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# Channel relationships from the perspectives of manufacturers and their connecting distributors in Indonesia

Manufacturers  
and their  
connecting  
distributors

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## Abstract

**Purpose** – Paired channel relationship constructs are used to conjointly compare the perspectives of Indonesian manufacturers and their connecting distributors when engaging and relating across each shared marketing channel. The purpose of this paper is to hypothesize long-term orientation (LTO) and role-performance as joint drivers that positively influence dependence, satisfaction, and trust constructs for each manufacturer and distributor domain.

**Design/methodology/approach** – A structural equation modelling-comparative model is developed, tested, and validated for the Indonesian manufacturing sector. The sample size is 140 pairs of medium-to-large-sized manufacturers and their connecting distributors. The respondent is individual who is responsible and knowledgeable in dealing with his/her company's manufacturer or distributor.

**Findings** – Both the manufacturer-distributor LTO and their role-performance jointly drive the outcomes of the shared marketing channel relationship, and both parties' behaving similarly (except for the influence of their role-performance onto their partner's satisfaction).

**Research limitations/implications** – This study have not investigated possible two-way interactions between constructs across the channel. Combined, paired, manufacturer and distributor dataset questions can expose the connectivities relationships between the partners. The insignificant influence of role-performance on economic satisfaction within the manufacturer domain requires further research on the possible presence of mediating construct(s) between those constructs, and on the broadening of the definition of satisfaction. Past channel research revealed that trust interacts with satisfaction, yet this study does not find significant interactions between the outcomes constructs.

**Practical implications** – In Indonesia each marketing channel's manufacturer and distributor management team should jointly enhance both their shared long-term relationship, and their respective role-performance. This long-term view is implementable through long-term marketing channel contracts.

**Originality/value** – This study contributes to marketing channel theory with the LTO and the role-performance of a channel partner jointly driving the other partner's economic satisfaction, trust, and their dependence specifically within the Indonesian context. The benchmarking of a marketing channel's performance within a trusting and satisfying channel relationship sets the framework for the development of future optimization studies (of at least the five connectivities constructs used herein).

**Keywords** Channel relationships, Structural equation modelling, Marketing channels, Marketing in developing countries

**Paper type** Research paper

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## Introduction

The proper management of marketing channels often helps deliver a manufacturer's products on time, and on target (Rosenbloom, 2013) – especially in an archipelago country like Indonesia. Across areas of the Indonesian archipelago different customer characteristics can be exhibited. In such cases there may be a need for various structural adjustments in channels development within a specific geographical area. For example, a close coordination between a manufacturer and its connecting distributor in the Madura Island area normally requires cash payments. In contrast, across most other parts of Indonesia, credit payments are normally applied (Sukresna, 2014, p. 213).

In Indonesia, the manufacturer and its distributor usually show mutual dependency and coordination between these two parties, and so should operate their marketing channels in a comparable manner (Casciaro and Piskorski, 2005; Ferrer *et al.*, 2010; Gulati and Sytch, 2007). Following Nyaga *et al.* (2010) and Lobo *et al.* (2013), such comparisons, particularly in paired data studies, are critical when both parties share a mutual intention (and have the capability) to enhance the beneficial aspects of their marketing channel relationship. This in-turn often promotes channel satisfaction between the two partners (Benton and Maloni, 2005) and when realized, can lead to further competitive advantage (Gulati and Sytch, 2007) and can improve the economies of emerging countries (Hoppner and Griffith, 2015). Further, when the perspectives of both parties display high similarities, successful collaboration likely arises across their marketing channels (Nyaga *et al.*, 2010).

Recent studies of marketing channel partners perspectives on channel relationships do exhibit differences (Krause and Ellram, 2014; Nyaga *et al.*, 2010, 2013; Yang *et al.*, 2014) which may create significant negative effects across their marketing channels performance (Nyaga *et al.*, 2013; Yang *et al.*, 2014). However across their channel relationships, both the manufacturer and distributor perspectives are sometimes influenced by several interrelated factors including: the business culture – which is influenced by where these marketing channel companies are located (Cannon *et al.*, 2010; Runyan *et al.*, 2010); the market structure (Brennan *et al.*, 2011; Butaney and Wortzel 1988); and the relative dependence position between either of the marketing channel partners (Chung *et al.*, 2011; Yang *et al.*, 2014).

Hwang *et al.* (2013) find the cultural differences between Western businesses and East Asian businesses engage different drivers across their respective channel relationships. Butaney and Wortzel (1988) explain that a concentrated market structure shapes different channel partner behaviours when compared to where businesses compete strongly within a broad and open market structure. Furthermore, in marketing channels where marketing channel partners possess an imbalanced (or dependence position), a different behavioural dynamic is portrayed – especially if compared to the relative balanced dependence position among equivalent channel partners (Chung *et al.*, 2007; Ferrer *et al.*, 2010; Yang *et al.*, 2014).

Although researchers have compared channel partner perspectives in Western channel relationships (Nyaga *et al.*, 2010, 2013; Oosterhuis *et al.*, 2013) only a few studies have considered South East Asian settings. Furthermore, most past research employs differing constructs, non-dyadic, and differing perspectives between one party and its channel partner(s) (Krafft *et al.*, 2015; Nyaga *et al.*, 2010). Nyaga *et al.* (2010) suggest the different perspectives of the manufacturer and its connecting distributor(s) should be directly paired and then directly compared.

Hence, in the Indonesian (South East Asian) context – where a collectivist paradigm predominates across the business culture (Hofstede and Hofstede, 2005), and when

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studying marketing channel relationships, it likely remains of value to seek both the manufacturers and their connecting distributors' perspectives. Thus, this study's research question asks:

*RQ1.* In an Indonesian context, how do the perceptions of manufacturers and their connecting distributors relate across their marketing channel relationships?

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### Literature review

#### *The perspectives of manufacturer and distributor on channel relationships*

Studies have investigated perspectives from manufacturers about their distributor and vice versa (e.g. Anderson and Narus, 1990; Nyaga *et al.*, 2010; Oosterhuis *et al.*, 2013). These studies find the manufacturer and the distributor share similar perspectives in most constructs. Anderson and Narus (1990) find similarities in: the relationship of dependence and influence of the partner firm; the relationship of outcomes given comparison level (CL) and cooperation; and the correlation between communication and outcomes given CL. Nyaga *et al.* (2010) find more similarities than differences and this may lead to collaborative partnerships between both parties.

