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CHINESE RETAIL BUYER-SELLER  
INITIATION AND MAINTENANCE OF RELATIONSHIPS

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Major Professor's Signature



Date

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**CHINESE RETAIL BUYER-SELLER  
INITIATION AND MAINTENANCE OF RELATIONSHIPS**

By

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# **ABSTRACT**

## **CHINESE RETAIL BUYER-SELLER INITIATION AND MAINTENANCE OF RELATIONSHIPS**

By

Zhengyi Chen

Three deficiencies in distribution channel research have been identified: 1) research on the process of relationship evolution; 2) research on the long-term orientation in foreign marketing channels (e.g. China); and 3) research from a distributor's perspective.

The aim of this study was to evaluate two theoretical models in the context of the Chinese market. The more specific goal of this study was to investigate how buyer-seller long-term relationships are initiated and maintained in the Chinese food retailer and supplier distribution channel, all from a buyer's perspective. The research question, therefore, is twofold: 1) What are the relationships among these variables at the retailer-supplier initiation stage; and 2) do these relationships change as the buyer and seller move into the maintenance stage? Because large-sample, firm-level data are very difficult to collect in China, a convenience sample was collected. Path analysis (LISREL 8.20) was used for model and hypothesis testing.

We discovered that only eight of the twenty-one relationships among the constructs remain the same at the two stages of the relationship, initiation and maintenance: 1) Role performance remained positively related to economic satisfaction and social satisfaction. 2) Role performance remained positively related to credibility trust. 3) Benevolence trust and credibility trust were found to be positively correlated. 4)

Credibility trust was found to be positively related to long-term orientation. 5) Benevolence trust was not related to long-term orientation. 6) Opportunism was negatively related to social satisfaction. 7) Social satisfaction was not related to long-term orientation.

Differences between the two stages were: 1) Role performance was found to be positively related to benevolence trust at the relationship initiation stage, but not at the maintenance stage. 2) Economic satisfaction was not related to benevolence trust at the relationship initiation stage, but was at the maintenance stage. 3) Social satisfaction was positively related to credibility trust at the relationship initiation stage, but not at the maintenance stage. 4) Economic satisfaction and social satisfaction were positively correlated at the initiation stage, but not at the maintenance stage. 5) Opportunism was found to be negatively related both to benevolence trust and credibility trust at the relationship initiation stage, but not at the maintenance stage. 6) Economic satisfaction was positively related to long-term orientation at the relationship initiation stage, but not at the maintenance stage. 7) Guanxi behaved differently at the two stages; not only did it appear to associate with different variables, but also its effects had opposite signs at the two stages; at the long-term relationship initiation stage, guanxi was noted to be negatively related to social satisfaction and long-term orientation but, at the maintenance stage, positively related to economic satisfaction. 8) Dependence asymmetry was discovered to have a moderator effect on the relationship between a seller's role performance and social satisfaction at the long-term relationship initiation stage, but not at the maintenance stage. 9) Dependence was positively related to long-term orientation at the long-term relationship initiation stage, but not at the maintenance stage.

**Dedicated to Lucas and Jun**

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# **CHAPTER 1**

## **INTRODUCTION**

### **Significance of the Study**

Since the late 1980s, a move in industrial markets from adversarial relationships focusing on a single exchange to collaborative partnerships focusing on building long-term relationships through nonmarket modes of governance (such as trust) has been documented in business publications (e.g., Davis, 1989; Emshwiller, 1991). In recent years, networks and relationship building have become critical for the survival and success of organizations around the world. For the last decade, leading marketing academics have advocated the adoption of a relational exchange model as a means of obtaining superior company sales and financial performance (e.g., El-Ansary, 1992; Gassenheimer, Calantone, & Robicheaux, 1992; Rowe & Barnes, 1998; Spekman, 1988). This relational exchange concept can be thought of as maintenance transfers of value between independent channel members where interactions and associations of personnel affect governance (Frazier, 1999). The advantage of establishing relational exchanges is recognized by Rowe and Barnes (1998, p292), who noted that a company's strategic ability to develop long-term, committed, trusting associations with customers is "value creating" because long-term relationships result in a "socially complex phenomenon" that would be otherwise very difficult and costly to imitate.

In a retailing environment, retail buyers that have long-term relationships with vendors can achieve a competitive advantage by receiving merchandise in short supply, favorable delivery terms, information on new and best-selling products and competitive activity, best allowable prices, and advertising and markdown allowances. Vendors that

have long-term relationships with retail buyers can achieve a competitive advantage by obtaining information on best-selling products and competitive activity, better cooperative advertising, and special displays for their merchandise (Ganesan, 1994). Noordewier, John, and Nevin (1990) found that relational elements (such as long-term orientation) enhance the performance outcomes in buyer-seller relationships. Anderson and Weitz (1992) referred to such a long-term orientation in a buyer-seller relationship as “commitment” and indicated that mutual commitment results in channel members working together to serve customer needs more fully and increase mutual profitability.

Therefore, understanding how to form and maintain long-term relationships in markets is an essential marketplace skill. This study evaluates two theoretical models in the context of the Chinese market. Managerial implications will be presented to assist western businesses in understanding Chinese channel relationships.

### **Problem Statement**

Modern exchange relationships in industrial markets moved from adversarial relationships focusing on a single exchange to collaborative partnerships focusing on building long-term relationships (Davis, 1989; Emshwiller, 1991; Webster, 1992). Consequently, in order to explain successful buyer-seller relationships, there was a research paradigm shift in the marketing distribution channel research community from relying only on dependence, power, conflict, and satisfaction concepts to relying on trust, commitment, and long-term orientation concepts. This research shift was launched when Dwyer, Schurr, & Oh (1987) introduced the relational contracting model (Macneil, 1978, 1980, 1981), which captured the rich nature of modern exchange relationships (Nevin, 1995).

Relationship marketing is characterized as a fundamental reshaping of the marketing field (Webster, 1992) and as a paradigm shift that deserves both new theory and language (Anderson, Hakansson, & Johanson, 1994; Nevin, 1995; Sheth & Parvatiyar, 1995). Despite the enthusiastic attention paid to the importance of relationship marketing, there has been little empirical research on business marketing that informs academics and practitioners of the process through which industrial buyer-seller relationships evolve over time (Wilson, 1995). It is both theoretically and methodologically important to ascertain the stage of a relationship before performing a causal analysis on it (Grayson & Ambler, 1999). For example, Garbarino and Johnson (1999) found that, for a short-term relationship, satisfaction is directly related to commitment, and for a long-term relationship, trust is the mediator between satisfaction and commitment. Jap and Ganesan (2000) found that the effect of transaction-specific investments on relationship commitment in manufacturer-retailer relationships is positive in the exploration and the decline phases, but not in the maturity stage.

Furthermore, marketing channel researchers to date lack an understanding of long-term orientation in foreign marketing channels; the element of long-term orientation in the Chinese channel relationship is an example. There is little research on the retail buyer-seller relationship in the Chinese distribution channel due to the fact that they have only recently had professional retail buyers. Retail reform began in 1992; before that, retailers in China were only manufacturers' showrooms instead of assemblers of lines of goods (Sternquist & Qiao, 1995). Since then, there have been only two studies that focused on retail buyer behavior in China. Hu (1998) studied retail buying behavior under varying ethical contexts in the Chinese market. She found that interpersonal

relationships are very important in Chinese retail buyers' ethical decision-making. Zhang (1999) studied the distribution channel for foreign branded apparel in China's market from a power perspective. He found that legitimate power sources<sup>1</sup> were regarded as the major power base by Chinese apparel retailers when attributing power to their suppliers. Retailers' attitudes toward their suppliers were positively related to suppliers' expert power, referent power, and coercive power. Neither study investigated the formation and maintenance of Chinese retail buyer-seller long-term relationships.

One more void in distribution channel research is addressed from the distributors' viewpoint (Frazier, 1999). As Frazier (1999, p237) pointed out, although "channel research has typically taken a manufacturer perspective, distributors play a crucial, often defining, role in determining the type of channel relationship formed, and the degree to which channel strategies are successful." During the buyer-seller initiation stage and during the process of the buyer's establishment of a long-term orientation with its new supplier, buyers and sellers are independent. In the first transaction they both make a decision on whether or not to continue the relationship. In markets, usually it is the buyer that ultimately makes the decision on whether or not to purchase from a seller. Thus, even if the seller and buyer have different views regarding relationships, it is the buyer's view that is likely to be the determinant view (Cannon & Perreault, 1999).

To fill in these gaps, this study attempts to investigate how buyer-seller long-term relationships are initiated and maintained in the Chinese food retailer and supplier distribution channel from the buyers' perspective. In this research, ten variables are examined: Supplier's role performance, opportunism, guanxi practice, retailer's economic satisfaction, social satisfaction, benevolence trust, credibility trust, long-term

orientation, dependence, and dependence asymmetry within the relationship. The research question is twofold: What are the relationships among these variables at the retailer-supplier initiation stage, and do these relationships change at the maintenance stage?

## **Long-term Relationship Initiation Stage and Maintenance Stage**

### **Theoretical Models**

Relationships go through phases characterized by distinct behaviors, processes, and orientations (Thibaut & Kelley, 1959). Frazier (1983a) proposed a framework of inter-organizational exchange behavior that attempts to describe and explain the relationship process from the initiation to the implementation and review stage of ongoing channel relationships. Dwyer, Schurr, and Oh (1987) presented a developmental model of buyer-seller relationships that has served as a basis for the relationship marketing area. This model is based on a model for the development of interpersonal, primarily romantic relationships. Using marriage as an analogy, Dwyer et al. (1987) described the evolution of buyer-seller relations to explain how discrete transactions (casual dating) might progress into more durable associations (marriage) supported by shared goals, planning, and commitment to the relationship. This durable association (marriage) is a restrictive trade agreement. The buyer and seller (the two individuals) agree to exchange only with one another at least until such time as the balance of trade becomes unfavorable in terms of broader market considerations (McCall, 1966, p. 197-198).

Dwyer et al.'s (1987) model is composed of five stages. They proposed that firms move through stages of *awareness* of a potential partner, *exploration* of the partner and

the potential relationship, *expansion* of inter-dependence and trust, *commitment* with a focus on maintaining the relationship, and, potentially, *dissolution* of the relationship, which is assumed to occur when the costs outweigh the rewards for one firm.

Wilson (1995) developed a process model that was built on the work of Dwyer et al. (1987) with the hybrid concept of Borys and Jemison (1989). Borys and Jemison's (1989) process model on hybrid structure of two organizations has four stages: defining the purpose of the relationship, setting the boundaries of the relationship, value creation and hybrid stability. Wilson (1995) proposed that firms move through stages of *searching and selecting* an appropriate partner, *defining the purpose* of the relationship, *defining the boundary* of the degree to which each partner penetrates the other organization and achieves joint action, *creating relationship value*, and finally *maintaining* the relationship.

While Frazier (1983a), Dwyer et al. (1987) and Wilson's (1995) models are stage models following a linear sequence, two other models are non-linear. Ring and Van de Ven (1994) proposed a non-linear process model of how inter-organizational relations *emerge, grow, and dissolve* over time. Their model suggests that organizations go through three stages -*negotiations, commitments, and executions stage* repetitively. The assessment at each stage involves sense making, including attributions about causes of performance. Performance in this model is assessed as equity and efficiency. Negative performance results would lead to withdrawal, renegotiation, or maintenance of the relationship.

Anderson (1995) proposed a non-linear model that suggests that relationships are remembered by managers, and thus experienced by them, as a series of exchange

episodes. Each episode consists of four events: *defining purpose, setting relationship boundaries, creating and sharing relationship value, and evaluating exchange outcomes.*

At the end of each episode, the partners make a decision about the relationship: either to continue at the same level, to extend, or to limit collaboration.

In sum, buyer-seller relationship development models are either linear or non-linear. Both types of models indicate that relationships go through an initiation, maintenance and dissolution process.

### **Empirical Results**

There are several empirical studies of buyer-seller relationship development. The Industrial Marketing and Purchasing (IMP) group (e.g., Hakansson, 1982; Hakansson & Wootz, 1979) conducted a project targeting industrial buyer-seller relationships. Using the case study approach, they studied a large number of industrial buyer-seller relationships in five countries (Sweden, UK, France, West Germany and Italy). Based on their case studies, Ford (1980) proposed that the overall buyer-seller relationship develops through five stages: the *pre-relationship* stage, the *early* stage, the *development* stage, the *long-term* stage and the *final* stage.

Jap and Ganesan (1995) conducted a cross-sectional survey on a chemical product supplier's retail customers. Their descriptions of relationship phases (*exploration, buildup, maturity, and decline*) are based on Dwyer, et al (1987) and Frazier's (1983a) work. They found that the levels of supplier commitment, performance, conflict, and satisfaction with the relationship varied significantly over the phases in a manner consistent with Dwyer, et al (1987) and Frazier's (1983a) work. Narayandas and Rangan (2004) did a longitudinal study on three buyer-seller dyad relationships in a mature

industrial market. They identified five processes that explain the evolution of buyer-seller relationships in mature industrial markets: leveraging relative position and power to define initial agreement terms, evaluating performance and converting it to interpersonal trust and inter-organizational commitment, transferring interpersonal trust to inter-organizational commitment, increasing interpersonal trust to balance initial contract terms, and increasing inter-organizational commitment to balance initial power asymmetries.

Under the assumption that the relationship development process is linear, Reinartz, Krafft and Hoyer (2004) studied the impact of the customer relationship management process (CRM) on performance. There are three dimensions of CRM: relationship initiation, maintenance and termination. For each dimension, the researchers listed the formalized activities that would increase a firm's performance and asked firms to indicate the degree they implement them. Findings suggest that the implementation of CRM processes is associated with better company performance in the relationship initiation and maintenance dimension, but not in the relationship termination dimension.

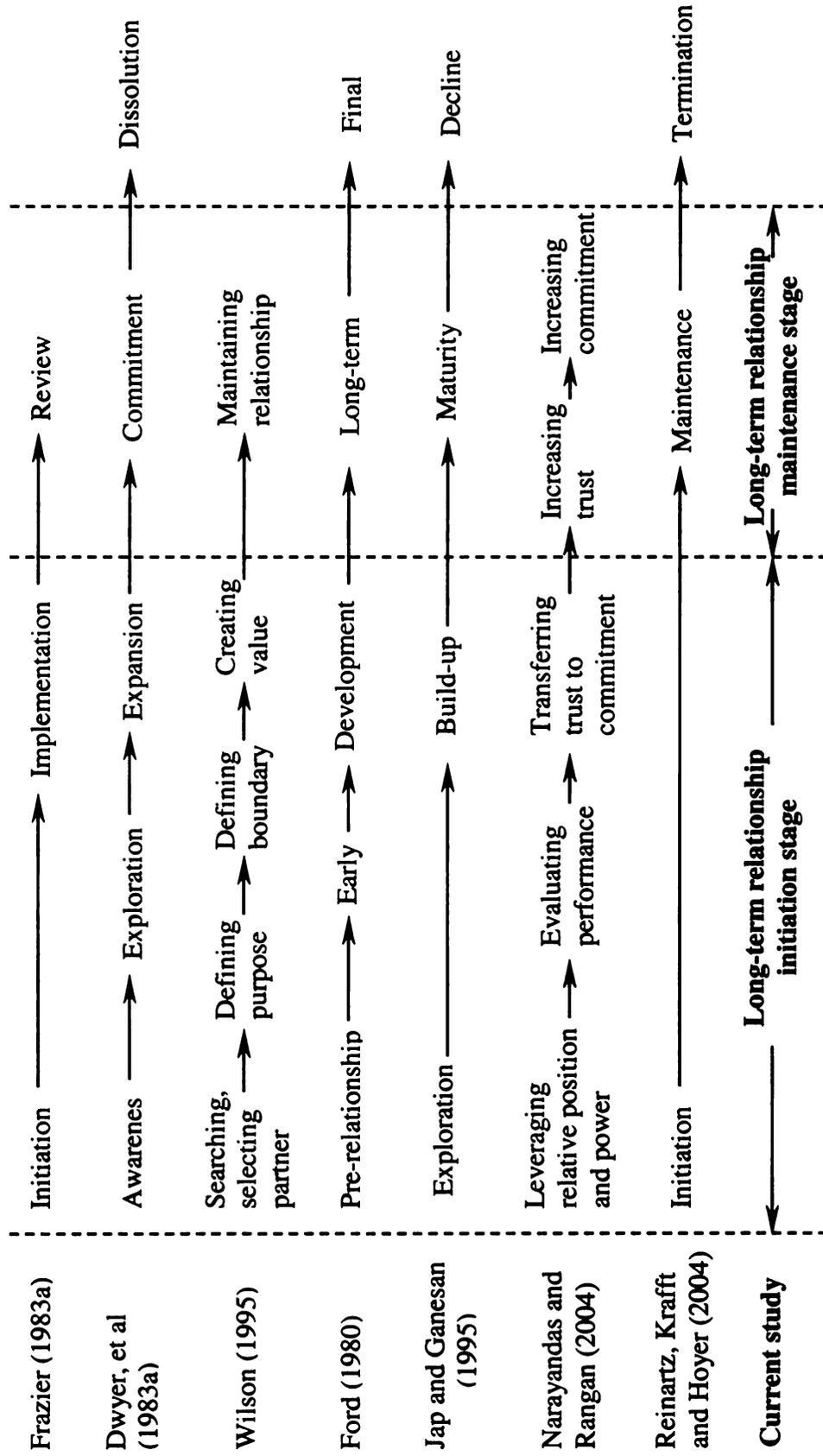
In our study, the long-term relationship initiation stage and the maintenance stage are the focus. The initiation stage of long-term relationships covers the period from before the formation of long-term orientation to the moment of the formation of long-term orientation; the long-term relationship maintenance stage covers the period from right after long-term orientation formed to right before the dissolution of relationship. The relationship initiation stage and maintenance stage are in accordance with other relationship development models (see Figure 1).

The buyer-seller long-term relationship initiation stage is the stage when buyer and seller both, after a period of transaction or cooperation trials, and after consistent satisfaction with the each other's performance and the value created during the cooperation, form a long-term orientation for the future relationship. In the buyer-seller long-term relationship maintenance stage, the buyer and seller have a stable relationship in which both buyer and seller have commitment to each other and both are willing to preserve this stability.

In the literature, there is no unambiguous way of defining the length of the initiation stage or maintenance stage of the long-term relationship. This study follows the approach of Reinartz and Kumar's (2000) longitudinal study of buyer-seller long-life relationship, which covered three years' data. Therefore, in this study, it is appropriate to define those buyer-seller relationships with a length of two years or less as at the long-term relationship initiation stage, and buyer-seller relationships with a length of three or more years as at the long-term relationship maintenance stage.

In the next chapter, a literature review is discussed, theoretical frameworks for retailers' and suppliers' long-term relationship initiation stage and maintenance stage are presented, and hypotheses for both relationship stages are proposed. Then an empirical study is described. Discussion and managerial implications / further research are presented in the last two chapters.

**Figure 1. Comparison of the Long-term Relationship Initiation Stage and Maintenance Stage to Other Models**



## **CHAPTER 2**

### **LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK**

This study targets retailer – supplier relationships beginning with the inception of each relationship. In other words, at the starting point of the relationship, the retailer and its supplier have little knowledge of each other in a business transaction. Under such circumstances, the Chinese retailer's long-term orientation formation and maintenance should basically follow the model of the U.S. retailer's long-term orientation formation and maintenance mechanism.

In the U.S., a party's (e.g., retailer) trust in its partner (e.g., supplier) is the antecedent of a long-term orientation. This is process-based and is the result of an evaluation of a good transaction experience with the supplier (Zucker, 1986). Sternquist and Chen (in press) did an in-depth interview study that confirmed the supposition that the Chinese retailer's long-term orientation formation and maintenance should basically follow the model of the U.S. retailer's long-term orientation formation and maintenance mechanism. They found that there is some similarity between the U.S. and China retail buyer-seller relationship. For example, in both cultures relationships are based on evaluations of the experience with partners.

