, indicating the dominant percentage of management is about mid-aged, mostly around 35 to 45 years old, a relatively young age range of management in the business context. In contrast, a dominant percentage of 62% of the respondents work in the current company under 10 years, with 25% working under 5 years (see Table 7.29). This seems to reflect on the characteristic of the distribution industry that the phenomenon of labour mobility is quite common.

Table 7.27 Position profile of the respondents

Position of the respondent	Frequency	Percent
General manager	17	10.8
Store/sales/marketing/ procurement manager	39	24.7
Director	32	20.3
Other official	70	44.3
Total	158	100.0

Table 7.28 Respondents' working years in the distribution sector

Respondent's working years in the distribution sector	Frequency	Percent
1-4 years	24	15.2
5-9 years	37	23.4
10-19 years	74	46.8
20-70 years	23	14.6
Total	158	100.0

Table 7.29 Respondents' working years in the current company

Respondent's working years in the current company	Frequency	Percent
1-4 years	39	24.7
5-9 years	59	37.3
10-19 years	48	30.4
20-70 years	12	7.6
Total	158	100.0

7.5 Descriptive statistics analysis

Based on the sample characteristics presented above, this section is to further analyse the data by using the descriptive statistics to assess the patterns and differences of the construct variables of market orientation and relationship elements on the sample characteristics.

7.5.1 The market orientation and relationship elements of the sample

The descriptive statistics of the variables of market orientation and relationship elements of the selected four sectors are displayed in Table 7.30. On a seven-point scale, the mean score of overall market orientation for these sectors is 5.58 (5: slightly agree), with a standard deviation of .70. Also, it can be seen from the 20th percentile that 80% of the samples have a score of market orientation above 5, suggesting that in Taiwan about 80% of the companies in these four sectors are engaged in market-oriented activities to some extent; a climate of market orientation extensively exists in the Taiwanese business context. When the four components forming the market orientation construct are further assessed, no significant difference is found in terms of scores of the mean, standard deviation and percentiles. The skewness and kurtosis are generally close to zero, indicating that the assumption

of normality appears not to be violated. Indeed, from a correlation analysis perspective, the four components are positively and significantly correlated with one another (see Table 7.31). The relationships between *intelligence generation*, *intelligence dissemination*, *responsiveness*, and *responsiveness controlling* are highly significant at the $p < .001$ level. In addition, factor analysis also indicates that these four components are closely related. As shown in Table 7.31, the Pearson Correlation is .785 or above between the four components and market orientation, indicating that all four components are strongly related to *market orientation*.

Table 7.30 Descriptive statistics of the market orientation and relationship elements

	Scale	No.of Items	Mean	Standard Deviation	Skewness	Kurtosis	Percentile 20	Percentile 70
Market orientation	Overall market orientation	26	5.575	.700	-.863	.380	5.039	5.962
	Intelligence generation	6	5.492	.863	-.353	-.682	4.667	6.000
	Intelligence dissemination	6	5.667	.832	-.807	.391	5.000	6.167
	Responsiveness	9	5.546	.764	-.681	-.065	4.889	6.000
	Responsiveness controlling	5	5.618	.887	-.691	.019	4.800	6.000
Relationship elements	Communication	6	4.952	.871	-.366	.022	4.167	5.500
	Shared value	5	6.054	.765	-.968	.728	5.600	6.600
	Trust	7	5.618	.904	-1.047	1.752	4.857	6.000
	Cooperation	7	5.650	.868	-.882	.912	5.114	6.000
	Commitment	5	4.963	.809	.068	-.283	4.200	5.400
	Conflict	2	3.611	1.354	.148	-.600	2.000	4.500
	Satisfaction	5	5.343	.971	-.821	1.443	4.600	6.000

Table 7.31 Correlation analysis of market orientation and its four components

	Market orientation	Intelligence generation	Intelligence dissemination	Responsiveness	Responsiveness controlling
Market orientation					
Pearson Correlation	1	.785(***)	.863(***)	.894(***)	.832(***)
Sig. (2-tailed)		.000	.000	.000	.000
Intelligence generation					
Pearson Correlation	.785(***)	1	.575(***)	.578(***)	.511(***)
Sig. (2-tailed)	.000		.000	.000	.000
Intelligence dissemination					
Pearson Correlation	.863(***)	.575(***)	1	.684(***)	.685(***)
Sig. (2-tailed)	.000	.000		.000	.000
Responsiveness					
Pearson Correlation	.894(***)	.578(***)	.684(***)	1	.674(***)
Sig. (2-tailed)	.000	.000	.000		.000
Responsiveness controlling					
Pearson Correlation	.832(***)	.511(***)	.685(***)	.674(***)	1
Sig. (2-tailed)	.000	.000	.000	.000	

*** p<.001

As seen from the descriptive statistics for the relationship elements (Table 7.30), since the construct *conflict* is designed to be a negative measure among the elements, it is not surprising to see a lower mean score if the mean scores for the other positive elements are higher. The conflict construct has a mean score of 3.61 (3: slightly disagree), with a mode of score 4 (18%) (4: neither disagree nor agree). 50% of the samples have a mean score under 4 and 32% have a mean score above 4. The standard deviation of this construct is 1.35, the highest SD of the relationship elements, indicating a more dispersed pattern of this construct than the other relationship constructs.

Of the positive relationship elements, the mean scores range from 4.95

(communication) to 6.05 (shared value), with the standard deviations all < 1 . The mean scores for the constructs of *trust*, *cooperation*, and *satisfaction* are similar, with a high level of 5.62, 5.65, and 5.34 respectively. The element *shared value* has the highest mean score of 6.05 and a mode of score 7. 80% of the samples have a mean score above 5.6 and 30% have a very high mean score above 6.6, suggesting that these companies highly regard shared value as a vital component to develop and sustain a relationship with their partners. Since these companies have a high mean score 5.58 for the market orientation construct, the correlation between the marketing concept and shared value is one of the hypotheses set out to be tested in the next chapter.

Comparatively, the mean scores of *communication* and *commitment*, which are 4.95 and 4.96 respectively, are slightly lower than those of the other positive relationship elements. In comparison with the information obtained from the first phase preliminary interviews, the importance of communication was emphasised by most informants and this element was deemed as the starting point which mediates the impact of the marketing concept on channel relationships. However, the emphasis informants placed was more on “personal communication” and “personal interaction” than on formal information sharing between companies or departments. Nonetheless, formal information communication is the focused question design for this construct in the questionnaire. The slightly lower mean score of communication seems to correspond to the information secured from the interviews. As for the element commitment, also, corresponding to the interviews, the response to this element was lower than the responses to the other elements. From a distributor’s standpoint, especially for a small-sized distributor, seeking satisfying performance

may take a more important role than making commitment to a certain supplier or a relationship. This may reflect on their most positive answers to the question that “We are continually on the lookout for another supplier to replace or add to our main supplier”. Another possible reason may be that business operation is reported in the preliminary interview to be heavily influenced by external environmental factors, such as legal and government regulations, industrial competitiveness, technology change, etc. When a distributor faces uncertainty from external environment, it may not easily commit itself to its suppliers for fear of losing flexibility in the time- and quality-based competition.

In an attempt to gain further insights into the relationships between the constructs of market orientation and the relationship elements, and the characteristics of the sample, such as the distribution sector, employee size, organisation history, capital size and the respondents’ profile, the differences among the sample characteristics on the constructs are compared and addressed in the following.

7.5.2 Differences among distribution sectors

One-way ANOVA is conducted to test the significant difference among different sectors on the levels of market orientation and relationship elements. The results show that significant differences exist both in the levels of market orientation ($F=7.226$, $df=3$, $p<.001$) and in the development of relationship elements ($F=6.553$, $df=3$, $p<.001$). Table 7.32 presents the mean scores and their standard deviation of different distribution sectors on market orientation. Tukey’s test in post hoc procedure is next performed to assess the multiple comparisons between the groups. It is a post hoc test that allows one to conduct a family of tests, yet it controls for an overall

predetermined significance level. As can be seen from the mean scores shown in Table 7.33, comparatively the electrical goods distributor has the highest mean (6.01) of market orientation of these four sectors and the IT products distributor has the lowest (5.32). Accordingly the most significant difference exists between these two sectors, which shows the mean difference of .691 as marked by an asterisk in Table 7.33. Meanwhile, a significant difference is also found between electrical goods distributor and department store, which presents the mean difference of .533 as also marked by asterisk in the Table. Of these four groups, car dealer has the mean score of market orientation next to the electrical goods sector. By comparing the mean scores between car dealer and the IT sector, a significant difference also exists by the mean difference of .395. Figure 7.1 shows a plot of market orientation of the four sectors and it clearly indicates that the electrical goods sector has the highest mean of market orientation and the IT products group presents the lowest mean score. A caution, however, should be noted due to the smaller sample size of the electrical goods sector. Although the results of the Chi-Square Goodness-of-Fit test indicate that no significant difference is found on the distribution of responses from different sectors and the electrical goods sector is not significantly under-represented by the sample, its relatively small sample size still somewhat limits its representation.

By further examining the difference between groups on the four components of market orientation, the results (see Table 7.34) indicate that the electrical goods distributor has the highest level and the IT group has the lowest on all the four components. In terms of intelligence generation, significant difference is only found between these two groups. Generally speaking, these distribution groups produce no significant difference in intelligence generation, except that the IT group seems to

perform at a lower level. In fact, the mean score of intelligence generation is the lowest (5.2) of the four components for the IT group. As shown in Table 7.34, the most significant differences are found on intelligence dissemination. The electrical goods and car dealer groups perform at a higher level on this component than the department store and IT groups; the former two groups tend to be more engaged in activities of intelligence disseminated among their departments and staff. Surprisingly, the department store group, which is proud of its satisfactory customer services, shows a relatively lower level on responsiveness (5.38). Possible explanations may be attributable to its centred-controlled (headquarters-controlled) organisation structure as well as the difficulties to integrate prompt responsiveness from thousands of suppliers, which nevertheless is the aspect this group needs to notice most in implementing market-oriented activities. The plots of the level of the four components among the sectors are presented in Figures 7.2, 7.3, 7.4, and 7.5.

Considering the interactions with other characteristics to cause the significant difference among sectors, two-way ANOVA are also conducted to assess the interplay effects from the other characteristic variables. The results reveal that there are no significant interactions between the other characteristics and the distribution sector. Therefore, only the main effect of the distribution sector is considered for the different market orientation level among sectors. With regards to the reasons causing the difference, they can be complicated and multi-faceted, including the antecedents of internal and external factors and the characteristics of the samples obtained for this study. The descriptive statistics analysis based on the sample characteristics will be discussed further in the following sections. As far as the internal and the external factors are concerned, they have been extensively studied in the market orientation

literature and are also reported in the preliminary interviews to significantly influence business operation. The antecedents that facilitate or inhibit the fulfilment of market orientation in the business context are the areas to be worked on in future studies.

Table 7.32 Market orientation of the different distribution sectors

Distribution sector	N	Mean	Std. Deviation
Department store	45	5.480	.805
Car dealer	36	5.717	.656
Electrical goods distributor	27	6.013	.323
IT products distributor	50	5.322	.658
Total	158	5.575	.700

Table 7.33 Tukey HSD of post hoc tests on the level of market orientation among different sectors

(I) distribution sector	(J) distribution sector	Mean Difference(I-J)	Sig.
Overall market orientation			
department store	car dealer	-.237	.383
	electrical goods distributor	-.533(*)	.006
	IT products distributor	.158	.652
car dealer	department store	.237	.383
	electrical goods distributor	-.296	.299
	IT products distributor	.395(*)	.036
electrical goods distributor	department store	.533(*)	.006
	car dealer	.296	.299
	IT products distributor	.691(*)	.006
IT products distributor	department store	-.158	.652
	car dealer	-.395(*)	.036
	electrical goods distributor	-.691(*)	.006

* p<.05

Table 7.34 Tukey tests on the four components of market orientation among sectors

(I) distribution sector	(J) distribution sector	Mean Difference(I-J)	Sig.
Intelligence generation			
department store	car dealer	.118	.924
	electrical goods distributor	-.242	.639
	IT products distributor	.400	.099
car dealer	department store	-.118	.924
	electrical goods distributor	-.360	.338
	IT products distributor	.283	.417
electrical goods distributor	department store	.242	.639
	car dealer	.360	.338
	IT products distributor	.642(*)	.009
IT products distributor	department store	-.400	.099
	car dealer	-.283	.417
	electrical goods distributor	-.642(*)	.009
Intelligence dissemination			
department store	car dealer	-.464(*)	.045
	electrical goods distributor	-.626(*)	.007
	IT products distributor	.099	.929
car dealer	department store	.464(*)	.045
	electrical goods distributor	-.162	.850
	IT products distributor	.562(*)	.007
electrical goods distributor	department store	.626(*)	.007
	car dealer	.162	.850
	IT products distributor	.724(*)	.001
IT products distributor	department store	-.099	.929
	car dealer	-.562(*)	.007
	electrical goods distributor	-.724(*)	.001
Responsiveness			
department store	car dealer	-.259	.381
	electrical goods distributor	-.683(*)	.001
	IT products distributor	.038	.994
car dealer	department store	.259	.381
	electrical goods distributor	-.424	.103
	IT products distributor	.298	.241
electrical goods distributor	department store	.683(*)	.001
	car dealer	.424	.103
	IT products distributor	.721(*)	.001
IT products distributor	department store	-.038	.994
	car dealer	-.298	.241
	electrical goods distributor	-.721(*)	.001
Responsiveness controlling			
department store	car dealer	-.348	.272
	electrical goods distributor	-.498	.085
	IT products distributor	.154	.818
car dealer	department store	.348	.272
	electrical goods distributor	-.150	.902
	IT products distributor	.502(*)	.041
electrical goods distributor	department store	.498	.085
	car dealer	.150	.902
	IT products distributor	.652(*)	.010
IT products distributor	department store	-.154	.818
	car dealer	-.502(*)	.041
	electrical goods distributor	-.652(*)	.010