Oosterhuis *et al.*, (2013) find the number of similarities and differences are about the same between manufacturer's and distributor's perspectives. Hence, these perspectives may warrant cautious attention within a collaborative relationship. Here, the buyer (distributor) and supplier (manufacturer) hold similar perceptions concerning the frequency of communication around: operational and innovation aspects; the frequency of media deployment; and on the demand uncertainty of the delivered products. However, they likely display differences in their role-performance, conflicts, technology uncertainty, and dependence constructs. Regarding dependence, the difference may not be necessarily a bad thing for both parties (Yang *et al.*, 2014).

In a concentrated industrial market like Indonesia (Aswicahyono *et al.*, 2010), studies on the comparison between the manufacturer's and the distributor's perspectives are very limited. Here, Setyawan *et al.* (2013) show trust between distributors and their manufacturers jointly enhances the manufacturer's economic performance. This finding opens an opportunity that other similar perspectives may be found – which in turn may lead to a better collaborative relationship.

#### *Hypotheses development*

Social exchange theory (SET) offers a theoretical framework where marketing channel relationships can be viewed as relational exchanges (MacNeil, 1980; Yang *et al.*, 2012). SET posits that individuals or groups interact with others in pursuit of a reward (Emerson, 1976; Homans, 1958; Thibaut and Kelley, 1959). The basic motivation for such interactions is to seek rewards and to avoid punishments (Emerson, 1976). Consequently, each marketing channel partner's behaviours can be assessed by their interaction rewards minus their interaction costs (Narasimhan *et al.*, 2009).

Under SET, one channel member chooses its partner based on this partner's ability to deliver the greatest expected value (of rewards) and/or be the best supporting role-performer (Frazier *et al.*, 1989; Narasimhan *et al.*, 2009).

Narasimhan *et al.* (2009) add that a marketing channel member can reduce its costs by not investing in the development of alternative channel partner(s). This is especially so when a particular partner is delivering to an expected performance level. This existing performance level then forms the benchmark for deciding whether to enter a long-term relationship with this particular channel partner (Claycomb and Frankwick, 2010).

Hüttinger *et al.* (2014) specify the performance level of a manufacturer (or a distributor) forms the benchmark minimum for preferential treatment. This manufacturer performance level may include growth opportunities, acceptance of operative excellence and/or reliability, and closer relational behaviour linkages. As such, the role-performance of a manufacturer (or a distributor) may become a driver for initiating relationships in the marketing channel.

The calculation of interaction rewards, or of a partner's role-performance, may each be viewed as a short-term orientation of the channel relationship, or as a long-term orientation (LTO) of this same channel relationship (Narasimhan *et al.*, 2009). Nonetheless, the expectation element in SET (Hüttinger *et al.*, 2014) argues that channel members expect to begin, and to develop, a rewarding relationship with their counterparts (Thibaut and Kelley, 1959). This is likely consistent with a LTO perspective in channel relationships, and with an emphasis on the expectation of mutual future benefits emerging from the working (channel) relationship (Ganesan, 1994).

Thus, a partner's marketing channel attractiveness is a consideration for preferential treatment by the other channel member (Hüttinger *et al.*, 2014; Schiele *et al.*, 2012). Consequently, SET emphasizes both the LTO perspective and the role-performance of a channel partner as two input constructs in initiating and developing marketing channel relationships.

The SET's views on LTO and role-performance as drivers of a channel relationship is likely consistent with business landscape in Indonesia. Indonesia, as a collectivist culture (Hofstede and Hofstede, 2005), likely prefers the LTO perspective as a driver of relationships across marketing channels (Chung *et al.*, 2011; Hwang *et al.*, 2013). This LTO view is likely related to channel role-performance considerations. Here, Indonesian managers mostly display a pragmatic (practical) attitude in their business relationships (Munandar, 2003).

Besides the input marketing channels constructs of LTO and role-performance, dependence, trust, and satisfaction remain other key constructs within SET (Hüttinger *et al.*, 2014; Lambe *et al.*, 2001). Dependence captures the comparison of alternatives in social and economic relational aspects (Lambe *et al.*, 2001), and it remains vital in marketing channel considerations between interdependent firms (Narasimhan *et al.*, 2009). Trust leverages the firm's transition from a transactional to a relational exchange, and it is part of the basic foundation of SET (Lambe *et al.*, 2001) that plays a prominent part of channel relationships (Wu *et al.*, 2012). Satisfaction is the level a channel member recognizes in determining its contentment perspective regarding a channel relationship's continuity (Hüttinger *et al.*, 2014; Thibaut and Kelley, 1959).

Dependence, satisfaction, and trust are time dependent constructs – they grow over time, especially when both the manufacturers' and distributors' LTO, and their role-performance jointly support each other. Such strengths of relationship can lead to possible improvements in a marketing channel's competitive advantage (Claycomb and Frankwick, 2010). Hence, the marketing channel relationship influences the outcomes of dependence, satisfaction, and trust constructs. However, the manufacturer and/or its distributor may produce their own, but interdependent, perspectives (Casciaro and Piskorski, 2005; Kumar, 2005).

### LTO

LTO is the perception of interdependence between both the manufacturer's and distributor's outcomes, and it has support when outcomes are projected as being mutually beneficial to each party over a long timeframe (Ganesan, 1994).

This orientation can assist in the generation of: sales and profitability growth; increased process efficiency; and cost reductions (Kalwani and Narayandas, 1995), and it can also leverage degrees of sustainable competitive advantage (Ganesan, 1994).

In the distributor domain, Hwang *et al.* (2013) study the perceptions of Korean retailers towards their suppliers. They show the retailer's LTO positively influences the economic dependence on its supplier. In Japan, Chung *et al.* (2008) find the retailer's and supplier's LTO increases supplier dependence. This finding resides within the Japanese culture of preserving long-term partnerships. In contrast, in Thailand, Petison and Johri (2008) show distributors who are comfortable with their long-term channel partnership often increase their dependency towards their connecting manufacturers.

