

**THE IMPACT OF MARKET ORIENTATION AND CHANNEL RELATIONSHIP ON
FIRM PERFORMANCE: THE CHINESE DISTRIBUTOR/SUPPLIER PERSPECTIVE**

By

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ABSTRACT

THE IMPACT OF MARKET ORIENTATION AND CHANNEL RELATIONSHIP ON FIRM PERFORMANCE: THE CHINESE DISTRIBUTOR/SUPPLIER PERSPECTIVE

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This study investigates the role of market orientation and channel relationships in determining firm performance in a distributor group and a supplier group from the perspective of the reference group theory. Data were collected from Chinese retailer buyers or buying managers and supplier salespeople or sales managers. A path model with the mean score of items under each construct was estimated using EQS 6.1. Results suggest that in general, market orientation has a positive effect on relationship building for both distributor and supplier firms. Specifically, for both distributor and suppliers, we find that both market orientation of the focal firm and partner's market orientation execution perceived by the focal firm have a positive impact on satisfaction. Trust and commitment have a positive impact on long-term orientation. Satisfaction does not have a significant impact on long-term orientation for both types of firms. Distributor market orientation has a significant impact on long-term orientation, whereas supplier market orientation does not. Partner's market orientation execution has a significant impact on long-term orientation in the supplier group, but non-significant in the distributor group. Theoretical and managerial implications are provided. Limitations and future research directions are discussed.

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CHAPTER 1

INTRODUCTION

Significance of the Study

Long-term orientation is deeply embedded in the organizational culture of a firm that is market-oriented (Narver and Slater 1990) and it is proven to create the sustainable competitive advantage of a firm (Ganesan 1994). Given the essential role of long-term orientation in promoting superior channel performance, I look at how long-term orientation is built up among channel members. Long-term oriented relationships are based on a firm's satisfaction with previous interactions with partners. Presumably, an exchange partner's involvement in the relationship will reinforce the focal firm's intention of establishing long-term relationships by fostering the partner's trust and commitment toward the relationship. Therefore, as predicted by Reference Group Theory (Kelley 1965), an exchange partner's efforts in acquiring market information and its concern for the focal firm is expected to foster favorable relational outcomes among channel partners. Meanwhile, this long-term relationship is expected to contribute to both firms' performance. However, the extant knowledge of channel relationships lacks empirical evidence regarding how market orientation of channel members creates favorable channel relationships and how such relationships influence firm performance.

To fill this gap, we look at the supply chain relationships and explore how beneficial relationships are established through the market orientation activities of channel partners in an empirical investigation of suppliers and distributors. Although existing research suggests a positive association between a firm's level of market orientation and its exchange partner's trust and commitment toward the relationship (Siguaw et al. 1998), there is insufficient evidence demonstrating how various aspects of previous exchange activities impact different dimensions of relational outcomes. The literature has identified that satisfaction with a partner can be based

on both an economic and social perspective, and therefore economic satisfaction and social satisfaction become two distinct dimensions of satisfaction (Geyskens and Steenkamp 2000). On one hand, the focal firm's perception of the partner firm's market orientation execution signals the focal firm's affective concern and does not necessarily bring economic benefits into the relationship. On the other hand, the economic benefits that the focal firm receives from the partner are likely to foster a positive relationship from the economic perspective rather than from the affective perspective. I expect that both the economic and affective perspectives contribute to the long-term relationship between partners and eventually enhance firm performance. However, a lack of empirical research exists in this specific area, and although market orientation is widely recognized as an essential prerequisite of a firm's superior performance, the nature of how these mechanisms operate remains vague. Specifically, while existing research captures the relationship between relationship factors and market orientation, these analyses are primarily conceptual and methodologically qualitative (e.g., Elf 2007). These studies primarily emphasize inter-firm market orientation as an extension of traditional market orientation and the effect of vertical relationships on inter-firm market orientation. Therefore, investigating the role of the distributor-supplier relationship becomes critical for both partners to enhance their core competitiveness in the marketplace.

This study is based on two aspects of channel partners' previous interaction – what the partner did and what the partner brought to the relationship – and posit that the partner's market orientation execution influences the affective aspect but not the economic aspect of the relationship, whereas the role performance influences the economic aspect but not the affective aspect of the relationship. This study enriches the market orientation-performance literature by

integrating the role and process of relationship building between exchange partners and seeks to provide managerial implications for firms in the supply chain context.

Problem Statement

Market orientation has been recognized as an antecedent to superior firm performance by academicians and practitioners (e.g., Baker and Sinkula 2009, Zhou et al. 2008). Being market-oriented enables a firm to gain a wider exposure to market information about its external environment. Such exposure to market information accumulated in the process of the firm's everyday marketing practice gradually translates into superior performance outcomes.

Traditionally, market orientation encompasses a firm's concerns about the external environment, such as information about consumers and competitors. Approximately a decade after the market orientation concept originated, Bigne and Blesa (2003) argue that in order to achieve higher levels of performance outcomes, firms should emphasize on building favorable channel relationships in addition to market orientation. The most up-to-date notion of market orientation calls for the attention of multiple stakeholders such as customers, competitors and suppliers (Hult 2011). Likewise, Langerak (2001) indicates that market orientation failed to capture the various types of stakeholders and suggests that for instance, the stakeholders of manufacturers should include not only the competitors and consumers, but also the upstream suppliers, upstream competitors, downstream customers and downstream competitors. Such a broad view of market orientation suggests the need for the incorporation of market orientation into the channel context.

Indeed, literature on market orientation in the distributor-supplier context does not explain how market orientation of a firm and its exchange partner can influence the firm's performance as an outcome of relationship building between the firm and exchange partner. In this study, we define distributor as a retailer or wholesaler who selects products from suppliers

and sells them to end-users or downstream retailers. A majority of current studies that investigate the role of market orientation on firm performance overlook other possible explanations for superior performance. There are few studies that explore the role of the supply chain relationship and market orientation on firm performance. Siguaw et al. (1998) examine the effects of supplier market orientation on channel relationships and indicate that supplier market orientation positively impacts distributors' satisfaction with suppliers through enhanced trust, cooperative norms and commitment between channel members. Chung et al. (2011) take a retailer's perspective and suggest that retailers' market orientation positively impacts suppliers' market intelligence and role performance, which further contributes to retailers' economic and social satisfaction with suppliers. As an extension to the current market orientation – channel relationship framework, the proposed study also compares the potential differences of the market orientation and channel relationships between distributors and suppliers.

Market Orientation in Different Industries

A large number of market orientation studies are conducted in manufacturing and service industries. These studies find a positive impact of market orientation on firm performance in both manufacturing (e.g., Langerak 2001; Ngai and Ellis 1998) and service industries (e.g., Chang and Chen 1998; Egeren and O'Connor 1998). Kirca et al. (2005) compare the influence of market orientation on firm performance between manufacturing firms and service firms in a meta-analytical study and find that market orientation has a greater impact on manufacturing than service firms. Service provision is less tangible and requires a higher degree of customization, which increases the cost and reduces profits (Kirca et al. 2005). Therefore, market orientation in service firms functions as an approach for failure-prevention rather than profit maximization (Kirca et al. 2005).

Sigauw et al. (1998) first investigated the topic of retailer market orientation. The authors examined the effect of channel member market orientation in a supply chain relationship. This analysis established a relationship between supplier's market orientation and distributor's market orientation, suggesting that distributor's market orientation is influenced by supplier's market orientation, as implied by Reference Group Theory (Kelley 1965; Shibutani 1955). Elg (2007) contributes to the market orientation research and argues that a retailer's market orientation should include inter-organizational market orientation. This viewpoint expands market orientation to an inter-organizational context, emphasizing the role of an upstream supplier as part of market orientation for retailers. Consequently, retailing firms that compete for superior performance should consider their relationship with manufacturers/wholesalers in addition to the traditional competitive relationships with horizontal firms.

The retailing industry differs from other types of industries in that retailers act as assemblers of goods by selecting the appropriate assortment from available products. Such a function enables the retailer to perform its boundary-spanning roles between customers and manufacturers (Narayandas et al. 2002). Yao et al. (2009) find that the boundary-spanning position of a retailer/distributor enhances the performance of the retailer/distributor. Retailer's boundary-spanning position as a unique type of resource connects manufacturers to consumers by adding service to the manufacturers' products. The Resource-Based View (RBV) of the firm posits that firms utilize tangible and/or intangible resources that are rare, valuable, imperfectly imitable and non-substitutable to achieve sustained competitive advantage (Barney 1991). Intangible resources in the supply chain context include relationships established among channel partners and information sharing. Therefore, the boundary-spanning role of the retailer ultimately creates necessary conditions for achieving superior firm performance.

The service provision of a retailer can be depicted by the Service-Dominant Logic (S-D logic) of marketing (Vargo and Lusch 2004), which emphasizes a firm's service provision in addition to the tangible goods. S-D logic also argues for the co-creation of value and relationships among stakeholders. A retailer's stakeholders involve customers and suppliers. As the most basic aspect of market orientation, customer orientation requires a firm to collect and utilize information through constant interaction with its customers. During this process, the retailer accumulates intangible resources, such as knowledge and skills. Such accumulated information regarding customers becomes the firms' intangible assets and can be exploited in future value-creation processes. Under S-D logic, service is defined as the application of intangible knowledge and skills and is perceived as a part of the value-creation process, therefore, customers become the co-creators of value (Lusch et al. 2008).

As Vargo and Lusch (2004) suggest, a service-centered view is inherently customer-oriented and relational. Retailing firms provide a bundle of products and services to customers, therefore, being service-oriented requires concern for upstream producers and downstream users. Consequently, the relational concern for retailing firms extends to the retailers' interaction with suppliers. It can be expected that retailing firms need to consider both traditional customer orientation and channel relationship in order to create higher value. S-D logic differentiates retailers from manufacturers and pure service providers and calls for attention to stakeholder relationships. Traditional market orientation conceptualization considers end-users and competitors as players in the market (Kohli and Jaworski 1990; Narver and Slater 1990), whereas for retailers, their external market includes not only the downstream consumers, but also the upstream manufacturers and/or suppliers. Similarly, market orientation of manufacturers/suppliers involves both competitor and customer orientation. In contrast to

retailers, manufacturers do not have direct interaction with consumers. Besides competitor orientation, most manufacturers need to have close interaction with channel partners who build a bridge connecting manufacturers with consumers. Therefore, in order to achieve superior performance, manufacturers should not ignore relationship building with retailers.

Overall, existing market orientation research in the distributor-supplier context has not yet compared how distributors and suppliers in the channel environment seek to achieve financial and market-level success. In this study, we explore the interplay of market orientation and channel relationships in determining the performance of both supplier and distributor firms. Specifically, in addition to the widely studied relationship between market orientation and firm performance, we look into how firm's market orientation and its partner's market orientation execution perceived by the focal firm influence the channel relationships such as satisfaction and trust, which further establish partners' commitment and long-term orientation. In addition, in the research framework that encompasses both market orientation and channel relationship, it is expected that both market orientation and a long-term oriented relationship with the exchange partner contributes to the firm's performance. The hypothetical framework (Figure 2-1 and 2-2) proposed in this study depicts the relationships between channel relationships and different dimensions of market orientation, and their joint impact on firm performance.

CHAPTER 2

LITERATURE REVIEW

Conceptualizations of Market Orientation

Two dominant conceptualizations of market orientation exist in the marketing literature: Kohli and Jaworski's field perspective (Kohli and Jaworski 1990) and Narver and Slater's behavioral components and decision criteria (Narver and Slater 1990). The field perspective views market orientation as composed of three components: 1) organizational wide generation of market intelligence, involving generating intelligence about customers' current and future needs, which can be carried out in multiple departments of an organization, such as within marketing and R&D (Kohli and Jaworski 1990), 2) dissemination of intelligence across departments, which requires horizontal communication to take place both within and between departments in order to accomplish organizational goals (Kohli and Jaworski 1990), 3) organizational wide responsiveness to the intelligence, which refers to the organization's response to the market that receives the intelligence that was generated and disseminated by the organization in the review stage (Kohli and Jaworski 1990).

In contrast to the field perspective, Narver and Slater (1990) propose that market orientation involves three behavioral dimensions: 1) customer orientation, 2) competitor orientation, and 3) interfunctional coordination. A competitor-oriented firm understands the internal weakness and strength of the firm, as well as the external threats and opportunities with regard to the market and competitor firms, and this allows the firm to develop a comparative advantage (Narver and Slater 1990). A customer-oriented firm understands customer needs and creates superior value based on these needs (Narver and Slater 1990). Interfunctional coordination requires the firm to integrate and utilize resources at the firm level so that different

functions throughout the organization are able to thoroughly share information and resources (Narver and Slater 1990).

From the field perspective, a market-oriented firm emphasizes understanding customer needs, taking actions to satisfy their needs, and actively seeking information about competitors so as to take the necessary actions. The operationalization of Narver and Slater's (1990) market orientation concept suggests that both customer and competitor orientation involve generating and disseminating intelligence. Interfunctional coordination refers to the integration of different departments for goal achievement. This dimension suggests that a market-oriented firm shares and integrates customer and competitor information between different functional departments.

Cadogan and Diamantopoulos (1995) integrate the two conceptualizations into a single framework, suggesting that these two conceptualizations measure the same information from different standpoints. Specifically, the process of intelligence generation, intelligence dissemination, and responsiveness includes both customer and competitor orientation (Cadogan and Diamantopoulos 1995). In addition, Narver and Slater (1990) include two decision criteria as the components of market orientation: long-term focus and profit focus, whereas Cadogan and Diamantopoulos (1995) suggest that profitability is viewed as a consequence rather than a component of market orientation, and that long-term focus should also be separated from the behavioral dimensions. A close examination of Kohli et al. (1993) in comparison to Narver and Slater's (1990) operationalization of market orientation reveals that each of these measurement scales include customer oriented intelligence generation, competitor oriented intelligence generation, customer oriented intelligence dissemination, competitor oriented intelligence dissemination and customer oriented responsiveness and competitor oriented responsiveness.

Therefore, both scales measure the same pieces of information, but categorize the measurement items differently.

In the empirical research of market orientation, Narver and Slater's (1990) market orientation scale (MKTOR) and Kohli et al.'s (1993) market orientation scale (MARKOR) are the two major operationalizations that researchers adopt. Deshpandé and Farley (1998) indicate that both scales are valid and reliable, and are well-generalized into international contexts. Narver and Slater's (1990) MKTOR scale takes a stakeholders' approach which measures a firm's market orientation on different stakeholders separately, allowing us to test the impact of different dimensions of market orientation on channel relationship. For this reason, I adopt Narver and Slater's (1990) MKTOR scale in this study.

Hypotheses Development

Since the 1990s, market orientation has been widely studied in the marketing field (e.g., Narver and Slater 1990; Kohli and Jaworski 1990). A wide variety of research has investigated the relationship between market orientation and firm performance and found that market orientation has a significant and positive impact on performance (Baker and Sinkula 2009; Ledwith and O'Dwyer 2009; Low et al. 2007; Morgan et al. 2009; Wong and Ellis 2007; Zhou et al. 2004; Zhou et al. 2008). These studies find that market orientation has a significant impact on different performance indicators such as financial performance, market-level performance, innovativeness, and product quality. For instance, Wong and Ellis (2007) find a significant association between market orientation and financial performance as measured by profitability, Return on Assets (ROA), sales volume, and market-level performance, as measured by market growth and market share in Hong Kong firms. Furthermore, Zhou et al. (2008) find that market orientation strongly impacts product quality and employee satisfaction in Chinese firms.

Similarly, Low et al. (2007) find that market orientation impacts small- and medium-size enterprises's (SMEs) product innovativeness in Australian firms. Ledwith and O'Dwyer (2009) find a significant impact of market orientation on small firm new product performance. Morgan et al. (2009) suggest that market orientation has a significant impact on both subjective and objective (e.g., ROA) measures of firm performance. However, some research that adopts multiple indicators of performance consistently finds differing levels of relationship strength between market orientation and various measures of performance. Baker and Sinkula (2009) find that market orientation has a strong impact on profitability, but its impact on innovation success is non-significant. Langerak (2003) finds that customer orientation and competitor orientation have a positive effect on firm's differentiation advantage that influences the organizational performance, whereas interfunctional coordination has a positive effect on low cost advantage. This might be due to a specific industry type or product type. For instance, in Baker and Sinkula's (2009) study, the authors look at small business. It may be easier for market orientation to take effect in a smaller organization. Langerak (2003) looks at new product, which may require a closer focus on customer needs and competitor actions.

The conceptual models (Figure 2-1 and 2-2)¹ of this study depict the impact of market orientation on firm performance and channel relationships. I propose separate models from the perspective of suppliers and distributors, respectively. In the following section, I review the literature and discuss the hypothetical relationships between market orientation and resulting consequences.

¹ In the hypotheses, s denotes supplier and d denotes distributor.