In contrast, Chung, Sternquist, and Chen (2003) found that Japanese retailers are different. Long-term orientation is the antecedent of trust. In Japan, society provides social sanctions, which value harmony and constrain both parties in a relationship not to leave the relationship for fear of social punishment. China and U.S. societies are different from Japanese society in that both countries are multicultural and their people have a different value system (Sternquist, 1998).

In the following sections, literature from Western countries and China is reviewed and a new conceptual framework is proposed. The hypotheses are labeled with “i” for long-term relationship initiation stage, and with “m” for long-term relationship maintenance stage. In the following context, sometimes, “long-term relationship” is interchangeable with “relationship” to be concise.

### **Satisfaction**

Channel member satisfaction is defined most often as a positive affective state resulting from the appraisal of all aspects of a firm’s working relationship with another firm (Frazier, Gill, & Kale, 1989; Gaski & Nevin, 1985). A meta-analytical study by Geyskens, Steenkamp, and Kumar (1999) revealed that satisfaction is not a unitary or uni-dimensional construct. Geyskens and Steenkamp (2000) found that the results of studies where satisfaction focuses primarily on economic outcomes of the relationship proved to be substantially and consistently different from the results of studies that adopted a more social view of that satisfaction.

Economic satisfaction is defined as a channel member’s evaluation of the economic outcomes that flow from the relationship with its partner, such as sales volume, margins, and discounts (Geyskens & Steenkamp, 2000). According to Geyskens et al. (1999), an economically satisfied channel member considers the relationship to be a success with respect to goal attainment. The member is satisfied with the general effectiveness and productivity of the relationship with its partner as well as with the resulting financial outcomes.

Social satisfaction is defined as a channel member’s evaluation of the psychosocial aspects of its relationship, in which interactions with the exchange partner

are fulfilling, gratifying, and facile (Geyskens & Steenkamp, 2000). A channel member satisfied with the social outcomes of the relationship “appreciates the contacts with its partner, and, on a personal level, likes working with it [partner], because it believes the partner is concerned, respectful, and willing to exchange ideas” (Geyskens et al., 1999, p.224).

### **Outcomes of Supplier’s Role Performance: Economic Satisfaction and Social Satisfaction**

According to Frazier et al.’s (1989) definition, the supplier’s role performance refers to how well the supplier does its job in a channel relationship with a retailer. We conducted pre-study interviews and identified five basic elements of the supplier’s role in a channel relationship in the retail market of China: 1) reasonable margin for retailers, 2) uniqueness of products, 3) delivery of goods, 4) well known/respected brands, and 5) product quality.

According to social exchange theory (Kelley & Thibaut, 1978; Thibaut & Kelley, 1959), in the exchange relationship between two participants (e.g. a retailer and a manufacturer), once interaction begins, the fate of the relationship (its likelihood of continuation and/or survival) depends on the level of outcomes the two parties experience. Hence, there should be an evaluation process of the interaction experience for each party. The two criteria of evaluation are: 1) each member’s comparison level (CL), a standard against which the member evaluates the attractiveness of the relationship or how satisfactory it is; and 2) each member’s comparison level for any alternatives (CL<sub>alt</sub>), which is the standard that the member uses in deciding whether to remain in or leave the relationship.

Therefore, the retailer's economic and social satisfaction are the result of the evaluation of the economic and social outcomes in its interaction experience with the supplier. The supplier's good role performance leads to the retailer's positive economic outcomes and feeling that the interaction is fulfilling. Few studies were conducted to investigate the relationship between role performance and economic satisfaction or social satisfaction. Studying the roster of members in the National Office Product Association, Gassenheimer, Calantone, Schmitz, and Robicheaux (1994) investigated the weaker dyad member's behavior and attitude toward maintaining relationships with its preferred suppliers. They found that the supplier's role performance was positively related to the dealer's satisfaction. Frazier (1983b) found manufacturer role performance to be positively related to dealer satisfaction. According to the social exchange theory, Dwyer et al. (1987) and Wilson (1995) proposed that there is an evaluation process for the supplier's role performance during the early stages of the retailer-supplier relationship development.

The research stream pursued by the IMP group (e.g., Hakansson, 1982; Hakansson & Wootz, 1979) conceptualized an exchange relationship as a series of discrete episodes or interactions that yield economic and social outcomes. Evaluations of such interactions provide opportunities for firms to interpret each other's actions (Anderson & Narus, 1990; Doney & Cannon, 1997; Morgan & Hunt, 1994) and are factors in a firm's decision to continue or terminate a relationship (Friedman, 1991). Narayandas and Rangan (2004) did a longitudinal study of three buyer-seller dyad relationships in a mature industrial market and found the evaluation to be episodic; if at any time, a partner fails to perform to the agreed-upon terms, the relationship is in

jeopardy. Several conceptual process models of relationship development in marketing are consistent with this research (e.g., Anderson, 1995; Ford, 1990; Hakansson, 1982; Hakansson & Wootz, 1979; Nevin, 1995; Wilson, 1995). These models have implied that firms evaluate each other's performance episodically (or periodically) and posited that parties will remain in a relationship only if its rewards are satisfactory relative to its costs. Hence, the evaluation process of a supplier's role performance is proceeding even when the relationship is established or ongoing (Garbarino & Johnson, 1999).

Therefore, Hypothesis 1 is proposed for both the long-term relationship initiation stage and maintenance stage of the retailer-supplier relationship (see Figure 2 and 3):

**H<sub>i</sub>1.** At the long-term relationship *initiation* stage, a Chinese retailer's economic satisfaction (**a**) and social satisfaction (**b**) are positively related to its supplier's role performance.

**H<sub>m</sub>1.** At the long-term relationship *maintenance* stage, a Chinese retailer's economic satisfaction (**a**) and social satisfaction (**b**) are positively related to its supplier's role performance.

## **Trust**

Trust is important in exchange relations where uncertainty is present (Mayer, Davis, & Schoorman, 1995). In the strategy and marketing literature, inter-organizational trust has been related to desirable outcomes, such as competitive advantage (Barney & Hansen, 1994), firm performance, conflict and opportunism reduction (Zaheer, McEvily, & Perrone, 1998), satisfaction (Geyskens, Steenkamp, & Kumar, 1998), and other favorable economic outcomes (Doney, Cannon, & Mullen, 1998; Pavlou & Ba, 2000). From the new institutional economic literature, studies indicate that trust reduces the

transaction costs of an exchange, resulting in efficient transactions (Bromiley & Cummings, 1995; Kwon & Suh, 2005; Dyer & Chu, 2003). Sociology literature argues that trust is embedded in the social context of buyer-seller relationships and it modifies economic activity and creates social capital (Granovetter, 1985). In the organizational literature, trust has been posited to operate as a governance mechanism (Bradach & Eccles, 1989), diminishing opportunism in exchange relations and promoting cooperation (Morgan & Hunt, 1994).

The literature on trust provides two general types of trust: confidence or predictability in a trustor's expectations about a party's behavior, and confidence in a party's goodwill (Doney & Cannon, 1997; Ganesan, 1993; Ring & Vandeven, 1992). The first type, commonly associated with the dimension of credibility, refers to a party's predictability, reliability, honesty, expertise, and competence; this type has been viewed as an expectation that an entity will behave in a predictable manner and can be relied on to fulfill contractual obligations (Anderson & Weitz, 1989). The second type, commonly related to the dimension of benevolence, refers to the expectation that a party will act fairly and will not take unfair advantage of the trustor, even when given the chance (Anderson & Narus, 1990). Trust in the partner's benevolence is a channel member's belief that the partner is genuinely interested in one's interests or welfare and is motivated to seek joint gains. A benevolent partner subordinates an immediate self-interest for long-range group gain (Anderson, Lodish, & Weitz, 1987; Crosby, Evans, & Cowles, 1990).

Summarizing these two types, inter-organizational trust reflects two dimensions (Ganesan, 1994): 1) credibility, which is based on the extent to which a buyer

organization believes that the seller firm has the intention to perform the transaction effectively and reliably because of fears of imposing costs on opportunism, and 2) benevolence, which is based on the extent to which a buyer organization believes that the seller firm has intentions and motives beneficial to them, even when new conditions without any prior commitment arise. Borys and Jemison (1989) argued that benevolence is a higher level of trust compared to credibility because cooperative behavior is not based on rational calculation, but rather on goodwill. Therefore, the antecedents of trust may have a different contribution to these two dimensions of trust, as illustrated later in our study.

These two facets of trust were confirmed by later studies. Benevolence trust and credibility trust have different relationships with other relationship variables. For example, Bell, Oppenheimer, and Bartien (2002) found that once the supplier observes violations of benevolence, it will notice issues of credibility. Ganesan (1994) investigated the two facets independently in retailer and manufacturer relationships in the U.S. and concluded that the two facets did demonstrate different relationships with other variables. For example, credibility trust is positively related to long-term orientation, whereas, benevolence trust is not related to long-term orientation. It would be appropriate then to investigate credibility trust and benevolence trust separately.

### **Outcomes of Supplier's Role Performance: Benevolence Trust and Credibility Trust**

Although researchers have found a positive relationship between role performance and trust, previous studies did not differentiate the two types of trust relationships with role performance. Harich and LaBahn (1998) did 52 in-depth field interviews with Mexican purchasing directors and found that customer trust is one of the

outcomes of salesperson role performance. Kumar, Scheer, and Steenkamp (1995) did a field study of 417 small US dealers and 289 small Dutch dealers, reporting on their relationship with suppliers; the research found a positive relationship between dealers' economic outcomes and trust in their suppliers.

We can deduce the relationship between role performance and the two types of trust based on the definition of credibility trust and benevolence trust. A retailer has credibility trust in its supplier when that retailer believes the supplier has the ability to perform the transaction effectively and reliably. The better the supplier performs its role, the more the retailer will feel the supplier is credible. Likewise, when a supplier performs its role well, the retailer will believe that the supplier has intentions and motives that are beneficial to the retailer. In other words, the supplier must not act opportunistically or take unfair advantage of the retailer when given the chance; otherwise, the retailer's economic outcomes will not be satisfactory. Hence the supplier's good role performance leads to the retailer's benevolence trust in the supplier.

The trust resulting from evaluating the supplier's role performance exists at both the relationship initiation stage and the maintenance stage (Wilson, 1995). Thus, Hypothesis 2 is proposed for both the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>2.** At the long-term relationship *initiation* stage, a Chinese retailer's benevolence trust (a) and credibility trust (b) are positively related to its supplier's role performance.

**H<sub>m</sub>2.** At the long-term relationship *maintenance* stage, a Chinese retailer's benevolence trust (a) and credibility trust (b) are positively related to its supplier's role performance.

### **Outcomes of Satisfaction: Trust**

Although researchers found a positive relationship between satisfaction and trust, there is no consensus as to the causal ordering of satisfaction and trust. One argument is that satisfaction is a consequence of trust, and satisfaction is a global evaluation of fulfillment in the relationship, to which trust may contribute (e.g., Andaleeb, 1996; Anderson & Narus, 1990; Armstrong & Yee, 2001; Geyskens et al., 1998; Grewal, Comer, & Mehta, 1999; Pavlou, 2002; Sanzo, Santos, Vazquez, & Alvarez, 2003). In contrast, the other argument is that satisfaction fosters trust (Batt, 2003; Ganesan, 1994; Garbarino & Johnson, 1999; Geyskens et al., 1999; Selnes, 1998; Yu & Pysarchik, 2002). In our study, the argument that satisfaction fosters trust is developed. The rationale is that the trust exists in the established relationships, but it doesn't exist at the beginning of the relationship. This theory is in accordance with Dwyer et al.'s (1987) rationale on relationship development, which adopts a longitudinal perspective on channel relationships. Satisfaction and trust are formed during subsequent phases of relationship development. Satisfaction develops in the short run and is a report of past interaction (Williams & Hazer, 1986). Trust takes relatively longer to develop and has a more expectational quality to it (Williams & Hazer, 1986).

There is little research on how economic or social satisfaction is associated with either credibility trust or benevolence trust. According to the definitions of the two types of satisfaction and the two types of trust, economic satisfaction should have a direct relationship with benevolence trust; and social satisfaction should have a direct relationship with credibility trust. After a retailer is satisfied with the economic outcome from the initial interaction with the supplier, the retailer's economic goal is reached and

is not endangered; this economic satisfaction must foster benevolence trust which means the retailer believes that the supplier will put the retailer's interest on a par with its own. At the same time, the retailer is satisfied with the psychosocial aspects of the relationship with its supplier. The supplier should have a high degree of predictability, reliability, integrity and honesty, indicating credibility.

The link between economic satisfaction and benevolence trust has not been investigated. Also, the link between social satisfaction and credibility trust is not well understood. Additionally, we do not know if these satisfaction-trust relationships exist at both the initiation and maintenance stages of the relationship. Periodically, partners evaluate their economic and social satisfaction with the buyer and seller relationship (Narayandas & Rangan, 2004). As discussed in the satisfaction section, we can deduce that the economic and social satisfaction resulting from that evaluation can foster trust at both stages.

Therefore, Hypothesis 3 is proposed for both the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>3.** At the long-term relationship *initiation* stage, a Chinese retailer's economic satisfaction fosters benevolence trust in its supplier (**a**); a Chinese retailer's social satisfaction fosters credibility trust in its supplier (**b**).

**H<sub>m</sub>3.** At the long-term relationship *maintenance* stage, a Chinese retailer's economic satisfaction fosters benevolence trust in its supplier (**a**); a Chinese retailer's social satisfaction fosters credibility trust in its supplier (**b**).

Economic satisfaction and social satisfaction are the two components of satisfaction. Geyskens and Steenkamp (2000) found the correlation coefficient between

economic satisfaction and social satisfaction was .56 in the sample of butchers and .46 in the sample of bakers. Both correlations are significantly below unity ( $p$ 's  $<.001$ ), indicating that the two components of channel member satisfaction are positively related but not redundant. Credibility trust and benevolence trust are the two components of trust. Ganesan (1994) found that the two-component model of trust best fit his data. Hence, Hypothesis 4 is proposed for both the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>4.** At the long-term relationship *initiation* stage, a Chinese retailer's economic satisfaction and social satisfaction are positively correlated (**a**); a Chinese retailer's benevolence trust and credibility trust are positively correlated (**b**).

**H<sub>m</sub>4.** At the long-term relationship *maintenance* stage, a Chinese retailer's economic satisfaction and social satisfaction are positively correlated (**a**); a Chinese retailer's benevolence trust and credibility trust are positively correlated (**b**).

### **Opportunism**

In the original transaction cost literature, opportunism is defined in general terms as "self-interest seeking with guile" (Williamson, 1975, p. 6). What sets opportunism apart from the standard economic assumption of self-interest seeking behavior is the notion of guile. In his subsequent work, Williamson (1985, p. 47) describes guile as lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse. In practical terms, this characterization allows for the possibility that human beings are only weakly moral (Douglas, 1990) and cannot be counted on to honor contracts or fixed rules of interaction (John, 1984; Williamson, 1993).

This previous conceptualization has been described as “blatant” or “strong form” opportunism (Masten, 1988). Research suggests that formal contracts often play a relatively limited role in inter-firm relationships (Macaulay, 1963; Macneil, 1978). Even if a contract exists in a particular relationship, it is often augmented by a variety of applicable/related norms and informal agreements (Heide & John, 1992; Macneil, 1978).

Macneil (1978) called informal agreements relational contracts. Such contracts are sometimes described as “social contracts”(John, 1984; Macneil, 1980) and are often incomplete in a formal sense. These contracts have been described as frameworks (Llewellyn, 1931) rather than complete governance devices in their own right. Therefore, according to Macneil (1981), opportunism under relational contracting means that specific contracting norms are being violated in a particular relationship.

Beyond formal or informal norms that opportunists can violate, opportunism could happen in terms of goodwill trust. For example, a supplier that withholds a vital piece of technical information is acting opportunistically according to the goodwill trust definition, but not in the strict contractual sense (Sako & Helper, 1998).

### **Effect of Opportunism on Benevolence Trust and Credibility Trust**

Friman et al. (2002) interviewed five different service entrepreneurs in Sweden, Australia, and the UK and found during the establishment of a business, one party’s opportunistic behavior deteriorates its partner’s trust. Bell et al.'s (2002) case study examined the deteriorating relationship between two international high-tech firms who had an established relationship. The research found that the supplier’s perceptions of a partner’s opportunistic behavior contribute to its decreasing trust levels. Several survey studies found a negative relationship between the seller’s opportunistic behavior and the

buyer's trust in the seller (Armstrong & Yee, 2001; Morgan & Hunt, 1994; Batt, 2003), although Kwon & Suh (2005) found that this relationship was not significant.

Few studies have investigated the relationship between opportunism and benevolence trust and credibility trust separately; even fewer studies have investigated those relationships at the relationship initiation stage and the maintenance stage, respectively. Therefore, we propose the same negative relationship between opportunism and benevolence trust or credibility trust as what was found for the relationship between opportunism and trust. Furthermore, we propose the same kinds of relationships for both the relationship initiation stage and the maintenance stage. Our data will reject or support these hypotheses and future studies will collect more data to repeat the test. Hence, Hypothesis 5 is proposed for both the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>5.** At the long-term relationship *initiation* stage, a Chinese retailer's benevolence trust (a) and credibility trust (b) are negatively related to its supplier's opportunism.

**H<sub>m</sub>5.** At the long-term relationship *maintenance* stage, a Chinese retailer's benevolence trust (a) and credibility trust (b) are negatively related to its supplier's opportunism.

According to Bell, et al.'s case study (2002), during the buyer-supplier's trust deterioration, benevolence is more important and triggers companies to reassess their trust levels. The author calls for further study to reassess the importance of benevolence trust. Therefore Hypothesis 5c is proposed for both the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>5c.** At the long-term relationship *initiation* stage, the relationship between a Chinese retailer's benevolence trust and its supplier's opportunism is stronger than the relationship between the retailer's credibility trust and its supplier's opportunism.

**H<sub>m</sub>5c.** At the long-term relationship *maintenance* stage, the relationship between a Chinese retailer's benevolence trust and its supplier's opportunism is stronger than the relationship between the retailer's credibility trust and its supplier's opportunism.

### **Effect of Opportunism on Social Satisfaction**

Studying the German automotive industry, Backhaus and Buschken (1999) found that opportunistic behavior leads to an unsatisfying relationship. Studying the relationship between food franchisers and franchisees, Gassenheimer, Baucus, and Baucus (1996) found a negative relationship between a franchiser's opportunistic behavior and the franchisee's satisfaction. Entrepreneurs who pursue conflicting goals lack confidence that they can work together, think they interact ineffectively, make little progress on tasks, and do not expect to collaborate productively in the future (Gassenheimer et al., 1996). Periodically partners evaluate their economic and social satisfaction with the buyer and seller relationship (Narayandas & Rangan, 2004). As discussed in the satisfaction section, we can deduce that opportunism will lead the retailer's social dissatisfaction at both stages.

Although the relationship between opportunism and social satisfaction is self-evident, it is retained in the models to avoid omitting variable error. Therefore, Hypothesis 6 is proposed regarding the initiation stage and maintenance stage of the retailer-supplier relationship:

**H<sub>16</sub>**. At the long-term relationship *initiation* stage, a Chinese retailer's social satisfaction is negatively related to its supplier's opportunism.

**H<sub>m6</sub>**. At the long-term relationship *maintenance* stage, a Chinese retailer's social satisfaction is negatively related to its supplier's opportunism.

### **Long-Term Orientation**

A retailer's long-term orientation is the perception of inter-dependence of outcomes where both a vendor's outcomes and joint outcomes are expected to benefit the retailer in the long term (Ganesan, 1994; Kelley & Thibaut, 1978). Retailers with a short-term orientation are concerned only with the options and outcomes of the current period; whereas retailers with a long-term orientation focus on achieving future goals and are concerned with both current and future outcomes (Ganesan, 1994). Firms with a long-term orientation depend on "relational exchanges" to maximize profits over a series of transactions; whereas firms with a short-term orientation rely on the efficiencies of market exchanges to maximize profits in individual transactions (Ganesan, 1994). In addition, long-term orientation has been differentiated from the expectation of relationship continuity (Anderson & Weitz, 1989; Noordewier et al., 1990); long-term orientation focuses on the strong desire for and intent to *establish* a long-term relationship, rather than just on the desire for probable future interaction (Ganesan, 1994; Morgan & Hunt, 1994). Although long-term orientation indicates a desire for future interaction, or relationship continuity, long-term orientation has been proposed as a better indicator of closeness in relationships than simply relationship duration (Ganesan, 1994). Long-term orientation refers to an orientation toward a specific vendor, not a generalized orientation toward all vendors (Ganesan, 1994).