Indonesian business culture is dominated by Eastern business culture (Munandar, 2003) and hence the findings in Korea, Japan, and Thailand regarding LTO may also apply in Indonesian setting. Here, both the manufacturer and distributor may view their working relationships as enduring and so they see themselves as dependent each other. Furthermore, following the logic of interdependency (Casciaro and Piskorski, 2005; Ferrer *et al.*, 2010; Gulati and Sytch, 2007) such a relationship likely occurs within the manufacturer's domain, and so leads to the following hypotheses:

*H1a.* LTO of a manufacturer positively influences the manufacturer's dependence on its distributor.

*H1b.* LTO of a distributor positively influences the distributor's dependence on its manufacturer.

Within manufacturer domain, Chu and Wang (2012) investigate the LTO of Chinese logistics outsourcing. They find the manufacturer's LTO improves the channel satisfaction (as a part of relational quality outcome suite). A similar result arises in the Ural (2009)'s findings, where an exporter (manufacturer) holds a LTO and their satisfaction (as a part of relationships quality) with their export performance often increases over time. Similarly, these same channel interdependency circumstances also likely occur for the distributor.

Within Indonesian business context and despite being dominated by Eastern business culture, Indonesian businesses are shifting towards an open Western, individualistic culture, and so may form a hybrid Indonesian business culture (Heuer *et al.*, 1999; Munandar, 2003). Consequently, the findings of Ural (2009) regarding Turkish exporter may also apply in the Indonesian context along with the findings of Chu and Wang (2012). This delivers the following hypotheses:

*H2a.* LTO of a manufacturer positively influences the manufacturer's satisfaction on the relationship with its distributor.

*H2b.* LTO of a distributor positively influences the distributor's satisfaction on the relationship with its manufacturer.

Besides its influence on a channel member's dependence and satisfaction, LTO does influence channel member's trust. Trust is an important factor in reducing opportunism (Cavusgil *et al.*, 2004; Chung and Jin, 2011). In this sense, Obadia and Vida (2011) find LTO (and a secure relationship) enhances trust in the marketing channel relationship quality between exporter (manufacturer) and importer (distributor). In Korean setting, Hwang *et al.* (2013) shows the retailer's LTO positively influences its trust towards the supplier.

In this study, Soehadi *et al.* (2001) finds the Indonesian retailers' (distributors') market orientation increases their degree of partnership (trust) between the distributors and the manufacturers. Market orientation remains a long-term strategy

(Kumar *et al.*, 2011), and so it is a LTO. This LTO likely increases the degree of manufacturer-distributor partnership and this can be captured as a trust relationship between manufacturer and distributor. Applying the logic of interdependency between both parties, these views lead to the following hypotheses:

*H3a.* LTO of a manufacturer positively influences the manufacturer's trust on its distributor.

*H3b.* LTO of a distributor positively influences the distributor's trust on its manufacturer.

#### <sup>1</sup> *Role-performance*

A firm's role-performance represents its capability to deliver its role responsibilities, and to conduct its relationship with another firm (Frazier, 1983). In a manufacturer-distributor partnering setting, this definition may encompass either the manufacturer's or the distributor's performance on: product delivery; outlets coverage; management competencies; infrastructure readiness; level of sales volume; and so on (Cannon *et al.*, 2010; Yilmaz *et al.*, 2005).

Role-performance of a channel member closely relates to dependence (Skarmeas *et al.*, 2008) and role-performance results in interdependent-firm channel agreements (Frazier, 1983). For USA and Japan respondents within retailer-supplier (distributor-manufacturer) relationships, Runyan *et al.* (2010) compares cultural characteristics, and also shows the manufacturer's role-performance increases the distributor's economic dependence towards its manufacturer. Similarly, Chung *et al.* (2008) study Japanese marketing channel performance-based modelling and they conclude a supplier's (manufacturer's) role-performance positively influences its retailer's (distributor's) dependence.

Indonesian business culture exhibits a mix of Eastern and Western business culture (Heuer *et al.*, 1999; Munandar, 2003), and hence, this finding of Chung *et al.* (2008) and of Runyan *et al.* (2010) can be applied. Here, within the Western business culture where role-performance is an antecedent of dependence (Chung *et al.*, 2008) it is also adaptable into the Indonesian context. Since both the manufacturer and the distributor are interdependent, they likely share a relationship between role-performance and dependence. This leads to following hypotheses:

*H4a.* The manufacturer's view of the distributor's role-performance positively influences the manufacturer's dependence on its distributor.

*H4b.* The distributor's view of the manufacturer's role-performance positively influences the distributor's dependence on its manufacturer.

<sup>12</sup> Cai and Yang (2008), Chen *et al.*, (2011), and Skarmeas *et al.* (2008) find the manufacturer's and/or the distributor's role-performance each influence the other's satisfaction. Chen *et al.* (2011) studies the effects of guanxi practice on Chinese retailer-supplier (distributor-manufacturer) relationships and shows the supplier's role-performance increases the retailer's economic and social satisfaction. Skarmeas *et al.* (2008) investigate exporter-importer (manufacturer-distributor) relationship quality from the importer's perspectives and they find the exporter's role-performance improves the channel's relationship quality. In this sense, such role-performances also increase importer satisfaction (with satisfaction being treated as a dimension of relationship quality) (Chu and Wang, 2012; Skarmeas *et al.*, 2008).

Despite dominated by Eastern business culture, Western business culture complements Indonesian business culture (Heuer *et al.*, 1999). Consequently, the

role-performance of a manufacturer or distributor can act as a satisfaction driver for channel relationship's outcomes (Chung *et al.*, 2008). The findings of Skarmeas *et al.* (2008) and Chen *et al.* (2011) can also be applied across this Indonesian setting. Hence, the developed hypotheses are:

*H5a.* The manufacturer's view of the distributor's role-performance positively influences the manufacturer's satisfaction on the relationship with its distributor.

*H5b.* The distributor's view of the manufacturer's role-performance positively influences the distributor's satisfaction on the relationship with its manufacturer.

Researchers also find the business' role-performance influences their trust of a partnering channel member (Chen *et al.*, 2011; Skarmeas *et al.*, 2008). In Chen *et al.*'s (2011) study, besides the retailer's satisfaction, the supplier's role-performance (as a construct) also enhances trust in the retailer's trust. Further, Skarmeas *et al.* (2008) show that role-performance increases importer trust (with trust considered a part of the relationship quality construct).