* p< .05

Figure 7.1 A plot of market orientation among the distribution sectors

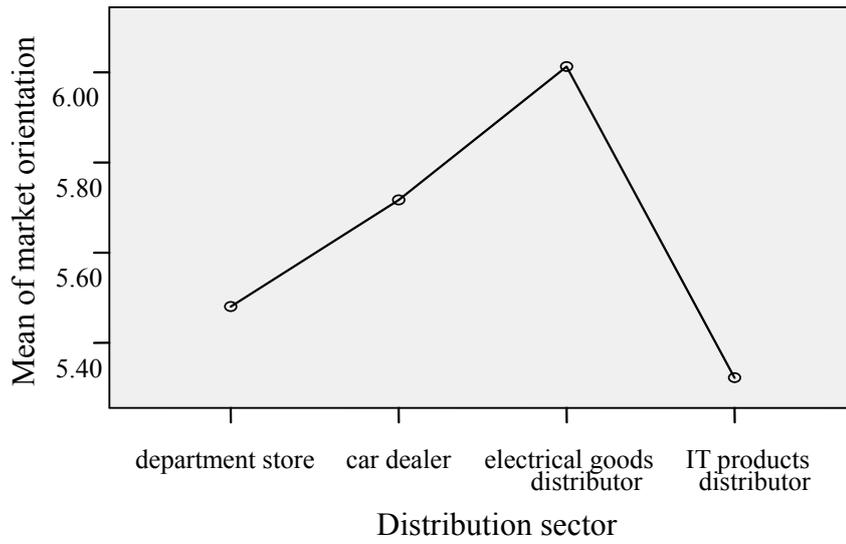


Figure 7.2 A plot of intelligence generation among the distribution sectors

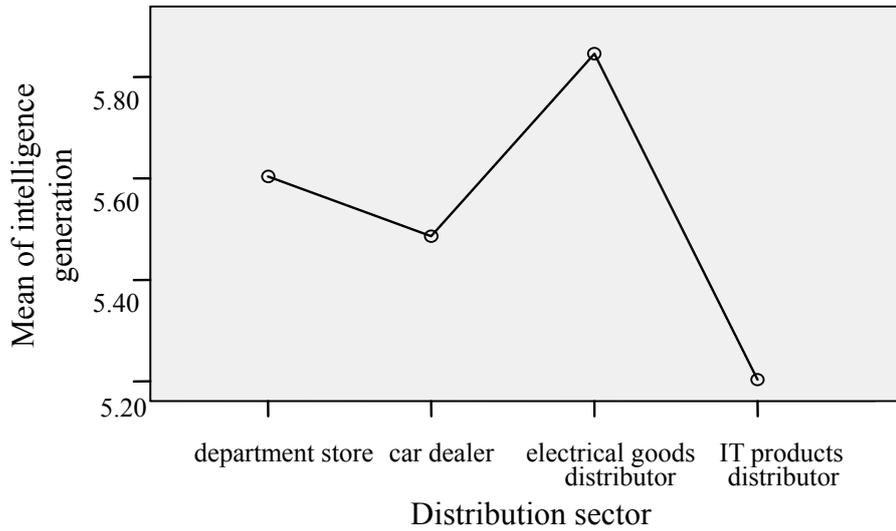


Figure 7.3 A plot of intelligence dissemination among the distribution sectors

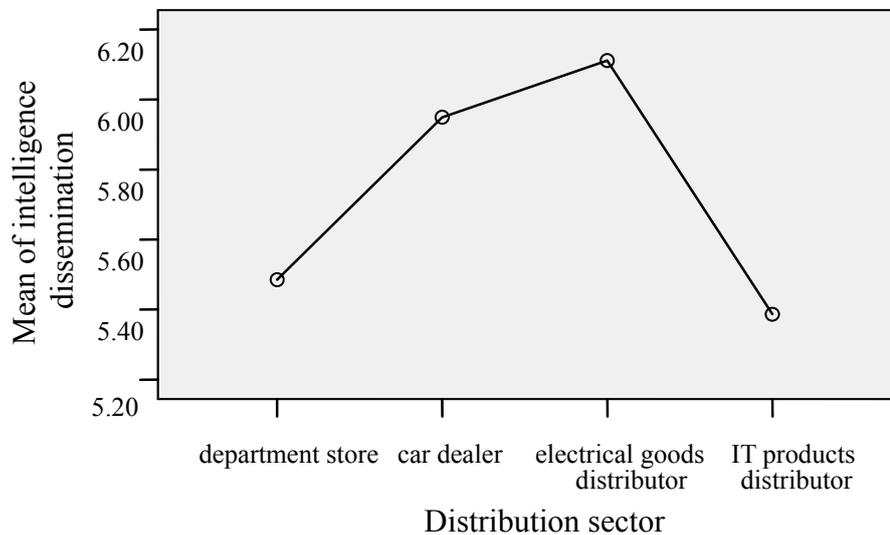


Figure 7.4 A plot of responsiveness among the distribution sectors

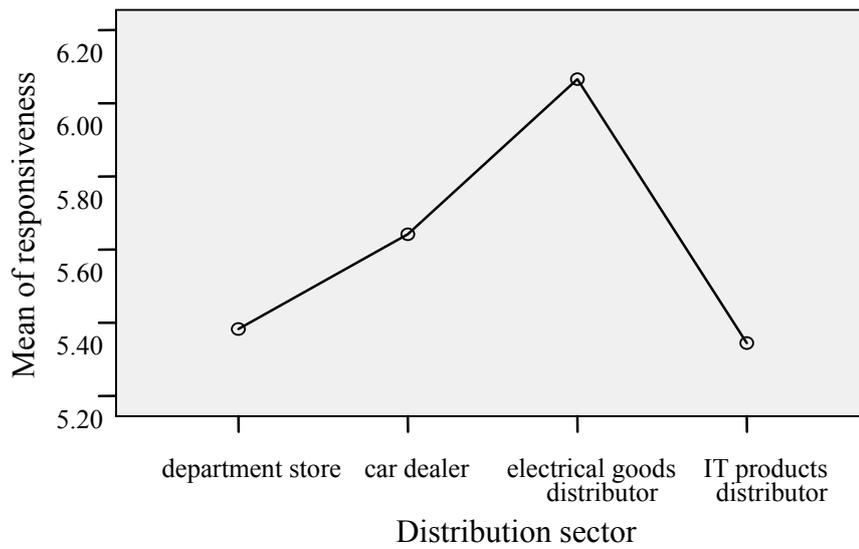


Figure 7.5 A plot of responsiveness controlling among the distribution sectors



7.5.3 Differences among companies with different employee sizes

Table 7.35 presents the mean scores and their standard deviation of market orientation of companies with different employee sizes. As seen from this Table, the mean scores are quite similar among companies with different employee sizes, with a slightly higher mean for the medium-sized companies. By conducting one-way ANOVA to assess the significant differences, the results show that no significant differences are not found on the levels of market orientation among different employee sizes

($F=2.302$, $df=2$, $p=.103$) but are found on the relationship elements ($F=4.610$, $df=2$, $p=.011$). Since the p-value of .011 is computed based on the mean of the 7 relationship elements, the correlations between the marketing concept and relationship elements, particularly the communication and shared value elements, are subject to the hypothesis testing in the next chapter.

Table 7.35 Market orientation of companies with different employee sizes

Employee size	N	Mean	Std. Deviation
5-49 employees	68	5.543	.633
50-199 employees	41	5.766	.646
200+ employees	49	5.460	.806
Total	158	5.575	.700

7.5.4 Differences between companies with different capital sizes

Table 7.36 presents the mean scores and their standard deviation of the market orientation of companies with different capital sizes. Similar to the previous characteristic, the mean scores are also quite similarly distributed among companies with different capital sizes, with a slightly higher mean for the medium-sized companies. By conducting one-way ANOVA to assess the significant differences among the different capital sizes on the variables, the results show that no significant differences are found on the levels of market orientation among different capital sizes ($F=1.704$, $df=2$, $p=.185$) but again are found on the relationship elements ($F=3.782$, $df=2$, $p=.025$). Indeed, the sample characteristics of employee size and capital size are usually related; an organisation with a large employee size is normally running at a big capital size and vice versa. The results obtained from these two characteristics reflect the similarity between them.

Table 7.36 Market orientation of companies with different capital sizes

Capital size	N	Mean	Std. Deviation
£0-1,599,999	69	5.595	.611
£1,600,000-15,999,999	43	5.699	.652
£16,000,000+	46	5.430	.843
Total	158	5.575	.700

7.5.5 Differences between companies with different organisation histories

Table 7.37 presents the mean scores and their standard deviation of the market orientation of companies with different organisation histories. As seen from this Table, the mean scores are also similar, with the highest mean of 5.75 for organisations running over 20 years, meaning that the distributors operating over 20 years are more involved in market-oriented activities to some extent than those running under 20 years, although they all have mean scores of 5.5 or above. Being market-oriented may be one of the reasons for those companies running over 20 years keeping staying in the market, or since they have survived long enough, they are able to be more functional on engaging themselves in market-oriented activities. Table 7.38 presents the cross-tabulation of the distribution sector and organisation history. As shown in this Table, the electrical goods and car dealer groups have the larger number of companies running over 20 years than the department store and IT groups. This seems to correspond to the result that the former two groups have overall higher levels of market orientation than the latter two.

Table 7.37 Market orientation of companies with different organisation histories

Organisation history	N	Mean	Std. Deviation
0-9 years	32	5.523	.551
10-19 years	79	5.494	.786
20+ years	47	5.747	.615
Total	158	5.575	.700

Table 7.38 Cross-tabulation of the distribution sector and organisation history

Distribution sector \ Organisation history	Organisation history			Total
	1-9 years	10-19years	20+ years	
Department store	4	39	2	45
Car dealer	7	4	25	36
Electrical goods distributor	3	11	13	27
IT products distributor	16	27	7	50
Total	30	81	47	158

7.5.6 Differences between companies with different respondents' profiles

The mean scores and their standard deviation of the market orientation of companies with different profiles of the respondents are displayed in Tables 7.39, 7.40, and 7.41, which present the respondents' positions in the company, working years in the distribution sector and years in the company respectively. First, by performing one-way ANOVA to assess any significant difference between top and middle management in their perceptions of their companies' level of market orientation and development of relationship elements with their partners, none of the differences are found to be significant on the scores of either the marketing concept ($F=1.731$, $df=3$, $p=.163$) or the relationship elements ($F=.461$, $df=3$, $p=.710$). The concern of delegation to other officials by the target informants to answer the request does not appear to be a problem for this study.

Next, with concern about whether the respondents' working experience impacts on their perception of the variables, the results of ANOVA tests show that significant differences exist both on respondents' working years in the distribution sector ($F=4.108$, $df=3$, $p=.008$) and years in the company ($F=6.216$, $df=3$, $p=.001$). By performing Tukey tests to assess the multiple comparisons, the results both show that the difference is not found significant between the levels of working *over* 5 years; the mean scores of the three levels working over 5 years on the marketing concept are quite similar (see Tables 7.40 and 7.41). However, a significant difference is found between the level of working *under* 5 years and the other three levels. The respondents working under 5 years present the lowest mean scores of 5.130 and 5.176 respectively in the distribution sector and in the company.

In comparison with companies with an organisation history under 5 years, no significant difference is found among companies running under 5 years (5.57), 6-9 years (5.51), 10-19 years (5.494), and over 20 years (5.747). Thus, organisations with a history under 5 years do not show a lower level of market orientation but the respondents working under 5 years do. This suggests that the respondents' working experience makes an impact on the respondents' perception of the company's market orientation. Those who work fewer than 5 years in the distribution sector or in the company usually show a lower level. Once they have survived over 5 years, then no significant difference is found.

Table 7.39 Market orientation of companies with different respondents' positions

Respondent's position	N	Mean	Std. Deviation
General manager	17	5.321	.815
Marketing/sales/ Procurement manager	39	5.652	.626
Director	32	5.746	.577
Other official	70	5.516	.748
Total	158	5.575	.700

Table 7.40 Market orientation of companies with different respondents' working years in the distribution sector

Working years in the distribution sector	N	Mean	Std. Deviation
under 5 years	24	5.130	.709
5-9 years	37	5.655	.651
10-19 years	74	5.638	.731
20+ years	23	5.709	.498
Total	158	5.575	.700

Table 7.41 Market orientation of companies with different respondents' working years in the company

Working years in the company	N	Mean	Std. Deviation
under 5 years	39	5.176	.742
5-9 years	59	5.697	.611
10-19 years	48	5.727	.712
20+ years	12	5.670	.457
Total	158	5.575	.700

7.6 Chapter summary

This chapter was mainly devoted to two issues: the statistical tests of the measures constructed for the questionnaire and analyses on the sample characteristics. After

removal of 6 out of the total 69 items of the eight scales, the tests have provided the evidence that the scales used in this study have good levels of reliability and validity. To facilitate the discussion on data analyses, comparisons of responses between the web and postal surveys were assessed. Once the informant bias between the mixed modes and non-response bias did not appear to be a concern in the study, the sample characteristics were discussed. For distribution of the responses by the sample characteristics of distribution sector, employee size, capital size, and organisation history, the results revealed that the most responses are from the IT products sector, although a good coverage is also shown among the other three sectors. Small-sized distributors, either their staff size under 50 employees or capital size under £1.6 million, also give the highest response rate, a reflection of the distribution entrepreneurial structure in Taiwan. As for the organisation history, the companies running over 10 to 19 years present the highest response rate for the study. Additionally, in order to assess the respondents' impact on answering the request, the respondents' profile of position in the company, working years in the distribution sector and in the company were also investigated.

The sample characteristics based on the frequency distribution were presented to provide the general patterns and information in the data. Based on the characteristics, the descriptive statistics analysis was then discussed to yield insights into the differences of the sample characteristics on the construct variables. Since this study investigates the role of market orientation in developing and sustaining the relationship between the distributors and their business partners, the construct of market orientation was the main variable which the descriptive statistics analysis worked on. The relationships between the marketing concept and relationship

elements are the hypotheses set out to be tested in the next chapter. After the fundamental analysis on the sample characteristics was undertaken, the next chapter moves on to hypothesis testing and discussion on the findings.

CHAPTER EIGHT

Hypothesis Testing and Research Findings

8.1 Introduction

Following the discussion of the sample characteristics and descriptive statistics analysis in the previous chapter, this chapter reports the results on the basis of hypothesis testing and discusses the findings. This chapter begins with an explanation on the choice of the analysis techniques for testing in section 8.2, followed by a discussion in section 8.3 on the fitness of the sample data with the statistical assumptions underlying the chosen techniques. To ensure meaningful hypothesis testing, correlation analysis is conducted in section 8.4 to explore the association between variables prior to the testing. The results of the hypothesis testing are presented in section 8.5. Additionally, in order to assess the mediating effects of the relationship factors, tests of mediation is reported in section 8.6. Section 8.7 focuses on the substantive interpretation of the results and the findings, followed by the chapter summary in section 8.8.

8.2 Choice of the analysis techniques

As discussed in chapter 5, the research model that guides this study mainly consists of two types of causal-effect relationships: the causal-effect relationships between market orientation and the mediating relationship elements, and the interrelations between the mediating elements. The proposed relationships are summarised by hypotheses 1-13. To detect and describe relationships among variables, correlational techniques are the analysis techniques adopted for this study to test the hypotheses. Multiple regression analysis is used as the major technique and correlation (and partial correlation) analysis is applied as an instrumental technique. Correlation

analysis is used to examine the strength and direction of the relationship between variables. This statistical technique is used prior to conducting regression analysis. Once significant correlation is found between variables, it would be meaningful to move on to regression analysis. Furthermore, partial correlation will also be applied during the testing. Partial correlation allows controlling for additional variables to gain a clearer and more accurate indication of the relationship between variables (Aaker, 2007).

Multiple regression analysis is the major technique employed in this study. It is based on correlation but allows a more sophisticated exploration of the interrelationships among variables. It is a statistical technique used to analyse the relationship between a dependent variable and several independent variables. The objective of multiple regression analysis is to build a regression model or a prediction equation relating these variables to provide the strength of the association between them as well as understand the nature of their relationship (Aaker, 2007). Multiple regression analysis evaluates several relationships simultaneously to provide information about the model as a whole as well as the relative contribution of each of the variables that make up the model. Multiple regression can also be used to statistically control for additional variables when exploring the predictive ability of the model. Thus, based upon its function and application, the choice of the multiple regression analysis technique has been used extensively in the marketing field and in market orientation (e.g. Narver and Slater, 1990; Jaworski and Kohli, 1993; Greenley, 1995) and relationship marketing related research (Anderson and Weitz, 1992; Mohr and Spekman, 1994; Hsieh et al., 2008). Indeed, it is a powerful analytical tool designed to explore all types of dependence relationships and is by

far the most widely used and versatile dependence technique (Hair et al., 2006, p.169).

8.3 Statistical tests of the assumptions

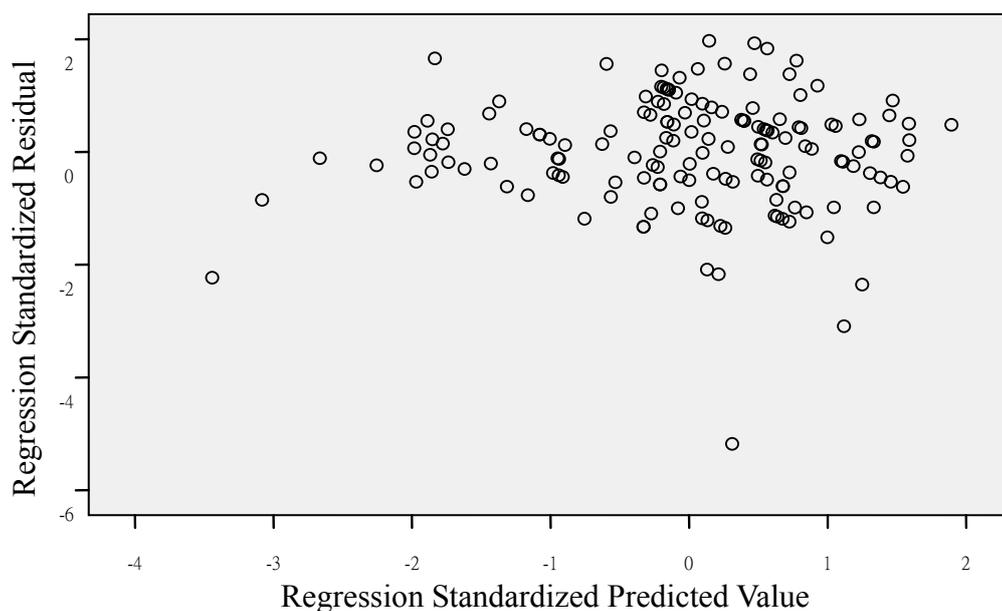
Prior to applying the correlational techniques, the fit of the sample data with the statistical assumptions underlying the technique needs to be assessed. According to Hair et al. (2006), there are two reasons for this. First, the complexity of the relationships, owing to the typical use of a large number of variables, makes the potential distortions and biases more potent when the assumptions are violated. Second, the complexity of the analyses and of the results may mask the 'signs' of assumptions violations apparent in the simpler univariate analyses. Thus, the check for any violation of the assumptions, which include outliers, normality, linearity, homoscedasticity, and multicollinearity, is discussed as below.

1. Outliers

Tabachnick and Fidell (1996) describe outliers as observations which appear inconsistent with the remainder of the data and define them as cases that have a standardized residual of more than 3.3 or less than -3.3. Since multiple regression is sensitive to outliers (very high or very low scores), checking for extreme scores is part of the initial data screening process. Two approaches are usually adopted to check this assumption. First, the presence of outliers can be detected from the scatterplot. As can be seen from the scatterplot of the standardised residuals of Figure 8.1, the residuals, the differences between the observed and predicted values for the dependent variable, are roughly rectangularly distributed, with most of the scores concentrated in the centre (along the 0 point), although a few outlying

residuals seem to appear. The second approach is to check outliers by inspecting the Mahalanobis distance, which is the distance of a case from the centroid of the remaining cases where the centroid is the point created by the means of all the variables (Tabachnick and Fidell, 1996, p.67). To identify which cases are outliers, the critical chi-square value needs to be determined, using the number of independent variables as the degrees of freedom. Outliers can either be deleted from the data set or given a score for that variable that is very high. If only a few are found, it may not be necessary to take any action. According to Tabachnick and Fidell (1996), at an α level of .001, the critical value is 24.32 for the number of 7 independent variables for this study. By checking the Mahalanobis distance values created by the multiple regression program, two cases are found to exceed the critical value of 24.32. Given the size of the data file, it is not unusual for such a few outliers to appear. Since only such a few outlying residuals are found and both are not extreme values (30.32 and 33.99), it is decided not to take any action.