Long-term orientation is different from commitment, but the two constructs do have something in common. Commitment is a desire to continue the relationship in the future and a willingness to make short-term sacrifices to *maintain* the relationship (e.g., Anderson & Weitz, 1992). Commitment does not develop fully until relationships enter the maintenance phase of buyer-seller relationship development, the commitment phase; this is a phase characterized by both parties purposefully engaging resources to maintain their relationship (Dwyer et al., 1987).

Commitment is composed of two components: 1) attitude and 2) behavior (Mowday, Steers, & Porter, 1979). A party's attitudinal commitment in a dyad is a long-term orientation to its relationship with the other party (Anderson & Weitz, 1992; Morgan & Hunt, 1994). Long-term orientation indicates the intention and desire for establishing long-term relationship. Commitment indicates the desire to maintain the established relationship. Therefore, long-term orientation is established at the early stage of a relationship and from the start of the relationship maintenance stage (right after the long-term orientation is formed), long-term orientation can be regarded as an attitudinal commitment.

#### **Antecedent of Long-term Orientation: Credibility Trust**

Empirical studies (Doney & Cannon, 1997; Friman et al., 2002; Narayandas & Rangan, 2004; Pavlou, 2002) found that trust is the antecedent of long-term orientation during the buyer-seller relationship formative stage. To study how service firms develop and maintain international relations during the establishment of a business, Friman et al. (2002) interviewed five different service entrepreneurs in Sweden, Australia and the UK. All the entrepreneurs emphasized that trust is a critical antecedent to commitment. When

examining the nature of the trust developing process, Doney and Cannon (1997) found the buying firm's trust of the supplier firm was the antecedent of the buying firm's anticipation of some future interaction. Studying 102 organizational buyers in an online B2B marketplace, each of whom had five or more transactions for high-priced industrial equipment, Pavlou (2002) found that trust in a seller's credibility positively influenced the buyer's continuity; trust in the seller's benevolence positively influenced the buyer's continuity. Narayandas & Rangan's (2004) longitudinal study of three buyer-seller dyad relationships in a mature industrial market found that trust is the deal breaker to drive commitment. More specifically, interpersonal trust facilitates the development of inter-organizational commitment. With the absence of such trust, the commitment will be destroyed.

Although other researchers, when they investigated the buyer-seller relationships, did not study the relationship between trust and long-term orientation at specific stages of the relationship, they did find trust to be the antecedent of long-term orientation. Ganesan (1994) studied eight retail department store chains where 48 retail buyers responded to a questionnaire based on short-term relationships with their vendors and 76 retail buyers responded based on long-term relationships with their vendors. Ganesan found that there is a positive relationship between a vendor's credibility trust and a retailer's long-term orientation; however, there is a non-significant relationship between a vendor's benevolence trust and a retailer's long-term orientation. Yu and Pysarchik (2002) studied 210 cosmetic retailers, whose representatives responded to questions about their relationship with major manufacturers. The length of the relationship ranged from less than 4 years to more than 10 years. They found a positive relationship between trust and

long-term orientation. Other researchers reported a positive relationship between trust and commitment (e.g. Andaleeb, 1996; Garbarino & Johnson, 1999; Geyskens et al., 1999; Kwon & Suh, 2005; Morgan & Hunt, 1994; Siguaw, Baker, & Simpson, 2003).

A retailer's trust in a vendor affects the long-term orientation of that retailer in three ways (Ganesan, 1994): 1) it reduces the perception of risk associated with opportunistic behaviors by the vendor; 2) it increases the confidence of the retailer that short-term inequities will be resolved over a long period and 3) it reduces the transaction costs in an exchange relationship.

Ganesan (1994) is the only researcher who has empirically investigated the relationships between credibility trust and long-term orientation and between benevolence trust and long-term orientation. He found that trust is important in developing a long-term orientation, but only one dimension of trust (credibility) is a significant predictor. Both retailers' and vendors' viewpoints indicate that the perception of benevolence is not a significant determinant of long-term orientation. Friman, et al. (2002), in an in-depth interview study found that credibility, instead of benevolence, is the foundation for the more involved form of commitment.

Other researchers (e.g., Dwyer et al., 1987; Haas & Deseran, 1981) have claimed that trust is an important factor early in a relationship and an essential precondition for the relationship to move to more committed stages of development. Trust is often highlighted as important in long-term or established relationships, but Grayson & Ambler (1999) found that trust is important early in a relationship as well.

Therefore, Hypothesis 7 is proposed for both the initiation stage and maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>7a.** At the long-term relationship *initiation* stage, a Chinese retailer's benevolence trust in its supplier is *not* related to its long-term orientation.

**H<sub>m</sub>7a.** At the long-term relationship *maintenance* stage, a Chinese retailer's benevolence trust in its supplier is *not* related to its long-term orientation.

**H<sub>i</sub>7b.** At the long-term relationship *initiation* stage, a Chinese retailer's credibility trust in its supplier is positively related to its long-term orientation.

**H<sub>m</sub>7b.** At the long-term relationship *maintenance* stage, a Chinese retailer's credibility trust in its supplier is positively related to its long-term orientation.

### **Antecedents of Long-term Orientation: Economic Satisfaction and Social Satisfaction**

There are few empirical studies that have investigated the relationship between long-term orientation and satisfaction. In a study of the relationships between cosmetic retailers and their manufacturers, Yu and Pysarchik (2002) found that trust is the mediator between economic / non-economic satisfaction and long-term orientation. In other words, there is no direct relationship between economic / non-economic satisfaction and long-term orientation. However, Ganesan (1994) found that satisfaction with previous outcomes is positively related to a retailer's long-term orientation. Neither study investigated the relationships separately for the initiation stage and maintenance stage of the relationships.

At the initiation stage of a relationship, the relationship is not established, and both parties of the buyer-seller dyad are at the evaluation stage. The relationship could end or could continue after the parties evaluate their experience with the other party. Although it is not an organizational buyer-seller study, Garbarino and Johnson's (1999)

study is the only empirical study on buyer-seller relationships that segments the relationships into low relational and high relational typologies. They studied customers of a New York off-Broadway repertory theater company by segmenting the customer base into low and high relational groups. They found that for low relational customers, overall satisfaction was the primary mediating construct between the component attitudes and future intentions (overall satisfaction is directly and positively related to commitment); for high relational customers (consistent subscribers), trust rather than satisfaction was the mediator between component attitudes and future intentions (trust instead of satisfaction is directly and positively related to commitment). Because at the initiation stage of the relationship, a relationship is not fully established, the relationship should have low relational characteristics. Narayandas and Rangan (2004), in their longitudinal study on three buyer-seller dyad relationships found that during the maintenance stage of a relationship, trust is the only factor that drives commitment. Therefore, Hypothesis 8 is proposed for the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>8.** At the long-term relationship *initiation* stage, a Chinese retailer's economic satisfaction (a) and social satisfaction (b) with its supplier are positively related to its long-term orientation.

**H<sub>m</sub>8.** At the long-term relationship *maintenance* stage, a Chinese retailer's economic satisfaction (a) and social satisfaction (b) with its supplier are *not* related to its long-term orientation.

### **Effect of Opportunism on Long-term Orientation**

As discussed in the section on opportunism, opportunism is some form of cheating or undersupply relative to an implicit or explicit contract. One party's opportunism creates trading difficulties and leads to its partner's economic loss (Wathne & Heide, 2000). As such, the partner has to increase costs to manage opportunism. Hence, under the same conditions, when there is an alternative supplier, there is high probability for a company to switch its partner. Studying national tire dealers and retreaders, Morgan and Hunt (1994) found there is a positive relationship between a supplier's opportunistic behavior and the dealer's propensity to leave the relationship. In our study, we propose different kinds of relationships between opportunism and long-term orientation at different stages. At the long-term relationship initiation stage when long-term orientation is not fully formed, trust in their partner is the dominant factor for firms to enter relationships. Other factors can influence the decision of forming long-term orientation only indirectly by affecting the level of trust experienced by firms, and opportunism is one of them. Therefore we do not propose a direct relationship between opportunism and long-term orientation at this stage. Hypothesis 9 is proposed only for the maintenance stage of the retailer-supplier relationship:

**H<sub>m9</sub>**. At the long-term relationship *maintenance* stage, a Chinese supplier's opportunism with its retailer is negatively related to the retailer's long-term orientation.

### **Guanxi and Guanxi Practice**

Guanxi refers to the existence of direct particularistic ties between an individual and others (Farh, Tsui, Xin, & Cheng, 1998) and is a social relationship that has a reciprocal requirement. Guanxi practice (e.g., banqueting, gift-giving, etc.) is used to

build or maintain personal social relationships. It has been recognized that the traditional practice of relationship marketing in the Chinese business community, known as guanxi or “personal relationship,” is a major barrier hindering outsiders from penetrating the world’s fourth major economic power after North America, Europe and Japan, namely the Chinese Commonwealth (Fock & Woo, 1998). Managers’ interpersonal ties with top executives at other firms are particular resources that newcomers cannot imitate.

Although the Chinese can hardly claim to be the only society where networks play an important role in social life, many observers and scholars of China recognize guanxi as something special, and even crucial, within Chinese society and Chinese circles, and more broadly prevalent than elsewhere (Gold, Guthrie, & Wank, 2002).

There are two main arguments regarding the origin of guanxi and guanxi practice in the literature. One argument is that guanxi is an essential element of Chinese culture and a phenomenon deeply rooted in the Chinese psyche. In contrast to the individual orientation in the Judeo-Christian tradition, deriving identity and fulfillment from a direct spiritual relationship to God, Chinese people believe there can be no fulfillment for the individual in isolation from his fellow men (deBary, 1985; King, 1985). It follows that understanding and successfully managing interpersonal relationships are essential elements of being authentically Chinese, regardless of time or place (Gold et al., 2002). Each individual is at the center of an egocentric network with no explicit boundaries and is always involved in social interactions (guanxi) of varying strength (Fei, 1992). People are continuously evaluating and managing--through reciprocity--their relations with others. From this perspective, the centrality of guanxi in Chinese society at any time or

place is an essential part of China's national character (Hwang, 1987). Why does guanxi assume such centrality in the Chinese society? The answer lies in Confucianism.

Culturally, guanxi is deeply rooted in Confucianism, a philosophy begun during the fifth century B.C., which promotes a set of moral values to stabilize a state and society (Lo & Otis, 2003). Confucianism's main concern is to establish harmony in a complex society of contentious human beings through a strong and orderly hierarchy (familial hierarchy, king-subject, and elite-mass hierarchy) in which human beings are fundamentally relationship-oriented (Wank, 1996). In a predetermined relationship, one's status and responsibilities within the relationship dictate behavioral expectations, and individual desires are heavily downplayed. For example, within the family system, a person earned his or her reputation (e.g. as a good wife, a good son) through proper performance of ritual. Confucian guanxi was enforced and sustained through rituals (Lo & Otis, 2003). In other words, the guanxi practices, such as gift-giving and banqueting, during the Confucian era are only ritualistic (Xu, 1990; Yang, 1994).

Confucian texts provide explicit and detailed rules of these relationships, each of which define fixed social roles and specify, as part of each role, particular obligations, duties, power, and rights. The general principles (Lo & Otis, 2003) of a Confucian guanxi practice are:

1) The flow of obligations and duties is, though asymmetrical, broadly conceived of as reciprocal. Obligations between individuals within different levels of the hierarchy are mutual, though rarely identical or equal; all parties have obligations as well as rights.

2) Familial and social hierarchies are construed as a moral order and widely accepted as such. Respect for hierarchy is strongly demanded.

3) Ritual is understood as a material manifestation of the proper human sentiments accompanying specific social relations. The expressive and the instrumental are, therefore, not clearly separable, but rather combined and manifested through the practice of ritual.

In sum, institutionalized through the state and the patriarchal family and with its principles of reciprocity, respect for hierarchy, and the ritual materialization of sentiment, Confucian doctrines played a dominant role in structuring and sustaining social relationships. However, this cultural center dictated relationships as opposed to encouraging voluntary interactions by ignoring connections beyond face-to-face relationships (Lo & Otis, 2003). Any active role the individual could play in determining the character and tone of each exchange in an external network beyond the predetermined relationship was very limited or impossible.

In contrast to the Confucian explanation, the other argument is that *guanxi* is a response to specific institutional and historical conditions (Maoist era) that existed in China. It is the institutional condition (shortage economy) that has driven the emergence of such phenomenon. From this perspective, *guanxi* is no different from its Russian analog, *Blat*, and the gift economy that is built around this concept. (Ledeneva, 1998). What these societies share, institutionalists would argue, is that they are both shortage economies with weak legal infrastructures, so networking and trust become fundamental parts of economic transactions. However, *guanxi* does exist in Chinese societies that vary institutionally from mainland China; *guanxi* is found in Taiwan and Singapore (e.g., Bian & Ang, 1997).

After the Chinese Communist Party came to power, the CCP formally subscribed to the universal moral principles of socialist comradeship and strove to actively purge all remainders of the particularism of Confucian *guanxi* (Vogel, 1965). The state, formerly an institutional pillar of Confucianism, became its archenemy. Further, as the CCP attempted to subordinate all ties that existed outside of its purview to an institutional logic of the socialist state, the party dismantled the second institutional pillar of Confucianism, that is, the patriarchal extended family (Yang, 1994). With its social reform politics, the party also weakened the authority of patriarchy. In a word, Confucian *guanxi* was de-institutionalized. However the cultural legacy of *guanxi* survived in fragments, which were drawn upon as people negotiated the newly imposed organizational life of Maoist-era socialism.

Socialist organizational authority at the grassroots level depended on informal *guanxi* ties. For example, to maintain discipline within the work unit system, work unit managers had to supplement their party-given power with the personal loyalty of selected workers with whom they cultivated *guanxi* ties through favors in the redistribution of scarce goods and services (Walder, 1986). In this sense, *guanxi* was co-opted by socialist institutions to function as a political tool. Also, the exchange of goods and services through informal *guanxi* ties proliferated in the underground of socialist institutions, bypassing — and thus violating — bureaucratic rules and mechanisms (Yang, 1994). In this context, the exchange of favors and gifts through *guanxi* networks became an escape from state penetration and its disciplining techniques. In contrast to the Confucian era, when relationships were preordained by family hierarchy and defined with formal and explicit duties and rights, the underground nature of *guanxi* practice during Maoist

period, was a personal guanxi practice, and relationships were to be constructed by individuals.

The basis of social relationships shifted from actual, preexisting familial bonds to the creative invocation of familial terms outside of family and kinship. As people developed relations on the basis of mutual experience (friendship or shared organizational affiliation, for example), they imagined such relationships in terms of pseudo-familial ties; this common cultural language allowed for mutual understanding of the relationship and facilitated its consolidation.

Guanxi as an informal practice in the Maoist period derived its general rules from fragments of its Confucian legacy. Stripped of all its formal, ritualistic, and elaborate protocols, the “tactical processes” of guanxi ties (Yang, 1994) were flexibly infused by a Confucian sense of morality using the basic principles of respect for hierarchy, reciprocity, and materialization of sentiment. These cultural norms guided exchanges and interactions on the margins of formal institutions. Networked individuals adhered to these cultural rules, so they could continue to rely on each other to conceal their guanxi practice from state authorities.

In sum, guanxi practices continued to proliferate in the socialist period, but the practices were cordoned off into a realm of underground activities that defied state regulation. The cultural rules of guanxi had completely lost their original institutional bases. Guanxi as a cultural legacy was available solely in fragments, which could be put to work only with voluntary and creative application.

If the culture of guanxi was de-institutionalized and reserved only as a fragmented legacy in the Maoist era, in the current Reform era, guanxi ties have resurfaced and serve

to socially “imbed” the rapidly growing Chinese economy (Lo & Otis, 2003). Social actors extensively use guanxi as a cultural metaphor for building voluntary market relationships and, as an unintended consequence, have begun to transpose this mode of voluntary relationship into a wide range of nonmarket, nonutilitarian, social contexts (Lo & Otis, 2003). Individuals who were previously separated by class, regional, and national boundaries now come into frequent contact and interaction. As such, people participate in increasingly numerous networks and relationships. The increasing multiplicity of the potential contexts of guanxi allows individuals to underscore alternative relationships somewhat strategically (Lo & Otis, 2003). While a clear-cut exit from a guanxi network is rare, people may minimize their participation in particular relationships at certain points. In addition, individuals can withhold their participation in a guanxi tie by declining the reciprocation of gifts and favors. Refusing to play the part of a debtor will then enable individuals to have enough freedom to decide whether to establish personal networks with others (King, 1991).

### **Guanxi Practice at the Relationship Initiation Stage**

What would the guanxi practice be like during the Chinese retailer-supplier relationship initiation stage and maintenance stage? There is little research on this issue. Based on the review above, it can be concluded that in the current Reform era at the retailer-supplier relationship initiation stage, the new supplier’s seller, will purposely conduct guanxi practice in order to sell products. In the year 2000, Sternquist and Chen (in press) conducted in-depth interviews with food retail buyers and suppliers. They found that, although retailers have the freedom to decline any gift, banqueting or favor, because retailers have power in the market, suppliers are still eager to use guanxi

practices to cultivate favors with retail food buyers to initiate relationships when they are selling new products. However, retailers have set up strict regulations to discipline their buyers regarding participation in these relationships. The food retailers are fearful that an incurred obligation of personal relationship will dampen a company's market performance. If they find a buyer having a personal relationship with a vendor, they will terminate the relationship with that vendor. If a buyer violates the regulation, the buyer will be fired. The obligations of *guanxi* are very real. In the wrong place, at an inappropriate time, with unsuitable people, the obligations can become a trap that is hard to escape (Ambler, 1994). In some instances, businesses must actively refuse gifts for fear of future obligations (Dunfee & Warren, 2001). Therefore, Hypothesis 9 and 10 are proposed for the initiation stage of the retailer-supplier relationship:

**H<sub>9</sub>**. At the long-term relationship *initiation* stage, a Chinese supplier's *guanxi* practice with its retail buyers is negatively related to the retailer's social satisfaction.

**H<sub>10</sub>**. At the long-term relationship *initiation* stage, a Chinese supplier's *guanxi* practice with its retail buyers is negatively related to the retailer's long-term orientation.

### **Guanxi Practice at the Relationship Maintenance Stage**

When Chinese food retailers make a new product acceptance decision, although they prohibit any manufacturer's *guanxi* that aims at cultivating personal relationships with retail buyers, they do allow personal relationships to happen after they have established a long-term business relationship with those suppliers whose role performances are good (Sternquist & Chen, in press). At the maintenance stage, *guanxi* practice between retail buyers and suppliers is more like cultural habits. The practice maintains good *guanxi* or personal relationships. For an on-going buyer-seller

relationship, *guanxi* is positively related to a firm's performance (Luo, 1997; Luo & Chen, 1997; Peng & Luo, 2000; Abramson & Ai, 1997). Good *guanxi* with suppliers may help a firm acquire quality materials, good services, and timely delivery (Peng & Luo, 2000), and it can also reduce transaction costs (Standifird & Marshall, 2000). *Guanxi* practice, for example, gift-giving and banqueting, are practices to maintain good *guanxi* in on-going relationships (Yang, 1994). As discussed earlier, at the relationship initiation stage, Chinese food retailers will not build up a relationship with suppliers who practice *guanxi*, thus no economic interactions between retailers and suppliers will be expected (Sternquist & Chen, in press). Therefore, Hypothesis 10 is proposed only for the maintenance stage of the retailer-supplier relationship:

**H<sub>m</sub>10.** At the long-term relationship *maintenance* stage, A Chinese supplier's *guanxi* practice with its retail buyers is positively related to the retailer's economic satisfaction.