In the Indonesian business area, Puspitawati (2011) finds distributor's reputation as one of the most important constructs that increases the manufacturers' trust. Here, reputation may be connected to role-performance because reputation records the performance of a channel partner over an extended time period. Hence, in the Indonesian channels context, and as shown by Skarmeas *et al.* (2008) and Chen *et al.* (2011), it is likely that role-performance positively influences trust. Using the logic of interdependence applied to either the manufacturers' or the distributors' perspectives, we propose the following hypotheses:

*H6a.* The manufacturer's view of the distributor's role-performance positively influences the manufacturer's trust on its distributor.

*H6b.* The distributor's view of the manufacturer's role-performance positively influences the distributor's trust on its manufacturer.

The overall relationship between these five constructs forms the hypothesized model of Figure 1.

## Research design

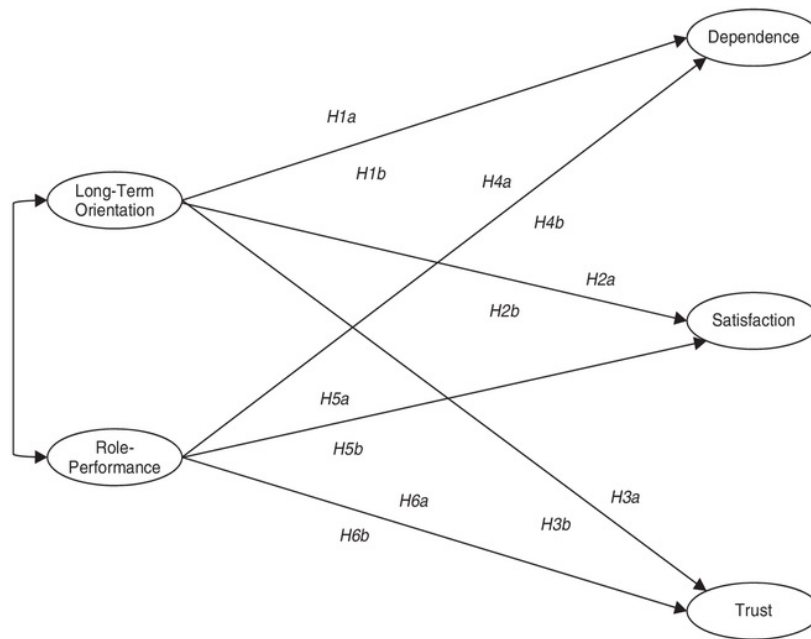
### *Sampling and data collection*

The Figure 1 research model is tested using matched manufacturer-distributor data – specifically collected across the manufacturing industry within the Indonesian island of Java. This island has greater than 80 per cent of the total manufacturing industry throughout Indonesia (Wahyudi and Jantan, 2012). Each selected manufacturer employs greater than 20 people. This is the lower end of a medium-sized firm in Indonesia (BPS-Statistics Indonesia, 2010).

In this study, each selected Indonesian manufacturer has a minimum one year working relationship with its principal distributor. Further, the bigger medium-to-large manufacturers studied herein typically retain their long-term marketing channel relationships with their respective distributors across many years, and the smaller manufacturers studied display shorter (still exceeding one year) long-term marketing channel relationships.

The principal distributors selected for this study are those recognized by their partnering manufacturer as delivering the highest selling contribution across the marketing channel.





**Figure 1.**  
Hypothesized model

Initially, a random sample from the directory of Indonesia's International Standard Industrial Classification Code 2 (ISIC) 2 of BPS-Statistics Indonesia (2010) was trialled for surveying but insufficient respondents participated (and some businesses no longer existed).

Thus a non-random (snow-ball) data collection was used. A network of local business contacts was engaged to source and then survey the manufacturers and their distributors. To ensure data integrity these local business contacts were: pre-briefed about the survey; advised about ethical protocols; trained as to when to engage and how to seek further respondent feedback.

This quantitative survey placed 199 questionnaires with manufacturers and 194 questionnaires with principal distributors. The numerical difference arose from occasional manufacturers refusing to recommend a key distributors' name.

As this study requires completed and matched datasets, the matching usable questionnaires totalled 140 manufacturer-distributor pairings.

### Measures

The development of measurement scales used in this study follows the steps suggested by Netemeyer *et al.* (2003): construct definition and content domain; generating and judging measurement items; designing and conducting studies to develop and refine the scales; and finalizing the scales.

This study first enlists reflective measurement items developed from past studies. It adapts only a few items into Indonesian-specific contexts. In each construct, the manufacturers deliver perceptions about their connecting distributors, and vice versa. In total, the distributor questionnaire uses 35 items, whilst the manufacturer engages 36 items. Items for each manufacturer and distributor construct are optimally paired to measure the same feature, but minor wording differences occasionally exist.

Occasionally some construct items in the manufacturer domain loaded poorly in the distributor domain and vice versa. Consequently these poor loading items are excluded from analysis.

Within either the manufacturer or the distributor domain each item resides in only one of the five constructs (LTO, role-performance, dependence, satisfaction, and trust). All items are Indonesian firm-contextualized so they make sense to this nation's survey respondents.

Second, items within the LTO construct are developed from Cannon *et al.* (2010), Ganesan (1994), and Ryu *et al.* (2007). The role-performance construct consists of modified items from Cannon *et al.* (2010), Labahn (2000), and Yilmaz *et al.* (2005). The dependence's items are adjusted from Davis and Mentzer (2008), Ganesan (1994), Izquierdo and Cillan (2004), and Yilmaz *et al.* (2005). In addition, the satisfaction construct composes of economic and social dimensions (Geyskens *et al.*, 1999), and items adapted from Lai (2007), Liu *et al.* (2010), and Ramaseshan *et al.* (2006). Lastly, the trust construct consists of credibility and benevolence dimension of a manufacturer/distributor (Ganesan, 1994).

Items included in this construct are modified from Ganesan (1994), Hempel *et al.* (2009), and Izquierdo and Cillan (2004). All measures are anchored in a five point Likert scale, where 1 = "strongly disagree" and 5 = "strongly agree" for each construct – except for role-performance (where 1 is "very bad" and 5 is "very good").