Figure 2-1 The Impact of Distributor Market Orientation on Channel Relationships and Firm Performance

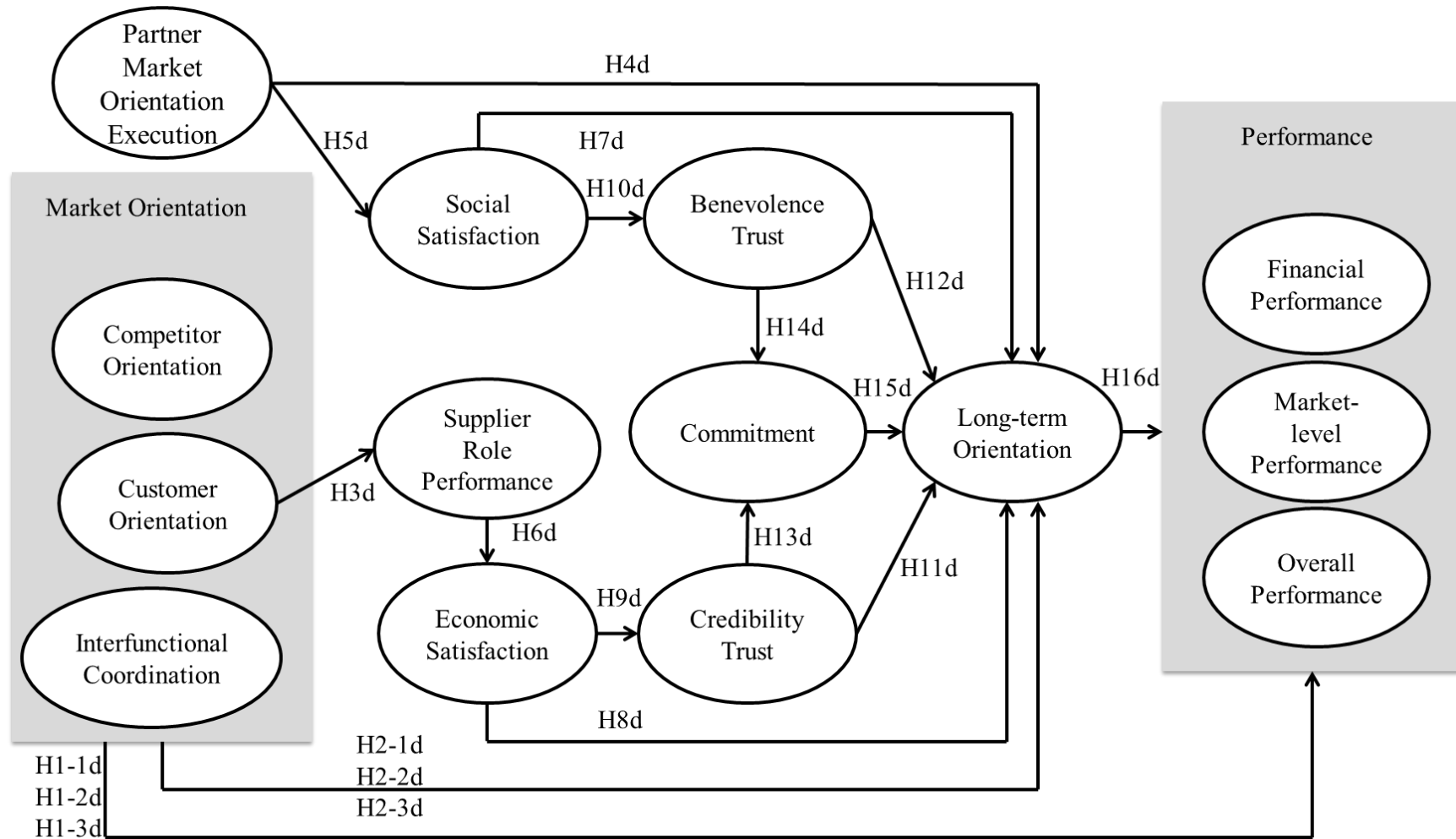
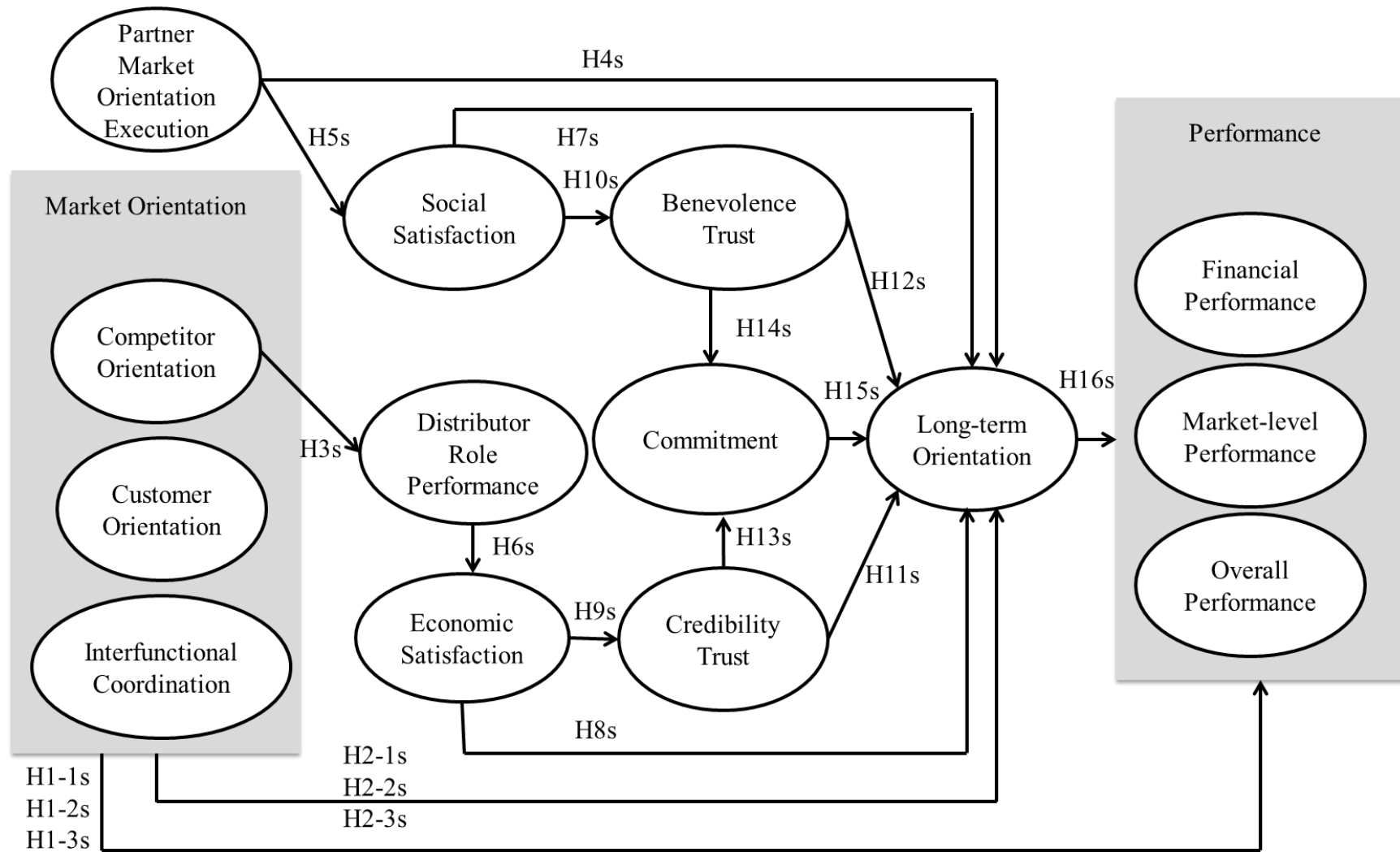


Figure 2-2 The Impact of Supplier Market Orientation on Channel Relationships and Firm Performance



Market Orientation → Performance

Porter (1985) originally developed the notion of competitive advantage, which occurs when a firm pursues a strategy by utilizing its resources to achieve either cost reduction or superior value compared to its competitors in the same industry. Such resources that firms utilize must be valuable, rare, inimitable and non-transferable and can be tangible or intangible (Barney 1991). Consumer markets are segmented in nature. In order to satisfy the target segments, firms are advised to utilize resources and produce tailored products and/or services. As the Competitive Advantage Theory postulates, every firm possesses some unique resources. Presumably, firms outperform their competitors by either achieving superior value or reducing costs (Hunt and Morgan 1995). Therefore, either cost reduction or superior value translates into the firm's competitive market position (Hunt and Morgan 1995). However, firms should realize that advantageous resources cannot create competitive market position without effective exploitation of the firm's resources. From the standpoint of market orientation, firms who possess relevant market information as a resource advantage must effectively utilize the information in order to achieve competitiveness.

Market orientation guides a firm's use of market information in order to capture customer preference and competitor moves. However it should also be noted that market orientation, as a comparative advantage of the firm, could encompass a wider variety of stakeholders besides customers and competitors. The focal firm should also incorporate stakeholders, such as upstream suppliers and/or downstream distributors, in order to obtain a broader scope of market information. For instance, a market-oriented manufacturer who has close interaction with distributors and end-users may have the competitive advantage of offering products that market segments desire before its competitor figures this out. Competitor firms, who are also market-

oriented but relatively weak in R&D, may follow the leading firm. Alternatively, these manufacturers may pursue a cost efficiency strategy, which can also lead to profitability and higher market share. A distributor, on the other hand, has direct interaction with customers, and is able to gather direct feedback. Information accumulated during the process of the distributor-customer interaction enables the retailer to adjust its product offerings and service provision. Consequently, distributors who exert and learn from market orientation are expected to outperform the competitors. It is hypothesized that:

H1d: Distributor market orientation (1-1d: competitor orientation; 1-2d: customer orientation; 1-3d: interfunctional coordination) will have a positive impact on distributor's 1) financial performance, 2) market-level performance and 3) overall performance.

H1s: Supplier market orientation (1-1s: competitor orientation; 1-2s: customer orientation; 1-3s: interfunctional coordination) will have a positive impact on supplier's 1) financial performance, 2) market-level performance and 3) overall performance.

Market Orientation → Long-term Orientation

Deshpandé et al. (1993) and Slater and Narver (1995) describe market orientation as an organizational culture that explains what to do and how to do it. From the organizational culture perspective, market orientation represents the firm's shared values and beliefs, which are valuable, inimitable and non-transferrable resources as defined by resource-based view (RBV) (Wernerfelt 1984). This cultural perspective of market orientation is deeply embedded in the firm and shapes firm's behavior at the organizational and personal level. Therefore, a market-oriented culture enables the firm to highly value market orientation and emphasize it. Song and Parry (2009) suggest that a firm's desired level of market orientation positively impacts its achieved level of market orientation. Homburg and Pflesser (2000) find that a market-oriented culture

impacts financial performance through market performance, and that this impact is stronger in highly dynamic markets. In Narver and Slater's (1990) conceptual framework of market orientation, the authors identify long-term focus as a dimension of market orientation, whereas Cadogan and Diamantopoulos (1995) argue that long-term focus should be the cultural perspective of a firm instead of a distinct dimension of market orientation. A market-oriented culture emphasizes the acquisition, utilization and accumulation of market knowledge. Presumably, firms with such a cultural perspective are less likely to seek short-term profitability, since information is costly and valuable. As a result, firms who possess market information are expected to develop a long-term relationship with cooperative partners.

Social Network Theory suggests that strong ties between social actors (channel members in this study) increase the sharing of sensitive information (Frenzen and Nakamoto 1993; Hansen 1999; Rindfleisch and Moorman 2001). However, in a channel relationship context, Rindfleisch and Moorman (2001) argue that social actors in a horizontal relationship (e.g, between two suppliers or between two distributors) may feel less motivated to share information because they might share similar linkages and access to information that results in knowledge redundancy. In addition, their business relationships are more competitive rather than cooperative. Consequently, with less information overlapped, the ties between a supplier and a distributor can be considered a stronger tie that generates a larger amount of information. Consequently, we can expect that a market-oriented manufacturer is more likely to develop a long-term relationship with its distributors and by the same token, a market-oriented distributor is more likely to develop a long-term relationship with its manufacturers. It is hypothesized that:

H2d: Distributor market orientation will have a positive impact on its long-term orientation with the supplier.

H2s: Supplier market orientation will have a positive impact on its long-term orientation with the distributor.

Distributor Customer Orientation → Supplier Role Performance

Customer orientation has been widely identified as the key to success in the service industry (e.g., Brown et al. 2002; Donovan et al. 2004; Kelley 1992). Similar to the service industry, retailing offers a combination of product and service to customers, making customer orientation an equally critical determinant of retailer's performance. In contrast to the suppliers, distributors generally have direct access to customers, making it easier for the distributors to collect and utilize customer information and provide timely feedback to suppliers. Such information would potentially benefit the suppliers in their product adjustment and improvement.

Role performance refers to how well a channel member carries out its channel role (Frazier 1983). Role performance of a partner not only influences the rewards and economic outcomes received from the partner, but also facilitates favorable channel relationships. Sternquist and Chen (2006) find that supplier role performance (e.g., product quality) has an essential influence on the channel relationship and that a market-oriented retailer emphasizes more on supplier role performance than retailers who are less market-oriented. Therefore, role performance can be viewed as reciprocity that a customer-oriented retailer expects from a supplier. The flow of customer information from the distributor to the supplier enables the supplier to adjust and improve their products. In return, the supplier will be expected to perform its channel role in favor of the distributor. Reciprocally, a supplier may also use a set of role performance criteria to evaluate its distributors. Therefore, the influence of distributor role performance among suppliers is expected to occur in a similar way. However, there is a lack of

investigation of distributor role performance in the literature. We kept this relationship open and explored this concept in the next chapter.

H3d: Distributor's customer orientation will have a positive impact on the supplier's role performance.

Supplier Competitor Orientation → Distributor Role Performance

A stakeholder's approach of market orientation (Narver and Slater 1990) considers a firm's market orientation regarding different market players. Dev et al. (2009) find that in circumstances where customer orientation has a higher payoff, focusing on competitors diminishes performance, whereas in a market where competitor orientation has a higher payoff, focusing on customers diminishes performance. These findings suggest that certain types of markets or industries may produce more efficient outcomes by focusing on one type of market orientation dimension. In the channel context, suppliers and distributors have different roles in obtaining information and therefore have different knowledge bases regarding the external market. A supplier/manufacturer's role as the producer enables the supplier/manufacturer to acquire product-specific information, including creating better product attributes that are able to outperform competitors' products. Such information, when utilized effectively, can translate into product superiority. In addition, Lukas and Ferrell (2000) find that competitor orientation increases the introduction of me-too products to the market. With me-too products, a distributor will be able to compare the performance of alternative products from different suppliers. Consequently, the retailer can expect to benefit from economic outcomes generated by the supplier.

H3s: Supplier's competitor orientation will have a positive impact on the distributor's role performance.

Partner's Market Orientation Execution → Long-term Orientation

The relationship between a supplier and a distributor within a supply chain can be depicted by Reference Group Theory. Shibutani (1955) describes a reference group as comprised of members that share similar norms and values. A reference group has a normative function and a comparative function (Kelley 1965). The normative function of a reference group guides people to adhere to the norms established by the group; whereas the comparative function of a reference group enables outsiders to evaluate themselves based on the behavioral norms of the reference group (Kelley 1965).

Accordingly, the functions of Reference Group Theory can also be expected to take place in channel relationships (Siguaw et al. 1998). As suggested by Reference Group Theory, a channel member who demonstrates a higher level of input to achieving the common goal will be identified as the reference group and have the power to influence its exchange partner. As such, Siguaw et al. (1998) and Shin et al.'s (2000) finding that a partner's market orientation can positively influence the focal firms market orientation and firm performance is supported.

In addition, information sharing is more effective between vertical partners than horizontal competitors. Although channel partners in a vertical supply chain relationship have individual goals, they differ from horizontal relationships in that they share common goals, such as increased market share and sales volume, making the relationship between a supplier and a distributor cooperative rather than competitive. Therefore, being aware that the vertical partner will be more likely to disclose market information, the focal firm will believe that such relationship is enduring and beneficial. Besides the willingness to share market information, a supplier and a distributor have access to different aspects of market information, which are otherwise difficult for the channel partner to obtain. For instance, a market-oriented supplier may

have product-related information, such as competitor firms' products or alternative products, whereas a distributor may have consumer-related information, such as consumer brand choice. Therefore, a distributor who may have difficulties in obtaining product-related information is highly likely to team up with a supplier or manufacturer who has direct exposure to products per se. Similarly, a supplier who has less interaction with end-users will feel it necessary to cooperate with distributors in order to approach end-users through distributors. Such a relationship offers benefits to both firms, and since a supplier and a distributor do not compete with each other, information sharing between them is reliable. Therefore, it can be expected that firms who have a market-oriented exchange partner are willing to maintain the relationship and continuously benefit from one another. It is hypothesized that:

H4d: The supplier's market orientation execution will have a positive impact on the distributor's long-term orientation with the supplier.

H4s: The distributor's market orientation execution will have a positive impact on the supplier's long-term orientation with the distributor.

Partner's Market Orientation Execution → Social Satisfaction

Satisfaction refers to the confirmation or disconfirmation of expectations (Oliver and DeSarbo 1988; Tse and Wilton 1988). By comparing expectations with performance, an expectation is either confirmed or disconfirmed, which further leads to satisfaction or dissatisfaction. In channel relationships, satisfaction is identified as one of the most fundamental constructs (Ruekert and Churchill 1984). Geyskens et al. (1999) distinguish two types of satisfaction – economic satisfaction and noneconomic satisfaction in marketing channel relationships and find that studies that operationalize satisfaction from an economic perspective have different results from those adopting a social perspective. The authors conclude that non-

economic satisfaction is a distinct construct and each satisfaction type should occupy a unique position in a nomological network (Geyskens and Steenkamp 2000). Economic satisfaction is defined as a channel member's evaluation of the exchange partner's economic outcomes, such as effectiveness and productivity (Geyskens et al. 1999; Geyskens and Steenkamp 2000). Being economically satisfied with an exchange partner guarantees favorable financial outcomes and goal achievement (Geyskens et al. 1999). Noneconomic satisfaction is referred to as social satisfaction, and comes from affective attachment (e.g., being respectful and concerned) with an exchange partner on a personal level. As such, a socially satisfied partner is not expected to take advantage of the relationship (Geyskens et al. 1999).

As previously mentioned, channel members in a supply chain network are highly likely to favor partnerships that have the potential to create more information opportunities because such market-oriented channel partners are believed to be highly involved in the exchange relationship and are less likely to seek short-term benefits. A market-oriented distributor who actively collects information about consumers and competitor firms will be able to provide its supplier or manufacturer with the most updated market information regarding the product. Such information enables the manufacturer to adjust its product offerings or make necessary product improvements. Similarly, a market-oriented manufacturer should be more knowledgeable about the product per se, as well as competitors' alternative products. Such knowledge adds to the distributor's scope of product specifications. Since the information that the partner shares with the focal firm is otherwise difficult for the focal firm to obtain, the focal firm will feel that its partner is doing a favor. Consequently, when a focal firm perceives its exchange partner as market-oriented, it would appreciate its partner's efforts to collect market information. However, it must also be noted that the partner's market orientation execution may not necessarily reflect the effectiveness

of the information that its partner collects and shares. So partner's market orientation execution should not predict the potential economic satisfaction of the focal firm. I hypothesize that only social satisfaction is impacted by the partner's market orientation execution.

H5d: The supplier's market orientation execution will have a positive impact on the distributor's social satisfaction with the supplier.

H5s: The distributor's market orientation execution will have a positive impact on the supplier's social satisfaction with the distributor.

Partner's Role Performance → Economic Satisfaction

Heide and John (1990) suggest that a higher level of joint action makes a firm rely on its partner's role performance in its decision-making. A distributor's economic performance is partially based on the product and supplier, therefore, the distributor evaluates a supplier's role performance based on criteria such as product quality, brand awareness, product delivery and margin for the retailer (Chung et al. 2011). As a result, a supplier with favorable role performance is expected to make the distributor economically satisfied.

Frazier (1983) includes supplier role performance as one of the criteria to assess supplier effectiveness and suggests that supplier role performance measures the supplier's contribution to the distributor. Compared to partner's market orientation execution, role performance is a more direct evaluation of the economic benefits from the supplier. On the other hand, suppliers assist distributors in order to maintain the viable outlets for the supplier's products in the long-term (Brown et al. 1995). Therefore, I hypothesize that a firm's role performance will have a positive impact on its partner's economic satisfaction. This does not necessarily involve the supplier's affective concern for the distributor. Hence, the relationship between a firm's role performance and its partner's social satisfaction is not proposed.

H6d: Supplier's role performance will have a positive impact on the distributor's economic satisfaction with the supplier.

H6s: Distributor's role performance will have a positive impact on the supplier's economic satisfaction with the distributor.

Social Satisfaction → Long-term Orientation

Long-term orientation between a supplier and a distributor in a channel relationship reduces transaction costs by eliminating the uncertainty and risks associated with new relationships (Ganesan 1994). Such cost reduction creates a comparative advantage for the firm, therefore, firms desire long-term orientation (Hunt and Morgan 1995). A distributor's long-term relationship with a supplier enables the distributor to receive merchandise in short supply, guarantees the best price and good product quality, and provides efficient distribution (Ganesan 1994). On the other hand, a manufacturer also desires long-term relationships with a distributor due to the switch of power in the marketplace (Zhuang and Zhou 2004). Specifically, channel power has gradually switched from manufacturers to retailers, and manufacturers are beginning to realize that they will have to compete with one another in order to get their merchandise into stores (Sternquist and Chen 2006). From this perspective, a long-term relationship with retailers becomes a resource advantage for the manufacturers. Supply chain partners with a long-term orientation focus on maximizing profits over a series of relational exchanges, working together to serve the target market, and achieving mutual profitability, whereas supply chain partners with short-term orientation seek profitability in a single transaction (Ganesan 1994). Therefore, a long-term relationship between the supplier and distributor establishes a competitive advantage for both parties.