#### **Power/Dependence Asymmetry**

Dependence and its counterpart, power, are regarded by many theorists as central in explaining organizational or interpersonal behaviors (Morgan & Hunt, 1994; Thorelli, 1986). Dependence is defined as the degree to which a target firm needs the resources provided by the source firm to achieve its goals (Frazier, 1983b; Heide & John, 1988). Marketing channel power is the ability of one channel member (e.g. supplier) to control the decision variables in the marketing strategy of another member at a different level of the distribution channel (e.g. retailer) (El-Ansary & Stern, 1972). Power is based on the value received by the firm through its relationship with the partner and the extent to which that partner and the value generated are irreplaceable (Frazier & Rody, 1991). In marketing channels, resource dependence theory characterizes channel relationships as a

set of power relationships based on the acquisition and exchange of economic resources. When a channel member controls resources that other channel members want or need, it acquires power, which enables it to have the potential to exert influence over other members to explain behavioral and economic outcomes of exchange (Brown, Lusch, & Nicholson, 1995; Dahl, 1957; Emerson, 1962; Pfeffer & Salancik, 1978).

Anderson and Narus (1990) proposed that it is the firm's perception of its dependence relative to its partner that is of most interest in channel relationships. The buyer's (focal firm) perception of dependence asymmetry is the perceived relative asymmetry, defined as the comparative level of dependence in an exchange, and parallels Emerson's (1962) "power advantage" notion. Operationally, dependence/power asymmetry is the difference in the dependence levels, taken from the perspective of the focal organization. Assuming dependence to be the inverse of power, a positive value indicates a power advantage and a negative value indicates a power disadvantage. The absolute size of this difference captures a party's relative power. Relative asymmetry may vary from dependence that favors the focal firm to balance or symmetry or dependence that favors the partner. A buyer's or seller's market illustrates the unbalanced relationships that contain one highly dependent exchange party (Gundlach & Cadotte, 1994).

### **The Moderator Role of Power/Dependence Asymmetry**

The political economy paradigm (Arndt, 1983) holds that the interdependency asymmetry of relationship dyads is the context for any economic and social exchange between the two parties. Brown, Lusch and Nicholson (1995) found that power asymmetry has moderating effects on the relationships between retailers and suppliers.

Although researchers have found that asymmetry of interdependence has a negative effect on channel member attitudes (Anderson & Weitz, 1989; Gundlach & Cadotte, 1994; Kumar et al., 1995), our study focuses on the moderator role of power/dependence asymmetry in the buyer-seller relationships. The structure of power/dependence indirectly affects each party's evaluations of its partner's performance (Gundlach & Cadotte, 1994). This focus has, so far, been neglected in the literature.

According to social exchange theory (Thibaut & Kelley, 1959), a party in a dyad has power over the other party depending on its available alternative relationships. When each party evaluates the other party's performance, in addition to CL (comparison level),  $CL_{alt}$  (comparison level for alternatives) becomes another criterion. A powerful party (with high  $CL_{alt}$ ) would be stricter when evaluating economic outcomes based on the other party's performance than a weaker party (with low  $CL_{alt}$ ) is. On the contrary, when evaluating the psychosocial outcomes based on the other party's performance, the weak party is more easily satisfied with the other party's good performance. The weak party is vulnerable in an asymmetric relationship. Asymmetry creates the potential for exploitation, something that powerful firms have been known to take advantage of in dealing with their more vulnerable channel partners (Kumar et al., 1995). A vulnerable retailer, unable to avail itself of traditional safeguards against supplier opportunism such as contractual protection (Heide & John, 1988), must often rely on its powerful partner's sense of fairness (Anderson & Weitz, 1992; Heide & John, 1988). The weak party's good economic outcomes as a result of the powerful partner's good role performance enhances the weak party's perception of fairness from the powerful party. This perception of fairness strengthens the weak party's social satisfaction with the powerful party.

Kim (1998) conducted a study of the effects of perceived interdependence on distributor attitudes. In this study he found that in the context of short-term orientations, interdependence asymmetry had a negative effect on distributor satisfaction, while with long-term orientation, interdependence asymmetry had no effect on distributor satisfaction. In other words, with the parties' long-term orientation, dependence asymmetry does not matter in a relationship. During the initial period of the buyer-seller relationship, long-term orientation has not been established. The relationships in the initial period should be in the context of short-term orientation. Therefore, Hypothesis 11 is proposed for the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>11a:** At the long-term relationship *initiation* stage, a Chinese retailer's perception of dependence asymmetry influences the relationship strength between its supplier's role performance and its economic satisfaction. The relationship is stronger for powerful retailers than for weaker retailers.

**H<sub>i</sub>11b:** At the long-term relationship *initiation* stage, a Chinese retailer's perception of dependence asymmetry influences the relationship strength between its supplier's role performance and its social satisfaction. The relationship is stronger for weak retailers than for powerful retailers.

**H<sub>m</sub>11a:** At the relationship *maintenance* stage, a Chinese retailer's perception of dependence asymmetry *does not* influence the relationship strength between its supplier's role performance and its economic satisfaction.

**H<sub>m</sub>11b:** At the relationship *maintenance* stage, a Chinese retailer's perception of dependence asymmetry *does not* influence the relationship strength between its supplier's role performance and its social satisfaction.

### **Antecedent of Long-term Orientation: Dependence**

Ganesan's (1994) study on retail department store chains and their suppliers shows that a supplier's credibility trust, together with a retailer's dependence on the supplier, are positively related to long-term orientation. Lusch and Brown (1996) found a wholesaler's high dependence on a supplier increases the wholesaler's long-term orientation. Yu and Pysarchik (2002) reported that the cosmetic retailers' dependence on their suppliers is positively related to their long-term orientation. None of these studies, however, separate the relationships into initiation stage and maintenance stage.

Narayandas and Rangan (2004) conducted a longitudinal study on three buyer-seller dyads' relationships in a mature industrial market. They found that during the relationship maintenance stage, it is the presence of interpersonal trust in buyer-seller relationships that facilitates the development of inter-organizational commitment. Kim's (1998) study of the effects of perceived interdependence on distributor attitudes found that in the context of short-term orientations, interdependence asymmetry had a negative effect on distributor satisfaction, while in long-term orientations, interdependence asymmetry had no effect on distributor satisfaction. Kim and Oh (2002) found that interdependence asymmetry has no effect on distributor's commitment when long-term orientation is institutionalized. Izquierdo and Cillán (2004) found that in some cases, the lack of trust may reduce the intention of maintaining the relationship, even if the economic dependence is high. In other words, the perception of a power/dependence

difference between partners will not influence each party's behavior after a long-term relationship is established.

During the initial period of the buyer-seller relationship, this relationship should be in the context of short-term orientation. Hence, it can be concluded from the discussion above that during the relationship initiation stage, power/dependence has effects on the relationship formation, while during the relationship maintenance stage (when long-term orientation is formed); power/dependence has no effect on relationship maintenance. Therefore, Hypothesis 12 is proposed for the initiation stage and the maintenance stage of the retailer-supplier relationship:

**H<sub>i</sub>12:** At the long-term relationship *initiation* stage, a Chinese retailer's dependence on its supplier is positively related to the retail buyers' long-term orientation.

**H<sub>m</sub>12:** At the long-term relationship *maintenance* stage, a Chinese retailer's dependence on its supplier is *not* related to the retail buyers' long-term orientation.

### **Rival Models**

An emerging consensus in structural equation modeling indicates that researchers should compare rival models, not just test a proposed model (Bollen & Long, 1992). There is little evidence showing that the relationships between constructs could be different at different retail buyer-seller relationship development stages. Jap and Ganesan's (2000) study is the only study related to this issue; however, they focused on the relationship between transaction specific investment and commitment. No other studies separated relationships into different stages. It is obvious that those researchers assumed that there are no differences in the relationships among constructs at different relationship development stages. In this study, one way to test this assumption is to test

the two rival models. The model for relationship initiation stage serves as a rival model for the relationship maintenance stage. Similarly, the model for relationship maintenance stage serves as rival model for the relationship initiation stage. If a bad fit is found for the two rival models, the assumption that relationships among constructs are the same at different development stages of buyer-seller relationship should be wrong, and it would be necessary to investigate causal relationships at different stages.

### **Summary**

The proposed differences between the two models for the long-term relationship initiation stage and the maintenance stage are summarized as follows:

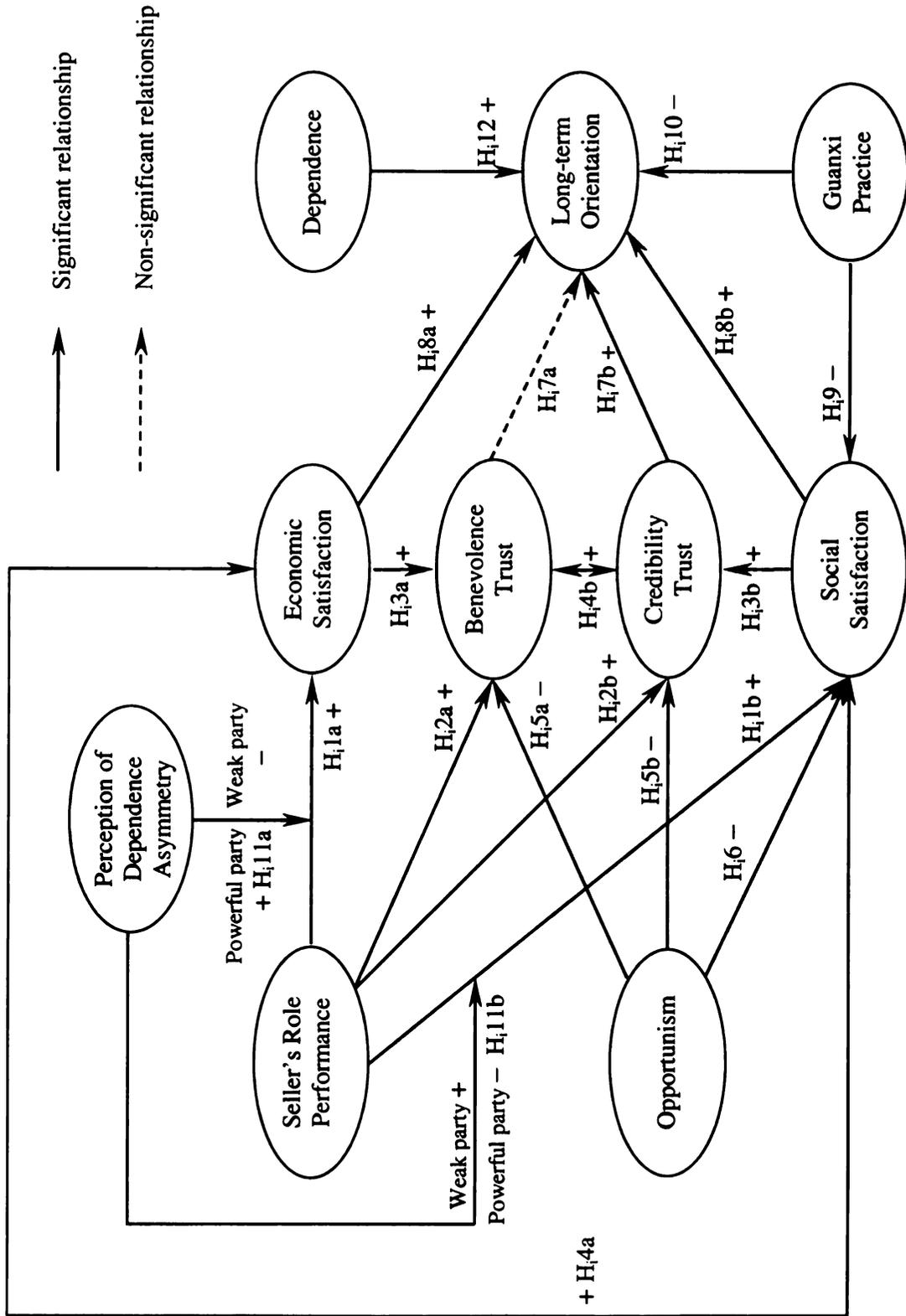
- 1) Economic satisfaction and social satisfaction are positively related to long-term orientation at the long-term relationship initiation stage, but not at the maintenance stage.
- 2) Opportunism does not have a direct effect on long-term orientation at the long-term relationship initiation stage but does have an effect at the maintenance stage.
- 3) Guanxi behaves differently at the two stages. Not only does it associate with different variables, but also its effects have an opposite sign at the two stages. At the long-term relationship initiation stage, guanxi is negatively related to social satisfaction and long-term orientation. However, at the maintenance stage, it is positively related to economic satisfaction.
- 4) Dependence asymmetry has a moderator effect on the relationship between seller's role performance and economic satisfaction / social satisfaction at the long-term relationship initiation stage, but not at the maintenance stage.
- 5) Dependence is positively related to long-term orientation at the long-term relationship initiation stage, but not at the maintenance stage.

The proposed similarities between the two models for the retailer-supplier long-term relationship initiation stage and the maintenance stage are summarized as follows:

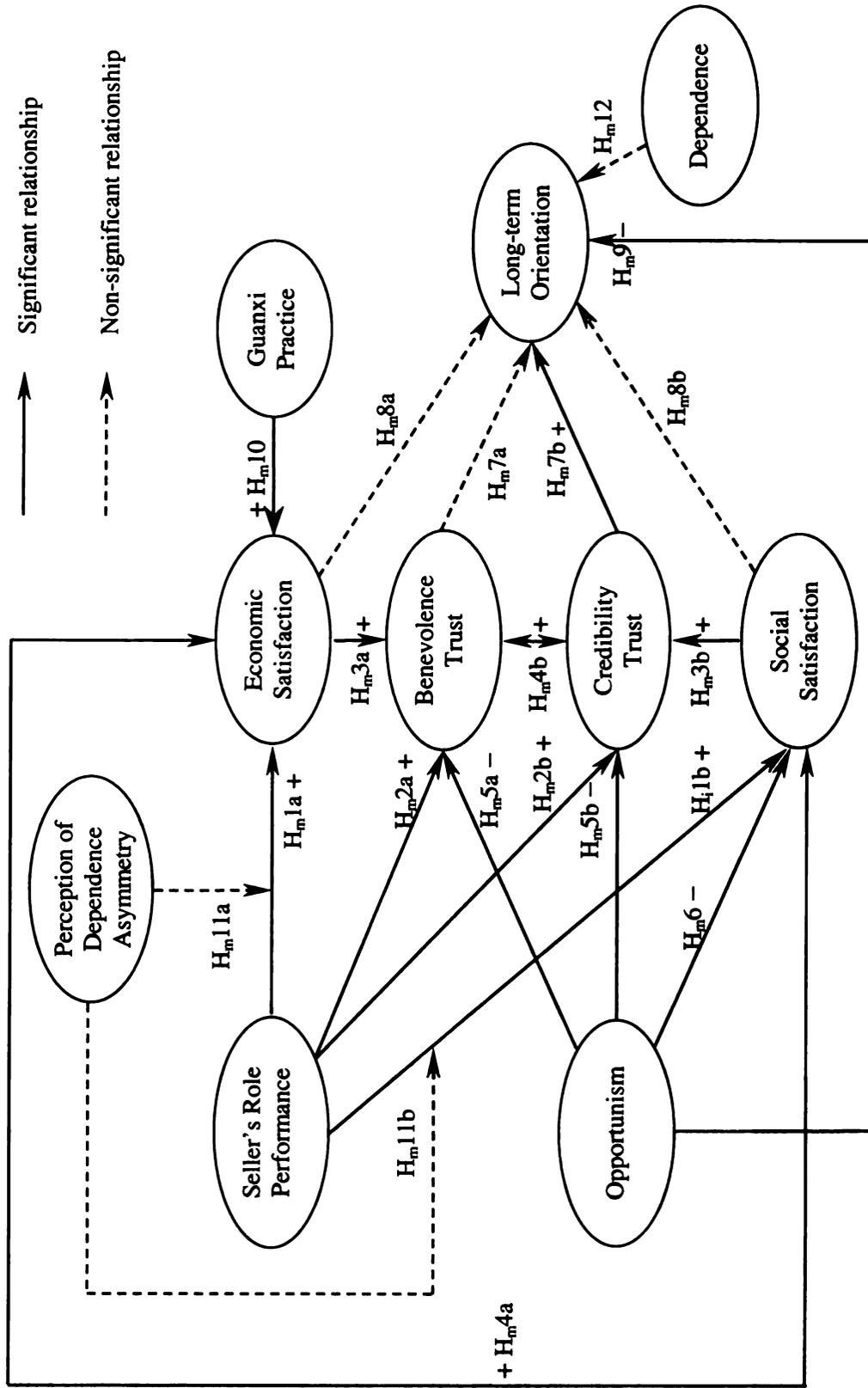
- 1) For both stages, role performance is positively related to economic satisfaction and social satisfaction.
- 2) For both stages, role performance is positively related to benevolence trust and credibility trust.
- 3) For both stages, opportunism is negatively related to benevolence trust and credibility trust. For both stages, the relationship between benevolence trust and opportunism is stronger than the relationship between credibility trust and opportunism.
- 4) For both stages, economic satisfaction is positively related to benevolence trust; social satisfaction is positively related to credibility trust.
- 5) For both stages, economic satisfaction and social satisfaction are positively correlated; benevolence trust and credibility trust are positively correlated.
- 6) For both stages, benevolence trust is not related to long-term orientation; credibility trust is positively related to long-term orientation.

Figures 2 and 3 present the overall framework of the research.

**Figure 2. Buyer-Seller Relationship Initiation in the Chinese Distribution Channel – Initiation Phase**



**Figure 3. Buyer-Seller Relationship Maintenance in the Chinese Distribution Channel – Maintenance Phase**



## **CHAPTER 3**

### **METHODOLOGY**

#### **Instrumentation**

The premise for this paper was developed through a series of in-depth interviews conducted in 2000 with Chinese retailers. During these interviews, the buying decision process was examined. These interviews focused on individual buyers and administrative committee decision-makers. Results from this qualitative portion provide us with an understanding of retailers in China. We found that there is some similarity between the U.S. retail buyer-seller relationships and the Chinese retail buyer-seller relationships. For example, in both cultures, a buyer's trust is formed from an evaluation of the experience with a partner. Based on the above-mentioned personal interviews, the instruments from western literature can be adapted to apply in this study. Bilingual, native-speaking doctoral students translated the English questionnaire to Chinese, and then a blind back translation was used to insure construct equivalence (Mullen, 1995).

In the second phase of the study, a survey was conducted in China. Questionnaires were completed by buyers or managers who were responsible for selecting vendors and products. The buyers/managers were asked to focus on a new product (new SKU) they had added within the last year, but not one they have carried for less than six months, and to answer the questions with the supplier of that new product in mind. This was to ensure that the buyer/manager had sufficient experience to assess the supplier. We asked them to focus on a new product because that improves the possibility of getting retailers' responses of new suppliers. The respondents were also guaranteed anonymity since Alder, Compbell, and Laurent (1989) reported that under the condition

of anonymity, Chinese managers are more willing and more likely to provide accurate information.

## **Measures**

The key variables in the conceptual framework were operationalized using multi-item reflective scales (Bollen & Lennox, 1991) drawn from the literature (see Appendix for scale sources). Exceptions are role performance, which is formative, and dependence asymmetry, which is categorical.

For role performance, prestudy interviews identified five basic elements of the manufacturer's role in the channel relationship with retailers in China: 1) reasonable margin for retailers, 2) uniqueness of products, 3) delivery of goods, 4) well known/respected brands, and 5) product quality. Each retailer indicated how well his/her manufacturer performed in comparison with an industry average performance on each role element (-5 = very poor through 0 = average performance to 5 = very good). The performance ratings were summed to yield an index of manufacturer role performance in the channel relationships, with higher scores indicating higher role performance.