Third, the pre-tested, paired, draft questionnaires for manufacturers and distributors are translated from English into Indonesian, and initially evaluated by three Indonesian manufacturers (two sales managers and a sales supervisor) and four Indonesian distributors (three sales managers and a sales supervisor). These refined draft questionnaires underwent further content validity testing by an Indonesian academic expert and a focus group of six respondents. These revised questionnaires are again back-translated to English by a certified translator to ensure each construct item's meaning remains intact. Finally, the validated Indonesian version is ready for survey distribution.

The Figure 1 structural equation modelling (SEM) research study enlists five matching manufacturer and distributor constructs. To minimize interaction effects between items each of the construct's items are reduced into its combined single item composite (Hair *et al.*, 2010).

#### *Demographics*

Table I shows around 66 per cent of manufacturer-side and 47 per cent distributor-side respondents, respectively held supervisory positions across channel distribution activities – with the remainder being managers or owners. In total, 50 per cent of manufacturers and 41 per cent of distributors had 1-5 years of working experience in channel distribution area. The remainder held greater working experience levels. Across these Indonesian businesses, all held at least a 1-5 year working relationship with their partners. Hence, these survey respondents each possess experience in the channel relationship area, and their job positions indicate they possess the requisite knowledge to provide quality survey responses – particularly because they deal directly with their firms' partners on a daily basis.

This study's manufacturers and distributors typically serve several partners, and each manufacturer and its distributor is in various stages of conjoint and long-term relationships. Thus, each manufacturer or distributor is suitably experienced to interpret their own and their partners' performance capabilities.

Demographic scaling	Manufacturers (%)	Distributors (%)	Demographic scaling	Manufacturers (%)	Distributors (%)
<i>Respondent position</i>			<i>Number of partner(s)</i>		
Supervisor	66.4	47.0	1-5 companies	52.9	50.7
Manager	20.7	18.4	> 5-10 companies	22.1	27.1
Director	0	2.1	> 10-15 companies	5.0	8.5
Owner	12.9	32.1	> 15-20 companies	5.7	10.7
			> 20 companies	14.3	2.8
<i>Respondent's length of experience in distribution area (years)</i>			<i>Business size</i>		
1-5	50.0	40.7	Small	0	42.1
> 5-10	30.0	41.4	Medium	59.3	27.0
> 10-15	15.0	11.3	Large	39.3	20.6
> 15-20	4.3	5.0			
> 20	0.7	1.4			
<i>Length of business partnership</i>					
1-5 years	44.3	51.4			
> 5-10 years	33.6	25.0			
> 10 years	22.1	23.6			

**Table I.**  
Demographics of respondents

Finally, the manufacturer domain is well populated with medium and large-sized firms, whilst most distributors are typically smaller in size. This may indicate the manufacturers likely hold greater power positions over their respective distributors.

*Validity and reliability* <sup>41</sup>

This study assesses validity and reliability of the measures in the univariate and multivariate levels. Univariate reliability of each construct is assessed under SPSS 20.0 for internal consistency against Cronbach  $\alpha$  values. Under maximum likelihood estimation and direct oblimin rotation factor loading of each item was assessed for convergent validity onto its respective construct.

Table II displays the constructs means, standard deviations, average-variances-extracted (AVE), construct loading, construct error, and constructs correlations, and all suggest suitability for SEM analysis (Hair *et al.*, 2010).

In the multivariate level, a two-steps SEM was conducted under Amos 20.0, following the recommendations of Hair *et al.* (2010). Within the confirmatory factor analysis process for each the manufacturer's and the distributor's measures, each measurement item loaded only on its latent construct, and all latent constructs were set correlated. <sup>9</sup>

The key fit indexes for the manufacturer model ( $\chi^2/df=1.83$ , RMSEA = 0.08, GFI = 0.87, GFI minus AGFI (0.82) < 0.06, CFI = 0.91) and factor loadings (all statistically significant at  $p < 0.001$ ) suggested good model fit. The distributor model shows a similar good fit ( $\chi^2/df = 1.65$ , RMSEA = 0.07, GFI = 0.87, GFI minus AGFI (0.82) < 0.06, CFI = 0.90) and statistically significant factor loadings at  $p < 0.001$  (Hair *et al.*, 2010; Kline, 2011).

After dropping several low factor loading items through factor reduction (Table III), the resulting five construct SEM model reduce to 17 survey items for the manufacturer sample and 16 items for the distributor, and each construct contains either three or four items.

Manufacturer sample constructs						Distributor sample constructs					Manufacturers and their connecting distributors
						1	2	3	4	5	
AVE						0.55	0.40	0.45	0.51	0.45	<b>535</b>
Const loading						0.49	0.39	0.56	0.46	0.63	
Const error						0.07	0.06	0.13	0.08	0.16	
Mean						4.01	3.70	3.51	3.98	3.25	
SD						0.55	0.46	0.67	0.54	0.74	
	AVE <sup>a</sup>	Construct Loading <sup>b</sup>	Construct Error <sup>c</sup>	Mean	SD						
<i>Construct</i>											
1	Long-Term Orientation	0.70	0.57	0.05	4.06	0.61	1	0.18 <sup>e</sup>	0.29 <sup>d</sup>	0.50 <sup>d</sup>	0.23 <sup>d</sup>
2	Role-Performance	0.53	0.49	0.06	3.75	0.55	0.46 <sup>d</sup>	1	0.37 <sup>d</sup>	0.40 <sup>d</sup>	0.33 <sup>d</sup>
3	Dependence	0.47	0.51	0.08	3.89	0.58	0.51 <sup>d</sup>	0.53 <sup>d</sup>	1	0.38 <sup>d</sup>	0.09
4	Satisfaction	0.52	0.50	0.08	4.00	0.58	0.57 <sup>d</sup>	0.37 <sup>d</sup>	0.36 <sup>d</sup>	1	0.33 <sup>d</sup>
5	Trust	0.45	0.41	0.08	4.00	0.50	0.54 <sup>d</sup>	0.54 <sup>d</sup>	0.52 <sup>d</sup>	0.47 <sup>d</sup>	1

**Notes:** <sup>a</sup>Average variance extracted; <sup>b</sup>construct loading = (SD) ×  $\sqrt{z}$  (Munck, 1979); <sup>c</sup>construct error = (SD)<sup>2</sup> × (1- $\alpha$ ) (Munck, 1979); <sup>d</sup>correlation is significant at  $p < 0.01$  level (two-tailed); <sup>e</sup>correlation is significant at  $p < 0.05$  level (two-tailed)

**Table II.**  
Construct level correlation matrix

Multivariate convergent validity is assessed acceptable with AVE values exceeding 0.50. Discriminant validity is established with AVE within both groups remaining greater than the squared inter-correlations for each construct. Further, nomological validity is established for both groups because most correlations between construct are significantly positive – and the one insignificant positive correlation (between dependence and trust in the distributor domain) then is not a major concern (see Table II).