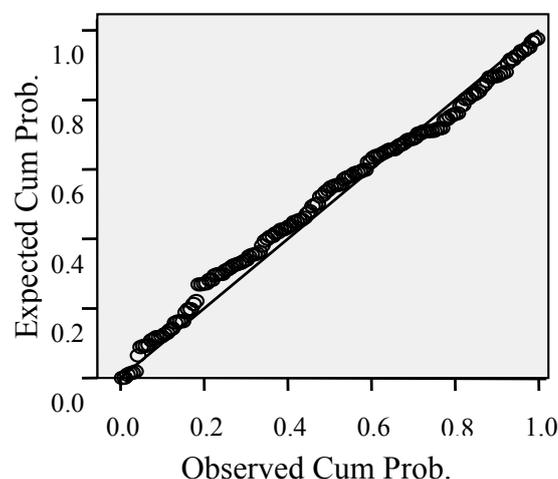
Figure 8.1 Scatterplot of regression standardised residuals



2. Normality

The underlying assumption of regression analysis is that each variable and all linear combinations of the variables are normally distributed. Normality is assessed by either graphical or statistical methods. For graphical method, normality can be checked by examining the normal probability plot of the standardized residuals. The normal probability plot compares the cumulative distribution of actual data values with the cumulative distribution of a normal distribution. The normal distribution forms a straight diagonal line, and the plotted data values are compared with the diagonal. If a distribution is normal, the residual line closely follows the diagonal. For the statistical method, normality can be assessed by the two components of normality: skewness and kurtosis. When a distribution is normal, the values of skewness and kurtosis are close to zero. Both the graphical or statistical methods are used to diagnose the normality assumption for this study. From the normal probability plot of Figure 8.2, the residual line appears to closely follow the diagonal representing the normal distribution. Thus, no violation of normality is detected and this is also supported by the statistical method that the values of skewness and kurtosis are generally close to zero.

Figure 8.2 Normal P-P plot of regression standardised residuals



3. *Linearity*

The concept of correlation is based on a linear relationship; that is, correlation can capture only the linear association between variables. If there are substantial non-linear relationships, they will be ignored in the analysis, which in turn will underestimate the actual strength of the relationship (Tabachnick and Fidell, 1996). This makes linearity a critical assumption in regression analysis. Linearity of the relationship between dependent and independent variables represents the degree to which the change in the dependent variable is associated with the independent variable (Hair et al., 2006). This assumption can be examined by scatterplots of the variables to identify any non-linear patterns in the data. In multiple regression with more than one independent variable, partial regression plots are used to show the relationship of a single independent variable to the dependent variable. Any pattern emerging from the regression plots will suggest the possible existence of the non-linearity and hence corrective actions (i.e. transformation) are needed to improve the predictive accuracy of the model and the validity of the estimated coefficients. From the analysis, no substantial departure from linearity is observed in the data when the partial regression plots for every independent variable are examined.

4. *Homoscedasticity*

Homoscedasticity refers to the assumption that the variance of the dependent variable is approximately the same at different levels of the explanatory variables (Hair et al., 2006). In other words, the error terms in a regression model have constant variance. Homoscedasticity is desirable because the variance of the dependent variable being explained in the dependence relationship should not be

concentrated in only a limited range of the independent values. The presence of unequal variance (heteroscedasticity) is one of the most common assumption violations in multiple regression analysis (Hair et al., 2006). Diagnosis of the homoscedasticity in this study is made by plotting the standardized residuals against the predicted dependent variable and comparing it to the null plot. An examination of residual plots for each explanatory variable indicates that heteroscedasticity is not a problem and the homoscedasticity assumption is therefore supported.

5. Multicollinearity

The multiple regression procedure assumes that no independent variable has a perfect linear relationship with another independent variable (Tabachnick and Fidell, 1996). Multicollinearity refers to the degree to which independent variables are highly correlated with one another. High collinearity could have harmful impacts on both explanation and estimation of the regression variate (Hair et al., 2006). Multicollinearity reduces any single independent variable's predictive power by the extent to which it is associated with the other independent variables. As multicollinearity occurs, the process for separating the effects of individuals become difficult and can also result in regression coefficients being incorrectly estimated and even have the wrong signs in extreme cases (Hair et al., 2006). Inter-correlations of greater than .9 are considered to be evidence of high multicollinearity (Hair et al., 2006, p.227).

The most obvious means of identifying multicollinearity is an examination of the correlation matrix for the independent variables. As can be seen from Table 8.1, all independent variables show some relationships with the principle dependent variable,

satisfaction (.269 or above), and the inter-correlations between independent variables are all below .9. No high degree of multicollinearity is detected based on the correlation analysis.

Table 8.1 Correlation matrix for the independent variables

		1	2	3	4	5	6	7	8
Pearson correlation	market orientation	1.000	.469	.602	.528	.558	.345	-.275	.449
	communication	.469	1.000	.536	.568	.538	.478	-.081	.474
	shared value	.602	.536	1.000	.672	.702	.501	-.225	.586
	trust	.528	.568	.672	1.000	.774	.515	-.232	.657
	cooperation	.558	.538	.702	.774	1.000	.534	-.161	.660
	commitment	.345	.478	.501	.515	.534	1.000	-.227	.405
	conflict	-.275	-.081	-.225	-.232	-.161	-.227	1.000	-.269
	satisfaction	.449	.474	.586	.657	.660	.405	-.269	1.000

Multicollinearity can also be assessed via ‘collinearity diagnostics’ on the multiple regression program. This one is via tolerance and its inverse - the variance inflation factor (VIF). Tolerance is the amount of the independent variable not explained by the other independent variable (Hair et al., 2006). If a small tolerance value (and large VIF value) exists, this indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity. A common cut-off point is a tolerance value of .1, which corresponds to VIF value above 10. As seen from the results of the tolerance and VIF shown in Table 8.2, the tolerance values for the independent variables are quite respectable and the VIF values range from 1.149 to 3.142, which are much lower than the threshold of 10.

Table 8.2 Tolerance and VIF of the independent variables

Independent variables	Tolerance	VIF
market orientation	.559	1.788
communication	.575	1.738
shared value	.400	2.498
trust	.340	2.943
cooperation	.318	3.142
commitment	.626	1.599
conflict	.871	1.149

Dependent variable: satisfaction

The other collinearity diagnostics is via condition index and regression coefficient variance-decomposition matrix. The former represents the collinearity of combinations of variables and the threshold value usually is in a range of 15 to 30 (Hair et al., 2006). The latter shows the proportion of variance for each regression coefficient and its associated variable attributable to each condition index. A collinearity problem is indicated when a condition index identified accounts for a substantial proportion of variance (.9 or above) for two or more coefficients. Table 8.3 shows that the values of six condition indices exceed the threshold value of 15 but none accounts for above 90 percent of the variance for two or more coefficients. Based on the results of the collinearity diagnostics, it can be concluded that the effect of multicollinearity can be ignored in this study.

Table 8.3 Coefficient variance-decomposition analysis with condition indices

Dimension	Condition Index	Variance Proportions							
		(Constant)	MO	COM	SV	TRU	COORP	COMT	CON
1	1.000	.00	.00	.00	.00	.00	.00	.00	.00
2	7.616	.00	.00	.00	.00	.00	.00	.00	.69
3	22.042	.09	.07	.66	.02	.00	.00	.03	.02
4	22.889	.01	.03	.08	.00	.03	.01	.83	.00
5	24.473	.10	.10	.20	.00	.18	.14	.01	.07
6	35.771	.48	.28	.01	.03	.38	.15	.05	.08
7	38.253	.03	.45	.01	.64	.19	.02	.05	.03
8	40.884	.29	.05	.04	.31	.22	.68	.03	.11

Dependent variable: satisfaction

8.4 Correlation analysis

In order to assure a meaningful multiple regression analysis, it is important to assess whether the correlations between independent and dependent variables are significant. Additionally, conducting correlation analysis also helps to clarify the dimension of the construct market orientation which will be employed in the regression analysis.

8.4.1 The market orientation scale and its four component subscales

From the results of the correlation analysis of market orientation and its four components displayed in Table 8.4, the four components are positively and significantly correlated with one another. The interrelations between *intelligence generation*, *intelligence dissemination*, *responsiveness*, and *responsiveness controlling* are highly significant at the $p < .001$ level. Also, all four components are strongly related to overall *market orientation* ($r =$ close to or above .8). In fact, the factor analysis conducted in section 7.2.2 also indicated that these four components

were closely related. In the discussion of construct validity of the market orientation scale, the six dimensions suggested by the factor analysis did not show any intelligent structure and were difficult to interpret. The convergent validity of the scale was suggested by the higher eigenvalue of the first factor of 8.13 explaining 38.94% of the total variance, while the remainder five factors only accounted for small variance (7.89% or below). For completeness, however, separate analysis was also run for the six dimensions suggested by the factor analysis. Specifically, six dimensions were used as explanatory variables to predict the relationship elements. The results of the regression analysis indicated that the performance of the first dimension was similar to that of the unidimensional market orientation scale while insignificant results were secured for most of the other dimensions. Based on the above analysis, it is therefore decided to focus on the unidimensional measure of market orientation and to report only the results associated with the unidimensional measure of market orientation. The unidimensionality imposed to the market orientation scale is also argued and supported by Pulendran et al. (2000) (see the discussion in construct validity of the market orientation scale of section 7.2.2).

Table 8.4 Correlation analysis of market orientation and its four components

		Market orientation	Intelligence generation	Intelligence dissemination	Responsive-ness	Responsiveness controlling
market orientation	Pearson Correlation	1	.785(***)	.863(***)	.894(***)	.832(***)
	Sig. (2-tailed)		.000	.000	.000	.000
intelligence generation	Pearson Correlation	.785(***)	1	.575(***)	.578(***)	.511(***)
	Sig. (2-tailed)	.000		.000	.000	.000
intelligence dissemination	Pearson Correlation	.863(***)	.575(***)	1	.684(***)	.685(***)
	Sig. (2-tailed)	.000	.000		.000	.000
responsiveness	Pearson Correlation	.894(***)	.578(***)	.684(***)	1	.674(***)
	Sig. (2-tailed)	.000	.000	.000		.000
responsiveness controlling	Pearson Correlation	.832(***)	.511(***)	.685(***)	.674(***)	1
	Sig. (2-tailed)	.000	.000	.000	.000	

*** p<.001

8.4.2 Market orientation and the mediating factors towards long-term oriented relationships

There are seven relationship elements proposed in this study to mediate the effects of market orientation on the development and sustenance of a channel relationship. From the correlation analysis displayed in Table 8.5, the p values between market orientation and relationship elements are all $<.001$, indicating that the marketing concept is significantly correlated with all the mediating relationship factors. By further looking into the interrelationships between the mediating factors, significant correlations also reveal between each other except the association between communication and conflict, which however is not one of the hypotheses this study set out to be tested.

After the significant pairwise correlations between variables are assessed and assured, the hypothesis testing by using regression analysis is to be performed in the following section and the results will be presented.

Table 8.5 Correlation analysis of market orientation and the mediating relationship elements

	Market orientation	Communication	Shared value	Trust	Cooperation	Commitment	Conflict	Satisfaction
Market orientation								
Pearson Correlation	1	.469(***)	.602(***)	.528(***)	.558(***)	.345(***)	-.275(***)	.449(***)
Sig.(2-tailed)		.000	.000	.000	.000	.000	.000	.000
Communication								
Pearson Correlation	.469(***)	1	.536(***)	.568(***)	.538(***)	.478(***)	-.081	.474(***)
Sig.(2-tailed)	.000		.000	.000	.000	.000	.312	.000
Shared value								
Pearson Correlation	.602(***)	.536(***)	1	.672(***)	.702(***)	.501(***)	-.225(***)	.586(***)
Sig.(2-tailed)	.000	.000		.000	.000	.000	.005	.000
Trust								
Pearson Correlation	.528(***)	.568(***)	.672(***)	1	.774(***)	.515(***)	-.232(**)	.657(***)
Sig.(2-tailed)	.000	.000	.000		.000	.000	.003	.000
Cooperation								
Pearson Correlation	.558(***)	.538(***)	.702(***)	.774(***)	1	.534(***)	-.161 (*)	.660(***)
Sig.(2-tailed)	.000	.000	.000	.000		.000	.043	.000
Commitment								
Pearson Correlation	.345(***)	.478(***)	.501(***)	.515(***)	.534(***)	1	-.227(**)	.405(***)
Sig.(2-tailed)	.000	.000	.000	.000	.000		.004	.000
Conflict								
Pearson Correlation	-.275(***)	-.081	-.225(***)	-.232(***)	-.161(*)	-.227(**)	1	-.269(***)
Sig.(2-tailed)	.000	.312	.005	.003	.043	.004		.001
Satisfaction								
Pearson Correlation	.449(***)	.474(***)	.586(***)	.657(***)	.660(***)	.405(***)	-.269(***)	1
Sig.(2-tailed)	.000	.000	.000	.000	.000	.000	.001	

*** p<.001

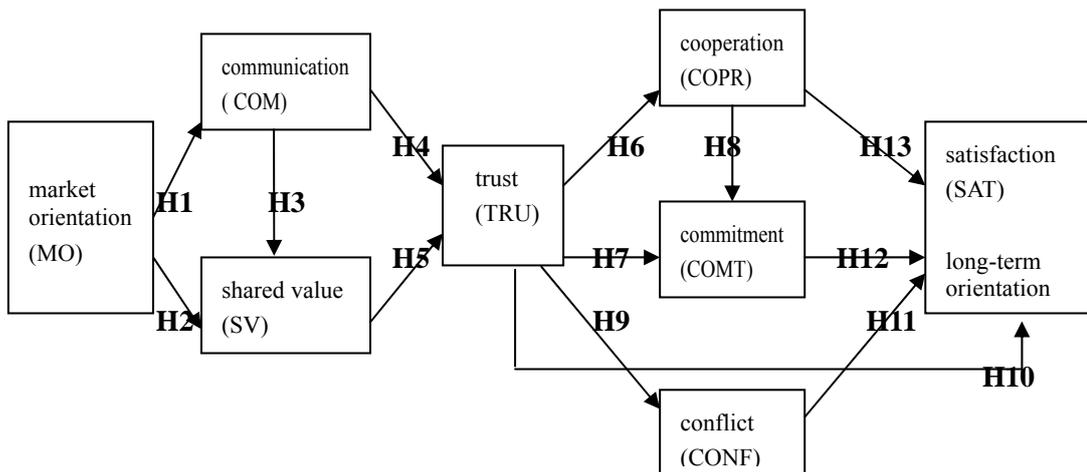
** p<.01

* p<.05

8.5 Hypothesis testing and the results

There are altogether thirteen hypotheses in this study set out to be tested. These hypotheses are related to potential effects of market orientation on the mediating relationship elements as well as the interrelations between the mediating elements towards development and sustenance of channel relationships. As developed in chapter 5, the conceptual model set out to be tested is shown as Figure 8.3.

Figure 8.3 The conceptual model of effects of market orientation on the mediating factors towards long-term oriented channel relationships



The effect of independent variables on dependent variables is evaluated by standardized regression coefficient (β), which represents the expected change in the dependent variable associated with a one-unit change in the independent variable. Standardized coefficients allow one to compare the effect of each independent variable on the dependent variable as a common unit of measurement for the variables is adopted. They convert the values of the different variables to the same scale so that the contribution of each independent variable can be compared. The significance of the estimated coefficients is assessed by t-tests. The significance

level indicates whether a certain variable is making a statistically significant unique contribution to the equation.

When assessing the prediction accuracy of the regression variate, the value of the adjusted coefficient of determination (R^2) is used. R^2 is the ratio of the sum of squares regression to the total sum of squares, as shown in the following equation:

$$\text{Coefficient of determination } (R^2) = \frac{\text{Sum of squares regression}}{\text{Total sum of squares}}$$

The adjusted R^2 is a modified measure of R^2 that takes into account the inflation effects of adding more predictor variables to the regression variate, hence reduction on the chance of “overfitting” the data (Hair et al., 2006). When a small sample is involved, the R^2 value in the sample tends to be a rather optimistic overestimation of the true value in the population. The adjusted R^2 statistic ‘corrects’ this value to provide a better estimate of the true population value (Tabachnick and Fidell, 1996).

As displayed in the theoretical model (Figure 8.3), market orientation is hypothesized to exert direct influence on the mediating factors communication and shared value. And each relationship element is hypothesized to possess linear correlation with one or multiple explanatory variables. Accordingly, in the following subsections the hypotheses are tested based on each relationship element as a response variable. The hypotheses are set out to be tested by the following regression equations. By performing standard (simultaneous) multiple regression analysis, the results are summarised and reported in Table 8.6.

Regression equations set out to be tested:

$$Y_2 = \alpha_1 + b_1 X_1 + e_i$$

$$Y_3 = \alpha_2 + b_2 X_1 + b_3 X_2 + e_i$$

$$Y_4 = \alpha_3 + b_4 X_2 + b_5 X_3 + e_i$$

$$Y_5 = \alpha_4 + b_6 X_4 + e_i$$

$$Y_7 = \alpha_5 + b_7 X_4 + e_i$$

$$Y_6 = \alpha_6 + b_8 X_4 + b_9 X_5 + e_i$$

$$Y_8 = \alpha_7 + b_{10} X_4 + b_{11} X_5 + b_{12} X_6 + b_{13} X_7 + e_i$$

Where, Y_2 : communication as a response variable

Y_3 : shared value as a response variable

Y_4 : trust as a response variable

Y_5 : cooperation as a response variable

Y_6 : commitment as a response variable

Y_7 : conflict as a response variable

Y_8 : satisfaction

X_1 : market orientation

X_2 : communication as a predictor

X_3 : shared value as a predictor

X_4 : trust as a predictor

X_5 : cooperation as a predictor

X_6 : commitment as a predictor

X_7 : conflict as a predictor

e : error term

Table 8.6 Standardized regression estimates, t-values, F-value and adjusted R² of market orientation and the mediating relationship elements

Independent variable / dependent variable		MO	COM	SV	TRU	COPR	COMT	CONF	F-value	Adj. R ²
COM	β	.469							43.972***	.215
	t-value	6.631								
	Sig.	.000***								
SV	β	.449	.325						61.961***	.437
	t-value	6.627	4.793							
	Sig.	.000***	.000***							
TRU	β		.292	.516					81.485***	.506
	t-value		4.395	7.768						
	Sig.		.000***	.000***						
CORP	β				.774				56.328***	.596
	t-value				15.253					
	Sig.				.000***					
COMT	β				.255	.337			34.939***	.302
	t-value				2.420	3.197				
	Sig.				.017*	.002**				
CONF	β				-.232				8.912**	.048
	t-value				-2.985					
	Sig.				.003**					
SAT	β				.329	.384	.001	-.130	39.117***	.493
	t-value				3.562	4.138	.019	-2.208		
	Sig.				.000***	.000***	.985	.029*		

*** p<.001

** p<.01

* p<.05

8.5.1 Effects of market orientation on channel relationships: the generation of communication

The level of analysis used in this study is the distributor (seller) - supplier (manufacturer) relationships, and more specifically the distributor's perception of its business relationship. Market orientation is assessed from the distributor's perception of the company's market-oriented activities. Based on the multiple-case

in-depth interviews conducted at the dyads, the effect of market orientation on channel relationships is hypothesized to be initially mediated via the relationship elements *communication* and *shared value*. Communication was deemed in the preliminary interview as an essential element to commence and develop a relationship, and in particular, to mediate the effect of market orientation. Thus, provided that a market-oriented distributor is concerned with obtaining information on the environment and tries to integrate all of its functions, based on reference group theory, it is expected to generate communication between business partners. The first hypothesis for this study is posited as:

H1: The level of the distributor's market orientation is positively associated with the generation of communication with the supplier.