Satisfaction with an exchange partner reflects the evaluation of previous transactions. A satisfied relationship with an exchange partner determines the likelihood of maintaining this channel relationship. Lusch (1976) suggests that satisfaction reduces conflicts among channel members and promotes channel efficiency. Social satisfaction happens when one party in the supply chain believes that its exchange partner is concerned about mutual benefits and will not behave opportunistically. Therefore, a market-oriented manufacturer/distributor is expected to voluntarily share market information with its partners, making partners feel more confident about future transactions (Chung et al. 2011). Such confidence reduces the partner's uncertainty about doing business with the manufacturer/distributor. Therefore, channel members who are happy with the channel relationship are highly likely to remain in the relationship (Geyskens and Steencamp 2000). It is hypothesized that:

H7d: Distributor's social satisfaction with the supplier will have a positive impact on distributor's long-term orientation toward the supplier.

H7s: Supplier's social satisfaction with the distributor will have a positive impact on supplier's long-term orientation toward the distributor.

Economic Satisfaction → Long-term Orientation

Geyskens and Steenkamp (2000) argue that economic satisfaction is conceptually different from social satisfaction because it is an outcome of a partner's evaluation of sales volume, margins and discounts. Economic satisfaction is derived from the effectiveness and productivity of a relationship, which leads to favorable financial outcomes and future expectations (Geyskens et al. 1999). As a result, a channel partner's use of non-coercive power, such as providing rewards, increases the economic satisfaction of the focal firm. On the other hand, economic satisfaction reduces conflicts between channel members and helps solve

relational problems (Ping 1997). Similarly, Geyskens and Steenkamp (2000) find that since economic satisfaction relates to the economic outcomes of a partner firm, it has an essential impact on the survival and duration of a channel relationship. It is hypothesized that:

H8d: Distributor's economic satisfaction with the supplier will have a positive impact on the distributor's long-term orientation toward the supplier.

H8s: Supplier's economic satisfaction with the distributor will have a positive impact on the supplier's long-term orientation toward the distributor.

Economic Satisfaction → Credibility Trust

Transaction cost analysis (TCA) (Coase 1937, Williamson 1975) proposes that marketing exchange activities are associated with significant transaction costs, such as search costs, contracting costs and coordination costs. These costs determine whether the firm should outsource or produce products/services by itself. Similarly, transaction costs occur when a channel member terminates an existing relationship with an exchange partner and searches for a new one. Establishing trust based on previous interactions with an exchange partner eliminates transaction costs and enhances performance.

Trust is conceptualized as one party's confidence in an exchange partner's reliability and integrity (Morgan and Hunt 1994). Trust helps establish a cooperative relationship between the distributor and the supplier and plays a central role in relationship marketing (Morgan and Hunt 1994). A higher level of trust between organizations is linked to higher predictability of a firm's behavior toward its exchange partner (Gulati and Nickerson 2008) and eliminates the opportunistic behavior that takes advantage of the relationship (Doney and Cannon 1997).

The relationship between satisfaction and trust in a marketing channel relationship is well-established in the literature, and the results indicate a strong and positive association

between satisfaction and trust (e.g., Geyskens et al. 1999). Bigne and Blesa (2003) indicate that satisfaction with a relationship influences the trust between exchange partners. For instance, Geyskens et al. (1999) suggest that satisfaction with a relationship developed from past interactions positively impacts trust. Selnes (1998) indicates that retailer's satisfaction with a supplier enhances the retailer's trust in the supplier. In a business-business relationship, Caceres and Paparoidamis (2007) find that satisfaction with a relationship positively influences the trust and commitment to the exchange partner.

Ganesan and Hess (1997) argue that interpersonal trust between a salesperson and a buyer can be based on either credibility or benevolence. Credibility trust refers to the reliability and predictability of the exchange partner's behavior, whereas benevolence trust refers to the concern and care of the exchange partner and is unrelated to the financial goals of the firm (Ganesan and Hess 1997). Siguaw et al. (1998) indicates that both benevolence trust and credibility trust toward an exchange partner enables the firm to work more diligently with its exchange partner. However, the extant literature that confirms the association between satisfaction and trust (Bigne and Blesa 2003; Caceres and Paparoidamis 2007; Geyskens et al. 1999; Selnes 1998) does not look into the different types of satisfaction (social satisfaction and economic satisfaction) and their relationships to different types of trust (benevolence trust and credibility trust) in the relationship.

Economic satisfaction is established based on the economic benefits that the partner firm brings to the focal firm. As previously mentioned, a distributor's economic satisfaction with a supplier can be based on the supplier's product quality, product delivery, distributor's margin as promised, among other factors, and a supplier's economic satisfaction toward a distributor can be based on the slotting fees that the distributor charges and the ease of getting onto the retailer's

shelf. A firm that receives economic benefits from its partner will feel that the relationship is secure, because the economic input of its partner firm becomes sunk costs if the partner hurts the relationship. As TCA suggests, the economic input of the partner firm will lock the focal firm into a secure relationship and will foster the focal firm's belief that its partner is reliable and trustworthy. Therefore, a firm who routinely meet its exchange partner's expectations regarding performance outcomes will gain credibility trust from its exchange partner. It is hypothesized that:

H9d: Distributor's economic satisfaction with the supplier will have a positive impact on the distributor's credibility trust toward the supplier.

H9s: Supplier's economic satisfaction with the distributor will have a positive impact on the supplier's credibility trust toward the distributor.

Social Satisfaction → Benevolence Trust

Doney and Cannon (1997) examine the trust-building process between a supplier and a distributor and suggest that factors that invoke trust-building include the supplier firm's willingness to customize products and share information. Consequently, a market-oriented distributor or supplier that is concerned about its exchange partners will actively seek and share customer information and its exchange partners will tend to affectively favor such a supplier or distributor.

Nicholson et al. (2001) find that a favorable interpersonal relationship between the seller and the buyer in a marketing channel greatly contributes to trust between two parties. Baker et al. (1999) find that supplier's market orientation signals the retailer that the supplier is trustworthy, because market orientation enables the supplier to better serve consumers' needs, which enhances the retailer's satisfaction. Similarly, when a distributor is perceived to execute market

orientation activities, the supplier will be socially satisfied with the distributor. Consequently, the supplier will feel secure that it will not be taken advantage of and will affectively trust the distributor. Therefore, I hypothesize that a higher level of social satisfaction with the partner firm is positively associated with benevolence trust in the partner firm. It should be noted that social satisfaction is based on affective concerns and therefore should not be related to economic benefits. Therefore, social satisfaction will not impact credibility trust of the firm. It is hypothesized that:

H10d: Distributor's social satisfaction with the supplier will have a positive impact on the distributor's benevolence trust toward the supplier.

H10s: Supplier's social satisfaction with the distributor will have a positive impact on the supplier's benevolence trust toward the distributor.

Credibility Trust → Long-term Orientation

The relationship between trust and long-term orientation is depicted by transaction cost analysis (TCA) that belongs to the New Institutional Economics paradigm (Rindfleisch and Heide 1997). In contrast to neoclassical economics, which views a firm as having a pure production function, TCA views a firm as a governance structure (Rindfleisch and Heide 1997). Williamson (1975, 1981) broadens Coase's (1937) original framework of TCA by suggesting that firm's transaction costs include both direct costs, such as managing the channel relationships, as well as opportunity costs of alternative decision-making, which implies two dimensions of transaction costs – asset specificity and uncertainty (Rindfleisch and Heide 1997). A trustworthy channel relationship is partially determined by satisfaction with channel partners, which is based on previous interactions. Therefore, trust becomes the intangible asset of a firm and such an asset reduces the potential opportunity costs associated with alternative decision-making. Rindfleisch

and Heide (1997) indicate that TCA can be applied to firms' vertical integration. Jowskow (1987) investigates the impact of asset specificity on the length of contracts between firms and finds that exchange partners perceive it as more advantageous to maintaining a long-term relationship, rather than repeated bargaining. Hence, firms who trust their exchange partners will be reluctant to invest in searching for new and uncertain relationships.

Trust comes into play when decision-making is under bounded rationality (when exchange partners' behavior is uncertain). Long-term orientation between channel members is established when the focal firm believes that the joint outcome of the relationship will benefit the firm in the long run (Ganesan 1994). Ganesan (1994) suggest that a focal firm's trust in an exchange partner reduces the perceived risk associated with opportunistic behaviors, and consequently facilitates the long-term orientation of the focal firm. Consequently, establishing trust between channel members is expected to reduce the transaction costs associated with incomplete contracting (Ganesan 1994). As a result, the focal firm that trusts its exchange partners tends to develop a long-term orientation with the exchange partner. Credibility trust toward a channel partner is based on the fulfillment of a channel role, such as supplier's product quality, product delivery, distributor's margin as promised and distributor's charging of slotting fees, and the easiness of getting a product onto the retailer's shelf. Credibility trust between a supplier and a distributor helps eliminate risks and opportunistic behavior of the partner. Therefore, it is expected that such a relationship between channel partners reduces transaction costs associated with negotiating and uncertainty. Eventually, both parties will find it advantageous to establish a long-term relationship with each other. It is hypothesized that:

H11d: Distributor's credibility trust toward the supplier will have a positive impact on the distributor's long-term orientation with the supplier.

H11s: Supplier's credibility trust toward the distributor will have a positive impact on the supplier's long-term orientation with the distributor.

Benevolence trust → Long-term orientation

Benevolence trust is based on one party's care and concern for the other party. Similar to the role of credibility trust, benevolence trust between channel members can also eliminate transaction costs by reducing a partner's opportunistic behavior. Nicholson et al. (2001) explore the interpersonal relationship between a buyer and a salesperson and indicate that keeping promises and being honest plays an essential role in building trust and toward developing a long-term relationship.

The relationship between benevolence trust and long-term orientation can be explained by reciprocity, a strong social norm that binds people who are connected by certain relationships (Lee and Dawes 2005). Under reciprocity, once a channel member receives affective care and concern from the exchange partner, it will feel obligated to return the favor when opportunity presents itself. Sternquist et al. (2010) find that retailer market orientation and supplier market orientation are correlated, suggesting that one party will return the favor if it perceives that the other party cares about the mutual benefits. Reciprocal behavior in channel relationships facilitates the survival of each party, as well as the group (Lee and Dawes 2005). Long-term orientation is related to interdependency of mutual benefits (Kelley and Thibaut 1978). Lee and Dawes (2005) indicate that the retailer's gain is partly dependent on the supplier's gain. Therefore, the distributor who trusts the supplier in its work for joint gains is expected to develop long-term orientation with the supplier. On the other hand, a long-term oriented distributor may feel obligated to provide favorable conditions to the supplier. For instance, distributor's benevolence trust may make it easier for the manufacturer's products to get onto the distributor's

shelves. Therefore, reciprocal favor from the exchange partner facilitates the long-term relationship between channel partners. It is hypothesized that:

H12d: Distributor's benevolence trust toward the supplier will have a positive impact on the distributor's long-term orientation with the supplier.

H12s: Supplier's benevolence trust toward the distributor will have a positive impact on the supplier's long-term orientation with the distributor.

Credibility Trust → Commitment

Morgan and Hunt (1994) suggest that trust and commitment are the key elements to marketing, and that relationship commitment is central to relationship marketing because commitment facilitates the maintenance of a firm's relationship with its exchange partner and resists short-term profitability and opportunism. Therefore, trust and commitment are perceived to promote efficiency, productivity and effectiveness (Morgan and Hunt 1994). Morgan and Hunt (1994) indicate that trust and commitment are influenced by relationship termination costs, relationship benefits, shared values, communication and opportunistic behavior. An exchange partner who terminates a relationship and seeks an alternative is faced with extra transaction costs associated with a new relationship. In addition, the benefits from a trustworthy exchange partner directly impact the focal firm's commitment to the relationship (Morgan and Hunt 1994). Hrebiniak (1974) indicates that trust between parties is so highly valued that both parties will desire to commit themselves to such relationships. Achrol (1991) posits that trust is a major determinant of relationship commitment. Moorman et al. (1993) investigate the relationship between trust and commitment among marketing research users and find that trust affects users' commitment to the research relationship.

In relationship marketing, trust and commitment are considered key to success since they facilitate long-term cooperation between channel members and eliminate opportunistic behavior that seeks short-term attractiveness (Morgan and Hunt 1994). Commitment is defined as an endured desire and the willingness to make efforts to maintain a relationship (Morgan and Hunt 1994). Relationship commitment occurs when an exchange partner believes that an ongoing relationship is so important that it warrants maximum efforts to maintain the relationship (Morgan and Hunt 1994). Channel members that trust each other will desire to commit to the relationship (Ganesan 1994; Morgan and Hunt 1994). Gao et al. (2005) suggest that retail buyer's trust in a supplier reduces the buyer's decision-making uncertainty, since the supplier always knows more about the product per se. On the other hand, the supplier may not know as much about consumers as a retailer who has more direct interaction with consumers. Therefore, a supplier who has a trustworthy distributor would benefit from the market knowledge that the distributor has, and would conveniently acquire consumer information from the distributor. Xiao et al. (2010) investigate the interpersonal trust among team members and found that trust significantly influences commitment.

Taking benevolence trust and credibility trust separately, a credible partner who shows consistent reliability tends to gain commitment from the focal firm because the focal firm would feel secure in terms of expected financial outcomes. Ganesan and Hess (1997) find that interpersonal credibility between a salesperson and a buyer is a crucial antecedent of commitment. Credibility trust among channel members guarantees the quality of the relationship and further strengthens the firm's commitment toward the relationship. Gao et al. (2005) indicate that credibility trust reduces the buyer's decision-making uncertainty. As previously mentioned, credibility trust can be built through economic satisfaction with partners. An economically

satisfied relationship convinces the firm that its partner is making efforts and contributing to the relationship. Therefore, such a relationship is worth maintaining. It is hypothesized that:

H13d: Distributor's credibility trust toward the supplier will have a positive impact on the distributor's commitment toward the supplier.

H13s: Supplier's credibility trust toward the distributor will have a positive impact on the supplier's commitment toward the distributor.

Benevolence Trust → Commitment

Studies that investigate the relationship between trust and commitment tend to operationalize trust from the perspective of credibility trust (e.g., Gao et al. 2005). Benevolence trust among channel members, on the other hand, is based on affective concern and care. Ganesan and Hess (1997) suggest that commitment between organizations is established by demonstrating a genuine concern for their partners. A benevolent partner will not take advantage of the relationship and hurt the focal firm (Andaleeb 1995). Therefore, the focal firm will feel safe to commit to the relationship because it will believe that the partner is not self-interested. Abdul-Muhmin (2005) also finds that the buyer's perception of the supplier's benevolence trust has a significant impact on the buyer's relationship commitment toward the supplier. This implies that a distributor would be likely to commit to an exchange relationship if it sees the exchange partner cares about both parties' benefits. Consequently, channel members will avoid the risk of exiting an exchange relationship if that relationship is favorable. It is hypothesized that:

H14d: Distributor's benevolence trust toward the supplier will have a positive impact on the distributor's commitment toward the supplier.

H14s: Supplier's benevolence trust toward the distributor will have a positive impact on the supplier's commitment toward the distributor.

Commitment → Long-term Orientation

The Commitment-Trust Theory of marketing (Morgan and Hunt 1994) indicates a negative relationship between relationship commitment and propensity to leave. Since terminating a relationship and seeking a new one is costly, firms desire relationship stability (Morgan and Hunt 1994). In consumer research, it is suggested that a higher level of commitment is associated with future intention (Garbarino and Johnson 1999). When applying this interpersonal relationship to a supplier-distributor context, the relationship between the supplier and the distributor in a specific transaction is similar to the interpersonal relationship between the salesperson and the buyer. Consequently, one channel member's commitment to the exchange partner is expected to increase the likelihood of future transactions, and would accordingly reinforce the long-term orientation of the supplier. Morgan and Hunt (1994) suggest that channel partners who are committed to the exchange relationship are expected to have shared value and smooth communication established throughout previous interactions. Therefore, it can be expected that such a relationship would eliminate inconsistencies and risks in future transactions and would have the potential to develop long-term relationships. Perry et al. (2004) examine the relationship between horizontal strategic alliance members and indicate that relationship commitment enhances the effectiveness of the alliance within a technologically uncertain environment. Along the lines of this same logic, a manufacturer in an uncertain environment desires a long-term relationship with its distributor. In order to reduce this uncertainty, a manufacturer who doesn't receive consumer feedback as immediately as a distributor does should be willing to build a long-term relationship with the distributor. On the

other hand, a distributor who commits to a relationship would be highly likely to receive favorable offerings from the manufacturer compared to a new distributor. It is hypothesized that:

H15d: Distributor's commitment toward the supplier will have a positive impact on the distributor's long-term orientation with the supplier.

H15s: Supplier's commitment toward the distributor will have a positive impact on the supplier's long-term orientation with the distributor.

Long-term Orientation → Firm Performance

Transaction Cost Analysis (TCA) posits that transaction costs, such as information acquisition, potential risks and negotiation costs are associated with all exchange activities (Williamson 1975, 1981). Consequently, maintaining a cooperative relationship with an exchange partner helps reduce transaction costs for both parties. In a long-term oriented supply chain relationship, exchange partners do not focus on the profitability of a single transaction. Rather, they rely on relational exchanges to maximize their profits, as well as mutual performance throughout a series of transactions (Ganesan 1994). A supplier with long-term orientation cares more about end-users' current and future needs, which motivates information exchange between the supplier and distributor. Carr and Pearson (1999) indicate that buyer-supplier relationships and strategically-managed relationships positively impact the firm's financial performance. Hahn et al. (1986) suggest that a firm's competitiveness in the business environment depends on its ability to provide long-term cost reduction and improved efficiency. Kelly and Thibaut (1978) suggest that a long-term oriented partner expects favorable joint outcomes in the long run. From the perspective of firm profitability, a firm should minimize transaction costs by maintaining partnerships if the firm is satisfied with the current partners. Therefore, long-term orientation with an exchange partner is expected to enhance the firm's

financial performance. Narver and Slater (1990) find that long-term focus should be one of the decision-making criteria of market-oriented firms, implying that market-oriented firms are expected to be long-term oriented with their exchange partners. Long-term orientation with vertical channel members also provides the focal firm with competitive advantages to compete with other firms at the same level of the supply chain, so enhancing the market-level performance (such as market share growth) of the focal firm.

A long-term relationship between the supplier and distributor also contributes to supplier's inventory management. A long-term oriented supplier-distributor relationship facilitates the mutually supportive behavior between exchange partners. Das and Goyal (1989) indicate that the synchronization of the supply chain benefits the manufacturing firms because such coordination effectively controls supplier inventory by accurately estimating the inventory of both supplier and distributor and reducing the production lead-time (Shin et al. 2000). It is hypothesized that:

H16d: Distributor's long-term orientation with the supplier will have a positive impact on the distributor's 1) financial performance, 2) market-level performance and 3) overall performance.

H16s: Supplier's long-term orientation with the distributor will have a positive impact on the supplier's 1) financial performance, 2) market-level performance and 3) overall performance.

CHAPTER 3

METHODS

Study Context

This study was conducted in China and data were collected from Chinese suppliers and distributors. The rationale for the study setting is presented as follows.