After data cleaning and outlier removal factor reduction shows the satisfaction loaded as an economically focused construct. Further, the resultant manufacturer trust construct has a credibility dimension, whilst a benevolence dimension forms in the distributor perspective.

Table III's resultant factor reduction constructs (confidence-level > 95 per cent) are reliable at the multivariate level (Cronbach  $\alpha$  values > 0.70). All items load acceptably (load > 0.60) (Hair *et al.*, 2010) and all measures are eligible to proceed with structural modelling.

#### *Common method bias*

Common method bias could be a potential issue because this study mostly uses self-reports in the surveys (Conway and Lance, 2010; Podsakoff *et al.*, 2003). In their recent findings, Conway and Lance (2010) suggest the ways to minimize this bias, including: an argument for the appropriateness of self-reports; construct validity evidences; minimal overlap of items between different construct; and proactive action of authors to minimize the bias. Further, no *post hoc* statistical correction is suggested.

This study uses self-report for LTO, dependence, and satisfaction constructs because the respondents are the most knowledgeable people in their firm's details. In accordance to construct validity, the evidences show this study fulfils convergent, discriminant, and nomological validities. The discriminant validity also reveals no overlap between items for

Measurement Items	Manufacturer	Distributor
<i>Long-term orientation</i> ( $\alpha = 0.876; 0.778$ ) <sup>a</sup>		
Our relationship with this distributor/manufacturer		
Will be profitable in the long run	0.826	0.606
Is focused on joint long-term goals	0.883	0.813
Is expected it will last for a long time	0.809	0.796
<i>Role-performance</i> ( $\alpha = 0.804; 0.721$ )		
How does the performance of this distributor compare with other distributors (M)		
How does the performance of this manufacturer compare with industry's average performance on (D)		
Infrastructure readiness (buildings, warehouses, and offices)?	0.582	na <sup>b</sup>
Level of sales volume?	0.822	na
Level of sales growth?	0.875	0.586
Terms of payment?	0.584	0.689
Products' after-sales service (i.e.: returned of products)?	na	0.686
Level of overall profitability?	na	0.552
<i>Dependence</i> ( $\alpha = 0.767; 0.702$ )		
As a manufacturer/distributor we believe		
Our sales would be reduced if our relation with this distributor is discontinued (M)/The loss of this manufacturer would significantly lower our sales volume (D)	0.578	0.617
this distributor's competencies are essential for the selling of our products	0.749	Dropped <sup>c</sup>
we maintain good communications with this distributor	0.605	Dropped
We need this distributor to achieve our profit targets	0.795	Dropped
Our sales success is largely due to the marketing efforts of this manufacturer	Dropped	0.749
It would be difficult for us to replace this manufacturer	Dropped	0.634
<i>Satisfaction</i> ( $\alpha = 0.756; 0.732$ )		
Our relationship with this distributor/manufacturer		
Provides us with a dominant market share in our sales area	0.766	0.632
Increases our products' profit contribution	0.759	0.846
Is very attractive in terms of profit margins	0.627	0.641
<i>Trust</i> ( $\alpha = 0.696; 0.708$ )		
We believe this distributor/manufacturer		
Obeys the terms of payment and delivery agreements with us	0.674	Dropped
Works within our contractual agreements	0.741	Dropped
Will remain very loyal to this relationship	0.577	Dropped
Provides us with suitable management training	na	0.723
will assist us when we have financial problems	Dropped	0.691
will actively respond to our problems (i.e.: sales territory's breaching)	Dropped	0.595

**Table III.**  
Construct measures with reliability and factor loading

**Notes:** <sup>a</sup>Constructs' reliabilities for the manufacturer and distributor samples, respectively; <sup>b</sup>the item is not available in the measurement within the particular domain; <sup>c</sup>the item is dropped due to low factor loading

different constructs. In addition, this study delivers proactive action to reduce common method bias by using manufacturers' respondents to assess their distributors, vice versa, in the role-performance and trust constructs. Such different-rater approach (Krafft *et al.*, 2015; Podsakoff *et al.*, 2003) and the protection of respondent anonymity (Podsakoff *et al.*, 2003) contribute to minimize the possibility of common method bias. Therefore, common method bias is unlikely to be a serious concern in this study.

## Results

This study's data are not highly skewed. Hence, the above hypotheses are tested under SEM with maximum likelihood estimation. Single item composite analysis is employed to: maximize path exposures; minimize item interaction effects (Cunningham, 2008; Grace and Bollen, 2008); overcome the problem of ordinal scale responses (Cunningham, 2008); enhance the adjustment or measurement error; and estimate the causal effects and the examination of structural variations across different populations (Liang *et al.*, 1990).

Composite analysis uses Munck's (1979) indicator load and error measures, and facilitates the condensing of each construct's items into its respective single item composite (Hair *et al.*, 2010). This approach is appropriate when: a model contains more than 15 items; these items may lead to a substantive degree of complexity (Grace and Bollen, 2008; Liang *et al.*, 1990); and the paths between constructs are to be investigated (Grace and Bollen, 2008).

The manufacturer model fit shows a normed  $\chi^2$  ( $\chi^2/df=1.87$ ,  $p > 0.18$ ) and an accepted model. The goodness-of-fit measures most suitable to smaller datasets (RMSEA (0.06), CFI (0.99), TLI (0.98), and GFI (0.98) minus AGFI (0.94)  $< 0.06$ ) are also highly acceptable (Hair *et al.*, 2010; Kline, 2011). This model is also validated with 2,000 bootstraps.