As seen from Table 8.6, the results indicate that there exists a positive and significant relationship between market orientation and communication ($\beta = .469$, $p < .001$). The independent variable, market orientation, explains 21.5% of the variance (adjusted $R^2 = 21.5\%$) and the model fit is significant with the F statistics significant at the .001 level. According to the results, a distributor's possession of a market orientation culture positively and significantly affects the level of communication with the supplier. The support to the hypothesis is found.

8.5.2 Effects of market orientation on channel relationships: the pursuit and generation of *shared value* in the relationship

It is maintained in this study that there exists no difference between a firm's seeking its best interest and its collaboration with the interest of its partner when firms both

have values in common. Thus, a distributor's possession of a market orientation culture urges its pursuit and generation of shared value with its supplier in order to seek easier and better collaboration. The relationship element shared value is posited as a response variable of two explanatory variables: *market orientation* and *communication*. Both are hypothesized to positively impact the generation of shared value. H2 and H3 are posited to be tested as:

H2: The level of the distributor's market orientation is positively associated with the pursuit and generation of shared value in the relationship.

H3: The level of communication between channel partners is positively associated with the generation of shared value in the relationship.

From the results presented in Table 8.6, both two explanatory variables, market orientation and communication, show a positive and significant association with shared value. In comparison with the contribution to explaining shared value, although market orientation makes a larger contribution ($\beta = .449$, $p < .001$) to the prediction of shared value, communication also reveals a moderate contribution ($\beta = .325$, $p < .001$). Both predictors explain a respectable 43.7% of the variance (adjusted $R^2 = 43.7\%$) and the model fit is significant with the F statistics significant at the .001 level. These results provide support for the hypotheses H2 and H3.

8.5.3 The level of *trust* in the supplier

On the basis of social exchange theory, distribution channel literature and the preliminary interview, the interrelations among the mediating relationship variables

are conceptualized in the theoretical model of Figure 8.3. The relationship element trust is posited as a response variable of two direct explanatory variables: *communication* and *shared value*, and one indirect explanatory variable: market orientation. Based on the premise that market orientation is positively and significantly correlated with the generation of communication and shared value (H1 and H2), communication and shared value in turn are posited to impact the generation of trust as the hypotheses H4 and H5.

H4: The level of communication between channel partners is positively associated with the level of the distributor's trust in the supplier.

H5: The level of shared value in the relationship is positively associated with the level of the distributor's trust in the supplier.

The results indicate that a positive and significant relationship exists both between communication and trust, and shared value and trust. In comparison with the contribution to explaining trust, shared value makes a substantive contribution ($\beta = .516, p < .001$) and communication reveals a smaller contribution ($\beta = .292, p < .001$) to the prediction of trust. These two predictors explain a respectable 50.6% of the variance (adjusted $R^2 = 50.6\%$), implying that this model, which consists of these two direct predictors, gives a respectable prediction of trust. To evaluate the statistical significance of the model, the model fit is highly significant with the F statistics significant at the .001 level. The outcomes evidently suggest that both communication and shared value positively and significantly affect the distributor's trust in the supplier. In the mean time, considering the moderator effect from market orientation,

the interactions of market orientation with both communication and shared value are also assessed. The results indicate that the value of R^2 change (.021) is significant at .05 level, implying that market orientation exerts an indirect effect on trust through the interactions with communication and with shared value. Collectively, these outcomes provide support for positive and significant relationships between communication and trust and between shared value and trust, on a basis of an indirect effect from market orientation.

8.5.4 The level of *cooperation with the supplier*

The relationship element cooperation is posited as a response variable of the direct explanatory variable: *trust*, and three indirect explanatory variables: shared value, communication and market orientation. Based on the premise that the distributor's market orientation is positively and significantly correlated with the generation of communication and shared value (H1 and H2), which in turn influences the distributor's trust in suppliers (H4 and H5), trust is posited to impact the level of cooperation as the hypothesis H6.

H6: The level of the distributor's trust in the supplier is positively associated with the level of cooperation with the supplier.

The results from Table 8.6 confirms a positive and significant trust-cooperation relationship ($\beta = .774$, $p < .001$). Trust as a predictor to cooperation explains a substantial 59.6% of the variance (adjusted $R^2 = 59.6\%$), implying that trust makes a statistically significant contribution to the prediction of cooperation, as also suggested by the F statistics significant at the .001 level. This provides substantive support to the

hypothesized relationship between trust and cooperation as H6. In fact, this model reaches the best prediction of the hypotheses in this study. When further assessing the moderator effect of market orientation, the value of R^2 change (.026) for the interaction of market orientation and trust is significant at .01 level, suggesting an indirect effect of market orientation on cooperation.

8.5.5 The level of *conflict* with the supplier

The relationship factor conflict is posited to display a negative association with its direct explanatory variable: *trust*, and three indirect explanatory variables: shared value, communication, and market orientation. When trust is posited to impact negatively on conflict, conflict also displays a negative association with its three indirect predictors, based on the linkage between trust and its predictors. The hypothesis of the relation between trust and conflict set out to be tested is as H9.

H9: The level of the distributor's trust in the supplier is negatively associated with the level of conflict with the supplier.

The results as hypothesized suggest a negative and significant relationship between trust and conflict ($\beta = -.232$, $p < .01$). However, trust as a predictor explains only 4.8% of the variance (adjusted $R^2 = 4.8\%$) in conflict, implying that this model's predictive power is quite low and this relationship may be spurious. Nonetheless, the model fit is significant with the F statistics significant at the .01 level, which together with the negative coefficient lends support to the hypothesized relationship between trust and conflict. Additionally, a moderator effect of market orientation is also investigated by assessing the interaction of market orientation and trust, and an indirect effect of

market orientation on conflict is confirmed by the R^2 change (.038) significant at .05 level.

8.5.6 The level of *commitment* to the supplier

The relationship element commitment is posited as a response variable of two direct explanatory variables: *trust* and *cooperation*, and three indirect explanatory variables: market orientation, communication and shared value. Based on the conceptual model, provided that the three indirect predictors positively affect the level of trust, and trust in turn impacts the level of cooperation, commitment is then posited as the response variable of trust and cooperation. The relations between the level of commitment and these two direct predictors are hypothesized as H7 and H8.

H7: The level of the distributor's trust in the supplier is positively associated with the level of commitment to the supplier.

H8: The level of the distributor's cooperation with the supplier is positively associated with the level of commitment to the supplier.

From the results presented in Table 8.6, both explanatory variables, cooperation and trust, show a positive and significant association with commitment. In comparison with the contribution to explaining commitment, cooperation makes a larger contribution ($\beta = .337$) to the prediction of commitment and the t-value is significant at .01 level. Although trust makes a smaller contribution ($\beta = .255$) to explaining commitment, the t-value is also significant at .05 level. This model explains 30.2% of the variance (adjusted $R^2 = 30.2\%$) and the model fit is significant with the F statistics

significant at the .001 level. The outcomes suggest that both trust and cooperation positively and significantly affect the level of commitment, which provides support to both hypotheses H7 and H8. When assessing the moderator effect of market orientation on commitment, it is also found by R^2 change (.050) significant at .01 level, which is derived from the interaction of market orientation, trust and cooperation.

8.5.7 The level of *satisfaction* to sustain long-term oriented relationships

The relationship element satisfaction is posited as the principal dependent variable to sustain long-term relationships. As revealed from the informants in the preliminary interview, long-term relationship is possible only when satisfaction exists; satisfaction is the key to sustain a relationship in the Taiwanese business context. This key element to long-term relationship is posited as a response variable of four direct explanatory variables: *trust*, *cooperation*, *conflict*, and *commitment*, and three indirect explanatory variables: market orientation, communication, and shared value. According to the conceptual model, when the three indirect predictors positively and significantly affect the level of trust, and trust significantly impacts the elements cooperation, conflict and commitment, these four elements in turn are posited to have positive repercussions on satisfaction. The relations between satisfaction and these four direct predictors are hypothesized as H10, H11, H12 and H13.

H10: The level of the distributor's trust in the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

H11: The level of the distributor's conflict with the supplier is negatively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

H12: The level of the distributor's commitment to the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

H13: The level of the distributor's cooperation with the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.

As shown in Table 8.6, the results indicate that trust and cooperation both make a respectable contribution to explaining satisfaction ($\beta = .329$ and $.384$ respectively) and the t-values are both highly significantly at .001 level, implying that these two explanatory variables make statistical significant prediction to satisfaction. Another predictor conflict exhibits a negative association, as hypothesized, and also makes a contribution to the prediction of satisfaction ($\beta = -.130$). However, from its low coefficient β , the t-value of conflict suggests that the prediction is significant but weak, only at .05 level.

Of these four predictors of satisfaction, commitment is the one which makes almost no contribution to the prediction of satisfaction ($\beta = .001$) from the results of multiple regression analysis. Although they are highly correlated at .001 level ($r = .405$) based on pairwise correlation analysis (see Table 8.4), in order to gain a clearer indication of their link by using a partial correlation analysis to control for the other relationship factors, they are in fact not significantly correlated ($r = -.043$). This insignificant association is also confirmed by R^2 change (.000) when the effects of the other three predictors of satisfaction are controlled for. The low coefficient β value of

commitment to satisfaction implies that satisfaction is independent of the degree of commitment when the other three variables are taken into account, as also indicated by the t-value, which shows no significant association between commitment and satisfaction ($p = .985$) when again the other three variables are considered.

This model (including all the four direct predictors) explains a respectable 49.3% of the variance (adjusted $R^2 = 49.3\%$) and the model fit is significant with the F statistics significant at the .001 level. Overall, the outcomes suggest that trust and cooperation positively and significantly affect the level of satisfaction, which lends good support for the hypotheses H10 and H13. Another predictor conflict shows a negative and also significant (though weak) impact on the level of satisfaction, which supports the hypothesis H11. Finally, as far as the other predictor commitment is concerned, since no significant association between commitment and satisfaction is found, the hypothesis H12 is not supported. As for the moderator effect of market orientation on satisfaction, it is confirmed by R^2 change (.015) significant at .05 level from the interactions of market orientation, trust and commitment.

In sum, twelve hypotheses, except H12, are significantly supported using standard multiple regression analysis. Results of the hypothesis tests are summarised in Table 8.7.

Table 8.7 A summary of results of the hypothesis tests

Hypothesis	Supported or not
H1: The level of the distributor's market orientation is positively associated with the generation of communication with the supplier.	Supported
H2: The level of the distributor's market orientation is positively associated with the pursuit and generation of shared value in the relationship.	Supported
H3: The level of communication between channel partners is positively associated with the generation of shared value in the relationship.	Supported
H4: The level of communication between channel partners is positively associated with the level of the distributor's trust in the supplier.	Supported
H5: The level of shared value in the relationship is positively associated with the level of the distributor's trust in the supplier.	Supported
H6: The level of the distributor's trust in the supplier is positively associated with the level of cooperation with the supplier.	Supported
H7: The level of the distributor's trust in the supplier is positively associated with the level of commitment to the supplier.	Supported
H8: The level of the distributor's cooperation with the supplier is positively associated with the level of commitment to the supplier.	Supported
H9: The level of the distributor's trust in the supplier is negatively associated with the level of conflict with the supplier.	Supported
H10: The level of the distributor's trust in the supplier is positively associated with the level of satisfaction to sustain long-term relationships with the supplier.	Supported
H11: The level of the distributor's conflict with the supplier is negatively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.	Supported
H12: The level of the distributor's commitment to the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.	<i>Not significantly supported</i>
H13: The level of the distributor's cooperation with the supplier is positively associated with the level of satisfaction to sustain long-term oriented relationships with the supplier.	Supported

8.6 Tests of mediation

From the data of the exploratory interviews, market orientation is found to have potential effects on developing and sustaining long-term channel relationships. It is also found that during the relationship development, there are many crucial relationship elements interacting and mediating the process. Thus, a theoretical model of the interactions of these components was developed, and a quantitative study was conducted to test the model. In addition to investigating the interactions between the components as tested and discussed in the previous section, in order to test whether these elements do mediate the effect of market orientation on satisfaction to sustain a relationship, a hierarchical (sequential) procedure recommended by Baron and Kenny (1986) is used to test the mediating effects.

First, the principal dependent variable (satisfaction) is regressed on market orientation but the mediators are not included in the model. A sequential step is to include the mediating relationship elements to assess whether their inclusion reduces the effects of market orientation to lesser significance or even nonsignificance. Mediation exists if the effect of market orientation on satisfaction decreases in the presence of the mediators and meanwhile the overall model fit (adjusted R^2) is improved. By conducting a hierarchical regression analysis, the results are reported in Table 8.8.

As seen from the results presented in Table 8.8, the effect of market orientation on satisfaction reduces when the relationship mediators are included in the model. The adjusted R^2 is also improved from .196 to .498. Collectively, these results suggest that the relationship elements play important roles in mediating the effects of market orientation on satisfaction to sustain a relationship.

Table 8.8 Results of the hierarchical regression analysis

dependent variable independent variables	Satisfaction	Satisfaction
Market orientation	6.269***	-.229
Communication		1.304
Shared value		1.461
Trust		2.722**
Commitment		-.527
Cooperation		3.199**
Conflict		-2.180*
R ²	.201	.520
Adjusted R ²	.196	.498
F-value	39.297***	23.250***

*** p<.001

** p<.01

* p<.05

8.7 Discussion

Following the hypothesis tests and the results reported in the previous sections, this section focuses on the substantive interpretation of the outcomes and the emergent findings. Meanwhile, the insights discovered from the first phase preliminary interviews and the descriptive statistic analysis from the quantitative study will also be used to facilitate the discussion.

8.7.1 The role of market orientation in channel relationships

Market orientation and relationship marketing share many of their operative requirements and there is a growing interest in studying the relationship which may exist between them. This study models and tests potential effects of market

orientation from a distributor's perspective on channel relationship factors towards development and sustenance of channel relationships. From the results of the correlation analysis (Table 8.5), market orientation is significantly correlated with all the mediating relationship elements. However, by using partial correlation analysis to gain a clearer indication of the relationship between variables, this marketing concept correlates most significantly with shared value ($r = .281, p < .001$), followed by communication ($r = .180, p < .05$). This finding corresponds to the theoretical model proposed in this study. In other words, this marketing concept does not act as a direct antecedent to the continuity of a channel relationship but is mediated through some relationship factors, particularly and initially through shared value and communication, and through some other factors such as trust, cooperation, commitment, conflict, and satisfaction during the evolution of a relationship. That is, market orientation is found to have significant direct effects on shared value and communication as well as indirect effects on trust, cooperation, commitment, conflict, and satisfaction.

In the first phase preliminary interview, the relationship factor communication was deemed by a majority of interviewees as an essential element to mediate the effect of market orientation on a relationship. Social exchange theory also explicitly recognizes its significance in impacting on the dynamics of the exchanging influence process (Homans, 1958), sustaining the networks of social relations (Blau, 1964), and better understanding mutual behaviours (Kelly and Thibaut, 1978). As far as market orientation is concerned, when evaluating the marketing concept in the Taiwanese business context from the distributor's perception, the mean score of overall market orientation is found 5.58 on a seven-point scale (see the discussion in section 7.5.1). 80% of the samples have a score above 5, suggesting that 80% of the

distributors are engaged in market-oriented activities to some extent; a culture of market orientation extensively exists in the Taiwan distribution business context. This finding is consistent with an empirical study by Spillan et al. (2005) on the understanding of Taiwanese SME (small and medium enterprises) managers' perceptions of the marketing concept. Their findings indicated that SME managers in Taiwan were very familiar with this marketing concept and used it as a focus of their marketing strategy, though some of them might not label their activities as "marketing". Collectively, the finding of a positive and significant market orientation-communication association suggests that a market-oriented distributor is likely to generate effective communication with its supplier, as it is concerned with obtaining information about the different components of the environment and tries to integrate all of its functions - which improve the information flows. Meanwhile, based on social exchange theory and reference group theory, the supplier is also expected to correspond to a certain level of communication in order to obtain a source of sustainable competitive advantage.

A little caution should be noted when interpreting the significant market orientation-communication relationship due to the adjusted R^2 (.215), a value which is moderate but not very strong. Part of the reason for this is the existence of conflicting mean scores with market orientation high and communication low, or vice versa. Nonetheless, the model fit is still highly significant at .001 level.

Another relationship factor proposed to be directly affected by market orientation is shared value and the finding also confirms a positive and significant link between them. This provides substantive support for the importance of market orientation from the Taiwanese business context to develop a shared value which can be translated into

coherent behaviours and activities. Additionally, the findings also indicate that a shared value of the market orientation norm can be developed or strengthened through communication. This model, including market orientation and communication, gives a respectable adjusted R^2 value of .437, implying a significant explanatory power to the variance in shared value. Since this study of market orientation is from a distributor's perception, this finding is especially relevant to distributors.