China's retail industry has gone through huge developments since the past decade. China's retail sales used to be controlled by the Ministry of Commerce (now Ministry of Domestic Trade). This system, known as *fenpei*, was comprised of a high degree of central planning and political and administrative allocation. Since there was a shortage of goods, demand exceeded supply to a large degree. Under this situation, there was no competition among manufacturers and among retailers. Therefore, there was virtually no need for manufacturers or retailers to be market-oriented. It was not until the 1990s that foreign firms were allowed to set up joint ventures (JVs) in retailing, bringing the need for advanced marketing perspectives. As a result, competition gradually came into play in the Chinese market (Sternquist, 2007). Before the mid-1990s, there were no commercial buyers in Chinese retail stores. Product assortment was based on government allocation, so there was no attempt to match product offerings to customer needs. After the late 1990s, the entry of foreign investments greatly accelerated the marketization and modernization of the Chinese retail industry (Sternquist, 2007). Local retailers in China began to face competition from foreign retailers who provided higher value at a lower price. During that time, the original sellers' market gradually evolved into a buyers' market, and products were no longer in short supply (Sternquist, 2007). Increased consumer demand for product variety and choices became evident. Therefore, manufacturers and retailers came to realize the importance of differentiating their product offerings. This required an intensive

investigation into customer needs and competitor activities. Consequently, market orientation became a potential competitive advantage for both manufacturers and retailers in China.

The development of China's economy has led to more cross-cultural research in the marketing field (Sternquist et al. 2007). Since then, Chinese firms have begun to realize the importance of market orientation and product differentiation. Sternquist and Chen (2006) suggest that retail buying behavior in China is similar to that of the West. Therefore, investigating market orientation research framework within the Chinese retail environment would provide a fruitful comparison to the U.S. and other European countries where market orientation and channel relationships are more frequently studied. Since there is no measurement scale that is specifically developed for China, instruments developed in the Western literature are adopted in this study.

Survey Instruments

The data were collected using survey questionnaires. Measures of the items were mainly adopted from existing and well-established scales within the literature. When multiple scales were available, they were compared and evaluated so that the most appropriate measurement for a construct was adopted. The questionnaires were developed in English and translated into Chinese using the double-blind back-translation method by two retailing graduate alumni from Michigan State University. In the trust and long-term orientation scale, the word *retailer* in the original scale was replaced by *distributor* to keep the wording consistent. As discussed before, distributor in this study is referred to as an agent that can be a retailer or wholesaler who selects products from suppliers and sells them to end-users or downstream retailers. At the beginning of the questionnaire, the respondents were asked to think of a supplier/distributor he/she dealt with and respond to the questions regarding this relationship.

Measures

Market orientation of the firm, from the stakeholder's perspective, was measured using Narver and Slater's (1990) MKTOR scale. *Customer orientation* was measured by six items (Cronbach's alpha = .854; Cronbach's alpha^D = .916; Cronbach's alpha^S = .906²). *Competitor orientation* was measured by four items (Cronbach's alpha = .716; Cronbach's alpha^D = .719; Cronbach's alpha^S = .765). *Interfunctional coordination* was measured by five items (Cronbach's alpha = .711; Cronbach's alpha^D = .877; Cronbach's alpha^S = .817). These items were measured on a 7-point Likert scale (see Table 3-2 for sources and reliability scores of the scales).

Economic satisfaction and *social satisfaction* measures were adopted from Geyskens and Steenkamp (2000), using five items respectively. Geyskens and Steenkamp (2000) developed the scale of economic and social satisfaction based on the distributors' evaluation of suppliers (factor loadings between .622 - .912; CFI = .950). Therefore, the questions were rephrased for the suppliers' group. Economic satisfaction (Cronbach's alpha^D = .877; Cronbach's alpha^S = .884) and social satisfaction (Cronbach's alpha^D = .872; Cronbach's alpha^S = .881) were measured using five items on a 7-point Likert scale.

Credibility trust and *benevolence trust* measures were adopted from Ganesan (1994), including distributor's credibility trust in the supplier (seven items) (Cronbach's alpha = .900; Cronbach's alpha^D = .937), supplier's credibility trust in the distributor (four items) (Cronbach's

² Cronbach's alpha denotes the alpha value of the original scale; D denotes distributor group; S denotes supplier group.

alpha = .800; Cronbach's alpha^S = .875), distributor's benevolence trust in the supplier (five items) (Cronbach's alpha = .880; Cronbach's alpha^D = .893) and supplier's benevolence trust in the distributor (three items) (Cronbach's alpha = .760; Cronbach's alpha^S = .800). All the items were measured on a 7-point Likert scale.

Distributor's long-term orientation and *supplier's long-term orientation* measures were adopted from Ganesan (1994), using seven and six items respectively (Distributor's long-term orientation: Cronbach's alpha = .940; Cronbach's alpha^D = .894; Supplier's long-term orientation: Cronbach's alpha = .830; Cronbach's alpha^S = .940). All the items are measured on a 7-point Likert scale.

Commitment measures were adopted from Morgan and Hunt (1994) using seven items measured on a 7-point Likert scale. Morgan and Hunt (1994) developed the scale of relationship commitment based on the retail firm's relationship with its major supplier. Although the questions were designed for the distributor group, none of these questions contains distributor- or supplier-specific information, making it possible to revise the original scale to fit both a supplier and distributor groups without sacrificing any item. Therefore, both distributor's commitment and supplier's commitment scales were adopted from Morgan and Hunt (1994) with seven items, respectively, using a 7-point Likert scale (Cronbach's alpha = .895; Cronbach's alpha^D = .927; Cronbach's alpha^S = .942).

Partner's market orientation execution measures were adopted from Baker, Simpson and Siguaw (1999) using nine items on a 7-point Likert scale (Cronbach's alpha = .830; Cronbach's alpha^D = .915; Cronbach's alpha^S = .902). Baker et al.'s (1999) study measures the supplier's

perception of its distributor's market orientation activities. In our questionnaire for the distributor group, the word *distributor* was replaced by *supplier* instead.

Supplier role performance measures were developed from 16 in-depth interviews of Chinese retailer buyers/managers selected from the top 100 retailers (Sternquist and Chen 2006). Based on the interviews, a retailer evaluates its supplier based on product uniqueness, delivery of goods, well-known/respected brand, product quality and reasonable margin for retailer (Sternquist and Chen 2006). In this study, in order to test a parallel model that includes *distributor role performance*, we interviewed three people who have experiences in working with retail buyers and asked about their suggestions on the criteria of a distributor that may attract a supplier. We first interviewed a professor who previously worked for manufacturers, provided him with the supplier role performance scale for reference and asked him to think of a list of criteria that a supplier might use to evaluate its distributor. Then we provided the supplier role performance criteria to two Chinese sales managers from Chinese suppliers, interviewed them by telephone and asked them to list the corresponding role performance criteria of a distributor. Several common items were brought up by different interviewees. For instance, all of them mentioned reasonable margin for the supplier, retailer store location, retailer's expertise and familiarity with local market, reputation and sales volume. We incorporated their responses and developed a 5-item scale for distributor role performance (physical position of the retail store, well-known/respected retailer brand name, retailer's knowledge about the segment, sales volume and reasonable margin for supplier). Both supplier role performance and distributor role performance were measured on a semantic differential scale composed of five items each with -5 = very poor through 0 = average performance to 5 = very good.

Performance measures were adopted from multiple sources. Financial measures were adopted from Matsuno et al.'s (2000) measures on the business unit's return on assets (ROA), return on sales (ROS), return on investment (ROI) and sales growth relative to major competitors on a 7-point Likert scale (1 = far below competitors, 7 = far above competitors) as well as Li and Calantone's (1998) measure of before-tax profit (from lowest 20% to top 20% with equal interval). Market-level performance measures were adopted from Matsuno et al.'s (2000) measure on the business unit's market share growth in its primary market last year. Market share growth was measured on a 7-point Likert scale (1 = far below competitors, 7 = far above competitors). It should be noted that although market share percentage is a common performance measure, it might be a less valid measure among firms that vary in size. Therefore we adopted the market share growth measure. Overall performance measures were adopted from Jaworski and Kohli (1993), assessing the firm's performance of the business unit last year and the firm's performance relative to major competitors last year. Jaworski and Kohli (1993) adopted a 5-point Likert scale, which was modified to be a 7-point Likert scale in this study. These performance measures are subjective because certifiable objective performance measures are almost impossible to obtain and literature shows that subjective measures are correlated with objective measures of performance (Dess and Robinson 1984; Slater and Narver 1994).

Data Collection

To ensure the appropriate wording and readability of the questionnaires in the foreign context, the questionnaires were first pretested on two retailer buying managers and two supplier sales managers. Feedback from the pretest revealed no major problems. However, the respondents provided two minor suggestions. First, reversed items are difficult to interpret in Chinese. Accordingly, we changed all the reversed items. Second, one of the financial

performance measures is on a percentile scale, whereas most other items are on a 7-point Likert scale, and two respondents commented that it would seem more consistent to rate the statements on the same scale. Therefore, we changed the percentile scale to 7-point Likert scale for this financial performance indicator. We asked ten supplier salespersons and ten retail buyers to fill out the revised questionnaires and asked for their comments. No problems were detected in this stage. Therefore, we used the revised questionnaires for data collection.

Collecting firm-level data in China is difficult (Lucas, Tan and Hult 2001). Since a national list of Chinese retailers and suppliers is not available, we were not able to collect a national random sample. Therefore, we utilized personal connections, including a professor from the Chinese Academy of Social Sciences, a university professor, a research executive from a market research company, a buying manager from a large domestic supermarket, a high-level manager of a regional furnishing and home appliances market association and several retail buyers and supplier sales managers. These connections helped us approach the potential respondents of both samples.

Data collection took about 4.5 months from early March to mid-July 2012 which was derived via an online survey at www.surveymonkey.com, as well as from emails and mail/printouts. All the respondents were contacted and agreed to participate in the survey, therefore, we have a response rate of 100%. A total of 198 distributor questionnaires and 171 supplier questionnaires were returned, with 189 (95.45%) and 165 (96.49%) usable responses respectively. Among the distributors, there were 22 online responses, 4 email responses and 163 mail responses. Among the suppliers, there were 16 online responses, 6 email responses and 143 mail responses. We compared the data collected from different sources by comparing the means and standard deviations of all the common variables with an interval measurement scale and did

not find major differences among sources in terms of item means and standard deviations. Therefore, all the responses were pooled.

There is a large amount of demographic information missing in the distributor sample (Table 3-1). In order to evaluate potential bias in the distributor sample, we compared the distributor sample with the supplier sample by conducting a Kolmogorov-Smirnov (K-S) test on the sample distribution (using the percentages out of the total responses). The number of non-responses in the supplier sample is small, so we took out the non-responses and compared the responses between two samples. In the K-S test, a significant p value means that two groups are different. The results indicated that there was no difference ($p = .819$), leading to the conclusion that sample distribution was the same when the non-responses were excluded. The respondents of the distributor group mainly consist of buyers and senior-level managers/executives who are familiar with the buying process. The respondents of the supplier group mainly consist of salespersons and senior-level managers/executives in the sales function of the company. The majority of the respondents have been working in the current company for at least three years and over 60% of the respondents have been working in their current position for at least three years. The average length of employment in the current company is 5.2 years for the distributor group and 6.2 years for the supplier group. The average length of employment in the current position is 3.6 years for the distributor group and 4.1 years for the supplier group. Therefore, the respondents are considered to have adequate knowledge to enable them to answer the questions in the survey.

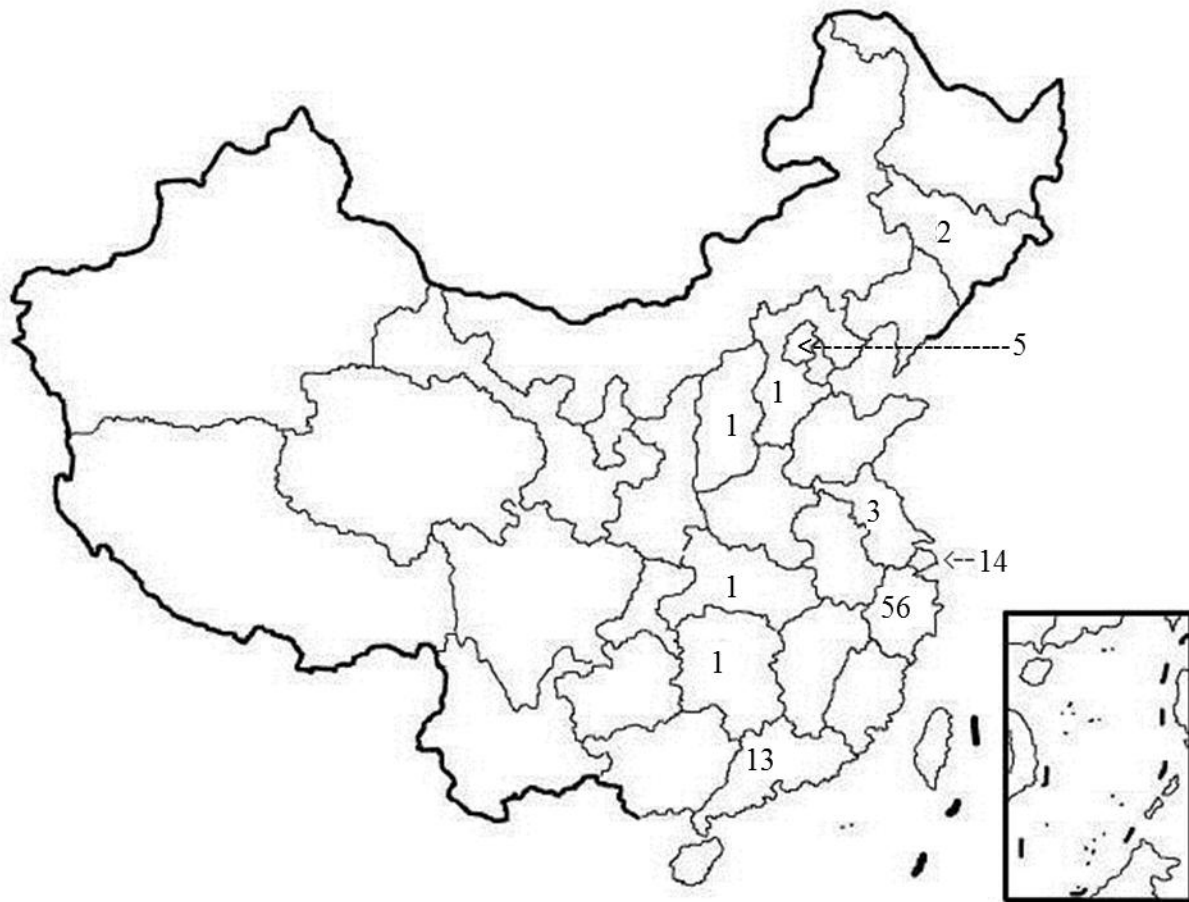
The companies involved in this study are mainly small-size companies, and they are geographically dispersed along the east coast of China. There is a wide variety of product types

involved in this study, including electronics, food products, office products and industrial products. See Table 3-1 and Figure 3-1 for sample descriptions and geographic locations.

Table 3-1 Sample Description

	Distributor (n = 189)		Supplier (n = 165)	
	Frequency	%	Frequency	%
Number of years in company				
0.5 – 2	23	12.2	15	9.1
3 – 5	38	20.1	73	44.2
6 – 10	29	15.3	44	26.7
>10	6	3.2	16	9.7
No response	93	49.2	17	10.3
Number of years in position				
0.5 – 2	37	19.6	40	24.2
3 – 5	41	21.7	83	50.3
6 – 10	13	6.9	22	13.3
>10	2	1.1	4	2.4
No response	96	50.8	16	9.7
Number of employees in the branch				
A (1 – 200)	76	40.2	97	58.8
B (201 – 500)	5	2.6	27	16.4
C (> 500)	14	7.4	21	12.7
No response	94	49.7	20	12.1
Company ownership				
Foreign investment	2	1.1	4	2.4
Joint ventures	4	2.1	20	12.1
Private	49	26.3	75	39.7
Stakeholder-owned	12	6.3	24	14.5
State-owned	4	2.1	10	6.1
Others	2	1.1	8	4.8
No response	116	61.4	24	14.5
Position of respondents				
Management	44	23.3	85	51.5
Buyer	17	9.0	49	29.7
Others	15	7.9	9	5.5
No response	113	59.8	22	13.3

**Figure 3-1 Geographical Distribution of the Distributor Sample
(by province)**



**Figure 3-2 Geographical Distribution of the Supplier Sample
(by province)**

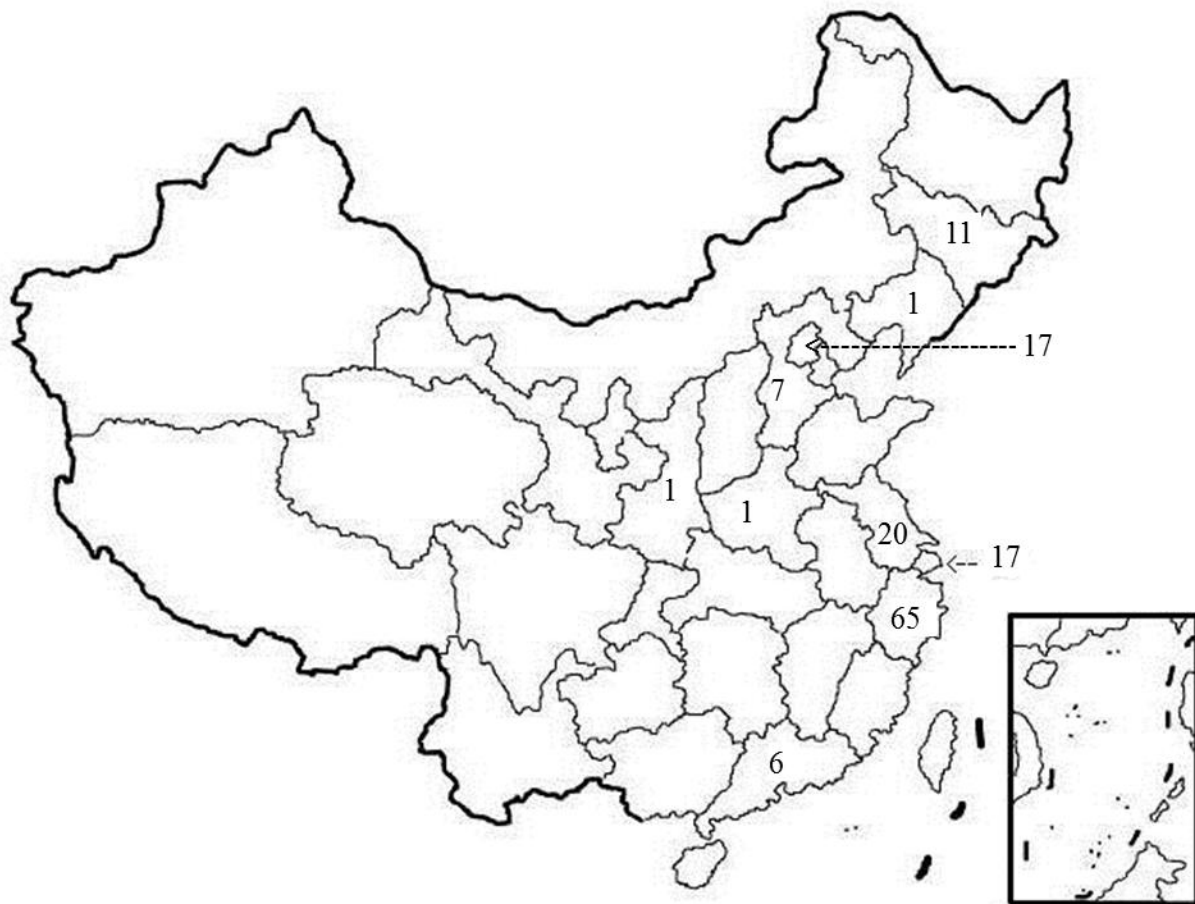


Table 3-2 Measurement Scales

Measurement Scales (Original Cronbach's Alpha)	Cronbach's 3 Alpha
Market Orientation (Narver and Slater 1990) 1 = strongly disagree, 7 = strongly agree	
<i>Customer Orientation</i> (.854)	
Our business objectives are driven by customer satisfaction.	D: .916
We monitor our level of commitment and orientation to serving customers' needs.	S: .906
Our strategy for competitive advantage is based on our understanding of customer needs.	
We measure customer satisfaction systematically and frequently.	
We give close attention to after-sale service.	
<i>Competitor Orientation</i> (.716)	
Our sales people share information within our business concerning competitors' strategies. ⁴	D: .719 (.830)
We respond to competitive actions that threaten us.	S: .765
We target customers and customer groups where we have, or can develop, a competitive advantage.	(.689)
The top management team regularly discusses competitors' strengths and strategies.	
<i>Interfunctional Coordination</i> (.711)	
Our top managers from every function visit our current and prospective customers.	D: .877 S: .817
We communicate information about our successful and unsuccessful customer experiences across all business functions.	
All of our business functions (e.g., marketing/sales, manufacturing, R&D, finance/accounting, etc.) are integrated in serving the needs of our target markets.	
All of our managers understand how everyone in our company can contribute to creating customer value.	
Satisfaction (Geyskens and Steenkamp 2000) Factor Loadings (.622 – .912)	
1 = strongly disagree, 7 = strongly agree	
<i>Economic Satisfaction</i>	
My relationship with this supplier has provided me with a dominant and profitable market position.	D: .877 S: .884
My relationship with this supplier is very attractive with respect to discounts.	
I am very pleased with my decision to distribute this supplier's products since their high quality increases customer traffic.	

³ D denotes distributor group; S denotes supplier group; Parenthesis denotes scale reliability after deletion.

⁴ Statements that were deleted.

Table 3-2 (Cont'd)

Measurement Scales Cont'd (Original Cronbach's Alpha)	Cronbach's⁵ Alpha
<i>Economic Satisfaction</i>	
The marketing policy of this supplier helps me to get my work done effectively.	
This supplier provides me with marketing and selling support of high quality.	
<i>Social Satisfaction</i>	
The working relationship of my firm with this supplier is friendly.	D: .872
This supplier expresses criticism tactfully.	S: .881
Interaction between my firm and this supplier are characterized by mutual respect.	
This supplier is open about things I ought to know.	
This supplier explains the reasons for its policies.	
Distributor's Trust in Supplier (Ganesan 1994) 1 = strongly disagree, 7 = strongly agree	
<i>Credibility Trust</i> (.900)	D: .937
This resource's representative has been frank in dealing with us.	
Promises made by this resource's representative are reliable.	
This resource's representative is knowledgeable regarding his/her products.	
This resource's representative does not make false claims.	
This resource's representative is open in dealing with us.	
If problems such as shipment delays arise, the source's representative is honest about the problems.	
This resource's representative has no problem answering our questions.	
<i>Benevolence Trust</i> (.880)	
This supplier has made sacrifices for us in the past.	D: .893
This supplier cares for us.	
In times of shortages, this supplier has gone out on a limb for us.	
This supplier is like a friend.	
We feel this supplier has been on our side.	
Supplier's Trust in Distributor (Ganesan 1994) 1 = strongly disagree, 7 = strongly agree	
<i>Credibility Trust</i> (.800)	
The buyer representing this distributor has been frank in dealing with us.	S: .875
Promises made by the buyer representing this distributor are reliable.	
The buyer representing this distributor is knowledgeable regarding his/her products.	
The buyer representing this distributor has no problem understanding our position.	

⁵ D denotes distributor group; S denotes supplier group.

Table 3-2 (Cont'd)

Measurement Scales Cont'd (Original Cronbach's Alpha)	Cronbach's 6 Alpha
<i>Benevolence Trust</i> (.760)	
The buyer representing this distributor has made sacrifices for us in the past.	S: .800
The buyer representing this distributor cares for my welfare.	
In times of delivery problems, the buyer representing this distributor has been very understanding.	
Distributor's Long-term Orientation (Ganesan 1994) (.940)	
1 = strongly disagree, 7 = strongly agree	
We believe that over the long run our relationship with this resource will be profitable.	D: .894
Maintaining a long-term relationship with this resource is important to us.	(.911)
We focus on long-term goals in this relationship.	
We are willing to make sacrifices to help this resource from time to time.	
We are concerned with both our and our supplier's outcomes in this relationship.	
We expect this resource to be working with us for a long time.	
Any concessions we make to help this resource will even out in the long run. ⁷	
Supplier's Long-term Orientation (Ganesan 1994) (.820)	
1 = strongly disagree, 7 = strongly agree	
We believe that over the long run our relationship with the distributor will be profitable.	S: .940
Maintaining a long-term relationship with this distributor is important to us.	
We focus on long-term goals in this relationship.	
We are willing to make sacrifices to help this distributor from time to time.	
We share our long-term goals with this distributor.	
We would like to develop a long-term relationship with this distributor.	
Commitment (Morgan and Hunt 1994) (.895) 1 = strongly disagree, 7 = strongly agree	
The relationship that my firm has with my major supplier/distributor:	D: .927
-is something we are very committed to.	S: .942
-is something my firm intends to maintain indefinitely.	
-deserves our firm's maximum effort to maintain.	
-is very important to my firm.	
-is very significant to us.	
-is very much like being family.	
-is something my firm really cares about.	

⁶ D denotes distributor group; S denotes supplier group; Parenthesis denotes scale reliability after deletion.

⁷ Statements that were deleted.

Table 3-2 (Cont'd)

Measurement Scales Cont'd (Original Cronbach's Alpha)	Cronbach's⁸ Alpha
Partner's Market Orientation Execution (Baker et al. 1999) (.830)	
1 = strongly disagree, 7 = strongly agree	
Our distributor/supplier's products and service development are based on good market and customer information.	D: .915 (.904)
Our distributor/supplier knows its competitor well.	S: .902
Our distributor/supplier has a good sense of the value we place on products and services.	(.903)
Our distributor/supplier is more customer-focused than their competitors.	
Our distributor/supplier competes primarily based on product or service differentiation.	
Our distributor/supplier believes the customer's interest should always come first, ahead of the distributor's interest. ⁹	
Our distributor/supplier's products/services are the best in the business.	
Our distributor/supplier believes its business exists primarily to serve customers.	
Manufacturer Role Performance (Sternquist and Chen 2006) -5 = very poor, +5 = very good	
Unique products	
Delivery of goods	
Well-known/respected brand	
Product quality	
Reasonable margin for retailer	
Distributor Role Performance -5 = very poor, +5 = very good	
Physical position of the retail store	
Well-known/respected retailer brand name	
Retailer's knowledge about the segment	
Sales volume	
Reasonable Margin for supplier	
Firm performance 1 = far below competitors, 7 = far above competitors	
<i>Overall Performance (Jaworski and Kohli 1993)</i>	
Overall performance of the business unit last year	
Overall performance relative to major competitors last year	
<i>Financial Performance (Li and Calantone 1998; Matsuno et al. 2000)</i>	
Before-tax profit	
Our business unit's Return on Assets (ROA) relative to major competitors last year	

⁸ S denotes supplier group; Parenthesis denotes scale reliability after deletion.

⁹ Statements that were deleted.

Table 3-2 (Cont'd)

Measurement Scales Cont'd

Financial Performance

Our business unit's Return on Sales (ROS) relative to major competitors last year

Our business unit's Return on Investment (ROI) relative to major competitors last year

Our business unit's sales growth relative to major competitors last year

Market-level Performance (Matsuno et al. 2000)

Our business unit's market share growth in our primary market last year

To conclude, we collected the data for this study from 189 Chinese distributors and 165 Chinese suppliers located in China. These data were obtained from several different sources including an online survey, by email and by mail. We did not find major differences among different sources of data. Therefore, we continued with the data analysis.

CHAPTER 4

ANALYSIS AND RESULTS

Initial Data Analysis

First, we ran the descriptive statistics with kurtosis and skewness of each variable. A rule of thumb to confirm normality is that skewness and kurtosis are below 2, and some sources indicate that a kurtosis of 3 or below is acceptable (Balanda and MacGillivray 1988). We found that in both the distributor and supplier group, except for one case in the distributor group, skewness and kurtosis fell below 2. Only one variable (*unique product* under supplier role performance) had a kurtosis of 2.225, indicating univariate normal distribution of all the variables.

Second, we adopted a single-informant method in the data collection, whereby we asked the respondents to evaluate both independent and dependent variables in the questionnaire, which may cause problems in common method variances. Therefore, we followed Podsakoff and Organ (1986) and conducted a principle component analysis to check the potential common method bias. Harman's one-factor test produces results with unrotated factor solution (Podsakoff and Organ 1986) and was conducted for all variables in each sample. For the distributor sample, 11 factors were extracted with eigenvalues larger than one, explaining 79.15% of the variance. The first factor accounted for 48.91% of the variance. For the supplier sample, 9 factors were extracted with eigenvalues larger than one, explaining 75.28% of the variance. The first factor accounted for 53.54% of the variance. Therefore, common method bias should not pose a severe problem in our study.

Third, reliability was checked by computing the Cronbach's alpha for each construct. Cronbach's alpha for each construct exceeds .7, suggesting a strong internal consistency of the measurement scales.

Measurement Validation

Since the number of constructs in our models is large, we followed the procedure by Hunter and Perreault (2007) and assessed the convergent and discriminant validity of the scales using several subsets of the original models. Confirmatory factor analysis (CFA) was conducted on latent constructs in the proposed model, including customer orientation, competitor orientation, interfunctional coordination, partner's market orientation execution, economic satisfaction, social satisfaction, credibility trust, benevolence trust, commitment and long-term orientation. Role performance of partner and firm performance were excluded from CFA because they are manifest variables.

Distributor group – CFA of market orientation

Confirmatory factor analysis was conducted using EQS 6.1. Mardia's normalized estimate (66.8) exceeds the cutoff point of 1.96 (Byrne 2001), failing to confirm multivariate normality. The robust transformation of the data is used to reduce the influence of outliers. Therefore, we report the statistics from the maximum likelihood method with the robust transformation. Although chi-square is significant, other goodness-of-fit indicators are acceptable (Chi-square = 123.575, d.f. = 71, $p = .000$, CFI = .943, IFI = .944, RMSEA = .063, 90% CI (.044, .081)). Anderson and Gerbing (1988) indicate that convergent validity of a construct can be assessed based on the item loadings on the factor and its significance. Maximum likelihood standardized solution suggests that except for one item under competitor orientation (*Our sales people share information within our business concerning competitors'*

strategies, .254), all other items were significant ($p < .05$) (Table 4-1). Interviews indicated that information sharing was not an accepted policy in Chinese retailers. Therefore, this may be a violation of some policies in Chinese companies. Therefore, we removed this item. The resulting Cronbach's alpha of competitor orientation was .830 for the distributor group and .689 for the supplier group.

Table 4-1 Distributor CFA of Market Orientation

	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14
CU	.749	.811	.793	.773	.738	.721								
CP							.254	.788	.823	.757				
IN											.712	.712	.789	.704

CU – customer orientation (V1-V6); CP – competitor orientation (V7-V10); IN – interfunctional coordination (V11-V14)

Discriminant validity can be assessed by several approaches. First, we examined the cross-loadings among the constructs and found that a large amount of items under one construct had significant cross-loadings on the other construct (Table 4-2). Second, we compared the average variance extracted (AVE) with the square of the correlation estimates between the two constructs (Fornell and Larcker 1981, Hair et al. 2005). If AVE is higher than the squared factor correlation, discriminant validity is confirmed. Therefore, we calculated the AVE values and squared correlations between each pair of the market orientation dimensions from the EQS output. However, we did not have a higher AVE than squared correlation between the constructs. In addition, exploratory factor analysis with only one major factor extracted did not confirm the factor structure of a three-dimensional market orientation construct. Therefore, we failed to conclude the discriminant validity of customer orientation, competitor orientation and interfunctional coordination.

Table 4-2 Cross-loading of Distributor Market Orientation Dimensions

Parameter	Chi-square	Prob.
V10, IN	23.791	.000
V4, CP	22.588	.000
V10, CU	21.824	.000
V9, IN	13.230	.000
V7, CU	11.970	.001
V11, CU	11.074	.001
V6, IN	9.442	.002
V2, IN	8.579	.003
V4, IN	7.164	.007
V9, CU	6.792	.009
V2, CP	4.906	.027
V1, IN	4.341	.037

CU – customer orientation (V1-V6); CP – competitor orientation (V7-V10); IN – interfunctional coordination (V11-V14)

Distributor group – CFA of satisfaction

We conducted a CFA to check the multidimensionality of satisfaction. Mardia's normalized estimate is 39.0. Therefore, a robust transformation is implemented. Although chi-square is significant, other goodness-of-fit indices demonstrate good model fit (Chi-square = 54.677, d.f. = 32, $p = .007$, CFI = .971, IFI = .971, RMSEA = .061, 90% CI (.032, .088)). Maximum likelihood standardized solution shows that all items have a large and significant ($p < .05$) loading on the corresponding factor (Table 4-3), suggesting that both economic satisfaction and social satisfaction have convergent validity.

Table 4-3 Distributor CFA of Satisfaction

	V28	V29	V30	V31	V32	V33	V34	V35	V36	V37
ES	.678	.603	.717	.832	.800					
SS						.766	.722	.823	.700	.740

ES – Economic Satisfaction (V28-V32); SS – Social Satisfaction (V33-V37)

To check the discriminant validity, we first checked the model modification index from the confirmatory factor analysis output (Table 4-4). One cross-loading was significant at the .05 level and two additional cross-loadings were significant at the .1 level. However, exploratory

factor analysis only identified one factor with 62.797% of the variance extracted. Even after we took out the item with the largest cross-loading, EFA still identified one factor. We continued to compare the AVE with squared factor correlation and found that AVE is lower than the squared factor correlation. The discriminant validity of economic and social satisfaction cannot be established. In the literature, satisfaction is found to encompass two distinct dimensions: economic satisfaction and social satisfaction (Geyskens and Steenkamp 2000). However, we did not find economic and social satisfaction to be two distinct dimensions for this sample.

Table 4-4 Cross-loading of Distributor Satisfaction Dimensions

Parameter	Chi-square	Prob.
V34, ES	5.162	.023
V33, ES	2.974	.085
V37, ES	2.782	.095

ES – Economic Satisfaction (V28-V32); SS – Social Satisfaction (V33-V37)

Distributor group – CFA of trust

We conducted a CFA on credibility trust and benevolence trust. Mardia's normalized estimate of 57.3 exceeds the cut-off point for multivariate normality, so we report the robust transformation statistics. Results showed an excellent model fit (Chi-square = 62.822, d.f. = 51, $p = .124$, CFI = .990, IFI = .990, RMSEA = .035, 90% CI (.000, .061)). Maximum likelihood standardized solution showed that all item-factor loadings were large (Table 4-5) and significant ($p < .05$), yielding to convergent validity of both credibility trust and benevolence trust.

Table 4-5 Distributor CFA of Trust

	V38	V39	V40	V41	V42	V43	V44	V45	V46	V47	V48	V49
CT	.860	.748	.773	.779	.794	.701	.738					
BT								.658	.778	.824	.786	.841

CT – Credibility Trust (V38-V44); BT – Benevolence Trust (V45-V49)

The model modification index suggested several significant cross-loadings (Table 4-6). EFA only identified one factor with 67.636% the variance extracted. Both AVE values were

lower than the squared factor correlation, leading to rejection of discriminant validity. Although Ganesan (1994) suggests that trust has two dimensions: credibility trust and benevolence trust, we did not find them to be distinct dimensions in this study.

Table 4-6 Cross-loading of Distributor Trust Dimensions

Parameter	Chi-square	Prob.
V41, BT	8.049	.005
V42, BT	6.006	.014
V46, CT	4.175	.041
V40, BT	3.360	.067
V48, CT	2.724	.099

CT – Credibility Trust (V38-V44); BT – Benevolence Trust (V45-V49)

Distributor group – CFA of partner’s market orientation execution, commitment and long-term orientation

We conducted a CFA of partner’s market orientation execution, commitment and long-term orientation to test the convergent validity of these three constructs. Mardia’s normalized estimate of 77.7 exceeded the cut-off point for multivariate normality. We report the robust transformation statistics. Although chi-square was significant, other goodness-of-fit indices demonstrated acceptable overall model fit (Chi-square = 323.498, d.f. = 203, $p = .000$, CFI = .941, IFI = .941, RMSEA = .056, 90% CI (.044, .067)). Maximum likelihood standardized solution showed that the item – factor loadings under partner’s market orientation execution were significant ($p < .05$), confirming the convergent validity of the construct (Table 4-7). All commitment items had an item-factor loading over .5 ($p < .05$), indicating convergent validity of the construct (Table 4-8). However, under long-term orientation construct, the item *any concessions we make to help this resource will even out in the long run* did not demonstrate a high item-factor loading (.453). In a relationship which commitment has been established, the reason for a firm to help out its partner is to contribute to the relationship, but not simply because of an expectation of returns. Therefore we removed this item. All other items have a large (.695 –

.832) and significant ($p < .05$) loading on long-term orientation (Table 4-9). After taking out the item, Cronbach's alpha increased from .894 to .911 for the distributor group. Since this item is not in the long-term orientation scale of the supplier group, it did not affect the Cronbach's alpha of the supplier group.

Table 4-7 Distributor CFA of Partner's Market Orientation Execution

	V15	V16	V17	V18	V19	V20	V21	V22
PM	.798	.658	.818	.787	.699	.685	.748	.673
PM – Partner's Market Orientation Execution (V15-V22)								

Table 4-8 Distributor CFA of Commitment

	V57	V58	V59	V60	V61	V62	V63
CO	.773	.820	.903	.829	.816	.557	.693
CO – Commitment (V57-V63)							

Table 4-9 Distributor CFA of Long-term Orientation

	V50	V51	V52	V53	V54	V55	V56
LT	.788	.832	.814	.695	.717	.809	.453
LT – Long-term Orientation (V50-V56)							

Supplier group – CFA of market orientation

Next, we conducted a series of CFA tests on the subsets of the supplier model. Mardia's normalized estimate of 17.8 indicated a lack of multivariate normality. We implemented the robust transformation. Although chi-square was significant, other fit indicators showed the overall model fit was satisfactory (Chi-square = 103.437, d.f. = 71, $p = .007$, CFI = .971, IFI = .972, RMSEA = .053, 90% CI (.028, .074)). Maximum likelihood standardized solution showed that item-factor loadings were larger than .5 (Table 4-10) and significant ($p < .05$), demonstrating convergent validity of customer orientation, competitor orientation and interfunctional coordination.

Table 4-10 Supplier CFA of Market Orientation

	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14
CU	.867	.873	.822	.788	.578	.720								
CP							.588	.641	.560	.729				
IN											.641	.642	.740	.644

CU – Customer Orientation (V1-V6); CP – Competitor Orientation (V7-V10); IN – Interfunctional Coordination (V11-V14)

We examined the CFA output of model modification index and found several cross-loadings (Table 4-11). EFA identified two factors, with the first factor extracting 55.308% of the variance. We compared the AVE of each dimension and the squared factor correlation and found that all AVE values were lower than the squared factor correlations. Therefore, we failed to confirm the discriminant validity of customer orientation, competitor orientation and interfunctional coordination.

Table 4-11 Cross-loading of Supplier Market Orientation Dimensions

Parameter	Chi-square	Prob.
V5, INT	12.637	.000
V5, COMP	10.704	.000
V9, INT	6.681	.010
V12, COMP	5.812	.016
V1, COMP	5.376	.020
V1, INT	5.155	.023
V12, CUST	4.643	.031
V9, CUST	4.615	.032
V6, COMP	2.725	.099

CU – Customer Orientation (V1-V6); CP – Competitor Orientation (V7-V10); IN – Interfunctional Coordination (V11-V14)

Supplier group – CFA of satisfaction

CFA was conducted on economic satisfaction and social satisfaction. Mardia's normalized estimate was 22.2. We report the statistics with robust transformation. Although chi-square was significant, other fit indices indicated good overall model fit (Chi-square = 54.016, d.f., = 32, p = .009, CFI = .969, IFI = .970, RMSEA = .065, 90% CI (.032, .094)). Maximum

likelihood standardized solution showed that all item-factor loadings were larger than .6 (Table 4-12) and significant ($p < .05$). Therefore, convergent validity was confirmed.

Table 4-12 Supplier CFA of Satisfaction

	V29	V30	V31	V32	V33	V34	V35	V36	V37	V38
ES	.715	.600	.850	.808	.843					
SS						.775	.670	.758	.716	.672

ES – Economic Satisfaction (V29-V33); SS – Social Satisfaction (V34-V38)

Model modification index of CFA output showed that there were several pairs of significant cross-loadings (Table 4-13). EFA identified one factor with 61.651% of variance extracted. We compare AVE and squared factor correlation but found that both AVE values were lower than the squared factor correlation, leading to rejection of discriminant validity of economic satisfaction and social satisfaction.

Table 4-13 Cross-loading of Supplier Satisfaction Dimensions

Parameter	Chi-square	Prob.
V29, SS	11.952	.001
V32, SS	10.382	.001
V38, ES	4.127	.042
V34, ES	3.372	.066

ES – Economic Satisfaction (V29-V33); SS – Social Satisfaction (V34-V38)

Supplier group – CFA of trust

We assessed convergent and discriminant validity of credibility trust and benevolence trust by conducting CFA on these two dimensions. Mardia's normalized estimate was 16.7. We implemented the robust transformation. The robust statistics showed that the overall model fit was good (Chi-square = 10.695, d.f. = 11, $p = .469$, CFI = 1.000, IFI = 1.001, RMSEA = .062, 90% CI (.000 .112)). Maximum likelihood standardized solution showed that item-factor loadings were above .626 for credibility trust and above .669 for benevolence trust (Table 4-14) and all were significant ($p < .05$), demonstrating convergent validity.

Table 4-14 Supplier CFA of Trust

	V39	V40	V41	V42	V43	V44	V45
CT	.876	.743	.836	.626			
BT					.669	.744	.811

CT – Credibility Trust (V39-V42); BT – Benevolence Trust (V43-V45)

Model modification index identified two pairs of significant cross-loadings (Table 4-15). Although the number of cross-loadings was small, there were only four indicators to measure credibility trust and three indicators to measure benevolence trust. EFA identified one factor with 60.359% of the variance extracted. In addition, AVE of credibility trust was very close to squared factor correlation (.603 versus .605) and AVE of benevolence trust was lower than the squared factor correlation, which is a violation of discriminant validity.

Table 4-15 Cross-loading of Supplier Trust Dimensions

Parameter	Chi-square	Prob.
V42, BT	6.731	.009
V45, CT	3.537	.060

CT – Credibility Trust (V39-V42); BT – Benevolence Trust (V43-V45)

Supplier group – CFA of partner's market orientation execution, commitment and long-term orientation

Finally, we conducted a CFA of partner's market orientation execution, commitment and long-term orientation to test the convergent validity of each construct. Mardia's normalized estimate of 20.4 exceeds the minimum point and robust transformation statistics are reported. Although chi-square was significant, the other fit indices demonstrated a good overall model fit (Chi square = 238.416, d.f. = 183, p = .004, CFI = .979, IFI = .980, RMSEA = .043, 90% CI (.025, .057). Maximum likelihood standardized solution showed that for partner's market orientation execution, except for the item *our distributor believes the customer's interest should always come first* which had an item-factor loading of .458, all other loadings were above .585 and significant (p < .05) (Table 4-16). One reason might be that although the supplier may put an

emphasis on customers, it might not necessarily be the highest priority. Therefore we removed this item. All the commitment measurement loadings were significant ($p < .05$), suggesting that the convergent validity of commitment construct (Table 4-17). Similarly, all long-term orientation measurement loadings were significant ($p < .05$), confirming the convergent validity of the long-term orientation construct (Table 4-18). After deleting the problematic item, Cronbach's alpha became .904 for the distributor group and .903 for the supplier group.

Table 4-16 Supplier CFA of Partner's Market Orientation Execution

	V16	V17	V18	V19	V20	V21	V22	V23
PM	.846	.821	.663	.686	.679	.458	.689	.585

PM – Partner's Market Orientation Execution (V16-V23)

Table 4-17 Supplier CFA of Commitment

	V52	V53	V54	V55	V56	V57	V58
CO	.892	.849	.816	.855	.845	.749	.721

CO – Commitment (V52-V58)

Table 4-18 Supplier CFA of Long-term Orientation

	V46	V47	V48	V49	V50	V51
LT	.840	.882	.812	.701	.797	.871

LT – Long-term Orientation (V46-V51)

The Path Model

Measurement validation failed to confirm the discriminant validity of the multi-dimensionality of market orientation, satisfaction and trust. Therefore, we had to treat them as single-dimensional constructs. We used the mean of the items under each scale to build a path model and test the model fit and hypothesized relationships in EQS 6.1. Due to the lack of discriminant validity of satisfaction and trust dimensions, the original hypothetical relationships were tested without separating dimensions. See Figure 4-1 and Figure 4-2 for revised hypothetical model with single dimension constructs.

Model Estimation (Distributor Group)

Mardia's normalized estimate of the distributor group was 9.6, exceeding the minimum cut-off point of multivariate normality, so we used the robust transformation for model estimation. Although most of the hypothesized relationships were supported, the ML solution did not demonstrate satisfactory model fit (Chi-square = 203.574, d.f. = 15, $p = .000$, CFI = .852, RMSEA = .259). The robust transformation slightly reduced RMSEA but also reduced CFI (Chi-square = 171.198, d.f. = 15, $p = .000$, CFI = .780, RMSEA = .235). Partner's market orientation execution did not have a significant impact on long-term orientation.

Figure 4-1 Distributor Single Dimension Hypothetical Model

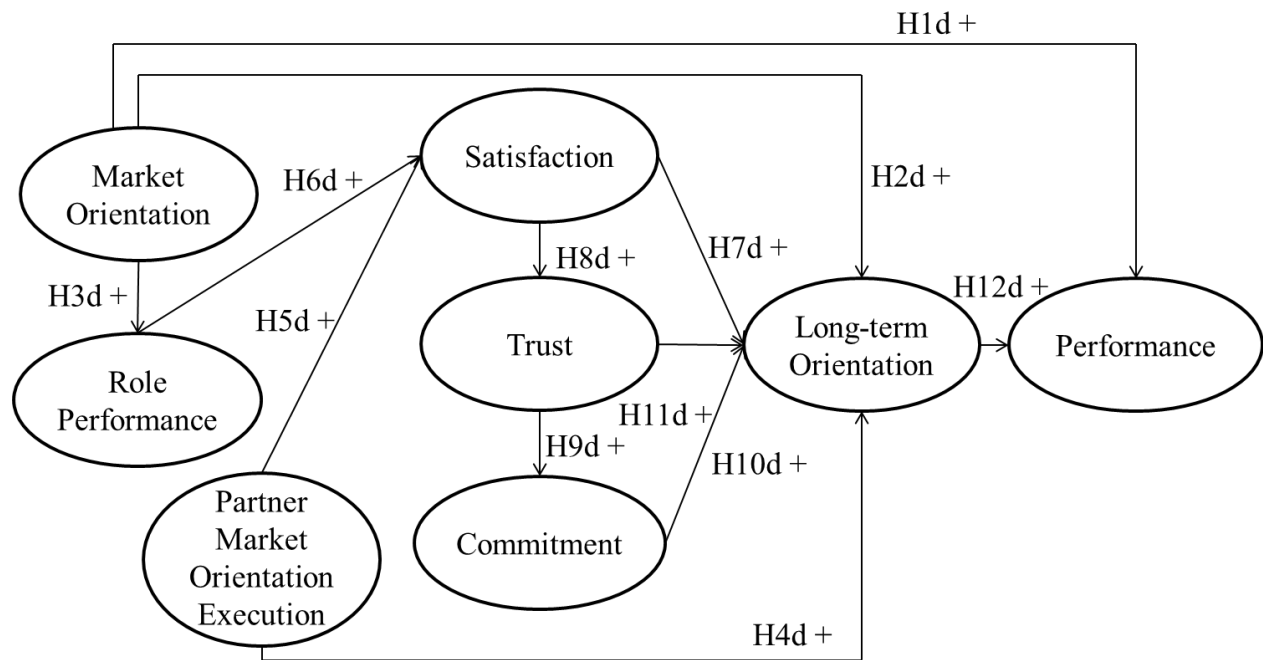
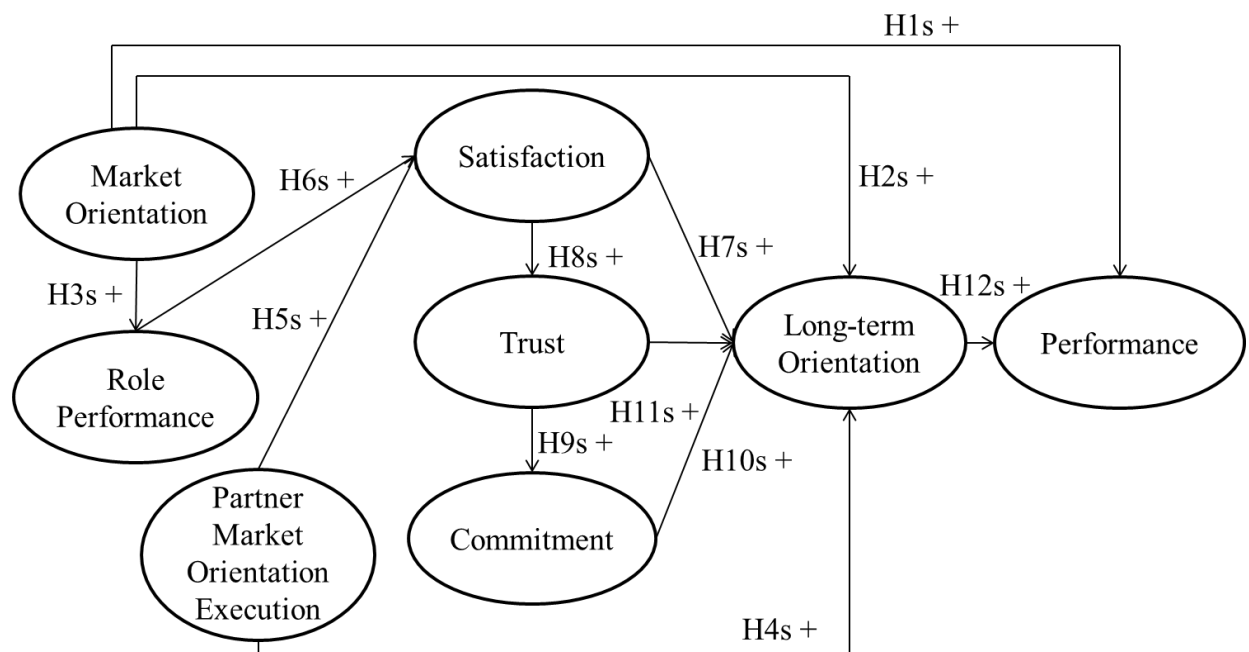


Figure 4-2 Supplier Single Dimension Hypothetical Model



Model Modification (Distributor Group)

To improve the model, we conducted the Wald test and Lagrange Multiplier (LM) test. The results of the Wald test suggested dropping the path between partner's market orientation execution and long-term orientation and the path between trust and long-term orientation. However, there was a lack of theoretical justification to delete these two paths, so we retained them in the model. We examined each path suggested by the LM test to ensure whether these could be justified by the literature and added two paths after completing these steps. First, according to the Reference Group theory (Kelley 1965; Shibutani 1955), a firm will feel that a relationship is secure and will be willing to establish a relational commitment if it perceives its exchange partner to contribute to a common goal. In addition, since there is less information overlap between a distributor and a supplier (Rindfleisch and Moorman 2001), a distributor will tend to commit to the relationship in order to acquire larger amounts of market information. Therefore, we added a link between partner's market orientation execution and commitment, making the original direct relationship indirect. With a significant change in chi-square (49.253, $p = .000$), results suggested that long-term orientation is influenced by partner's market orientation execution through commitment. Similarly, due to the different role of information acquisition between a distributor and a supplier, a market-oriented distributor would effectively generate sales, which increases the turnover of the supplier's products. Therefore, a market-oriented distributor would be more satisfied with the relationship. We added a direct link between market orientation and satisfaction. EQS output showed that the Chi-square change by adding this path was significant (36.987, $p = .000$), suggesting a direct relationship between market orientation and satisfaction. Although Chi-square goodness-of-fit of the revised path model was still significant (Figure 4-3), other fit indices demonstrated a good model fit (Chi-

square = 109.198, d.f. = 13, $p = .000$, CFI = .924, RMSEA = .198). The robust transformation slightly decreased RMSEA (Chi-square = 92.226, d.f. = 13, $p = .000$, CFI = .889, RMSEA = .180). In the revised model, the relationships between satisfaction and long-term orientation and between partner's market orientation execution and long-term orientation were not significant. All other relationships in the revised model were positive and significant.

Model Estimation (Supplier Group)

Mardia's normalized estimate of the supplier model was 17.2, exceeding the minimum value of multivariate normality, so we used the robust transformation for model estimation. Although Chi-square was significant, other goodness-of-fit indices under the robust transformation demonstrated moderate model fit (Chi-square = 90.286, d.f. = 15, $p = .000$, CFI = .931, RMSEA = .175). Two hypothesized relationships were not significant. Specifically, market orientation and satisfaction did not have a significant impact on long-term orientation. All other proposed relationships were positive and significant.

Model Modification (Supplier Group)

Wald test and LM test were implemented to improve the model. The Wald test suggested dropping the two paths that were not significant, in addition to the path between trust and long-term orientation. Due to the lack of theoretical justification, we kept these paths in the model, although they were not significant. Furthermore, we examined whether the links suggested by LM test could be justified by the literature. Similar to the distributor model, the LM test suggested a direct relationship between partner's market orientation execution and commitment. Again, due to the small amount of information overlap between vertical partners, a supplier will tend to commit to the relationship in order to acquire a larger amount of market information. With a significant Chi-square change (19.154, $p = .000$), results suggested an indirect

relationship between partner's market orientation execution and long-term orientation through commitment. So we added the link between partner's market orientation execution and commitment to our original model. The LM test also suggested a direct relationship between market orientation and satisfaction with a significant Chi-square change (19.057, $p = .000$). Therefore, we added a direct link between market orientation and satisfaction. We also implemented the robust transformation of the revised model (Mardia's normalized estimate is 17.2). Ultimately, the revised model (Figure 4-4) demonstrated a better fit. Although Chi-square was significant, other fit indices were better (Chi-square = 74.809, d.f. = 13, $p = .000$, CFI = .943, RMSEA = .170).

Figure 4-3 Distributor Single Dimension Model (Revised)

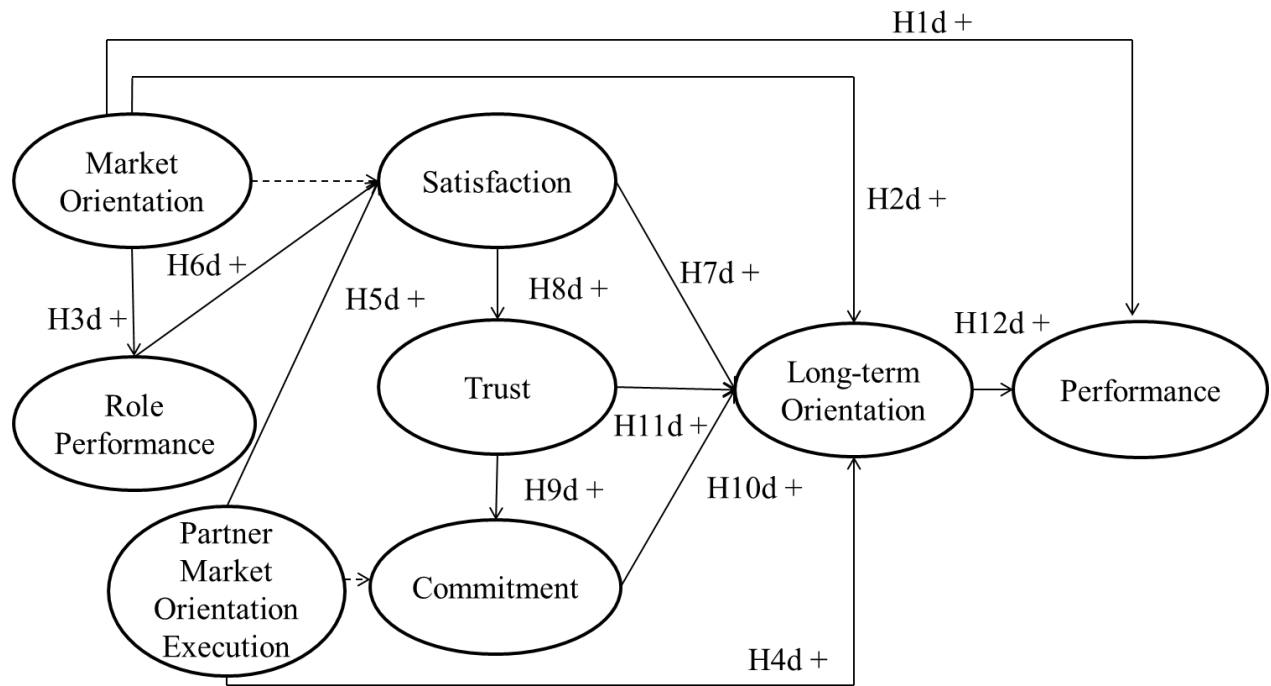
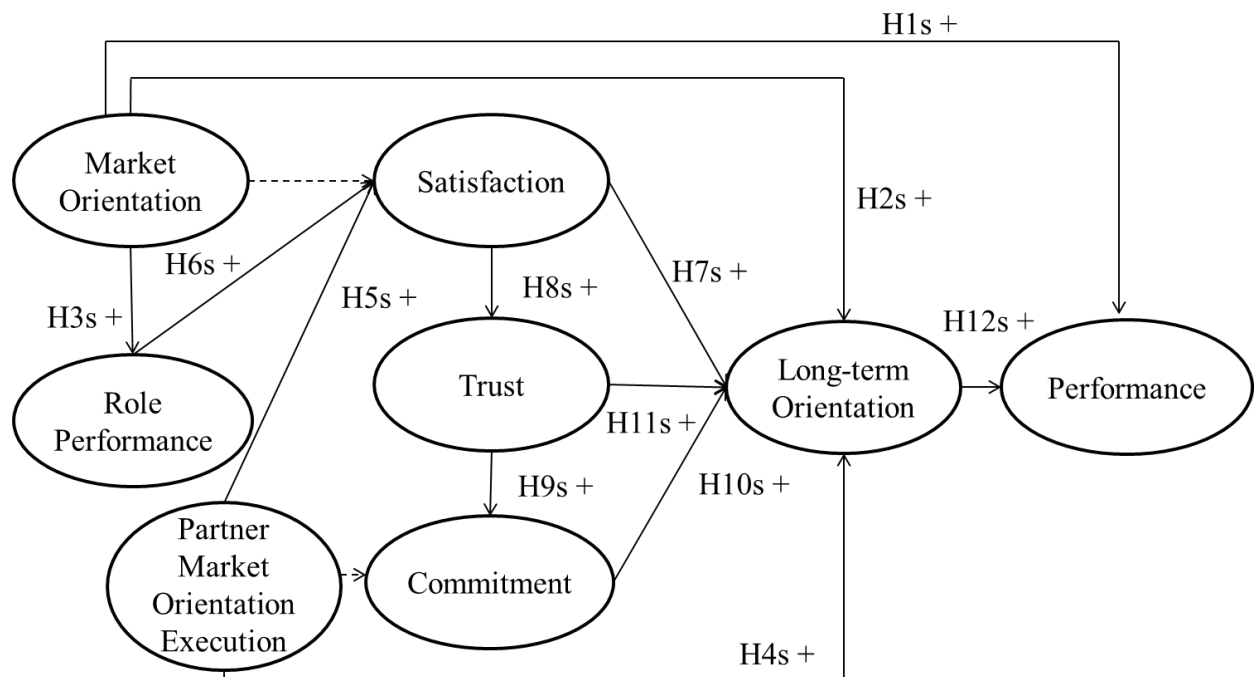


Figure 4-4 Supplier Single Dimension Model (Revised)



Hypotheses Testing

We adopted the distributor revised model and supplier parallel model for hypotheses testing, since we did not delete any of the non-significant paths in the original and revised models. A discussion of hypotheses test results (significant at .05 level) is presented as followed:

H1d and H1s posit a positive relationship between market orientation and firm performance for both the distributor and supplier groups. Path loadings for the distributor and supplier (.222, .550) groups were both significant, and both H1d and H1s were supported.

H2d and H2s posit that market orientation has a positive relationship with long-term orientation. This relationship was supported in the distributor group (path loading = .160), but was not supported in the supplier group (path loading = .015). Therefore, H2d was supported but H2s was rejected.

H3d and H3s posit a positive relationship between market orientation and partner's role performance. Path loadings of .970 for H3d and 1.05 for H3s supported both hypotheses.

H4d and H4s posit a positive relationship between partner's market orientation execution and long-term orientation. The path loading for this relationship in the distributor group was .085, which was not significant. This relationship was significant in the supplier group (path loading = .213). Therefore, H4d was not supported, but H4s was supported.

H5d and H5s posit that the relationship between partner's market orientation execution and satisfaction is positive. This path for both distributor and supplier groups (.374, .349) was significant, supporting H5d and H5s.

H6d and H6s posit that the relationship between role performance and satisfaction is positive. Path loadings of .144 and .175 were both significant, supporting H6d and H6s.

H7d and H7s posit a positive relationship between satisfaction and long-term orientation for both distributor and supplier groups. Neither of the paths was significant (.169, .033).

Therefore, H7d and H7s were not supported.

H8d and H8s posit a positive relationship between satisfaction and trust for both groups. This path for both distributor and supplier group was significant (.739, .854), supporting H8d and H8s.

H9d and H9s posit a positive relationship between trust and commitment for both groups. Both path loadings are significant (.366, .563). Therefore, H9d and H9s were supported.

H10d and H10s posit a positive relationship between commitment and long-term orientation. Path loadings of both distributor group and supplier group (.433, .584) were significant, supporting H10d and H10s.

H11d and H11s posit a positive relationship between trust and long-term orientation. Path loadings of both distributor group and supplier group were significant (.167, .230), in support of H11d and H11s.

H12d and H12s posit a positive relationship between long-term orientation and firm performance. The path for distributor group and supplier group was significant (.391, .315), supporting H12d and H12s.

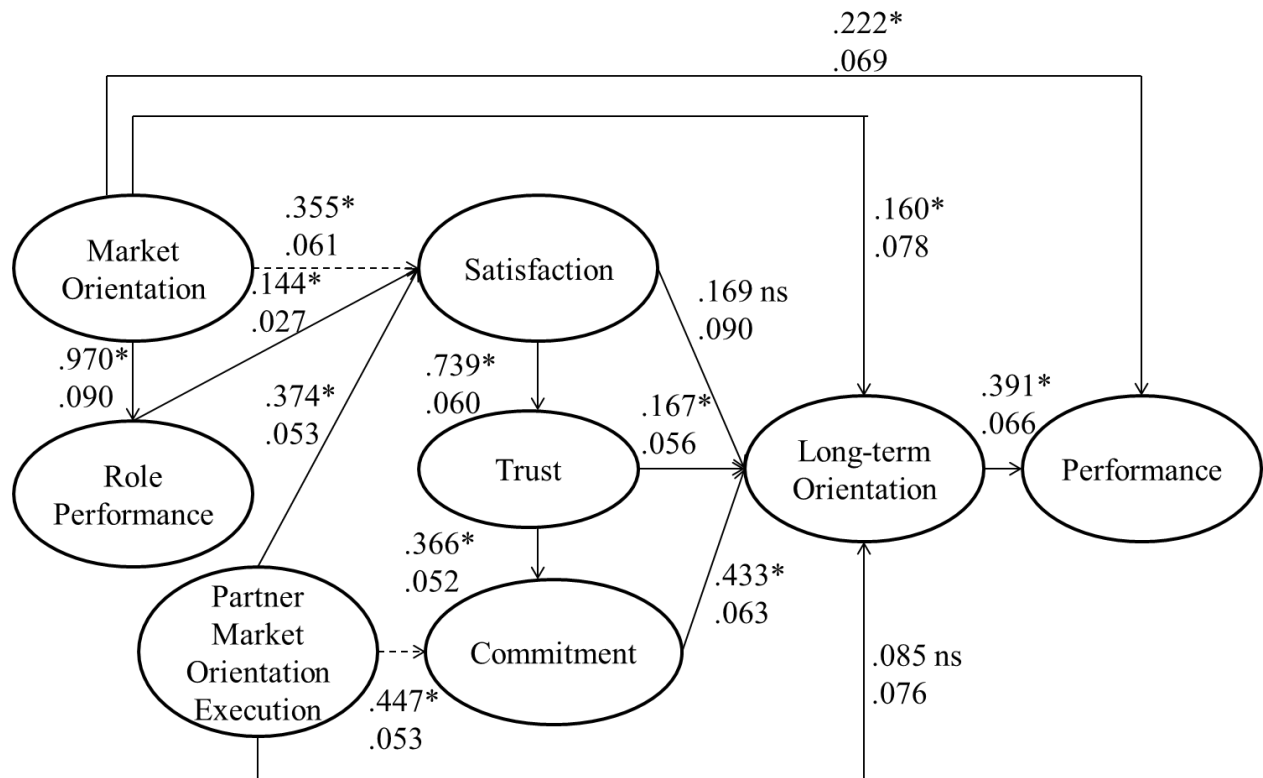
Next, we examined the added links in the models. In the distributor revised model, we added a direct relationship between market orientation and satisfaction. This path loading was positive and significant (.355). We also added a link between partner's market orientation execution and commitment. This path loading was also positive and significant (.447). In the supplier parallel model, we added a link between partner's market orientation execution and

commitment. This path loading was positive and significant (.414). The path models are presented as follows (Figure 4-5 and Figure 4-6).

Two-group Path Model

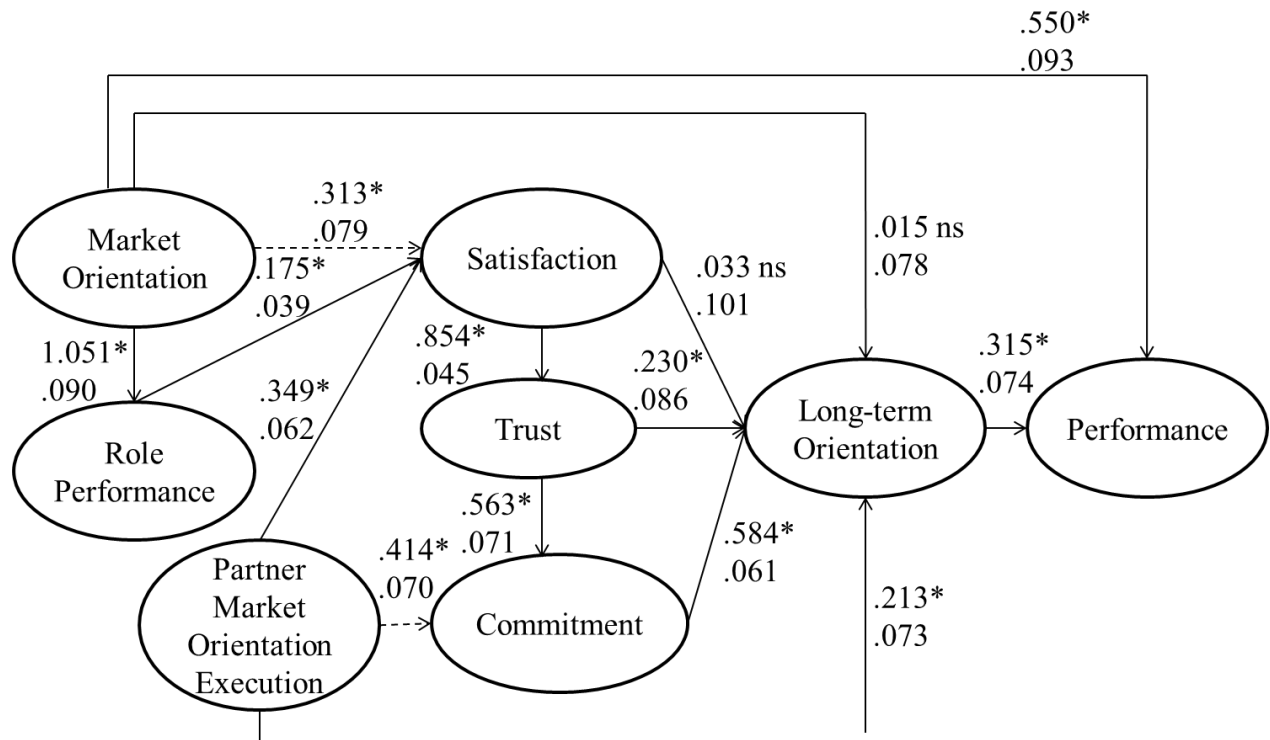
We took a further step and conducted a two-group analysis. Considering that two individual models are different regarding two paths (market orientation → long-term orientation and partner's market orientation execution → long-term orientation), we released these two paths and constrain the rest of the paths. Although Chi-square is significant in the two-group model, other goodness-of-fit indices demonstrate a good fit (Chi-square = 410.953, d.f. = 36, $p = .000$, CFI = .945, RMSEA = .134). Figure 4-7 shows the two-group path model with standardized ML estimates of the distributor group (upper number) and the supplier group (lower number) respectively. The standardized coefficients were presented because they are comparable across groups. It can be shown from Figure 4-7 that except for the path coefficients between market orientation and long-term orientation and between partner's market orientation execution and long-term orientation, all other path coefficients were very similar between two groups. Although in the two-group model, the relationship between partner's market orientation execution and long-term orientation became significant, the path coefficient is low. Therefore, the two-group model is consistent with our finding that market orientation has a stronger impact on long-term orientation in the distributor sample, whereas partner's market orientation execution has a stronger impact on long-term orientation in the supplier sample.

Figure 4-5 Distributor Path Model



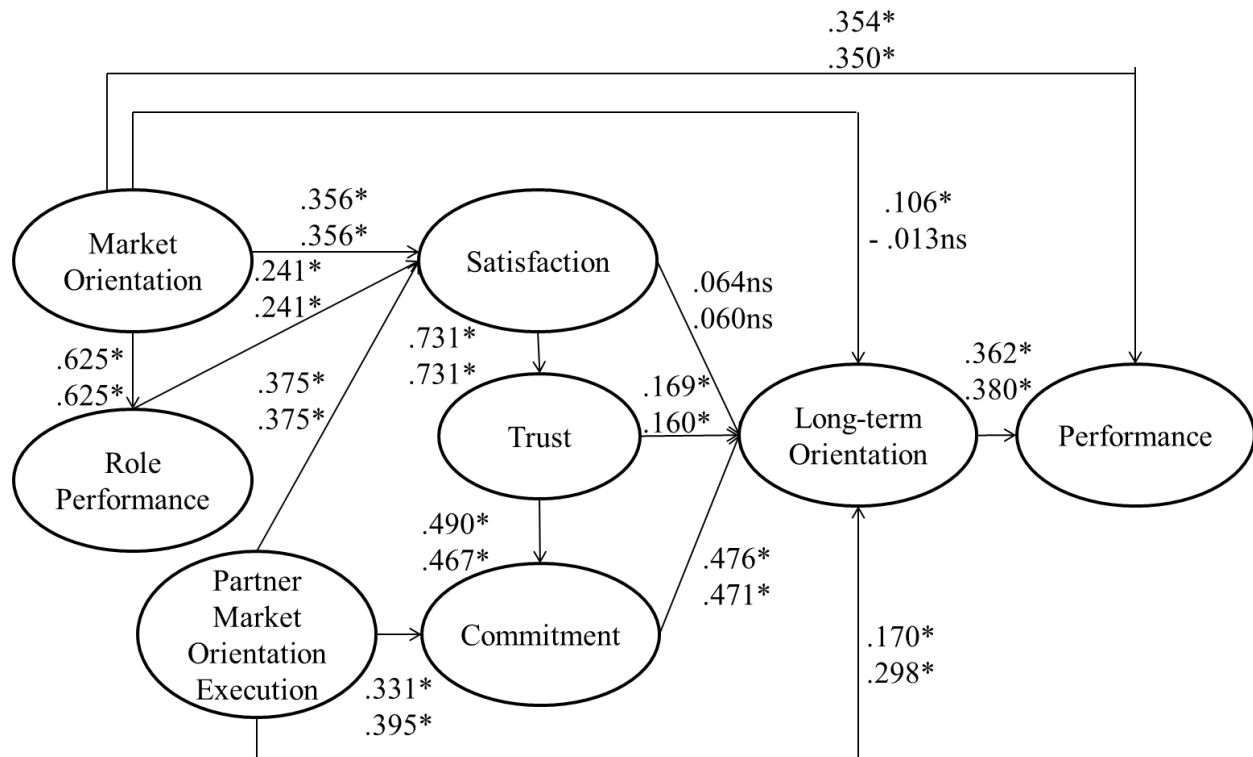
The top number is the ML estimate; the lower number is the standardized error; * denotes significance at .05 level; ns denotes non-significant relationships.

Figure 4-6 Supplier Path Model



The top number is the ML estimate; the lower number is the standardized error; * denotes significance at .05 level; ns denotes non-significant relationships.

Figure 4-7 Two-group Path Model



The top number is the standardized ML estimate of the distributor group; the lower number is the standardized ML estimate of the supplier group; * denotes significance at .05 level; ns denotes non-significant relationships.

CHAPTER 5

DISCUSSION

Discussion of the Results

In this study, we proposed a model that explains how market orientation influences firm performance through satisfaction, trust and commitment in the distributor-supplier relationship setting. We identified long-term orientation as the key factor that contributes to performance and explored how it is established between channel members. Following the studies by Geyskens and Steenkamp (2000) and Ganesan (1994) on dimensions of satisfaction and trust, we began the model establishment with different dimensions of satisfaction (economic and social satisfaction) and trust (credibility and benevolence trust). From the perspective of Reference Group theory, we proposed that market orientation of the partner firm impacts long-term orientation through social satisfaction and benevolence trust, and that a partner's economic contribution to the relationship influences long-term orientation through economic satisfaction and credibility trust. However, our data did not support the multidimensionality of satisfaction and trust. Both cross-loadings of the confirmatory factor analysis and exploratory factor analysis suggested that both satisfaction and trust are single-dimensional. Similarly, we adopted Narver and Slater's (1990) dimension of market orientation but did not confirm the discriminant validity among customer orientation, competitor orientation and interfunctional coordination. As a result, we had to consider them as single-dimensional constructs in our model due to the lack of discriminant validity (Figure 4-1 and Figure 4-2). In addition, our sample size did not allow for testing the whole structural equation model with latent variables. Since all the constructs demonstrated satisfactory reliability scores, indicating strong internal consistency, we examined the path structure of the model using the mean score of the indicators under each latent construct as the factor score.

Overall, we made minimal modifications to the models and only added paths that can be theoretically justified. According to the modification index, we added a few indirect paths to the original direct paths without deleting any proposed path. In the supplier model, since role performance of a distributor has not yet been studied in the literature, we did not include this construct in the original model, but did include preliminary exploratory research and collected data on this construct. Therefore, upon investigation of the original supplier model, we took a further step to investigate the supplier parallel model by adding the distributor role performance construct into the model. However, the new construct did not change the significance of the hypotheses and the model fit was good. In the distributor model, ten out of the twelve proposed relationships were supported, while nine of the eleven proposed relationships in the supplier model were supported.

An Extension of Retailer Market Orientation

In this study, we examined how market orientation influences the distributor-supplier relationship. Compared to the large body of market orientation literature in the manufacturing industry, retailer's market orientation receives much less attention (e.g., Siguaw et al. 1998; Elg 2007). Dawson (2000) indicates that a retailer's perspective should focus on the combination of products and services. Therefore, a retailer's market orientation is a different and important research topic due to the complex nature of service offerings (Elg 2003). Elg (2003) considers retailing firms as networking organizations, since they connect manufacturers with end-users. As such, there is a need to emphasize the inter-firm market orientation (Elg 2003, 2008). Siguaw et al. (1998) examined the effect of market orientation in the buyer-seller dyads, indicating that one party's market orientation would influence the other party's market orientation. Similarly, Elg (2007) investigated market orientation in the channel relationship setting and made a conceptual

argument that the traditional market orientation concept should go beyond customer orientation and competitor orientation, and be extended to include market orientation of the other stakeholders (between suppliers and distributors). Based on this argument, our study posits that a retailer should not only focus on its own market orientation, but also emphasize its relationship with upstream suppliers in order to achieve a higher level of performance. From this standpoint, this research provides an empirical support to Elg's (2003, 2007) research on retailer market orientation.

Antecedents of Performance

In general, the results provide good support to the hypothesized model. Consistent with existing literature (e.g., Narver and Slater 1990), we found a direct relationship between market orientation and firm performance for both distributors and suppliers. Narver and Slater (1990) posit that market orientation is embedded in the firm's culture that guides a firm's use of market information. Therefore, a firm's culture of acquiring and utilizing information becomes the intangible resources of the firm that enhance performance outcomes. Ganesan (1994) indicates that long-term orientation creates sustainable competitive advantage of a firm. Our results support the literature and suggest a direct and significant relationship between long-term orientation and performance.

Antecedents of Long-term Orientation

The overall path models for the two groups suggest that the channel relationship works as the core part that connects market orientation and firm performance for both distributors and suppliers. In both groups, long-term orientation works as the key factor that links channel relationship to firm performance and it is determined by trust and commitment. In general, our model is consistent with Siguaw et al. (1998) by demonstrating that market orientation

contributes to relationship building between distributors and suppliers. Nevertheless, we found two discrepancies with regard to the antecedents of long-term orientation between the distributor and supplier model.

In the distributor group, we found that market orientation had a significant impact on long-term orientation. However, when we investigated the same relationship in the supplier group, it was not significant. Instead, market orientation of a supplier influences long-term orientation through an indirect path encompassing satisfaction, trust and commitment. Results of both groups suggested that in a channel relationship, market orientation enhances firm performance through building a favorable relationship with exchange partners. Ganesan (1994) indicates that long-term orientation between a supplier and a distributor is based on mutual dependence and trust between the firms. From this standpoint, both the distributor group and the supplier group in our study support Ganesan's (1994) finding that trust is an important ingredient of long-term orientation in the channel relationship. For either distributor or supplier group, satisfaction does not have a significant impact on long-term orientation. For the distributor group, Ganesan (1994) argues that the buyers may view satisfaction as an outcome of their own efforts rather than the suppliers' efforts. Hence, distributor's satisfaction may not necessarily result in distributor's long-term orientation. For the supplier group, powerful retailers and category killers are more likely to take a proactive approach in relationship management (Ganesan 1994). Therefore, a supplier is likely to establish long-term orientation only if the distributor is highly dependent on the supplier (Ganesan 1994). This also explains that in our supplier group, a supplier's own market orientation and satisfaction with the distributor do not have a direct impact on supplier's long-term orientation with the distributor; instead, a supplier has to establish trust and commitment with a distributor in order to develop long-term orientation.

The second finding was that partner's market orientation execution had a positive impact on long-term orientation in the supplier group but the relationship was non-significant in the distributor group. The discrepancy between the two groups may be explained by the power asymmetry in the Chinese supply chain. Sternquist et al. (2003) find that in China, retailers have more power than suppliers. With less power, suppliers may find themselves better off by establishing a long-term relationship with exchange partners. The difference between the distributor group and supplier group can be explained by Ganesan (1994). Ganesan (1994) finds that channel relationships featured with dependence will lead to forced collaboration and long-term orientation. Since a supplier has less power, it will be more dependent on the distributor. We discussed that a supplier may develop long-term orientation only if the distributor is highly dependent on the supplier. Therefore, a high level of distributor market orientation execution signals to the supplier that the distributor will attempt to contribute to the relationship. Accordingly, the supplier will feel the relationship is secure and will be more likely to establish long-term orientation with the distributor. On the other hand, results from the distributor group suggested an indirect path between partner's market orientation execution and long-term orientation through commitment, whereas the direct relationship between partner's market orientation execution and long-term orientation was non-significant. Since a distributor is less dependent on a certain supplier, the supplier's market orientation execution may not contribute to long-term orientation. Instead, partner's market orientation execution must develop into a relationship commitment before a long-term relationship is established. The main reason is that in a buyer's market, a retailer has more options in selecting a supplier. Therefore, commitment rather than partner's market orientation execution becomes the indicator of long-term orientation.

The discrepancy between the two models regarding the antecedents of long-term orientation is that market orientation was a direct indicator of long-term orientation in the distributor model but not in the supplier model. Similarly, partner's market orientation execution was a direct indicator of long-term orientation in the supplier model but not in the distributor model. Based on the Social Network Theory, it is argued that social actors with strong ties tend to share sensitive information more than those with weak ties (Frenzen and Nakamoto 1993; Hansen 1999; Rindfleisch and Moorman 2001). In addition, Rindfleisch and Moorman (2001) indicate that social actors in a horizontal relationship may be less likely to share information because of knowledge redundancy and competition. Therefore, firms in a vertical relationship may be more likely to share information and develop long-term relationship due to a lower degree of competition and information overlap. In comparison, distributors usually have more direct interaction with customers than suppliers, and with their market power, they can acquire product information from different suppliers. However, suppliers may have limited information regarding customers and competitor suppliers and therefore may depend more on its partner's market orientation. This suggests that a supplier develops a long-term relationship mainly through its partner's market orientation, whereas a distributor develops long-term orientation mainly through its own market orientation.

Satisfaction

We initially investigated satisfaction as two separate dimensions, as suggested by Geyskens and Steenkamp (2000). Although we started out by considering satisfaction as a two-dimensional construct that encompasses economic satisfaction and social satisfaction, confirmatory factor analysis did not confirm the discriminant validity between economic and social satisfaction in order for them to be considered as two separate constructs. Considering the

large amount of missing demographic information in the distributor group, we divided the distributor sample into two groups (one with demographic information filled out and the other with demographic information missing), and conducted a CFA on the same sub-dimensions of market orientation, satisfaction and trust respectively. Results showed that neither group confirmed the discriminant validity of these dimensions. Geyskens and Steenkamp (2000) developed the measurement scale of vendor's economic and social satisfaction with its supplier using two samples. However, some empirical studies either do not confirm or report the discriminant validity between economic and social satisfaction, or adopt different measurement scales of economic and non-economic satisfaction. For instance, Rodríguez et al. (2006) adopt a different scale to measure economic (Gassenheimer and Ramsey 1994) and non-economic satisfaction (Anderson and Narus 1984; Gassenheimer and Ramsey 1994; Ruekert and Churchill 1984). The authors confirm the discriminant validity of the constructs by indicating that the correlation of the construct is non-zero. In Yu and Pysarchik's (2002) study on the channel relationship in Korea, the authors adopt Wilkinson's (1981) scale of economic satisfaction and Andaleeb (1996) and Gaski's (1986) scale of non-economic satisfaction. Ramaseshan et al. (2006) test the discriminant validity of economic and social satisfaction using the same source (Geyskens and Steenkamp 2000) and report the discriminant validity of the two dimensions. However, they did not use all the satisfaction items, and their measurement scale is only a subset (three economic satisfaction indicators and four social satisfaction indicators) of the original scale with five economic satisfaction indicators and five social satisfaction indicators developed by Geyskens and Steenkamp (2000). A review of the literature reveals that discriminant validity of economic and social satisfaction scales as developed by Geyskens and Steenkamp (2000) was not fully confirmed by other authors.

In the original model, we proposed that satisfaction is an outcome of previous interactions. Specifically, we hypothesized that the partner's market orientation execution will contribute to social satisfaction and that the benefits (role performance) the focal firm receives from the partner firm will contribute to the economic satisfaction. While considering satisfaction as a single-dimensional construct, we find that both role performance and partner's market orientation execution have a significant impact on satisfaction. The results suggest that a firm's satisfaction with its exchange partner is based on both perception and the actual benefits received from the partner firm.

We found that a firm's market orientation had a significant relationship with its satisfaction with exchange partners, and that this relationship was partially mediated by the exchange partner's role performance. This can be explained by the two functions of a reference group. Sigauw et al. (1998) indicates that in a channel relationship, the firm that demonstrates a higher level of input will be identified as the reference group that influences the exchange partner. In our study, the market-oriented firm was the reference group and has the power to influence the partner firm. On the other hand, the partner firm will feel obligated to satisfy the focal firm by demonstrating higher role performance.

Trust

Similarly, we followed Ganesan's (1994) dimensions of trust and proposed that credibility trust is an outcome of economic satisfaction, whereas benevolence trust is an outcome of social satisfaction. Again, we did not find discriminant validity between credibility trust and benevolence trust. We reviewed the relevant literature of trust measures published after 1994 (when Ganesan's scale was developed) and found that different measurement scales of trust are adopted in the literature. For instance, Yu and Pysarchik (2002) use Schurr and Ozanne's (1985)

scale to measure single-dimensional trust between Korean manufacturers and retailers.

Rodríguez et al. (2006) adopt Ganesan's (1994) scale of credibility and benevolence trust but there is no evidence (e.g., cross-loading tables) showing that these two dimensions are distinct from each other. Pavlou (2002) adopts Ganesan's (1994) scale of credibility and benevolence trust and examines the exchange relationship between buyers and suppliers. The measurement items are very similar to those in our study, but there is no reversed statement. In this article, the author conducted the discriminant validity test and indicated that all the items had a much higher loading on their corresponding constructs than on other constructs. Nevertheless, there is not a substantial body of studies that support the discriminant validity of credibility and benevolence trust.

In our study, satisfaction was a strong indicator of trust for both distributor and supplier groups. Fred (1998) indicates that in a buyer-supplier relationship, a buyer's satisfaction with the supplier has a strong impact on its trust in the supplier. Caceres and Paparoidamis (2007) find that service recipients' satisfaction with the service provider is positively related to the recipients' trust in the service provider. Both studies suggest that a customer's trust is influenced by its satisfaction. In our study, we confirmed this relationship and provide an extension to the literature that a supplier/vendor's satisfaction with its downstream customer can also impact trust.

We found a positive relationship between trust and commitment, which confirms the commitment-trust theory proposed by Morgan and Hunt (1994). Caceres and Paparoidamis (2007) investigate the relationship between trust and commitment in the service provider-recipients setting, and find that trust is positively related to relationship commitment. Our study provides support to the extant literature and extends it by demonstrating that in a supply chain

setting, the influence of trust on commitment takes place in both upstream and downstream relationships.

Market Orientation

We adopted Narver and Slater's (1990) market orientation dimensions in this study, and started out by separating the effect of different dimensions in our hypotheses. However, our data did not support the discriminant validity among customer orientation, competitor orientation and interfunctional coordination. Therefore, we reviewed the literature in which Narver and Slater's (1990) market orientation conceptualization was adopted. We found that a large number of studies test the discriminant validity among market orientation and other constructs in the model, but do not test the discriminant validity among customer orientation, competitor orientation and interfunctional coordination (with the exception of Hult and Ketchen (2001)). Although Hult and Ketchen (2001) confirm the discriminant validity among sub-dimensions of market orientation by demonstrating that shared variances of all possible pairs of scales are smaller than average variances extracted for each scale, a large body of research does not test the discriminant validity among sub-dimensions of market orientation. For instance, Langerak et al. (2004) establish the discriminant validity among different constructs, but the authors do not test the discriminant validity among sub-dimensions within market orientation. Similarly, Menguc and Auh (2006) establish the discriminant validity among market orientation and other constructs, but do not test the discriminant validity among sub-dimensions of market orientation. Kumar et al. (1998) test the dimensionality of market orientation scale and find that one-factor solution of market orientation scale explains 42.2% of the variance. Their results indicate the singularity assumption of Narver and Slater's (1990) market orientation conceptualization, which is consistent with our study.

Theoretical Implications

Our study contributes to the literature from three perspectives. The original market orientation conceptualization developed by Narver and Slater (1990) encompasses a firm's concern with its customers, competitors and interfunctional integration of the firm itself. Recent research calls for attention to other stakeholders besides customers and competitors that would also contribute to firm performance. The multiple stakeholders' perspective of market orientation enriches the resources for firms to establish competitive advantages. For instance, Elg (2007) posits that market orientation in the supply chain relationship needs to incorporate inter-firm relationships. In this study, we proposed a hypothetical model that encompasses distributor-supplier relationship into the traditional market orientation-performance model. From this standpoint, our study provides empirical support to Elg's (2007) propositions by testing the role of distributor-supplier relationships in determining firm performance. This study also answers the call of Hult (2011) suggesting multiple stakeholder sustainability as the new domain of market orientation. Results of this study suggest that in addition to customer orientation and competitor orientation, a firm in the supply chain context should also emphasize building a long-term relationship with vertical partners, who could provide the focal firm with a different knowledge pool of market information.

Second, market orientation studies are mostly conducted in a single industry. The effects of market orientation and its influence on firm performance and the strength of such influence regarding distributor firms and supplier firms have never been empirically compared in the literature. In some meta-analysis studies (e.g., Grinstein 2008; Kirca et al. 2005), researchers have compared the strength of the market orientation – performance relationship. Grinstein (2008) finds that the relationship between market orientation and innovation consequences is

stronger in service firms. Kirca et al. (2005) indicate that the relationship between market orientation and cost- and revenue-based performance is stronger in manufacturing firms. Considering that retailers are different from manufacturers in that they offer a bundle of products and services, we compared distributors and suppliers in the two-group model. We found that performance antecedents are the same for both distributors and suppliers. However, in the distributor firms, long-term orientation is determined by the firm's own market orientation, whereas in the supplier firm, it is determined by the partner's market orientation execution. Therefore, this study expands the domain of market orientation – performance research by providing a comparison of how market orientation influence performance in distributor firms and supplier firms.

Third, in this study, we adopted the reference group theory (Shibutani 1955; Kelley 1965) to explain the relationship between distributors and suppliers. The market-oriented focal firm is viewed as the reference group, which provides guidance and serves as a benchmark for the partner firm so that the partner firm is obligated to enhance its role performance. In support of this theoretical argument, our results demonstrate that market orientation and role performance has a strong relationship in both distributor and supplier groups. In the market orientation literature, Reference Group theory has been adopted to explain the impact of supplier's market orientation on distributor's market orientation (Siguaw et al. 1998). Our study is the first attempt to explain the impact of a firm's market orientation on its partner's role performance and its satisfaction with its partner.

Managerial Implications

Our study also provides managerial implications for distributors and suppliers. First, we confirmed the widely studied relationship between market orientation and firm performance in

both distributor and supplier groups. Therefore, different functional departments of a firm need to be well-coordinated, and collect and utilize market information regarding customers and competitors in order to achieve higher performance outcomes. It should be noted that one item under competitor orientation (*our sales people share information within our business concerning competitors' strategies*) had a very low item-factor loading in the distributor group. Interviews with buyers indicated that such information sharing is prohibited in Chinese retailers. If that is the case, then companies may consider reviewing the relevant policy and make a decision to balance the level of market orientation and confidentiality.

We also found that long-term orientation is a direct indicator of firm performance for both distributors and suppliers. According to the Transaction Cost Analysis, maintaining a long-term relationship with the exchange partner may reduce the transaction costs for both parties. For the focal firm, a long-term relationship reduces the risks and costs associated with searching for a new partner and investing in a new relationship. For the partner firm, long-term orientation eliminates the focal firm's opportunistic behavior and promotes mutual benefits of both parties. To develop a long-term relationship with an exchange partner, a firm may sacrifice short term profitability. However, as demonstrated in both models, long-term orientation in exchange relationships will enhance firm performance for both distributors and suppliers.

Partner firm's role performance is identified as an antecedent of satisfaction for both distributors and suppliers. Our model showed that the partner firm's higher level of role performance results in the focal firm's satisfaction, which further impacts trust, commitment and long-term orientation. From the channel relationship perspective, both distributor and supplier firms need to explicitly consider role performance indicators in order to establish favorable relationships with exchange partners.

CHAPTER 6

CONCLUSIONS

Market orientation has long been a research topic that receives extensive attention. In this study, we investigated how market orientation influences channel relationship. We compared the relationship between a distributor group and a supplier group and explained the similarities and differences between two types of firms. In addition, we extended the market orientation literature by incorporating a different stakeholder (upstream supplier or downstream distributor) into the model. We found a significant relationship between a firm's market orientation and its relationship building with exchange partners. Taken together, this study provides an empirical investigation of how market orientation influences a firm's performance through relationship building between channel partners and also provides managerial guidelines for both distributors and suppliers.

In our study, we started out by considering satisfaction as a two-dimensional construct that encompasses economic satisfaction and social satisfaction. To test the discriminant validity between these dimensions, we looked at cross-loadings from confirmatory factor analysis and numbers of factors extracted from exploratory factor analysis and variance-extracted percentages compared with the squared correlation of the two sub-dimensions (Fornell and Larcker 1981, Hair et al. 2005). However, all of these tests demonstrate that there was not sufficient discriminant validity to identify economic and social satisfaction as two separate dimensions. Similarly, we followed Ganesan's (1994) measurement of trust, but again, failed to confirm the discriminant validity between credibility and benevolence trust. A review of the literature reveals that although satisfaction and trust are commonly recognized as the key factors in a channel relationship they are either considered as single-dimensional constructs, or are treated as multidimensional without confirming the existence of multidimensionality. Therefore, future

research should consider whether there are separate dimensions of satisfaction and trust, or whether they are just single-dimensional. Looking back to the measurement items, we find that some items under social satisfaction can be interpreted by both economic and social aspects of a relationship. For instance, the item that measures a relationship that is friendly is categorized as social satisfaction. However, it can also be argued that a friendly relationship can be based on both economic benefits and interpersonal friendship. On the other hand, receiving marketing and selling support of high-quality products is considered as economic satisfaction, but may also foster the non-economic satisfaction between firms.

We adopted Narver and Slater's (1990) market orientation scale but did not find the discriminant validity among customer orientation, competitor orientation and interfunctional coordination. Narver and Slater's (1990) conceptualization considers market orientation as an organizational culture that shapes the firm's behavior. As a cultural perspective, market orientation should be a consistent activity. This might explain why there is a lack of discriminant validity. Instead, Kohli and Jaworski's (1990) field perspective which encompasses three processes of market orientation may demonstrate better discriminant validity. The reason that we adopted Narver and Slater's (1990) conceptualization is because we took a stakeholders' perspective of market orientation, and we called for the attention of downstream and/or upstream exchange partners in addition to customers and competitors.

Limitations

Nevertheless, our study has several limitations. To collect data on the partner firm's market orientation, we evaluated the partner firm's market orientation from the perspective of the focal firm. However, a firm's perception of the partner firm's market orientation may differ from the partner firm's actual market orientation. Partner firm's role performance (e.g., product

delivery, reasonable margin, sales volume) may be different from the partner firm's perspective. In this research setting, dyadic data would be more desirable.

Second, to evaluate firm performance, we adopted subjective measures. Although subjective measures of performance have been widely used in the market orientation literature (e.g., Kumar et al. 1998; Matsuno and Mentzer 2000), a combination of subjective and objective measures would be more desirable. Therefore, future research could consider incorporating objective measures of performance in addition to subjective measures such as the actual values of return on assets and sales growth.

Future Directions

Our first suggestion in regards to future research concerns the dimensionality of satisfaction and trust. We suggest future research re-consider the dimensions of these constructs for several reasons. First, we did not find discriminant validity for satisfaction and trust in both the distributor group and the supplier group. Second, an examination into the measurement items indicates that some economic satisfaction items can be interpreted as social satisfaction, and vice versa. Third, previous research on satisfaction and trust either considers them as single-dimensional constructs or adopts them as multidimensional constructs without validating the dimensionality. From the perspective of theory development, this leads us to think about whether these constructs are single-dimensional by nature, or whether other sub-dimensions (such as satisfaction/trust with the person and the company) exist.

In this study, we found that in a distributor-supplier relationship, both market orientation and channel relationship have a significant impact on firm performance. However, the traditional market orientation conceptualization only encompasses customer orientation and competitor orientation. Considering the important role of retailers who provide a combination of product and

service, future research may develop a new scale of market orientation by incorporating the vertical partner orientation. We expect that a new market orientation conceptualization including customer orientation, competitor orientation and vertical partner orientation would become a stronger indicator of firm performance.

We explored the construct of distributor role performance from several in-depth interviews with people who have worked for manufacturers and have experiences in selling products to retail buyers. Although this is not a case of rigorous scale development, it provides some directions for future research. In a previous study (Sternquist and Chen 2006) on Chinese buyer-supplier relationship, the authors interviewed Chinese retail buyers and developed a 5-item scale to measure supplier role performance. In this study, we explored the distributor role performance from the perspective of the suppliers and proposed a parallel scale with five indicators. To the authors' best knowledge, this is the first attempt to investigate distributor role performance. In this study, we found that partner's role performance plays an essential role in determining the focal firm's satisfaction with the partner firm. Future research on channel relationships could possibly consider establishing a scale for role performance via rigorous scale development techniques.

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