The distributor model reveals a similar result – again with an excellent model fit ( $\chi^2/df=1.56$ ,  $p > 0.13$ , RMSEA = 0.08, CFI = 0.98, TLI = 0.92, and GFI minus AGFI  $< 0.06$ ) (Hair *et al.*, 2010; Kline, 2011) and with an excellent 2000 bootstraps validation.

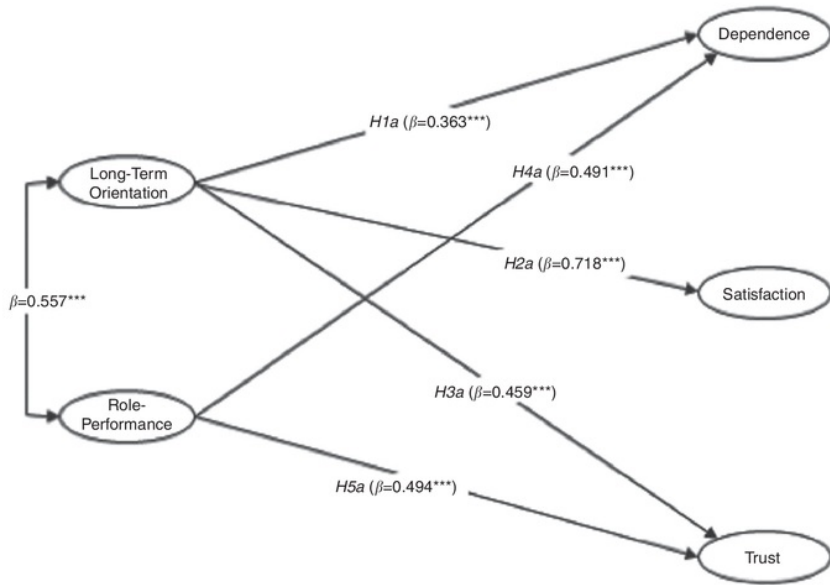
Except for *H5a*, all other hypotheses are supported and each exerts significant positive influences. These findings are summarized in Table IV, and modelled in Figures 2 and 3.

## Discussion

This SEM study pairs off medium-to-large Indonesian manufacturers and distributors and models their channel relationship constructs. It compares them as they connect across their shared marketing channels. Bootstrapping validates each model contribution. Both the manufacturer and the distributor LTO (to stay in their partnering relationship), and their role-performance (in this partnering relationship) covary and jointly drive each set of marketing channel relationship outcomes.

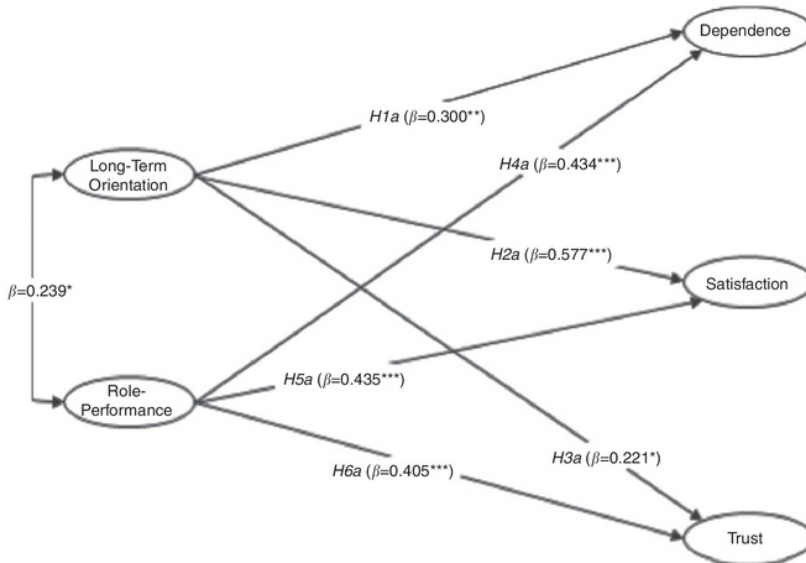
Hypothesis	Relationship			Manufacturer	Distributor
<i>H1a</i>	Long-term orientation	→	Dependence	✓✓✓✓	xxx
<i>H1b</i>	Long-term orientation	→	Dependence	xxx	✓✓✓✓
<i>H2a</i>	Long-term orientation	→	Satisfaction	✓✓✓✓	xxx
<i>H2b</i>	Long-term orientation	→	Satisfaction	xxx	✓✓✓✓
<i>H3a</i>	Long-term orientation	→	Trust	✓✓✓✓	xxx
<i>H3b</i>	Long-term orientation	→	Trust	xxx	✓✓✓✓
<i>H4a</i>	Role-performance	→	Dependence	✓✓✓✓	xxx
<i>H4b</i>	Role-performance	→	Dependence	xxx	✓✓✓✓
<i>H5a</i>	Role-performance	→	Satisfaction	xxx	xxx
<i>H5b</i>	Role-performance	→	Satisfaction	xxx	✓✓✓✓
<i>H6a</i>	Role-performance	→	Trust	✓✓✓✓	xxx
<i>H6b</i>	Role-performance	→	Trust	xxx	✓✓✓✓

**Table IV.**  
Results of the  
hypotheses test



Note: \*\*\*Significant at 0.001 level

Figure 2.  
Manufacturer model



Note: \*\*\*, \*\*, \*Significant at 0.001, 0.01 and 0.05 levels

Figure 3.  
Distributor model

Figures 2 and 3 show the manufacturer and the connecting distributor display covariant differences. These then translate into channel relationships differences within the Indonesian context.

From the manufacturer's perspective LTO and role-performance are moderately interrelated, but from the distributor's perspective these constructs are weakly interrelated. This difference indicates manufacturers and their related distributors see their channel relationship somewhat differently.

Manufacturers and distributors see their LTO as an important driver of their channel relationship – in terms of their channel dependence, channel satisfaction, and channel trust. However, in contrast to distributors, manufacturers perceive these marketing channel relationship pathways as being stronger.