For scales of all constructs please see the Appendix, which contains a description of response formats, the specific items for each scale and their sources, and Cronbach coefficient alphas from the literature.

## **Data Collection**

### **Sampling Reality: Convenience Data**

Because large-sample, firm-level data are very difficult to collect in China (Lucas, Tan, & Hult, 2001), a convenience sample was used. It is composed of 100 respondents from 25 cities. The sample of retailers was assembled from participants in a retailing

seminar held in Shanghai and Beijing. Questionnaires were distributed and collected before the seminars.

### **Sample Characteristics**

Although data were collected from a convenience sample, the data indicates varieties in ownership, sales ranking, and economic development region. Among the respondents, 49.5% are from state owned enterprises (SOE), 11% from privatized former SOEs, 13.1% from firms with FDI (foreign direct investment), 21.2% from domestic organic firms and 1% from other types of ownership. In terms of sales ranking, among the respondents, 6.1% are from the top 1-10, 22% from those ranked 11-20, 7.3% from 21-30, 6.1% from 31-40, 2.4% from 41-50, 4.9% from 51-60, 1.2% from 61-70, 2.4% from 71-80, 4.9% from 81-90, 4.9% from 91-100, and 37.8% from retailers that ranked below 100. There are eight areas of economic development represented (Academy of Science China Modernization Research Center, 2004): the East China Coast area, the South China Coast area, the Yangtze River middle reaches area, the Northeast area, the North China Coast area, the Yellow River middle reaches area, the Southwest area, and the Northwest area. Among the respondents, 43.7% are from the East China Coast area, 8.0% from the South China Coast area, 24.1% from the Yangtze River middle reaches area, 3.4% from the Northeast area, 16.1% from the North China Coast area, 2.3% from the Yellow River middle reaches area, 1.2% from the Southwest area and 1.2% from the Northwest area. In addition, 68.7% of the respondents are male and 29.3% are female.

### **Data Analysis**

Narayandas and Rangan (2004) did a longitudinal study on three buyer-seller dyad relationships in a mature industrial market. They found that buyer-seller

relationships are personal. Therefore, the classification of the relationship stages is based on the length of the respondents' personal business relationship with their suppliers. In this study, fifty percent of the respondents have less than two years of personal business relationships with the supplier; this is considered the initiation phase. Forty nine percent of the respondents have three or more years personal business relationship with the supplier; this is considered the maintenance phase.

### **Overall Model Fitting**

Path analyses was used to test the causal relationships. Due to the small sample size, full structural model testing was not feasible. Composite scales were derived by summing items. Covariance of factors provided data input for the path models.

A sample size with  $n=100$  is small for a model with ten constructs. Because of the small sample size, fit indices ( $\chi^2$ , RMSEA and CFI) that are not sensitive to sample size were chosen to assess the model fit (Fan, Thompson, & Wang, 1999; Hoyle & Panter, 1995; Hu & Bentler, 1995). These fit indices, however, are sensitive to model misspecification.

The chi-square statistic is an absolute measure of model fit. Although useful as a general fit indicator, it is biased in complex models, and in models with a large number of indicators. So, other fit indices are needed. RMSEA (Root Mean Square Error of Approximation) measures how well the model would fit the population covariance matrix, if available. Index values less than 0.05 indicate good fit, while those ranging from 0.08 to 0.10 are moderately acceptable (Byrne, 1998). Accuracy of RMSEA estimates are assessed using Lisrel's 90% confidence interval. A narrow confidence interval around the RMSEA estimate suggests good precision and model fit in the

population (Steiger, 1990; MacCallum, Brown & Sugauara, 1996). CFI is an incremental fit indice, comparing the hypothesized model to a null model. Perfect fit for CFI is 1.0.

### **Model Testing and Estimation Procedure for the Small Sample**

The scale reliability of the measures used in this study was examined by assessing their internal consistency (average correlation among items within each construct). Cronbach's coefficient alpha (Cronbach, 1951) was calculated for each of the scales used (See Appendix). For role performance, credibility trust, benevolence trust, guanxi, dependence, economic satisfaction, long-term orientation and opportunism, their coefficients ranged from 0.62 to 0.89 and were thus acceptable using Robinson, Shaver, & Wrightsman's (1991) criterion of coefficient alpha being greater than 0.60 for an exploratory study (Robinson, Shaver, & Wrightsman, 1991). For social satisfaction, the coefficient is 0.53. Because there are eight economic development regions, the coefficient alpha for social satisfaction is calculated for each region. The coefficient alpha is not available for four regions because we did not have enough cases. Except for the East China Coast area, where Shanghai is located, all the other areas generated high alphas ranging from .62 to .78. For the East China Coast area, it is only .31. Those reversed items seem to have more influence on respondents in the East China Coast area than in other areas. Bloom (1981) indicated that counterfactual statements create linguistical problems for East Asian language speakers.

The models shown in Figures 2 and 3 are represented by the following set of equations:

The model for retailers at the long-term relationship initiation stage, retailers whose buyers have two or less years experience in dealing with their suppliers, is:

$$ESAT = \alpha_{i1} + B_{i1a}ROLE$$

$$SSAT = \alpha_{i2} + B_{i1b}ROLE + B_{i9}GUANXI + B_{i6}OPP$$

$$BTRUST = \alpha_{i3} + B_{i2a}ROLE + B_{i3a}ESAT + B_{i5a}OPP$$

$$CTRUST = \alpha_{i4} + B_{i2b}ROLE + B_{i3b}SSAT + B_{i5b}OPP$$

$$LONGT = \alpha_{i5} + B_{i8a}ESAT + B_{i7a}BTRUST + B_{i7b}CTRUST + B_{i8b}SSAT + B_{i10}GUANXI + B_{i12}DEP$$

The model for retailers at the long-term relationship maintenance stage, retailer buyers who have three or more years experience in dealing with their suppliers, is :

$$ESAT = \alpha_{m1} + B_{m1a}ROLE + B_{m10}GUANXI$$

$$SSAT = \alpha_{m2} + B_{m1b}ROLE + B_{m6}OPP$$

$$BTRUST = \alpha_{m3} + B_{m2a}ROLE + B_{m3a}ESAT + B_{m5a}OPP$$

$$CTRUST = \alpha_{m4} + B_{m2b}ROLE + B_{m3b}SSAT + B_{m5b}OPP$$

$$LONGT = \alpha_{m5} + B_{m8a}ESAT + B_{m7a}BTRUST + B_{m7b}CTRUST + B_{m8b}SSAT + B_{m9}OPP + B_{m12}DEP$$

ESAT = retailer's economic satisfaction

SSAT = retailer's social satisfaction

CTRUST = retailer's credibility trust in its supplier

BTRUST = retailer's benevolence trust in its supplier

LONGT = retailer's long-term orientation

GUANXI = guanxi practice

OPP = retailer's perception of its supplier's opportunistic behavior (opportunism)

DEP = retailer's dependence on its supplier

ROLE = retailer's perception of its supplier's role performance

$\alpha_{ij}$ ,  $\alpha_{mi}$ ,  $B_{ij}$ , and  $B_{mi}$  are parameters.

These equations were estimated using the LISREL statistics computer package, version 8.20. The path coefficients estimated by this package may be interpreted as partial correlation coefficients as noted in Duncan's (1975) study. Results are listed in Tables 1 and 2.

These equations did not test all the hypotheses.  $H_{i4a}$ ,  $H_{i4b}$ ,  $H_{m4a}$ ,  $H_{m4b}$  were tested by freeing the covariance of ESAT and SSAT, BTRUST and CTRUST during the path analyses and checking the significance of the covariance estimates.  $H_{i5c}$ ,  $H_{m5c}$  were tested by running two nested models. The  $B_{i5a} = B_{i5b}$ ,  $B_{m5a} = B_{m5b}$  were constrained and the chi-square statistic evaluated to determine if it is significantly different from the original model fit. Results are listed in Tables 1 and 2.

When the sample size is small, it is not possible to run multi-group analysis with the two full models.  $H_{i11a}$ ,  $H_{i11b}$ ,  $H_{m11a}$  and  $H_{m11b}$  can only be tested by running equal regressions on the paths of role performance to economic satisfaction, and role performance to social satisfaction. For long-term relationship initiation stage retailers, the equations,  $ESAT = \alpha_i + B_{i1}ROLE$ ;  $SSAT = \alpha_i' + B_{i1}'ROLE + B_{i2}OPP + B_{i3}GUANXI$  were

tested across the powerful retailer group and the weak retailer group first, respectively, and then tested across the powerful retailers, weak retailers and equally powerful retailers, respectively. For long-term relationship maintenance stage retailers, the equations  $ESAT = \alpha_m + B_{m1}ROLE + B_{m2}Guanxi$ ;  $SSAT = \alpha_m' + B_{m1}'ROLE + B_{m2}'OPP$  were tested following the same procedure as relationship initiation stage retailers. Results are listed in Tables 3 and 4.

## CHAPTER 4

### RESULTS

The results of the path analyses are shown in Tables 1 and 2. Both the path coefficients and the measures of model fit are listed.

#### Overall Fit of the Models

Recall that there were two models constructed to explain the relationships among variables; the first model was constructed for the initiation stage of the buyer-seller relationship, and the second for the maintenance stage.

The model for the initiation stage fits the data well, although the 90% confidence interval appears broad due to the small sample size ( $\chi^2 (12) = 13.68, p = .32$ ; RMSEA = .044; 90% confidence interval [CI] = (.0, .17); CFI = .99). If the model is reconstructed excluding the path from benevolence trust to long-term orientation, a path previously hypothesized as being non-significant, the chi-square statistic and fit indices improve ( $\chi^2 (13) = 13.74, p = .39$ ; RMSEA = .012; 90% CI (.0, .15); CFI = 1.00). Conversely, the rival model for the relationship initiation stage shows very poor fit to the data ( $\chi^2 (12) = 40.73, p = .0$ , RMSEA = .23; 90% CI (.15, .31); CFI = .81).

The model constructed to explain relationships at the maintenance stage also fits the data well, although the 90% confidence interval appears broad due to the small sample size ( $\chi^2 (12) = 12.45, p = .41$ ; RMSEA = .002; 90% CI (.0, .16); CFI = 1.00). If the model excludes the four paths - from benevolence trust to long-term orientation, from economic satisfaction to long-term orientation, from social satisfaction to long-term orientation, and from dependence to long-term orientation (all of which previously had been hypothesized as non-significant), the chi-square statistic and fit indices reveal an

even better model fit ( $\chi^2 (11) = 7.59$ ;  $p = .75$ ; RMSEA = .0; 90% CI (.0, .11): CFI = 1.00). Conversely, the rival model for the relationship maintenance stage shows very poor fit to the data ( $\chi^2 (12) = 28.43$ ,  $p = .005$ ; RMSEA = .14; 90% CI (.044, .23); CFI = .86).

### **Hypothesis Testing**

Support was found for most of the hypothesized relationships in the models (Tables 1, 2, 3, and 4). Hypothesis testing results are presented as follows.

#### **Satisfaction**

Role performance was hypothesized to be positively related to economic satisfaction, at both the relationship initiation stage ( $H_{i1a}$ ) and the relationship maintenance stage ( $H_{m1a}$ ). As expected, the statistical results support the relationship between role performance and economic satisfaction, at both stages ( $B_{i1a}=.32$ ,  $p<.05$ ;  $B_{m1a}=.64$ ,  $p<.01$ ). Therefore, the hypotheses  $H_{i1a}$  and  $H_{m1a}$  are both supported by the data. Role performance also was hypothesized to be positively and significantly related to social satisfaction for both stages (hypotheses  $H_{i1b}$  and  $H_{m1b}$ ). Data reveal conflicting results. There is a positive relationship between role performance and social satisfaction at the relationship maintenance stage ( $B_{m1b}=.35$ ,  $p<.01$ ), but not at the relationship initiation stage ( $B_{i1b}=.02$ ,  $p>.05$ ). Therefore,  $H_{i1b}$  is not supported, but  $H_{m1b}$  is supported.

#### **Trust**

Trust is the key antecedent of long-term orientation. To investigate the antecedents of trust or the mechanism of trust formation, role performance was hypothesized to have direct positive and significant effects on benevolence trust and

credibility trust, both at the relationship initiation ( $H_{i2a}$  and  $H_{i2b}$ ) and maintenance stages ( $H_{m2a}$  and  $H_{m2b}$ ). Results support the primary hypothesis that role performance is positively associated with benevolence trust at the relationship initiation stage ( $B_{i2a}=.26$ ,  $p<.05$ ), but not at the relationship maintenance stage ( $B_{m2a}=.01$ ,  $p>.1$ ). Therefore,  $H_{i2a}$  is supported, but  $H_{m2a}$  is not. However, results support the hypotheses that role performance is positively related to credibility trust at both the relationship initiation stage and the maintenance stage ( $B_{i2b}=.37$ ,  $p<.01$ ;  $B_{m2b}=.48$ ,  $p<.01$ ). Consequently, both  $H_{i2b}$  and  $H_{m2b}$  are supported by the data.

Economic satisfaction was proposed to be an antecedent of benevolence trust, and social satisfaction was proposed to be an antecedent to credibility trust at both the relationship initiation stage ( $H_{i3a}$  and  $H_{i3b}$ ) and the maintenance stage ( $H_{m3a}$  and  $H_{m3b}$ ). Results for these proposed relationships are mixed. Economic satisfaction does appear to foster benevolence trust at the relationship maintenance stage ( $H_{m3a}$ ) ( $B_{m3a}=.41$ ,  $p<.01$ ), but not at the relationship initiation stage ( $H_{i3a}$ ) ( $B_{i3a}=.16$ ,  $p>.05$ ). Therefore,  $H_{m3a}$  is supported but  $H_{i3a}$  is not. On the contrary, social satisfaction fosters credibility trust at the relationship initiation stage ( $H_{i3b}$ ) ( $B_{i3b}=.47$ ,  $p<.01$ ), but not at the relationship maintenance stage ( $H_{m3b}$ ) ( $B_{m3b}=-.01$ ,  $p>0.1$ ). Consequently,  $H_{i3b}$  is supported, but  $H_{m3b}$  is not.

Because economic satisfaction and social satisfaction are two components of the construct of satisfaction, economic satisfaction was proposed to be positively correlated with social satisfaction, again at both stages ( $H_{i4a}$  and  $H_{m4a}$ ). This, in fact, is found to be true during relationship initiation ( $\Phi_{IESAT-SSAT}=.23$ ,  $p<.05$ ), but not during relationship maintenance ( $\Phi_{MESAT-SSAT}=.12$ ,  $p>.05$ ). Hence,  $H_{i4a}$  is supported, but  $H_{m4a}$  is not.

Because benevolence trust and credibility trust are two components of trust, benevolence trust and credibility trust were proposed to be positively correlated at both stages as well ( $H_{i4b}$  and  $H_{m4b}$ ), and both hypotheses are supported ( $\Phi_{iBTRUST-CTRUST} = .15, p < .05$ ;  $\Phi_{mBTRUST-CTRUST} = .35, p < .01$ ).

### **Opportunism**

Opportunism is expected to destroy trust between retail buyers and sellers at both the relationship initiation and maintenance stages. Hence, opportunism was hypothesized to be negatively related to benevolence trust and credibility trust, both during the relationship initiation stage ( $H_{i5a}$  and  $H_{i5b}$ ) and the maintenance stage ( $H_{m5a}$  and  $H_{m5b}$ ). Opportunism also was proposed to have a stronger relationship with benevolence trust than with credibility trust at both stages ( $H_{i5c}$  and  $H_{m5c}$ ). Data indicate that there are negative effects of opportunism on benevolence trust and credibility trust at the initiation stage ( $H_{i5a}$  and  $H_{i5b}$ ) ( $B_{i5a} = -.45, p < .01$ ;  $B_{i5b} = -.28, p < .01$ ), but not at the maintenance stage ( $H_{m5a}$  and  $H_{m5b}$ ) ( $B_{m5a} = -.09, p > .1$ ;  $B_{m5b} = -.16, p > .1$ ). Therefore,  $H_{i5a}$  and  $H_{i5b}$  are supported, but  $H_{m5a}$  and  $H_{m5b}$  are not. Although at the relationship initiation stage, the absolute value of  $B_{i5a}$  is found to be larger than the absolute value of  $B_{i5b}$ , the results reject the primary hypothesis that benevolence trust has a stronger negative relationship with opportunism than credibility trust does ( $H_{i5c}$ ); the chi-square change after constraining  $B_{i5a} = B_{i5b}$  is not significant at the 0.05 level ( $\Delta\chi^2(1) = 1.87, p > .05$ ). Because both  $B_{m5a}$  and  $B_{m5b}$  are not significantly different than zero, we reject  $H_{m5c}$ , the primary hypothesis that benevolence has a stronger negative relationship with opportunism than credibility trust does at the relationship maintenance stage.

Opportunism also was hypothesized to lead to social dissatisfaction at both the relationship initiation ( $H_i6$ ) and maintenance stage ( $H_m6$ ). Results support this negative relationship between opportunism and social satisfaction at both stages ( $H_i6$ :  $B_{i6} = -.46$ ,  $p < .01$ ; and  $H_m6$ :  $B_{m6} = -.30$ ,  $p < .05$ , respectively.)

### **Long-term Orientation**

Benevolence trust was not believed to be an antecedent of long-term orientation at either the relationship initiation ( $H_i7a$ ) or maintenance stage ( $H_m7a$ ) and results, indeed, identify no direct significant relationship at either stage ( $B_{i7a} = -.03$ ,  $p > .05$  and  $B_{m7a} = -.13$ ,  $p > .05$ , respectively.) Therefore, both hypotheses,  $H_i7a$  and  $H_m7a$ , are supported.

Conversely, credibility trust was proposed to be an antecedent of long-term orientation for both stages ( $H_i7b$  and  $H_m7b$ ), and data again bear that out ( $B_{i7b} = .40$ ,  $p < .05$ ;  $B_{m7b} = .29$ ,  $p < .05$ ); so, both  $H_i7b$  and  $H_m7b$  are supported.

Economic satisfaction and social satisfaction were conjectured to be antecedents of long-term orientation for the initiation stage ( $H_i8a$  and  $H_i8b$ ), but not for the maintenance stage ( $H_m8a$  and  $H_m8b$ ). Results indicate that there is a positive significant relationship between economic satisfaction and long-term orientation during buyer-seller relationship initiation ( $B_{i8a} = .22$ ,  $p < .05$ ).  $H_i8a$  is supported, but there is no direct significant relationship identified between social satisfaction and long-term orientation during initiation ( $B_{i8b} = -.09$ ,  $p > .1$ ); therefore,  $H_i8b$  is rejected. Neither economic satisfaction nor social satisfaction is directly associated with long-term orientation during relationship maintenance ( $B_{m8a} = .05$ ,  $p > .1$ ;  $B_{m8b} = .04$ ,  $p > .1$ ); both of the hypotheses,  $H_m8a$  and  $H_m8b$ , are supported.

At the relationship maintenance stage, opportunism was presumed to have a direct negative effect on long-term orientation ( $H_{m9}$ ). Results support  $H_{m9}$ , that there is a negative relationship between opportunism and long-term orientation ( $B_{m9} = -.33, p < .05$ ).

### **Guanxi Practice**

We believed that the relationship between guanxi practice and other constructs would be different between the two relationship stages. For the relationship initiation stage, guanxi practice was predicted to be negatively related to social satisfaction ( $H_{i9}$ ) and long-term orientation ( $H_{i10}$ ). A negative relationship between guanxi practice and social satisfaction is found ( $B_{i9} = -.29, p < .05$ ), so that  $H_{i9}$  is supported. A negative relationship between guanxi practice and long-term orientation also is identified ( $B_{i10} = -.40, p < .05$ ), so that  $H_{i10}$  also is supported.

During the maintenance stage of a buyer-seller relationship, guanxi practice was hypothesized to be positively related to economic satisfaction ( $H_{m10}$ ). Results indicate a positive relationship between guanxi and economic satisfaction at the relationship maintenance stage ( $B_{m10} = .52, p < .01$ ). Therefore,  $H_{m10}$  is supported.

### **Power/Dependence**

Power/dependence asymmetry was proposed to have a moderating effect on the relationship between role performance and economic satisfaction, and on the relationship between role performance and social satisfaction. The relationship between role performance and economic satisfaction also was proposed to be stronger for powerful retailers than for weaker retailers at the relationship initiation stage ( $H_{i11a}$ ); whereas, at the relationship maintenance stage, it was proposed that there should be no difference in the strength of the relationship between role performance and economic satisfaction

(H<sub>m11a</sub>). At the relationship initiation stage, because both coefficients (B<sub>i1a</sub>) are not significantly different from zero, results indicate that there is no difference between powerful retailers and weaker retailers in the relationship strength between role performance and economic satisfaction; hence, H<sub>i11a</sub> is not supported. At the relationship maintenance stage, when constraining the two coefficients (B<sub>m1a</sub>) for powerful retailers and weaker retailers as equal, there is no apparent difference between powerful retailers and weaker retailers on the relationship between role performance and economic satisfaction ( $\chi^2 (1) = .09$ ;  $p = .76$ ; RMSEA = .0; 90% CI (.0, .49), CFI = 1.00). Therefore, H<sub>m11a</sub> is supported.

The relationship between role performance and social satisfaction was believed to be stronger for weaker retailers than for powerful retailers at the relationship initiation stage (H<sub>i11b</sub>); whereas, at the relationship maintenance stage, it was surmised that there should be no difference in the strength of the relationship between role performance and social satisfaction (H<sub>m11b</sub>). At the relationship initiation stage, constraining the two coefficients (B<sub>i1b</sub>) for powerful retailers and weaker retailers so that they are equal, there is a difference between powerful retailers and weaker retailers in the relationship strength between role performance and social satisfaction ( $\chi^2 (2) = 27.51$ ;  $p = .0$ ; RMSEA = .53; 90% CI (.24, .88); CFI = .0). Moreover, the B<sub>i1b</sub> for the weaker party, of 0.48, is found to be larger than the B<sub>i1b</sub> for the powerful party (-.13). Therefore, H<sub>i11b</sub> is supported. At the relationship maintenance stage, because both coefficients (B<sub>m1b</sub>) for powerful retailers and weaker retailers are not significantly different from zero, results indicate that there is no difference between powerful retailers and weaker retailers in the relationship strength between role performance and social satisfaction. Therefore, H<sub>m11b</sub> is supported.

Dependence was hypothesized to be positively related to long-term orientation at the relationship initiation stage ( $H_{i12}$ ), but not at the relationship maintenance stage ( $H_{m12}$ ). A positive and significant relationship between dependence and long-term orientation is identified for the relationship initiation stage ( $B_{i12} = .33, p < .01$ ), so that  $H_{i12}$  is supported. No similar direct relationship is evident during the maintenance stage ( $B_{m12} = .01, p > .05$ ), so  $H_{m12}$  also is supported.

The model of the relationship initiation stage is estimated to explain 10% of the variance in economic satisfaction, 36% of the variance in social satisfaction, 38% of the variance in benevolence trust, 64% of the variance in credibility trust, and 45% of the variance in long-term orientation. The model for the relationship maintenance stage explains 43% of the variance in economic satisfaction, 17% of the variance in social satisfaction, 19% of the variance in benevolence trust, 30% of the variance in credibility trust, and 25% of the variance in long-term orientation.

**Table 1. Results of the Path Analysis for the Relationship *Initiation* Stage**

Path	Parameter	Standardized Estimate	T-Value	Support /non-support
ROLE→ ESAT*	B <sub>i1a</sub>	0.32	2.18	H <sub>i1a</sub> supported
ROLE→ SSAT*	B <sub>i1b</sub>	0.02	0.20	H <sub>i1b</sub> not supported
ROLE→ BTRUST	B <sub>i2a</sub>	0.26	2.01	H <sub>i2a</sub> supported
ROLE→CTRUST*	B <sub>i2b</sub>	0.37	4.01	H <sub>i2b</sub> supported
ESAT→BTRUST	B <sub>i3a</sub>	0.16	1.37	H <sub>i3a</sub> not supported
SSAT→CTRUST	B <sub>i3b</sub>	0.47	4.58	H <sub>i3b</sub> supported
ESAT↔SSAT	Φ <sub>iESAT-SSAT</sub>	0.23	1.90	H <sub>i4a</sub> supported
BTRUST ↔ CTRUST*	Φ <sub>iBTRUST-CTRUST</sub>	0.15	2.05	H <sub>i4b</sub> supported
OPP→BTRUST	B <sub>i5a</sub>	-0.45	-3.66	H <sub>i5a</sub> supported
OPP→CTRUST	B <sub>i5b</sub>	-0.28	-2.60	H <sub>i5b</sub> supported
OPP→BTRUST > OPP→CTRUST	After constraining B <sub>i5a</sub> = B <sub>i5b</sub> , Δχ <sup>2</sup> (1)=1.87			H <sub>i5c</sub> not supported
OPP→SSAT*	B <sub>i6</sub>	-0.46	-3.78	H <sub>i6</sub> supported
BTRUST---LONGT*	B <sub>i7a</sub>	-0.03	-0.23	H <sub>i7a</sub> supported
CTRUST→LONGT*	B <sub>i7b</sub>	0.40	2.25	H <sub>i7b</sub> supported
ESAT→LONGT	B <sub>i8a</sub>	0.22	1.85	H <sub>i8a</sub> supported
SSAT→LONGT*	B <sub>i8b</sub>	-0.09	-0.55	H <sub>i8b</sub> not supported
GUANXI→SSAT	B <sub>i9</sub>	-0.29	-2.40	H <sub>i9</sub> supported
GUANXI→LONGT	B <sub>i10</sub>	-0.40	-3.08	H <sub>i10</sub> supported
DEPASYM: ROLE→ESAT	Results from Table 4 (Relationship initiation stage, 2-group)			H <sub>i11a</sub> not supported
DEPASYM: ROLE→SSAT	Results from Table 5 (Relationship initiation stage, 2-group)			H <sub>i11b</sub> supported
DEP→LONGT	B <sub>i12</sub>	0.33	2.81	H <sub>i12</sub> supported
Overall model fit with path BTRUST---LONGT <i>specified</i> in the model		Overall model fit with path BTRUST---LONGT <i>not specified</i> in the model		
χ <sup>2</sup> (12) =13.68 (P=0.32) RMSEA=0.044, 90% confidence interval=(0.0, 0.17) CFI=0.99		χ <sup>2</sup> (13) =13.74 (P=0.39) RMSEA=0.012, 90% confidence interval=(0.0, 0.15) CFI=1.00		

\*indicates the same relationships as at the relationship maintenance stage

**Table 2. Results of the Path Analysis for the Relationship *Maintenance* Stage**

Path	Parameter	Standardized Estimate	T-Value	Support /nonsupport
ROLE→ESAT*	B <sub>m1a</sub>	0.64	5.36	H <sub>m1a</sub> supported
ROLE→SSAT*	B <sub>m1b</sub>	0.35	2.62	H <sub>m1b</sub> supported
ROLE→BTRUST	B <sub>m2a</sub>	0.01	0.07	H <sub>m2a</sub> not supported
ROLE→CTRUST*	B <sub>m2b</sub>	0.48	3.37	H <sub>m2b</sub> supported
ESAT→BTRUST	B <sub>m3a</sub>	0.41	2.99	H <sub>m3a</sub> supported
SSAT→CTRUST	B <sub>m3b</sub>	-0.01	-0.08	H <sub>m3b</sub> not supported
ESAT↔SSAT	Φ <sub>mESAT-SSAT</sub>	0.12	1.25	H <sub>m4a</sub> not supported
BTRUST ↔ CTRUST*	Φ <sub>mBTRUST-CTRUST</sub>	0.35	2.78	H <sub>m4b</sub> supported
OPP→BTRUST	B <sub>m5a</sub>	-0.09	-0.63	H <sub>m5a</sub> not supported
OPP→CTRUST	B <sub>m5b</sub>	-0.16	-1.13	H <sub>m5b</sub> not supported
OPP→BTRUST > OPP→CTRUST	Both B <sub>m5a</sub> and B <sub>m5b</sub> are not significantly different from zero.			H <sub>m5c</sub> not supported
OPP→SSAT*	B <sub>m6</sub>	-0.30	-2.29	H <sub>m6</sub> supported
BTRUST---LONGT	B <sub>m7a</sub>	-0.13	-0.80	H <sub>m7a</sub> supported
CTRUST→LONGT*	B <sub>m7b</sub>	0.29	1.85	H <sub>m7b</sub> supported
ESAT---LONGT	B <sub>m8a</sub>	0.05	0.32	H <sub>m8a</sub> supported
SSAT---LONGT	B <sub>m8b</sub>	0.04	0.26	H <sub>m8b</sub> supported
OPP→LONGT	B <sub>m9</sub>	-0.33	-2.20	H <sub>m9</sub> supported
GUANXI→ESAT	B <sub>m10</sub>	0.52	4.44	H <sub>m10</sub> supported
DEPASYM: ROLE→ESAT	Results from Table 4 (Relationship maintenance stage, 2-group)			H <sub>m11a</sub> supported
DEPASYM: ROLE→SSAT	Results from Table 5 (Relationship maintenance stage, 2-group)			H <sub>m11b</sub> supported
DEP---LONGT	B <sub>m12</sub>	0.01	0.10	H <sub>m12</sub> supported
Overall model fit with paths BTRUST---LONGT, ESAT---LONGT, SSAT---LONGT, DEP---LONGT <i>specified</i> in the model	Overall model fit with paths BTRUST---LONGT, ESAT---LONGT, SSAT---LONGT, DEP---LONGT <i>not specified</i> in the model			
χ <sup>2</sup> (12)=12.45 (P=0.41) RMSEA=0.0022, 90% confidence interval=(0.0, 0.16) CFI=1.00	χ <sup>2</sup> (11)=7.59 (P=0.75) RMSEA=0.0, 90% confidence interval=(0.0, 0.11) CFI=1.00			

\*indicates the same relationships as at the relationship initiation stage

**Table 3. Dependence Asymmetry's Effect on the Relationship between the Supplier's Role Performance and the Retailer's Economic Satisfaction**

		Relationship Initiation Stage		Relationship Maintenance Stage					
		2-group (Powerful retailers and weaker retailers)		3-group (Powerful retailers, weaker retailers and equal powerful retailers with suppliers)		2-group (Powerful retailers and weaker retailers)		3-group (Powerful retailers, weaker retailers and equal powerful retailers with suppliers)	
	B	Model fit indices after constraining equality of coefficients	Model fit indices after constraining equality of coefficients	B	Model fit indices after constraining equality of coefficients	B	Model fit indices after constraining equality of coefficients	B	Model fit indices after constraining equality of coefficients
Powerful retailers	0.22 (1.32) n=29	Because both coefficients are not significantly different from zero, no need to check model fit indices.	$\chi^2(2) = 3.39$ (p=0.18) RMSEA=0.17 90% CI (0.0, 0.62) CFI=0.31	0.22 (1.32) n=29	$\chi^2(1) = 0.090$ (p=0.76) RMSEA=0.0 90% CI (0.0, 0.49) CFI=1.00	0.44 (2.48) n=18	$\chi^2(2) = 7.67$ (p=0.022) RMSEA=0.40 90% CI (0.076, 0.77) CFI=0.52	0.40 (2.24) n=11	$\chi^2(2) = 7.67$ (p=0.022) RMSEA=0.40 90% CI (0.076, 0.77) CFI=0.52
Weak retailers	-0.05 (-0.30) n=4			-0.05 (-0.30) n=4		0.53 (2.03) n=11		1.19 (5.30) n=16	
Equal powerful retailers		0.80 (4.86) n=6							

B: common metric standardized solution for coefficients; values in parentheses are t-values.

**Table 4. Dependence Asymmetry's Effect on the Relationship between The Supplier's Role Performance and the Retailer's Social Satisfaction**

Relationship Initiation Stage		Relationship Maintenance Stage			
	2-group (Powerful retailers and weaker retailers)	3-group (Powerful retailers, weaker retailers and equal powerful retailers with suppliers)	2-group (Powerful retailers and weaker retailers)	3-group (Powerful retailers, weaker retailers and equal powerful retailers with suppliers)	
	B	B	B	B	B
Powerful retailers	-0.13 (-0.74) n=29	-0.07 (-0.45) n=29	0.11 (0.43) n=18	0.11 (0.43) n=18	0.11 (0.43) n=18
Weak retailers	0.48 (2.74) n=4	0.50 (3.04) n=4	0.34 (1.50) n=11	0.34 (1.52) n=11	0.34 (1.52) n=11
Equal powerful retailers		0.23 (2.85) n=6			0.36 (1.33) n=16
	Model fit indices after constraining equality of coefficients $\chi^2(2) = 27.51$ (p=0.0) RMSEA=0.53 90% CI (0.24, 0.88) CFI=0.0	Model fit indices after constraining equality of coefficients $\chi^2(2) = 20.88$ (p=0.0) RMSEA=0.44 90% CI (0.073, 0.85) CFI=0.0	Model fit indices after constraining equality of coefficients Because both coefficients are not significantly different from zero, no need to check model fit indices.	Model fit indices after constraining equality of coefficients Because all coefficients are not significantly different from zero, no need to check model fit indices.	

B: common metric standardized solution for coefficients, values in parentheses are t-values.

## **CHAPTER 5**

### **DISCUSSION**

Results provide support for the proposed models (Figures 2 and 3). As proposed, differences between the initiation and maintenance stages of relationships were supported. There are six proposed differences between the two models for the long-term relationship initiation and maintenance stages:

- 1) Economic satisfaction and social satisfaction are positively related to long-term orientation at the long-term relationship initiation stage, but not at the maintenance stage.
- 2) Opportunism does not have a direct effect on long-term orientation at the long-term relationship initiation stage, but does have an effect at the maintenance stage.
- 3) Guanxi behaves differently during the two stages. Not only does it associate with different variables, but also its effects are opposite during the two stages. During the long-term relationship initiation stage, guanxi is negatively related to social satisfaction and long-term orientation. However, during the maintenance stage, it is positively related to economic satisfaction.
- 4) Dependence asymmetry has a moderating effect on the relationship between a seller's role performance and economic satisfaction / social satisfaction at the long-term relationship initiation stage, but not at the maintenance stage.
- 5) Dependence is positively related to long-term orientation at the long-term relationship initiation stage, but not at the maintenance stage.

The model for the relationship initiation stage serves as a rival model for the relationship maintenance stage. Similarly, the model for the relationship maintenance stage serves as a rival model for the relationship initiation stage. However, the two rival models both have a very poor fit.

The results show that the differences between the two stages are:

- 1) Role performance is positively related to benevolence trust at the relationship initiation stage, but not at the maintenance stage.
- 2) Economic satisfaction is not directly related to benevolence trust at the relationship initiation stage, but is related to benevolence trust at the maintenance stage.
- 3) Social satisfaction is positively related to credibility trust at the relationship initiation stage, but not at the maintenance stage.
- 4) Economic satisfaction and social satisfaction are positively correlated at the relationship initiation stage, but not during the maintenance stage.
- 5) Opportunism is negatively related to benevolence trust and credibility trust at the relationship initiation stage, but not during the maintenance stage.
- 6) Economic satisfaction is positively related to long-term orientation at the relationship initiation stage, but not at the maintenance stage.
- 7) Guanxi behaves differently at the two stages. Not only does it associate with different variables, but also its effects have an opposite sign in the two stages. At the long-term relationship initiation stage, guanxi is negatively related to social satisfaction and long-term orientation. However, during relationship maintenance, it is positively related to economic satisfaction.

8) Dependence asymmetry has a moderating effect on the relationship between the seller's role performance and social satisfaction at the long-term relationship initiation stage, but not at the maintenance stage.

9) Dependence is positively related to long-term orientation at the long-term relationship initiation stage, but not at the maintenance stage.

These results challenge the traditional assumption that there is no difference in channel relationships at different development stages. These results suggest that channel research should consider relationship development stages.

### **Satisfaction**

This study investigated the two components of satisfaction - economic satisfaction and social satisfaction. It, therefore, answers Geyskens and Steenkamp's (2000) call to study economic satisfaction and social satisfaction separately. During both relationship initiation and maintenance stages, the supplier's role performance is positively related to a retailer's economic satisfaction. However, the relationship between a supplier's role performance and a retailer's social satisfaction seems to be different between the two stages. The supplier's role performance is found to be positively related to the retailer's social satisfaction only during the relationship maintenance stage. However, this holds true for powerful retailers only. Role performance is positively related to social satisfaction at the relationship initiation stage for weak retailers and retailers that have equal power with their suppliers (Table 5 – A three-group comparison between powerful retailers, weaker retailers and equally- powerful retailers with respect to the relationship between role performance and social satisfaction).

The difference in the relationship between role performance and social satisfaction for powerful retailers, at the relationship initiation and maintenance stages, can be explained as follows. In a market where retailers have power, any supplier will try its best to satisfy a powerful retailer during the initial stages of a relationship. Therefore, a powerful retailer does not need an evaluation process for interactions with its partner because interactions always will be towards the best. When a long-term orientation is formed, the dependence asymmetry between parties does not affect the relationship. Therefore, during the relationship maintenance stage, powerful retailers are at the same level as other retailers with regard to the relationship between role performance and social satisfaction.

If the dependence asymmetry's effect is not considered, these findings are consistent with social exchange theory (Kelley & Thibaut, 1978; Thibaut & Kelley, 1959), which states that there is an evaluation process at different relationship stages. These findings also are consistent with several conceptual process models of relationship development in marketing (e.g., Anderson, 1995; Ford, 1990; Hakansson, 1982; Hakansson & Wootz, 1979; Nevin, 1995). Those models imply that partners evaluate each other's performance episodically. Superior supplier performance leads to retailer economic satisfaction and social satisfaction at different stages of the relationship. Therefore, the retailer has a means by which to evaluate the supplier's role performance during both the initiation and maintenance stages. Chinese food retailers will be satisfied with a reasonable margin, unique product, good delivery, popular brands and good quality products.

## **Trust**

In the U.S., a retailer's trust is process-based and is the result of a history of good transactions with a given supplier (Zucker, 1986). Sternquist and Chen (in press) have found that Chinese retailer relationships also are based upon evaluations of interaction experience. Firms evaluate each other's performance periodically (e.g., Anderson, 1995; Ford, 1990; Hakansson, 1982; Hakansson & Wootz, 1979; Nevin, 1995; Wilson, 1995). Hence, retailers periodically evaluate each supplier's role performance. Economic satisfaction and social satisfaction are the result of the evaluation, and are found to be the antecedents of trust in the literature. This study investigates the two components of trust, benevolence trust and credibility trust separately, consistent with Ganesan's (1994) study.

### **Benevolence Trust**

The relationship between a supplier's role performance and a retailer's benevolence trust is different between the relationship initiation and maintenance stages. Supplier's role performance is positively related to retailer's benevolence trust during the relationship initiation stage, but not during relationship maintenance.

The relationship between economic satisfaction and benevolence trust also is different between the relationship initiation and maintenance stages. Economic satisfaction is not directly and significantly related to benevolence trust at the relationship initiation stage, but is positively related to benevolence trust during maintenance.

These results suggest that, during the initial stages of a buyer-seller relationship, role performance rather than economic satisfaction is the direct antecedent of benevolence trust. Conversely, during relationship maintenance, economic satisfaction

rather than role performance is the direct antecedent of benevolence trust; economic satisfaction becomes the mediator between role performance and benevolence trust.

### **Credibility Trust**

During both relationship initiation and maintenance, role performance is positively related to credibility trust. However, the relationship between social satisfaction and credibility trust is different for the two relationship stages. Social satisfaction is positively related to credibility trust at the relationship initiation stage, but is not directly and significantly related to credibility trust at the relationship maintenance stage.

This suggests that, early in relationships, both role performance and social satisfaction are direct antecedents of credibility trust, and social satisfaction also is a partial mediator between role performance and credibility trust. However, later in a relationship, role performance is the only antecedent to credibility trust.

There is little research on the relationship between role performance or economic satisfaction and benevolence trust. There also is little research on the relationship between role performance or social satisfaction and credibility trust. Furthermore, there is little research on these relationships at the two relationship stages.

Wilson's (1995) buyer-seller relationship development process model proposed that constructs have both an active phase, during which they are at the center of the relationship development process, and a latent phase, during which they still are important, but not under active consideration during relationship interactions. Wilson (1995) defined an active construct as one that receives a great deal of manager time and energy, and a latent construct as one in which the main issues have been settled to the

manager's satisfaction and, therefore, one that does not receive time or attention.

Specifically, Wilson's (1995) model proposed that satisfaction and trust are only active at partner selection and defining purpose stages (early periods in the relationship initiation stage in our model). When investigating two types of satisfaction and two types of trust separately, this proposition does not explain what dependent variables those constructs are, active or latent. Our study may help to answer this question. For example, role performance is the active antecedent towards the formation of benevolence trust during the relationship initiation stage, while economic satisfaction is the active antecedent during relationship maintenance.

The same logic can be applied to credibility trust. At the relationship initiation stage, both role performance and social satisfaction are antecedents of credibility trust. As discussed earlier in this chapter, if we do not consider the effect of dependence asymmetry, role performance should be significantly related to social satisfaction. Therefore, in this sense, social satisfaction also is a partial mediator between role performance and credibility trust at the relationship initiation stage. Answering the question evoked by Wilson (1995) regarding credibility trust at the relationship initiation stage, role performance and social satisfaction are the active antecedents; while at the relationship maintenance stage, only role performance is an active antecedent.

Van Bruggen, Kacker and Nieuwlaar's (2005) study of the relationship between distributor and customer found that a distributor's performance is positively related to a customer's trust. However, trust was not divided into the two components (benevolence and credibility trust) as in our study; neither did they study the relationship at different stages. In our study, at the relationship initiation stage, role performance is positively

related to both of the components of trust, which is consistent with their study. At the relationship maintenance stage, while role performance is still positively related to credibility trust, no direct relationship is found between role performance and benevolence trust.

To solve the dilemma that no consensus had been established for the relationship between satisfaction and some of its antecedents and consequences, Geyskens et al. (1999) performed a meta-analysis on satisfaction. They found that economic satisfaction is not directly related to trust, while non-economic satisfaction is positively related to trust. A later study conducted by Yu and Pysarchik (2002) found that both economic and non-economic satisfaction were positively related to trust among a sample of Korean cosmetic retailers, a result conflicting with Geyskens et al's findings (1999). By segmenting Chinese retailer-supplier relationships into initiation and maintenance stages, and investigating the two types of trust and two types of satisfaction separately, this study illustrates different kinds of relationships at different stages, providing a clearer picture of the relationship between satisfaction and trust.

At the relationship initiation stage, economic satisfaction is not directly related to benevolence trust, while social (non-economic) satisfaction is related to credibility trust. On the contrary, at the relationship maintenance stage, economic satisfaction is positively related to benevolence trust, while social (non-economic) satisfaction is not directly related to credibility trust. While further research is necessary to confirm these relationships, it may explain the conflicts found among studies in which trust is not divided into two components and relationship is not examined at different stages.

We found it surprising that during the initiation stage, when retailers form benevolence trust, economic satisfaction is not a mediator or even a partial mediator between a supplier's role performance and benevolence trust. Similarly, it was surprising that during maintenance of a retailer's credibility trust, social satisfaction does not appear to be a mediator or even a partial mediator between a supplier's role performance and credibility trust. Social exchange theory (Kelley & Thibaut, 1978; Thibaut & Kelley, 1959), several conceptual process models of relationship development in marketing (e.g., Anderson, 1995; Ford, 1990; Hakansson, 1982; Hakansson & Wootz, 1979; Nevin, 1995; Wilson, 1995), and a longitudinal study (Narayandas & Rangan, 2004) all provide arguments that retailers exercise periodic evaluations of a supplier's role performance at different stages. The evaluation process results in both economic satisfaction and social satisfaction and, according to the literature (e.g., Batt, 2003; Ganesan, 1994; Garbarino & Johnson, 1999; Geyskens et al., 1999; Selnes, 1998; Yu & Pysarchik, 2002), satisfaction fosters trust. However, this is not totally true if we investigate economic satisfaction and social satisfaction, and benevolence trust and credibility trust separately, at least among Chinese food retailers.

Chinese food retailers seem to form their benevolence trust very quickly during the relationship initiation stage, probably at the same time they are forming their economic satisfaction by evaluating their suppliers' role performance. If benevolence trust is formed more slowly than economic satisfaction, there should be a relationship between economic satisfaction and benevolence trust at the relationship initiation stage. In other words, when Chinese food retailers make decisions regarding the acceptance of a new product, their decision-making is straightforward and is independent of the

formation of economic satisfaction. The supplier's role performance is the most important factor. If retailers feel the supplier's role performance is good and will bring profit to the retailers, benevolence trust will be formed. This finding conflicts with the traditional view that trust is formed later than satisfaction (e.g., Geyskens, et al. 1999). During the relationship maintenance stage, social satisfaction seems to become latent as an indicator of credibility trust, according to Wilson's (1995) proposition. However, social satisfaction actively influences the formation of credibility trust during relationship initiation. Chinese food retailers need to feel that the interaction will be fulfilling before they enter into a relationship with a supplier. When the relationship is built up, social satisfaction is latent because it has been taken for granted.

### **The Correlations between Two Types of Satisfaction and Two Types of Trust**

We found that, in both the relationship initiation stage and maintenance stage, benevolence trust and credibility trust are positively correlated, which is consistent with what is found in the literature (e.g. Ganesan, 1994). However, the correlation between economic satisfaction and social satisfaction is different between the two stages.

Economic satisfaction and social satisfaction are positively correlated in the relationship initiation stage, but not during the relationship maintenance stage, a finding which is inconsistent with the literature (e.g. Geyskens and Steenkamp, 2000). Studies on economic and social satisfaction do not separate relationships into different stages; therefore, a possible explanation for the lack of correlation between economic satisfaction and social satisfaction in the maintenance stage is that social satisfaction becomes latent in the relationship maintenance stage.

## **Opportunism**

Most studies (e.g., Armstrong & Yee, 2001; Morgan & Hunt, 1994; Batt, 2003) found that one party's opportunistic behavior reduces its counterpart's trust. Although Kwon and Suh (2005) found a non-significant relationship between opportunistic behavior and trust, they did not provide any explanation for this finding. These previous studies did not investigate the relationship between opportunism and trust at different relationship stages, or the relationships between opportunism and the two types of trust separately.

This study shows that the relationships between opportunism and benevolence and credibility trust is different during the relationship initiation and maintenance stages. Opportunism has a significant negative impact on both benevolence trust and credibility trust during the relationship initiation stage, while opportunism has no significant direct impact on benevolence or credibility trust during relationship maintenance. This result challenges the traditional notion that opportunistic behavior reduces trust; certainly, this traditional notion appears not to be totally true, at least among Chinese food retailers. During relationship maintenance, a supplier's opportunistic behavior does not have an impact on a Chinese food retailer's level of benevolence or credibility trust. Kwon and Suh (2005) also failed to uncover any significant relationship between opportunistic behavior and trust. In their sample of  $n=168$ , the length of business with a particular partner ranged from one year to 50 years (mean, 8.2 years; standard deviation 6.9 years.) Therefore, the majority of the sample in Kwon and Suh's (2005) study already were well into the long-term relationship maintenance stage (*long-term* defined as more than 3

years). Studies that have identified a negative relationship between opportunism and trust have not provided clear information on the length of relationships investigated.

During relationship initiation, a retailer is evaluating a supplier. The retailer is in a position to either establish a relationship with a given supplier or reject that supplier. Consequently, the retailer is in control. However, later in the relationship, when a retailer has become committed to the relationship, the retailer is vulnerable to the supplier's opportunism. At this stage, when supplier opportunism occurs, the retailer can minimize the damage by terminating the relationship as soon as possible. Retailers have more alternatives than suppliers. This statement is confirmed by data showing that opportunism is significantly and negatively related to long-term orientation during the relationship maintenance stage, and that opportunism is not directly related to long-term orientation during the relationship initiation stage. Adding the relationship between opportunism and long-term orientation in the model for the relationship initiation stage does not significantly improve the fit of data for the nested model ( $\Delta\chi^2(1) = .47, p>.05$ ). There is no buffer zone through which a retailer's trust gradually lowers to a threshold, and then precipitates a decision for the retailer to terminate the relationship. In contrast, Bell et al.'s (2002) case study reported that a supplier's trust is *resilient* to erosion. However, there is a threshold that, once crossed, leads to a precipitous drop in trust level. The reason behind the different reactions of retailer and supplier is market power. With more alternatives, a retailer can more easily exit a relationship. Further research is needed to confirm this result.

Bell et al.'s (2002) case study on trust deterioration between two high-tech firms (a buyer and supplier), with a ten-year relationship found that benevolence is more

important than credibility trust. Although during relationship initiation, the relationship between opportunism and benevolence trust is stronger than the relationship between opportunism and credibility trust, this result is not statistically significant. During relationship maintenance, neither relationship is significantly different from zero. Therefore, Bell et al.'s (2002) finding is not supported in our Chinese food retailer sample.

During both the initiation and maintenance stages of a relationship, opportunism is negatively related to social satisfaction. This result supports Gassenheimer et al.'s (1996) findings. In other words, at any time, opportunistic behavior leads to a partner's social dissatisfaction.

### **Long-term Orientation**

#### **Benevolence Trust and Credibility Trust**

Although researchers have found that trust is the antecedent of long-term orientation (e.g., Andaleeb, 1996; E. Garbarino & J. L. Johnson, 1999; Geyskens et al., 1999; Kwon & Suh, 2005; Morgan & Hunt, 1994; Siguaw, Baker, & Simpson, 2003), Ganesan (1994) is the only researcher who empirically investigated the relationships between credibility trust and long-term orientation, and between benevolence trust and long-term orientation. He found that trust is important in developing a long-term orientation, but only one dimension of trust, credibility, is a significant predictor. Ganesan did not specifically study the initiation stage or the maintenance stage of the relationship. Our study supports Ganesan's findings regarding the relationship between long-term orientation and benevolence trust and credibility trust, at both the relationship initiation and maintenance stages for Chinese food retailers. At both stages, benevolence

trust is not directly related to long-term orientation, while credibility trust is significantly and positively related to long-term orientation. This result suggests that retailers are trained to focus on objective evidence of reliability rather than on the motives of their channel partners (Ganesan, 1994).

### **Economic Satisfaction and Social Satisfaction**

For many supplier firms, establishing and maintaining a network of satisfied resellers is crucial to the long-term viability of their channel systems (Dwyer, 1980; Geyskens et al., 1999). Empirical studies have produced conflicting results on the relationship between long-term orientation and satisfaction. Yu and Pysarchik (2002) found that trust is the mediator between economic / non-economic satisfaction and long-term orientation, in a study of the relationship between cosmetic retailers and their suppliers. In other words, there is no direct relationship between economic / non-economic satisfaction and long-term orientation. However, Ganesan (1994) found that satisfaction with previous outcomes is positively related to a retailer's long-term orientation. Neither study investigated the initiation and maintenance stages of relationships separately.

Our study found a significant and positive relationship between economic satisfaction and long-term orientation during the relationship initiation stage, but not for social satisfaction. No such direct relationships regarding satisfaction were identified during relationship maintenance. In other words, during relationship initiation, economic satisfaction together with credibility trust and dependence are the antecedents of long-term orientation, while social satisfaction does not influence long-term orientation. As a relationship matures, credibility trust becomes the only antecedent of long-term

orientation. These results, in a way, resolve the conflicting findings from Yu and Pysarchik's (2002) and Ganesan's (1994) studies. The key is to ascertain the stage of a relationship before performing a causal analysis on it (Grayson & Ambler, 1999). The results suggest that satisfaction is not the key dependent variable for established long-term buyer-seller relationships. It only is important early in the relationship. Credibility trust should be the key dependent variable for established long-term buyer-seller relationships. Narayandas and Rangan (2004), in their longitudinal study of three buyer-seller dyad relationships, found that, during the maintenance stage of a relationship, trust is the only factor that drives commitment. Our results also indicate that one component of trust, credibility trust, is active during the relationship maintenance stage, which is contrary to Wilson's (1995) proposition that trust should be latent during the relationship maintenance stage.

The reason for trust being such a necessary ingredient of long-term orientation at the relationship initiation stage, and the sole determinant factor of long-term orientation at the relationship maintenance stage, is that it shifts the focus to future conditions. With trust, both parties believe that, even under contingencies, the pie of rewards will be divided in an equitable and fair manner.

### **Guanxi and Guanxi Practice**

Guanxi or *personal connection* has been identified as a necessary condition by which to do business successfully in China (Chen & Chen, 2004; Paik & Tung, 1999). Chen (2001) agreed that the establishment of guanxi is fundamental to Chinese business and has historically been the key to business success. However, a negative side to guanxi has been noticed by scholars; for example, Warren, Dunfee and Li (2004) found that

guanxi may result in negative as well as positive outcomes for focal actors. Therefore, it is necessary to know when practicing guanxi will be harmful for a retailer-supplier relationship in China. There has been little research on this issue. Separating relationships into initiation and maintenance stages, as we have, may help to answer this question.

At the relationship initiation stage, a supplier's guanxi practice is not a good choice, because it is negatively related to its retailer's social satisfaction and long-term orientation. This result is in accordance with Sternquist and Chen's (in Press) in-depth interview study on Chinese food retailers' new product acceptance process, whereby personal relationships between retail buyers and their suppliers are prohibited. However, during the relationship maintenance stage, a supplier can practice guanxi, because guanxi practice is positively related to a retailer's economic satisfaction. This result supports findings by Luo (1997), Luo and Chen (1997), and Peng and Luo (2000) on the positive relationship between guanxi and a firm's performance. This result also is in accordance with Leung, Lai, Chan and Wong's (2005) findings that guanxi is positively related to satisfaction, when they studied stable relationships between senior purchasing managers of clothing manufacturing firms and their suppliers.

Fukuyama (1995) characterizes Chinese society as a low-trust society, and states that Chinese people trust only in-group members. During the relationship initiation stage, retailer-supplier long-term orientation has not yet been formed, and the retailer and the supplier are out-group members to each other. Giving reciprocal favors or gifts is a strong norm in Chinese culture (Hwang, 1987). If a buyer receives a favor from a supplier's salesperson, the buyer then is morally obliged to repay the favor to the salesperson. As a

result, a buyer may be reluctant to accept a salesperson's favors or gifts because the buyer does not want to get into an embarrassing situation in which he or she owes the salesperson a favor. During the relationship maintenance stage, however, after the retailer and supplier have formed a long-term orientation, they may become in-group members to each other. Practicing guanxi as a cultural habit will not only be acceptable, but also may make business transactions smoother. Guanxi must be treated historically as a repertoire of cultural patterns and resources, which are continuously transformed in their adaptation to, as well as shaping of, new social institutions and structures (Yang, 2002). Forty-three percent of the variance in economic satisfaction is explained when guanxi practice is added as an explanatory factor, during relationship maintenance; whereas only ten percent of the variance in economic satisfaction is explained when role performance is the only explanatory factor evaluated during relationship initiation. Therefore, guanxi practice appears to be very important for established relationships.

### **Dependence and Dependence Asymmetry**

#### **Dependence**

There is little research on dependence at different relationship stages. Researchers who did not segment relationships into stages have conflicting results on dependence. For example, Ganesan (1994), Yu and Pysarchik (2002), and Lusch and Brown (1996) found that a retailer's dependence on its supplier is positively related to its long-term orientation. Studying manufacturers and their suppliers, Izquierdo and Cillán (2004) found that, in some cases, a lack of trust may reduce a manufacturers' intention of maintaining the relationship, even if their economic dependence is high. By segmenting relationships into initiation and maintenance stages, we strove to solve this dilemma.

During the relationship initiation stage, a Chinese food retailer's dependence can influence its long-term orientation; however, during the relationship maintenance stage, a Chinese food retailer's dependence does not influence its long-term orientation. In other words, dependence does not appear to matter once a long-term orientation has been formed. This result is in accordance with results from studies by Kim (1998) and Kim and Oh (2002). Kim (1998) investigated the dependence asymmetry's effect on satisfaction and trust, while Kim and Oh (2002) investigated the dependence asymmetry's effect on commitment, by comparing two countries - the U.S., where short-term orientation is institutionalized, and Japan, where long-term orientation is institutionalized. The two studies found that differences in dependence do not matter when long-term orientation is institutionalized. Our study investigated the relationship between dependence and long-term orientation in one country, at two different stages; that is, when long-term orientation is not formed at one stage, and is formed at another stage.

Our data indicate that relationship interdependence does not influence parties' long-term orientation later in the relationship, once a long-term orientation already has been formed. Previous studies have found that a party's long-term orientation is not directly related to the other party's dependence. For example, Lusch and Brown (1996) found that more dependent wholesale-distributors have a long-term orientation toward their relationship with their major supplier. A wholesale-distributor's long-term orientation was not significantly related to its supplier's dependence. Ganesan (1994) stated that asymmetry has a double effect on calculative commitment: the calculative commitment increases when the firm is more dependent, while the calculative

commitment decreases when the firm is less dependent. Our study has found that one party's dependence is not related to its own long-term orientation. Van Bruggen, Kacker and Nieuwlaat (2005) found that total dependence between the distributor and its organizational customer is positively related to each component of relationship quality (satisfaction, trust, and commitment). We investigated the relationship between total dependence (as the sum of both parties' dependence on each other) and long-term orientation with economic satisfaction, social satisfaction, benevolence trust, credibility trust and guanxi as control variables for the relationship initiation stage; and with economic satisfaction, social satisfaction, benevolence trust, and credibility trust as control variables for the relationship maintenance stage. The results show that, during relationship initiation, total dependence is positively related to long-term orientation ( $B=.264, p<.1$ ); meanwhile, during relationship maintenance, total dependence is not related to long-term orientation ( $B=.054, p>.1$ ).

These results challenge the traditional view that interdependence or total interdependence is an antecedent of a long-term relationship at any stage of buyer-seller relationships. This view is not true for the relationship maintenance stage. This traditional view has advocated firms to concentrate mainly on developing long-term relationships through dependence and locking in channel partners by getting them to use transaction specific investments (TSI).

Our results also challenge the resource dependence theory, which states that inter-organizational relationships are structured by means of formal and informal bonds in order to control dependence (Pfeffer and Salancik, 1978). During the relationship maintenance stage, if long-term orientation is formed and maintained, dependence does

not influence long-term orientation. There is no need to control dependence. Instead, trust should be the key factor managed during the relationship maintenance stage. The reason behind trust being a necessary ingredient for long-term orientation at the relationship initiation stage, and the sole determinant factor of long-term orientation at the relationship maintenance stage is that it shifts the focus to future conditions. As stated before, with trust, both parties believe that, even under contingencies, the pie of rewards will be divided equitably. In contrast, long-term orientation bound by dependence and TSIs signify a forced collaboration. Both parties constantly search to reduce this dependence. Gao, Sirgy and Bird (2005) found that dependence has a direct effect on a buyer's decision-making uncertainty.

### **Dependence Asymmetry**

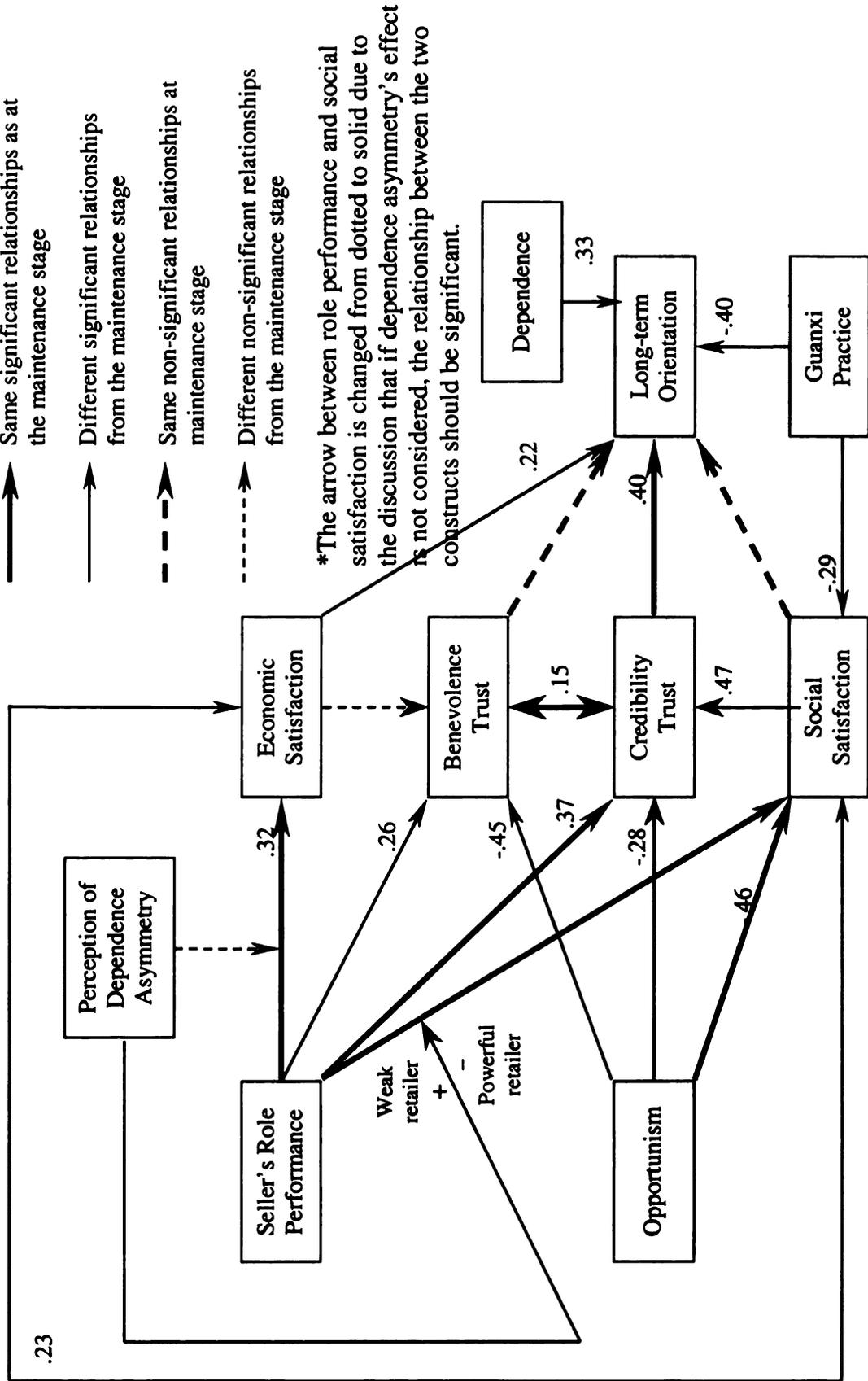
There is little research on dependence asymmetry at different relationship stages, although dependence asymmetry has been studied under conditions of distributors' differing orientations (e.g. Kim, 1998; Kim and Oh, 2002). As expected, our study found that during relationship maintenance, dependence asymmetry does not influence the strength of the relationship between a supplier's role performance and a retailer's economic or social satisfaction; during the relationship initiation stage, the dependence asymmetry does influence the strength of the relationship between the supplier's role performance and social satisfaction, the relationship being stronger among weaker retailers. The results have confirmed the proposition that dependence difference affects the retailer-supplier relationship during the relationship initiation stage, but does not affect the retailer-supplier relationships during the relationship maintenance stage.

Weaker retailers are more easily satisfied with a supplier's good role performance, which

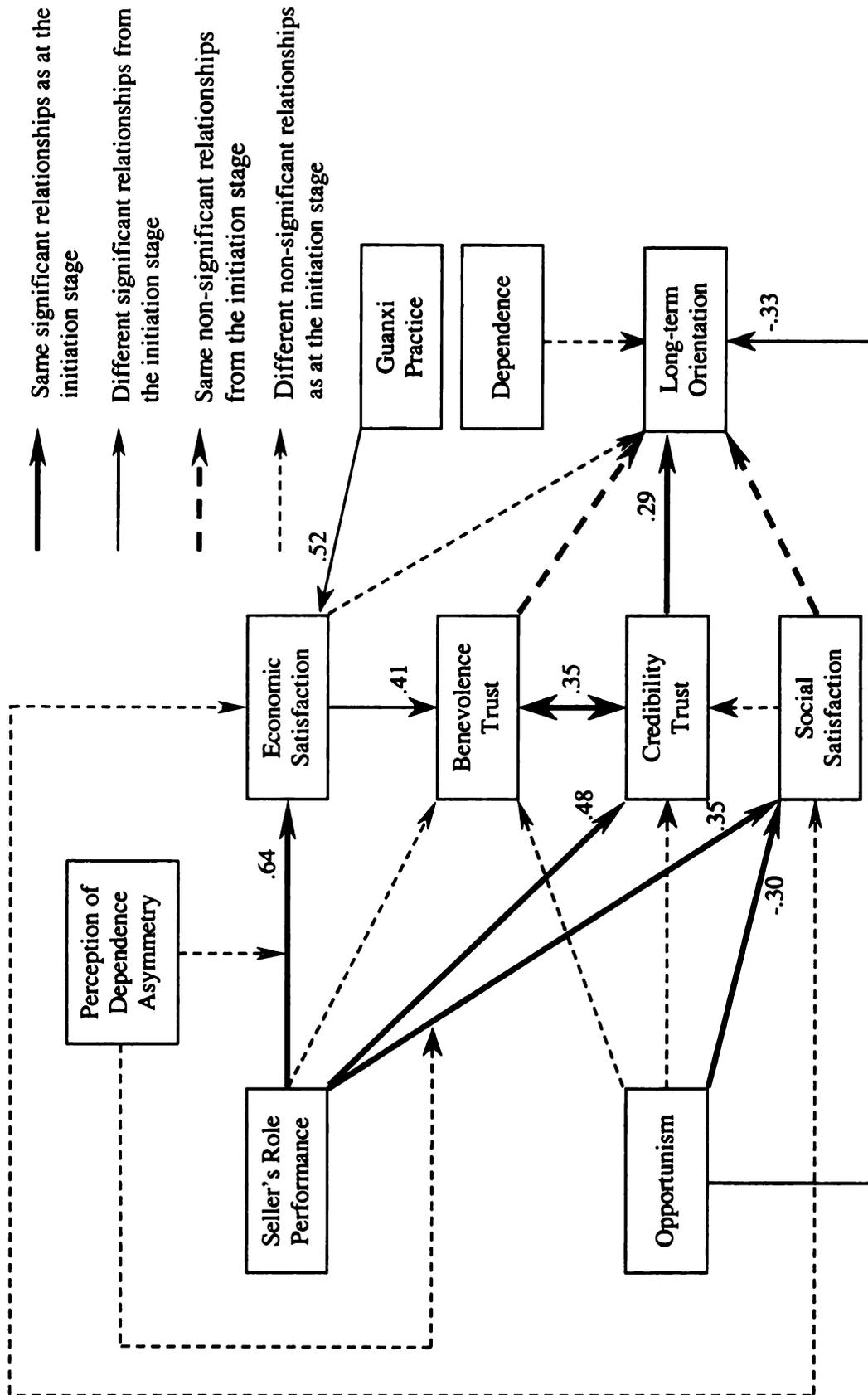
is in accordance with Kumar et al.'s (1995) and Yilmaz, Sezen and Kabaday's (2004) findings. However, although the relationship of role performance and economic satisfaction appears larger among powerful retailers than weaker retailers, the difference is not statistically significant. The possible explanation for this lack of difference is inadequate sample size.

Our results for dependence asymmetry and dependence are in accordance with findings by Hallikas, Wirolainen and Tuominen (2002). Hallikas, et al. (2002) found that dependency and asymmetry are two major uncertainty and transaction cost drivers. Long-term relationships can minimize these transaction costs and risks.

**Figure 4. Buyer-Seller Relationship Initiation in the Chinese Distribution Channel – Initiation Phase (Results)**



**Figure 5. Buyer-Seller Relationship Maintenance in the Chinese Distribution Channel – Maintenance Phase (Results)**



## **CHAPTER 6**

### **CONCLUSION**

This study investigated, from a buyer's perspective, how buyer-seller long-term relationships are initiated and maintained in the Chinese food retailer and supplier distribution channel. The study fills in three gaps in the distribution channel relationship research: the lack of studies on the process of relationship evolution; the lack of research on long-term orientation in foreign marketing channels (e.g., China); and the lack of research from a distributor's perspective. The study found significant differences in the relationships among the constructs at the relationship initiation and maintenance stages.

Only eight of the twenty-one relationships are the same for the two relationship stages (see all the relationships with bold arrows in Figure 4 and 5).

- 1) Role performance is positively related to economic satisfaction and social satisfaction.
- 2) Role performance is positively related to credibility trust.
- 3) Benevolence trust and credibility trust are positively correlated.
- 4) Credibility trust is positively related to long-term orientation.
- 5) Benevolence trust is not directly related to long-term orientation.
- 6) Opportunism is negatively related to social satisfaction.
- 7) Social satisfaction is not directly related to long-term orientation.

At the relationship initiation stage, role performance increases a retailer's economic satisfaction, social satisfaction, benevolence trust and credibility trust.

Economic satisfaction, credibility trust and dependence directly impact the formation of a retailer's long-term orientation. Social satisfaction can indirectly influence long-term

orientation formation through credibility trust. Practicing guanxi has a negative effect on both social satisfaction and long-term orientation. Opportunistic behavior has a negative impact on benevolence trust, credibility trust and social satisfaction. The relationship between role performance and social satisfaction is stronger for weaker retailers than for powerful retailers.

In addition, at the relationship initiation stage, economic satisfaction is not directly related to benevolence trust. Social satisfaction is not directly related to long-term orientation. Although the relationships between opportunism and benevolence trust and credibility trust are significant and negative, the coefficients of the two relationships are not significantly different from each other. In other words, the relationship between opportunism and benevolence is not stronger than the relationship between opportunism and credibility trust. The relationship between role performance and economic satisfaction is not found to be stronger for powerful retailers than for weaker retailers.

At the relationship maintenance stage, role performance increases economic satisfaction, social satisfaction and credibility trust. Guanxi has a positive impact on economic satisfaction. Economic satisfaction fosters benevolence trust. Credibility trust leads to long-term orientation. Opportunistic behavior is negatively related to social satisfaction and long-term orientation.

In addition, at the relationship maintenance stage, dependence asymmetry does not influence the relationship between role performance and economic satisfaction or social satisfaction. Social satisfaction is not directly related to credibility trust. Economic satisfaction and social satisfaction are not directly and significantly related. Economic

satisfaction, social satisfaction and dependence are not directly related to long-term orientation. Opportunism reduces neither credibility trust nor benevolence trust.

### **Managerial Implications**

From a managerial perspective, it is important for suppliers who want to build or maintain long-term relationships with Chinese food retailers to have different relationship strategies at different relationship stages. First, at the relationship initiation stage, a supplier can change the Chinese food retailers' time orientation from a short-term to long-term orientation by means of credibility trust-enhancing behaviors, making retailers economically satisfied and making them feel dependent on the supplier. To enhance the retailers' credibility trust of the supplier, a supplier should focus on performing its role well (provide promised benefits reliably and effectively), and make the retailers feel that the business interaction experience is fulfilling and gratifying. This approach is important at this stage, especially for weaker retailers. An impressive role performance also will make retailers economically satisfied. In addition, a good role performance will impress upon the retailers that they can economically depend on the supplier. At this stage, a supplier should avoid opportunistic behavior and guanxi practice. Opportunistic behavior will directly lower the level of trust and social satisfaction. Guanxi practice may directly lead to termination of the relationship.

Second, at the relationship maintenance stage, a supplier can maintain a long-term relationship or affect Chinese food retailers' long-term orientation only through credibility trust-enhancing behaviors. To enhance the retailers' credibility trust of the supplier, a supplier should focus on performing its role well (provide promised benefits reliably and effectively). As Chinese food retailers' economic satisfaction can influence

their long-term orientation through the mediation of benevolence trust and credibility trust, it is important to make retailers economically satisfied. A suppliers' good role performance can bring economic satisfaction to the retailers. Guanxi practice, at this stage, also can make the retailers feel economically satisfied. Therefore, it is necessary to learn to practice guanxi to maintain a long-term business relationship in China. At this stage, the supplier can save time and energy from the management of dependence and social satisfaction, which are latent at this stage.

### **Limitations**

The results and implications of this study are somewhat constrained by the research method employed. Although the testing of the models yielded results that are consistent with the hypotheses, the cross-sectional design limits the ability to rule out alternative causal inferences. For example, the models are predicated on the assumption that credibility trust affects long-term orientation. Although the results support this general hypothesis, it also is conceivable that a reverse sequence of events can occur. Typically, most studies have conceptualized trust as a determinant rather than a consequence of relationship quality (e.g., Anderson and Narus, 1990; Anderson and Weitz, 1989).

Furthermore, this study examines only one dimension of long-term relationships, that is, long-term orientation. Other dimensions, such as relational norms (Dwyer, et al., 1987; Kaufmann & Stern, 1988; Macneil, 1980), are not included. The social satisfaction scale needs to be improved to enhance reliability. The low reliability for this scale is likely the result of reverse scored items. In future studies, it will be important to use only

positively worded statements. Therefore, results related to social satisfaction should be interpreted with caution.

### **Directions for Future Research**

The initiation stage includes several sub-stages (Figure 1). Based on the findings of differences of the two stages, a similar study could be conducted to investigate the relationships at those sub-stages. Future studies could be longitudinal, covering the relationship stages of the same retailers. Because the buyer-seller relationship is based on personal business relationships between key persons, future research could study the relationship among constructs after an incident occurs, such as a change in managers. Future research could enhance the social satisfaction scale. Future studies could focus on how suppliers can restore their relationships with retailers after opportunistic behavior occurs. Finally, research could be conducted on the relationship between trust as a relational governance and contract as the more formal governance, when trust could be a substitute for contract.

## NOTES

1. Legitimate power is based on one channel member's perception of its partner's legitimate right to influence its operation and the extent to which the member is obliged to accept this influence (Kasulis & Speckman, 1980; Kasulis, Speckman & Bagozzi, 1979). Power source is determined from the magnitude of its source (Simon, 1953). Basically there are six types of power sources: expert power source, information power source, legitimate power source, referent power source, reward power source, and coercive power source.

## APPENDIX

### Response Formats and Items

Construct	Items	Source and its Cronbach Alpha	Cronbach Alpha from this study
Role Performance	<p>Reasonable margin for retailers.                      Uniqueness of products,                      Delivery of goods,                      Well known/respected brands                      Product quality</p> <p>Likert scale: -5=very poor , 0=average performance, 5=very good</p>	Developed through interviews	0.74
Credibility trust	<p>Likert scale: 1=strongly disagree, 7= strongly agree</p> <p>T1. This supplier has been frank in dealing with us.                      T2. Promises made by this supplier are reliable.                      T3. This supplier is knowledgeable regarding his/her products.                      T4. This supplier understands our position.                      T5. This supplier does not make false claims                      T6. This supplier is open in dealing with us.</p> <p>Likert scale: 1=strongly disagree, 7= strongly agree</p>	Ganesan (1994) $\alpha=0.90$	0.89
Benevolence trust	<p>Likert scale: 1=strongly disagree, 7= strongly agree</p> <p>T8. This supplier has made sacrifices for us in the past.                      T9. This supplier cares for us.                      T10. In times of shortages, this supplier has gone out on a limb for us.                      T11. This supplier is like a friend.                      T12. We feel this supplier has been on our side.</p> <p>Likert scale: 1=strongly disagree, 7= strongly agree</p>	Ganesan (1994) $\alpha=0.88$	0.81

Supplier's opportunism	<p><b>T13.</b> If problems such as shipment delays arise, the supplier's representative is honest about the problem.Ⓞ</p> <p><b>T14.</b> We feel that our supplier often uses the information we give to check up on us rather than to solve problems</p> <p><b>T15.</b> Given the chance, this supplier might try to take unfair advantage of our business unit.</p> <p><b>T16.</b> In dealing with this supplier, we spend a lot of time haggling unproductively over such issues as prices and responsibility for problems.</p> <p><b>T17.</b> We can depend on our supplier always to treat us fairly.Ⓞ</p> <p>Likert scale: 1=strongly disagree, 7= strongly agree</p>	Sako and Helper (1998) $\alpha=0.726$	0.62
Guanxi	<p><b>G1.</b> Overall</p> <p><b>G2.</b> Our families know each other</p> <p><b>G3.</b> We exchange gifts</p> <p><b>G4.</b> We do personal favors for each other</p> <p><b>G5.</b> We spend social time together</p> <p><b>G6.</b> Our firms' key managers banquet together</p> <p>Likert scale: 1=not important factor for the business, 7= important factor for the business</p>	Ambler, Styles and Liucum (1999) $\alpha=0.87$	0.87
Retailer's dependence on supplier	<p><b>D1.</b> If our relationship was discontinued with this supplier, we would have difficulty in making up the sales volume in our trading area.</p> <p><b>D2.</b> This supplier is crucial to our future performance.</p> <p><b>D3.</b> It would be difficult for us to replace this supplier.</p> <p><b>D4.</b> It would be difficult for our firm to replace the sales and profits generated from this supplier's line.</p> <p>Likert scale: 1=strongly disagree, 7= strongly agree</p>	Ganesan (1994) $\alpha=0.94$	0.85
Economic satisfaction	<p><b>E1.</b> My relationship with this supplier has provided me with a dominant and profitable market position in my sales area.</p> <p><b>E2.</b> My relationship with this supplier is very attractive with respect to discounts.</p> <p><b>E3.</b> I am very pleased with my decision to distribute this supplier's products since their high quality increases customer traffic.</p>	Geyskens and Steenkamp Geyskens (2000) SEM validation (two factors)	0.83

	<p><b>E4.</b> The marketing policy of this supplier helps me to get my work done effectively.</p> <p><b>E5.</b> This supplier provides me with marketing and selling support of high quality.</p> <p>Likert scale: 1=strongly disagree, 7= strongly agree</p>	with 5 items each: all loadings are larger than 0.60, CFI=0.95	
Social satisfaction	<p><b>S1.</b> The working relationship of my firm with this supplier is characterized by feelings of hostility. ®</p> <p><b>S2.</b> Interactions between my firm and this supplier are characterized by mutual respect.</p> <p><b>S3.</b> This supplier leaves me in the dark about things I ought to know. ®</p> <p><b>S4.</b> This supplier explains the reasons for its policies.</p> <p>Likert scale: 1=strongly disagree, 7= strongly agree</p>	Geyskens and Steenkamp (2000) SEM validation (two factors with 5 items each: all loadings are larger than 0.60, CFI=0.95	0.53
Long-term orientation	<p><b>L1.</b> We are only concerned with my company in this relationship.®</p> <p><b>L2.</b> I expect this supplier to be working with us for a long time.</p> <p><b>L3.</b> Any concessions we make to help out this supplier will even out in the long run.</p> <p><b>L4.</b> We believe that over the long run our relationship with this supplier will be profitable.</p> <p><b>L5.</b> Maintaining a long-term relationship with this supplier is important to us.</p> <p><b>L6.</b> We focus on long-term goals in this relationship.</p> <p><b>L7.</b> We are willing to make sacrifices to help this supplier from time to time.</p> <p>Likert scale: 1=strongly disagree, 7= strongly agree</p>	Ganesan (1994) $\alpha=0.94$	0.73
Dependence asymmetry	<p>Categorical scale:</p> <p>1=retailer and supplier has equal power</p> <p>2=retailer has more power</p> <p>3=supplier has more power</p>		

® reversed items.

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