The implication of the relationship between market orientation, communication, and shared value suggests that distributors may be able to establish the market orientation norm in distribution channel through communication; they can influence their supplier's market orientation and the way the supplier faces the market and treats the end customers, as they have close and intensive interaction with "the market" and actively grasping market intelligence and may perform a more 'active' market orientation than their suppliers. According to the two functions of reference group theory, the normative is to motivate members to aspire to norms established by the group, and the comparative is to serve as a comparison point against which the member can evaluate himself and others. As such, the supplier should correspond to the distributor's market orientation in order to win favors from the distributor, thereby increasing profits and further continuing the relationship. Or in such a highly competitive environment, distributors may continually be on the lookout for alternative suppliers for better conditions and easier cooperation. This implication is particularly relevant to large scale or large chain distributors when they are harnessing even more control over the marketplace. This finding of the current study seems to be in line with a recent study conducted by Chung et al. (2007) in the Korean department store industry to explore how market orientation influences channel relationships.

Their findings indicate that retailer market orientation positively influences supplier market orientation and alleviates supplier use of coercive influence strategies. Supplier market orientation increases retailer's dependence on the supplier and retailer's satisfaction with the supplier. By providing empirical evidence of the strongest partial correlation between market orientation and shared value, and the significant impact of market orientation on shared value, this study makes a contribution to the market orientation literature by showing that market orientation appears to be a strategy to establish the value or norm shared between business partners.

The contribution to the market orientation literature also comes from the finding that market orientation is a source of communication which can facilitate the development of shared value. Although the mean score of communication revealed from this study is slightly lower (4.95), given the importance of business understanding in the business context, communication can be improved. Specifically, formal information communication in addition to personal communication between firms and departments needs to be promoted. An improvement of communication rewards consolidation of shared value and development of a solid relationship. Helfert et al. (2002) considered the overall market orientation of firms needs to be translated to a relationship level in order to be effective; Elg (2002) developed an inter-firm market orientation model that involves joint activities of the channel members. For these to take place, effective communication appears to be a viable strategy not only to strengthen and translate a shared value of the market orientation norm into coherent actions, but also in the hope to develop a continuing relationship, as the performance of adopting a market orientation may not accrue immediately.

8.7.2 Precursors to trust: communication and shared value

Two precursors are proposed to directly affect the distributor's trust in the supplier: communication and shared value, and the results confirm that both precursors exert a positive and significant influence on the level of trust, after the positive relationship between market orientation and these two predictors are suggested; that is, an indirect effect from market orientation is suggested. The direct effects of communication and shared value on trust verify previous research (e.g. Anderson and Weitz, 1989; Morgan and Hunt, 1994; Zineldin and Jonsson, 2000) and further emphasize the role of these two elements in a business context with a market orientation culture.

Trust has long been recognized as the cornerstone to successful relationships (Spekman, 1988; Morgan and Hunt, 1994) and the main control mechanism for network governance (Elg, 2002), as also reported as a main condition of exchange in the social exchange literature. However, the process of building and developing trust is not an easy and direct task; there are determinants and predictors to this cornerstone of a strategic partnership. The finding from this study suggests that one of the determinants is communication, the starting mediating component proposed in this study. Communication's importance arose in the preliminary interview, ensured by its effect on building a shared value of the market orientation norm as discussed earlier, and reaffirmed here by its prediction to trust. Through the process of mutual understanding and compatibility assessment, the distributor can develop a higher level of confidence and belief that his partner in the relationship has the ability to develop his functions and serve end customers both effectively and efficiently. This is in line with the study of Holden and O'Toole (2004) that the development and

progression of building trust is through the assimilation of information that either confirms or does not confirm a partner's trustworthiness.

In the preliminary interview, both distributors and suppliers expressed a considerable interest in developing a long-term relationship, but the quantitative results revealed that the development might be handicapped by their present communication practices, which in turn affected the building of trust and the subsequent relationship factors. As discussed in the findings of the preliminary interview on channel relationships (section 4.5.2.2.), informal communication (personal relationships) still shadows and influences the way of doing business and developing business relationships in today's Taiwanese business context. However, as revealed from the relatively low mean score (5.1) for the question: "*There are regular changes of information between our two companies at multiple levels and areas*" and the mean score (4.4) for the reverse question: "*We do not volunteer much information regarding our business to the main supplier*", formal communication concerning business information exchanges between firms at multiple levels or departments may be the area which can be improved. As far as the communication facets are concerned, several facets are suggested by Mohr and colleagues (e.g. Mohr and Spekman, 1994; Mohr et al., 1996). They include quality of communication, the message's influence content, feedback, frequency of contact, participation, and formality of communication. To ensure the efficiency and effectiveness of a communication process, a more comprehensive usage of communication facets needs to be employed and this is an area which can be further studied in future research.

Of the precursors of trust, another proposed determining factor shared value is also found to significantly influence the building of trust and makes a substantial contribution to the prediction of trust ($\beta = .516$). This finding reinforces the importance of shared value in the business context and suggests that the development of a shared value of the market orientation norm appears to be a strategy for winning channel partners' trust. In fact, the significance of shared value is also revealed from its highest mean score (6.05) among the mediating factors, which corresponds to Heide and John's (1992) maintenance and finding that norms, similar to shared value, play a very significant role in structuring economically efficient relationships between firms. The mean score of shared value in this study is particularly high for the car dealer sector, which reaches 6.45, implying that sharing beliefs or values in common in the car industry is demanding and extremely important. This reflects on the culture that both car dealers and manufacturers are patently concerned with customer satisfaction and the process to sustain a long-term relationship. Provided that common values are shared on behaviours, goals, and policies between firms, credibility can be developed, and efficient operation towards serving end customers can be ensured.

From the quantitative results, although a climate of market orientation exists in the business context, channel members have their own definitions and perceptions toward this marketing concept. The finding of strong correlation between shared value and trust suggests that distributors may want to evaluate the market orientation of perspective suppliers to assess their compatibility so as to develop the distributor's trust in the supplier that the latter will make efforts to monitor and design a response to satisfy end customers and correspond to the distributor's

marketing efforts to cope with competition. In the mean time, communication plays a role of facilitating the process. In other words, communication can interact with the development of shared value to substantially impact the distributor's level of trust in the supplier, which is confirmed by a respectable 50.6% of the adjusted R^2 value of this strong model for explaining trust. This substantial portion of the variance explained by the independent variables indicates that important predictors of trust have been analysed by this study. For distributors, since they are close to the market and actively generate market intelligence, they should bring quality information exchange upstream if they are to establish the market orientation norm in distribution channel. If as revealed from the results of the communication questions, some distributors are hesitant to provide information to their suppliers or exchange information regularly, this kind of divergent, ambiguous and ineffective communication can hinder the generation of shared value, and trust is difficult to develop subsequently. For suppliers, they should have trust in a market-oriented distributor because it cares for satisfying, interacting as well as retaining customers. Thus, corresponding to the market orientation norm established by the distributor and meanwhile ensuring effective information exchange to avoid over narrow definition of market orientation, namely, narrowly focusing market intelligence efforts only on current customers, may lead to an appropriate value shared by business partners and consequently foster the promotion of trust.

8.7.3 Effects of trust on cooperation, commitment, and conflict

Four relationship factors are maintained in this study to be influenced directly by the level of trust: cooperation, commitment, conflict, and satisfaction. The relationship between trust and satisfaction will be discussed in the next subsection of the

precursors to satisfaction. This subsection focuses on the discussion of the effects of trust on the other three factors. The finding that the distributor's trust in the supplier positively and significantly affects the distributor's cooperative behaviours with the supplier attests to previous findings (e.g. Anderson and Narus, 1990; Morgan and Hunt, 1994; Johnston et al., 2004). Indeed, this model reaches the best prediction and explanatory power of the hypotheses. This is in line with Morgan and Hunt's (1994) finding that trust has the strongest effect on cooperation and Palmatier et al.'s (2006) results, by using a meta-analysis, that trust is the most critical precursor of cooperation compared with the other mediators. This current study reinforces the role of trust in coordinating actions by showing that a level of trust must be present in order to urge and attain cooperative behaviours to create synergistic effects, and this in turn has positive repercussions on the distributor's commitment to the supplier, since the findings also indicate that cooperation significantly affects the level of the distributor's commitment to the supplier.

Stern and El-Ansary (1992) also point out that inter-organisational coordination is a central theme within a marketing channel. But they go on to maintain that it is the exercise of power that is crucial for coordination: "Power generally must be used in a marketing channel to gain cooperation" (p.312). However, from the data of the preliminary interviews, power was not an eminent factor leading to a successful relationship. One manager from the preliminary interviews stated that "*Power used to be a dominant factor in channel relationships, but now there are too many upstream suppliers and downstream resellers in every business. No one desperately needs to rely on someone to survive...*". Instead, cooperative activities and accommodation strategies emerged to take the role of power, the element explicitly

stated in political economy framework, as one sales manager from a department store stated that “...we will try to cooperate with each other. If the supplier is flexible and able to correspond with us, we hope to maintain a stable cooperative relationship”. Consistent with Morgan and Hunt’s (1994) contention that “relationship marketing success, in all its contexts, requires cooperative behaviours” and positive findings between trust and cooperation, this current study also found a high mean score (5.65) of cooperation and strong direct influence of trust on cooperation. This finding suggests that based on the support for the previous hypotheses, when a shared value of the market orientation norm fosters the distributor’s trust in the supplier, cooperative actions will consequently accrue; they put trust in each other so they can bring resources into the relationship to perform effective operations and joint efforts directed at achieving their mutual goals.

On a basis of trust, during the process of cooperation relationship-specific investments may be involved. Relationship-specific investments (RSIs) are an exchange partner’s idiosyncratic investments that are specialized to a relationship and not easily recoverable (Ganesan, 1994), which positively affect customer commitment to a seller (Gilliland and Bello, 2002) through their positive impact on switching costs (Palmatier et al., 2007). The finding of a positive and significant cooperation-commitment relationship from this study not only adds empirical evidence to the relationship literature but also expands the trust-commitment theory by showing that the causal path between trust and commitment can be mediated by cooperation. In the context where distributors wish to continue a relationship with their suppliers but don’t easily commit themselves for fear of the uncertainty from external environment, trust may not be sufficient to make a strong commitment. Based on trust, which gives

confidence in their future actions, and through cooperative 'real actions' and 'evidence' of their compatibility, solid commitment can be fostered.

Another factor proposed in this study to be affected by trust is commitment, and the causal path between trust and commitment has often been reported in the relationship literature (e.g. Morgan and Hunt, 1994). Although the finding from this study also supports a positive trust-commitment association, a bit surprisingly, it is only found significant at .05 level; the contribution of trust ($\beta = .255$) to the prediction of commitment is smaller than that of cooperation ($\beta = .337$). This finding may attribute to the following reasons. One reason is the magnitude of the trust scores is higher than that for the commitment but is not closely related to the level of the commitment scores. Another reason may be due to the low reliability of the commitment measure (Cronbach's $\alpha = .593$ after purification), which makes the variable less reliable. Compared with the findings of Morgan and Hunt (1994), the difference in measuring constructs may provide a reason for the difference in findings. Following Siguaw et al. (1998), this study adopted a behavioural measure for commitment and a two-dimensional measure for trust (benevolence and credibility), whereas Morgan and Hunt's commitment measure was more attitudinal in nature and trust measure was single dimension tapping confidence, reliability, and integrity, which are akin to the credibility dimension used in this study. Also surprisingly, the lack of direct effects of trust on commitment appeared in the study of Siguaw et al. (1998). Although the trust-commitment relationship is not highly significant in this study, the finding still supports the causal path from trust to commitment, meaning that trust can not be absent when making a commitment to a relationship.

Conflict is another component hypothesized to be affected by trust and the finding of a negative trust-conflict association confirms the hypothesis. Actually, conflict is not a mediating factor leading to a long-term relationship but it can be destructive to a relationship and often is inevitable in inter-organisational relationship. Social exchange theory also explicitly recognises its role in organisational relationships. A majority of previous research studying the element conflict mostly asserted a negative association leading from conflict to trust (e.g. Anderson and Narus, 1990; Geyskens et al., 1999; Palmatier et al., 2006) or a positive path from trust to functional conflict (Morgan and Hunt, 1994), this study posits a negative association leading from trust to conflict, and the empirical results provide support to this path. As discussed earlier, when a shared value of the market orientation norm is developed to win channel partners' trust, the similar culture and value encourage both mutuality of interest and stewardship behaviours to achieve mutual goals, and thereby the level of conflict is likely to be low. Based on the trust, channel partners are more likely to apply some kind of resolution techniques to resolve conflicts amicably and, through time and experiences, to increase mutual understanding and reduce recurring conflicts. This finding adds to the stream of literature on the importance of trust and issue of conflict handling.

One note, however, care should be taken when interpreting the contribution of trust to explaining conflict due to the low adjusted R^2 . The adjusted R^2 indicates that trust as an independent variable only explains 4.8% of total variation in conflict. This implies that conflict is heavily influenced by explanatory variables other than trust. The low adjusted R^2 may be partly due to the low reliability (Cronbach's $\alpha = .640$ after purification) of the conflict measure. As discussed in the summary of tests of

the measures (section 7.2), reverse-worded questions seem to be problematic in this study and display lower reliability and weaker item-to-total correlations than their positive-worded counterparts. This in turn sometimes leads to a variable being less reliable.

8.7.3 Precursors of satisfaction to sustain a relationship: trust, conflict, commitment, and cooperation

Four antecedents: trust, conflict, commitment, and cooperation are proposed to exert direct influences on satisfaction, the key to a long-term relationship in this study. From the preliminary interview, satisfaction according to the informants both from distributor and supplier dyads appears not just another factor that contributes to a relationship; it is the key to sustaining a long-term channel relationship in the Taiwanese business context. Thus, satisfaction is posited as the focal consequence of channel relationship in the conceptual model and signals a long-term orientation in this study. From the results, it is as expected to find that trust and cooperation both have strong impact on the level of satisfaction. In fact, the effects of these two predictors on satisfaction and long-term orientation are larger than any of the other antecedents. Trust has not only direct but also indirect effects on satisfaction. Cooperation has by far the greatest impact in explaining variations in satisfaction, even when the effects of the antecedents of cooperation are controlled for. This makes the current study a contribution to channel relationship literature in which cooperation-satisfaction relationship has received only limited investigation.

The findings that trust and cooperation affect the level of satisfaction attest to the importance of these channel relationship components and provide empirical

evidence from an Asian business context for previous studies, particularly the studies on trust-satisfaction relationship (e.g. Anderson and Narus, 1990; Geyskens et al., 1998; Bigne and Blesa, 2003). On the basis of trust and cooperative behaviours, channel efficiency is achieved and mutual values and goals that the firms cannot have accomplished individually are met, satisfaction is the consequence. In other words, during the cooperation process, given expectations are fulfilled (confirmed) or positive disconfirmation arises, satisfaction will consequently accrue. If satisfaction exists, why terminate the relationship? Particularly through the process of building mutual understanding and trust, which takes time and efforts from trade partners, and coming through practical cooperative behaviours, which assays their compatibility and expectations. In previous studies, Ganesan (1994) argued that distributors are likely to be long-term oriented with a vendor on whom they are dependent, which involves asymmetry in power. The findings from this study expand his study by showing that based on the trust of the value shared, the noncoercive bases of synergistic power is a way for distributors to establish a satisfactory relationship so as to increase their dependence on their suppliers. Coercive bases of power, however, may increase conflict and decrease satisfaction (Skinner et al., 1992).

Another factor often co-exists with cooperation is conflict (Anderson and Narus, 1990), due to the nature of interdependence between exchange partners. It is expected in this study to negatively affect satisfaction, and the result confirms the hypothesis. Since the significance (destructive power) of conflict is not shown from the quantitative results, its contribution to explaining satisfaction is low ($\beta = -.130$) and the prediction is significant but weak, only at .05 level. This is again partly due

to its lower reliability causing its lower significance. In addition to the problems with reverse-worded questions to cause the variable to be less reliable, another reason may be that only manifest or perceived conflict in terms of different states of conflict is measured in this study. The culture of avoiding conflict and attempting to work harmoniously with trade partners prevails in the business context. They may not conflict explicitly if they do not intend to maintain a relationship. Or if they tend to keep a relation, they will try to resolve disagreements amicably. Thus, a high level of manifest conflict is not expected to be seen in this business context.

The negative conflict-satisfaction relationship seems clear in the channel relationship literature (e.g. Anderson and Narus, 1990; Skinner et al., 1992; Mohr et al., 1996). The study of Geyskens et al. (1999) attempted to generalise empirical works on satisfaction using a meta-analysis. They distinguished between economic and noneconomic satisfaction and found a negative causal path from economic satisfaction to conflict, and from conflict to noneconomic satisfaction. Although the finding from this study is in line with their latter finding, this study does not differentiate the conceptualization of satisfaction in the quantitative study. However, since satisfaction is reported as the key to long-term orientation in the business context, it may be worthy of further investigation in more detail in future studies, such as from the economic and noneconomic dimensions, or subjective and objective perspectives. As far as the construct conflict is concerned, since this study is based on social exchange theory and only manifest or perceived conflict is used for this construct. The other states of conflict, latent and affective conflict in addition to manifest or perceived conflict, or functional conflict may be of interest to be studied. How the different states of conflict mediate other relationship ingredients or

when conflict can lead to positive relational effects can be further investigated.