Manufacturer's view their satisfaction with the distributor's role-performance as insignificant because combined with pathway strength differences they see themselves from a position of strength where they tend to dominate across such marketing channel relationships with their distributor. In the Indonesian context the manufacturer is typically larger than its partnering distributor, and logically they often exert a strong degree of influence over their smaller marketing channel partners. The disappearance of significant path, which indicates an imperfect match of perspectives between both parties, is acceptable (Yang *et al.*, 2014) and also consistent with the review of Kozlenkova *et al.* (2015) on the assessment of multiple relationships in channels.

Thus, in the Indonesian context, these business-to-business marketing channel relationships are likely controlled by the larger channel partner – with the smaller-sized distribution partner also likely recognizing their marketing channel relationships as imbalanced. These findings are in-line with the concentrated industrial market of Indonesia (Aswicahyono *et al.*, 2010) which implies that manufacturer has greater power over its distributor (Butaney and Wortzel, 1988).

Hence, to strengthen business-to-business marketing channel relationships in Indonesia, distributors should attempt to raise their performance levels, whilst manufacturers should recognize this performance level change and share any economic gains generated with this higher-performing distributor.

#### *Theoretical contributions*

This study contributes to the marketing channel theory. First, LTO and role-performance of a channel partner are joint drivers of channel member's economic satisfaction, trust, and dependence towards their partner. LTO appropriately represents East Asian (including South East Asian) culture, whilst the role-performance of a channel partner is more appropriate when developing a business-to-business relationship within Western cultures. As South East Asian culture is often a complex mix of societies, both constructs should be considered when building future models to better capture such marketing channel relationships.

Second, the influence of LTO on dependence and satisfaction is greater from the manufacturer's perspective, whilst from the distributor's perspective, LTO's influence on trust is double that of the distributor. This suggests a trust difference exists across the marketing channel, and that the distributor lacks trust in the manufacturer within the Indonesian context.

Thus, from the distributor's perspective, a channel performance restriction likely exists. This remains an area for additional research and should be compared against situations where the manufacturer agrees to treat the distributor as an equal. This in-turn may yield further comparison studies across types of Indonesian marketing



channels and may show their relative performance differences and possibly show places of increased marketing channel efficiencies and/or overall competitiveness.

Third, the influence of role-performance on dependence and trust is similar for both marketing channel partners, but the influence of role-performance on economic satisfaction is insignificant within the manufacturer domain. This suggests researchers should investigate if a reduction in these marketing channel differences actually enhances marketing channel outcomes, and if other mediating (or control) variable(s) exist between these constructs.

Fourth, marketing channel maintenance likely requires the alignment and optimization of at least the five constructs used herein. Even when mutually dependent, trusting, and satisfying relationships do exist, it remains likely they may still require on-going assessment against each party's current performance (or benchmark) standards.

#### *Managerial implications*

As LTO and role-performance drive the consequences of business-to-business marketing channel relationships, Indonesian manufacturer management and their associated distributor's management should pursue a continuance in developing their long-term relationship. They should also seek to improve the role-performance assessment of their respective partner. For example, periodic meetings between the partners can enable further collaborative activities (such as long-term partnering contracts) – especially ones that improve the stability of the working relationship and enhance marketing channel relationships outcomes. Both parties may also exchange their information to counter the impact of market and behavioural uncertainties on their channels (Ferrer *et al.*, 2010; Jia *et al.*, 2014).

In the Indonesia context each marketing channel's manufacturer and distributor management team should aim to conjointly enhance both their shared long-term relationship, and their respective role-performance.

Manufacturer managers can develop the LTO of their marketing channel relationship partnership as a focal area when promoting economic satisfaction. This LTO view helps to provide stability across the manufacturer and the distributor partnership, and together a cohesive partnership can further enhance the precise distribution of the manufacturer's products. This long-term view is implementable in the Indonesian context by the application of long-term marketing channel contracts between marketing channel partners. Depending on the distributor's dependence and on the relative power position with its manufacturer, the distributor may choose to negotiate joint goals and marketing channel performance measurements with its manufacturer – and so enhance both the overall marketing channel cohesion and the satisfaction level.

#### *17 Limitations and future research*

The insignificant influence of role-performance on economic satisfaction within the manufacturer domain deserves further research on the possible presence of mediating construct(s) between the constructs developed in this study, and on the broadening of the definition of satisfaction.

Past channel research revealed that trust interacts with satisfaction (Bigne and Blesa, 2003; Whipple *et al.*, 2010), yet this study does not find significant interactions between the outcomes constructs. Again, the broadening of the definition of satisfaction (or of trust), or searching for additional possible mediating or controlling constructs that influence this interaction may add further value to this study.

Additionally, future studies may re-model the matched datasets of Figures 2 and 3 and reassess these constructs separately under a range of chosen relative Indonesian power positions (including manufacturer dominance, equality, and distributor dominance) between manufacturers and its connecting distributor.

Although we use paired datasets, we have not investigated possible two-way interactions between constructs across the channel. In a recent Indonesian study Sukresna (2014) demonstrated channel connectivities were active between manufacturers and their distributors. Thus, future research may examine connectivities as a pathway to manufacturer-distributor alignment, and towards channel's competitive advantage. This approach is deliverable when the paired datasets are combined into one, and then used to compare the connectivities relationships between the partners. It can also deliver new insights into marketing channel collaborations within a country or region.

### Conclusion

In this Indonesian study, the relationship between the manufacturer and the distributor shows two significant marketing channel input drivers (LTO and role-performance). The five manufacturer and distributor constructs across the marketing channel are significant. This suggests both marketing channel partners should jointly work to improve their joint marketing channel relationships.

The marketing channel perspectives of manufacturers and the distributors, whilst similar, do show display differences. These differences are consistent with the relative power (or dominance) positioning of one partner over the other. The equilibration of marketing channel power may be delivered when mutual dependence between the partners arises, and this is likely to build marketing channel satisfaction and trust, and may then result in improved channel performance. However, the role-performance difference of manufacturers and distributors suggests caution should be exercised when assessing partners' performance to accomplish satisfaction in the marketing channel.

This study contributes to marketing channel theory within the Indonesian context. The LTO and the role-performance of one channel partner jointly drive its partner's economic satisfaction, trust, and their dependence. Thus the benchmarking of a marketing channel's performance within a trusting and satisfying channel relationship can set a framework for the development of future optimization studies (of at least the five connectivities constructs used herein).

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