Finally and surprisingly, another antecedent of satisfaction: commitment is not found supported to significantly affect the level of satisfaction, which is the non-economic dimension used in this study. Although commitment is believed to result in a higher satisfaction level, the empirical findings regarding their relationship are equivocal. Some studies maintain a positive relationship between these two factors (e.g. Siguaw et al., 1998; Palmatier et al., 2006) but their satisfaction focuses on the economic or objective performance dimension. Kumar et al. (1994) stated that only affective commitment results in better performance, but not calculative commitment. Although Selnes (1998) also concluded a positive buyer commitment-satisfaction link, the satisfaction in his study is not differentiated. A recent study of Rodríguez et al. (2006) clearly indicated that the distributor's commitment has impact on both his economic and non-economic satisfaction, although the impact is more significant on the economic dimension ($p < .001$) than on the non-economic dimension ($p < .05$).

The finding of insignificant commitment-satisfaction association from this study is surprising but not inexplicable. This may be attributable to the following reasons. One reason may be again due to the lower reliability of the commitment measure. Another reason speculated is that the commitment-satisfaction relationship may not be monotonic: some degree of commitment to a supplier has a positive effect on satisfaction, but when too much effort is placed on commitment, perhaps at the expense of investment costs, satisfaction can be sacrificed. In this case, the level of the supplier's satisfaction may be higher.

Although the support for the positive commitment-satisfaction association is found in some previous studies, there are some reasonings different from this study's. One reasoning is based on the argument that commitment induces a joint effort to obtain mutual benefits and the perception of compatibility between the parties (e.g. Jap and Ganesan, 2000; Rodríguez et al., 2006). This current study, however, maintains that these objectives are more likely to be achieved by *cooperative actions*, so this leads to the strong effect cooperation exerts on satisfaction as H13 suggests. Another reasoning appearing in other works is on the premise that commitment can manifest itself in making adaptation or investing in the relationship to drive satisfaction (e.g. Johanson et al., 1991; Selnes, 1998). This reasoning is akin to social exchange theory that commitment involves making investments to the other party in exchange relations (Blau, 1964). This argument in fact involves another more specific relationship construct: relationship specific investments (RSIs), which is asserted to positively affect buyer commitment to a seller (Gilliland and Bello, 2002) and is an immediate precursor to exchange performance (Palmatier et al., 2006). Since empirical studies on the relationship between RSIs and satisfaction are quite limited, additional research to further examine the interaction between RSIs and commitment and satisfaction is called for.

8.8 Chapter summary

This chapter was mainly concerned with the substantive interpretation of the results of the hypothesis testing and discussion on the findings. Prior to the testing and discussion, the choice of the analysis techniques needed to be justified. This was followed by an assessment on the fitness of the sample data with the statistical assumptions underlying the chosen techniques. No substantial violation of the

assumptions was detected. Correlations between independent and dependent variables were then investigated prior to conducting a meaningful regression analysis. Results of the correlation analysis revealed that significant correlations existed between the marketing concept and all the mediating relationship factors, as well as among the mediating elements.

A standard multiple regression analysis technique was conducted to test the hypotheses. In addition, a hierarchical procedure was also used to test the mediating effects. Results of the hypothesis testing were reported, followed by a detailed discussion on the findings. The discussion centred around two themes: the role of market orientation in channel relationships and the interrelations among the mediating relationship elements. Furthermore, three levels were discussed on the interactions between the mediating factors: the precursors to trust, the effects of trust, and the precursors of satisfaction which signals a long-term orientation in this study.

The next chapter, which is the final chapter of the research, concludes the findings from the two-phase study. Additionally, contributions, implications and limitations of the study are discussed. Opportunities for future research are also provided.

CHAPTER NINE

Conclusions and Implications

9.1 Introduction

As the final chapter of the thesis, there are a number of tasks for it: conclusions on the key research findings, contributions of this study to knowledge and implications to managers working in Taiwan and those who seek to engage in working relationships in the business context. Additionally, the research limitations and opportunities for future research are to be discussed. As such, this chapter begins with a summary of the key research findings in section 9.2 related to the hypotheses and the status of market orientation in the Taiwanese business context, specifically in the four distribution sectors. The findings from the first phase exploratory study are also noted. Conclusions will be drawn from the findings. Section 9.3 highlights contributions to the body of knowledge from the research findings and from the research design of this study, followed by managerial implications in section 9.4. This chapter concludes with a discussion on the limitations of the study and recommendations for future research in the final section 9.5.

9.2 Summary of the key research findings

Details of the research findings have been reported and discussed in the previous two chapters. This section summarises the key research findings on two areas. The first is a summary related to the status of market orientation in the Taiwanese business context, specifically in the four selected distribution sectors; the other concerns the findings on the hypotheses. They are presented respectively in the following subsections.

9.2.1 Findings related to the status of market orientation in the Taiwanese business context

Findings from the exploratory study conducted at the supplier-distributor dyads revealed the familiarity with the market orientation philosophy from the managers; the practitioners in Taiwan have a very good sense of market orientation. The conceptualisation of the marketing concept is akin to that of Narver and Slater (1990), who conceive culture as an antecedent to market oriented behaviours. The managers, particularly those who from small and medium companies, mostly oriented the conceptualisation of market orientation towards customer focus, although they also recognise the importance of competitor orientation and inter-functional coordination to some extent. On the other hand, the applicability of this marketing concept was also confirmed for Kohli and Jaworski's (1990) three action constructs: intelligence generation, dissemination and responsiveness. Additionally, another new construct: *responsiveness controlling* was brought up and proposed by the informants. Market orientation has become a general practice in Taiwan. Furthermore, according to some informants, another practice – *customization* is moving on. Indeed, most firms are in the position of operating against competitors, which offer homogenous products. More and more, in order to compete and survive, they need to provide a differentiated offering by adding value and perceived quality to a core, physical product through the provision of services - which was stressed by the informants in the interviews - or change offerings so that they solve individual customer's problems better. This may also account for the growing importance of customer relationship management and the development of 'bonds', being financial, social or structural in the building of competitive advantage.

Results from the quantitative study on the market orientation construct indicate similar findings. Data were collected from four distribution sectors in order to yield more variation in the data and increase the generalisability. The mean score of overall market orientation is 5.58 on a seven-point scale, with a standard deviation of .70. 80% of the samples have a score above 5, suggesting that about 80% of the distributors in the four sectors are engaged in market-oriented activities to some extent. Comparatively, the electrical goods sector shows the highest degree of market orientation among the four sectors, followed by the car dealer and department store sectors. The IT products sector presents the lowest level of market orientation among the sectors and this finding seems to be in line with Kohli and Jaworski's (1990) proposition that a market orientation may not be as important in technological turbulence industries as in technologically stable industries. The basic reasoning lies in that new products do not always originate from the customer, particularly in high-tech industries. Many of the major innovations will be developed by R&D efforts outside the industry (Kohli and Jaworski, 1990). Although the IT products sector is found to have the relatively lowest degree, it still demonstrates a certain level of implementing market-oriented activities (a mean score of 5.32 on a seven-point scale).

By further examining the differences among sectors on the four components of market orientation, the findings indicate that these distribution sectors produce no significant differences in *intelligence generation*, except that the IT group seems to perform at a lower level. In terms of *intelligence dissemination*, the electrical goods and car dealer groups perform at a higher level than the department store and IT groups. The department store sector demonstrates a relatively lower level of

responsiveness, although its responsiveness controlling appears no significant difference with the other three sectors. The electrical goods and car dealer groups present a significantly higher level of *responsiveness controlling* than the IT sector.

Other key findings on the status of market orientation in the business context are explained by the sample characteristics. No significant differences of the level of market orientation are found in terms of the sample characteristics of employee size, capital size, and the respondent's position in the organisation. However, variations are found in organisation history and the respondents working years in the sector or in the company. Organisations running over 20 years are found to perform a significant higher degree of market orientation than those running under 20 years. Respondents working fewer than 5 years either in the sector or in the company demonstrate a lower level of perception toward their company's market orientation. However, companies with organisation history under 5 years do not appear to show a lower level than those running over 5 years.

Drawn from the above findings, although there are some variations in some sample characteristics, overall the mean scores of the sample characteristics are all over 5 on a seven-point scale; the electrical goods sector even reaches a high mean score level of 6.01. The empirical evidence suggests that a culture or practice of market orientation extensively exists in the Taiwanese business context. These results from the two-phase study are significant as they demonstrate that a more complete and omnibus market orientation potential exists in the particular business context.

Worth mentioning are the impacts of environmental moderators which were

commented by the informants from the first phase in-depth interviews. They noted quite a few external factors that moderate the implementation of market orientation. This implies that an organisation's operation is heavily influenced by external environmental factors. The environmental moderating effect exists in such a national context with a high percentage of 97.8% small and medium enterprises. This may account for some degree of variation of the market orientation levels among different sectors.

9.2.2 Findings related to the hypotheses

As distributor-supplier relationships evolve, one of the strategies for businesses to maximize their positions is looking for fewer but closer lasting cooperative relationships with some of their channel partners. This study models and tests potential effects of market orientation, from distributors' perspective, on relationship development and sustenance. The hypotheses are centred on two themes: the role of market orientation in channel relationships and the interrelations among the mediating relationship elements. The findings in each of the areas are summarised and concluded as below.

9.2.2.1 Hypotheses of the role of market orientation in channel relationships

Market orientation was found from the exploratory interviews to have potential effects on the development of channel relationships, and this is confirmed by the quantitative study. However, market orientation is not found to act as a direct antecedent to the continuity of a channel relationship. It is mediated through some key relationship factors, particularly and initially through *communication* and *shared value*. That is, market orientation is found to exert significant direct effects on

communication and shared value. Meanwhile, it is also found to have indirect effects on the other relationship components such as trust, cooperation, commitment, conflict, and satisfaction, which all contribute to a continuing relationship.

Market orientation is found to have a direct effect on the generation of communication. When a market-oriented firm is concerned with obtaining information on the environment and tries to integrate all of its functions, it is likely to generate effective communication with its supplier. Meanwhile, the supplier is also expected to correspond to a certain level of communication in order to obtain a source of sustainable competitive advantage.

Market orientation is also found to have direct effect on the pursuit and generation of shared value. With the guidance of a shared value of the market orientation norm, coherent actions and joint activities can be developed to serve end customers efficiently and effectively. Additionally, shared value is also found to be developed or strengthened by communication. The interaction of market orientation, communication, and shared value suggests that communication not only strengthens and translates a shared value of the market orientation norm into joint behaviours, but also gives hope to developing a continuing relationship, as the performance of employing a market orientation may not accrue immediately.

9.2.2.2 Hypotheses of the interrelations among the mediating relationship elements

The interactions among the mediating factors are categorised into three levels: the precursors of trust, which is the corner to a strategic relationship; the effects of trust;

and the precursors of satisfaction, which signals a long-term orientation in this study. On the basis of an indirect effect from market orientation, trust is found to have two direct precursors: *communication* and *shared value*. Through the process of mutual understanding and compatibility assessment, a distributor can develop a more trusting relationship with its supplier, which may avoid the occurrence of opportunistic behaviour. When a shared value of the market orientation norm develops, the similar culture and value encourages both mutuality of interest and stewardship behaviours, which will lead to encouraging more trust between partners to achieve mutual goals.

Trust is found to exert direct influence on *cooperation*, *satisfaction*, *commitment*, and *conflict*. Of the hypotheses in this study, trust achieves the best prediction in explaining cooperation; that is, trust is the most critical antecedent to cooperative activities. When a shared value of the market orientation norm fosters a distributor's trust in a supplier that the latter will make efforts to monitor and design a response to satisfy end customers and correspond to the distributor's marketing efforts to cope with competition, the distributor will develop some kind of cooperative activities in order to achieve mutual goals.

A positive trust-commitment association is also found. However, the relationship is only found significant at .05 level. Another finding is that trust can exert more influence on commitment through *cooperation*. Based on trust for future actions and through cooperative 'real actions' and 'evidence' of their compatibility, solid commitment can be fostered.

A negative trust-conflict association is supported from the findings. When a shared value of the market orientation norm is developed to win business partners' trust, the level of conflict is likely to be low. Based on the trust in the supplier, a distributor is more likely to apply some kind of resolution techniques to resolve conflicts amicably and, through time and experiences, to increase mutual understanding and reduce recurring conflicts.

Four antecedents: *trust*, *conflict*, *commitment*, and *cooperation* are proposed to exert direct influences on satisfaction, and only the positive commitment-satisfaction relationship is not significantly supported. Of the four antecedents, cooperation is found to have the greatest impact on satisfaction. Trust has not only direct but also indirect effects on satisfaction. On the basis of trust and cooperative behaviours, channel efficiency is achieved and mutual values and goals that the firms cannot have accomplished individually are met. When expectations are fulfilled (confirmed), satisfaction consequently accrues.

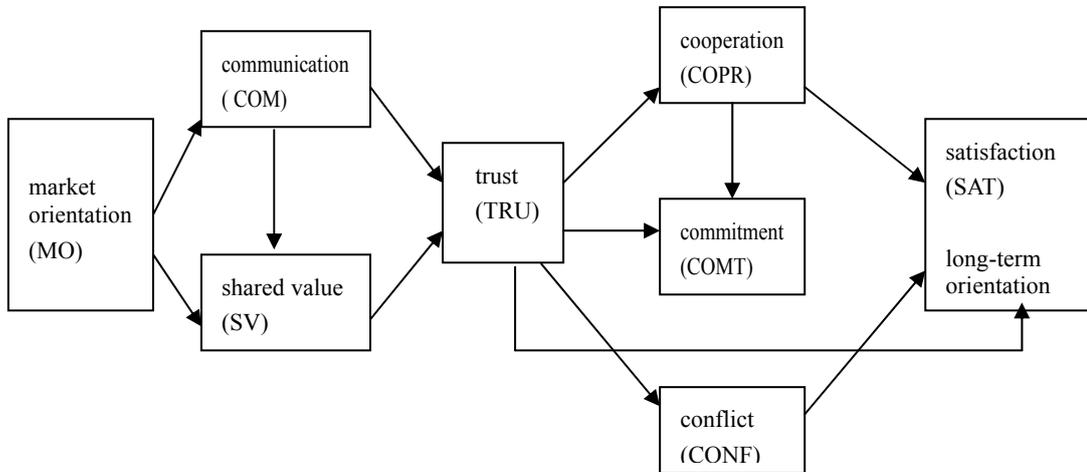
Conflict is found to have a negative effect on satisfaction. Disagreements tend to block achievement of the firm's goals, eliciting frustration, and thereby cause dissatisfaction about the relationship. If conflicts are reduced or resolved amicably, a positive affective state or satisfaction should be increased.

Finally, the test failed to support a significant commitment-satisfaction association. Although this failure may be related to the measurement issues, it may also suggest that the commitment-satisfaction relationship is not monotonic. Meanwhile, another relationship construct related to commitment: RSIs emerges. To further examine the

commitment-satisfaction relationship, the interaction between RSIs and commitment and satisfaction merits additional research.

In all, twelve out of a total of thirteen hypotheses are significantly supported by the analysis results. Reflecting on the proposed research model, the analysis results and findings provide empirical support for the majority part of the model. In other words, market orientation has been empirically tested and proven to have an association, through the mediating relationship factors, with the development and sustenance of a long-term oriented channel relationship. Based on the statistical tests and analyses, a significant commitment-satisfaction association is not found. As discussed earlier, a further investigation of the commitment-satisfaction relationship is called for in future research. In light of the finding, this hypothesis is removed from the original research model and remodeled as Figure 9.1, which still confirms the robustness of the proposed research model. This model indicates that a continuing channel relationship depends not only on performance (a *basic* motivation for interaction according to social exchange theory), but also on the important role the *social context* plays in the build-up of exchange relationships. A number of aspects and social dimensions, such as organisational culture, communication, shared value, trust, cooperation, commitment and satisfaction, greatly affect the evolvement of channel relationships. As such, the study of these or other similar factors becomes important.

Figure 9.1 The model of effects of market orientation on the mediating factors towards long-term oriented channel relationships



9.3 Contributions of this research

This research makes a number of contributions to the body of knowledge. The first involves the construct of market orientation. This study responds to the researchers who have called for investigating the construct in different cultural and economical environments (e.g. Kohli et al., 1993; Felix et al., 2005; Cadogan et al., 2006). In terms of applicability and implementation of the marketing concept in Taiwan, in addition to Kohli and Jaworski's three behavioural components, this study adds another new component, *responsiveness controlling*, to the current market orientation theory. In order to fulfill the marketing concept to serve end customers and cope with the environment, actions in response to intelligence generated and disseminated capture the speed and coordination of responsiveness. However, the effect of responsiveness will not be produced if actual actions and performance do not conform to the design and efforts made by responsiveness. Thus, responsiveness controlling emphasises the importance of actual performance, and comparison and analysis of deviation between actual and expected responsiveness. As such, the market orientation concept not only captures both cultural and behavioural

perspectives, but also develops more thoroughly by adding a managerial perspective.

The second contribution concerns the specific context of this study. Since the majority of published work on market orientation has been conducted in the western countries, one of the objectives outlined in Chapter One was to examine the applicability of this marketing concept to an eastern country under investigation: Taiwan. Market orientation has previously been proven as an important, widespread concept in some western countries such as the U.S., the U.K, Germany, Norway, Australia, etc. It is also applied effectively in some eastern countries such as Japan, India, Indonesia, Hong Kong and Thailand. The findings from this study support and confirm the existence and significance of the marketing concept in this particular context under investigation: Taiwan; this research makes a contribution to knowledge by demonstrating the relevance and transferability of the market orientation theory to this business context. Although data were collected from four selected sectors, they were to yield more variation in the data and increase the generalisability to the findings. These sectors cover a wide range of products, from daily used to luxury products. The mean score of overall market orientation from these sectors is 5.58 on a seven-point scale. 80% of the samples have a score above 5. It seems reasonable to generalise the research findings to this business context.

This research also contributes to the body of knowledge on market orientation by showing that the development of market orientation is industry-specific. By demonstrating different degrees of market orientation among sectors in this study, the development of market orientation may be subject to different influential moderators. Although based on the evidence from previous research and from this

study that the marketing concept may not be culturally or socioeconomically bound, more insights can be generated if efforts are focused on investigating particular industries.

The fourth contribution of this study is to provide evidence that adoption of the marketing concept is a strategy for stimulating and sustaining a long-term oriented channel relationship. By investigating the interactions between the distributor's market orientation culture and the mediating relationship factors, this study empirically shows the existence of an association between market orientation and continuity of long-term oriented relationships which is a key aspect of relationship marketing. Although references have been found concerning the association that must exist between these two concepts, they are mostly on a theoretical and conceptual level; empirical evidence is limited. This study links these concepts based on solid theories: social exchange theory and the commitment-trust theory. As the classic market orientation literature has pointed out the impact of market orientation exerted on customer loyalty and customer retention, this study extends this notion by applying to channel relationships. This study demonstrates that a distributor's market orientation affects the loyalty and retention of a channel relationship with its main supplier. As such, this study makes another contribution to the market orientation literature by advancing the concept to a relational perspective.

The fifth contribution relates to the holistic research methodology. The research design reconciles the positivist paradigm and interpretivist paradigm by capturing the strengths of each paradigm, which is different from previous studies in the market orientation or channel relationship domains. Previous studies focused on the usage of

single paradigm. This study employs the pragmatism paradigm which encompasses qualitative in-depth interviews to attain particularization from the particular context and quantitative mixed-mode questionnaire surveys to test the research model and hypotheses. The holistic research design allows for cross validation and greater accuracy since “no single method ever adequately solves the problem” (Denzin, 1978, p.28). An appropriate research design is crucial for empirical research. Particularly this study is conducted in an eastern country. Direct application of existing measurement scales developed in the western countries could result in measurement errors or marginal mean scores. Using only one method or paradigm is more vulnerable to errors linked to that particular method or paradigm. Employing both paradigms is regarded more relevant and holistic in eastern national contexts or developing economies when testing theories developed from the western countries.

The final contribution is that this study not only provides substantive support for previous research on channel relationships from this particular business context, but also adds some important insights to the interactions of relationship factors (the comparisons with past studies were discussed in the previous chapter). On the basis of market orientation as the principal antecedent, the relationship elements communication and shared value are highlighted as the primary mediators in developing a channel relationship. Applying the commitment-trust perspective to investigating channel relationships, studies often theorize trust or commitment as the key or focal relational mediator (e.g. Moorman et al., 1992; Morgan and Hunt, 1994; Andaleeb, 1996). However, according to the evidence from this study, this belief or perspective may be focused too narrowly. For example, although trust has effects on the development of commitment, it can be more influential through cooperative

behaviours; that is, commitment can be established more solidly via a combination of the effect of trust and cooperation. Another implication from this study is that a relationship can be truly effective to continue only when most of the essential aspects or social dimensions are strong, such as the starting factors: communication and shared value, the demonstration of real actions and compatibility: cooperation, and the focal factor in this study: satisfaction, in addition to the parallel and equally important roles of trust and commitment. By showing the significance of the interactions among different relationship elements during different relationship phases, this study provides additional insights into the channel relationship literature.

9.4 Implications

The results of this study provide managerial implications on two respects. The first involves how companies from the four distribution sectors of this study can enhance their market orientation level in terms of the four market orientation components, although they have shown a certain level of implementing market-oriented behaviours. The other implication is, from a strategic viewpoint, to provide managers working in Taiwan and those who seek to engage in working relationships in Taiwan with knowledge of their profiles in the industry and insights of why and how to strategically promote a long-term oriented exchange relationship. In addition, this research reveals that as a business relationship evolves, managers can dedicate special attention to certain mediating factors and their integrated functions during different relationship stages.

9.4.1 Implications on the improvement of market orientation degree

The results from this study reveal that a climate of market orientation extensively

exists in the Taiwanese business context. Market orientation has become a general practice in the context. This study has also provided empirical evidence that market orientation is a strategic source for fostering and sustaining a channel relationship. Under the business context with a trend of the marketing concept, it may hence be advisable for the companies to increase their market orientation degree or to integrate the four market orientation behavioural components in order to consolidate their organisational culture and further to strategically develop a long-term oriented channel relationship. Although activities or behaviours associated with a market orientation can be costly (Kohli and Jaworski, 1990), practitioners should not view a high level of market orientation as counterproductive. As Greenley (1995, p.10) notes that “an increased level of market orientation should ensure the effectiveness of new marketing operations, which should lead to higher performance in the long term”. As for improvement of a company’s market orientation, Narver et al. (1998, p.244) maintain that “top management plays a critical leadership role in changing a culture in general, and in creating a market orientation in particular”. Since organisational culture is difficult to build up or resistant to change, managers should recognise the difficulty, compare their firm's level of market orientation with the average level found in this study, and put the task of improving the company’s market orientation as a priority.

Comparing the market orientation level among the four distribution sectors in this study, as addressed earlier, the electrical goods sector demonstrates the highest level. By further investigating its four market orientation components, *intelligence generation* shows a lower level than the other three components. Since the electrical goods sector is a quite mature industry, the distributors may not be eager to generate

extensive intelligence on the environment. Nonetheless, this area is the aspect which the distributors in this sector can improve. Managers can not only focus on the information from the customers but also place more emphasise on the other environmental components such as competitors, technological change, or new products. For example, a firm should be able to evaluate its competitors' short-term strength and weakness and long-term capabilities and strategies. Slater and Narver (1994) suggest that the knowledge of competitors' strength and weakness is useful for strategy development, for the latter often focuses on exploiting a competitor's weakness or neutralising or bypassing a competitor's strength. Thus, top management should create an environment where employees from all functions are alert to competitors' activities.

The car dealer has the second highest level of market orientation of the four sectors. Interestingly, this sector also shows a lower level of *intelligence generation*. This may again reflect the maturity of the industry as well as the distributors' dependence on their supplier (manufacturer). However, by improving their intelligence generation focusing on customers and competitive dealers, their overall market orientation level may be greatly improved. This includes detecting changes in customer's preferences, monitoring and analysing competitors' marketing programs, evaluating competitors' strengths and weaknesses, and regularly measuring customer satisfaction not only on the product itself but also on the added value provided by the dealer such as services, driving experience, car insurance, marketing activities, etc.

Responsiveness and *intelligence dissemination* are the aspects which need to be

improved in the department store sector. Due to the nature of the centred-controlled organisational structure in this sector, intelligence dissemination is indeed the dimension the stores can improve. This can be improved by sharing market information or data on customer satisfaction with all levels and departments on a regular basis, or improving inter-departmental information flow to ensure existence of an efficient and effective communication system in the organisation. Although it may not be easy to integrate prompt responsiveness from thousands of suppliers in the store, given the importance of responsive actions, a better coordination system of the departments and of the suppliers can ensure a more efficient responsiveness. After all, serving customers is the mission of a distributor and therefore should be the responsibility of the entire organisation rather than particular departments. Coordination and harmonisation of all functions assure a more efficient and effective implementation of market-oriented activities, and this in turn should allow the organisation to be overall cost-effective to attain greater customer satisfaction and retention. As Kohli and Jaworski (1990, p.3) reported the view of the executives who emphasised the importance of ‘a variety of departments recognising customer needs and responding to those needs’, Shapiro (1988) also maintain that harmonisation of resources is the responsibility of the whole business, not of a single department. Additionally, since this sector is labour and supplier intensive, a clear organisational culture can aid to enhance overall market orientation. In other words, top management should create a culture and an environment where all the employees care for the customer and teamwork. Specifically, educating all the employees how to listen to customers, better serve customers and respond to customers is the core to care for customers; developing a communicative and collaborated teamwork system and training the employees how to play teamwork is the way to achieve harmonization of human resources to efficiently and effectively

implement market-oriented activities.

The IT products distribution sector has the lowest level of market orientation of the four categories. As such, it has relatively the lowest level of the four components. This industry is a burgeoning industry and may conduct product orientation to some extent. However, under a business context with a market orientation climate, a distributor adopting a market orientation does not imply it is against a product orientation; being product-oriented does not mean a need to sacrifice intelligence generation, dissemination, responsiveness and responsiveness controlling. Conversely, a market orientation philosophy allows the distributor, which technologically closely coordinates with the supplier, to attain a competitive position in such a highly competitive industry. Therefore, a general strategy can be developed to enhance the overall market orientation, such as developing a market-oriented organisational culture which focuses on the activities of the four components. Additionally, top management should allow more autonomy to the departments and employees to implement market-oriented activities, while making sure to provide a supportive organisational structure and training for them.

9.4.2 Implications on the development and sustenance of channel relationships

The results from this study suggest that strategically distributors should promote or consolidate a market orientation culture in their organisations. The values and norms of this philosophy not only advance customer satisfaction and retention but also help to promote and maintain a relationship with some potential main partners. As such, the market orientation philosophy can be developed not only as an organisational culture, but also as the norm or shared value between business partners to translate

the sustainable competitive advantage into coherent actions. In other words, market orientation can be developed not only on an intra-firm level but also on an inter-firm level.

The development of a market-oriented organisational culture has been addressed earlier. The cultivation of a shared value of the market orientation norm between firms involves the following activities. First, top management should create the beliefs/values in common towards serving the market. Specifically, this involves the creation of mutual goals and the standards of behaviours which guide the exchanges between firms, and policies of formulating and implementing market-oriented strategies. The second action relates to the development of a specialized communication strategy and system to ensure effective information exchanges on the environmental components between firms and departments. The third action is concerned with the investment of resources and efforts in training personnel specialized in coping with the partners and systematically managing the relationship.

Another implication involves the relationship factors which mediate the effect of market orientation and reinforce a long-term orientation. As revealed from the research model, there are many crucial factors during the evolvement of a relationship. Indeed, a successful relationship relies on these or other similar components which have been reported in the literature all through the evolvement. The research model is meant to point out certain factors which need special attention during different relationship phases and their important interactive consequences. Since this study is conducted from a distributor's perspective, the implications are particularly relevant to distributors. However, they are also inspiring to suppliers

which would like to develop a long-term oriented relationship with their distributors.

According to the relationship phases classified by Jap and Ganesan (2000), which include exploration, build-up, maturity, and decline phases, a market-oriented distributor may evaluate a potential supplier's organisation culture in the exploration stage to assess their compatibility. In the meantime, managers may need to focus on the factor of communication to ensure effective information exchange flows and to generate an appropriate value or norm shared between firms. As such, a specialized communication strategy and system need to be developed, and a mechanism for generating a shared value of the market orientation norm needs to be established, both of which were addressed earlier.

On the basis of communication and a shared value of the market orientation norm, distributors are likely to develop trust in their business partners. As the significance of trust has been reported in the relationship literature, the role of trust in this study is considered as a sign of willingness to continue a relationship. Its importance is manifested particularly in the build-up stage, upon the development of communication and shared value. Trust can be built on the general reputation a firm has built up through its earlier behaviour (Parkhe, 1993) or on the parties' previous experiences (Baker et al., 1999). The results from this study suggest that trust is not automatically built up based on a firm's reputation or expertise. The process of building and developing trust is not a direct task. Communication, which ensures mutual understanding and compatibility assessment, and the development of a shared value, in this study the market orientation norm, appear to be the precursors of trust. This may reflect on the cultures of interpersonal connection, uncertainty

avoidance and integration in this particular context. They are comfortable doing business with those who they are familiar with and have a shared value. As such, the development of a communication strategy and system as well as the pursuit and generation of shared value imply the possibility of building trust between firms.

For a supplier intending to win or increase a distributor's trust, some efforts can be made. These include the development of a shared value of the market orientation norm and a promise of quality products and delivery, such as product innovation, cost control, just-in-time production and delivery, quality services, etc. Additionally, in order to cope with the competition in the market, the supplier may need to correspond to the distributor's marketing efforts from time to time. On the other hand, the distributor should reinforce the capability to be the best party to perform the assigned function to interact with, satisfy and retain end customers, thereby increasing sales and improving profitability. During the build-up stage, however, since activities and behaviours associated with a market orientation can be costly (Kohli and Jaworski, 1990), short-term imbalances in outcomes may be anticipated by managers.

Based on trust, cooperation is 'the real action' to show compatibility and capability to achieve mutual goals between firms. Thus, cooperation is considered to be the key for a distributor to make commitments to a supplier and establish a satisfactory relationship if the relationship is moving from the build-up to the maturity stage. In the mean time, another factor conflict may co-exist with cooperative behaviours. Therefore, managers should develop strategies that utilize resources to produce cooperation and confine conflicts or solve conflicts amicably to transfer the

destructive conflicts into functional conflicts. During the cooperation, relationship-specific investments may be involved to increase dependence, which should be anticipated by managers. When a satisfactory relationship is finally achieved, a long-term orientation will be the desired relationship structure. When a long-term oriented relationship exists, business partners would be more willing to put more resources into the relationship. The benefits are not only brought to a more stronger, functional network and effective resource allocation, further value (e.g. joint marketing activities, product quality, product development, new customer services, etc.) can also be generated to end customers who will consequently be more satisfied and trust the network.

9.5 Research limitations and suggestions for future research

There are some limitations of this study which should be cautioned when interpreting the findings. These limitations, in the meantime, provide some opportunities for improvement in future research. The first limitation relates to sample size. This study involved four distribution sectors in order to yield variance in the data and increase the generalisability for the hypothesis tests. However, due to the time and resource constraints, only a limited number of samples were collected. The limited sample size from each sector limits the generalisability for each sector, particularly the electrical goods sector in which the smallest sample size was obtained. Although the sample size (158) in this study is adequate and there is no evidence that the findings are not generalisable to other sectors, larger samples can provide more confidence and support in the results and options to use more sophisticated data analysis technique such as structural equation modeling. Thus, in future research, a larger sample size from each sector and from more industrial

sectors would increase the robustness and provide more reliability and predictive validity in the results. One way of increasing the sample size can be to allocate more resources to the survey. Especially in this particular business context, Taiwan, methods such as follow-up phone calls, drop-off surveys and completed questionnaire pick-up instead of mail back are proven to increase response rate and sample size. These activities all involve greater expense and additional resources.

Secondly, due to the limited time span and resources again, the findings are based on cross-sectional data, which do not capture causal effect and feedback effect of variables. That is, measuring constructs that are dynamic in nature cannot be fully addressed in a cross-sectional study. Particularly, "...change in orientation takes place slowly" (Kohli and Jaworski, 1990, p.16). Lichtenthal and Wilson (1992) also identify some reasons why market orientation is a time-consuming process: "In the short and intermediate run, capital equipment commitments, limits of technology, financing constraints, the need to retain labour, and even established union rules prohibit rapid adjustment of the product service bundle the firm offers" (p.205). Additionally, the relational constructs in the model are interrelated over time. Longitudinal data could provide a clearer picture of how firms become market oriented and how this concept influences the iterative relationships and draw the causal inferences.

Thirdly, this study borrowed some scales from existing literature. Although these scales have been tested and used extensively in the west, they could have problems in reliability and validity in the current research context. Despite the efforts in enhancing their applicability in the particular business context, it is possible that

these borrowed scales may not fully capture the meanings of the constructs. For example, the difficulties in establishing the discriminant validity for the market orientation construct; the lower reliabilities demonstrated from the conflict and commitment constructs; and the problems with the reverse-worded items. A more cautious design of measures adapted to a particular research context and subject to several rounds of pretests should be able to enhance the reliability and validity in future research. In addition, the same type of question and scale design were used in the questionnaire. By using the same technique the respondent may be conditioned to replying in a certain way and the responses can be uniform. To avoid the question of repetitive response or halo effects, a couple of different types of question or scale design can be used simultaneously in future questionnaire design.

Fourthly, as the market orientation construct covers inter-departmental coordinated activities within an organization, to reflect Kohli and Jaworski's (1993) call for the use of a broader sample of managers as informants to improve data validity, the design of multiple informants from different divisions at dyadic distributor-supplier ends was employed in the first phase exploratory study. However, due to the entrepreneurial structure in the particular business context, which shows a high percentage of 97.8% small and medium sized firms, a limited number of managers may be hired in small firms. Also, possible discussion between the multiple informants and the low response of the multiple informants design from the pretests. The key informant approach was adopted in the quantitative study. However, in order to minimize the effect of the bias associated with single informants, such as position bias and working years bias, the data collection design of multiple informants from different functions may be used in the future studies. On the other

hand, the quantitative study is conducted from the distributor's perspective to complement the research stream angle. Future research can involve both supplier and distributor in surveys, as the approach used in the exploratory study, to cross-validate the data. In fact, this model may apply to both supplier and distributor perspectives, like previous conceptual models in this area (e.g. Dwyer et al., 1987; Frazier, 1983, Anderson and Narus, 1990; Sanzo et al., 2003). The rationale is that both sides are participants in the same exchange relationship, though different in the marketing functions they perform, symmetry is expected in the *behavioural constructs* that underlie the relationship (Anderson and Narus, 1990), which were framed from social exchange theory and the interviews from the dyads. However, considering that differences are expected in terms of the indicators which reflect the constructs and the presence or relative strengths of the posited construct relationships, alternatively this research model can be tested from the supplier viewpoint to yield more insights into the channel relationship subject.

Fifthly, this research was conducted in a period when a moderate economic growth continued, yet one of the sectors: the car dealer sector was reported by some respondents to be in slight recession. Although there is no evidence that the results may not reflect the 'normal' business environment, an opportunity exists to conduct research in the car dealer sector during different times to confirm the results reported in this study.

Sixthly, regarding the analysis technique for hypothesis tests, multiple regression and correlation analysis were the major techniques used in this study. They provide the researcher with powerful tools for addressing the type of research questions and

hypotheses in this study. An extension of the multivariate techniques is structural equation modeling (SEM), which assesses the interrelated dependence relationships and entire theory. SEM in general requires a larger sample relative to other multivariate approaches to provide a sound basis for estimation. Although a sample size in the range of 150 to 400 is generally suggested, it is also subject to the other considerations, such as model complexity and basic measurement model characteristics. For example, as Hair et al. (2006) suggest, if the model contains five or more constructs, any communalities are modest (.45-.55), or the model consists of constructs with fewer than three items, the required sample size is more on the order of 200 (p.742). Additionally, if the model contains multigroup analyses, an adequate sample for each group is required. Following the guideline, since the sample size for this study is 158, using the SEM technique may not provide a very sound basis of estimation for this study. However, the opportunity for future research is to employ the approach as an analysis technique, subject to an appropriate size of sample, to compare results with previous studies that have mainly used the multiple regression analysis technique.

Finally, another suggestion for future research relates to the measure of the constructs and the construction of a theoretical model. As for the constructs used in the model, there are several aspects can be further studied. For example, the construct of conflict can be differentiated into latent, affective, and manifest or perceived conflicts. Task or functional conflict may be another constructive component of interest to be studied. Satisfaction is worthy of a more detailed investigation on both economic and non-economic dimensions, or on subjective and objective perspectives. Another new component emergent from the discussion is

relationship specific investments (RSIs), which is also given importance to be further studied on its interrelations with commitment and satisfaction and its role in a channel relationship. In the first phase exploratory study, some informants noted adaptation (accommodation) and flexibility when talking about cooperation. These two functions are also important relational factors in the relationship literature (e.g. Cannon and Perreault, 1999; Brennan, Turnbull and Wilson, 2003; Sánchez et al., 2005). They can be separate from cooperation and further studied on their roles in channel relationships. Regarding the construction of a theoretical model, although the substantial variance explained by the independent variables indicates that important predictors of long-term orientation have been analysed in this study, an inclusion of other mediating relationship variables (for example, adaptation, RSI or flexibility) or environmental moderators into the model can be tested in future research. Last but not least, a long-term oriented relationship model without the effect of market orientation can also be of interest to be studied and compared with the model proposed in this study.

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Appendix I

Interview Guide for the Exploratory Study

I. Sample characteristics:

1. Profile of the company and the informant:

1.1 Profile of the company: sector type, capital size, annual sales, and number of employees.

1.2 Profile of the informant: position, working years in the industry and in the firm.

II. Perceptions on the construct and implementation of market orientation

2.1 What does the term '*market*' mean to you?

2.2 What does the term '*market orientation*' mean to you? (Kohli and Jaworski, 1990) Is it a company culture, business philosophy, practice or what?

2.3 What kinds of things do you think a market-oriented organisation should do? (Kohli and Jaworski, 1990)

2.4 What do you think of the academic components constituting the construct of market orientation: *market intelligence generation, dissemination and responsiveness*? (they are explained to the interviewees) In addition to these, what other component(s) can you think of is important relating to the construct or implementation of market orientation?

2.5 What are the factors affecting the development or implementation of market orientation? Both internal and external.

III. Relationships with channel members

3.1 The development of channel relationships is complex and strategic. What kind of involved relationship is it with your *main* suppliers (distributors)?

3.2 What are the key relationship factors influencing a long-term oriented channel relationship?

3.3 Taking the construct of market orientation as the antecedent, what are the key relationship factors mediating the marketing concept and long-term oriented channel relations?

Appendix II

Survey Instrument and Cover Letter



1 August 2007

Re: Cooperation in participating in the survey

Dear Sir / Madam,

My name is Shuyun Ting. I am currently undertaking research for a PhD at The Robert Gordon University, UK. I am writing to ask for your cooperation in participating in my research project. I would appreciate if you could spare around 20 minutes to complete the attached questionnaire and return it to me at your earliest convenience.

My research is concerned with the exploration of the marketing concept in the Taiwanese channel context and seeks to understand the role of the marketing concept in channel relationship building. Questions in the questionnaire cover general practice of companies as well as business relationships with channel partners. The survey results will remain strictly confidential and only aggregate results from all of the companies participating in the survey will be presented.

It is critically important that I obtain your cooperation if I am to get a good result and complete my research successfully. In return for your participation an option of the synthesized final result is offered, which enables you to profile your company against others in the industry.

I would like to repeat how grateful I would be if you could assist with the survey. Should you have any enquiries about this, please feel free to contact me.

Thanking you in anticipation.

Yours sincerely,

Shuyun Ting
Tel: 06-2602291
E-mail: prs.ting@rgu.ac.uk

DEMOGRAPHICS

I. ORGANISATION DETAILS:

(Note: 'Organisation' in this questionnaire denotes the present unit, branch or subsidiary which is being surveyed, if it is an SBU of a business group or a subsidiary of a large corporation)

1. Please indicate which sector your organisation belongs to. ()
 - (1) Department store
 - (2) Car dealer
 - (3) Electrical goods distributor (if the items and turnover of the *electrical* products are over those of electronic products in the store)
 - (4) IT products distributor (if the items and turnover of the *electronic* products are over those of electrical products in the store)

2. Please indicate the area where your organisation is located. ()
 - (1) Northern Taiwan: City _____
 - (2) Central Taiwan: City _____
 - (3) Northern Taiwan: City _____
 - (4) Eastern Taiwan: City _____

3. Please indicate the total number of employees (F/T equivalent) in your organisation. ()
 - (1) 1-4 employees
 - (2) 5-49 employees
 - (3) 50-199 employees
 - (4) over 200 employees

4. Please indicate how many years your organisation has been running. ()
 - (1) under 10 years
 - (2) 10-19 years
 - (3) over 20 years

5. Please indicate your organisation's capital size. ()
 - (1) under £1.6 million
 - (2) £1.6-15.9 million
 - (3) over £16 million

II. RESPONDENT DETAILS:

1. What is your current job title in your organisation? _____
2. How long have you been working in this industry? _____ (years)
3. How long have you been employed in this organisation? _____ (years)

QUESTIONNAIRE OF “THE ROLE OF MARKET ORIENTNATION IN DEVELOPING AND SUSTAINING CHANNEL RELATIONSHIPS”

Instruction: This questionnaire contains a number of statements describing the current business practices in your organisation and the relationships with your focal supplier. Please use the response scale below to indicate the level of agreement or disagreement with the following statements by *circling only one* appropriate number for each question.

The response scale:

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

I. Market Orientation Scale

1. We periodically review the likely effect of changes in our business environment (e.g. regulation) on customers. 1 2 3 4 5 6 7

2. We are slow to detect changes in our customer’s preferences. 1 2 3 4 5 6 7

3. We are slow to detect functional shifts in our industry (e.g. competition, technology, regulation). 1 2 3 4 5 6 7

4. The management regularly discusses competitors’ strengths and weaknesses. 1 2 3 4 5 6 7

5. We regularly monitor and analyse our competitors’ marketing programs. 1 2 3 4 5 6 7

6. We measure customer satisfaction on a regular basis. 1 2 3 4 5 6 7

7. We have interdepartmental meetings at least once a month to discuss market trends and developments. 1 2 3 4 5 6 7

8. When something important happens to a major customer or market, the whole company knows about it in a short period. 1 2 3 4 5 6 7

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

9. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis. 1 2 3 4 5 6 7
10. When one department finds out something important about competitors, it is slow to alert other departments. 1 2 3 4 5 6 7
11. Marketing personnel in our business unit spend time discussing customers' future needs with other functional departments. 1 2 3 4 5 6 7
12. Market information is shared with all departments. 1 2 3 4 5 6 7
13. For one reason or another we tend to ignore changes in our customers' product or service needs. 1 2 3 4 5 6 7
14. We periodically review our product development efforts to ensure that they are in line with what customers want. 1 2 3 4 5 6 7
15. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately. 1 2 3 4 5 6 7
16. The activities of the different departments in this business unit are well coordinated. 1 2 3 4 5 6 7
17. Customer complaints fall on deaf ears in this business unit. 1 2 3 4 5 6 7
18. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion. 1 2 3 4 5 6 7
19. We are quick to respond to significant changes in our competitors' pricing structure. 1 2 3 4 5 6 7
20. When we find out that customers are unhappy with the quality of our services, we quickly take corrective action. 1 2 3 4 5 6 7

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

21. We provide our customers with a rapid and efficient after-sales service. 1 2 3 4 5 6 7
22. We regularly compare actual customer satisfaction assessments with our customer satisfaction objectives. 1 2 3 4 5 6 7
23. In this business unit analyses of deviation are based upon extensive information on *customers*. 1 2 3 4 5 6 7
24. In this business unit analyses of deviation are based upon extensive information on *competitors*. 1 2 3 4 5 6 7
25. In this business unit analyses of deviation are based upon basic market conditions. 1 2 3 4 5 6 7
26. In this business unit corrective action is taken immediately after the analysis of deviation has been terminated 1 2 3 4 5 6 7

II. Channel Relationships:

(Note: The following questions are concerned with the relationship with your current *main* supplier (manufacturer)).

Please indicate how many year(s) your organisation has been involved working with your *main* supplier. ()

- (1) 0-5 years (2) 6-10 years
(3) 11-19 years (4) over 20 years
(5) not sure

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

Relationship Construct Scales:

Communication:

27. It is expected that both companies will only provide information according to prespecified agreements. 1 2 3 4 5 6 7
28. We do not volunteer much information regarding our business to the main supplier. 1 2 3 4 5 6 7
29. We share proprietary information with the main supplier. 1 2 3 4 5 6 7
30. There are regular changes of information between our two companies at multiple levels and areas. 1 2 3 4 5 6 7
31. The main supplier keeps us informed about any change, question, or development that could be of interest. 1 2 3 4 5 6 7
32. The main supplier never hesitates to explain to us the pros and cons of the recommendations they make to us. 1 2 3 4 5 6 7
33. If we ask for some type of information, whether it is strategic, technical or operating, they supply it rapidly without any difficulty. 1 2 3 4 5 6 7

Shared values:

34. To succeed in this relationship, it is often necessary to understand and comprise one's ethics, customs and norms. 1 2 3 4 5 6 7
35. If an employee is discovered to have engaged in unethical behaviour that results primarily in personal gain (rather than corporate gain), he or she should be promptly reprimanded. 1 2 3 4 5 6 7

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

36. Employees at the main supplier have values similar to ours. 1 2 3 4 5 6 7

37. To succeed in this relationship, it is often necessary to have common goals. 1 2 3 4 5 6 7

38. To succeed in this relationship, it is often necessary to have common policies. 1 2 3 4 5 6 7

Trust:

39. Promises made by the main supplier are reliable. 1 2 3 4 5 6 7

40. The main supplier has knowledge about the market and market trends. 1 2 3 4 5 6 7

41. We believe the information that the main supplier provides us. 1 2 3 4 5 6 7

42. When making important decisions, the main supplier considers our welfare as well as its own. 1 2 3 4 5 6 7

43. Though circumstances may change, we believe that the main supplier will be ready and willing to offer us assistance and support. 1 2 3 4 5 6 7

44. Transactions with the main supplier have to be closely supervised. 1 2 3 4 5 6 7

45. We are convinced that the main supplier respects the confidentiality of the information they receive from us. 1 2 3 4 5 6 7

46. The main supplier is trustworthy. 1 2 3 4 5 6 7

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

Cooperation:

47. Our future goals are best reached by working with this rather than against the main supplier. 1 2 3 4 5 6 7

48. Our future profits are dependent on maintaining a good working relationship with the main supplier. 1 2 3 4 5 6 7

49. The main supplier will support our marketing activities. 1 2 3 4 5 6 7

50. We both work together to exploit unique opportunities. 1 2 3 4 5 6 7

51. Both companies participate in joint projects that are tailored to our needs. 1 2 3 4 5 6 7

52. The cooperation with the main supplier is such that each of us feels part of the other's organisation. 1 2 3 4 5 6 7

53. We both are cooperative and are concerned to take part in cooperative activities. 1 2 3 4 5 6 7

Commitment:

54. We defend the main supplier when outsiders criticize the firm. 1 2 3 4 5 6 7

55. We are continually on the lookout for another supplier to replace or to add to our current supplier. 1 2 3 4 5 6 7

56. If another supplier offered us better coverage, we would most certainly take them on, even if it meant dropping the main supplier. 1 2 3 4 5 6 7

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

57. We are patient with the main supplier when it makes mistakes that make us trouble. 1 2 3 4 5 6 7

58. We are willing to dedicate whatever people or resources it takes to grow sales for the main supplier. 1 2 3 4 5 6 7

59. The relationship that we have with the main supplier deserves our maximum effort to maintain. 1 2 3 4 5 6 7

Conflict:

60. The main supplier has had more than the usual amount of ups and downs in dealing with us. 1 2 3 4 5 6 7

61. We have survived some rocky periods with the main supplier. 1 2 3 4 5 6 7

62. In this relationship with the main supplier, differences of opinion between us often cause conflicts. 1 2 3 4 5 6 7

63. We have difficulty openly discussing solutions with the main supplier when problems arise. 1 2 3 4 5 6 7

Satisfaction:

64. We would discontinue selling the products manufactured by the main supplier if we could. 1 2 3 4 5 6 7

65. The main supplier provides us the services needed to perform our business operations. 1 2 3 4 5 6 7

66. The main supplier is a good company to do business with. 1 2 3 4 5 6 7

1	2	3	4	5	6	7
Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree

67. We would recommend other firms to do business with this supplier. 1 2 3 4 5 6 7

68. The personal working relationship with the main supplier is very satisfactory. 1 2 3 4 5 6 7

69. If we had to select a supplier again for the products, we would doubtlessly choose this current supplier. 1 2 3 4 5 6 7

-----The end of this questionnaire-----

I very much appreciate the time that you have taken to complete this questionnaire. To ensure all of your answers are valid, please check again if there is any answer missing or skipping.

To thank you for your participation, an option of the synthesized final result is offered. If you are interested in the final result of this survey, please put the email address where I can send it to. Once again, thanks very much for your time.

Your e-mail address: _____

Appendix III

Factor analysis of the market orientation construct

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.125	38.943	38.943	10.125	38.943	38.943	4.353	16.743	16.743
2	2.050	7.885	46.827	2.050	7.885	46.827	3.751	14.425	31.168
3	1.453	5.590	52.417	1.453	5.590	52.417	2.957	11.375	42.543
4	1.350	5.192	57.609	1.350	5.192	57.609	2.688	10.339	52.882
5	1.256	4.829	62.438	1.256	4.829	62.438	1.782	6.853	59.735
6	1.031	3.966	66.404	1.031	3.966	66.404	1.734	6.670	66.404
7	.994	3.823	70.228						
8	.851	3.275	73.503						
9	.745	2.865	76.368						
10	.701	2.695	79.063						
11	.608	2.338	81.401						
12	.563	2.166	83.567						
13	.540	2.079	85.646						
14	.496	1.908	87.554						
15	.458	1.763	89.317						
16	.406	1.563	90.879						
17	.347	1.333	92.212						
18	.326	1.254	93.467						
19	.278	1.070	94.536						
20	.260	.998	95.535						
21	.238	.917	96.452						
22	.221	.849	97.301						
23	.195	.749	98.050						
24	.187	.719	98.768						
25	.180	.691	99.460						
26	.141	.540	100.000						

Extraction Method: Principal Component Analysis

Communalities

	Initial	Extraction
MO 1	1.000	.667
MO 2	1.000	.841
MO 3	1.000	.830
MO 4	1.000	.723
MO 5	1.000	.761
MO 6	1.000	.704
MO 7	1.000	.722
MO 8	1.000	.673
MO 9	1.000	.648
MO 10	1.000	.410
MO 11	1.000	.595
MO 12	1.000	.665
MO 13	1.000	.606
MO 14	1.000	.598
MO 15	1.000	.591
MO 16	1.000	.567
MO 17	1.000	.625
MO 18	1.000	.629
MO 19	1.000	.613
MO 20	1.000	.593
MO 21	1.000	.660
MO 22	1.000	.714
MO 23	1.000	.719
MO 24	1.000	.617
MO 25	1.000	.718
MO 26	1.000	.777

Extraction Method: Principal Component Analysis

Component Matrix(a)

	Component					
	1	2	3	4	5	6
MO 26	.815					
MO 22	.807					
MO 25	.751					
MO 21	.750					
MO 6	.745					
MO 12	.742					
MO 5	.709		-.418			
MO 14	.706					
MO 20	.678					
MO 23	.674					
MO 4	.666		-.511			
MO 15	.662					
MO 17	.658					
MO 8	.645					-.476
MO 11	.642					
MO 9	.632					
MO 19	.629					
MO 16	.627					
MO 7	.623				.493	
MO 24	.603					
MO 3		.756				
MO 2		.732		.405		
MO 13		.568				
MO 18		.504				
MO 10						
MO 1	.553		-.561			

Extraction Method: Principal Component Analysis.
a. 6 components extracted.

Rotated Component Matrix (a)

	Component					
	1	2	3	4	5	6
MO 19	.696					
MO 25	.687					
MO 24	.678					
MO 15	.668					
MO 26	.629	.549				
MO 14	.568					
MO 22	.549			.444		
MO 9		.730				
MO 12		.653				
MO 11		.647				
MO 21	.462	.582				
MO 17		.547	.413			
MO 16		.537				
MO 20	.418	.471				
MO 10		.457				
MO 1			.774			
MO 4			.755			
MO 5			.716			
MO 7				.733		
MO 8				.681		
MO 23	.531			.629		
MO 6			.487	.565		
MO 3					.889	
MO 2					.889	
MO 18						.751
MO 13						.731

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 7 iterations.

Component Transformation Matrix

Component	1	2	3	4	5	6
1	.587	.529	.418	.414	.073	.156
2	-.255	-.013	.092	-.070	.761	.586
3	.441	.112	-.865	.038	.188	.091
4	.376	-.562	.178	.107	.494	-.506
5	.017	-.559	-.052	.621	-.294	.460
6	.504	-.282	.185	-.651	-.224	.397

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalization