Channel Connectivities between Manufacturer and Distributor:

An Indonesian Context

By

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Statement of Originality

This thesis is submitted in fulfilment of the requirements of the degree of PhD, in the School of Business, James Cook University. This represents the original work and contribution of the authors, except as acknowledged by general and specific references.

I hereby certify this has not been submitted for a higher degree to any other university or institution.

Signed:

I Made Sukresna

03 / 04 / 2014

Dedication

This thesis is dedicated to

God Almighty-Ida Sang Hyang Widhi Wasa

my father, my mother

my wife Niluh Putu Ida Arianingsih,

and our sons I Gede Sathya Kresnanta and I Made Wiranuraga Kresnanta

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Abstract

This study approaches managing the relationship between larger manufacturers and their principal distributors in an Indonesian as a set of ‘channel connectivities’ that influence both sides of a marketing channel’s operations. It employs a mixed method structural equation modeling and qualitative approach that engages 140 matched manufacturers and distributors. One bi-directional and four uni-directional channel connectivities are identified.

This study suggests manufacturers could consider implementing both market orientation strategies and long-term perspectives towards their channel connectivities alignment with their distributors.

This research contributes to marketing channel research by delivering a validated, broad study of channel connectivities between the manufacturer and its principal distributor in the Indonesian context.

From a methodological viewpoint, the usages of literature-supported surveys of matched data sets, plus the SEM model with same independent constructs, together provide a valid and reliable comparison model for understanding channel connectivities.

The path strength of each channel connectivity indicates its relative importance. Thus, both the manufacturer and the distributor can utilize this model as tool to explore new channel connectivity options, and/or to reinforce their existing individual channel connectivities.

The Indonesian government can utilise this study as a further supporting information source that can offer an alternative perspective to consider, facilitate, guide, and assist with further implementations around their current competition-based industrial programs.

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Chapter 1: Introduction

1.1 Research Background

The management of marketing channels is important in Indonesia because this country consists of 33 provinces, 5 main islands, and 4 archipelagos (BPS-Statistics Indonesia 2012). In this geographically dispersed market, an Indonesian distributor typically moves specific Indonesian manufacturer goods to required destinations, and so plays an important role across this supply chain's upstream marketing channels. Thus the distributors plays an important role in market coverage and in reducing costs (Jackson & D'Amico 1989; Rosenbloom 2013).

In Indonesia the diversity of supply chain requirements, poor infrastructure, onerous regulatory framework, and labour shortages (World Bank 2012) provide challenges in the management and coordination of the marketing channels between the manufacturer and its principal distributor. A manufacturer engages the services of its distributors to develop, coordinate, and maintain its markets (Sachdev & Merz 2012). Here it is important for the manufacturer to maintain a relationship as the distributor is closer to the market, to the consumers, and to the competitor's products. Being closer to the market the distributor acquires valuable knowledge about the consumers' demands and about the competitiveness of the business environment. Similarly, a mutual dependency motive makes the distributor cooperate with the manufacturer (Casciaro & Piskorski 2005; Gulati & Sytch 2007) because the manufacturer creates the products to be distributed by the distributor (Coughlan et al. 2006; Rosenbloom 2013). Hence, having an aligned manufacturer and distributor approach likely helps coordinated marketing channels to be established, and so may allow improved performance, economic benefits and/or degrees of satisfaction (Liu et al. 2010) to be generated.

Manufacturers frequently compete with other manufacturers for a distributor's business and their channel relationships are increasingly important (Sa Vinhas & Gibbs 2012). This intense competition within marketing channels (Ming-Huei & Wen-Chiung 2011) evolves around the dynamic state of the competition, and it necessitates an improved awareness of these marketing channels (Jen & Tien 2013). As such manufacturers continually assess their performance within their marketing channels.

Distributors also assess their marketing channels but do so from an alternative perspective. Siguaw, Simpson, and Baker (1998) finds the distributor's marketing channel relationship builds when their market orientation (hereafter, MO) aligns with the manufacturer, and when this occurs, cooperation, trust, commitment, and satisfaction are generated. Distributor's satisfaction increases when the engaging manufacturer exercises non-coercive power (Bigne et al. 2004). Also, in the Asian setting, Chung, Huang, Jin, and Sternquist (2011) suggest an MO retailer (distributor), prefer MO suppliers (distributors) relationships and so gain channel satisfaction. This strengthening of the channel relationship can arise when the two parties (distributor and manufacturer) improve their alignment across these marketing channels.
A better understanding of the management of marketing channels supports the Indonesian government's focus on competition-based industrial programs (Wahyudi & Jantan 2012; World Bank 2012), which target decreasing logistics costs and improving efficiency in the company's production processes by encouraging industrial agglomerations, and by lowering the barriers of entry to do business. This efficient connectivity (World Bank 2012) between suppliers, manufacturers, distributors and markets moves towards achieving a sustainable competitive capability[1] for these interconnected companies.

[1] Industrial Ministry of Republic of Indonesia (2012). "National Industrial Policy". See http://kemenperin.go.id/artikel/19/National-Industrial-Policy.

Research into marketing channels typically follows a manufacturer-to-distributor or a distributor-to-manufacturer approach, but researchers have not attempted to assess marketing channels from a two-ways paired-relationship perspective. The assessment of marketing channel relationships from both sides allows the identification of misalignment between the parties, and shows the channels that are operating (and the ones not operating) between the parties.

Researchers generally support a positive relationship between MO and firm outcomes (such as performance). However, research also suggests moderators and mediators may exist and can affect the relationship between MO and the firm's outcome (Grewal et al. 2011). This set of moderators and mediators include trust (Hwang et al. 2013), commitment (Siguaw et al. 2003), dependence (Hwang et al. 2013), satisfaction (Chung et al. 2011), financial benefits (Langerak 2001), role-performance (Chung et al. 2011), and conflict (M. J. Sanzo, Santos, Álvarez, & Vázquez, 2007).

Marketing channel literature suggests relationships cultivated through long- term orientation (hereafter, LTO) as well as MO (Hwang et al. 2013). For example, Ganesan (1994); Geyskens, Steenkamp, and Kumar (1999); Ping (2003); Selnes (1998); and Voldnes, Grønhaug, and Nilssen (2012) adopt LTO to deliver successful exchange relationships and levels of satisfaction and trust. Chung, Sternquist, and Chen (2006) adopts LTO to cultivate trust, and competitive advantage in retailer-supplier relationships in Japan, while Siguaw et al. (1998) introduces supplier MO as a means to deliver distributor's satisfaction and Liao, Chang, Wu, and Katrichis (2011) assesses 514 MO articles to conceptualize a performance related MO framework between suppliers and retailers.

In such business-to-business (or manufacturer-to-distributor) relationships, MO may play a dynamic role in firm survival, but differences may exist when different cultures are considered (Hwang et al. 2013). For example, in Indonesia, Japan, and Vietnam, MO directly improved firm's performance (Deshpande et al. 1993; Hau et al. 2013; Soehadi et al. 2001) and in Korea distributor (retailer) MO indirectly increased economic-satisfaction and reduced manufacturer (supplier) channel influences (Chung et al. 2007). Thus, in Eastern societies MO is an input that links business-to-business relationships to outcomes such as performance and economic satisfaction, and MO has typically been studied from a behavioural (Kohli & Jaworski 1990) or a cultural (Narver & Slater 1990) perspective (Hau et al. 2013; Matsuno et al. 2005).

In addition, LTO is important in generating competitive advantage (Jiang et al. 2011; Ryu et al. 2007). In some Western societies studies LTO is a business relationship outcome (Ganesan 1994; Cambra-Fierro & Polo-Redondo 2011). In Eastern societies, where Confucianism predominates, LTO is shown to be a precursor of the business relationship (Chung et al. 2006; Chung et al. 2008; Hofstede & Hofstede 2005) – preceding dependence, conflict, satisfaction, and trust. In Indonesia, the business culture is neither Western nor Confucian (Heuer et al. 1999; Munandar 2003), hence we test Indonesian manufacturers and distributors from an Eastern approach because of its geographical location and cultural similarities, and treat LTO a marketing channel input driver.

Researchers like (Chung et al. 2006; Chung et al. 2008) typically use MO or LTO as their sole drivers of performance (and competitive advantage). However, MO and LTO may be co-drivers of performance. This is likely because both LTO and MO have similar long term perspectives (Hofer et al. 2012; Kumar et al. 2011); however, these two constructs differ. A MO firm strategy achieves additional profits by conjointly

focusing on the upstream customers (distributors) and on their competitors (Hunt & Morgan 1995), whilst a LTO firm strategy builds profits over-time (and over a series of transactions) via a single focus cooperative strategy with their upstream distribution channel partners (Ganesan 1994).

In Indonesia strong profits are generated in highly concentrated business markets, where a few firms may hold over 75% of the industry sector's business (Aswicahyono et al. 2010)[2]. In the context of manufacturer and distributor relationship, the concentrated market implies the manufacturers to own greater power over their distributors (Casciaro & Piskorski 2005; Butaney & Wortzel 1988) and accordingly the manufacturer becomes the channel leader. In this situation, these few firms exert control over their market space, and through market dominance, move towards higher profits – yet this approach may not be the one that maximizes the manufacturer and the distributor marketing channel efficiencies. An alternative approach is to engage both MO and LTO concurrently, and seek to deliver superior business performance with (or without) a market dominance position.

Research indicates the implementation of MO to be better suited to large firms (Grinstein 2008; Kirca et al. 2005). Grinstein (2008)'s meta-analysis shows the relationship between MO and innovation is stronger for larger firms. These findings highlight the difficulties small and/or resource-poor firms face in implementing MO driven innovation. Hence, it is suggested that small firms should cooperate with resource-abundant firms, and collaboratively research and innovate. Soehadi et al. (2001)' study in Indonesia shows large firms preserve their LTO with their distributors.

[2] Such oligopoly markets then exert significant barriers toward the entry of new firms (Curry & George 1983; George et al. 1992; Salvatore 1996), and may be less willing to innovate and may tend to perform below peak competitiveness levels (Gopinath et al. 2004; Mendoza et al. 2012). Setiawan et al. (2012) longitudinally (1995-2006) show a low technical efficiency emerges in the concentrated Indonesian manufactured foods and beverages sector.

Hence, this study considers the LTO relationships operating between medium to large manufacturers and their distributors in Indonesia.

Research on the relationship between manufacturer and distributor mainly follows two different perspectives, behavioural and governance (Gassenheimer et al. 1994; Möller & Halinen 2000; Möller 2013). Governance focuses on externally influencing strategies and authoritative coordination mechanisms, whilst behavioural perspectives encompass interactions between marketing channel members. As manufacturer and distributor relationship interactions have not been investigated within the Indonesian context, this study focuses on business-to-business relationships, and it adopts a behavioural approach.

Behaviour interactions in marketing channels include factors such as satisfaction, trust, dependence, role-performance, and conflict, and these may apply differently when considered from either a manufacturer's and or a distributor's viewpoint. Thus, this study investigates the behavioural relationships across marketing channels, and pursues whether the manufacturer, or the distributor (or both conjointly) drives the relationship.

Outside Soehadi et al. (2001)' study, no Indonesian-based marketing channel study investigates the effect of MO. Further, marketing channel studies within the Indonesian context have been approached through behaviour relationships studies. Schroder, Yussuf, and Mavondo (2000) find conflict between Australian companies, and their Indonesian partners, decreases business performance, whilst the engagement of non-coercive power increases business performance.

In the supply chain context of an Indonesian fruit producer, Herlambang, Batt, and McGregor (2006) find ineffective communication, lack of mutual trust, and unfair risks and poor rewards-sharing as potential conflicts between parties. Puspitawati (2011) reveals Indonesian potato farmers, engaging with an Indonesian food company, emphasise the food company's reputation and flexibility as the most important factors affecting their trust. Setyawan, Dharmmesta, Purwanto, and Nugroho (2013) also find power asymmetry between suppliers/manufacturers and retailers/distributors decreases trust, and that trusting influences either supplier's/manufacturer's or retailer's/distributor's economic performance.

1.2 Research Aim

This study investigates the marketing channel relationships between the manufacturer and its principal distributor(s). It focuses on both the manufacturer's and distributor's enabling factors, and how these interact and/or interplay within marketing channel engagements. This study seeks to establish factors that lead to improving marketing channel connectivities within the Indonesian manufacturer and distributor environment.

1.3 Research Question

In summary, from the manufacturer's perspective, and from the distributor's perspective, a range of engagement drivers are shown to interact (Chung et al. 2011; Hwang et al. 2013; Lai et al. 2009; Siguaw et al. 1998; Blesa & Bigne 2005). From prior research we recognise some relationship elements interact directly either from manufacturer-to-distributor or from distributor-to-manufacturer. Hence, it remains of value to determine whether these relationship drivers can align within the marketing channel and between the manufacturer and the distributor. Thus, this research asks:

> *Is there a common set of enabling relationship drivers that establish channel connectivities between both parties?*

1.4 Methodology

This study employs a mixed method approach to investigate channel connectivities between the Indonesian manufacturer and its principal distributor. This method allows the research to collect both quantitative and qualitative evidence simultaneously (Creswell & Plano-Clark 2011). The quantitative data is used to test and validate the research model hypotheses. Whilst the qualitative data provides a greater insights and perspectives about the channel connectivities' relationships that can serve as further triangulations supporting evidence to the hypotheses.

1.5 Limitation

This research focuses on the channel connectivities between manufacturers and their key distributors in an Indonesian context. It does not consider other members within the broader supply chain.

To establish this study we next develop a two-sided channel relationship model and build the model from both the manufacturer and their principal distributor perspectives. The subsequent chapters pursue answers to this question '*is there a common set of enabling relationship drivers that establish channel connectivities between the manufacturer and the distributor?*' via a literature review, an analysis of theoretical foundations, developing constructs, analysis of quantitative and qualitative data, discussion of analysis findings, and drawing a conclusion to this research. The literature review (chapter 2) is now discussed.

Chapter 2: Literature Review and Hypotheses Development

This chapter discusses the theoretical foundations upon which this research is built. The chapter proceeds in the following manner. Section 2.1 describes the Indonesian business-to-business (B2B) sector. Section 2.2 presents business culture in Indonesia. Section 2.3 discusses the business channel connectivities in Indonesia and continued with the development of Indonesian B2B research framework for this study in section 2.4. The constructs that shape the framework are then analysed in section 2.5. The relationships between constructs in the research framework produce hypotheses for each manufacturer and distributor perspectives, as shown in section 2.6. The chapter concludes with a conceptual framework in section 2.7.

2.1 The Indonesian B2B Sector

The market structure within a specific location can influence behavioural relationships among firms, including their marketing channels (Butaney & Wortzel 1988; Cook 1977). A core element of market structure is the number of consumers and manufacturers in the specific market, and this may be represented by the degree of market concentration (Cook 1977; Salvatore 1996). Industries with a four firm concentration ratio that combine to provide above 50% of this market's share are considered oligopolistic (Salvatore 1996)[3]. The Bank Indonesia (2010) adopt a tighter measure of 75% concentration ratio and determines that many Indonesian market structures are oligopolistic.

Here, few manufacturers (or sellers) exist, and goods tend to be fairly homogeneous, and most industries deploy a high utilisation capacity – which tends to be

[3] Economic literatures explain that there are four major types of market in the continuum. The highly concentrated market refers to monopoly, whereas in the opposite, the less concentrated market refers to perfectly competitive market. The oligopoly market and monopolistic competition market lies between those kinds of market (Cook 1977; George et al. 1992; Salvatore 1996).

unresponsive when confronted with increased demand. These oligopoly markets also exert significant barriers toward the entry of new firms (Cook 1977; George et al. 1992; Salvatore 1996). Their products and/or services remain in high demand, and this is termed a sellers' market (Frazier et al. 1989; Kale 1986). Thus, the market conditions in Indonesia can generally be considered as a sellers' market.

Literature within Indonesian manufacturing sector shows these industries over-time have in general remained highly concentrated (Aswicahyono et al. 2010; Bird 1999; Setiawan et al. 2012). In concentrated industries, Butaney and Wortzel (1988) show where the manufacturer has higher power than their distributor(s), and they tend to dominate the channel, and may also limit distributor marketing decisions. This power asymmetry influences the nature and transaction and relationship among channel members (Frazier et al. 1989). This suggests Indonesian manufactures tend to have power over their distributors, and so influence, and drive, their channel relationship connectivities. This is consistent with the Indonesian manufacturers-retailers' study of Setyawan et al. (2013)[4].

The channel connectivities between the manufacturer and its distributor can involve other intermediary channel members who perform various functions including: carrying inventory, demand generation (or selling), physical distribution, after-sale service, and/or extending credit to customers. Sometimes a marketing channel function can be altered using another intermediary's procedures. However, the functions themselves are not eliminated but are moved either upstream or downstream along the marketing channel (Coughlan et al. 2006; Rosenbloom 2013).

[4] Setyawan, A.A. et al., 2013. Model of relationship marketing and asymmetry power in Indonesia retail industry. In *13th Annual ASEAN Graduate Business and Economics Program (AGBEP) Network Meeting and Conference*. Yogyakarta, Indonesia: Faculty of Economics and Business Universitas Gadjah Mada.

Channel members consist of the manufacturer and its intermediaries-including its principal distributors/merchant-wholesalers, and/or retailers. This business-to-business (B2B) relationship can incorporate intermediaries to efficiently move ‘goods’ and/or ‘services’ towards each targeted market (Coughlan et al. 2006; Kotler & Armstrong 2004). The distributor efficiently facilitates the sorting and consumer-delivery processes for its manufacturer (Coughlan et al. 2006). This enables distributors and associated intermediaries to transform the assortment of products made by manufacturers into the specific ‘wants’ of their consumers (Coughlan et al. 2006; Kotler & Armstrong 2004).

The governance, and the resolution of conflict across these B2B channels and embedded intermediaries remains crucial to strategic decision making (Anderson & Coughlan 2006). Thus the structure, governance, and relationship management influence a B2B channel’s connectivity and its performance (Anderson & Coughlan 2006).

This study considers the B2B channel connectivities that may exist between manufacturers and distributors within Indonesian concentrated markets. In the manufacturer and distributor channel connectivites context, other researchers may consider buyer-supplier relationships (Liu et al. 2010; Yen & Hung 2013), or buyer-seller (Meehan & Wright 2011; Voldnes et al. 2012), or supplier-distributor (Payan et al. 2010; Sánchez et al. 2012), or supplier-retailer (Hwang et al. 2013; Jain et al. 2013), or exporter-importer (Obadia & Vida 2011; Terawatanavong et al. 2011), or manufacturer-retailer (Kunter 2012; Yang et al. 2011), or franchisor-franchisee (Grace et al. 2013; Kashyap & Sivadas 2012). In this study, we adopt the manufacturer as the upstream (supplier, seller, franchisor) side, and the distributor as the downstream (retailer, buyer, franchisee) side of the channel.

Table 2.1 lists studies conducted on the relationships between manufacturers and their distributors, together with the settings of the studies (since 2000). Amongst them, five studies use matched data sets between the pair of manufacturer and distributor (Bigne & Blesa 2003; Bigne et al. 2004; Blesa & Bigne 2005; Liu et al. 2010; Zhao & Cavusgil 2006). Seven studies deploy unconnected manufacturer and distributor data sets (Nyaga et al. 2010; Oosterhuis et al. 2013; Meehan & Wright 2011; Voldnes et al. 2012; Sanzo & Trespalacios 2000; Lai et al. 2009; Labahn 2000). However, none of these studies utilise a two-ways perspective of matched data sets between the pair of manufacturer and distributor. Instead, most use one-sided perspective either considering just the manufacturer's or the distributor's position.

Table 2.1: Channel Relationships Studies (since 2000)

	Studies	M ➔ D	D ➔ M	Setting
1.	Labahn (2000)	X	X	USA and Mexico
2.	Sanzo and Trespalacios (2000)	X	X	Spain
3.	Kim (2001)	X	X	USA
4.	Langerak (2001)	X		Netherlands
5.	Lee (2001)		X	China
6.	Soehadi et al. (2001)		X	Indonesia
7.	Bello et al. (2003)	X		USA
8.	Bigne and Blesa (2003)	X	X	Spain
9.	Hernandez-Espallardo and Arcas-Lario (2003)	X		Spain
10.	Jonsson and Zineldin (2003)		X	Sweden
11.	Sanzo et al. (2003)		X	Spain
12.	Siguaw et al. (2003)		X	USA
13.	Bigne et al. (2004)	X	X	Spain
14.	Duarte and Davies (2004)		X	UK
15.	Yilmaz et al. (2004)		X	Turkey
16.	Blesa and Bigne (2005)	X	X	Spain
17.	Yilmaz et al. (2005)		X	Turkey
18.	Leonidou et al. (2006)	X		Greece
19.	Mehta et al. (2006)	X		USA
20.	Ramaseshan et al. (2006)		X	China
21.	Rodríguez et al. (2006)		X	Spain
22.	Toms (2006)	X		USA
23.	Zhao and Cavusgil (2006)	X	X	USA
24.	Chung et al. (2007)		X	Korea
25.	Lai (2007)		X	Taiwan
26.	Rose et al. (2007)	X		Israel
27.	Sanzo et al. (2007)		X	Spain
28.	Bordonaba-Juste and Polo-Redondo (2008)	X		Spain
29.	Chung et al. (2008)		X	Japan
30.	Davis and Mentzer (2008)		X	USA
31.	Leonidou et al. (2008)	X		USA

Table 2.1: Channel Relationships Studies (since 2000) (Continued)

	Studies	M ➔ D	D ➔ M	Setting
32.	Mangin et al. (2008)		X	Canada
33.	Petison and Johri (2008)		X	Thailand
34.	Pil et al. (2008)		X	Korea
35.	Skarmeas et al. (2008)		X	UK
36.	Lai et al. (2009)	X	X	Taiwan
37.	Lévy Mangin et al. (2009)	X		Spain
38.	Paswan (2009)	X		USA
39.	Ural (2009)	X		Turkey
40.	Clark et al. (2010)		X	USA
41.	Gu et al. (2010)		X	China
42.	Liu et al. (2010)	X	X	China
43.	Nyaga et al. (2010)	X	X	USA
44.	Payan et al. (2010)		X	USA and Sweden
45.	Runyan et al. (2010)		X	USA and Japan
46.	Chen et al. (2011)		X	China
47.	Chung et al. (2011)		X	China
48.	Clark et al. (2011)		X	USA
49.	Davies et al. (2011)		X	USA
50.	Meehan and Wright (2011)	X	X	USA
51.	Obadia and Vida (2011)	X		France and Slovenia
52.	Terawatanavong et al. (2011)		X	Australia
53.	Yang et al. (2011)		X	China
54.	Chu and Wang (2012)	X		China
55.	Hofer et al. (2012)	X		USA
56.	Kashyap and Sivadas (2012)		X	USA
57.	Sánchez et al. (2012)		X	Spain
58.	Voldnes et al. (2012)	X	X	Russia and Norwegia
59.	Grace et al. (2013)		X	Australia
60.	Hwang et al. (2013)		X	Korea
61.	Oosterhuis et al. (2013)	X	X	Netherlands
62.	Yen and Hung (2013)		X	Taiwan

Moreover, as illustrated in Table 2.1, only one Indonesian study has been conducted (Soehadi et al. 2001). This study again adopted a one-sided distributor position.

To date, studies have not adopted a two-way perspective when investigating the channel relationships between the manufacturer and the distributor. A two-way perspective using paired manufacturer and distributor data sets enables researchers to assess the connectivity relationships operating between the manufacturer and the distributor. This approach (matched data sets between the manufacturer and the distributor) allows interrogation of the connectivity pathways and their possible

degrees of alignment. In addition, this approach allows answer on why each side of the channel thinks similarly (or differently) when engaging with their respective channel partner. Thus, this study contributes to gap in channel research.

Further, this study applies to medium-to-large businesses in the Indonesian context. Notwithstanding, this study's model is likely applicable to other countries and with similar business environments or contexts.

2.2 Business Culture in Indonesia

A channel member's relationship may be shaped by cultural dimensions (Cannon et al. 2010; Runyan et al. 2010). In individualist (Western) cultures Cannon et al. (2010) shows distributors expect the manufacturers to enhance their performance in order to generate the distributor's trust, whilst in collectivist (Asian) cultures, distributors only emphasize trust generation without necessarily expect the improvement of manufacturers' performance. Similarly, Runyan et al. (2010) finds coercive influence strategies applied by US distributors (individualist culture) create inverse effects on manufacturer role-performance, but this relationship does not apply in the Japanese collectivist culture context. In Indonesian channel contexts, Schroder et al. (2000) show channel members avoided conflict, indicating Indonesia may be collectivist.

Hofstede, Hofstede, and Minkov (2010) place Indonesia within a far-eastern culture cluster (Southeast Asia and East Asia) characterised by high power distance, low-medium uncertainty avoidance, medium masculinity, low individualism (high collectivism), and medium to high LTO. Hofstede and Hofstede (2005) see business and organisational culture as affected by national culture, and rate Indonesia as a non-Western nation culture.

Similarly, Munandar (2003) finds corporate cultures in Indonesian state-owned business organisations and private businesses to be family-based. Trompenaars and Hampden-Turner (2007) indicate this to be a type of a power-oriented culture regarding the leader as a 'caring parent' who knows better than subordinates what should be done, and what is good for them. This type of power is intimate and benign rather than threatening.

Sawarjuwono and Goodfellow (1997), Vatikiotis (1998), and Chen (2004) show overseas Chinese to be under 7% of the Indonesia population – yet they control over 70% of listed Indonesian firms. This one culture dominance of firms likely influences the mainstream culture of business practices in Indonesia. Such Chinese business cultures target: harmony maintenance with key individuals, employees, and other organisations (Chen 2004; Bruton et al. 2003; Kirkbride et al. 1991), conflict avoidance (Kirkbride et al. 1991; Triandis et al. 1990; Tjosvold et al. 2001; Bruton et al. 2003); the existence of social networks – or guanxi (strong relational bonds) (Kirkbride et al. 1991; Peng & Luo 2000; Roslin & Melewar 2000); the quality of social interactions between individuals that depend heavily on in-groups (Tjosvold et al. 2001; Huff & Kelley 2003); and an emphasis on long-term relationships (Bruton et al. 2003; Roslin & Melewar 2004). Chinese Indonesians also emphasise informality in business deals, highly customer satisfaction (such as: avoid saying "No" to customer request), and the importance of material wealth (Sawarjuwono & Goodfellow 1997).

Since many Chinese firms and business organisations in Indonesia are now led by scholarly Chinese with Western university educational backgrounds, they tend to adopt open U.S. management approaches (Munandar 2003). Heuer et al. (1999) also finds Indonesian managers readily accept less hierarchical U.S. values toward management and organisational interaction, whilst still retaining a 'collectivist'

perspective. Habir and Larasati (1999) add several large Indonesian firms (including state enterprises) are successfully implementing such international human resource management practices (Bennington & Habir 2003). Although greatly-influenced by Western (especially U.S.) management concepts and approaches, Indonesian CEOs and managers of larger firms generally present a pragmatic attitude (Munandar 2003), and typically act-react based on their personal values and situational conditions.

To summarise, this study assumes the unique Chinese Indonesian business culture to be representative of much of the Indonesian B2B culture because this societal group dominates, and with that with Indonesian businesses shifting towards open Western individualistic cultures, a mix of Western B2B cultures may tend to complement the Chinese Indonesian B2B culture, and so form a hybrid Indonesian business culture (Munandar 2003; Heuer et al. 1999). Thus past studies pertinent to other countries may or may not represent Indonesian manufacturer to distributor channels. Hence this study investigates B2B channel connectivities between the manufacturer and the distributor within this hybrid Indonesian business culture environment.

2.3 Business Channel Connectivity in Indonesia

Past studies consider channel relationships, but actually measure these as one-way directional studies (Chung et al. 2011; Hwang et al. 2013; Lai et al. 2009). This study considers Indonesian channel relationships as a two-way study, and terms these relationships between the manufacturer and distributor in Indonesian manufacturing context as *channel connectivities.* The efficient connectivity (World Bank 2012) between suppliers, manufacturers, distributors and markets moves the B2B relationship towards achieving a sustainable competitive capability. Bigne and Blesa (2003), Siguaw et al. (1998), and Weitz and Jap (1995) support such two way approaches and engage paired data collections when studying the management, the

maintenance, and the development of relationships between channel partners. In the Indonesian B2B context, these channel connectivities' drivers between the manufacturers and distributor maybe complex, moderating and/or mediating.

Gassenheimer et al. (1994) and Möller (2013) classify channel constructs as behavioural and economic, or governance. The behavioural perspective includes satisfaction, trust, commitment, relational norms, dependence, role- performance, and conflict. The governance perspective encompasses influencing strategies and authoritative coordination mechanisms. This study adopts behavioural perspectives, combined with MO and LTO as construct drivers of these channel relationships.

We now introduce our B2B research framework and then discuss the constructs and hypotheses.

2.4 Indonesian B2B Research Framework

Figure 2.1 depicts the relationship framework between well-established Indonesian manufacturers and their principal distributors. Each of these firms represented in Figure 1 have survived (and likely flourished) in their respective business domain for some time. This study defines a minimum existence timeframe for this study as 'at least one year'. For example, the multinational company M1 (selling PV products)[5] set up in 2011/12 and is captured in this study. Hence, the manufacturing firms involved are typically medium to large in size.

This study frames the manufacturer side as firms having a long-term orientation (MLTORT) and a consistent market orientation (MMORT). This study does this to ensure the manufacturer and distributor relationship has formed, and solidified over

[5] The researcher converts the original name of the firm and its products into anonym for confidentiality reason.

time. Hence managers can provide thoughtful analysis of the channel connectivities between themselves their associated party. The MLTORT and MMORT system input requirements provide a joint focus when considering the manufacturer's constructs, their interconnections and possible mediating and/or moderating behavioural effects. Within the manufacturer's domain these behavioural constructs may, or may not influence one another.

Similarly, within the distributor domain the embedded behavioural distribution constructs may also have mediating and/or moderating effects. However, MO of the distributor includes strategies to serve its manufacturer and the channel customers (Rosenbloom 2013; Coughlan et al. 2006). Here, the MO of the distributor has dual purposes and consequently is not used as a channel construct antecedent driver for the distributor. Therefore, the distributor perspective of channel model only uses LTO (DLTORT) as a sole driver. This follows the findings of Chung et al. (2008) and Hwang et al. (2013) that LTO acts as an antecedent to the behaviours in marketing channels within collectivist cultures.

The dynamics that interplay between the manufacturer domain and distributor domain are the relationship engagements between the firms and these we term their channel connectivities. This study considers potential area for improvement in B2B channels in Indonesia. Hence, it focuses on investigating the significant connectivities between well-established and sizeable manufacturers and their principal distributor.

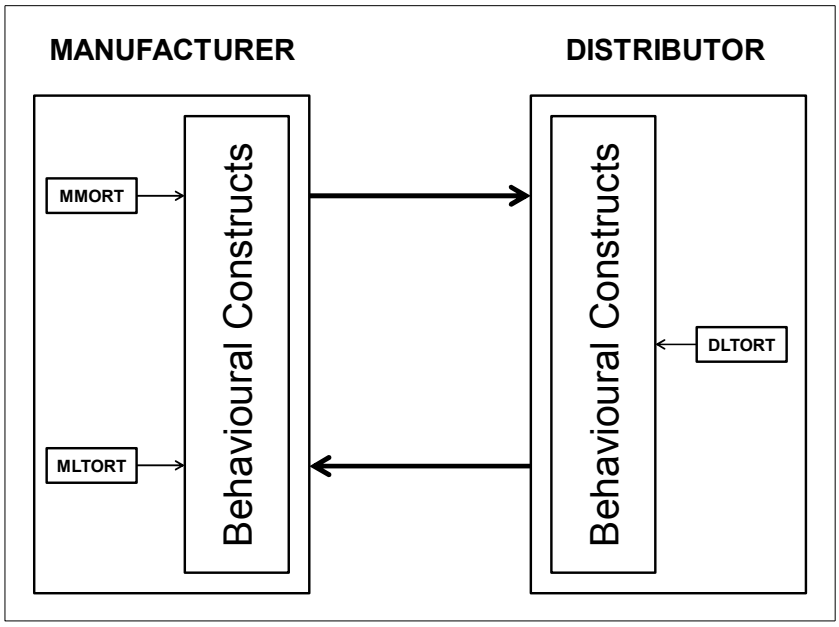


Figure 2.1: B2B Research Framework

Literature around the Figure 2.1 relationship, and the commitment between firms, shows minimal impact on channel relational performance in the Western context (Palmatier et al. 2006), and Setyawan et al. (2013) argues commitment is not significant in the power asymmetry between Indonesian manufacturers and distributors. Thus, a commitment construct is not included in this study.

Frazier et al. (1989) in India, Chung et al. (2008) in Japan, Chung et al. (2011) and Hwang et al. (2013) in China show Asian relationships may be affected by the power asymmetry between channel members, and these authors deploy a mix of trust, role-performance, dependence, conflict, and satisfaction in their studies. Thus, beyond market orientation and long-term orientation, the focal constructs of this research are: trust, role-performance, dependence, conflict, and satisfaction. These constructs are now discussed.

2.5 Indonesian B2B Research Framework: Constructs

2.5.1 Market Orientation

MO is a strategy and is grounded in resource-based theory (RBT) (Atuahene-Gima, 2005; Evanschitzky, 2007; Hult & Ketchen, 2001; Hult, Ketchen, & Slater, 2005; Kozlenkova, Samaha, & Palmatier, 2013; Menguc & Auh, 2006; N. A. Morgan, Vorhies, & Mason, 2009). It is interlinked with the management theories of resource heterogeneity and resource immobility (Wernerfelt 1984). MO embraces market-focused capabilities including firm resources and uniqueness, and can assist in determining the firm's positional advantage (Hult & Ketchen, 2001) and its competitive advantage (Day 1994; Slater & Narver 1998). Such competitive advantage is best sustained when combined with on-going specific resource utilization, and with the ongoing delivery of superior customer value (Barney 1991; Amit & Schoemaker 1993). Thus, MO contributes to value – including value pertaining to innovation, and MO allows the build of new business capacities (Atuahene-Gima 2005).

MO is market intelligence (Kohli & Jaworski 1990) behaviourally and culturally based (Narver & Slater 1990), strategic (Ruekert 1992) and downstream customer-oriented (Deshpande et al. 1993). Kohli and Jaworski (1990) see MO as a unifying focus that implements (and responds-to) firm-wide market intelligence additions that are added across departments, whilst Narver and Slater (1990) see MO as a firm culture effectively and efficiently creating superior inter-functional coordination and value for manufacturers and their channel partners.

MO also uses consumer and competitor information to guide strategy: identification, understanding, construction, assortment, application, and refinement (Day & Nedungadi 1994; Hunt & Derozier 2004; Jaworski & Kohli 1993; Kohli & Jaworski

1990; Narver & Slater 1990; Webster 1988; Slater & Narver 1994), and to supplement marketing concepts (Hunt & Morgan 1995; Hunt & Lambe 2000).

MO studies typically focus on single firms (Helfert et al. 2002; Kok & Biemans 2009; Tuominen et al. 2004) but, recent studies focus on the interactions between the channel partners – especially those involved in long-term relationships (Gulati 2007; Pateli 2009; Möller et al. 2005; Ritter & Gemunden 2003; Teng & Das 2008). Thus, MO influences: the channel performance of channel partners (Elg 2003; Elg 2008); the channel network relationships, and the efficiency gains (through knowledge transfer) between channel partners (Elg 2007; Hernandez-Espallardo & Arcas-Lario 2003; Hsieh et al. 2008; Tuominen et al. 2004). Others claim MO may indirectly influence business performance (Hult et al., 2005; Menguc & Auh, 2006; Morgan et al., 2009), and consequently the impact of MO on marketing channels warrants investigation.

Literature concerning the impact of MO on channels mostly posits it as an antecedent to the channel's relationship (Baker, Simpson, & Siguaw, 1999; E. Bigne & Blesa, 2003; J. E. Bigne et al., 2004; Blesa & Bigne, 2005; Chung et al., 2011, 2007; Elg, 2007; Hernandez-Espallardo & Arcas-Lario, 2003; Lai et al., 2009; Langerak, 2001; M. J. Sanzo, Santos, Álvarez, & Vázquez, 2007; M. J. Sanzo, Santos, Vázquez, & Álvarez, 2003; Siguaw, Baker, & Simpson, 2003; Siguaw et al., 1998; Zhao & Cavusgil, 2006). For example, in Chinese manufacturer-distributor channels, Luo, Hsu, and Liu (2008) find channel networking, over-time, strengthens both the distributor's orientation and channel trust toward the manufacturer. Tukamuhabwa (2011)'s Uganda study of 306 small-to-mid-size enterprises also shows MO improves channel trust. Thus improved MO is posited to increase channel trust. Hence, MO applies to the manufacturer (as the product producer and product demand creator) (Siguaw et al. 1998), and subsequently indirectly influences the distributor's role and market

coverage (Rosenbloom 2013). In the Indonesian context, where the manufacturer has greater power over the distributor, the manufacturer dominates marketing decisions on their products, and the distributor merely follows the MO set by the manufacturer. Hence, from the distributor's perspective, and in this Indonesian study, MO is unlikely to influence the manufacturer's performance and channel relationship. Thus MO is not considered as part of the distributor domain.

Over time, much MO research applies to either culturally defined perspectives (Narver & Slater 1990) or behaviourally defined perspectives (Kohli & Jaworski 1990; Carr & Lopez 2007; Raaij & Stoelhorst 2008). Whilst behavioural perspectives describe MO under the activity-based characteristics of a firm, the cultural perspectives related to more fundamental characteristics of an organisation (Carr & Lopez 2007). Narver and Slater (1990) suggest three cultural perspective components: customer orientation, competitor orientation, and inter-functional coordination. Whereas, the behavioural view of Kohli and Jaworski (1990) consists of three different dimensions: intelligence generation, intelligence dissemination, and organisational responsiveness. Between these perspectives, Gebhardt, Carpenter, and Sherry Jr. (2006)' longitudinal analysis find MO is a set of cultural instead of a set of behavioural values because organisational culture is a basis for the existence of MO behaviours. These findings support earlier studies of Moorman (1995), Narver, Slater, and Tietje (1998), and Homburg and Pflesser (2000). Hence, this study adopts the MO definitions and measures of Narver and Slater (1990).

Situated within Indonesian (Asian) marketing channel context, this study defines MO as the organisational culture of the manufacturer that effectively and efficiently creates the necessary behaviours for delivering superior value to their distribution outlets, and thus provides enhanced performance for the manufacturer (Narver & Slater 1990). It

consists of customer orientation, competitor orientation, and inter-functional coordination dimensions. Customer orientation includes manufacturer visits to the distribution outlets, that assess the distribution outlet's satisfaction, and that prioritize the importance of each distribution outlet. Competitor orientation consists of a regular evaluation of competitors' strengths, quick responses to competitor changes, and sharing market intelligence about their competitors. Lastly, inter-functional coordination allows efficient information sharing across the manufacturer's departments. Further, it assists the integration of the manufacturer's departments in serving the needs of their distribution outlets (Narver & Slater 1990; Zhao & Cavusgil 2006; Hsieh et al. 2008).

Hence, this study combines the above measures and captures MO as the: assessment of and response to competitors; regular contact, information sharing and satisfaction with distributors; channel and distributor focused departments; rating distribution outlets to maximize competitive advantage.

2.5.2 Long-Term Orientation

LTO is likely rooted within relational exchange theory – as this theory emphasises the benefits of relational exchange rather than transactional exchange (MacNeil 1980; Kaufmann & Dant 1992; Lambe et al. 2000). Manufacturer-distributor channels that exhibit complex, long-term relationships also require: intense cooperation, joint planning, and mutual adaptation between the channel partners (Hallen et al. 1991; Gundlach & Murphy 1993; Nevin 1995). Thus longer-term outcomes arise and relationship-destruction is often avoided (Kaufmann & Stern 1988).

Long-term manufacturer-distributor relationships can offer: sales and profitability growth; increased process efficiency; and costs reduction (Kalwani & Narayandas 1995), effective inventory control (Ganesan 1994), ongoing future interactions

(Ganesan 1994; Noordewier et al. 1990), and moves towards sustainable competitive advantage (Ganesan 1994). Such LTO benefits likely arise when firms sacrifice short-term profits to achieve long-run benefits for each party (Ganesan 1993; Narayanan & Raman 2004). These ongoing exchanges help grow collaborative bargaining and joint problem solving - contributing towards enhancing the channel's long-run economic and operational performance (Ganesan 1993; Kalwani & Narayandas 1995).

MO is shown as a driver for LTO (M. J. Sanzo et al., 2003; Schultz & Good, 2000; Zhao & Cavusgil, 2006), and LTO is a driver for MO (Hwang et al. 2013). Further LTO is a driver for downstream attributes (Chung et al. 2008; Ural 2009; Hwang et al. 2013) and similarly MO is a driver for downstream attributes (Chung et al., 2011; Lai et al., 2009; M. J. Sanzo et al., 2007). Hence, theoretically MO and LTO may be joint drivers to the same attributes. Secondly, both MO (Hunt & Morgan 1995; Kumar et al. 2011) and LTO (Ganesan 1994; Hofer et al. 2012) are long-term strategies and so both are drivers of long-term strategic solutions. Thirdly, MO improves when a culture of experimentation and systems improvement is realised – with the firm becoming more distinctive over the long-term (and delivering sustainable competitive advantage) (Kumar et al. 2011). Thus, for well-established manufacturers, each already displaying a solid LTO, their MO is considered as a second input system driver when investigating long-term manufacturer-distributor channel relationships. Hence, we investigate MO and LTO as joint business-to-business input drivers in the manufacturer's perspective and the LTO construct as a sole driver in the distributor's perspective.

2.5.2.1 Manufacturer Domain

From the exporter's (manufacturer's) perspective Ural (2009) investigates the impacts of relationship quality on export performance, with relationship quality gauged through satisfaction, trust, and commitment (Skarmeas et al. 2008; Athanasopoulou 2009; Chu & Wang 2012), and over time as profit maximization process of multiple transactions (rather than as a single transaction). Chu and Wang (2012) consider the LTO of logistics outsourcing (in China) enhances the channel relationship's performance and it relational quality outcomes. Thus LTO, applied to manufacturer-distributor relationships, likely influences the channel satisfaction, because like Chu and Wang (2012)' and Ural (2009)'s studies, all distribute products using channel partners.

Obadia and Vida (2011) find the expectations of a long-term stable and secure relationship (Johnson et al. 2004) influence relationship quality (measured as continuity-expectations, trust, and cooperation), and also enhance distributor's performance (Bello et al. 2003). Here, a distributor targets delivering the sales and profit goals of its manufacturer, and seeks an efficient/effective upstream supply chain channel between the channel partners.

2.5.2.2 Distributor Domain

Hwang et al. (2013) investigate the perceptions of 114 Korean retailers toward their suppliers, finding the retailer's LTO positively influences its trust of its supplier, and its economic dependence on its supplier. Chung et al. (2008) show traditional Japanese channel relationships implement better than the Western influence performance-based model. Here, the retailer-supplier LTO enhances supplier dependence, and stems from a Japanese cultural intention of maintaining long-term partnerships. In Thailand, Petison and Johri (2008) observe manufacturers helping their upstream and downstream partners with technological advancement. Thus LTO contributes to

dependency relationships and in this situation, distributors comfortable with their manufacturer long term relationship, may increase their dependency toward their respective manufacturers.

Adopting Ganesan (1994)'s definition, this study defines LTO as the perception of interdependence between both the manufacturer (distributor) outcomes and manufacturer-distributor joint outcomes which are expected to benefit the manufacturer (distributor) in the long run. LTO encompasses long-term profitability, long-term objectives, long-term relationships, investment payoff, and relationship continuity (Ganesan 1994; Wong et al. 2005; Ryu et al. 2007; Cannon et al. 2010).

Hence, this study combines the above measures to capture LTO as: profitable in the long-run; long-term focused; a cost effective relationship; an ongoing cooperative relationship.

2.5.3 Trust in Channels

Business-to-business trust is grounded in social exchange theory and relational exchange and governance (Homans 1958; Blau 1964; Morgan & Hunt 1994; Wilson 1995; Weitz & Bradford 1999; Jap & Anderson 2003; Camén et al. 2011). In business-to-business exchanges trust is defined as: belief in an exchange partner's reliability and integrity (Morgan & Hunt 1994); or belief a partner (credible and benevolent) (Ganesan 1994; Geyskens et al. 1999); or belief a partner's word as reliable (Blau 1964; Moorman et al. 1993) or willingness to move with a partner's actions- especially when based on expectations of positive outcomes (Mayer et al. 1995; Das & Teng 1998; Rousseau et al. 1998).

W. R. Clark, Ellen, and Boles (2010) investigate purchasing agents (distributors)' trust on dependence with suppliers (manufacturers), and show trust is greater in highly dependent relationships (rather than in the shallow ones). Some scholars see trust as multidimensional (Das & Teng 2001; Mouzas et al. 2007; Gulati & Nickerson 2008), with credibility (Sezen & Yilmaz 2007; Tian et al. 2008) being a belief that the exchange partner is reliable and is performing as expected, and with benevolence (Sezen & Yilmaz 2007; Tian et al. 2008) capturing the expectation an exchange partner possess the beneficial intentions and motives to help when unexpected conditions arise (Ganesan 1994; Geyskens et al. 1999). Hence, this study uses credibility and benevolence dimensions to operationalise channel trust.

This study adapts Ganesan (1994)'s definition of trust as manufacturer (distributor) willingness to confidently rely on the distributor's (manufacturer's) net credibility and benevolence. Credibility refers to manufacturer (distributor) perceptions about distributor (manufacturer) reliability and expertise (Ganesan 1994). Credibility encompasses: the deliverance of manufacturer/distributor obligations; compliance of contractual agreements; honesty on the explanation about events; and the willingness for not taking own advantage even when the opportunities occurred. Benevolence refers to perceptions of manufacturer (distributor) intentions and motives beneficial to the distributor (manufacturer) when new situations arise (Ganesan 1994). This includes loyalty toward the relationship achieving positive outcomes; the willingness to support product promotions and business management; a readiness to help (when sales decline or when financial problems arise); willingness to provide suitable management training; and proactive follow-up (pertaining to a problem) (Ganesan 1994; Kumar et al. 1995a; Labahn 2000; Duarte & Davies 2004; Izquierdo & Cillan 2004; Van Bruggen et al. 2005; Mehta et al. 2006; Hempel et al. 2009; Paswan 2009).

Hence, this study combines the above measures to capture trust as: meeting obligations and contracts between parties; honesty; loyalty; collaborative, cooperative and supportive engagements (even in tough times).

2.5.4 Dependence

Dependence is a channel determinant of: financial outcomes, cooperation, and conflict (Bucklin & Sengupta 1993; Kumar et al. 1995a). Grounded in Social Exchange Theory, 'dependence' relates closely power-dependence (Emerson 1962). Emerson (1962) argues dependence establishes power in the relationship. Hence dependence is a measure of power, and an imbalanced relationship encourages the use of power. Such imbalances push parties to initiate balancing operations.

Based on Emerson (1962)'s description of dependence, several authors classify dependence level conditions. Pfeffer and Salancik (2003)' three dependence conditions are built from Emerson (1962)'s study. First, in important relationships, one party typically becomes more dependent towards its exchange partner. In this sense, unfamiliarity with a market-place increases a manufacturer's dependence on its distributor (Sachdev & Merz 2012). Second, increases in dependency of a party towards its partner offer better relationship outcomes than building and tapping an alternative relationship. Third, dependence increases when fewer alternative sources of exchange are available. N. Kumar, Scheer, and Steenkamp (1998) summarise this into two dimensions of dependence: replaceability and values.

Replaceability sees firm dependence on its partner arising because no alternative exists or because the cost of replacing its current partner is large (Pfeffer & Salancik 2003). The values dimension arises when a firm sees its partner as owning more

valuable capabilities than any of its potential alternatives. Accordingly, this study uses replaceability and values aspects as determinants of dependence construct.

From joint manufacturer and distributor perspectives Lévy Mangin, de Pablo Valenciano, Koplyay, and Mangin (2009) find exclusive manufacturer agreements affect the distributor's dependence, and the automobile distributor's satisfaction. In U.S. pharmaceutical industry study (Clark et al. 2011), the dependence of physicians (distributors) on pharmaceutical firms (manufacturers) increased their relationship quality (a composite construct of relationship satisfaction, trust, and commitments).This dependence also enhanced the physician's satisfaction toward the pharmaceutical firm. Both studies support the view that distributor's dependence when aligned to the manufacturer's channel behaviours likely shows as an increase in distributor's satisfaction, and vice versa.

Frazier (1983)'s definition of dependence captures 'replaceability' and 'importance'. Hence, this study defines dependence as the manufacturer's (distributor's) need to maintain a relationship with its distributor (manufacturer) to help achieve the manufacturer's (distributor's) goals. 'Replaceability' consists of the replacement difficulty: manufacturer or distributor; level of infrastructure investments; deployment of sales persons; and communications between the manufacturer and the distributor. 'Importance' comprises: the dependence of manufacturer marketing efforts, and distributor selling efforts; the distributor (manufacturer) on manufacturer's (distributor's) sales volume; the manufacturer's brands to the distributor sales; the competencies of the distributor, and the distributor (manufacturer) contributions to profit targeting of the manufacturer (distributor) (Kim 2001; Ganesan 1994; Izquierdo & Cillan 2004; Yilmaz et al. 2005; Davis & Mentzer 2008).

Hence, this study combines the above measures to capture dependence as: strong sales (through close relationship and competence between channel partners); likely replaceability of a channel partner (or infrastructure); comparison of each partner's resources; direct communications between partners; and successful downstream selling (with good profits) of brands.

2.5.5 Role-Performance in Channels

Role-performance is related to dependence (Heide & John 1988; Skarmeas et al. 2008). Frazier (1983) suggests role-performance results from an inter-firm channel agreement with role responsibilities and role expectations assigned to each channel member. The increased role-performance of one firm can increase the other firm's dependence (Chu & Wang 2012; Frazier et al. 1989; Skarmeas et al. 2008).

A firm's role-performance represents how well it carries out its role responsibilities, and how it functions in a relationship with another firm (Frazier 1983). In a manufacturer-distributor context, levels of manufacturer role-performance are jointly determined by attributes related to the product itself (including quality and price) and behaviours manifested by the distributor (including delivery and customer service). The manufacturer's role-performance is critical to the distributor and affects the manufacturer's goal attainment (including profit margin and sales) to a great degree through elements such as demand generation and product delivery (Frazier 1983). Sternquist and Chen (2006), based on their interviews with food retailers in China, conclude that the supplier's behavioural performance is an important predictor of quality of a buyer–supplier relationship in China. In addition, Frazier and Summers (1986) argue that excellent role-performance also increases the suppliers' credibility by helping retailers achieve desired goals (such as profitability). When a supplier has high

credibility, the retailer likely reflects the supplier's norms and values (Lusch & Brown 1982; Frazier et al. 1989).

The distributor view of the manufacturer's role-performance influences their outcomes across the channel relationship (Chen et al. 2011; Skarmeas et al. 2008; Chung et al. 2008; Runyan et al. 2010). Skarmeas et al. (2008) investigate importer (distributor) and exporter (manufacturer) relationship quality and finds an exporter's (manufacturer's) role-performance improves the quality (comprised of trust, commitment, and satisfaction) of the importer-exporter relationship.

From the retailer (distributor) perspectives Z. Chen et al. (2011) investigate guanxi practices in Chinese retailer-supplier (distributor-manufacturer) relationships in the initiation and the maintenance stages of the relationship lifecycle. Here, supplier's role-performance increases retailer trust on supplier credibility (and on retailer satisfaction), and shows five aspects of supplier's role-performance (product, price, quality, delivery, and brand) are important in the view of retailer. Hence, the successful deliveries leverage the reliability of the supplier in the perception of Chinese retailers.

In Japan, Chung et al. (2008) show that in a channel relationship the supplier's (manufacturer's) role-performance positively influences its retailers (distributors) dependence on these suppliers. They argue that even traditional Japanese channel relationships, retailers show no role-performance preference, however under recessive economic conditions these Japanese retailers are choosing suppliers with a sound level of performance. Hence, over-time this increases the dependency of retailers on their suppliers.

Runyan et al. (2010) compare the effects of cultural characteristics on retailer-supplier (distributor-manufacturer) relationships in the U.S. and in Japan, and find the role-performance of the supplier (manufacturer) increases retailer (distributor) economic dependence on its supplier.

A firm's role-performance refers to how well it carries out its role responsibilities, and how it functions in a relationship with another firm (Frazier 1983). Based on this description, this study defines role-performance as the capability of a distributor to perform its functions in a channel relationship with its manufacturer. This definition covers aspects of manufacturer's/distributor's performance in channels – in terms of: product delivery, sales outlet (stores) coverage, management competencies, infrastructure readiness, level of sales volume, sales growth rate, payment of liabilities, product availability, product quality, after-sales services, and overall profitability (Yilmaz et al. 2004; Yilmaz et al. 2005; Labahn 2000; Cannon et al. 2010).

Hence, this study combines the above measures to capture role-performance as: delivery precision; product range, availability, quality and servicing; market coverage; partner competency and infrastructure; business performance; and meeting partnership responsibilities.

2.5.6 Conflict in Channels

Conflict is inherent, inevitable and spreads across marketing channels in the form of a social interdependency of channel members as they pursue a set of mutual objectives (Koza & Dant 2007; Milan et al. 2012; Rosenbloom 2013). Conflict refers to a situation that occurs when a member of the marketing channel perceives another member's actions as blocking the achievement of his/her goals (Coughlan et al. 2006;

Rosenbloom 2013). Conflict leads to: tension, frustration, and disagreements in channel relationships (Coughlan et al. 2006).

Whilst conflict usually is thought to be dysfunctional, it can be also be functional. Coughlan et al. (2006) explains dysfunctional conflicts as resulting from the intimate cooperation between channel members, and note that in practice, much conflict is destructive. In channels consequences of destructive conflict are the escalation of economic or non-economic (or interpersonal) dissatisfaction. Interpersonal dissatisfaction may impede trust-building between partners and can undermine channel commitments. Hence, channel management should resolve the conflict early before it becomes destructive and affects channel efficiency (Rosenbloom 2013). Further, channel members should set joint goals to achieve, and joint problems to solve, and so mitigate many impacts of conflict (Dant & Schul 1992; Rosenberg 1974).

2.5.6.1 Manufacturer Domain

In the manufacturer domain of channel relationship, Leonidou, Talias, and Leonidou (2008) study the role of exercised power among U.S. export manufacturers in their working relationships with foreign industrial buyers (distributors). They find the increased conflict stemmed from the exercised power reduces trust of the manufacturers toward their distributors. Another variation of conflict consequences is found in Toms (2006)'s study, where dysfunctional conflict decreases relationship quality (a higher order construct) and consequently decreases trust and satisfaction. Both studies likely confirm that conflict has negative consequences on the other relationship constructs.

2.5.6.2 Distributor Domain

Literature (Winsor et al. 2012; Pil et al. 2008; Mangin et al. 2008; Davies et al. 2011) show conflict negatively influences other channel constructs from the distributor perspective. Pil et al. (2008) study the impact of conflict, power, and satisfaction on LTO across high and low dependence level of Korean retailers (distributors). They reveal conflict in both sample groups negatively influences the distributors' long-term orientation toward manufacturers. In addition, Mangin et al. (2008) and Winsor et al. (2012) reveal conflict decreases satisfaction among channel members; whilst and Davies et al. (2011) find trust to be a negative consequence of conflict.

Based on Brown and Day (1981)' definition, this study defines conflict between manufacturer and distributor as the intensity of disagreements experienced by a manufacturer/distributor in the relationship with its distributor/manufacturer over various issues. Such various issues range from the required number of distributor's salesmen, inventory level, returned products, delivery accuracy, sales target, information about stores, terms of payment, and prices of products in store's level (Lee 2001; Leonidou et al. 2006; Sanzo & Trespalacios 2000).

Hence, this study combines the above measures to capture conflict as disagreements on: selling (and personnel deployed); inventory management; returns; delivery; pricing, sales, and payment targets; and distribution outlets.

2.5.7 Satisfaction in Channels

Satisfaction is grounded in Social Exchange Theory (SET) including comparison level (CL) and alternative comparison level (CL_{alt}) mechanisms (Thibaut & Kelley 1959), and other explanations (Anderson & Narus 1984; Anderson & Narus 1990). CL is a regularly used standard (in both social and economic terms) whereby the

manufacturer (and/or distributor) feels they deserve more from the channel relationship. Where CL exceeds the lowest level of outcomes a manufacturer and/or distributor commonly accepts (i.e. CL_{alt}) the manufacturer (and/or distributor) then exerts a degree of dependence upon the relationship. Hence, the manufacturer (and/or distributor) nurtures and seeks to improve the channel relationship. In contrast, if an external distributor (or manufacturer) offers greater advantages, then this existing channel relationship manufacturer (and/or distributor) may display dissatisfaction, and may then switch channel partners to this external distributor (or manufacturer).

In business-to-business exchanges, satisfaction is defined as a positive, affective state, resulting from the appraisal of all aspects of a firm's working relationship with another firm (Gaski & Nevin 1985; Frazier 1983; Frazier et al. 1989). Satisfaction can also have both economic and social (Geyskens & Steenkamp 2000; Geyskens et al. 1999) dimensions. Social satisfaction is seen as a non-economic with psychosocial aspects delivering, fulfilling, gratifying, and facilitating feelings between channel members. Thus, an economically satisfied party satisfies the general effectiveness and relationship productivity with their partner. Whereas, in non-economic terms, a satisfied member believes its partner to be a concerned and respected party and possesses a willingness to share its ideas. Thus authors of both satisfaction dimensions conceptually differ and use dissimilar practices to produce their findings.

Satisfaction is often considered a behavioural outcome within the channel, and within either the manufacturer's or distributor's domain (e.g., Leonidou et al. 2006; Mangin et al. 2008; Winsor et al. 2012). However, several studies posit it as an antecedent to other channel outcomes such as trust and LTO (Leonidou et al. 2008; Pil et al. 2008). In the manufacturer's domain, Leonidou et al. (2008) study the U.S. exporters' (manufacturers') power toward their foreign industrial buyers (distributors) and find the

manufacturers' satisfaction positively influences their trust toward the distributors. In the distributor domain, Pil et al. (2008) studied the impact of conflict, power, and satisfaction on LTO across high and low dependence level of Korean retailers (distributors). The authors find the distributor economic satisfaction positively influences distributor's long-term orientation especially in the low-dependence distributor. These findings suggest the satisfaction may be posited as antecedent or consequence of the other channel relationship constructs.

This study follows Geyskens et al. (1999)' and defines satisfaction as a 'positive affective state resulting from an appraisal of economic and social aspects of the manufacturer's or distributor's working relationship with its distributor/manufacturer.' Accordingly, our construct comprises of economic and social dimensions. Economic satisfaction consists of level of dominant achievement in term of market share, profit improvement, a satisfactory profit margin, the number of stores that buy manufacturer's products, the ability of distributor to achieve sales target, the improvement of return on investment, and the level of manufacturer's sales support (Mohr & Spekman 1994; Ramaseshan et al. 2006; Lai 2007; Liu et al. 2010; Siguaw et al. 1998). Whilst social satisfaction comprises of the level of distributor services, the level of relationship continuity, the professionalism of manufacturer's personnel, the marketability of manufacturer's products, and the level of distribution software or internet deployment (Rose et al. 2007; Rodríguez et al. 2006; Jonsson & Zineldin 2003).

Hence, this study combines the above measures to capture satisfaction through economic aspects as: market positioning; profit margin and growth; sales improvement and performance, and through social aspects including: partner servicing; partner's selling contributions, and partner's distribution connectivities.

2.6 Hypotheses Development

The confluence of manufacturer's dependence and distributor's dependence in an exchange relationship creates two-way (bi-directional) dependencies between the parties (Emerson 1962). When this joint dependence is greater than those of its alternatives, they are likely mutually dependent (or interdependent) (Lusch & Brown 1996; Wilson 1995). Pfeffer and Salancik (2003) suggest interdependence arises when a party does not entirely control all necessary conditions needed in an exchange relationship. They also argue interdependency is not necessarily symmetric or balanced. As such, firms facing uncertainty in an imbalanced relationship try to adjust their exchange relationships (Hingley 2005; Dapiran & Hogarth-Scott 2003).

The asymmetry in an exchange relationship shows when one firm holds power over another. However, the literature shows mixed results on how initial power positions play roles in long-term relationships (Narayandas & Rangan 2004). Some studies reveal asymmetrical power and dependence structures producing dysfunctional relationships (McAlister et al. 1986; Gundlach & Cadotte 1994). Others suggest economic (Butaney & Wortzel 1988), political (Stern & Reve 1980), and socio-psychological (Anand & Stern 1985) reasons by which channel parties (with greater power) may deliver channel control. For example, in a concentrated industry setting where the industry competition is weak, Butaney and Wortzel (1988) find the manufacturer builds control over the distributor. Consequently, the distributor's options for changing manufacturer's views are limited. Moreover, the manufacturer's power over the distributor's power becomes greater – especially when the customer perceived switching costs are low.

Other studies reveal mutually trusting and committed relationships can develop regardless of the power imbalances between channel members (Kumar 2005; Hingley

2005; Narayandas & Rangan 2004). For instance, Gassenheimer, Houston, and Manolis (2004) find a retailer, as a weaker party in the exchange relationship, remains eager to continue working partnership because the supplier delivers perceived benevolence. The study of N. Kumar, Scheer, and Steenkamp (1995b) show firms still engage in the relational exchange as long as the weaker firm believes the more powerful partner is fair – even in the context of power and dependence asymmetries. In this fairness situation (characterised by distributive and procedural justice), the stronger party can generate trust and commitment. In a similar vein, N. Kumar et al. (1995a) find interdependence asymmetry causes conflict – yet the negative effect is rebalanced by the improvement of total interdependence. As such, the interdependence structure (either asymmetry or symmetry) certainly affects the channel firms' interactions – but does not imprison them to this relationship (Kumar et al. 1995a; Kumar 2005).

Casciaro and Piskorski (2005) expand these views by showing the seeking of mutual dependence becomes a rationale behind the successful performance of long-term agreements between channel members – even in the context of power asymmetry. Gulati and Sytch (2007) support Casciaro and Piskorski (2005)' findings and show a manufacturer's dependence advantage may diminish its performance in the long-term especially where the manufacturer exercises advantage over its distributor (such as through coercive practices). In a broader sense, this finding emphasizes the importance of value creation dynamics (instead of only value-appropriation in exchange relationships). Thomas and Esper (2010) support such arguments by finding retailers (as more powerful parties), to be actively seeking satisfactory alignment with their vendors even in their asymmetric relationships. Thus, the creation of mutual dependence cultivates the development of trust, commitment, and also prevents the escalation of conflict (Kumar et al. 1995a; Kumar 2005).

The asymmetry in dependence-based power relationship exists when a certain firm has better access to resources over another (Emerson 1962; Pfeffer & Salancik 2003). These resources can be categorized as specific and non-specific. Non-specific resources are freely transferred across applications, such as machinery, capital, and communication skills (Anderson 1985), whilst specific resources or investments are the assets which tailored to a particular user or transaction and thus are costly to redeploy to alternative applications or relationships (Williamson 1985; Anderson 1985; Brown et al. 2009).

Transaction-specific assets are typically worth more than non-specific assets and can allow a firm to further depend on its channel partner (Heide & John 1988; John & Reve 2010; Kumar 2005). When channel partners mutually invest in their channel relationships, these party interdependencies are characterised by trust and a commitment to the channel relationship. However, in high asymmetry situations, specific asset investments between parties can lead to channel conflict and declining trust (Xie et al. 2010). Transaction-specific investments also reduce the effect of channel dissolution (such as opportunism) and they help retain cooperation (Kang et al. 2012).

Various types of specific assets identified by E. Anderson (1985) and Lohtia, Brooks, and Krapfel (1994) display similar characteristics. Brown et al. (2009) find physical assets and human assets, gain most research attention (Lohtia et al. 1994), and these can leverage superior firm performance, and safeguard against channel member opportunism. In the context of manufacturer-distributor relationships of this study, the specific physical investments of the distributor might be stores database, infrastructures, and distribution software. The human investments may be the trained salespeople of distributor. From the manufacturer side, the most obvious transaction-

specific investment perhaps is its brand name (a non-physical asset). Moreover, as transaction-specific assets are a dimension of Transaction Cost Economics (TCE) (Williamson 1975; Williamson 1985; Steenkamp & Geyskens 2012) they are likely applicable in either individualist or collectivist cultures (because the TCE dimensions have a significant effect on governance choice in both cultures) (Steenkamp & Geyskens 2012).

The transaction-specific investments may be included as manufacturer or distributor power priorities (Meehan & Wright 2011), and may influence in their channel interactions. For example, when the distributor holds and equivalent position to the manufacturer, the manufacturer's first priority lies in the area of 'commercial (and contractual) detail.' Here, the workloads of a distributor's salespeople may be categorized. The second priority is 'operational (or day-to-day) issues and activities' across the channel relationship. Here, the distributor's stores database, infrastructures, and software are included. Their selling priorities and 'attitudes,' towards the manufacturer's brand are also important channel relationship considerations. The second selling power priority is 'strategic issues,' related to a broader and long-term development of the channel relationship.

Thus, for this study the transaction-specific investments of either manufacturer or distributor are key considerations when discussing the intersection of manufacturer and distributor perceptions based on their dependence asymmetry in channels. In addition, the position of each transaction-specific investment in these relevant areas of influence may determine the magnitude of dependence between manufacturer and the distributor. The actions taken by both parties also depends on the Thomas and Esper (2010)' levels of asymmetry (satisfactory asymmetry, unsatisfactory but tolerable asymmetry, and unsatisfactory but intolerable asymmetry). Here, tolerance or

intolerance of unsatisfactory asymmetry is based on a constant evaluation of the costs and benefits of the channel relationship. For example, the tolerant managers can apply positive strategies of coaching, teaching, and reinforcing satisfactory exchange partner behaviours, whilst the intolerance manager's behaviour may include punitive, dictatorial, and offensive actions (Thomas & Esper 2010).

2.6.1 The Influence of Manufacturer Domain on Distributor Domain

In a concentrated industrial market like Indonesia the manufacturer often has greater power over its distributor. Hence, such manufacturers are posited to influence their distributors (Nyaga et al. 2013; Butaney & Wortzel 1988; Casciaro & Piskorski 2005; Chung et al. 2007). Blesa and Bigne (2005) see the manufacturer's MO significantly influencing the distributor's dependence and the distributor's satisfaction, and find all elements of the manufacturer's MO (inter-functional coordination, intelligence generation, information dissemination, response design, and response implementation) positively influence the distributor's satisfaction. This suggests the manufacturer's adoption of MO is justified, and influences channel satisfaction.

In past studies between the distributor's role-performance and the manufacturer's role-performance, Obadia and Vida (2011) find an importer's (distributor's) role-performance positively influences an exporter's (manufacturer's) economic performance. As such manufacturer-distributor channel relationships perform best when reciprocal channel-actions operate between the parties.

Hofer et al. (2012) study the impact of supplier's (or selected distributors) Key Retail Accounts (KRAs) on supplier's (manufacturer's) performance, and find a positive relationship between the distributor's market share and the manufacturer's financial performance. Here, manufacturers engage selectively with certain distributors, and so

earn greater financial rewards. Both studies find the existence of mutual (or joint dependence) between channel exchange parties is a motive for conducting this relationship (Casciaro & Piskorski 2005; Gulati & Sytch 2007). As the Indonesian industrial context displays power imbalance, with the manufacturer being the stronger party, when this power is exerted over the distributor (Casciaro & Piskorski 2005; Butaney & Wortzel 1988; Chung et al. 2007), the distributor may adopt a subservient role-performance position.

Further, manufacturer influences on the distributor, in channel relationships, emanate from the manufacturer's dependence on the distributor's satisfaction. Bordonaba-Juste and Polo-Redondo (2008) study the impact of relational norms and interdependence structure on commitment and satisfaction within franchisor (manufacturer) and franchisee (distributor) relationships. Based on the distributor perspectives, they find where there is interdependence between manufacturer and distributor, a positive influence on distributor's satisfaction arises. The authors argue this distributor's satisfaction emanates from a mutual benefit stemming from joint actions (interdependence) between the manufacturer and the distributor (Pfeffer & Salancik 2003). This finding implies that manufacturer's dependence toward its distributor likely increases distributor's satisfaction (Bordonaba-Juste & Polo-Redondo 2008).

In the Indonesian marketing channels, Herlambang et al. (2006) investigate supply chain effectiveness of an Indonesian fruit producer (manufacturer). They find the lack of mutual trust between the manufacturer and its distributors creates conflicts between them. This indicates a warranted improvement of joint trust to manage conflicts which are inevitable part of daily interactions between manufacturers and distributors. In the power asymmetry context, Setyawan et al. (2013) investigate the effect of relationship marketing and power asymmetry on supplier's (manufacturer's)-retailer's (distributor's)

economic performance, from both parties' perspectives. They reveal joint trust between manufacturers and their distributors positively influences the distributors' economic performance.

To summarise, these findings suggest the manufacturer's behavioural construct collectively influences the behavioural constructs of distributor. Further, these relationship influences occur across the connecting channels between the manufacturer and the distributor. This leads to following hypothesis:

H_1: In the Indonesian context, the behaviour of the manufacturer across the connecting channels between the parties collectively influences the distributor's behaviours.

2.6.2 The Influence of Distributor Domain on Manufacturer Domain

Studies on interdependency between channel members (e.g., Casciaro & Piskorski, 2005; Emerson, 1962; Gulati & Sytch, 2007) suggest that channel members are likely to influence one another. Several studies have attempted to investigate relationship between manufacturer and distributor by obtaining perspectives from manufacturer about their distributors and vice-versa (Oosterhuis et al. 2013; Nyaga et al. 2010; Anderson & Narus 1990).

J. C. Anderson and Narus (1990) develop and test a model of distributor firm and manufacturing firm working partnership. They find distributor firms and manufacturer firms share similar perspectives on the positive influences of relative dependence on influence by the partner firm, the positive impacts of outcomes given comparison level (CL) on cooperation, and the positive correlation between communication and outcomes given CL. Nyaga et al. (2010) compare buyer (distributor) and supplier

(manufacturer) pertaining to collaborative relationships between them. They find both parties' perspectives are more similar than they are different and hence it may be easier for the business partners to apply collaborative relationships which would lead to channel satisfaction and performance. Oosterhuis et al. (2013) compare perceptions of buyer (distributor) and supplier (manufacturer) on several supply chain attributes and find similar perceptions on the frequency of communication regarding operational and innovation issues, the frequency of media usage, and on the demand uncertainty of the delivered products. Conversely, they are different in terms of their role-performance, conflicts, technology uncertainty, and in the dependence position.

These findings reveal manufacturer and distributor share many similar behavioural relationships in channel and these similar relationships may interact with one another. For example, Ganesan (1994) delineates LTO construct as a perception of interdependence among exchange parties' outcomes. Accordingly, a distributor's long-term orientation would likely correlate with its manufacturer's long-term orientation.

In the Indonesian context, Soehadi et al. (2001) study the impact of retailers' (distributors') MO on their business performance and the relationship degree with their manufacturers. They find distributors' MO positively influences the degree of partnership between the distributors and their manufacturers. Accordingly, the market-oriented distributors require supports from their manufacturers to implement successful marketing strategies. Puspitawati (2011) investigates the perceptions of trust within three groups of potato farmers (manufacturers) toward their buyers (distributors). The author reveals that a group of manufacturers, who engaged with an Indonesian food company (distributor), emphasise the distributor's reputation and flexibility as the most important factors that increase the manufacturers' trust. Furthermore, the study of Setyawan et al. (2013) may also apply in this relationship

context as they reveal joint trust between distributors and their manufacturers positively influences the manufacturer's economic performance.

Such limited research within Indonesian context (Setyawan et al. 2013; Soehadi et al. 2001; Puspitawati 2011) provide some evidences that indicate possible channel connectivities exist from distributor to manufacturer. Hence, based on prior studies, we argue that the influence between channel members is bi-directional and therefore, distributor influences on manufacturer may exist. This leads to the following hypothesis:

H_2: In the Indonesian context, the behaviour of the distributor across the connecting channels between the parties collectively influences the manufacturer's behaviours.

2.7 Conceptual Framework

The relationships in either manufacturer or distributor domain and the hypotheses pertaining to these domains are depicted in this study's conceptual framework (Figure 2.2):

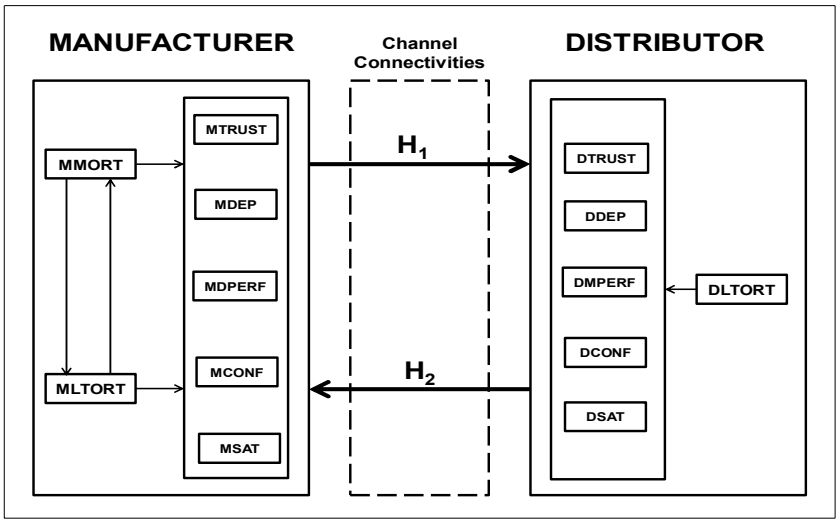


Figure 2.2: Conceptual Framework.

As illustrated in Figure 2.2, the first hypothesis shows the positive influence of manufacturer domain on distributor domain, whilst the second hypothesis shows the influence of distributor domain on the manufacturer domain.

The five manufacturer channel interaction constructs are supported by the two inputs constructs: the manufacturer's market orientation (MMORT) and the manufacturer's long-term orientation towards the relationship with its distributor (MLTORT). These constructs are posited to influence one another and influence the other constructs within the manufacturer domain. The other five constructs are: MTRUST is a symbol of the manufacturer's trust on its distributor; MDPERF is the manufacturer's view of the distributor's role-performance; MDEP is the manufacturer's dependence on distributor; MCONF is the manufacturer's view of conflicts with its distributor; MSAT is the manufacturer's satisfaction of the relationship with its distributor.

The six distributor channel interaction constructs are as follows: DLTORT is the distributor's long-term orientation towards the relationship with its manufacturer; DTRUST is the distributor's trust on its manufacturer; DMPERF is the distributor's view of the manufacturer's role-performance; DDEP is the distributor's dependence on its manufacturer; DCONF is the distributor's view of the conflicts with its manufacturer; and DSAT is the distributor's satisfaction of the relationship with its manufacturer.

The channel connectivities block portrays the influence of manufacturer domain on distributor domain (H_1) and the influence of distributor domain on manufacturer domain (H_2). Here, constructs within both domains may influence one another and these possible behavioural relationships are the main concern of this study.

To test these hypotheses and explaining the behavioural relationship processes, the next chapter of this study conducts quantitative and qualitative analysis. The quantitative study aims to test the hypotheses and to reveal the other possible relationship pathways through statistical analysis. The statistical findings are triangulated by the quantitative results through semi-structured interviews with several manufacturers and their principal distributors. The qualitative study also provides explanations of behavioural interactions that occurred in the manufacturer domain, distributor domain, and in the channel connectivities.

Chapter 3: Methodology

This chapter describes the research method adopted to obtain data to test and to further triangulate the hypotheses developed in chapter two. Section 3.1 presents an overview of mixed methods as the research design for this study. Section 3.2 discusses the quantitative study as a part of the research design. Lastly, section 3.3 discusses the process within the qualitative approach as an integrated part of the design of this research.

3.1 Research Design

This study uses mixed-methods approach. Mixed methods associate with 'pragmatism' paradigm focusing on the consequence of research and deploy multiple methods of data collection (Creswell & Plano-Clark 2011). This paradigm has its ontology on singular and multiple realities. Here, researchers test hypotheses and provide multiple insights related to the hypotheses. The epistemology of this paradigm lies on practicality of the method. From methodology (the research process) standpoint, this paradigm collects and mixes both quantitative and qualitative data (Creswell & Plano-Clark 2011).

Creswell and Plano-Clark (2011) define mixed methods as: a combination of methods, a philosophy, and a research design orientation. Mixed methods involve collection and analysis both quantitative and qualitative data based on research questions, mixing two forms of data concurrently, sequentially, or embedding one-within-the-other, prioritising one or to both forms of data based on the emphasis of particular research, and utilising the above procedures in a single study or in multiple phases of a study. Mixed methods frame these procedures within philosophical assumptions and theoretical perspectives. The mixed methods orientation combines such procedures

into particular research designs for delivering the study. Adopting mixed-methods approach, this study collects both quantitative and qualitative data.

Davis, Golicic, and Boerstler (2011) argue mixed methods research: delivers stronger results through the triangulation of findings; can answer broader research questions; diminishes various weaknesses of single research methods (either quantitative or qualitative method); portrays a more comprehensive and convincing explanation; and delivers a holistic interpretation of phenomena.

This study's research question seek answers as to whether '*there is a common set of enabling relationship drivers that establish channel connectivities between each manufacturer and its principal distributor*' in the Indonesian industrial context.

The quantitative part of this study investigates the channel connectivities between the manufacturer and its distributor, whilst the study's qualitative inquiries triangulate the findings of the quantitative study and establish further evidence to show the distribution process that supports channel connectivities.

This study adopts explanatory design (or explanatory sequential design) within the mixed methods approach. This technique involves sequentially combining the quantitative and qualitative supporting evidence to further probe the research question (Harrison & Reilly 2011). This design first collects and analyses quantitative data, followed by a separate qualitative data collection and analysis – to support and further understand quantitative findings (Harrison & Reilly 2011; Creswell & Plano-Clark 2011).

Several rationales frame the explanatory design backdrop for this study. First, the study seeks to discover a broad model of channel connectivities. The literature adopted for this study only need minor contextual adjustments to suit Indonesian channels' setting. This approach supports the usage of both quantitative and qualitative studies, enables the triangulation of results, and also enhances explanations around the study's research question.

This mixed-methods approach is also supported by studies in marketing including the studies of Grace and O'Cass (2003), Dellande et al. (2004), Jayachandran et al. (2004), Horsky et al. (2004), Steenkamp and Geyskens (2006), Hewett et al. (2006), McMullan and Gilmore (2008), and West and Prendergast (2009). Figure 3.1 summarises the processes of the explanatory design approach.

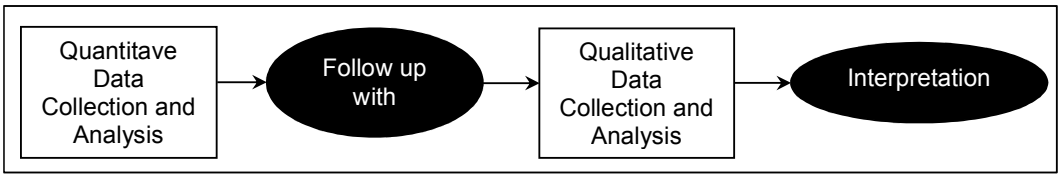


Figure 3.1: The Explanatory Design. Adapted from Creswell and Plano-Clark (2011).

In this study, both quantitative and qualitative data are sought from the manufacturer and its connecting principal distributor. The unit of analysis in this study is a firm (manufacturer or distributor). The manufacturer assesses itself regarding market orientation policy and assesses its channel relationship with its principal distributor. Similarly, the distributor assesses its channel relationships with its principal manufacturer. The quantitative and qualitative research processes in this study are now detailed in the following section.

3.2 The Quantitative Study

3.2.1 Research Design

The research design of the quantitative strand is as follows: (1) statement of quantitative research questions, (2) development of hypotheses, (3) development of questionnaire as a survey instrument (4) identification of survey sample, (5) collection of closed-ended data with questionnaire, (5) analysis of the quantitative data using descriptive statistics, and multivariate statistics.

3.2.2 Questionnaire Development

The development of scale of the questionnaire used in this study follows the steps recommended by Netemeyer, Bearden, and Sharma (2003). The stages are portrayed in Figure 3.2.

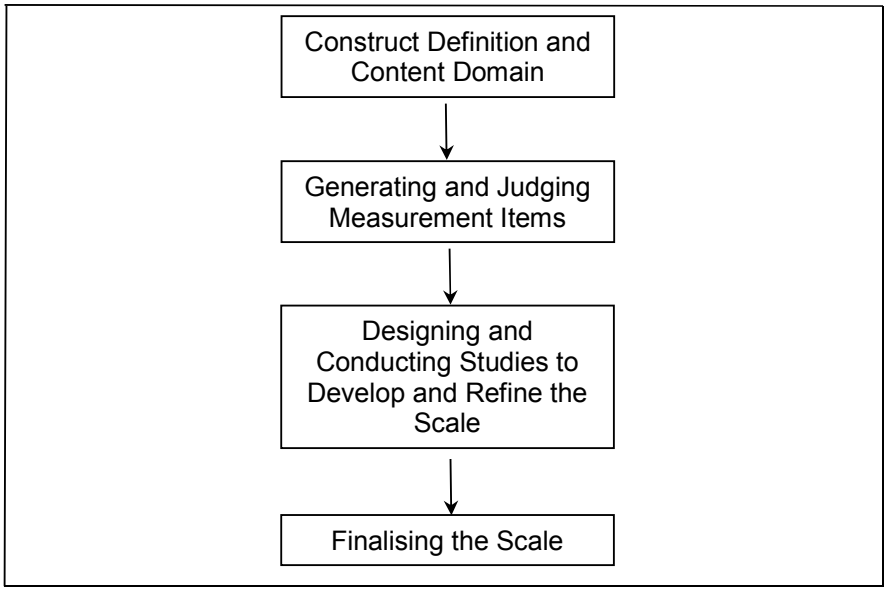


Figure 3.2: Stages of Scale Development. Adapted from Netemeyer et al. (2003).

Figure 3.2's first step 'construct definition and content domain', encompass (1) role of theory, construct definition, and content domain; (2) choice of reflective or formative indicators; and (3) construct dimensionality (Netemeyer et al. 2003).

Based on past studies and literature, this study builds reflective indicator measures for all constructs from the literature. Dimensionality of measures adopted for this study, the evaluations on coefficient alpha (Cronbach's alpha), and correlation between constructs are conducted as per Hair, Black, Babin, Anderson, and Tatham (2010) – with construct load minimum of 0.6 accepted. Thus reliable constructs and suitable 'fit' measures can be used for further item pooling.

Figure 3.2's second step generates and judges measurement items capturing:

(1) The domain as a sample of items – which suggests a construct should consist of a sample of indicator measures from within the hypothetical domain.

(2) Clearly (word clarity) capturing the indicator measures as short precise statements (DeVellis 2012) gauged on 5 point Likert indicator measure scales (used to avoid random response and to reduce scale error variance (vs dichotomous answers) and with a neutral response that at least forces an opinion (Netemeyer et al. 2003). Netemeyer et al. (2003) add that content adequacy exists when these items possess the same means and variances as those of the whole population pool of items. DeVellis (2012) suggests the mean of an item should approximate centre of the range of possible scores, and the variance should be relatively high. As such, this study engages indicator measures where the mean plus/minus two standard deviations does not exceed the range (0.5000 to 5.4999) (Cunningham 2008; Hair et al. 2010).

(3) Content validity of constructs and their indicator measures is built from literature supported item measures, and applied to this study's unique context (DeVellis 2012).

(4) Content and face validity of indicator measures are gauged by academics and practitioners – with content validity being procedural, structured and more rigorous than the more informal assessments of face validity (DeVellis 2012). Here, questionnaire drafts were translated into the Indonesian language by the researcher, and drafts were evaluated by three Indonesian manufacturers (two sales managers and a sales supervisor) and four Indonesian distributors (three sales managers and a sales supervisor) to check question validity. After each test, the items were redesigned to better reflect respondent feedback. The final and refined questionnaires then underwent further content and validity testing by an Indonesian academic expert and field respondents. This process took three months (January-March 2011) to partially complete. The final questionnaires were back-translated to English by a certified translator (refer to Appendix B) to ensure construct meaning remained intact. The translated Indonesia to English questionnaires were evaluated again by the Australian academics to ensure the question content remain unchanged (see Appendix A1 and A2). The validated Indonesian language version of the questionnaires was ready for distribution by mid September 2011.

3.2.3 Measures

This section describes the measures used to operationalize the variables. Table 3.1 summarises each construct's operational definition and Table 3.2 lists their unique indicator measures (hereafter termed 'items'). The items are transferred into the research questionnaires in the Appendix A1 and A2. Except for the conflict construct's items (no disagreement (1) to extremely intense (5)) and the performance construct

items (very poor (1) to very good (5)), all other construct items use a five-point (strongly disagree (1) to strongly agree (5)) Likert scale.

Table 3.1: Operationalisation of Constructs

Construct	Operational Definition	Construct reference
Manufacturer's market orientation	The organisational culture of manufacturer that effectively and efficiently creates the necessary behaviours on the making of superior value for the outlets and thus provides continuous superior performance for the business	Narver and Slater (1990)
Manufacturer's long-term orientation	The perception of interdependence between both the manufacturer outcomes and manufacturer-distributor joint outcomes which are expected to benefit the manufacturer in the long run	Ganesan (1994)
Manufacturer's view of the distributor's role-performance	The capability of a distributor to perform its functions in a channel relationship with its manufacturer	Frazier (1983)
Manufacturer's trust on distributor	A manufacturer willingness to rely on the distributor's credibility and benevolence with confidence	Ganesan (1994)
Manufacturer's dependence	The manufacturer's need to maintain a relationship with its distributor to achieve the manufacturer's goals	Frazier (1983)
Manufacturer's conflict with distributor	The intensity of disagreements experienced by a manufacturer in the relationship with its distributor over various issues	Brown and Day (1981)
Manufacturer's satisfaction	A positive affective state resulting from an appraisal of economic and social aspects of the manufacturer's working relationship with its distributor	Geyskens et al. (1999)
Distributor's long-term orientation	The perception of interdependence between both the distributor outcomes and distributor-manufacturer joint outcomes which are expected to benefit the distributor in the long run	Ganesan (1994)
Distributor's view of the manufacturer's role-performance	The capability of a manufacturer to perform its functions in a channel relationship with its distributor	Frazier (1983)
Distributor's trust on manufacturer	The distributor willingness to rely on the manufacturer's credibility and benevolence with confidence	Ganesan (1994)
Distributor's dependence	The distributor's need to maintain a relationship with its manufacturer to achieve the distributor's goals	Frazier (1983)
Distributor's conflict with manufacturer	The intensity of disagreements experienced by a distributor in the relationship with its manufacturer over various issues	Brown and Day (1981)

Table 3.1: Operationalisation of Constructs (Continued)

Construct	Operational Definition	Construct reference
Distributor's satisfaction	A positive affective state resulting from an appraisal of economic and social dimensions of the distributor's working relationship with its manufacturer	Geyskens et al. (1999)

The manufacturer's (or distributor's) construct, definition, and supporting reference are each tabulated in Table 3.1. For example, the manufacturer's market orientation utilises Narver and Slater (1990)' perspectives – with the cultural aspect of this construct consisting of customer orientation, competitor orientation, and inter-functional coordination dimensions. In addition, since the manufacturer sample in this study engages single informants - who only deal with the distribution activities, hence the term 'customer' in this construct is adjusted. Here, the 'customer' refers to stores or distribution outlets, not the final users, as a manufacturer's customers are directly known by each manufacturer's surveyed employees (supervisors or managers) - who deliver the distribution tasks. The purpose of this adjustment is to avoid ambiguous or bias responses stemming from the confusing meaning of the term 'customer'.

Three Table 3.1 constructs – trust, satisfaction, and dependence each show two dimensions. The trust construct encompasses credibility and benevolence dimensions. Here, credibility is the extent to which a manufacturer (or distributor) believes its distributor (or manufacturer) has the required expertise to perform the task effectively and reliably. Benevolence refers to the extent to which the manufacturer (or distributor) believes that its distributor (or manufacturer) has intentions advantageous to the manufacturer's (or distributor's) welfare (Ganesan 1994). The satisfaction construct also consists of two dimensions – economic and social satisfaction. Economic satisfaction covers positive affective response to the economic rewards, whilst social satisfaction encompasses satisfaction toward the affective and psychosocial aspects of the working relationship (Geyskens et al. 1999; Geyskens & Steenkamp 2000). The

construct of dependence measures degree of importance of the distributor (or manufacturer) in the manufacturer's (or distributor's) view, and the degree of irreplaceability of a distributor (or manufacturer).

Table 3.2: Measurement Items

Construct	Measurement items	Key item references
Manufacturer's market orientation	As a manufacturer, our market strategies involve: The regular assessment of our competitors' strategic strengths. Rapid responses to competitive threats. Our top managers regularly visit stores/outlets that sell our products. Sharing information across all business functions to best assist stores/outlets. Integration of business functions to serve the needs of target stores/outlets.. Regularly measure each store's/outlet's satisfaction level. Our salespeople sharing information about competitor activities. The targeting of stores/outlets that offers us the most competitive advantage.	Narver and Slater (1990), as modified by researcher
Manufacturer's long-term orientation	Our relationship with this distributor: Will be profitable in the long run. Is focused on joint long-term goals. Is expected it will last for a long time. Will even out in the long run regarding concessions that we have made. Is a long-term alliance even if we will experience management changes.	Ganesan (1994), Wong et al. (2005), Ryu et al. (2007), Cannon et al. (2010), as modified by researcher
Manufacturer's view of the distributor's role-performance	How does the performance of this distributor compare with other distributors on: Delivery correctness? Number of stores it covers? Competencies of management? Infrastructure readiness (buildings, warehouses, and offices)? Level of sales volume? Level of sales growth? Paying its obligation to us (Terms of Payment/TOP)?	Labahn (2000), Yilmaz et al. (2004), Yilmaz et al. (2005), Cannon et al. (2010), as modified by researcher
	Product varieties it distributes to stores?	Developed by researcher
	Adequacy of products that is available in distributor?	Developed by researcher

Table 3.2: Measurement Items (Continued)

Construct	Measurement items	Key item references
Manufacturer's trust on distributor	We believe this distributor: Obeys the Terms of Payment and delivery agreement with us. Works within our contractual agreements. Is telling the truth even when they give a rather unlikely explanation. Would not take advantage by marking up our products' final price to outlets. Will remain very loyal to this relationship. Will help product promotions when we experience over-budget. Will be ready to assist us when we have rapid decline in sales.	N. Kumar et al. (1995a), Izquierdo and Cillan (2004), Van Bruggen et al. (2005), Mehta et al. (2006), Paswan (2009), as modified by researcher
Manufacturer's dependence	As a manufacturer we believe: Our sales would be reduced if our relationship with this distributor is discontinued. It would be difficult for us to replace this distributor. This distributor's competencies are essential for the selling of our products. We can use our sales force to sell products currently sold by this distributor. We maintain good communications with this distributor. Our sales success is largely due to the selling efforts of this distributor. We need this distributor to achieve our profit targets.	Ganesan (1994), Kim (2001), Izquierdo and Cillan (2004), Yilmaz et al. (2005), Davis and Mentzer (2008), as modified by researcher
Manufacturer's conflict with distributor	How intense is your disagreement with your distributor on: Number of distributor's salesmen needed? Inventory level held? Responsibility of returned products? Delivery correctness? Sales target? Information about customer (stores/outlets)? Terms of payment? Product's price to stores/outlets?	M. J. Sanzo and Trespalacios (2000), Leonidou et al. (2006), as modified by researcher
Manufacturer's satisfaction	Our relationship with this distributor: Provides us with a dominant market share in our sales area. Increases our products' profit contribution. Is very attractive in terms of profit margins. Increases number of stores/outlets that purchase our products (effective call). Provided us with targeted selling capabilities. As a manufacturer we: Are happy with the services provided by this distributor (i.e.: frequent stores/outlets survey). Will continue selling our product through this distributor. Are satisfied with the distribution software/web usage by this distributor.	Mohr and Spekman (1994), Jonsson and Zineldin (2003), Ramaseshan et al. (2006), Rodríguez et al. (2006), Lai (2007), Rose et al. (2007), Liu et al. (2010), as modified by researcher

Table 3.2: Measurement Items (Continued)

Construct	Measurement items	Key item references
Distributor's long-term orientation	Our relationship with this manufacturer: Will be profitable in the long run. Is focused on joint long-term goals. Is expected it will last for a long time. Will even out in the long run regarding concessions that we made to help out this manufacturer. Is a long-term alliance even if we will experience management changes.	Ganesan (1994), Wong et al. (2005), Ryu et al. (2007), as modified by researcher
Distributor's view of the manufacturer's role-performance	How does the performance of this manufacturer compare with the industry's average performance on: Delivery correctness of products to distributor? Product availability (on average of all products)? Product quality (easy to manage and marketable)? Product's after-sales service (i.e.: returned of products)? Level of overall profitability? Level of sales growth? Terms of payment?	Yilmaz et al. (2004), Yilmaz et al. (2005), Cannon et al. (2010), as modified by researcher
Distributor's trust on manufacturer	We can rely on this manufacturer to: Perform its obligations to us (i.e.: paying claims on promotion discounts, trade promotions, etc.). Stay within our contractual agreement requirements. Always tell us the truth. Always work with us to achieve positive outcomes. We believe this manufacturer: Provides us with suitable management training. Supports our business management. Will assist us when we have financial problems. Will actively respond to our problems (i.e.: sales territory's breaching).	Ganesan (1994), N. Kumar et al. (1995a), Labahn (2000), Duarte and Davies (2004), Izquierdo and Cillan (2004), Hempel et al. (2009), as modified by researcher
Distributor's dependence	As a distributor we believe: Our sales success is largely due to the marketing efforts of this manufacturer. It would be difficult for us to replace this manufacturer. This manufacturer's brands are essential to our business. We have invested in infrastructure dedicated to our relationship with this manufacturer. We maintain good communications with this manufacturer. The loss of this manufacturer would significantly lower our sales volume. We need this manufacturer to achieve our profit targets.	Ganesan (1994), Izquierdo and Cillan (2004), Yilmaz et al. (2005), Davis and Mentzer (2008), as modified by researcher

Table 3.2: Measurement Items (Continued)

Construct	Measurement items	Key item references
Distributor's conflict with manufacturer	How intense are your disagreements with your manufacturer on: Number of distributor's salesmen needed? Inventory level held? Responsibility of returned products? Delivery correctness? Sales target? Information about customers (stores/outlets)? Terms of payment? Product's prices to stores/outlets?	M. J. Sanzo and Trespalacios (2000), Lee (2001), Leonidou et al. (2006), as modified by researcher
Distributor's satisfaction	Our relationship with this manufacturer: Has provided us a dominant market share in this sales area. Has increased profit in our sales area. Has provided us with a good profit margin. Has increased our Return-on-Investment. Provides sales support including attractive reward offers. As a distributor we are: Satisfied with the professionalism of this manufacturer's personnel. Satisfied with the marketability of this manufacturer's products. Satisfied with this manufacturer's support on software/web usage.	Mohr and Spekman (1994), Siguaw et al. (1998), Jonsson and Zineldin (2003), Ramaseshan et al. (2006), Rodríguez et al. (2006), Lai (2007), as modified by researcher

The development of items in Table 3.2 follows structured steps of construct definition and content domain, generation and judgement of measurement items, items wording, and experts' judgement (DeVellis 2012; Netemeyer et al. 2003). For example, the dependence items are selected from relevant measurements which possess a minimum Cronbach's alpha of 0.6 (Hair et al. 2010) and accepted 2*standard deviations from the mean fitting between a minimum of 0.5000 and a maximum of 5.4999 (Cunningham 2008; Hair et al. 2010) – thus ensuring the reliability of related calculations.

A set of construct measures are subjectively checked for categorisation in line with each item's essential meaning. For example, the dependence construct's items (either in the manufacturer or distributor domain) are grouped into the manufacturer item categories of: 'sales', 'future performance', 'replacement', 'general dependence',

‘alternative’, ‘importance’, ‘product’, ‘switching cost’, ‘losing cost’, ‘sales force’ (only in the manufacturer domain), ‘production process’ (only manufacturer domain), and into the distributor item categories of: ‘infrastructure investments’, ‘personnel investment’, ‘communication’, ‘performance’, ‘reputation’, ‘marketing efforts’, ‘goals’, ‘product diversification’ (only distributor domain), ‘information loss’, and ‘information control’. The item covering each category within the construct is then subjectively worded in line with the context of this study, and prepared for further judging by practitioners and academicians.

Having judged each construct’s items through field experts and through a team of relevant academics, eight potential construct items are chosen for development into their final contextually-worded state (this allows for later factor reduction to three items if required). The judgment preference applied is based on relevancy of items, statistical considerations, literature support, and the practicality of the planned questionnaires to the Indonesian context. As such, the selected dependence item categories are: ‘sales’, ‘replacement’, ‘communication’, ‘marketing efforts’, ‘goals’, ‘product’, ‘sales force’ (only for manufacturer domain), and ‘infrastructure investments’ (only in the distributor domain). The same approach is used in the development of each construct’s item category measures, and each is suitably adapted into the context of this study.

The first five dependence item categories are adapted into like statements – one applicable to the manufacturer domain and one for distributor domain. The ‘sales’ category is transformed into the statement of ‘a good sales volume will be hard to achieve if our relation with this distributor/manufacturer is severed’ and contributed by Ganesan (1994) and Yilmaz et al. (2005). The ‘replacement’ category is adapted into ‘it will be difficult (for us) to replace this distributor/manufacturer’ and contributed by

Ganesan (1994), Izquierdo and Cillan (2004), and Yilmaz et al. (2005). The 'communication' category is transformed into 'our communication with this distributor/manufacturer is good' and contributed by Izquierdo and Cillan (2004). The 'marketing efforts' category is adapted into 'our success owes much to the selling/marketing efforts made by this distributor/manufacturer' and contributed by Yilmaz et al. (2005). The 'goals' category is transformed into 'we need this distributor/manufacturer to achieve our profit target' and contributed by Davis and Mentzer (2008).

The remaining three dependence item categories are adapted into the specific manufacturer and distributor characteristics. The 'product' category in the manufacturer domain is adapted into the statement of 'the competencies of this distributor are essential for the sale of our products' and contributed by the measures from Ganesan (1994), Kim (2001), and Davis and Mentzer (2008). The similar category in the distributor domain is adapted into 'brands of this manufacturer are essential to support our selling efforts' and contributed by Ganesan (1994) and Davis and Mentzer (2008). The 'sales force' category only applies for the manufacturer domain and adapted into 'it would be better (if we are allowed) to use our own sales force than that of this distributor'. Kim (2001)'s measure contributes to this category. Lastly, the 'infrastructure investments' category only applies for the distributor domain and adapted into the statement of 'we have invested much in infrastructure for (facilitating) this working relationship' and this category is a contribution of Izquierdo and Cillan (2004).

The same approach is applied to each construct's development – with the eight item categories per construct each being developed to capture like information from both the manufacturer and distributor domains, and within the Indonesian context. Thus, the

resultant questionnaire's constructs and items are built from tables 3.1 and 3.2 for both the manufacturer and the principal distributor. To reduce questionnaire size, a final expert review of the item category questions on each construct removed one item per construct – leaving seven questionnaire items per construct. The final manufacturer and distributor questionnaires are presented in Appendix A1 and Appendix A2.

3.2.4 Sampling Method

This study deploys 7 variables, and over 140 pairs of medium-to-large manufacturers and principal distributors. It engages sufficient cases per construct (>10 cases/construct) (Kline 2011; Cunningham 2008; Hair et al. 2010) to be used in multivariate SEM techniques for substantive firms (Grinstein 2008). In this study the principal distributor may occasionally engage with more than one manufacturer – because the distributor possesses a perceived highest selling contribution for its manufacturer(s). Consequently, the number of distributor is slightly under 140 units. Furthermore, the distributor's relative size is variable and may be small if it only engages with just one smallish manufacturer.

To capture sufficient matching manufacturer and connecting principal distributor pairs, two different sampling methods were employed:

(1) Initially the researcher uses probability sampling – with the random sample drawn from the 2009 directory of medium-to-large manufacturing firms in the BPS-Statistics Indonesia (2010)[6]. Based on Martin (1994), this study uses manufacturers in Indonesian industries with a CR4 value of 40 or above as this measure indicates an oligopolistic industry setting. Targeted to exceed a minimum sample of 140 manufacturers, the study captures four divisions of International Standard Industrial Classification 2 (ISIC2) which contain the

[6] BPS-Statistics Indonesia is an Indonesian government institution that responsible for collecting and publishing government official statistics and reports.

largest number of companies. They Indonesian firms reside within: ‘food products and beverages’ (division 15), ‘chemicals and chemical products’ (24), ‘other non-metallic mineral products’ (26), and ‘machinery and equipment’ (29). In these four divisions, the 140 manufacturers are selected if the manufacturing and principal distributor firms are both located within the Island of Java- as this Island contains > 80 per cent of total manufacturing industry in Indonesia (Wahyudi & Jantan 2012), and preferably located around Jakarta – because greater Jakarta holds the biggest manufacturer density within Indonesia (World Bank 2012) and provides a major contribution to this Island’s economy (Bank Indonesia 2012). The manufacturers selected have a minimum of > 20 employees and represent the low end of a medium firm size (BPS-Statistics Indonesia 2010), and each has a minimum 1 year working channel relationship with its principal distributor.

(2) The second sampling uses purposive sampling, a non-probability sampling that follows specific criteria (Cooper & Schindler 2008), to reach the minimum sample of 140 manufacturers. The same sample criteria for point (1) above are again applied to select the manufacturers via a non-probability sampling approach.

3.2.5 Data Collection

This study deploys a mixed-mode survey to collect data. It specifically employs the collection of the same data from different members representing both sides of their connecting channel(s). The connectivity questions must capture differing contexts method variation (Dillman 2007) arises, as follows:.

The initial attempt (October-November 2011) to reach manufacturers failed because either respondents refused to participate, or no longer existed. Here, the researcher

chose 68 manufacturers (66 textile manufacturers and 2 food & beverage manufacturers) around Jakarta. The telephoning of 24 manufacturers – for permission and appropriate respondent personnel saw 21 firms refusing to participate and 3 firms no longer remaining in existence. Hence this approach to use probability sampling failed.

The second data collection approach involved either direct physical contact with each manufacturer, or used local contact networks (ones with good relationships with one or more manufacturers) to initiate personal connections with a manufacturer and/or its representatives.

Prior to conducting surveys, the researcher briefed the local contact networks about the survey and the ethical protocols around the data collection. This ensured data integrity and compliance with ethical requirements.

Local contact network representatives then contacted their manufacturers or distributors. The selected distributors being those deemed to have the highest selling contribution to the manufacturer(s), and the selected manufacturers being those fitting the above size criteria.

With a signed 'agreement to participate' the researcher then collects the respondents completed survey (at an appointed time fitting the respondents' timetable). Only when required are local contact network representatives engaged to seek survey responses. To control quality respondents are asked to disclose their identities via address and phone number, but to assure confidentiality, respondents are reminded the information they provide is not shared to another manufacturer or to any distributor, and is used solely by researcher and within the confines of this study.

This second data collection approach achieved the desired response with 197 manufacturer responses and 187 distributor responses from 199 manufacturer and 194 distributor questionnaire placements. Since this study used paired a manufacturer and principal distributor questionnaires only 185 matched questionnaires were considered. Within these 185 pairs, 14 manufacturers acted as distributors for their foreign central companies, and 31 pairs were multiple manufacturers (more than one) which paired with their distributor(s). These 31 pairs of respondents were also eliminated either because: (1) the distributors earned smaller monthly sales than chosen ones (19 distributors); or the distributors showed missing and double responses compared to the selected ones (10 distributors); or the distributor was linked to several manufacturers (2 distributors). In total, the final respondent manufacturer and principal distributor pairs totalled 140 pairs. These details are summarised in Figure 3.3.

Manufacturer	Distributor
1. Questionnaires distributed: 199 units.	1. Questionnaires distributed: 194 units*
2. Questionnaires returned: 197 units. • Two manufacturers refused to cooperate.	2. Questionnaires returned: 187 units • Seven distributors refused to cooperate.
3. Paired questionnaires: 185 units. • Twelve connecting distributors did not return the questionnaires.	3. Paired questionnaires: 185 units. • Two connecting manufacturers did not return the questionnaires
4. Paired questionnaires: 171 units. • Fourteen manufacturers act as distributors of their foreign central companies.	4. Paired questionnaires: 171 units. • Fourteen connecting distributors were deleted.
5. Final sample: 140 paired manufacturers-distributors (140 manufacturers). • Further deletion: 31 units (multiple manufacturers). The deletion of manufacturers were based on the situation of connecting distributors:	5. Final sample: 140 paired manufacturers-distributors (105 distributors). Thirty-one connecting distributors were deleted: • Nineteen distributors earned smaller monthly sales than the chosen ones. • Ten distributors exhibit either missing values or double responses for one item. • Two distributors served several manufacturers.

*The difference with the manufacturer side (5 units) was stemmed from manufacturers' refusal to recommend their distributors' name.

Figure 3.3: Selection Steps of the Final Sample.

The above quantitative survey data collection occurred from October 2011 to March 2012 (seven months) in 6 major Indonesian cities on Java Island (Solo, Yogyakarta, Semarang, Jakarta, Bandung, and Surabaya). Solo provided the largest number of distributed questionnaires (277 units), followed by Yogyakarta (108 units), Semarang (3 units), Jakarta (3 units), Bandung (1 unit), and Surabaya (1 unit). Solo and Yogyakarta delivered the biggest share of questionnaires because both cities are home bases of local contact network representatives. The final data purposive sample (Cooper & Schindler 2008) captured manufacturers across forty nine (49) industries.

3.2.6 Data Analysis

Data analysis involves a multi-step approach. Firstly, data cleaning focused on treatment of missing data was conducted. Since missing data for any case fell below 10% and was missing at random (Little's MCAR test: p=0.000), then the expectation-maximization (EM) method was employed (Byrne 2010; Cunningham 2008). The missing data up to 10% is not large, missing at random, and unproblematic (Cohen et al. 2003; Byrne 2010; Cunningham 2008; Hair et al. 2010). The EM method is an iterative process in which all other variables relevant to the construct of interest are used to predict the values of the missing variables (Byrne 2010; Cunningham 2008). The process produces new values which are inputted in place of the former missing values.

Secondly, the pilot testing procedure added some management/researcher included exploratory items to broaden the capture of some constructs (Netemeyer et al. 2003). Hair et al. (2010) suggest this can be applied to a sample of 100 plus cases. As such, this study complies, and refined construct items are retained and deleted prior to scale finalisation.

Thirdly, finalising the scale, involves item checks against relevant past construct items, relevant perspectives, and underlying theories (Netemeyer et al., 2003). Thus this study implements a confirmatory factor analysis (CFA) approach (and factor reduction), and later engages structural equation modelling (SEM) to locate the connectivites (significant pathways) between the manufacturer and the distributor.

The CFA approach also considers descriptive statistics and item normality. Then, construct reliability is tested for significance of inter-item correlation across constructs.

With no significant problems encountered a valid and reliable measurement model is thus established for the structural model.

Fourthly, the structural model is tested using composite scales to overcome the problem of ordinal nature of response items (Cunningham 2008). Here, SEM is used to test the hypotheses. If poor fit is evident, the model is re-analysed for theoretical and empirical misspecification, as well as for model path changes. The final fit model is validated with bootstrap analysis and then continues with the hypotheses testing. The hypotheses testing are conducted from the manufacturer perspective, followed by the testing from the distributor perspective.

Finally, the comparison of both perspectives is conducted, based on the results of the direct influences and the total effects of the channel connectivity's pathways.

3.3 The Qualitative Study

The qualitative study pursues to triangulate the findings of the quantitative approach and to describe the distribution process supporting channel connectivities. The research design, protocols development, sampling technique, and the data analysis are described as follows:

3.3.1 Research Design

The design and implementation process in the qualitative strand is as follows: (1) stating the qualitative research sub-questions, and determining the qualitative approach, (2) developing protocols for interviewing the informants, (3) purposefully selecting a qualitative sample that can help triangulate the quantitative results, (4) collecting open-ended data with protocols that are in-line with the quantitative survey's questionnaire, and (5) analysing of the qualitative data using procedures of theme

development to answer the relevant research sub-question, and to triangulate the hypotheses results of the quantitative study (Creswell & Plano-Clark 2011).

3.3.2 Protocols Development

Interviewing is used to gain further insights about: the distribution channels in the manufacturing sector of Indonesia, each construct in the research study, and any possible connectivities (relationships) between the constructs. The qualitative interviewing approach usually deploys in-depth, semi-structured, or loosely structured forms of interviewing (Mason 2002). In-depth or semi-structured interviews aim for clarification and interpretation, instead of explanation of causes and outcomes of some phenomenon (Hirschman 1986). Moreover, this technique enables the interviewee's viewpoint to be expressed in a relatively open situation and so differs from a standardised interview or a questionnaire approach (Flick 2002). In this research, the interviews main goal is to find evidence that may (or may not) support or triangulate connectivities (relationships) between constructs.

The semi-structured interviews used in this study follow the general interview guidelines of (Patton 2002). An interviewed guide is used to list key questions or issues to be explored. Here, the interviewer freely explores, probes, and ask further questions around topics that clarify the particular subject (Patton 2002). In this study, the interviewer first explores and probes the firm's description, then its activities in and around the study's particular research constructs and concludes with the responses in and around possible constructs linkages. The interview protocols are attached in Appendix F.

3.3.3 Sampling and Informants

The study applies purposeful random sampling. This technique pursues credibility on why certain cases are selected for study under the constraints of limited resources available, and the limited time for data collection. Although these restrictions impair statistical representativeness they do allow for randomly knowledge in how particular outcomes are clarified against study scoping constraints (Patton 2002). This study's qualitative study's goals (to triangulate the broader quantitative research) fit within these parameters.

In this study, randomly selected informants (who had been previously interviewed) were contacted personally by the researcher. Two manufacturers and their connecting principal distributors, plus one other manufacturer without its distributor agreed to be personally interviewed. The respondents are as follow:

(1) A regional manager of a multinational consumer goods company, and its principal distributor – a major national company – represented by a branch manager.

(2) A senior sales manager of a multinational milk company and its principal distributor – a major national company – represented by a senior sales operation manager.

(3) A food and beverage manufacturer – represented by distribution and sales supervisor.

The profiles of these participants are described in in initials to ensure confidentiality in the Appendix G.

These interviews were conducted during April 2012 (1 month) and in 4 major cities (Jakarta, Surabaya, Bandung, and Yogyakarta). Each interview occurred once and was audio taped (under permission from each interviewee). Prior to audio-taping, the

researcher delivered information sheets. These were signed at the end of interview. The recording was deactivated occasionally when the interviewees signalled they were about to discuss particular classified information. On average, each interview process took 1 hour and 38 minutes to finish. Finally, the interview recordings were transcribed verbatim in the Indonesian language. Subsequent to this process, the transcripts were then translated into English by sworn and certified translator, and were thus ready to be analysed.

3.3.4 Data Analysis

The analysis of qualitative data in this study is conducted manually due to the small sample involved (five participants). The analysis follows the steps of Patton (1990): (1) theme development; (2) organising the data; (3) content analysis; and (4) data interpretation. Step 1 commences through the evaluation of the research questions of a the study, followed by the choice of strategies for analysing interviews (case analysis or cross-case analysis) (Patton 1990).

The evaluation of research questions focuses on the separation of description and interpretation parts of the interviews' findings. Having separated such parts, this study utilises a cross-case analysis because this technique groups together the answers from different people to common questions or analysing different perspective on particular topics (Patton 1990). This study groups such responses into relevant particular constructs of the quantitative study.

This study's step 2 organises the data by storing data sections into several copies. This is followed by step 3 - the content analysis. Content analysis refers to the process of identifying, coding, and categorising the primary patterns within the data (Patton 1990). The content analysis process starts with the labelling the various kinds of data,

and developing a data index, followed by the data coding – either by computer or manually (Patton 1990). This study categorises each respondent's activity against each particular construct. This helps to describe the distribution process between manufacturers and the distributors.

The last step – step 4 is the data interpretation. It deals with the interpretations of causes, consequences, and relationships between process and outcomes of a study (Patton 1990). Interpretation, as an activity is beyond the descriptive data, and refers to "attaching significance to what was found, offering explanations, drawing conclusions, extrapolating lessons, making inferences, building linkages, attaching meanings, imposing order, and dealing with rival explanations, disconfirming cases, and data irregularities as part of testing the viability of an interpretation" (Patton, 1990, p. 423). In this final step, the study interprets the findings by mapping possible connections between constructs for each respondent activity. As such, it helps find relationships between constructs, gains possible rationales behind such connections, and may discover rationales behind the hypotheses.

Chapter 4: Study Findings

This chapter describes results of the quantitative survey, triangulated with the qualitative evidence. This analysis: describes the demographic profiles of manufacturer and of the distributor samples; tests the measurement model, and the structural model (from either the manufacturer's or the distributor's channel connectivities perspective); and tests the hypotheses developed within this research together with their qualitative triangulations.

4.1 Sample Characteristics

The research sample consists of the manufacturers and their key principal distributors. Their descriptions are as follows.

4.1.1 Manufacturer

Profiles of the respondents and their manufacturer side firms are presented in Appendix C (Table C1). Most respondents are male (65.7%), with job positions being 66.4% supervisor, 20.7% manager, and 12.9% owner. The small portion of manager or owner positions may imply somewhat lesser strategic insight concerning the company's policies around its connecting channels. Most respondents have retained their position for 1-5 years (70%) – suggesting a relatively short experience in distribution area, and most possess an undergraduate qualification (52.1%). The education statistic suggests a strong logical thinking capability around the company's strategy, but the relatively short duration of connective channel experience may indicate lesser skills in handling the complex relationships with the distributor, and fitting these within the company's strategy toward its customers.

At the company level, the relatively balance of between medium (59.3%) and large (39.3%) sized businesses indicates a range of channel strategies may exist between

different manufacturers. However, as most businesses are domestically owned (85%), the manufacturers' channel strategies likely follow Indonesian specific approaches. Most manufactures had operated for between 1-15 years (57.1%) and each had between 1-5 distributors (52.9%). The majority of manufacturers studied held a 1-5 years relationship with their principal distributor (44.3%). These findings suggest start-up manufacturers should adopt long-term strategies when building relationships with key distributors. Among forty-nine manufacturer industries responding, the pharmacy industry held a 20.7% share. This wide range of manufacturer industries indicates a range of manufacturer experiences (and approaches) are likely employed in the channel relationship with the distributor. Also, solid variance likely exists regarding the manufacturer's insights of its market orientation strategy.

The domination of pharmacy manufacturers may imply the research is distorted. However, similar sales variations occur when this industry is compared to other manufacturer industries. Here, the lowest average monthly sales were US$ 8,342.02 (IDR 80,000,000), whilst the highest were US$ 5,213,764,341 (IDR 50,000,000,000,000). This suggests different manufacturer strategies may apply to the management of channel relationships.

4.1.2 Distributor

As illustrated in Appendix C (Table C2), most respondents are male (62.9%) with job positions as 47% supervisor, 18.4% manager, 2.1% director, and 32.1% owner. Similar to the manufacturer side, the dominant supervisor position may imply limited views regarding distributor's policies in the maintenance of their channel relationships with the manufacturers. In a slight contrast with the manufacturer's respondents, 58.6% of respondents held their current position for 1-5 years and 31.3% held their position for between 5-10 years. A similar situation exists in the respondents'

experience in the distribution area, where the percentage of respondents with experience between 5-10 years (41.4%) only slightly exceeded the percentage of those with 1-5 years' experience (40.7%). Thus distributor respondents may display deeper insights on the distributors' management of its channel relationship with the manufacturers. The respondents' education level (undergraduate level (46.4%) and postgraduate level (12.1%). also supports such a capability in delivering thoughtful responses.

The principal distributor of the manufacturer studied (as illustrated in Table C2 of Appendix C) is predominantly a small-sized business (42.1%). This enhances a likelihood of power domination by the manufacturer (typically larger) against their distributor (typically smaller). As distributors are generally young – aged (1-5 years (75%)), engage with only 1-5 manufacturers (50.7%), and hold short channel relationships (1-5 years (51.4%)) with their manufacturer, power dominance by the manufacturer is also likely. From an ownership perspective almost all distributor businesses are domestically owned (98.6%). This implies the distributors' channel strategies only apply within the Indonesian context.

Similar to the manufacturers, the distributors of pharmacy products constitute 20% of respondents. This may add a degree of bias in the assessment of the distributors' management of their channel relationships with the manufacturers. In addition, the wide distribution in the distributors' monthly sales (lowest average monthly sales US$ 1,003.77 (IDR 10,000,000) to highest US$ 60,227.66 (IDR 600,000,000,000) is also in line with the finding in the manufacturer side. Thus in line with other industry distributors, a range of distributor strategies likely apply as pharmacy distributors they seek to manage their channel relationships with their manufacturers.

4.2 Measurement Model

This study uses 5 point Likert scale as a measure anchor and maximum likelihood (ML) as the estimation method. Maximum likelihood is the most widely used estimation method in multivariate techniques (Vieira 2011; Anderson & Gerbing 1988; Hair et al. 2010). This method is an efficient producer of estimation and is also robust to moderate violations of normality assumption (Diamantopoulos & Siguaw 2000; Vieira 2011). In addition, ML is suitable to sample of more than 100 (Vieira 2011; Anderson & Gerbing 1988; Hair et al. 2010).

Prior to the development of measurement model, the normality of each individual item (univariate normality) is assessed. Similar with other multivariate techniques, structural equation modeling (SEM) requires this assumption because SEM uses the F and t statistics (Hair et al. 2010) and departure from normality can affect tests and confidence intervals (Decarlo 1997). A check on the normality of each individual item in this study shows that the items are moderately non-normal. Here, the skewness and kurtosis generally below 2 (Field 2013; Pallant 2010) and each item is spread across 4 to 5 of the 5 scale measures – indicating no data transformations are necessary. In this moderate non-normal condition, ML still works as a robust estimation method (Chou et al. 1991).

In the multivariate stage, ML estimation does not require a multivariate normality assumption, either in a moderate (Gao et al. 2008) or even in a severe level (Lei & Lomax 2005). Lei and Lomax (2005) argue that the worst effect of the bias is generally less than 10% and thus the usual interpretation of parameter estimates should be accepted. Consequently, the main concern is not merely on the achievement of multivariate normality, but the acceptable effect of non-normality on parameter

estimates, standard errors, and the chi-squared statistics (Gao et al. 2008). In this sense, Lei and Lomax (2005) further note the importance of another model fit indicators to complement chi-square statistics when the data depart from multivariate normality. Therefore, this study removes two outliers in the structural model to best improve the model fit.

Having passed the normality check, systematic validity and reliability tests are undertaken to refine and validate the scales. The first validity test conducted is face validity (Hair et al. 2010). Here, the study conducts expert judgments using relevant academics and marketing channel practitioners (representatives of manufacturers and distributors), and determines the most relevant measurement items for each construct. The result is two sets of matched questionnaire items - each relevant to either the manufacturer or the distributor.

The next stage is statistical assessment of reliability and validity tests. Hair et al. (2010) suggests reliability test are done prior to validity testing. As the measures for this research are mostly adapted from prior studies, hence the Confirmatory Factor Analysis (CFA) is conducted. In this sense, CFA requires a priori model specification to test theories about measurement models when there is sufficiently strong reason for factors specification and the items for each factor (Cunningham 2008). The properties of the proposed constructs are evaluated through a series of CFA procedures of factor reduction.

The univariate reliability of measurement instrument is conducted by calculating internal consistency represented by the Cronbach Alpha value of each construct. As illustrated in Table 4.1 and Table 4.2, the values exceeded 0.70 – indicating strong reliability for such CFA technique (Hair et al. 2010).

The convergent validity test is performed by assessing item-to-total correlation to determine factor loading of each item toward their constructs. The process is conducted by running maximum likelihood estimation (near normal data) and direct oblimin rotation (item relations). The final results show no cross-loading of items between constructs. All manufacturer and distributor side items show satisfactory loadings. This satisfactory univariate results confirm the instruments as suitable for the multivariate assessment of the measurement model. These results are displayed in Table 4.1 for the manufacturer and in Table 4.2 for the distributor.

Table 4.1: Factor Analysis (Manufacturer)

Measurement Item	Measurement Code	Item Loading	Kaiser-Meyer-Olkin (KMO)	Bartlett's Test of Sphericity	Mean (μ)	Standard Deviation (SD)	Cronbach Alpha (α)	Construct Load (SD*√α)	Construct Error (SD^2*(1-α))	Average Variance Extracted (AVE)
Manufacturer's Market Orientation (MMORT)			0.72	0.00	4.05	0.59	0.72	0.50	0.10	0.41
As a manufacturer our market strategies involve:										
1. The regular assessment of competitors' strategic strenghts.	MMORT 1	0.701								
2. Rapid responses to competitive threats.	MMORT 2	0.781								
3. Sharing information across all business functions to best assist stores/outlets.	MMORT 4	0.502								
4. Regularly measure each store's/outlet's satisfaction level.	MMORT 6	0.537								
Manufacturer's Long-Term Orientation (MLTORT)			0.74	0.00	4.06	0.61	0.88	0.57	0.05	0.70
Our relationship with this distributor:										
1. Will be profitable in the long run.	MLTORT 1	0.826								
2. Is focused on joint long-term goals.	MLTORT 2	0.883								
3. Is expected it will last for a long time.	MLTORT 3	0.809								
Manufacturer's View of the Distributor's Role Performance (MDPERF)			0.76	0.00	3.75	0.55	0.80	0.49	0.06	0.53
How does the performance of this distributor compare with other distributors on:										
1. Infrastructure readiness (buildings, warehouses, and offices)?	MDPerf 6	0.582								
2. Level of sales volume?	MDPerf 7	0.822								
3. Level of sales growth?	MDPerf 8	0.875								
4. Paying its obligation to us (Terms of Payment/TOP)?	MDPerf 9	0.584								
Manufacturer Dependence (MDEP)			0.76	0.00	3.89	0.58	0.77	0.51	0.08	0.47
As a manufacturer we believe:										
1. Our sales would be reduced if our relation with this distributor is discontinued.	MDep 1	0.577								
2. This distributor's competencies are essential for the selling of our products.	MDep 3	0.749								
3. We maintain good communications with this distributor.	MDep 5	0.605								
4. We need this distributor to achieve our profit targets.	MDep 7	0.794								
Manufacturer's Trust on the Distributor's Credibility (MCTRUST)			0.66	0.00	4.00	0.50	0.70	0.41	0.08	0.45
We believe this distributor:										
1. Obeys the Terms of Payment and delivery agreements with us.	MTrust 1	0.674								
2. Works within our contractual agreements.	MTrust 2	0.741								
3. Will remain very loyal to this relationship.	MTrust 5	0.577								
Manufacturer's Conflict with Distributor (MCONF)			0.83	0.00	3.01	0.97	0.88	0.92	0.12	0.66
How intense are your disagreements with your distributor on:										
1. Inventory level held?	MConf 2	0.795								
2. Responsibility of returned product?	MConf 3	0.731								
3. Sales target?	MConf 5	0.879								
4. Information about customer (stores/outlets)?	MConf 6	0.843								
Manufacturer's Economic Satisfaction (MESAT)			0.69	0.00	4.00	0.58	0.76	0.50	0.08	0.52
Our relationship with this distributor:										
1. Provides us with a dominant market share in our sales area.	MSat 1	0.766								
2. Increases our products' profit contribution.	MSat 2	0.759								
3. Is very attractive in terms of profit margins.	MSat 3	0.627								

Table 4.2: Factor Analysis (Distributor)

Measurement Item	Measurement Code	Item Loading	Kaiser-Meyer-Olkin (KMO)	Bartlett's Test of Sphericity	Mean (μ)	Standard Deviation (SD)	Cronbach Alpha (α)	Construct Load (SD*√α)	Construct Error (SD^2*(1-α))	Average Variance Extracted (AVE)
Distributor's Long-Term Orientation (DLTORT)			0.68	0.00	4.01	0.55	0.78	0.49	0.07	0.55
Our relationship with this manufacturer:										
1. Will be profitable in the long run.	DLTORT 1	0.606								
2. Is focused on joint long-term goals.	DLTORT 2	0.813								
3. Is expected it will last for a long time.	DLTORT 3	0.796								
Distributor's View of the Manufacturer's Role Performance (DMPERF)			0.74	0.00	3.7	0.46	0.72	0.39	0.06	0.40
How does the performance of this manufacturer compare with industry's average performance on:										
1. Products' after-sales service (i.e..: returned of products)?	DMPerf 4	0.686								
2. Level of overall profitability?	DMPerf 5	0.552								
3. Level of sales growth?	DMPerf 6	0.586								
4. Terms of payment?	DMPerf 7	0.689								
Distributor's Dependence (DDEP)			0.67	0.00	3.51	0.67	0.70	0.56	0.13	0.45
As a distributor we believe:										
1. Our sales success is largely due to the marketing efforts of this manufacturer.	DDep 1	0.749								
2. It would be difficult for us to replace this manufacturer.	DDep 2	0.634								
3. The loss of this manufacturer would significantly lower our sales volume .	DDep 6	0.617								
Distributor's Trust on the Manufactuer's Benevolence (DBTRUST)			0.67	0.00	3.25	0.74	0.71	0.63	0.16	0.45
We believe this manufacturer:										
1. Provides us with suitable management training.	DTrust 5	0.723								
2. Will assist us when we have financial problems.	DTrust 7	0.691								
3. Will actively respond to our problems (i.e.: sales territory's breaching).	DTrust 8	0.595								
Distributor's Conflict with Manufacturer (DCONF)			0.85	0.00	2.82	1.02	0.90	0.97	0.10	0.70
How intense are your disagreements with your manufacturer on:										
1. Inventory level held?	DConf 2	0.813								
2. Responsibility of returned products?	DConf 3	0.856								
3. Sales target?	DConf 5	0.851								
4. Information about customers (stores/outlets)?	DConf 6	0.837								
Distributor's Economic Satisfaction (DESAT)			0.67	0.00	3.98	0.54	0.73	0.46	0.08	0.51
Our relationship with this manufacturer:										
1. Has provided us with a dominant market share in this sales area.	DSat 1	0.632								
2. Has increased profit in our sales area.	DSat 2	0.846								
3. Has provided us with a good profit margin.	DSat 3	0.641								

Pallant (2010) suggests the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) value is 0.6 or higher and the significance value of Bartlett's test of sphericity should be 0.05 or smaller. All KMO and Bartlett's test values in Table 4.1 and Table 4.2 are satisfactory and the constructs generated are appropriate. Whilst standard deviation, Cronbach's Alpha, construct load, and construct error values show satisfactory results, several average variance extracted (AVE) values show unsatisfactory results either in the manufacturer or distributor domain. Hair et al. (2010) suggests an AVE of 0.5 or higher is an indication of adequate multivariate convergent validity. Conversely, the AVE values less than 0.5 indicate more error remains in the items than variance explained by the variable. Whilst acceptable to use, these below 0.5 AVE constructs perhaps resulted from the relatively small sample size available for the multivariate research and also from the adaptation of prior western research measures in the Indonesian channel setting.

The construct load and construct error indicators are developed from Munck (1979)'s equations and are used for the calculation of single item composite scales that best highlight the path relationships in structural model development (Liang et al. 1990; Grace & Bollen 2008).

In addition, the discriminant validity as another indicator of multivariate validity shows satisfactory results because the values of AVE between two constructs exceed the values of square of correlation for each pair of construct (see Appendix D). Thus, no constructs were cross-loaded (Cunningham 2008; Hair et al. 2010).

Having assessed the multivariate validity, the multivariate reliability is now assessed. As illustrated in Table 4.3, a construct reliability test shows all constructs are reliable because they exceed 0.7 threshold value (Cunningham 2008; Hair et al. 2010).

Table 4.3: Construct Reliability

Construct	Construct reliability
MMORT	0.718
MLTORT	0.871
MDPERF	0.819
MDEP	0.781
MCTRUST	0.704
MCONF	0.851
MESAT	0.750
DLTORT	0.774
DMPERF	0.738
DDEP	0.684
DBTRUST	0.704
DCONF	0.859
DESAT	0.737

To sum up, the measurement model shows validity and reliability, either in the univariate or multivariate level. Therefore, it is eligible to be moved into a structural model evaluation.

4.3 Structural Model

This study adopts single item composite analysis to develop structural models. It follows Grace and Bollen (2008)'s explanation that composites provides a very useful tool for research by allowing widely generalised interpretations from the data. The first main benefit of composite approach is it overcomes the problem of ordinal nature responses stemmed from Likert scales used for this research (Cunningham 2008). Secondly, composites enhance the adjustment of measurement errors and this leads to: a greater reliability (Hair et al. 2010; Liang et al. 1990; Vieira 2011), the estimation of causal effects (Liang et al. 1990), the examination of structural variations across different populations (Liang et al. 1990), and model parsimony (Vieira 2011). Thirdly,

composites also maximises path exposure and minimises item interaction effects (Cunningham 2008).

Composite analysis or item parcelling refers to condensing each group of related measured variables into its representative set – either by summing or averaging the items (Hair et al. 2010). Baumgartner and Homburg (1996) and Hair et al. (2010) suggest the composite approach is appropriate when a construct has a large number of measured variable indicators (but a model containing fewer than 15 items does not require item parcelling) that may lead to a substantive degree of complexity across the model (Grace & Bollen 2008). Further, all constructs should display high reliability. This technique is also appropriate when the paths between constructs are to be investigated (Grace & Bollen 2008). Hence, item parcelling applies to this study's model – which contains 33 indicators. In addition, the univariate reliability of the constructs shows each construct in this study has values above 0.7, and they also show solid reliability.

The composite development for this study is facilitated using Munck (1979)'s equations. Here, Munck (1979) condenses the items of each construct into a single-indicator. Munck (1979)'s formulae forms the regression coefficient (λ) and measurement error variance required for the model as follows:

Regression coefficient (λ) $= SD\sqrt{\alpha}$, and

Measurement error variance $= SD^2 (1-\alpha)$

Where: SD = Standard Deviation

α = Construct reliability, represented by Cronbach's Alpha value

These values are required for structural model in AMOS software (Cunningham 2008) and they are applied either in the channel model development from the manufacturer or distributor view. The values for all constructs are shown in Table 4.1 and Table 4.2.

4.3.1 The Manufacturer's Perspective of the Channel Model

The manufacturer view of channel model posits the manufacturer's market orientation and the manufacturer's long-term orientation as antecedents of channel model. In the process to achieve the best model fit, cases 12 and 124 of the total 140 cases were problematic because they revealed outlier values (as shown in the bolded and italic numbers of Table 4.4). Since these outliers decrease the model fit, these cases were deleted, and the final model only had 138 cases (n = 138).

Table 4.4: Outliers (Manufacturer)

Observation number	Mahalanobis d-squared	p1	p2
124	***43.48***	***0***	***0***
12	***27.167***	***0.001***	***0.004***
26	24.013	0.002	0.004
122	21.731	0.005	0.007
49	19.607	0.012	0.027
.	.	.	.

In addition, both constructs of the manufacturer's conflict with its distributor (MCONF) and the distributor's conflict with its manufacturer (DCONF) are deleted in the final model because modifications on the possible models based on modification index failed to reach a good fit within the structural model. This may stem from the differing levels and types of conflict between both parties. Table 4.5 reveals the responses on conflict construct in each selected item of measures of the manufacturer and distributor samples.

Table 4.5: Frequencies of Conflict (N=138)

	MConf 2	MConf 3	MConf 5	MConf 6	DConf 2	DConf 3	DConf 5	DConf 6
Mean	2.97	3.04	2.91	3.06	3.28	3.14	3.06	3.26
Mode	3	3	2	3	4	3	3	3
Minimum	1	1	1	1	1	1	1	1
Maximum	5	5	5	5	5	5	5	5

As illustrated in Table 4.5, most of the responses ranged around the mean values between 2.97 and 3.28. Since the values are around the value of 3 (middle range), therefore either the manufacturer or the distributor sample in this study experiences a

‘moderately intense of conflict’ category. This means both the manufacturer and the distributor do not experience serious conflicts between each other and such conflicts are likely manageable.

Therefore, the final constructs are: manufacturer’s market orientation (MMORT), manufacturer’s long-term orientation (MLTORT), manufacturer's view of the distributor's role performance (MDPERF), manufacturer’s dependence (MDEP), manufacturer's trust on the distributor's credibility (MCTRUST), manufacturer’s economic satisfaction (MESAT), distributor’s long-term orientation (DLTORT), distributor's view of the manufacturer's role performance (DMPERF), distributor’s dependence (DDEP), distributor's trust on the manufacturer's benevolence (DBTRUST), and distributor’s economic satisfaction (DESAT).

Having deleted the outliers and subsequent modifications based on the relevant theories and the modification index, the structural model shows a good fit, as revealed in Figure 4.1 and Table 4.6.

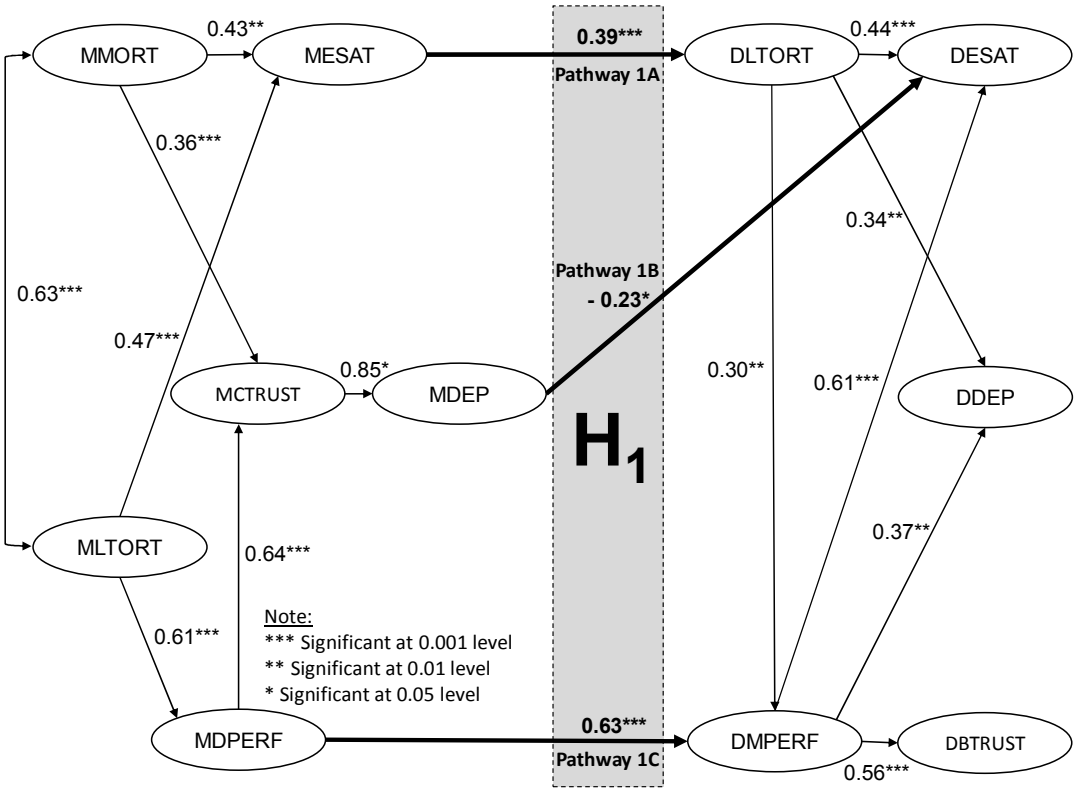


Figure 4.1: The Manufacturer's Perspective of the Channel Model

Table 4.6: Fit Indices (Manufacturer)

Model fit indices	Value	Threshold*	Assessment
Chi-square (χ^2)	45.932		
Degrees of freedom (df)	39		
Probability (ρ)	0.207	> 0.05	Accepted
CMIN/DF (normed χ^2)	1.178	< 2	Accepted
Comparative fit index (CFI)	0.985	≥ 0.97	Accepted
Goodness-of-fit index (GFI)	0.945	> 0.90	Accepted
Adjusted GFI (AGFI)	0.907	> 0.90	Accepted
Tucker-Lewis index (TLI)	0.979	≥ 0.97	Accepted
Root mean square residual (RMR)	0.050	≤ 0.08	Accepted
Root mean square error of approximation (RMSEA)	0.036	< 0.08	Accepted

*Based on Cunningham (2008) and Hair et al. (2010) for n < 250 (n = 138) and the number of observed variables (m) below or equal 12 (m = 11).

As illustrated in Table 4.6, the excellent values of normed chi-square, GFI, AGFI, RMR, and RMSEA show the hypothesised model fits the sample data very well without a comparison with another model (absolutely fit). The GFI minus AGFI value of 0.038, which is below 0.06, is also most applicable to smaller data sets (Cunningham 2008).

The excellent values of CFI and TLI show the hypothesised model fits relative to a baseline model (incrementally fit).

In addition, having validated with 2000 bootstraps, this model shows an excellent goodness-of-fit as its Bollen-Stine probability reaches the value of 0.722. This value exceeds the 0.05 threshold and supports the model as an excellent fit. The bootstrap analysis' results with 95% confidence level are presented in Appendix E1.

The other benchmark of a good structural model is the standardised residual covariance. Here, the covariance values of a correct model should follow a standard normal distribution. These values would be expected to be less than an absolute value of 2. Values exceeding 2 indicate that the proposed model is failing to explain the association between the corresponding variables (Cunningham 2008). The standardised residual covariance of the structural model of this study is presented in Table 4.7.

Table 4.7: Standardised Residual Covariance (Manufacturer)

	MMORT	MLTORT	MDPERF	MCTRUST	MDEP	MESAT	DLTORT	DMPERF	DBTRUST	DDEP	DESAT
MMORT	0.176										
MLTORT	-0.253	0.004									
MDPERF	-0.426	-0.274	0.012								
MCTRUST	-0.890	0.762	-0.153	0.245							
MDEP	-0.059	0.938	-0.126	-0.332	-0.014						
MESAT	-0.255	-0.031	0.519	0.542	0.515	0.038					
DLTORT	1.359	0.135	-0.625	0.019	-0.297	-0.144	0.046				
DMPERF	-0.211	-0.193	0.458	-0.695	-0.063	-0.219	-0.565	-0.177			
DBTRUST	0.717	0.972	-0.465	-0.823	-0.723	0.396	1.057	-0.246	-0.033		
DDEP	0.240	-0.577	-0.715	-1.081	0.250	-0.359	-0.338	-0.187	-0.310	-0.058	
DESAT	0.990	-1.447	-1.051	-0.654	0.144	-0.171	-0.323	-0.186	1.004	0.880	-0.096

As illustrated in Table 4.7, all values are below the absolute value of 2. As such, the final model is fit with the data.

Finally, the hypotheses results are presented in Table 4.8.

Table 4.8: Hypothesis (Manufacturer)

Hypothesis 1		Std. Direct Effect	t-value and Probability	Findings
Pathway 1A:	MESAT ➔ DLTORT	0.39	3.69 (<0.001)	Supported
Pathway 1B:	MDEP ➔ DESAT	-0.23	-1.98 (<0.05)	Supported
Pathway 1C:	MDPERF ➔ DMPERF	0.63	6.87 (<0.001)	Supported

Figure 4.1 and Table 4.8 show three pathways (1A, 1B, and 1C) significantly support Hypothesis 1. These pathways are triangulated by the qualitative interviews' findings in Appendix I. The details of each pathway are as follow:

4.3.1.1 Pathway 1A

The first pathway shows the manufacturer's satisfaction positively influences the distributor's long-term orientation ($\beta = 0.37$, $t=3.69$, $\rho<0.001$). This result supports Hypothesis 1 and is consistent with the findings of Pil et al. (2008). The interviews' findings on the relationship between M1 and D1; and the relationship between M2 and D2 further triangulate and support this pathway.

In the first relationship, M1 experiences satisfaction from its market share improvement due to the relationship with D1. As M1's informant explains:

> *In terms of market share or sales value increase, their contribution must be significant, because anyway, they are our vehicle to deliver our products to stores. So far, compared to our other distributors, M1 can be ranked at the middle. All distributors at the middle and upper ranks are good in our opinion (M1).*

D1 views its relationship with M1 has increased sales growth. Moreover, the relationship is predicted to increase the distributor's profit in the future. As D1's informant asserts:

Having M1 under our wings gives an added value to our shares. The fact that we manage products of a foreign investment company will be taken into account [by investors], [appreciating] our capacity to manage foreign principals. If the growth is good, it means D1's margin and turnover will increase (D1).

The predicted profitable relationship is one indication of a distributor long-term orientation toward its relationship with the distributor. Therefore, the excerpts showing a mutual interaction between M1 and D1 may imply that M1's satisfaction increases D1's long-term orientation.

In the relationship between M2 and D2, M2 experiences satisfactory profit improvement from the relationship with D2. As M2's informant recalls:

Yes, their sales growth has been quite good, especially for the past 5 years. They also have an improvement target for outlet transactions, and sales target (M2).

D2's informant strengthened the statement by recognising the contribution of M2 in the D2's achievement. As the D2's informant asserts:

If you look at D2's report, our turnover has totally grown; this should sufficiently reflect M2's [contribution] as D2's principal (D2).

Furthermore, D2 argues the relationship also increases its profit –and this is expected to continue in the long-term. To support this expectation, the distributor continuously expands its infrastructure. As D2's informant explains:

We have dedicated teams for our special principal M2. We expand our infrastructure by adding [more people to] the sales team to support so we can serve more focused and better. Another expense is for costs spent on

our innovations in the system and our supply chain processes, and our warehouses. When we expand our network infrastructure and sales team, we trust that the sales will continue to grow. With the sales growing, our top line will then continue to increase (D2).

In summary, the excerpts show M2's satisfaction with D2's past sales likely stimulates D2 to improve its distribution infrastructure, and this is an indication of D2's long-term orientation toward the relationship with M2. This supports Hypothesis 1.

4.3.1.2 Pathway 1B

The second pathway, which posits a negative influence of manufacturer dependence on distributor satisfaction, supports Hypothesis 1 ($\beta = -0.22$, $t=-1.98$, $\rho<0.05$). Nonetheless, this result is contrary with the findings of Bordonaba-Juste and Polo-Redondo (2008). Such a difference may stem from the different business culture and different channel setting compared to this previous research. The findings of qualitative interviews pertinent to the manufacturers which engage with multiple distributors (M1 and M3), likely triangulates this pathway.

In the M1 and D1 relationship, M1's informant admits that the company relies on D1 because M1 cannot depend on its own sales forces anymore for delivering its products to the marketplace. As M1's informant recalls:

We are currently employing D1's. It is because we've had experience using own sales force. By then, distributors were [responsible] for delivering goods, whilst taking orders was done by our salespeople. Yet, it was proved to be not a good practice. It was before 2008, in the period of 2005-early 2008. It was ineffective; employing distributors' sales force is a better [practice] (M1).

M1's informant further asserts the company chooses D1 to deliver its products mainly because D1 has an excellent warehousing system. As M1's informant states:

> *D1 have a good warehousing system; they have a rack system that places products into certain racks according to their slots. The slot system at their warehouse is excellent. When they want to pick up an item, they can find it immediately. It is D1's main strength (M1).*

The series of excerpts likely indicates that M1 in-time becomes more dependent on D1. In the distributor side, D1 likely expects M1 to increase its dependency toward D1 because this will increase D1's market share. As D1's informant explains:

> *Say, if M1 distributes [their products] through D1 nation-wide, our market share will certainly be larger since we have 42 branches. It is [from] an overall business perspective]. It means that their distribution will be more even (D1).*

However, such expectation for a greater dependency would likely be satisfying only if D1 receives greater profit margin. As D1's informant further states:

> *We desire at least a 2-digit margin. It means higher than 10%, because we still have to bear operating costs, approx. 3% to 4%. This three percent is the operating cost. M1's margin to D1, as far as I know, is still below 2 digits. All figures are gross. This is still profitable, but, it is not big. Profitable but thin. Yes, we indeed want an increase in value. And, also there is an element of prestige (D1).*

To sum up, D1 is prepared to further commit to M1 dependency if M1 is prepared to offer a greater profit margin. Otherwise, the M1's dependency would likely decrease D1's economic satisfaction.

The negative influence of the manufacturer's dependence on the distributor's economic satisfaction also likely occurs in the relationship between M3 and D3. Here, M3 prefers to employ its own sales forces due to a better control. Thus, M3 expects to decrease its dependency toward D3. This decision would not disadvantage M3 in the future because the contribution of D3 is not significant and M3 is a powerful company. As M3's informant asserts:

> *It is clearly easier to employ our own salespeople, since we'll hold the same opinion and principal salespeople are definitely more loyal (M3).*
> *Yet, we now employ D3 ['s salespeople] because we want to seize wider market. If this is found to be self-manageable, we may take [it] over, but not in the near term. (M3)*
> *We calculate it on region basis, so the contribution of D3 alone for their region is considerable, approximately 26%. Our regions are Surabaya, Sidoarjo, Madura, Gresik, Lamongan, Tuban, and Bojonegoro. So, they have contributed 26% for Lamongan. (M3)*
> *No, especially for companies at the level of M3, many desire to be our distributor because our products are selling well. So, should a sub-distributor becomes problematic, [we] just have to do calculation, terminate them, and someone will be ready to replace them. (M3)*

The M3's informant further argues that if M3 keep depend on the D3's sales forces in the future, this would decrease the motivation of D3's sales forces. The argument is shown below:

> *If we use sub-distributor's salespeople, these people may think that they are employees of the sub-distributor, yet why they get instructions from the Principal. (M3)*

The informant argues the motivation problem may stem from the weaknesses of D3's owner and the tasks delegation. As the informant asserts:

> *In my opinion, they are not too strong in terms of delegation of supervisor tasks. D3 desire so, yet their owner lacks leverage on their supervisor. When I gave them a form to be completed, there was still no result [reported] from their visits. The results were communicated verbally; so, when there was a problem, the supervisor would report to me. But [it was] never in writing, so there was no record whether the problem had been resolved or not (M3).*

In turn, the likely demoralisation would decrease D3's satisfaction. Therefore, an increasing dependence of M3 may decrease D3's satisfaction – because D3 lacks the capacity to govern its sales forces to fulfil the possibility of increasing M3's demand. This relationship supports Hypothesis 1.

4.3.1.3 Pathway 1C

The last pathway, the manufacturer's view of the distributor's role performance positively influences the distributor view of manufacturer role performance, supports Hypothesis 1 ($\beta = 0.64$, $t=6.87$, $\rho<0.001$). This result is consistent with the findings of Obadia and Vida (2011) and Hofer et al. (2012). The evidence of qualitative interviews regarding the relationship between M2 and D2 likely supports (triangulates) this quantitative finding.

M2 views D2 shows an excellent performance by delivering SAP software to support activities. As M2's informant recalled:

> *In the past, the data was messy. Before SAP was installed, it was a lot disorganized. It was difficult to know the number of outlets covered by D2, whilst we needed it badly to set our target. Sometimes, they were a bit not*

transparent about this matter. With SAP, D2 are now transparent because M2 can do monitoring more easily. Now, we know the number of [our] outlets. It is not [a source of] conflict anymore (M2).

Furthermore, the positive performance of D2 likely increases M2's marketing support. As D2's informant asserts:

So far, their support has been good enough because actually we are engaged in a continuous development for other aspects in order for us to retain this principal. Thus, we continually make innovations; even regarding the system called SAP, D2 had utilised it before M2 (D2).

M2's support indicates a positive M2 performance from the viewpoint of D2. Based on these excerpts, it can be concluded that the M2's view of D2's role performance likely increases D2's view of M2's role performance and it supports Hypothesis 1.

4.3.2 The Distributor's Perspective of the Channel Model

As the manufacturer and distributor data sets are matched, the distributor's view of channel relationships can be conducted. Similar to the manufacturer's view of channel model, long-term orientation is posited as the antecedent to the channel relationships from the distributor's perspective. This follows the findings of Chung et al. (2008), Ural (2009), and Hwang et al. (2013) that long-term orientation drives relationships across a channel. Here, Chung et al. (2008) and Hwang et al. (2013) show the influence of long-term orientation on other channel constructs in the East Asian culture setting contributes to major Indonesian business cultures. Ural (2009) reveals the highest influence of long-term orientation on satisfaction within channel members who engage in a long-term oriented relationships. In the context of this study, the distributor possessing a long-term orientation view would likely deliver a positive influence on the other channel relationship constructs.

Following similar processes to the manufacturer's view of the channel model, the final channel model from the distributor's perspective is shown in Figure 4.2.

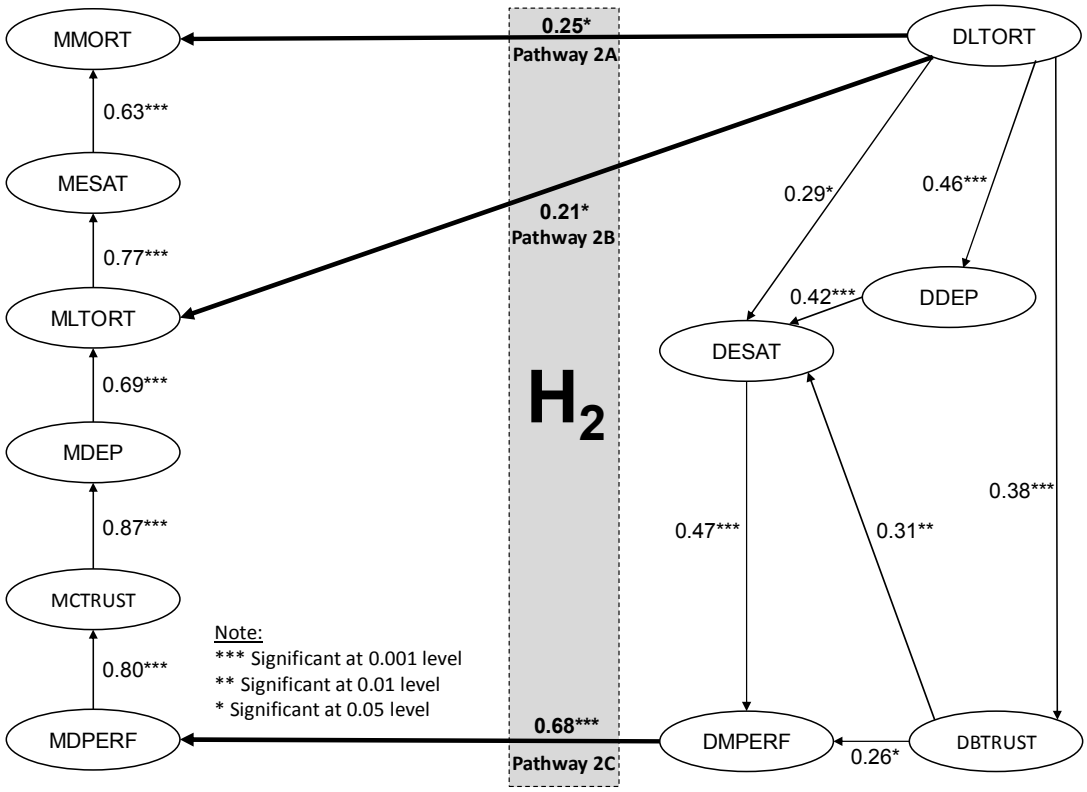


Figure 4.2: The Distributor's Perspective of the Channel Model

The final model is rigorous, and this is indicated by the excellent fit indices as shown in Table 4.9.

Table 4.9: Fit Indices (Distributor)

Model fit indices	Value	Threshold*	Assessment
Chi-square (χ^2)	47.483		
Degrees of freedom (df)	40		
Probability (ρ)	0.194	> 0.05	Accepted
CMIN/DF (normed χ^2)	1.187	< 2	Accepted
Comparative fit index (CFI)	0.984	≥ 0.97	Accepted
Goodness-of-fit index (GFI)	0.942	> 0.90	Accepted
Adjusted GFI (AGFI)	0.904	> 0.90	Accepted
Tucker-Lewis index (TLI)	0.978	≥ 0.97	Accepted
Root mean square residual (RMR)	0.016	≤ 0.08	Accepted
Root mean square error of approximation (RMSEA)	0.037	< 0.08	Accepted

*Based on Cunningham (2008) and Hair et al. (2010) for n < 250 (n = 138) and the number of observed variables (m) below or equal to 12 (m = 11).

As illustrated in Table 4.9, both absolute (normed chi-square, GFI, AGFI, RMR, and RMSEA) and incremental (CFI and TLI) indices reveal excellent values. This shows the hypothesised model fits the sample data. In addition, the GFI minus AGFI value of 0.038, which is below 0.06, is also applicable to smaller data sets (Cunningham, 2008).

The model is validated with 2000 bootstraps and it continuously excellent as the Bollen-Stine probability reveals a value of 0.807. This indicates an excellent goodness-of-fit – because it exceeds the 0.05 threshold value of chi-square's probability level. The results of bootstrap analysis (95% confidence level) are presented in Appendix E2.

In addition, the standardised residual covariance in Table 4.10 shows none of the values exceed a magnitude of 2, and hence there is no indication of serious misfit between the final model, constructs, and the data.

Table 4.10: Standardised Residual Covariance (Distributor)

	MMORT	MLTORT	MDPERF	MCTRUST	MDEP	MESAT	DLTORT	DMPERF	DBTRUST	DDEP	DESAT
MMORT	0.059										
MLTORT	0.177	0.006									
MDPERF	0.029	0.392	-0.011								
MCTRUST	0.927	0.712	-0.037	0.165							
MDEP	1.022	-0.490	0.000	-0.403	0.239						
MESAT	-0.042	-0.251	0.880	1.102	-0.012	0.047					
DLTORT	0.251	-0.298	-1.365	0.126	-0.196	0.944	0.011				
DMPERF	0.038	0.382	0.474	-0.416	0.215	0.524	-0.325	-0.145			
DBTRUST	0.462	1.172	-0.099	-0.400	-0.332	0.720	-0.178	0.258	-0.016		
DDEP	0.259	0.040	0.037	-0.222	1.080	0.673	-0.042	1.274	0.601	0.000	
DESAT	0.180	-1.706	-1.634	-1.158	-0.874	0.327	0.124	0.482	0.175	-0.051	0.096

Lastly, the results of hypotheses testing are presented in Table 4.11.

Table 4.11: Hypothesis (Distributor)

Hypothesis 2		Std. Direct Effect	t-value and (probability)	Findings
Pathway 2A:	DLTORT ➔ MMORT	0.25	2.36 (<0.05)	Supported
Pathway 2B:	DLTORT ➔ MLTORT	0.21	2.56 (<0.05)	Supported
Pathway 2C:	DMPERF ➔ MDPERF	0.68	7.04 (<0.001)	Supported

Figure 4.2 and Table 4.11 show Hypothesis 2 is supported by three significant pathways (2A, 2B, and 2C) in the positive direction. The relationships are the influences of the distributor's long-term orientation on the manufacturer's market orientation (pathway 2A), the distributor's long-term orientation on the manufacturer's long-term orientation (pathway 2B), and the distributor's view of the manufacturer's role performance on the manufacturer's view of the distributor's role performance (pathway 2C). The results are triangulated by the qualitative interviews' findings in Appendix I, and the specific details supporting each pathway are as follows.

4.3.2.1 Pathway 2A

Pathway 2A reveals the positive influence of the distributor's long-term orientation (DLTORT) on the manufacturer's market orientation (MMORT). The qualitative interviews' findings likely triangulate this pathway. In the first relationship, D1 has improved its sales forces capability to support the distribution of M1's products by the deployment of information technology. This signals an increasing D1's long-term orientation toward M1. As D1's informant recalls:

> *Nation-wide, we employ Oracle, so our system is on-line already. The advantage for [our] principals is that we can produce reports timely and accurately. Also, we have used a warehouse management system for our warehouses. Our delivery people are equipped with PDAs (Personal Digital*

Assistants), so the process from placing orders up to delivery of goods at outlets has a time table, [and] the position of goods can be tracked (D1).

In turn, D1's sales force improvements support M1's programs in anticipating competitors because the sales force becomes quicker in delivering information about the competitors' actions. Consequently, M1's programs on the competitors' handling can be conducted timely. As M1's informant explains:

Salespeople are always from distributors, not from the principal. They are the ones opening invoices or taking orders. Distributors will be invited to a joint meeting since theirs are the supply side. For large accounts, they take care more of supply. It is a two-way [sharing], right; so information that we glean from our market research, which I have mentioned, will surely be shared with our salespeople to pass an understanding of our current position. On the other hand, information from the stores or the consumers, which is daily-generated in nature, can also be taken by us as a feedback. That is what I mean by two-way. Thus, the information reflects activities, especially those of our competitors, occurring at stores. This information is passed to us, which is then reviewed by us should it have impact on our products or our sales in the future. We also usually prepare an action plan right away. We will perform activities that may be better than our competitors. If a competitor has already carried out [a program] for a month, say in March, whilst we [originally plan to] launch ours in April, we, noticing that the competitor has already made a move, accelerate our program to start from mid March instead of April (M1).

As the quicker anticipation of competitors' action is an indicator of the improvement of market orientation, therefore this series of excerpts may indicate that D1's long-term orientation increases M1's market orientation.

The second relationship between M2 and D2 shows D2's commitment to joint long-term objectives with M2 by the implementation of D1's 'SNOP' program. This indicates the long-term orientation of D2 toward M2. As D2's informant asserts:

> *First, in terms of teamwork, it is good because the principal and the distributor do not view [the job] differently. We do it [i.e. the distribution] as one team. We develop many points [of sales] together; we even have the same figure as our target. There is no difference between the principal's target and D2's target and we do this through a process called SNOP. SNOP consists of several steps. That is, pre-demand meeting, demand meeting, supply meeting, pre-SNOP meeting, and SNOP executive meeting. This cycle is routinely followed. (D2)*

D2's commitment speeds information delivery about competitors' actions to M1, which in turn, leads timely marketing programs on countering competitors. The responsive programs are an indicator of M1's market orientation improvement. As M2's informant recalls:

> *Meetings between our team and D2's team are informally and formally held once a month. But, it doesn't preclude any chance to informally share [information any time] we meet. Within M2, [sharing] can be either informal or formal, because we have a regular monthly meeting between field sales force and other internal departments, e.g. Marketing and R&D. Say there is a tip from a salesman telling that our competitor in Area A is running a discount program for purchase of their products. This info will then be passed to our marketing [division for them] to counter that competitor's action. E.g. a kind of gimmick, such as product purchase giveaway (M2).*

This series of excerpts likely show the enhancement of D2's long-term orientation increases M2's market orientation and it supports Hypothesis 2.

To sum up, the distributor's commitments to relationship investment and joint long-term objectives indicates its long-term orientation toward its relationship with the manufacturer. These commitments should facilitate the speed of information sharing about the competitors' actions with the manufacturer. As the improvement of information sharing about the competitors is a part of the enhancement of market orientation, hence it can be concluded that the distributor's long-term orientation positively influences the manufacturer's market orientation.

4.3.2.2 Pathway 2B

Pathway 2B shows a positive influence of the distributor's long-term orientation (DLTO) on the manufacturer's long-term orientation (MLTO). This finding is triangulated by the qualitative interviews' findings on the relationship between M1 and D1 as well as between M2 and D2. In the first relationship, D1 incurs extra investment in infrastructures to improve its service toward M1. This indicates D1's commitment to long-term relationship with M1. As D1's informant recalls:

> *One of [our selling values] is our infrastructure, system and distribution [network] with 42 branches across Indonesia; not all distributors have [such a good infrastructure]. We have [distribution points] in all provinces; even we have more than one branch in some [provinces] (D1).*

The excellent infrastructure of D1 leads to a positive view from M1. In turn, this positive perception causes relationship continuations with D1 – even when M1 experiences management changes. Such changes only affect the new parameters that arise under M1's management. In this sense, M1's commitment to keeping D1 is an indicator of M1's long-term orientation toward D1. As M1's informant asserts:

D1 has a good warehousing system; they have a rack system that places products into certain racks according to their slots. The slot system at their warehouse is excellent. It is D1's main strength. What may happen is a change of policy, so a change in leadership may or may not be followed by a change in policy or a new policy. Like what I said, we will do evaluation every year. So, if a contract is finished in a year, we'll evaluate it, and if it is extended, it will be entered with new targets or commitments related to sales; the actual impacts [of any change of management] will then be felt. New parameters [imposed] may affect our long-term relationship [with distributors] (M1).

This series of excerpts likely indicates the positive influence of D1's long-term orientation on M1's long-term orientation.

The second example of this relationship shows D2 incurs more investment costs regarding its special sales forces used with M2. This indicates an increasing long-term orientation of D2 toward its relationship with M2. As D2's informant asserts:

We have dedicated teams for our special principal M2. We expand our infrastructure by adding [more people to] the sales team to support so we can serve more focused and better (D2).

In the manufacturer side, M2 admits D2 performs well and that it likely contributes extra investments just dedicated to support the distribution of M2's products. Such extra investments are a result of a long-time cooperation between M2 and D2 – one that urges D2 to deliver special services to M2. The long-term cooperation and the positive view on D1's performance are indicators of increasing M2's long-term orientation toward D2. As M2's informant recalls:

In terms of target sales, for example, we set 80 tons for Jakarta area, but D2 can achieve 90 tons. It is an example of their good performance, namely achieving more than 100%. It often happens in some areas. From a historical perspective, we've been cooperating with D2 for a long time, so in this sense, they know well what we require. And vice versa, so we mutually need each other that we have developed an intense communication. We understand one another. If we have complaints for improvements in the field, D2 are able to immediately fulfil what are required by M2, so in this regard, our communication with them has already been good (M2).

Based on both excerpts, there is likelihood that D2's long-term orientation increases M2's long-term orientation.

In summary, both pairs of relationships show the extra investments of each distributor increases the each manufacturer's willingness to keep a long-term relationship with their distributor, and this also enhances the manufacturer's perception regarding a profitable cooperation with their distributor in the long run. Such logic likely indicates a positive influence of the distributor's long-term orientation on manufacturer's long-term orientation and this supports Hypothesis 2.

4.3.2.3 Pathway 2C

Pathway 2C reveals a positive influence of the distributor's view of the manufacturer's role performance (DMPERF) on the manufacturer's view of the distributor's role performance (MDPERF). This finding is triangulated by the qualitative finding in the relationship between D2 and M2. In the product delivery, M2's lateness in delivering its products to D2 sometimes creates products scarcity in the distribution outlets when the buffer stocks in D2 are empty. This indicates a negative performance of M2. As the D2's informant recalls:

Yes. But, there is something called a buffer in D2. As long as the buffer can still cover [the fulfilment], everything should be fine. But, at certain times, if fulfilment is long overdue, the buffer I have will be exhausted, and this becomes a problem. But we will tell them that this is urgent, that they have to take action internally, so the products [concerned] can soon be fulfilled. If not, the products will be unavailable in the market (D2).

M2 admits the delivery problem sometimes is stemmed from M2. Here, M2 did not yet finish its product quality, which leads to the lateness in the products delivery. In turn, the delivery lateness of D2 to outlets creates a negative perception on D2's performance in the view of M2. As M2's informant explains:

So far we do, and their reasoning still makes sense; sometimes, it is just a technical issue like transport. In fact, every now and then hurdles come from M2's internal party, e.g. a required product has not been completely produced, or its production has been finished but it cannot be consigned since it has not yet gone through a release process by our Quality Assurance team. Indeed, we admit that they sometimes face constraints, causing misses of targets (M2).

To sum up, this series of excerpts shows a likelihood that the perceived negatives in M1's performance decreases the perceived performance of D1. In other words, there is likelihood that the distributor's view of the manufacturer's role performance positively influences the manufacturer's view of the distributor's role performance. Thus it supports Hypothesis 2.

Chapter 5: Discussions of the Results

This chapter further discusses the results presented in chapter 4. This study investigates the marketing channel relationships between the manufacturer and its principal distributor(s). It focuses on both the manufacturer's and distributor's enabling factors, and how these interact and/or interplay within marketing channel engagements. This study establishes factors that lead to improving marketing channel connectivities within the Indonesian manufacturer and distributor environment.

The discussions of both quantitative and qualitative findings are divided into several sections: (1) analysis of the hypotheses' findings; (2) analysis of the total effects; (3) comparisons of the manufacturer's perspective and the distributor's perspective of the channel model; (4) analysis of the distribution process supporting channel model; (5) implications of the research; and (6) limitations and directions for future research.

5.1 Analysis of the Hypotheses' Findings

The manufacturer's perspective of the channel model reveals three significant pathways regarding manufacturer behavioural influences on the distributor: (1) the positive influence of the manufacturer's economic satisfaction (MESAT) on the distributor's long-term orientation (DLTORT); (2) the negative influence of the manufacturer's dependence (MDEP) on the distributor's economic satisfaction (DESAT); and (3) the positive influences of the manufacturer's view of the distributor's role performance (MDPERF) on the distributor's view of the manufacturer's role performance (DMPERF).

The first pathway indicates the manufacturer should be economically satisfied if the distributor wants to develop a longer-term relationship with the manufacturer. The second pathway implies the increasing manufacturer dependence reduces the

distributor's economic satisfaction if the manufacturer does not increase the distributor's profit margin. Lastly, the third pathway indicates the excellent performance of the distributor in distributing the manufacturer's products increases the manufacturer supports for the distributor.

The distributor's perspective of the channel model results in three significant pathways as well: (1) positive influence of the distributor's long-term orientation (DLTORT) on the manufacturer's market orientation (MMORT); (2) positive influence of the distributor's long-term orientation (DLTORT) on the manufacturer's long-term orientation (MLTORT); and (3) positive influence of the distributor view of the manufacturer's role performance (DMPERF) on the manufacturer's view of the distributor's role performance (MDPERF).

The first and the second pathways in this distributor's perspective indicate the distributor should show its commitment to joint long-term objectives with the manufacturer, and incur extra investments on its infrastructures to achieve manufacturer willingness to engage in long term business cooperation. In addition, the distributor's long-term orientation is also required to persuade the manufacturer in involving the distributor to better handle competitors and serve distribution outlets. Furthermore, the third pathway suggests an excellent performance of the manufacturer is needed to enhance the performance of the distributor in delivering products to outlets. Here, any upstream problems (the manufacturer side) will decrease performance of the entire supply chain.

5.2 Analysis of the Total Effects

The analysis of the total effects can be divided into the manufacturer's perspective and the distributor's perspective of the channel model as follows:

5.2.1 The Manufacturer's Perspective

Within the three path consequences of channel connectivities (distributor's long-term orientation, distributor's economic satisfaction, and distributor's view of manufacturer role performance), the highest total effect is in the positive influence of the manufacturer's view of the distributor role performance (MDPERF) on the distributor's view of the manufacturer role performance (DMPERF) (see Table 5.1). This suggests the manufacturer places distributor performance as the most important measure in developing its working relationship with its distributor.

Table 5.1: Standardised Total Effects (Manufacturer)

	MMORT	MLTORT	MDPERF	MCTRUST	MDEP	MESAT	DLTORT	DMPERF
MDPERF		0.610						
MCTRUST	0.362	0.414	0.680					
MDEP	0.308	0.352	0.578	0.850				
MESAT	0.434	0.470						
DLTORT	***0.169***	***0.183***				***0.389***		
DMPERF	***0.050***	***0.441***	***0.633***			***0.116***	0.298	
DBTRUST	0.028	0.245	0.352			0.064	0.166	0.555
DDEP	0.076	0.226	0.235			0.175	0.451	0.371
DESAT	***0.034***	***0.268***	***0.253***	***-0.196***	***-0.231***	***0.242***	0.622	0.610

Table 5.1 also shows, that to a lesser degree, the distributor's view of the manufacturer performance (DMPERF) is also indirectly influenced by the manufacturer's long-term orientation (MLTO). This indicates the distributor highly respects the manufacturer intention to stay in a long-term relationship with the distributor throughout the attainment of a manufacturer's economic satisfaction, and a manufacturer's assessment of distributor performance, in turn shows the intention would increase as the distributor's positive view of manufacturer performance changes.

The third greater total effect is in the direct influence of the manufacturer's economic satisfaction (MESAT) on the distributor's long-term orientation (DLTO). This indicates

long-term orientation becomes the second priority after perceived performance construct. Here, the distributor should satisfy the manufacturer in an economic term, prior to attaining the manufacturer's commitment to develop a long term relationship. As such, this implies the distributor possesses lower power than the manufacturer.

5.2.2 The Distributor's Perspective

The total effects illustration of Table 5.2 shows that within channel connectivity pathways (distributor perspective), the highest direct influence of the distributor's view of the manufacturer's role performance (DMPERF) on the manufacturer's view of the distributor's role performance (MDPERF). To a lesser degree, a second high effect is in the total influences of the distributor's long-term orientation (DLTO) on the manufacturer's market orientation (MMORT). Lastly, the third highest effect is in the total influences of the distributor's long-term orientation (DLTO) on the manufacturer's long-term orientation (MLTO).

Table 5.2: Standardised Total Effects (Distributor)

	DLTORT	DDEP	DBTRUST	DESAT	DMPERF	MDPERF	MCTRUST	MDEP	MLTORT	MESAT
DDEP	0.456									
DBTRUST	0.376									
DESAT	0.596	0.420	0.307							
DMPERF	0.380	0.198	0.407	0.472						
MDPERF	***0.260***	***0.136***	***0.279***	***0.323***	***0.685***					
MCTRUST	0.207	0.108	0.222	0.257	0.545	0.796				
MDEP	0.180	0.094	0.193	0.224	0.474	0.693	0.870			
MLTORT	***0.336***	***0.065***	***0.133***	***0.154***	***0.327***	0.478	0.600	0.690		
MESAT	0.260	0.050	0.103	0.119	0.253	0.369	0.464	0.533	0.772	
MMORT	***0.416***	***0.032***	***0.065***	***0.075***	***0.159***	0.232	0.292	0.335	0.486	0.629

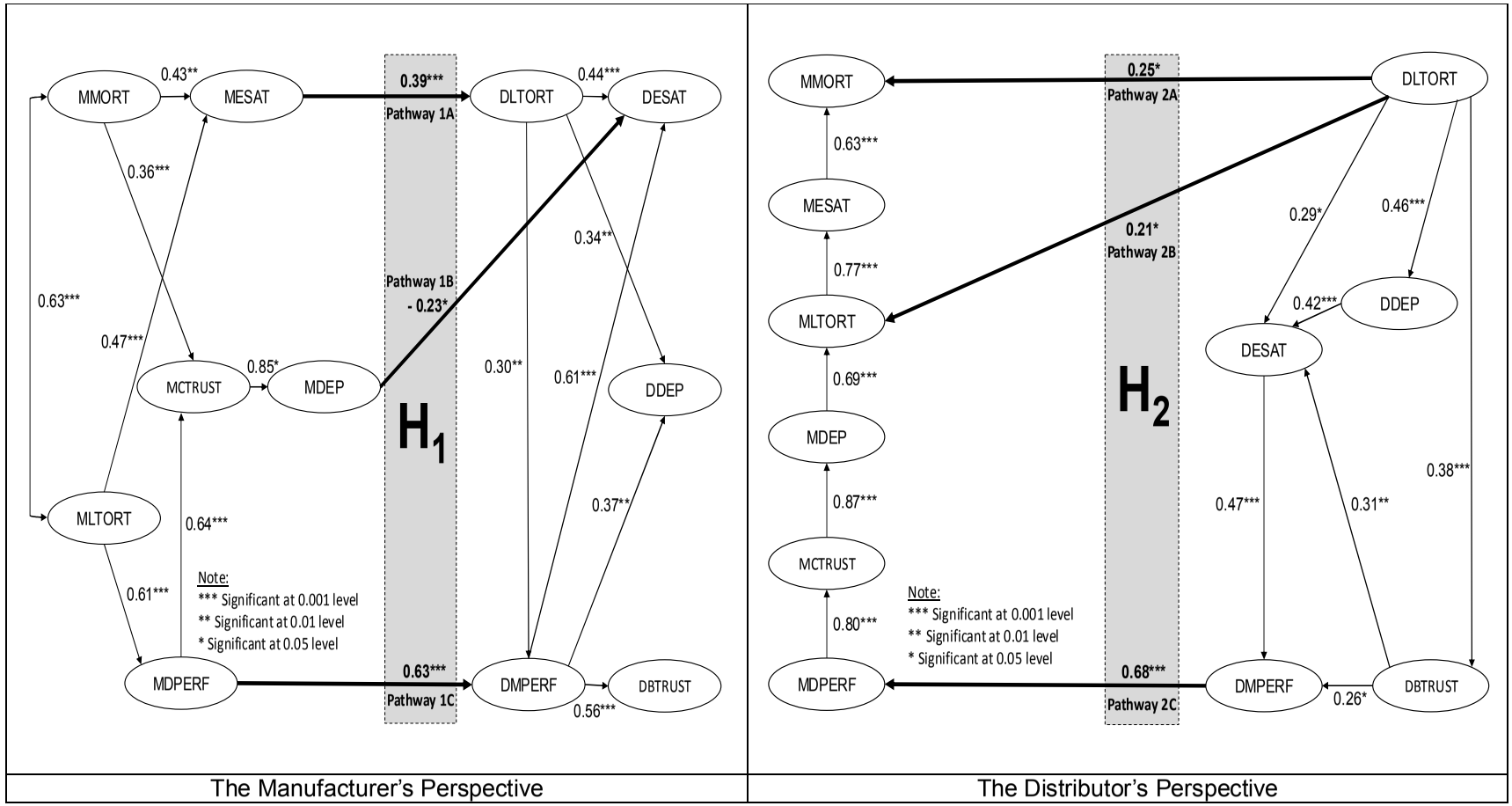
The first highest effect indicates distributor emphasises the manufacturer's positive performance is a first consideration in developing working relationship. Whereas, the second and the third highest effects imply that the distributor should show its commitment toward long-term relationship with manufacturer prior to attaining the

manufacturer's commitment to involve the distributor in its market-oriented programs – and within a long-term working relationship.

5.3 Comparison of the Manufacturer's and the Distributor's Perspective of the Channel Model

The manufacturer and the distributor models each portray the existence of channel connectivities – each through three significant pathways. Within such pathways, one bi-directional channel connectivities, and four uni-directional channel connectivities, exist.

The bi-directional channel shows positive influences between the manufacturer's view of the distributor's role performance (MDPERF) and the distributor's view of the manufacturer's role performance (DMPERF). The first uni-directional pathway is the positive influence of the manufacturer's economic satisfaction (MESAT) on the distributor's long-term orientation (DLTORT). The second one is the negative influence of the manufacturer's dependence (MDEP) on the distributor's economic satisfaction (DESAT). The third one is the positive influence of the distributor's long-term orientation (DLTORT) on the manufacturer's market orientation (MMORT) and the last connectivity path is the positive influence of the distributor's long-term orientation (DLTO) on the manufacturer's long-term orientation (MLTORT). All pathways are portrayed in Figure 5.1.



The Manufacturer's Perspective	The Distributor's Perspective

Figure 5.1: Comparison of the Channel Models' Direct Effects

In addition, Figure 5.2 illustrates the three largest total effects within the channel connectivities. In the manufacturer's perspective, the first, and the third biggest effects lie in the direct effects of the manufacturer's domain on the distributor's domain. The second largest effect is the sum of indirect effects from the manufacturer's long-term orientation (MLTORT) into the distributor's view of the manufacturer's role performance (DMPERF). In the distributor's perspective, the largest effect is in the direct influence of the distributor's view of the manufacturer's role performance (DMPERF) on the manufacturer's view of the distributor's role performance (MDPERF). Lastly, the second and the third largest effects are the combination of direct and indirect effects of the manufacturer's domain on the distributor domain.

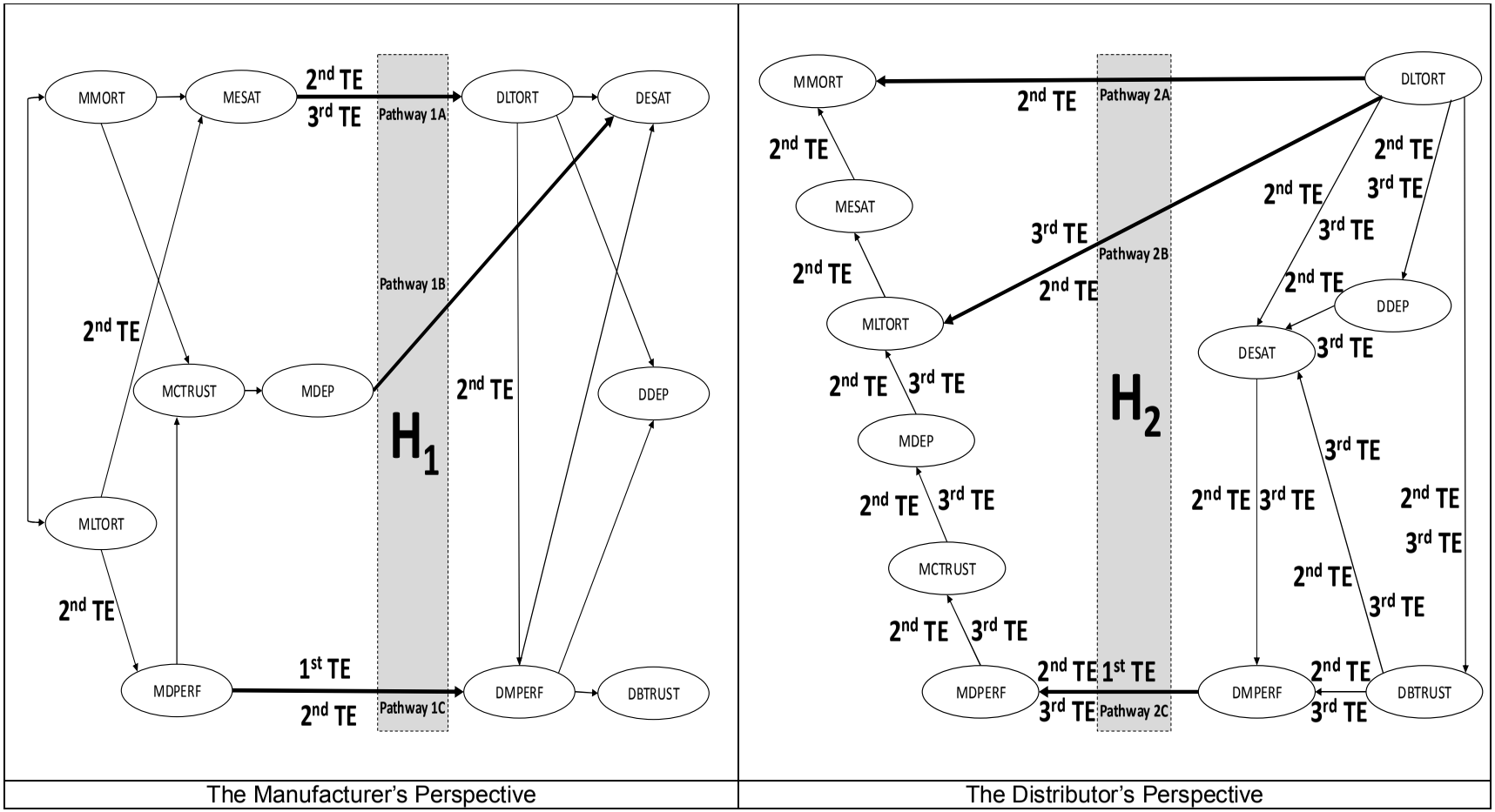


Figure 5.2: Comparison of the Channel Models' Total Effects

The analysis of the manufacturer and distributor models, together with their total effects, reveals two possible priorities for either the manufacturer or the distributor. These are as follows:

5.3.1 Bi-Directional Influence (MDPERF ⇄ DMPERF)

As illustrated in Figure 5.1, the values of the bi-directional relationships between the manufacturer's view of the distributor's role performance and the distributor's view of the manufacturer's role performance are about equal. This indicates a mutual dependency likely exists between the manufacturer and the distributor.

Secondly, either the manufacturer, or the distributor, emphasise positive the performances of their partners before they decide to conduct a working relationship (see Figure 5.2). The findings of qualitative interviews further triangulate this approach.

In the relationship between M1 and D1, M1 assesses the performance of D1 each year, and D1 can be terminated if the performance does not meet the target. As M1's informant explains:

> *As a matter of fact, our contract [term] is at most 2 years, and at least 1 year. So, we can't say that they can be fit for any period longer than the said terms. We can't assure [the cooperation] for longer period than 2 years; we'll strictly evaluate it. Say, we hire them for 2 years, and they perform well in the first year, but fail to achieve their targets in the second year, with several unexpected incidents, then we can replace them, discontinuing our cooperation with them (M1).*

M2 does the performance assessment each year, and assesses this as a necessary condition to continue long-term relationship with D2. As M2's relationship power is

getting stronger over D2 over time, hence M2 can terminate the relationship when the performance of D2 does not meet the target. As M2's informant asserts:

> *In the past, when D2 owned M2, we were always on the losing side since they controlled us. After the change of ownership, our power has got stronger; moreover, if D2's performance is not good, we will change our distributor. D2 will experience difficulty, since 70% of their business comes from M2's products. So, they are very dependent on M2. Usually, our agreement is for 3 to 5 years, and renewable, depending on the conditions at the time of evaluation. We evaluate our agreement once a year (M2).*

On the other hand, although the distributors' power position is weaker than their manufacturer's, the distributor emphasises the performance of the manufacturer as a prerequisite condition to develop their relationship. In this sense, D1 indicates its weaker power position because they still continue the relationship with M1 – albeit D1 only receives a small profit. However, if M1 does not deliver a continuous positive performance, D1 is eager to terminate this relationship in the future. As D1's informant asserts:

> *It must be beneficial. The principal (manufacturer) has to support our sales including promotions, credit promotions and discounts. They have to do this to boost sales. Second, they also should give a minimum margin asked by D1. In a [typical] cooperation relationship, there will certainly be some bargaining. We have terminated [cooperation] with some principals since it is not beneficial anymore, i.e. the turnover is static, the volume tends to be small, and no promotion support is given. In 2012, we terminated several of them. M1's margin to D1, as far I know, is still below 2 digits. It is still profitable, but, it is not big - profitable, but thin! Yes, we indeed want an increase in value. And, also there is an element of prestige (D1).*

Another distributor, D2, does conduct yearly evaluations of its relationship with M2 regardless D2's expectation on a long-term relationship with M2. This indicates D2 emphasizes M2's performance as a consideration regarding the continuation of a working cooperation, as D1's informant recalls:

> *For the next 3 years, both I and M2 will not know whether one of us will want to terminate [our collaboration]. But the point is that when our cooperation is mutually beneficial, it will do us no harm to extend it. Yet, we do an evaluation every year since the agreement we have is for a certain period. As long as it is not detrimental to both parties, it will definitely be extended again and again. I think that for both parties - the principal and the distributor, upon seeing that we demonstrate together a continuously improving performance year by year, will see it as a plus for motivating us to prolong our cooperation (D2).*

To sum up, both manufacturers and distributors exhibit mutual dependency in their working relationship. In addition, such mutual dependency posits an excellent performance by each partner as a prerequisite condition to continue in a longer term relationship.

5.3.2 Uni-Directional Pathways

The analysis on both models comparison (Figure 5.1) and their total effects (Figure 5.2) as uni-directional pathways can be divided into either the manufacturer's, or the distributor's perspectives as follows:

5.3.2.1 The Manufacturer's Perspective

The indirect effect of the manufacturer's long-term orientation (MLTO) on the distributor's view of manufacturer's role performance (DMPERF); and the direct effect of the manufacturer economic satisfaction (MESAT) on the distributor's long-term orientation (DLTO) imply that the distributor can economically satisfy the manufacturer,

or can show an excellent performance prior to attaining the manufacturer's commitment to engage in a long-term relationship. Such distributor efforts are also required to attain the manufacturer's positive perception about the distributor's performance. This argument is likely triangulated by the interview findings pertinent to the assessment of M1 on D1. As M1's informant asserts:

> *Satisfaction must be there first, since we evaluate after events, right? Our benchmark is always something after events. What they have done will motivate us to renew their contract. We can't just trust them just because they have reputation. It is possible that they are good in certain areas, but poor in other areas. We have several distributors, and D1**'s** contribution is only 15% of our national sales, so if [an unfavorable thing] something significant happens, the risk [involved] will impact this 15% only. (M1)*

5.3.2.2 The Distributor's Perspective

The second and third highest total effects within the distributor's perspective (Figure 5.2) show a combination of direct effects and indirect effects from the distributor's domain onto the manufacturer's domain. These effects indicate the distributor can show commitment to a long-term relationship prior to attaining the manufacturer's commitment on long-term relationship, and to their market orientation. This early distributor commitment may imply that the distributor has weaker power over its manufacturer. Here, D1 admits that engaging M1's commitment is tough. Hence, D1 should deliver its trust toward M1 prior to achieving cooperation. As D1's informant recalls:

> *M1's added value in that it is a foreign investment company. It is not easy to propose an offer to them since competition in the distribution side is fierce. They have distributors other than D1, right? So, if M1 choose D1 and we win the rights [against the competition] to distribute their products, it is something*

to be proud of. If we consider M1's reputation, we sufficiently believe that they are no slouch company. They are a company concerned with the growth of their products, [and] with developing their business; [it is evident] by taking into account M1's *reputation and products in the market. So, we have to have a trust-first approach to nurture any satisfaction. We are aware that such cooperation, especially with other principals, is renewed every other year. This means that there is a chance that this principal may someday break away so we have to keep them pleased – so that our contract will be extended (D1).*

D2 indicates a similar effort as D1. In this sense, D2 has invested more infrastructure as a commitment to support a long-term relationship with M2. In addition, D2 also keeps nurturing such long-term relationship albeit its profit margin is decreased. This may imply D2 has a weaker power than M2. As D2's informant recalls:

We have to really achieve [our target] to get incentive because if our margin is reduced, some processes will consequently have to be squeezed in order to get a positive bottom line. Yes, profitable it is, but since we at D2 have an expectation that we get at least the same bottom lines across our principals. If these are equal, we assume that these are adequate. We have dedicated teams for our special principal M2, and we expand our infrastructure by adding [more people to] to the sales team support – so we can serve in a more focused and better way (D2).

In summary, the analyses of second priority likely indicates the manufacturer holds greater power over the distributor because the distributor should deliver its commitment to a long-term relationship toward the manufacturer, and so satisfy the manufacturer economically, prior to attaining the manufacturer's commitment into this long-term cooperation.

5.4 Analysis of the Distribution Channel Process

This study also delivers further insights about the distribution channel process from the manufacturer to the distributor domains and vice versa. Based on the qualitative findings, the process could be mapped into several steps. This process could be divided into two parts - the manufacturer domain and the distributor domain. As the Indonesian manufacturer generally possesses greater power over its distributor, hence the manufacturer's activities likely determine the dynamics of the distributor's activities. In turn, the distributor replies to the manufacturer's actions in several interrelated activities. The process is adapted from Figure 2.2 and is now depicted as Figure 5.3.

Figure 5.3 summarises the manufacturer's and the distributor's drivers that are gathered from the interview processes. It shows that the manufacturer's and the distributor's activities are different when they are in the long-term relationship. Therefore, different channel connectivities exist from the manufacturer to the distributor and vice versa, and these support the models, and the findings of the quantitative study.

Based on Patton (1990), the development of the distribution channel process in Figure 5.3 begins with the theme development. This stage is conducted through associating each participant's activity in the qualitative interviews with an item in the quantitative study which has the closest meaning. For example, the 'joint meeting with the distributor' activity could be associated with the activity on 'sharing information about competitors' activity included in the manufacturer's market orientation of the quantitative study.

Secondly, the content analysis groups each activity in the qualitative interviews into the relevant constructs of the quantitative study. For example, providing the 'joint

meeting with the distributor' activity closely relates to the 'sharing information about competitors' activity in the manufacturer's market orientation construct. Hence, this 'joint meeting with the distributor' activity is included in the construct of manufacturer's market orientation.

Lastly, the data interpretation maps connections amongst each quantitative-based' construct as based on the possibility of responses' linkage between the constructs. For example, within the MLTO construct, M1 expects its relationship with D1 to 'growth sustainably'. This expectation could be associated with the manufacturer's expectation to build a 'profitable relationship in the long-run' being included in the MLTO construct of the quantitative study. Such an expectation may lead to a more active involvement of D1 in M1's internal coordination to handle competitors, and to serve customers. As the 'involvement of the distributor in the manufacturer's programs' could be associated with the 'interfunctional coordination' dimension in the MO construct of the quantitative study, the MLTO construct may also increase the MO construct.

As discussed, the likely connectivity linkages between constructs are depicted in the Figure 5.3 as follow:

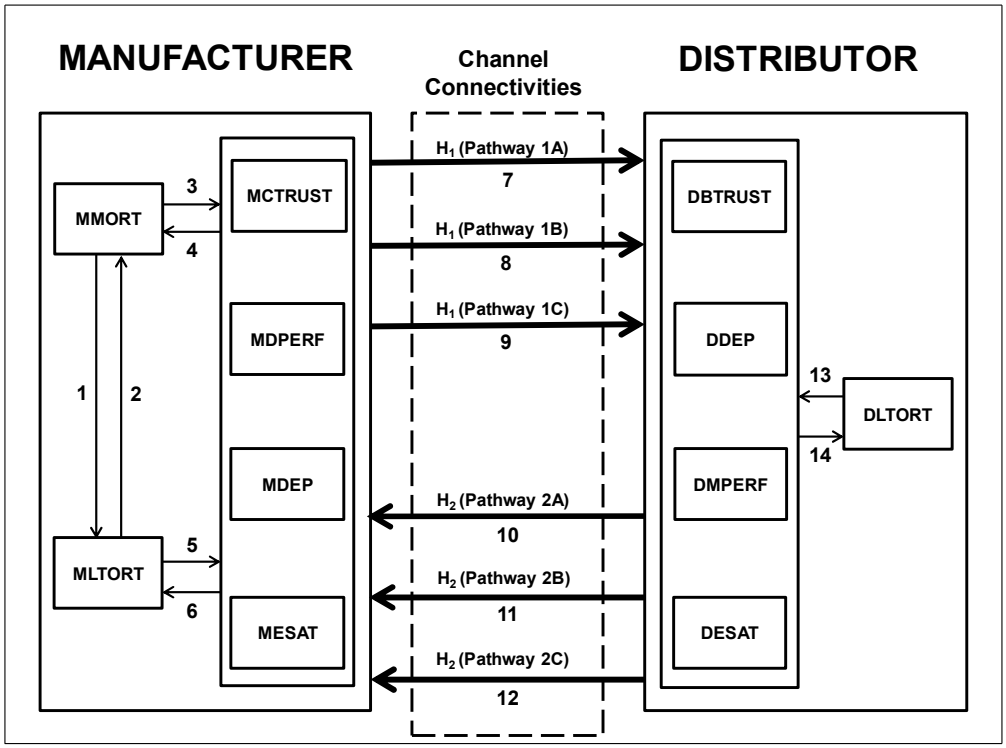


Figure 5.3: The Distribution Channel Process

Figure 5.3 shows the distribution channel connectivities processes from both the combined manufacturer's and the distributor's perspectives. The process shows channel connectivities likely exist (pathways 1A, 1B, 1C, 2A, 2B, and 2C). This supports and triangulates the hypothesised paths shown to be present in the quantitative study. Accordingly, the supporting qualitative evidence for these pathways is shown in the Appendices F. Moreover, the MMORT, MLTORT, and DLTORT constructs likely become the antecedents or the refining outcomes of the channel connectivities relationships. The evidence for the pathways within the manufacturer and the distributor domains are shown in Appendix I. Therefore, this process further triangulates the findings of the bootstrap validated quantitative study.

Nonetheless, the interview findings indicate more channel connectivities may exist beyond the significant channel connectivities found in the quantitative models (6

pathways). This indicates that in some cases a matched manufacturer and distributor may engage additional connectivities, but across the final 138 matched pairs of manufacturers and distributors this variation is not significant.

5.5 Implications of the Research

The implications of this study are divided into theoretical and practical implications as follows:

5.5.1 Theoretical Implications

This study identifies the direct connectivity pathways that exist between a manufacturer and its distributor in the Indonesian manufacturing context. The pathways are mediated by five constructs and four of the five constructs are significant. In this study, only the conflict construct is insignificant.

Based on the qualitative findings, the insignificant conflicts may stem from the manufacturer's perspective that conflicts are only moderate. As M1's informant recalls:

> *So far, they can be said to be moderate, without many [conflicts]. For the aforementioned case of [team] addition, if it is really needed, they will provide. (M1)*

Such moderate conflicts also recognised by M2, as M2's informant states:

> *Yes, there have been conflicts in certain areas. We then tried to give inputs to D2. Basically, in order to increase outlet transaction [in certain area], we have to deploy more sales force to that area. D2 got this logic, and their sales force was later increased. Basically, they have been able to meet our request. (M2)*

The distributor also views the conflicts as insignificant and considers them more a part of the relationship's dynamics which are solvable. As the informants of M1 and M2 assert:

> *In our cooperation with M1, the number of salespeople and supervisors was agreed at the beginning. So far, we are always able to meet that number; we've got no complaint. (D1)*

> *It wasn't a conflict, but at time, we both aware that with the business growing, we have to add [certain] components at D2. Say, availability of the sales force team. We review this together. (D2)*

These viewpoints and the manufacturers' willingness to actively overcome the conflicts (such as the M1's informant statement to 'keep communicating all the time and hold a routine review at least once a month') may contribute to the normalisation of such manufacturer and distributor conflicts under a spirit of maintaining a long-term relationship.

From the manufacturer's perspective, market orientation (MMORT) and long-term orientation (MLTORT) are established under SEM as joint channel connectivities drivers. These drivers then influence a series of mediating constructs that also contribute towards the overall direct connectivity pathways. This study broadens Hwang et al. (2013)'s collectivist culture study because the study of Hwang et al. (2013) merely uses long-term orientation as a sole driver and gains perspectives only from 114 Korean retailer firms which doing business with their suppliers. It also contributes to the literature by demonstrating that in Indonesia, and from the manufacturer's perspective, there are joint effects of individualist and collectivist business cultures interplaying in the relationships between the manufacturer and the distributor.

This study also shows there are differences in the manufacturer-to-distributor (or distributor-to-manufacturer) channels engaged. From the distributor's viewpoint, because market orientation is only set by the manufacturer it is not a driver of the distributor's channel connectivities. Hence, long-term orientation acts as the single antecedent driver of the distributor connectivities channels. This finding is consistent with the study of Chung et al. (2008) and Hwang et al. (2013) as both studies posit long-term orientation as a sole driver of channel relationship in the context of collectivist cultures.

This study's findings show that either manufacturer or distributor emphasise their partner performance prior to developing a long-term relationship, regardless their relative power position across the channel relationship. This may further reflect the influence of the individualist culture – as the literatures show a channel member should deliver convincing performance prior to receiving trust, dependence, and satisfaction from its partner in an individualist culture (Cannon et al. 2010; Chung et al. 2008; Runyan et al. 2010). These findings remain consistent with those of Habir and Larasati (1999), Heuer et al. (1999), Bennington and Habir (2003), and Munandar (2003) - with each supporting that Indonesian managers are open to individualist cultural influences, whilst still holding steadfast to their collectivist culture perspectives.

The lower stage of power-dependence is likely seen as interplay with the manufacturer requiring to be economically satisfied by the distributor prior to accepting and developing longer term cooperation. Conversely, the distributor should show its long-term orientation toward its relationship with its manufacturer before attaining the manufacturer's support – built around its market orientation and its long-term orientation. Thus in general, the manufacturer likely holds greater power over distributor. This corroborates the power-dependence logic within social exchange

theory (Emerson 1962) and it is in line with the findings of Butaney and Wortzel (1988).

As the mutual dependence between the manufacturer and the distributor is mostly determined by the existence of their transaction-specific investments (Heide & John 1988; Kumar 2005; John & Reve 2010), these transaction-specific investments (TSI) may also play a vital role in their working relationship. In this sense, the TSI's of manufacturer (such as: company brand, products brand, and networks) may provide a stronger bargaining power over the TSI's of the distributor (such as: infrastructure, sales force, and distribution software). This in turn can lead to further manufacturer power over the distributor.

Providing this asymmetry of power and dependence structure may produce dysfunctional relationship (Gundlach & Cadotte 1994; McAlister et al. 1986), and consequently the distributor tends to accept any manufacturer's programs and accepts increased dependency to stay (and survive) in the relationship.

Based on the likely existence of mutual dependence and power asymmetry between the manufacturer and the distributor, there should likely exist an alignment between them that moves towards sustainable channel connectivities. Such alignment can be achieved as long as the distributor (as the weaker channel partner), believes the manufacturer is being fair (Kumar et al. 1995b). The fairness perception then drives the distributor towards seek mutual dependence with the manufacturer and so developing long-term relationship, as a form of constraint absorption activity (Pfeffer & Leong 1977; Pfeffer & Salancik 2003; Casciaro & Piskorski 2005). In turn, this long-term relationship may facilitate further alignment development. From the manufacturer's side, this power asymmetry is not an obstacle to develop its alignment

formation (as long this manufacturer tolerates its power condition), and can drive the alignment towards a satisfactory situation (Hingley 2005; Thomas & Esper 2010). This tolerance may be reflected in the manufacturer's positive perception of the ability of the distributor's TSIs to generate suitable profits for these connectivities' channel cooperation. This can create a mutual dependence towards the distributor and can be the basis for further alignment development.

Lastly, this study uses matched manufacturer and distributor data sets to develop a bi-directional comparison between the blocks of manufacturer and distributor connectivites constructs. This approach provides more meaningful insights regarding the magnitude of the influences between constructs, as well as the ways the manufacturer or the distributor deliver their respective influences.

5.5.2 Practical Implications

This study's findings can impact the manager of manufacturer and distributor as follows.

5.5.2.1 Implications for Manufacturer

Based on the first priority of each party's performance, the manufacturer should consider the distributor's performance as a first basis for the continuance of a working relationship. In addition, this study suggests that in Indonesia, for the manufacturer to prosper it should consider implementing a market orientation strategy and long-term perspectives focused towards the channel connectivities alignment with the distributor –even in the concentrated industry market structure that predominates in Indonesia.

This study shows the manufacturer's dependence on its distributor negatively associates with the distributor's economic satisfaction. This implies that as the manufacturer increases its dominancy; it can impact on the economic satisfaction of its distributor. Therefore, the manufacturer when implementing its channel connectivities strategy should consider a balanced level of dominancy.

5.5.2.2 Implications for Distributor

As the first priority of the distributor in developing long-term relationship with manufacturer is the performance of its manufacturer, the distributor should carefully consider the manufacturer's performance when developing a continuous and on-going relationship.

Secondly, this study finds the distributor's long-term orientation towards the manufacturer provides the second highest influence on the manufacturer's market orientation and the manufacturer's long-term orientation. This implies the distributor should develop its long-term relationship with its manufacturer by performing, and constantly deploying its resources (TSIs) to deliver solid channel results. But the weaker position of distributor against its manufacturer should form the background to this considered deployment.

5.6 Research Limitations and Directions for Future Research

Although this study provides some meaningful results for research and practices, there are several limitations. These limitations might threat the internal and external validity of the research, yet they also provide opportunities for future research.

First, the average-variance extracted (AVE) values of several constructs are below the desired threshold (Hair et al. 2010). The acceptable, yet small, purposive sample size (140 matched manufacturer-distributor pairs) may contribute to these lower measures, as may the adaptation of prior western measures into the Indonesian channel context. Hence, the study's findings may not generalise to other countries, and/or to other cultures beyond Indonesia. Future research should seek large sample sizes (and a random collection method), and should compare the impacts of the country's different cultures in their channel connectivities development.

Second, this study only focuses on larger manufacturing industries, and in this context each market is dominated by a few key players. Therefore, future research could investigate different settings (such as: service industries, competitive businesses) to find different comparisons.

Third, this study only considers the manufacturers and their distributors from multiple and unrelated industries, and does not emphasize the variations on the manufacturer and the distributor relationships that may emerge in detailed (and related) specific industry studies. Thus, future research could compare the role of firm's characteristics (such as: multi-distributor, sole-distributor, large-sized firm, small-sized firm) and also compare two (or three) related industries (such as: food and beverages against fast-moving consumer goods) to explore deeper variations.

Fourth, the conflict construct remains problematic as its existence is not included in the structural model. Whilst this is a special characteristic for Indonesian or collectivist cultures, further exploration is warranted to investigate the role of this construct in the dynamics of channel connectivity relationships.

Fifth, the transaction-specific investments (TSIs) of either the manufacturer or the distributor play a key role in the dependence dynamics of the manufacturer-distributor relationships. Further research could evaluate the extent of TSIs in channel connectivities.

Sixth, this study focuses on the manufacturer and the distributor relationship. Other parties in a marketing channel, such as business or individual customers, may play a different role in driving aspects of a distribution channel – because their inputs contribute to the refinement of products offered to market. Such contributions may relate to the timing to buy the products, the preferred locations to buy the products, the buying behaviours, and the parties involved in encouraging the customers to purchase the products (Rosenbloom 2013). Therefore, future research could consider customer in developing models of interaction in a marketing channel.

Seventh, this study suggests the manufacturer and the distributor managers should develop alignments that better serve their markets. However, this issue is beyond the scope of this study. Hence, future research could explore the ways to develop such alignments in a other particular channel programs or activities.

Chapter 6: Conclusion

In the Indonesian geographical context of highly dispersed marketing channels across its archipelagos, managing the relationship between larger manufacturers and their principal distributors is a challenge. This study views the relationship as a set of 'channel connectivities' that influence both sides of this marketing channel's operations. Therefore, it investigates whether there is a common set of enabling relationship drivers that can enable and possibly enhance channel connectivities between the manufacturer and its principal distributor.

To achieve this goal this research employs a mixed method approach consisting of literature, structural equation modeling (SEM), and qualitative semi-structured interviews. It engages 140 matched manufacturer and distributor data sets and applies two integrated SEM models to explore the channel connectivities between the two parties.

The SEM shows six channel connectivities exist between the manufacturer and the distributor – one is bi-directional and four are uni-directional. The bi-directional connectivities path is the strongest and is performance related. It indicates manufacturers and distributors in a long-term relationship and mutual dependence.

Considering the manufacturer perspective, the first SEM uni-directional channel connectivity pathway shows the manufacturer's economic satisfaction positively influences the distributor's long-term orientation. This is qualitatively supported from the managers' perspective in that the manufacturer's economic satisfaction is seen to stem from the sales growth of the distributor. The distributor's drive for sales increases and profit margin growth over time is an indicator of the distributor's commitment to a long-term orientation.

The second SEM uni-directional pathway reveals a negative relationship between the manufacturer's dependence and the distributor's economic satisfaction. Qualitative interviews show distributors with reliable supporting infrastructures lead to an increase in the manufacturer's dependency on the distributor's capability to deliver results. Thus, from the distributor's viewpoint, the increased dependency of the manufacturer restricts it, and exerts pressures on its ongoing business growth as an independent entity. Hence, its economic satisfaction is negatively impacted.

From the distributor's perspective, the third and fourth SEM uni-directional pathways show the distributor's long-term orientation positively influences both the manufacturer's market orientation and the manufacturer's long-term orientation. This relationship shows the distributors long term channel strategy is likely to impact on the business strategy of the manufacturer. This finding is supported by qualitative interviews with all the manufacturer and their distributor managers. For example, the distributor's commitment to latest information technologies, and further human capital, reinforces their long-term relationship. Accordingly, the distributor's long-term orientation likely increases the manufacturer's market orientation.

This study's findings suggest manufacturers could consider implementing both market orientation strategies and long-term perspectives towards their channel connectivities alignment with their distributors. In addition, the manufacturers could consider exerting a balanced (not excessive) level of dominancy when implementing their channel connectivities strategies. For distributors, the results imply they should also consider their manufacturer's performance when developing their long-term relationships.

This research contributes to marketing channel research by delivering a validated, broad study of channel connectivities between the manufacturer and its principal

distributor in the Indonesian context. The existence of power asymmetry in Indonesian manufacturing moderates the mutual dependence which may then improve the alignment between the manufacturer and its distributor. This can then motivate these parties to further develop their sustainable channel connectivities.

The Indonesian government can utilise this study as a further supporting information source that can offer an alternative perspective to consider, facilitate, guide, and assist with further implementations around their current competition-based industrial programs.

From a methodological viewpoint, the usages of literature-supported surveys of matched data sets, plus the SEM model with same independent constructs, provide a valid and reliable comparison model to understanding channel connectivities. The path strength of each channel connectivity indicates its relative importance. Thus, both the manufacturer and the distributor can utilise this model as tool to explore new options within the channel connectivity structure, and/or to reinforce their existing individual channel connectivities.

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Appendix A1
Questionnaire (Manufacturer)

Ethics Approval H3921

Thesis Questionnaire
The Effect of Manufacturer's Market-Oriented Culture
on Distributor Satisfaction across Marketing Channels
in the Indonesian Manufacturing Sector

Dear Sir/Madam,

I am a lecturer in Faculty of Economics, Diponegoro University that pursues Doctor of Philosophy in Business at James Cook University Australia. You, as a representative of manufacturer who is in charge in the distribution and sales division, are invited to take part in a research that adds to understanding of the perception held by Manufacturers toward Distributors and analyzes the effect of manufacturer's market-oriented culture on distributor's satisfaction.

In the first section of this questionnaire you will be asked to give perceptions toward manufacturer's competitive strategy. The second section deals with perceptions toward your distributor. The last part covers demographics questions about you and your company. As an introduction, herewith I enclose a copy of official letter for survey from James Cook University.

If you agree to be involved in the study, please complete the attached questionnaire. The questionnaire should only take approximately 10 minutes of your time. Taking part in this study is completely voluntary and you can stop taking part in the study at any time without explanation or prejudice. You may also withdraw any unprocessed data from the study. Your responses and details will remain anonymous and strictly confidential. The data compiled from the study may be used in research publications. You will not be identified in any way in these publications and if you would like to have the summary of this survey, I would be glad to deliver it. Please note that the researcher may use the compiled data collected at a later date for further research.

If you have any questions about the study, please contact I Made Sukresna (Principal Investigator), Associate Professor John Hamilton (Supervisor 1), or Dr. Janelle Rose (Supervisor 2).

Yours Sincerely,
I Made Sukresna

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1 December 2010

To: The Senior Company Director
Java, Indonesia

Dear Sir,

This letter is to introduce Mr. I Made Sukresna.

Mr Sukresna is currently enrolled as a full time student at James Cook University and I confirm the following details:

- Mr Sukresna commenced full time enrolment in the Doctor of Philosophy (PhD) degree program at the Cairns Campus of James Cook University in Cairns, Australia on 10 February 2010;
- Mr Sukresna PhD candidature was confirmed on 27 October 2010;
- The University has granted Mr Sukresna ethics approval to conduct his study;
- Mr Sukresna is expected to complete his PhD study by February 2013.

Mr I Made Sukresna is researching the marketing channels between Indonesian manufacturer to distributor operations across Java, and to determine areas for industry-wide improvements in competitiveness.

We ask for your company's assistance, and request that you (or a senior member of your company) complete the attached PhD research survey.

All information provided by your company will remain confidential and no record of your company or its name will be retained by the researcher or by James Cook University.

Company participation by completing this survey is entirely voluntary, but again Mr. I Made Sukresna and James Cook University would be most grateful for your support.

We trust this research study will receive your most favourable consideration and support.

Yours faithfully,

Professor Helene Marsh (Ph.D.)
Dean, Graduate Research Studies

Associate Professor John Hamilton (Ph.D.)
Director of E-Business

Cairns - Townsville - Brisbane – Singapore
CRICOS Provider Code 00117J

PLEASE CROSS YOUR RESPONSES IN THE CHOSEN ANSWERS ⇒ ⊗

Please answer the questions below regarding your perceptions toward your company:

A.	**As a manufacturer our market strategies involve:**	**Strongly Agree**	**Agree**	**Neither Agree nor Disagree**	**Disagree**	**Strongly Disagree**
1	The regular assessment of competitors' strategic strengths	○	○	○	○	○
2	Rapid responses to competitive threats	○	○	○	○	○
3	Our top managers regularly visit stores/outlets that sell our products	○	○	○	○	○
4	Sharing information across all business functions to best assist stores/outlets	○	○	○	○	○
5	Integration of business functions to serve the needs of target stores/outlets	○	○	○	○	○
6	Regularly measure each store's/outlet's satisfaction level	○	○	○	○	○
7	Our salespeople sharing information about competitor activities	○	○	○	○	○
8	The targeting of stores/outlets that offers us the most competitive advantage	○	○	○	○	○

Please answer all questions below about your External Distributor (not one owned by your company) that generates the highest sales contribution.
Please specify name of the Distributor: ……

B.	**Our relationship with this distributor:**	**Strongly Agree**	**Agree**	**Neither Agree nor Disagree**	**Disagree**	**Strongly Disagree**
9	Provides us with a dominant market share in our sales area	○	○	○	○	○
10	Increases our products' profit contribution	○	○	○	○	○
11	Is very attractive in terms of profit margins	○	○	○	○	○
12	Increases number of stores/outlets that purchase our products (effective call)	○	○	○	○	○
13	Provides us with targeted selling capabilities	○	○	○	○	○
14	Will be profitable in the long run	○	○	○	○	○
15	Is focused on joint long-term goals	○	○	○	○	○
16	Is expected it will last for a long time	○	○	○	○	○
17	Will even out in the long run regarding concessions that we have made	○	○	○	○	○
18	Is a long-term alliance even if we will experience management changes	○	○	○	○	○

C.	**As a manufacturer we:**	**Strongly Agree**	**Agree**	**Neither Agree nor Disagree**	**Disagree**	**Strongly Disagree**
19	Are happy with the services provided by this distributor (i.e.: frequent stores/outlets survey)	○	○	○	○	○
20	Will continue selling our product through this distributor	○	○	○	○	○
21	Are satisfied with the distribution software/web usage by this distributor	○	○	○	○	○

D.	We believe this distributor:	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
22	Obeys the Terms of Payment and delivery agreements with us	○	○	○	○	○
23	Works within our contractual agreements	○	○	○	○	○
24	Is telling the truth even when they give a rather unlikely explanation	○	○	○	○	○
25	Would not take advantage by marking-up our products' final price to outlets	○	○	○	○	○
26	Will remain very loyal to this relationship	○	○	○	○	○
27	Will help product promotions when we experience over-budget	○	○	○	○	○
28	Will be ready to assist us when we have rapid decline of sales	○	○	○	○	○

E.	As a manufacturer we believe:	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
29	Our sales would be reduced if our relationship with this distributor is discontinued	○	○	○	○	○
30	It would be difficult for us to replace this distributor	○	○	○	○	○
31	This distributor's competencies are essential for the selling of our products	○	○	○	○	○
32	We can use our sales force to sell the products currently sold by this distributor	○	○	○	○	○
33	We maintain good communications with this distributor	○	○	○	○	○
34	Our sales success is largely due to the selling efforts of this distributor	○	○	○	○	○
35	We need this distributor to achieve our profit targets	○	○	○	○	○

F.	How intense are your disagreements with your distributor on:	Extremely Intense	Very Intense	Intense	Exists, But Not Intense	Does Not Exist
36	Number of distributor's salesmen needed?	○	○	○	○	○
37	Inventory level held?	○	○	○	○	○
38	Responsibility of returned product?	○	○	○	○	○
39	Delivery correctness?	○	○	○	○	○
40	Sales target?	○	○	○	○	○
41	Information about customer (stores/outlets)?	○	○	○	○	○
42	Terms of payment?	○	○	○	○	○
43	Product's price to stores/outlets?	○	○	○	○	○

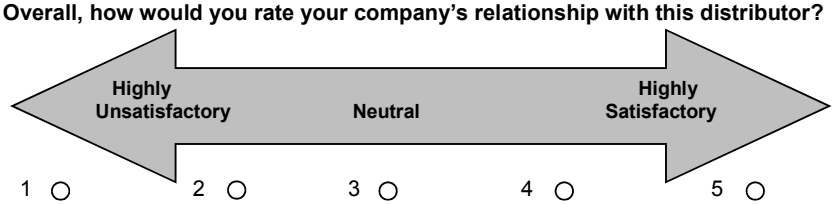
G.	How does the performance of this distributor compare with other distributors on:	Very Good	Good	Average	Bad	Very Bad
44	Delivery correctness?	○	○	○	○	○
45	Number of stores it covers?	○	○	○	○	○
46	Product varieties it distributes to stores?	○	○	○	○	○
47	Adequacy of products that is available in distributor?	○	○	○	○	○
48	Competencies of management?	○	○	○	○	○
49	Infrastructures readiness (buildings, warehouses, and offices)?	○	○	○	○	○
50	Level of sales volume?	○	○	○	○	○
51	Level of sales growth?	○	○	○	○	○
52	Paying its obligation to us (Terms of Payment)?	○	○	○	○	○

DEMOGRAPHICS DATA OF RESPONDENT

1. **Gender:** …….
2. **Highest education qualification:** …….
3. **Job position:** …….
4. **Length of time in current position:** …….
5. **Total working experience in distribution and sales area:** ……
6. **Company's business:** ……
7. **How long has the business been operating?** ……..
8. **Employee numbers:** ……
9. **My company's average sales per month: +/- Rp** ……
10. **My company's status of ownership is:**
    - ○ Domestic owned (more than 50% is domestic share)
    - ○ Foreign owned (more than 50% is foreign share)
    - ○ Government owned (more than 50% is government share)
    - ○ Joint venture (a balanced share of domestic and foreign)

11. **In total, how many distributors does the company engage?** ……..
12. **How long has the company had a relationship with this distributor?**

    < 1 years ○ >5-10 years ○
    1-5 years ○ >10 years ○
13. **Overall, how would you rate your company's relationship with this distributor?**



14. **Please add any additional comments (if any) regarding your company's relationship with this distributor:**

    ……
    ……..
    ……

Appendix A2
Questionnaire (Distributor)

Ethics Approval H3921

Thesis Questionnaire
The Effect of Manufacturer's Market-Oriented Culture
on Distributor Satisfaction across Marketing Channels
in the Indonesian Manufacturing Sector

Dear Sir/Madam,

I am a lecturer in Faculty of Economics, Diponegoro University that pursues Doctor of Philosophy in Business at James Cook University Australia. You, as a representative of a distributor company, are invited to take part in a research that adds to understanding of the perception held by Distributors toward Manufacturers and analyzes the effect of manufacturer's market-oriented culture on distributor's satisfaction.

In this questionnaire you will be asked to give perceptions toward your manufacturer, followed by demographics questions about you and your company. As an introduction, herewith I enclose a copy of official letter for survey from James Cook University.

If you agree to be involved in the study, please complete the attached questionnaire. The questionnaire should only take approximately 10 minutes of your time. Taking part in this study is completely voluntary and you can stop taking part in the study at any time without explanation or prejudice. You may also withdraw any unprocessed data from the study. Your responses and details will remain anonymous and strictly confidential. The data compiled from the study may be used in research publications. You will not be identified in any way in these publications and if you would like to have the summary of this survey, I would be glad to deliver it. Please note that the researcher may use the compiled data collected at a later date for further research.

If you have any questions about the study, please contact I Made Sukresna (Principal Investigator), Associate Professor John Hamilton (Supervisor 1), or Dr. Janelle Rose (Supervisor 2).

Yours Sincerely,
I Made Sukresna

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1 December 2010

To: The Senior Company Director
Java, Indonesia

Dear Sir,

This letter is to introduce Mr. I Made Sukresna.

Mr Sukresna is currently enrolled as a full time student at James Cook University and I confirm the following details:

- Mr Sukresna commenced full time enrolment in the Doctor of Philosophy (PhD) degree program at the Cairns Campus of James Cook University in Cairns, Australia on 10 February 2010;
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- The University has granted Mr Sukresna ethics approval to conduct his study;
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Mr I Made Sukresna is researching the marketing channels between Indonesian manufacturer to distributor operations across Java, and to determine areas for industry-wide improvements in competitiveness.

We ask for your company's assistance, and request that you (or a senior member of your company) complete the attached PhD research survey.

All information provided by your company will remain confidential and no record of your company or its name will be retained by the researcher or by James Cook University.

Company participation by completing this survey is entirely voluntary, but again Mr. I Made Sukresna and James Cook University would be most grateful for your support.

We trust this research study will receive your most favourable consideration and support.

Yours faithfully,

Professor Helene Marsh (Ph.D.)
Dean, Graduate Research Studies

Associate Professor John Hamilton (Ph.D.)
Director of E-Business

Cairns - Townsville - Brisbane – Singapore
CRICOS Provider Code 00117J

Please answer all questions below about your Manufacturer (does not belong to one group with your company) that generates the highest sales contribution.
Please specify name of the Manufacturer: ……..

PLEASE CROSS YOUR RESPONSES IN THE CHOSEN ANSWERS ⟹ ⓧ

A.	**Our relationship with this manufacturer:**	**Strongly Agree**	**Agree**	**Neither Agree nor Disagree**	**Disagree**	**Strongly Disagree**
1	Has provided us with a dominant market share in this sales area	○	○	○	○	○
2	Has increased profit in our sales area	○	○	○	○	○
3	Has provided us with a good profit margin	○	○	○	○	○
4	Has increased our Return-on-Investment	○	○	○	○	○
5	Provides sales support including attractive reward offers	○	○	○	○	○
6	Will be profitable in the long run	○	○	○	○	○
7	Is focused on joint long-term goals	○	○	○	○	○
8	Is expected it will last for a long time	○	○	○	○	○
9	Will even out in the long run regarding concessions that we made to help out this manufacturer	○	○	○	○	○
10	Is a long-term alliance even if we will experience management changes	○	○	○	○	○

B.	**As a distributor we are:**	**Strongly Agree**	**Agree**	**Neither Agree nor Disagree**	**Disagree**	**Strongly Disagree**
11	Satisfied with the professionalism of this manufacturer's personnel	○	○	○	○	○
12	Satisfied with the marketability of this manufacturer's products	○	○	○	○	○
13	Satisfied with this manufacturer's support on software/web usage	○	○	○	○	○

C.	**We can rely on this manufacturer to:**	**Strongly Agree**	**Agree**	**Neither Agree nor Disagree**	**Disagree**	**Strongly Disagree**
14	Perform its obligations to us (i.e.: paying claims on promotion discounts, trade promotions, etc.)	○	○	○	○	○
15	Stay within our contractual agreement requirements	○	○	○	○	○
16	Always tell us the truth	○	○	○	○	○
17	Always work with us to achieve positive outcomes	○	○	○	○	○

D.	**We believe this manufacturer:**	**Strongly Agree**	**Agree**	**Neither Agree nor Disagree**	**Disagree**	**Strongly Disagree**
18	Provides us with suitable management training	○	○	○	○	○
19	Supports our business management	○	○	○	○	○
20	Will assist us when we have financial problems	○	○	○	○	○
21	Will actively respond to our problems (i.e.: sales territory's breaching)	○	○	○	○	○

E.	As a distributor we believe:	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
22	Our sales success is largely due to the marketing efforts of this manufacturer	○	○	○	○	○
23	It would be difficult for us to replace this manufacturer	○	○	○	○	○
24	This manufacturer's brands are essential to our business	○	○	○	○	○
25	We have invested in infrastructure dedicated to our relationship with this manufacturer	○	○	○	○	○
26	We maintain good communications with this manufacturer	○	○	○	○	○
27	The loss of this manufacturer would significantly lower our sales volume	○	○	○	○	○
28	We need this manufacturer to achieve our profit targets	○	○	○	○	○

F.	How intense are your disagreements with your manufacturer on:	Extremely Intense	Very Intense	Intense	Exists, But Not Intense	Does Not Exist
29	Number of distributor's salesmen needed?	○	○	○	○	○
30	Inventory levels held?	○	○	○	○	○
31	Responsibility of returned products?	○	○	○	○	○
32	Delivery correctness?	○	○	○	○	○
33	Sales target?	○	○	○	○	○
34	Information about customers (stores/outlets)?	○	○	○	○	○
35	Terms of payment?	○	○	○	○	○
36	Product's price to stores/outlets?	○	○	○	○	○

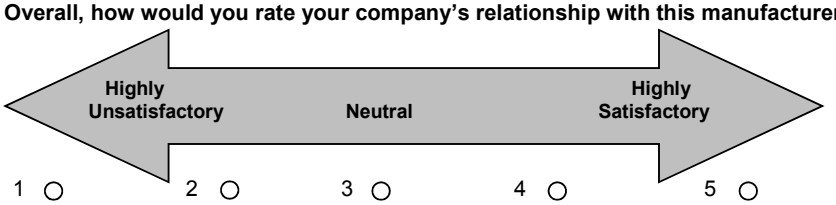
G.	How does the performance of this manufacturer compare with industry's average performance on:	Very Good	Good	Average	Bad	Very Bad
37	Delivery correctness of products to distributor?	○	○	○	○	○
38	Product availability (on average of all products)?	○	○	○	○	○
39	Product quality (easy to manage and marketable)?	○	○	○	○	○
40	Products' after-sales service (i.e.: returned of products)?	○	○	○	○	○
41	Level of overall profitability?	○	○	○	○	○
42	Level of sales growth?	○	○	○	○	○
43	Terms of payment?	○	○	○	○	○

DEMOGRAPHICS DATA OF RESPONDENT

1. **Gender:** ……..
2. **Highest education qualification:** …….
3. **Job position:** ……
4. **Length of time in current position:** ……
5. **Total working experience in distribution and sales area:** ……
6. **Company's business:** ……
7. **How long has the business been operating?** ……..
8. **Employee numbers:** ……
9. **My company's average sales per month: +/- Rp** ……
10. **My company's status of ownership is:**
    - ○ Domestic owned (more than 50% is domestic share)
    - ○ Foreign owned (more than 50% is foreign share)
    - ○ Government owned (more than 50% is government share)
    - ○ Joint venture (a balanced share of domestic and foreign)

11. **In total, how many manufacturers does the company engage?** ……..
12. **How long has the company had a relationship with this manufacturer?**

    < 1 years ○ >5-10 years ○
    1-6 years ○ >10 years ○
13. **Overall, how would you rate your company's relationship with this manufacturer?**



14. **Please add any additional comments (if any) regarding your company's relationship with this manufacturer:**

    ……
    ……
    ……

Appendix B
Certification of Translation (Thesis Questionnaires)

This administrative form
has been removed

Note: an Indonesian translated copy of the set of questionnaires is available on request

Appendix C
Demographic Profiles of Respondents

Table C1: Characteristics of the Manufacturers' Respondents (N=140)

Dimensions	Categories/Range	Numbers (%)
Respondent's gender	Female	34.3
	Male	65.7
Respondent's education	Junior high school	0.7
	High school	22.1
	Diploma	23.6
	Undergraduate	52.1
	Postgraduate	0.7
	Missing	0.7
Respondent's job position	Supervisor	66.4
	Manager	20.7
	Owner	12.9
Respondent's length of working in current job position	1-5 years	70
	> 5-10 years	24.3
	> 10-15 years	2.1
	> 15-20 years	2.9
	> 20 years	0.7
Respondent's length of experience in sales and distribution area	1-5 years	50
	> 5-10 years	30
	> 10-15 years	15
	> 15-20 years	4.3
	> 20 years	0.7
Company's business age	1-15 years	57.1
	> 15-30 years	25
	> 30-45 years	7.9
	> 45-60 years	4.3
	> 60 years	4.3
	Missing	1.4
Company's number of employees	20-99 people	59.3
	≥ 100 people	39.3
	Missing	1.4
Company's ownership	Private-Domestic	85
	Foreign	9.3
	State	3.6
	Joint Venture	2.1
Number of distributor(s)	1-5 companies	52.9
	> 5-10 companies	22.1
	> 10-15 companies	5
	> 15-20 companies	5.7
	> 20 companies	14.3
Length of relationship with the assessed distributor	1-5 years	44.3
	> 5-10 years	33.6
	> 10 years	22.1

Table C2: Characteristics of the Distributors' Respondents (N=140)

Dimensions	Categories/Range	Numbers (%)
Respondent's gender	Female	37.1
	Male	62.9
Respondent's education	High School	27.1
	Diploma	13.6
	Undergraduate	46.4
	Postgraduate	12.1
	Missing	0.7
Respondent's job position	Supervisor	47.0
	Manager	18.4
	Director	2.1
	Owner	32.1
Respondent's length of working in current job position	1-5 years	58.6
	> 5-10 years	31.3
	> 10-15 years	5.6
	> 15-20 years	3.6
	> 20 years	0.7
Respondent's length of experience in sales and distribution area	1-5 years	40.7
	> 5-10 years	41.4
	> 10-15 years	11.3
	> 15-20 years	5.0
	> 20 years	1.4
Company's business age	1-15 years	75
	> 15-30 years	21.4
	> 30-45 years	2.1
	> 45-60 years	0.7
	> 60 years	0.7
Company's number of employees	< 20 people	42.1
	20-99 people	26.9
	≥ 100 people	20.6
	Missing	10
Company's ownership	Private-Domestic	98.6
	Foreign	0.7
	Joint Venture	0.7
Number of manufacturer(s)	1-5 companies	50.7
	> 5-10 companies	27.1
	> 10-15 companies	8.5
	> 15-20 companies	10.7
	> 20 years	2.8
Length of relationship with the assessed manufacturer	1-5 years	51.4
	> 5-10 years	25
	> 10 years	23.6

Appendix D
Discriminant Validity

Table D1: Discriminant Validity

Construct	Average-Variance Extracted (AVE)	Square of Correlation	Decision
MMORT and MLTO	0.558	0.336	Valid
MMORT and MDPERF	0.470	0.076	Valid
MMORT and MDEP	0.442	0.147	Valid
MMORT and MCTRUST	0.428	0.253	Valid
MMORT and MESAT	0.465	0.402	Valid
MMORT and DLTO	0.482	0.279	Valid
MMORT and DMPERF	0.404	0.013	Valid
MMORT and DDEP	0.429	0.036	Valid
MMORT and DBTRUST	0.431	0.048	Valid
MMORT and DESAT	0.460	0.149	Valid
MMORT and MCONF	0.536	0.115	Valid
MMORT and DCONF	0.558	0.061	Valid
MLTO and MDPERF	0.618	0.303	Valid
MLTO and MDEP	0.589	0.389	Valid
MLTO and MCTRUST	0.575	0.500	Valid
MLTO and MESAT	0.612	0.530	Valid
MLTO and DLTO	0.629	0.121	Valid
MLTO and DMPERF	0.552	0.082	Valid
MLTO and DDEP	0.576	0.080	Valid
MLTO and DBTRUST	0.578	0.093	Valid
MLTO and DESAT	0.607	0.028	Valid
MLTO and MCONF	0.684	0.044	Valid
MLTO and DCONF	0.705	0.009	Valid
MDPERF and MDEP	0.502	0.372	Valid
MDPERF and MCTRUST	0.488	0.419	Valid
MDPERF and MESAT	0.525	0.225	Valid
MDPERF and DLTO	0.542	0.010	Valid
MDPERF and DMPERF	0.464	0.104	Valid
MDPERF and DDEP	0.489	0.055	Valid
MDPERF and DBTRUST	0.491	0.084	Valid
MDPERF and DESAT	0.519	0.047	Valid
MDPERF and MCONF	0.596	0.075	Valid
MDPERF and DCONF	0.617	0.001	Valid
MDEP and MCTRUST	0.459	0.428	Valid
MDEP and MESAT	0.496	0.240	Valid
MDEP and DLTO	0.513	0.389	Valid
MDEP and DMPERF	0.436	0.080	Valid
MDEP and DDEP	0.460	0.071	Valid
MDEP and DBTRUST	0.462	0.014	Valid
MDEP and DESAT	0.491	0.009	Valid
MDEP and MCONF	0.568	0.005	Valid
MDEP and DCONF	0.589	0.019	Valid
MCTRUST and MESAT	0.482	0.425	Valid
MCTRUST and DLTO	0.500	0.091	Valid
MCTRUST and DMPERF	0.422	0.042	Valid
MCTRUST and DDEP	0.447	0.009	Valid
MCTRUST and DBTRUST	0.448	0.033	Valid
MCTRUST and DESAT	0.477	0.057	Valid
MCTRUST and MCONF	0.554	0.009	Valid
MCTRUST and DCONF	0.575	0.003	Valid
MESAT and DLTO	0.537	0.202	Valid
MESAT and DMPERF	0.459	0.041	Valid

Table D1: Discriminant Validity (Continued)

Construct	Average-Variance Extracted (AVE)	Square of Correlation	Decision
MESAT and DDEP	0.483	0.031	Valid
MESAT and DESAT	0.514	0.123	Valid
MESAT and MCONF	0.591	0.007	Valid
MESAT and DCONF	0.612	0.000	Valid
DLTO and DMPERF	0.476	0.099	Valid
DLTO and DDEP	0.501	0.142	Valid
DLTO and DBTRUST	0.503	0.086	Valid
DLTO and DESAT	0.531	0.403	Valid
DLTO and MCONF	0.608	0.001	Valid
DLTO and DCONF	0.629	0.001	Valid
DMPERF and DDEP	0.423	0.194	Valid
DMPERF and DBTRUST	0.425	0.200	Valid
DMPERF and DESAT	0.454	0.268	Valid
DMPERF and MCONF	0.530	0.036	Valid
DMPERF and DCONF	0.551	0.015	Valid
DDEP and DBTRUST	0.450	0.039	Valid
DDEP and DESAT	0.478	0.249	Valid
DDEP and MCONF	0.555	0.001	Valid
DDEP and DCONF	0.576	0.000	Valid
DBTRUST and DESAT	0.480	0.226	Valid
DBTRUST and MCONF	0.557	0.003	Valid
DBTRUST and DCONF	0.578	0.055	Valid
DESAT and MCONF	0.586	0.003	Valid
DESAT and DCONF	0.607	0.009	Valid
MCONF and DCONF	0.684	0.318	Valid

Appendix E1
Bootstrapped Solution of the Channel Model (Manufacturer)

The model is recursive, sample size = 138
Observed, endogenous variables:
MMO, MDP, MD, MLTO, MCT, MES, DMP, DD, DLTO, DBT, DES
Unobserved, endogenous variables
MDPERF, MDEP, MCTRUST, MESAT, DMPERF, DDEP, DLTORT, DBTRUST, DESAT
Unobserved, exogenous variables
MMORT, e1, e3, e6, MLTORT, e2, e4, e5, z3, z6, e8, e10, e7, e11, e9, z9, z7, z6, z8, z2, z5, z4

Variable counts: channel model (manufacturer)

Number of variables in your model:	42
Number of observed variables:	11
Number of unobserved variables:	31
Number of exogenous variables:	22
Number of endogenous variables:	20

Parameter summary: channel model (manufacturer)

	Weights	Covariances	Variances	Means	Intercepts	Total
Fixed	31	0	11	0	0	42
Labeled	0	0	0	0	0	0
Unlabeled	15	1	11	0	0	27
Total	46	1	22	0	0	69

Notes for model: channel model (manufacturer)
Computation of degrees of freedom

Number of distinct sample moments:	66
Number of distinct parameters to be estimated:	27
Degrees of freedom (66 - 27):	39

Result: channel model (manufacturer)
Minimum was achieved, Chi-square = 46.133, Degrees of freedom = 39, Probability level = 0.201

Estimates: channel model (manufacturer), Scalar estimates: maximum likelihood estimates
Regression weights: channel model (manufacturer)

			Estimate	S.E.	C.R.	P	Label
MESAT	<---	MMORT	0.473	0.149	3.185	0.001	
MDPERF	<---	MLTORT	0.622	0.089	6.965	***	
MESAT	<---	MLTORT	0.463	0.12	3.858	***	
DLTORT	<---	MESAT	0.365	0.099	3.689	***	
MCTRUST	<---	MMORT	0.388	0.104	3.719	***	
MCTRUST	<---	MDPERF	0.64	0.09	7.12	***	
DMPERF	<---	MDPERF	0.637	0.093	6.886	***	
DMPERF	<---	DLTORT	0.331	0.107	3.108	0.002	
MDEP	<---	MCTRUST	0.898	0.102	8.845	***	
DBTRUST	<---	DMPERF	0.537	0.103	5.213	***	
DDEP	<---	DMPERF	0.35	0.113	3.094	0.002	
DESAT	<---	DMPERF	0.568	0.125	4.541	***	
DESAT	<---	DLTORT	0.457	0.116	3.93	***	
DDEP	<---	DLTORT	0.357	0.129	2.762	0.006	
DESAT	<---	MDEP	-0.216	0.109	-1.973	0.048	
MMO	<---	MMORT	0.5				
MDP	<---	MDPERF	0.49				
MD	<---	MDEP	0.51				
MLTO	<---	MLTORT	0.57				
MCT	<---	MCTRUST	0.41				
MES	<---	MESAT	0.5				
DMP	<---	DMPERF	0.39				
DD	<---	DDEP	0.56				

DLTO	<---	DLTORT	0.49				
DBT	<---	DBTRUST	0.63				
DES	<---	DESAT	0.46				

Standardised regression weights: channel model (manufacturer)

			Estimate
MESAT	<---	MMORT	0.432
MDPERF	<---	MLTORT	0.609
MESAT	<---	MLTORT	0.471
DLTORT	<---	MESAT	0.388
MCTRUST	<---	MMORT	0.361
MCTRUST	<---	MDPERF	0.68
DMPERF	<---	MDPERF	0.633
DMPERF	<---	DLTORT	0.297
MDEP	<---	MCTRUST	0.848
DBTRUST	<---	DMPERF	0.554
DDEP	<---	DMPERF	0.37
DESAT	<---	DMPERF	0.608
DESAT	<---	DLTORT	0.439
DDEP	<---	DLTORT	0.339
DESAT	<---	MDEP	-0.229
MMO	<---	MMORT	0.812
MDP	<---	MDPERF	0.895
MD	<---	MDEP	0.874
MLTO	<---	MLTORT	0.929
MCT	<---	MCTRUST	0.807
MES	<---	MESAT	0.863
DMP	<---	DMPERF	0.849
DD	<---	DDEP	0.829
DLTO	<---	DLTORT	0.859
DBT	<---	DBTRUST	0.839
DES	<---	DESAT	0.838

Covariances: channel model (manufacturer)

			Estimate	S.E.	C.R.	P	Label
MMORT	<-->	MLTORT	0.543	0.108	5.048	***	

Correlations: channel model (manufacturer)

			Estimate
MMORT	<-->	MLTORT	0.629

Variances: channel model (manufacturer)

	Estimate	S.E.	C.R.	P	Label
MMORT	0.774	0.142	5.473	***	
MLTORT	0.964	0.135	7.138	***	
z1	0.633	0.111	5.726	***	
z4	0.312	0.088	3.535	***	
z2	0.196	0.076	2.586	0.01	
z5	0.699	0.122	5.715	***	
z3	0.28	0.095	2.956	0.003	
z6	0.453	0.11	4.129	***	
z9	0.665	0.138	4.828	***	
z7	0.305	0.103	2.953	0.003	
z8	0.588	0.128	4.582	***	
e1	0.1				
e3	0.06				
e6	0.08				
e2	0.05				
e4	0.08				

e5	0.08				
e8	0.06				
e10	0.13				
e7	0.07				
e11	0.16				
e9	0.08				

Squared multiple correlations: channel model (manufacturer)

	Estimate
MESAT	0.664
MDPERF	0.371
DLTORT	0.151
MCTRUST	0.781
DMPERF	0.555
MDEP	0.719
DESAT	0.657
DBTRUST	0.307
DDEP	0.355
DES	0.702
DBT	0.704
DLTO	0.738
DD	0.687
DMP	0.721
MES	0.744
MCT	0.652
MLTO	0.862
MD	0.765
MDP	0.801
MMO	0.659

Modification indices: channel model (manufacturer)
Covariances

			M.I.	Par Change
z2	<-->	MLTORT	5.217	0.137
z7	<-->	MLTORT	5.452	-0.165
e9	<-->	MLTORT	5.452	-0.076
e2	<-->	z2	6.29	0.07
e2	<-->	z7	4.313	-0.068
e2	<-->	e9	4.313	-0.031
e3	<-->	e8	4.319	0.022
e1	<-->	z5	4.553	0.079

Variances

			M.I.	Par Change

Regression weights

			M.I.	Par Change

Bootstrap: channel model (manufacturer), Bootstrap standard errors, Scalar estimates
Regression weights: channel model (manufacturer)

Parameter			SE	SE-SE	Mean	Bias	SE-Bias
MESAT	<---	MMORT	0.233	0.004	0.514	0.038	0.005
MDPERF	<---	MLTORT	0.117	0.002	0.623	0	0.003
MESAT	<---	MLTORT	0.18	0.003	0.442	-0.02	0.004
DLTORT	<---	MESAT	0.136	0.002	0.372	0.006	0.003
MCTRUST	<---	MMORT	0.163	0.003	0.404	0.015	0.004
MCTRUST	<---	MDPERF	0.136	0.002	0.63	-0.009	0.003
DMPERF	<---	MDPERF	0.092	0.001	0.644	0.007	0.002
DMPERF	<---	DLTORT	0.129	0.002	0.341	0.009	0.003

MDEP	<---	MCTRUST	0.161	0.003	0.908	0.008	0.004
DBTRUST	<---	DMPERF	0.11	0.002	0.541	0.003	0.002
DDEP	<---	DMPERF	0.149	0.002	0.336	-0.014	0.003
DESAT	<---	DMPERF	0.149	0.002	0.575	0.005	0.003
DESAT	<---	DLTORT	0.144	0.002	0.466	0.009	0.003
DDEP	<---	DLTORT	0.173	0.003	0.38	0.022	0.004
DESAT	<---	MDEP	0.128	0.002	-0.213	0.004	0.003
MMO	<---	MMORT	0	0	0.5	0	0
MDP	<---	MDPERF	0	0	0.49	0	0
MD	<---	MDEP	0	0	0.51	0	0
MLTO	<---	MLTORT	0	0	0.57	0	0
MCT	<---	MCTRUST	0	0	0.41	0	0
MES	<---	MESAT	0	0	0.5	0	0
DMP	<---	DMPERF	0	0	0.39	0	0
DD	<---	DDEP	0	0	0.56	0	0
DLTO	<---	DLTORT	0	0	0.49	0	0
DBT	<---	DBTRUST	0	0	0.63	0	0
DES	<---	DESAT	0	0	0.46	0	0

Standardised regression weights: channel model (manufacturer)

Parameter			SE	SE-SE	Mean	Bias	SE-Bias
MESAT	<---	MMORT	0.186	0.003	0.46	0.026	0.004
MDERF	<---	MLTORT	0.09	0.001	0.608	-0.002	0.002
MESAT	<---	MLTORT	0.178	0.003	0.449	-0.022	0.004
DLTORT	<---	MESAT	0.124	0.002	0.389	0	0.003
MCTRUST	<---	MMORT	0.136	0.002	0.372	0.01	0.003
MCTRUST	<---	MDPERF	0.118	0.002	0.666	-0.014	0.003
DMPERF	<---	MDPERF	0.08	0.001	0.636	0.003	0.002
DMPERF	<---	DLTORT	0.1	0.002	0.301	0.003	0.002
MDEP	<---	MCTRUST	0.07	0.001	0.85	0	0.002
DBTRUST	<---	DMPERF	0.094	0.001	0.557	0.002	0.002
DDEP	<---	DMPERF	0.156	0.002	0.356	-0.015	0.003
DESAT	<---	DMPERF	0.139	0.002	0.616	0.006	0.003
DESAT	<---	DLTORT	0.117	0.002	0.446	0.006	0.003
DDEP	<---	DLTORT	0.148	0.002	0.355	0.015	0.003
DESAT	<---	MDEP	0.135	0.002	-0.228	0.003	0.003
MMO	<---	MMORT	0.032	0.001	0.806	-0.005	0.001
MDP	<---	MDPERF	0.016	0	0.891	-0.003	0
MD	<---	MDEP	0.027	0	0.869	-0.005	0.001
MLTO	<---	MLTORT	0.011	0	0.927	-0.002	0
MCT	<---	MCTRUST	0.035	0.001	0.801	-0.005	0.001
MES	<---	MESAT	0.022	0	0.858	-0.003	0
DMP	<---	DMPERF	0.02	0	0.846	-0.002	0
DD	<---	DDEP	0.026	0	0.825	-0.003	0.001
DLTO	<---	DLTORT	0.022	0	0.855	-0.003	0
DBT	<---	DBTRUST	0.027	0	0.834	-0.004	0.001
DES	<---	DESAT	0.028	0	0.832	-0.005	0.001

Covariances: channel model (manufacturer)

Parameter			SE	SE-SE	Mean	Bias	SE-Bias
MMORT	<-->	MLTORT	0.12	0.002	0.539	0	0.003

Correlations: channel model (manufacturer)

Parameter			SE	SE-SE	Mean	Bias	SE-Bias
MMORT	<-->	MLTORT	0.093	0.001	0.632	0.001	0.002

Variances: channel model (manufacturer)

Parameter	SE	SE-SE	Mean	Bias	SE-Bias
MMORT	0.164	0.003	0.767	0.001	0.004

MLTORT	0.159	0.003	0.957	0.001	0.004
z1	0.126	0.002	0.613	-0.014	0.003
z4	0.104	0.002	0.278	-0.029	0.002
z2	0.114	0.002	0.184	-0.007	0.003
z5	0.134	0.002	0.675	-0.017	0.003
z3	0.111	0.002	0.263	-0.012	0.002
z6	0.106	0.002	0.423	-0.024	0.002
z9	0.161	0.003	0.646	-0.01	0.004
z7	0.119	0.002	0.265	-0.034	0.003
z8	0.124	0.002	0.554	-0.026	0.003
e1	0	0	0.1	0	0
e3	0	0	0.06	0	0
e6	0	0	0.08	0	0
e2	0	0	0.05	0	0
e4	0	0	0.08	0	0
e5	0	0	0.08	0	0
e8	0	0	0.06	0	0
e10	0	0	0.13	0	0
e7	0	0	0.07	0	0
e11	0	0	0.16	0	0
e9	0	0	0.08	0	0

Squared multiple correlations: channel model (manufacturer)

Parameter	SE	SE-SE	Mean	Bias	SE-Bias
MESAT	0.101	0.002	0.698	0.031	0.002
MDPERF	0.107	0.002	0.377	0.006	0.002
DLTORT	0.096	0.002	0.167	0.016	0.002
MCTRUST	0.113	0.002	0.796	0.013	0.003
DMPERF	0.105	0.002	0.576	0.02	0.002
MDEP	0.116	0.002	0.727	0.005	0.003
DESAT	0.116	0.002	0.701	0.04	0.003
DBTRUST	0.103	0.002	0.319	0.011	0.002
DDEP	0.105	0.002	0.386	0.029	0.002
DES	0.046	0.001	0.692	-0.007	0.001
DBT	0.045	0.001	0.696	-0.006	0.001
DLTO	0.038	0.001	0.731	-0.005	0.001
DD	0.043	0.001	0.681	-0.004	0.001
DMP	0.034	0.001	0.716	-0.003	0.001
MES	0.037	0.001	0.737	-0.005	0.001
MCT	0.055	0.001	0.643	-0.006	0.001
MLTO	0.02	0	0.859	-0.003	0
MD	0.046	0.001	0.755	-0.008	0.001
MDP	0.029	0	0.795	-0.005	0.001
MMO	0.051	0.001	0.65	-0.007	0.001

Bootstrap confidence: channel model (manufacturer), bias-corrected percentile method, 95% confidence intervals, Scalar estimates
Regression weights: channel model (manufacturer)

Parameter			Estimate	Lower	Upper	P
MESAT	<---	MMORT	0.476	0.075	0.971	0.02
MDPERF	<---	MLTORT	0.623	0.392	0.841	0.001
MESAT	<---	MLTORT	0.462	0.085	0.791	0.021
DLTORT	<---	MESAT	0.366	0.104	0.641	0.003
MCTRUST	<---	MMORT	0.389	0.112	0.77	0.007
MCTRUST	<---	MDPERF	0.639	0.393	0.922	0.001
DMPERF	<---	MDPERF	0.637	0.449	0.802	0.002
DMPERF	<---	DLTORT	0.332	0.109	0.596	0.004
MDEP	<---	MCTRUST	0.9	0.603	1.219	0.001
DBTRUST	<---	DMPERF	0.538	0.32	0.756	0.001

DDEP	<---	DMPERF	0.351	0.018	0.612	0.037
DESAT	<---	DMPERF	0.57	0.31	0.873	0.003
DESAT	<---	DLTORT	0.458	0.216	0.771	0.001
DDEP	<---	DLTORT	0.358	0.039	0.702	0.025
DESAT	<---	MDEP	-0.218	-0.481	0.03	0.075
MMO	<---	MMORT	0.5	0.5	0.5	...
MDP	<---	MDPERF	0.49	0.49	0.49	...
MD	<---	MDEP	0.51	0.51	0.51	...
MLTO	<---	MLTORT	0.57	0.57	0.57	...
MCT	<---	MCTRUST	0.41	0.41	0.41	...
MES	<---	MESAT	0.5	0.5	0.5	...
DMP	<---	DMPERF	0.39	0.39	0.39	...
DD	<---	DDEP	0.56	0.56	0.56	...
DLTO	<---	DLTORT	0.49	0.49	0.49	...
DBT	<---	DBTRUST	0.63	0.63	0.63	...
DES	<---	DESAT	0.46	0.46	0.46	...

Standardised regression weights: channel model (manufacturer)

Parameter			Estimate	Lower	Upper	P
MESAT	<---	MMORT	0.434	0.045	0.788	0.026
MDPERF	<---	MLTORT	0.61	0.408	0.757	0.001
MESAT	<---	MLTORT	0.47	0.086	0.798	0.022
DLTORT	<---	MESAT	0.389	0.115	0.609	0.003
MCTRUST	<---	MMORT	0.362	0.089	0.618	0.01
MCTRUST	<---	MDPERF	0.68	0.434	0.886	0.001
DMPERF	<---	MDPERF	0.633	0.46	0.774	0.002
DMPERF	<---	DLTORT	0.298	0.102	0.478	0.005
MDEP	<---	MCTRUST	0.85	0.689	0.964	0.002
DBTRUST	<---	DMPERF	0.555	0.342	0.712	0.002
DDEP	<---	DMPERF	0.371	0.018	0.637	0.038
DESAT	<---	DMPERF	0.61	0.331	0.859	0.004
DESAT	<---	DLTORT	0.44	0.194	0.647	0.002
DDEP	<---	DLTORT	0.34	0.035	0.616	0.028
DESAT	<---	MDEP	-0.231	-0.501	0.032	0.081
MMO	<---	MMORT	0.81	0.731	0.858	0.001
MDP	<---	MDPERF	0.894	0.859	0.922	0.001
MD	<---	MDEP	0.873	0.812	0.913	0.001
MLTO	<---	MLTORT	0.928	0.905	0.946	0.001
MCT	<---	MCTRUST	0.806	0.72	0.858	0.001
MES	<---	MESAT	0.861	0.813	0.895	0.001
DMP	<---	DMPERF	0.848	0.802	0.88	0.001
DD	<---	DDEP	0.828	0.762	0.866	0.001
DLTO	<---	DLTORT	0.858	0.809	0.893	0.001
DBT	<---	DBTRUST	0.838	0.774	0.879	0.001
DES	<---	DESAT	0.836	0.776	0.88	0.001

Covariances: channel model (manufacturer)

Parameter			Estimate	Lower	Upper	P
MMORT	<-->	MLTORT	0.539	0.325	0.79	0.001

Correlations: channel model (manufacturer)

Parameter			Estimate	Lower	Upper	P
MMORT	<-->	MLTORT	0.63	0.437	0.797	0.001

Variances: channel model (manufacturer)

Parameter	Estimate	Lower	Upper	P
MMORT	0.766	0.459	1.115	0.001
MLTORT	0.956	0.693	1.312	0.001
z1	0.627	0.424	0.966	0

z4	0.307	0.154	0.572	0.001
z2	0.191	0.031	0.518	0.017
z5	0.692	0.463	1.006	0
z3	0.275	0.074	0.514	0.008
z6	0.448	0.268	0.682	0.001
z9	0.656	0.382	1.05	0
z7	0.299	0.108	0.593	0.002
z8	0.58	0.379	0.884	0
e1	0.1	0.1	0.1	...
e3	0.06	0.06	0.06	...
e6	0.08	0.08	0.08	...
e2	0.05	0.05	0.05	...
e4	0.08	0.08	0.08	...
e5	0.08	0.08	0.08	...
e8	0.06	0.06	0.06	...
e10	0.13	0.13	0.13	...
e7	0.07	0.07	0.07	...
e11	0.16	0.16	0.16	...
e9	0.08	0.08	0.08	...

Squared multiple correlations: channel model (manufacturer)

Parameter	Estimate	Lower	Upper	P
MESAT	0.667	0.423	0.819	0.009
MDPERF	0.372	0.167	0.574	0.001
DLTORT	0.151	0.013	0.371	0.001
MCTRUST	0.783	0.498	0.972	0.003
DMPERF	0.557	0.333	0.74	0.004
MDEP	0.722	0.475	0.928	0.002
DESAT	0.661	0.432	0.86	0.008
DBTRUST	0.308	0.117	0.507	0.002
DDEP	0.357	0.132	0.55	0.005
DES	0.7	0.601	0.775	0.001
DBT	0.702	0.599	0.772	0.001
DLTO	0.736	0.654	0.798	0.001
DD	0.685	0.581	0.75	0.001
DMP	0.719	0.642	0.774	0.001
MES	0.742	0.66	0.801	0.001
MCT	0.65	0.519	0.737	0.001
MLTO	0.861	0.818	0.895	0.001
MD	0.763	0.66	0.834	0.001
MDP	0.8	0.738	0.851	0.001
MMO	0.657	0.534	0.736	0.001

Minimisation history: channel model (manufacturer)

Iteration		Negative eigenvalues	Condition #	Smallest eigenvalue	Diameter	F	NTries	Ratio
0	e	0	66.659		9999	442.336	0	9999
1	e	0	152.449		1.584	214.296	5	0
2	e	0	102.999		1.845	94.59	2	0
3	e	0	20.069		0.747	70.935	3	0
4	e	0	40.955		0.901	51.287	1	0.777
5	e	0	25.792		0.333	46.745	1	0.882
6	e	0	27.692		0.146	46.146	1	1.039
7	e	0	28.706		0.017	46.133	1	1.006
8	e	0	28.492		0	46.133	1	1

Summary of bootstrap iterations: channel model (manufacturer)

Iterations	Method 0	Method 1	Method 2
1	0	0	0
2	0	0	0
3	0	0	0
4	0	0	0
5	0	0	0
6	0	4	0
7	0	81	0
8	0	333	0
9	0	528	0
10	0	429	0
11	0	310	0
12	0	163	0
13	0	76	0
14	0	40	0
15	0	24	0
16	0	4	0
17	0	2	0
18	0	2	0
19	0	4	0
Total	0	2000	0

0 bootstrap samples were unused because of a singular covariance matrix.
0 bootstrap samples were unused because a solution was not found.
2000 usable bootstrap samples were obtained.

Bollen-Stine bootstrap: channel model (manufacturer)
The model fit better in 456 bootstrap samples.
It fit about equally well in 0 bootstrap samples.
It fit worse or failed to fit in 1544 bootstrap samples.
Testing the null hypothesis that the model is correct, Bollen-Stine bootstrap p = 0.772

Bootstrap distributions: channel model (manufacturer)
ML discrepancy (implied vs sample): channel model (manufacturer)

```
                    37.244    |*
                    48.580    |**
                    59.915    |********
                    71.251    |**************
                    82.586    |********************
                    93.921    |******************
                   105.257    |************
N = 2000           116.592    |*******
Mean = 89.598      127.928    |****
S. e. = 0.463      139.263    |**
                   150.599    |*
                   161.934    |*
                   173.270    |*
                   184.605    |
                   195.941    |*
```

ML discrepancy (implied vs pop): channel model (manufacturer)

```
                    53.224   |*
                    64.238   |*********
                    75.252   |********************
                    86.267   |******************
                    97.281   |************
                   108.295   |******
                   119.309   |***
N = 2000           130.323   |**
Mean = 86.300      141.337   |*
S. e. = 0.391      152.351   |*
                   163.366   |*
                   174.380   |
                   185.394   |
                   196.408   |*
                   207.422   |*
```

K-L overoptimism (unstabilised): channel model (manufacturer)

```
                   -191.369   |*
                   -140.389   |*
                    -89.409   |****
                    -38.430   |*********
                     12.550   |***************
                     63.530   |********************
                    114.510   |*****************
N = 2000            165.490   |*************
Mean = 88.022       216.469   |********
S. e. = 2.100       267.449   |***
                    318.429   |**
                    369.409   |*
                    420.388   |*
                    471.368   |*
                    522.348   |*
```

K-L overoptimism (stabilised): channel model (manufacturer)

```
                      8.554   |*
                     28.321   |*
                     48.088   |******
                     67.855   |***************
                     87.622   |********************
                    107.388   |*****************
                    127.155   |**********
N = 2000            146.922   |******
Mean = 98.882       166.689   |***
S. e. = 0.739       186.456   |*
                    206.223   |*
                    225.990   |*
                    245.757   |*
                    265.524   |
                    285.291   |*
```

Model fit summary: channel model (manufacturer)
CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	27	46.133	39	0.201	1.183
Saturated model	66	0	0		
Independence model	11	514.083	55	0	9.347

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	0.016	0.945	0.907	0.558
Saturated model	0	1		
Independence model	0.095	0.47	0.364	0.392

Baseline comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	0.91	0.873	0.985	0.978	0.984
Saturated model	1		1		1
Independence model	0	0	0	0	0

Parsimony-adjusted measures

Model	PRATIO	PNFI	PCFI
Default model	0.709	0.645	0.698
Saturated model	0	0	0
Independence model	1	0	0

NCP

Model	NCP	LO 90	HI 90
Default model	7.133	0	28.312
Saturated model	0	0	0
Independence model	459.083	390.205	535.422

FMIN

Model	FMIN	F0	LO 90	HI 90
Default model	0.337	0.052	0	0.207
Saturated model	0	0	0	0
Independence model	3.752	3.351	2.848	3.908

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0.037	0	0.073	0.689
Independence model	0.247	0.228	0.267	0

AIC

Model	AIC	BCC	BIC	CAIC
Default model	100.133	105.317	179.169	206.169
Saturated model	132	144.672	325.199	391.199
Independence model	536.083	538.195	568.283	579.283

ECVI

Model	ECVI	LO 90	HI 90	MECVI
Default model	0.731	0.679	0.885	0.769
Saturated model	0.964	0.964	0.964	1.056
Independence model	3.913	3.41	4.47	3.928

HOELTER

Model	HOELTER 0.05	HOELTER 0.01
Default model	163	186
Independence model	20	22

Appendix E2
Bootstrapped Solution of the Channel Model (Distributor)

The model is recursive, sample size = 138
Observed, endogenous variables:
MMO, MDP, MD, MLTO, MCT, MES, DMP, DD, DLTO, DBT, DES
Unobserved, endogenous variables
MMORT, MDPERF, MDEP, MLTORT, MCTRUST, MESAT, DMPERF, DDEP, DBTRUST, DESAT
Unobserved, exogenous variables
e1, e3, e6, e2, e4, e5, e8, e10, DLTORT, e7, e11, e9, z2, z3, z5, z6, z4, z1, z7, z10, z9, z8

Variable counts: channel model (distributor)

Number of variables in your model:	43
Number of observed variables:	11
Number of unobserved variables:	32
Number of exogenous variables:	22
Number of endogenous variables:	21

Parameter summary: channel model (distributor)

	Weights	Covariances	Variances	Means	Intercepts	Total
Fixed	32	0	11	0	0	43
Labeled	0	0	0	0	0	0
Unlabeled	15	0	11	0	0	26
Total	47	0	22	0	0	69

Notes for model: channel model (distributor)
Computation of degrees of freedom

Number of distinct sample moments:	66
Number of distinct parameters to be estimated:	26
Degrees of freedom (66 - 26):	40

Result: channel model (distributor)
Minimum was achieved, Chi-square = 47.642, Degrees of freedom = 40, Probability level = 0.190

Estimates: channel model (distributor), Scalar estimates: maximum likelihood estimates
Regression weights: channel model (distributor)

			Estimate	S.E.	C.R.	P	Label
DDEP	<---	DLTORT	0.474	0.119	3.989	***	
DBTRUST	<---	DLTORT	0.403	0.122	3.311	***	
DESAT	<---	DLTORT	0.296	0.132	2.249	0.025	
DESAT	<---	DDEP	0.409	0.121	3.387	***	
DESAT	<---	DBTRUST	0.291	0.108	2.688	0.007	
DMPERF	<---	DESAT	0.512	0.136	3.766	***	
DMPERF	<---	DBTRUST	0.27	0.131	2.062	0.039	
MDPERF	<---	DMPERF	0.682	0.097	7.048	***	
MCTRUST	<---	MDPERF	0.752	0.09	8.375	***	
MDEP	<---	MCTRUST	0.895	0.102	8.8	***	
MLTORT	<---	MDEP	0.69	0.085	8.15	***	
MLTORT	<---	DLTORT	0.229	0.089	2.568	0.01	
MESAT	<---	MLTORT	0.757	0.082	9.207	***	
MMORT	<---	DLTORT	0.247	0.104	2.363	0.018	
MMORT	<---	MESAT	0.579	0.099	5.828	***	
MMO	<---	MMORT	0.5				
MDP	<---	MDPERF	0.49				
MD	<---	MDEP	0.51				
MLTO	<---	MLTORT	0.57				
MCT	<---	MCTRUST	0.41				
MES	<---	MESAT	0.5				
DMP	<---	DMPERF	0.39				

DD	<---	DDEP	0.56				
DLTO	<---	DLTORT	0.49				
DBT	<---	DBTRUST	0.63				
DES	<---	DESAT	0.46				

Standardised regression weights: channel model (distributor)

			Estimate
DDEP	<---	DLTORT	0.454
DBTRUST	<---	DLTORT	0.375
DESAT	<---	DLTORT	0.29
DESAT	<---	DDEP	0.418
DESAT	<---	DBTRUST	0.307
DMPERF	<---	DESAT	0.472
DMPERF	<---	DBTRUST	0.262
MDPERF	<---	DMPERF	0.684
MCTRUST	<---	MDPERF	0.795
MDEP	<---	MCTRUST	0.869
MLTORT	<---	MDEP	0.689
MLTORT	<---	DLTORT	0.212
MESAT	<---	MLTORT	0.771
MMORT	<---	DLTORT	0.252
MMORT	<---	MESAT	0.627
MMO	<---	MMORT	0.815
MDP	<---	MDPERF	0.895
MD	<---	MDEP	0.87
MLTO	<---	MLTORT	0.929
MCT	<---	MCTRUST	0.809
MES	<---	MESAT	0.862
DMP	<---	DMPERF	0.848
DD	<---	DDEP	0.828
DLTO	<---	DLTORT	0.86
DBT	<---	DBTRUST	0.839
DES	<---	DESAT	0.834

Variances: channel model (distributor)

	Estimate	S.E.	C.R.	P	Label
DLTORT	0.828	0.135	6.124	***	
z10	0.822	0.153	5.369	***	
z9	0.716	0.144	4.977	***	
z8	0.367	0.103	3.544	***	
z7	0.596	0.127	4.685	***	
z1	0.537	0.11	4.875	***	
z2	0.333	0.093	3.578	***	
z3	0.236	0.09	2.637	0.008	
z5	0.413	0.081	5.102	***	
z4	0.377	0.09	4.173	***	
z6	0.364	0.103	3.524	***	
e1	0.1				
e3	0.06				
e6	0.08				
e2	0.05				
e4	0.08				
e5	0.08				
e8	0.06				
e10	0.13				
e7	0.07				
e11	0.16				
e9	0.08				

Squared multiple correlations: channel model (distributor)

	Estimate
DBTRUST	0.141
DDEP	0.206
DESAT	0.574
DMPERF	0.412
MDPERF	0.468
MCTRUST	0.632
MDEP	0.754
MLTORT	0.571
MESAT	0.594
MMORT	0.539
DES	0.695
DBT	0.703
DLTO	0.739
DD	0.685
DMP	0.72
MES	0.744
MCT	0.655
MLTO	0.862
MD	0.758
MDP	0.802
MMO	0.664

Modification indices: channel model (distributor)
Covariances

			M.I.	Par Change
e9	<-->	z1	6.301	-0.08
e11	<-->	z5	4.175	0.093
e2	<-->	z8	5.234	-0.071
e2	<-->	e9	6.706	-0.036
e2	<-->	e11	4.588	0.049

Variances

	M.I.	Par Change

Regression weights

			M.I.	Par Change
DES	<---	MLTORT	5.113	-0.085
DES	<---	MLTO	6.303	-0.145
MLTO	<---	DES	4.567	-0.144

Bootstrap: channel model (distributor), Bootstrap standard errors, Scalar estimates
Regression weights: channel model (distributor)

Parameter			SE	SE-SE	Mean	Bias	SE-Bias
DDEP	<---	DLTORT	0.137	0.002	0.484	0.009	0.003
DBTRUST	<---	DLTORT	0.134	0.002	0.41	0.006	0.003
DESAT	<---	DLTORT	0.151	0.002	0.286	-0.009	0.003
DESAT	<---	DDEP	0.139	0.002	0.423	0.013	0.003
DESAT	<---	DBTRUST	0.121	0.002	0.305	0.014	0.003
DMPERF	<---	DESAT	0.179	0.003	0.533	0.02	0.004
DMPERF	<---	DBTRUST	0.152	0.002	0.265	-0.005	0.003
MDPERF	<---	DMPERF	0.107	0.002	0.684	0.001	0.002
MCTRUST	<---	MDPERF	0.104	0.002	0.752	-0.001	0.002
MDEP	<---	MCTRUST	0.163	0.003	0.908	0.011	0.004
MLTORT	<---	MDEP	0.107	0.002	0.691	0	0.002
MLTORT	<---	DLTORT	0.1	0.002	0.232	0.003	0.002
MESAT	<---	MLTORT	0.094	0.001	0.756	-0.002	0.002
MMORT	<---	DLTORT	0.11	0.002	0.251	0.004	0.002

MMORT	<---	MESAT	0.116	0.002	0.586	0.006	0.003
MMO	<---	MMORT	0	0	0.5	0	0
MDP	<---	MDPERF	0	0	0.49	0	0
MD	<---	MDEP	0	0	0.51	0	0
MLTO	<---	MLTORT	0	0	0.57	0	0
MCT	<---	MCTRUST	0	0	0.41	0	0
MES	<---	MESAT	0	0	0.5	0	0
DMP	<---	DMPERF	0	0	0.39	0	0
DD	<---	DDEP	0	0	0.56	0	0
DLTO	<---	DLTORT	0	0	0.49	0	0
DBT	<---	DBTRUST	0	0	0.63	0	0
DES	<---	DESAT	0	0	0.46	0	0

Standardised regression weights: channel model (distributor)

Parameter			SE	SE-SE	Mean	Bias	SE-Bias
DDEP	<---	DLTORT	0.111	0.002	0.458	0.003	0.002
DBTRUST	<---	DLTORT	0.108	0.002	0.378	0.001	0.002
DESAT	<---	DLTORT	0.144	0.002	0.28	-0.01	0.003
DESAT	<---	DDEP	0.129	0.002	0.433	0.013	0.003
DESAT	<---	DBTRUST	0.108	0.002	0.316	0.009	0.002
DMPERF	<---	DESAT	0.131	0.002	0.48	0.007	0.003
DMPERF	<---	DBTRUST	0.142	0.002	0.258	-0.005	0.003
MDPERF	<---	DMPERF	0.081	0.001	0.684	0	0.002
MCTRUST	<---	MDPERF	0.072	0.001	0.79	-0.006	0.002
MDEP	<---	MCTRUST	0.062	0.001	0.872	0.002	0.001
MLTORT	<---	MDEP	0.089	0.001	0.684	-0.006	0.002
MLTORT	<---	DLTORT	0.094	0.001	0.215	0.003	0.002
MESAT	<---	MLTORT	0.076	0.001	0.769	-0.003	0.002
MMORT	<---	DLTORT	0.111	0.002	0.256	0.003	0.002
MMORT	<---	MESAT	0.112	0.002	0.633	0.004	0.003
MMO	<---	MMORT	0.029	0	0.81	-0.004	0.001
MDP	<---	MDPERF	0.016	0	0.892	-0.003	0
MD	<---	MDEP	0.028	0	0.864	-0.005	0.001
MLTO	<---	MLTORT	0.012	0	0.926	-0.002	0
MCT	<---	MCTRUST	0.035	0.001	0.803	-0.004	0.001
MES	<---	MESAT	0.022	0	0.858	-0.003	0
DMP	<---	DMPERF	0.02	0	0.845	-0.002	0
DD	<---	DDEP	0.026	0	0.824	-0.003	0.001
DLTO	<---	DLTORT	0.021	0	0.856	-0.003	0
DBT	<---	DBTRUST	0.027	0	0.833	-0.004	0.001
DES	<---	DESAT	0.028	0	0.828	-0.005	0.001

Variances: channel model (distributor)

Parameter	SE	SE-SE	Mean	Bias	SE-Bias
DLTORT	0.148	0.002	0.82	0	0.003
z10	0.179	0.003	0.8	-0.012	0.004
z9	0.146	0.002	0.697	-0.011	0.003
z8	0.121	0.002	0.327	-0.033	0.003
z7	0.128	0.002	0.563	-0.027	0.003
z1	0.119	0.002	0.518	-0.014	0.003
z2	0.119	0.002	0.331	0.004	0.003
z3	0.102	0.002	0.219	-0.011	0.002
z5	0.108	0.002	0.395	-0.012	0.002
z4	0.114	0.002	0.367	-0.004	0.003
z6	0.12	0.002	0.338	-0.02	0.003
e1	0	0	0.1	0	0
e3	0	0	0.06	0	0
e6	0	0	0.08	0	0

e2	0	0	0.05	0	0
e4	0	0	0.08	0	0
e5	0	0	0.08	0	0
e8	0	0	0.06	0	0
e10	0	0	0.13	0	0
e7	0	0	0.07	0	0
e11	0	0	0.16	0	0
e9	0	0	0.08	0	0

Squared multiple correlations: channel model (distributor)

Parameter	SE	SE-SE	Mean	Bias	SE-Bias
DBTRUST	0.082	0.001	0.154	0.013	0.002
DDEP	0.1	0.002	0.222	0.015	0.002
DESAT	0.111	0.002	0.618	0.041	0.002
DMPERF	0.109	0.002	0.437	0.025	0.002
MDPERF	0.109	0.002	0.475	0.006	0.002
MCTRUST	0.111	0.002	0.63	-0.004	0.002
MDEP	0.107	0.002	0.765	0.007	0.002
MLTORT	0.103	0.002	0.583	0.009	0.002
MESAT	0.115	0.002	0.597	0.001	0.003
MMORT	0.122	0.002	0.571	0.029	0.003
DES	0.046	0.001	0.686	-0.007	0.001
DBT	0.045	0.001	0.695	-0.006	0.001
DLTO	0.036	0.001	0.733	-0.005	0.001
DD	0.042	0.001	0.679	-0.004	0.001
DMP	0.033	0.001	0.715	-0.003	0.001
MES	0.037	0.001	0.737	-0.005	0.001
MCT	0.055	0.001	0.647	-0.006	0.001
MLTO	0.021	0	0.858	-0.003	0
MD	0.048	0.001	0.748	-0.008	0.001
MDP	0.029	0	0.796	-0.004	0.001
MMO	0.047	0.001	0.656	-0.005	0.001

Bootstrap confidence: channel model (distributor), bias-corrected percentile method, 95% confidence intervals, Scalar estimates
Regression weights: channel model (distributor)

Parameter			Estimate	Lower	Upper	P
DDEP	<---	DLTORT	0.476	0.228	0.771	0.002
DBTRUST	<---	DLTORT	0.404	0.167	0.7	0.001
DESAT	<---	DLTORT	0.295	-0.007	0.588	0.052
DESAT	<---	DDEP	0.41	0.166	0.704	0.004
DESAT	<---	DBTRUST	0.292	0.074	0.551	0.007
DMPERF	<---	DESAT	0.513	0.213	0.867	0.001
DMPERF	<---	DBTRUST	0.27	-0.036	0.541	0.068
MDPERF	<---	DMPERF	0.683	0.476	0.894	0.001
MCTRUST	<---	MDPERF	0.753	0.549	0.967	0.001
MDEP	<---	MCTRUST	0.897	0.619	1.244	0.001
MLTORT	<---	MDEP	0.691	0.488	0.895	0.001
MLTORT	<---	DLTORT	0.229	0.037	0.438	0.016
MESAT	<---	MLTORT	0.758	0.58	0.942	0.001
MMORT	<---	DLTORT	0.247	0.025	0.463	0.027
MMORT	<---	MESAT	0.58	0.35	0.796	0.001
MMO	<---	MMORT	0.5	0.5	0.5	...
MDP	<---	MDPERF	0.49	0.49	0.49	...
MD	<---	MDEP	0.51	0.51	0.51	...
MLTO	<---	MLTORT	0.57	0.57	0.57	...
MCT	<---	MCTRUST	0.41	0.41	0.41	...
MES	<---	MESAT	0.5	0.5	0.5	...
DMP	<---	DMPERF	0.39	0.39	0.39	...

DD	<---	DDEP	0.56	0.56	0.56	...
DLTO	<---	DLTORT	0.49	0.49	0.49	...
DBT	<---	DBTRUST	0.63	0.63	0.63	...
DES	<---	DESAT	0.46	0.46	0.46	...

Standardised regression weights: channel model (distributor)

Parameter			Estimate	Lower	Upper	P
DDEP	<---	DLTORT	0.456	0.218	0.653	0.003
DBTRUST	<---	DLTORT	0.376	0.15	0.578	0.002
DESAT	<---	DLTORT	0.289	-0.018	0.553	0.06
DESAT	<---	DDEP	0.42	0.165	0.665	0.005
DESAT	<---	DBTRUST	0.307	0.086	0.509	0.007
DMPERF	<---	DESAT	0.472	0.204	0.698	0.002
DMPERF	<---	DBTRUST	0.262	-0.048	0.491	0.078
MDPERF	<---	DMPERF	0.685	0.501	0.821	0.002
MCTRUST	<---	MDPERF	0.796	0.63	0.916	0.001
MDEP	<---	MCTRUST	0.87	0.724	0.971	0.002
MLTORT	<---	MDEP	0.69	0.491	0.836	0.001
MLTORT	<---	DLTORT	0.212	0.031	0.404	0.017
MESAT	<---	MLTORT	0.772	0.607	0.898	0.001
MMORT	<---	DLTORT	0.253	0.027	0.468	0.027
MMORT	<---	MESAT	0.629	0.391	0.833	0.002
MMO	<---	MMORT	0.813	0.744	0.858	0.001
MDP	<---	MDPERF	0.895	0.859	0.922	0.001
MD	<---	MDEP	0.869	0.802	0.909	0.001
MLTO	<---	MLTORT	0.928	0.903	0.948	0.001
MCT	<---	MCTRUST	0.808	0.722	0.859	0.001
MES	<---	MESAT	0.861	0.812	0.895	0.001
DMP	<---	DMPERF	0.847	0.802	0.878	0.001
DD	<---	DDEP	0.826	0.762	0.864	0.001
DLTO	<---	DLTORT	0.859	0.811	0.893	0.001
DBT	<---	DBTRUST	0.837	0.774	0.878	0.001
DES	<---	DESAT	0.832	0.769	0.875	0.001

Variances: channel model (distributor)

Parameter	Estimate	Lower	Upper	P
DLTORT	0.82	0.559	1.146	0.001
z10	0.812	0.499	1.213	0.001
z9	0.708	0.461	1.025	0
z8	0.361	0.172	0.669	0
z7	0.59	0.371	0.889	0
z1	0.532	0.329	0.797	0
z2	0.328	0.147	0.644	0
z3	0.231	0.057	0.474	0.013
z5	0.408	0.234	0.671	0
z4	0.371	0.175	0.639	0.001
z6	0.358	0.164	0.663	0
e1	0.1	0.1	0.1	...
e3	0.06	0.06	0.06	...
e6	0.08	0.08	0.08	...
e2	0.05	0.05	0.05	...
e4	0.08	0.08	0.08	...
e5	0.08	0.08	0.08	...
e8	0.06	0.06	0.06	...
e10	0.13	0.13	0.13	...
e7	0.07	0.07	0.07	...
e11	0.16	0.16	0.16	...
e9	0.08	0.08	0.08	...

Squared multiple correlations: channel model (distributor)

Parameter	Estimate	Lower	Upper	P
DBTRUST	0.142	0.023	0.334	0.001
DDEP	0.208	0.047	0.427	0.002
DESAT	0.577	0.339	0.758	0.01
DMPERF	0.413	0.197	0.602	0.004
MDPERF	0.469	0.251	0.674	0.002
MCTRUST	0.634	0.397	0.839	0.001
MDEP	0.758	0.524	0.944	0.002
MLTORT	0.573	0.359	0.751	0.002
MESAT	0.596	0.368	0.806	0.001
MMORT	0.542	0.302	0.763	0.004
DES	0.693	0.592	0.765	0.001
DBT	0.701	0.598	0.772	0.001
DLTO	0.738	0.657	0.797	0.001
DD	0.683	0.58	0.746	0.001
DMP	0.718	0.644	0.771	0.001
MES	0.742	0.659	0.801	0.001
MCT	0.653	0.522	0.737	0.001
MLTO	0.861	0.816	0.898	0.001
MD	0.756	0.643	0.827	0.001
MDP	0.8	0.738	0.85	0.001
MMO	0.662	0.554	0.737	0.001

Minimisation history: channel model (distributor)

Iteration		Negative eigenvalues	Condition #	Smallest eigenvalue	Diameter	F	NTries	Ratio
0	e	0	43.685		9999	435.349	0	9999
1	e	2		-0.221	3.123	343.808	3	0
2	e	1		-0.022	1.226	110.574	19	0.825
3	e	0	22.276		0.926	52.83	6	0.819
4	e	0	20.559		0.471	48.507	1	0.808
5	e	0	19.262		0.098	47.662	1	1.073
6	e	0	19.531		0.022	47.642	1	1.024
7	e	0	19.573		0.001	47.642	1	1.001

Summary of bootstrap iterations: channel model (distributor)

Iterations	Method 0	Method 1	Method 2
1	0	0	0
2	0	0	0
3	0	0	0
4	0	0	0
5	0	0	0
6	0	5	0
7	0	144	0
8	0	431	0
9	0	561	0
10	0	420	0
11	0	257	0
12	0	103	0
13	0	53	0
14	0	13	0
15	0	8	0
16	0	2	0
17	0	0	0
18	0	1	0
19	0	2	0
Total	0	2000	0

0 bootstrap samples were unused because of a singular covariance matrix.
0 bootstrap samples were unused because a solution was not found.
2000 usable bootstrap samples were obtained.

Bollen-Stine bootstrap: channel model (distributor)
The model fit better in 387 bootstrap samples.
It fit about equally well in 0 bootstrap samples.
It fit worse or failed to fit in 1613 bootstrap samples.
Testing the null hypothesis that the model is correct, Bollen-Stine bootstrap p = 0.807

Bootstrap distributions: channel model (distributor)
ML discrepancy (implied vs sample): channel model (distributor)

```
                    43.998    |*
                    53.406    |**
                    62.813    |******
                    72.220    |************
                    81.627    |******************
                    91.034    |********************
                    100.441   |****************
N = 2000            109.848   |************
Mean = 94.504       119.255   |*********
S. e. = 0.453       128.663   |*****
                    138.070   |***
                    147.477   |*
                    156.884   |*
                    166.291   |*
                    175.698   |*
```

ML discrepancy (implied vs pop): channel model (distributor)

```
                    49.698    |*
                    59.507    |*****
                    69.316    |****************
                    79.125    |********************
                    88.934    |**************
                    98.743    |********
                    108.552   |****
N = 2000            118.361   |**
Mean = 83.257       128.170   |*
S. e. = 0.343       137.978   |*
                    147.787   |*
                    157.596   |
                    167.405   |*
                    177.214   |*
                    187.023   |*
```

K-L overoptimism (unstabilised): channel model (distributor)

```
                    -192.291   |*
                    -144.625   |*
                    -96.958    |****
                    -49.292    |********
                    -1.625     |**************
                    46.041     |********************
                    93.708     |******************
N = 2000            141.374    |**************
Mean = 80.074       189.041    |**********
S. e. = 2.062       236.707    |*****
                    284.374    |**
                    332.040    |*
                    379.707    |*
                    427.374    |*
                    475.040    |*
```

K-L overoptimism (stabilised): channel model (distributor)

```
                    10.756     |*
                    26.987     |*
                    43.217     |*****
                    59.448     |**************
                    75.678     |********************
                    91.909     |******************
                    108.139    |**************
N = 2000            124.370    |*******
Mean = 90.934       140.600    |*****
S. e. = 0.667       156.831    |***
                    173.061    |*
                    189.292    |*
                    205.522    |*
                    221.753    |*
                    237.983    |*
```

Model fit summary: channel model (distributor)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	26	47.642	40	0.19	1.191
Saturated model	66	0	0		
Independence model	11	514.083	55	0	9.347

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	0.017	0.942	0.904	0.571
Saturated model	0	1		
Independence model	0.095	0.47	0.364	0.392

Baseline comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	0.907	0.873	0.984	0.977	0.983
Saturated model	1		1		1
Independence model	0	0	0	0	0

Parsimony-adjusted measures

Model	PRATIO	PNFI	PCFI
Default model	0.727	0.66	0.715
Saturated model	0	0	0
Independence model	1	0	0

NCP

Model	NCP	LO 90	HI 90
Default model	7.642	0	29.134
Saturated model	0	0	0
Independence model	459.083	390.205	535.422

FMIN

Model	FMIN	F0	LO 90	HI 90
Default model	0.348	0.056	0	0.213
Saturated model	0	0	0	0
Independence model	3.752	3.351	2.848	3.908

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0.037	0	0.073	0.681
Independence model	0.247	0.228	0.267	0

AIC

Model	AIC	BCC	BIC	CAIC
Default model	99.642	104.634	175.75	201.75
Saturated model	132	144.672	325.199	391.199
Independence model	536.083	538.195	568.283	579.283

ECVI

Model	ECVI	LO 90	HI 90	MECVI
Default model	0.727	0.672	0.884	0.764
Saturated model	0.964	0.964	0.964	1.056
Independence model	3.913	3.41	4.47	3.928

HOELTER

Model	HOELTER 0.05	HOELTER 0.01
Default model	161	184
Independence model	20	22

Appendix F
Interview Protocols

F1: Manufacturer

Introductory questions:

- What does the meaning of 'market' to you? Who is 'market'?
- What does the meaning of 'market-oriented' to you? Is it a corporate culture or just a business practice?
- What should a 'market-oriented company' do?
- How does your relationship with your principal distributor in general? How is it should be?

Questions on evidence:

1. Market orientation:
   a. Competitor:
      - Regular assessment about competitors?
      - Quick responses on competitor actions?
   b. Customer (stores):
      - Prioritising stores?
      - Routine measuring of stores satisfaction' level?
      - Routine stores visit by manager?
   c. Interfunctional coordination:
      - Salesmen actively sharing information about competitors?
      - Sharing information on serving stores?

Relationship with the principal distributor:

1. Satisfaction:
   1. Economic:
      - Can it increasing market share and profit?
      - Satisfaction with profit margin?
      - Satisfaction with effective call?
      - Satisfaction with profit targeting?
   2. Social:
      - Frequent visit to stores?
      - Continuity in cooperation?
      - Satisfaction on software/web usage?
2. Long-term orientation:
   - Profitable in the long run?
   - Focus on long-term goals?
   - Enduring relationship?
   - Concessions will be even out?
   - Management changes issue?
3. Trust:
   1. Credibility:
      - Obeys obligations?
      - Works within contractual agreements?
      - Honest/not even if the information is incomplete?
      - Would not take advantage (ex: marking up final price)?
   2. Benevolence:
      - Loyalty to relationship?
      - Ready to help in times of shortages (over-budget and declining sales)?
4. Dependence:
   - Level of dependence in general?
   - Replaceability of distributor?
   - The importance of distributor's competencies?

- Employment of own sales force/not?
- Level of communications?
- What are the contributions of the distributor's selling efforts?
- The importance of distributor on profit targeting?

5. Conflict in the:
    - Number of distributor's salesmen needed?
    - Inventory level?
    - Responsibility on product return?
    - Delivery correctness?
    - Sales target?
    - Term of Payment?
    - Retail price?
    - Information about stores?
6. Performance of the distributor in the:
    - Delivery correctness?
    - Coverage of stores?
    - Product availability in stores?
    - Adequacy of products in distributor?
    - Competencies of management and sales team?
    - Infrastructures (buildings, warehouses, and offices)?
    - Sales volume?
    - Sales growth?
    - Paying its obligation (Term of Payments)?

F2: Distributor

Introductory questions:
How does your relationship with your principal manufacturer in general? How is it should be?

Questions on evidence:
Relationship with the principal manufacturer:

1. Satisfaction:
    1. Economic:
        - Can it increasing market share and profit?
        - Satisfaction with profit margin?
        - Satisfaction with Return On Investment?
    2. Social:
        - Professionalism of manufacturer's personnel?
        - Marketability of products?
        - Distribution/internet software's support?
2. Long-term orientation:
    - Profitable in the long run?
    - Focus on long-term goals?
    - Enduring relationship?
    - Concessions will be even out?
    - Management changes issue?
3. Trust:
    1. Credibility:
        - Performing obligations (for example: paying claims on promo discounts, trade promo)?
        - Works within contractual agreements?
        - Honest/not?
        - Always cooperate (in general)?
    2. Benevolence:
        - Provides suitable management training?
        - Supports in general?
        - Ready to help in financial problems?
        - Respond to problems (ex: sales area's breaching)?

4. Dependence:
    - Contribution of the efforts of manufacturer's marketing?
    - Replaceability of manufacturer?
    - The importance of manufacturer's brands in supporting sales?
    - What kind of investments on infrastructures?
    - Level of communications?
    - Manufacturer's contributions on distributor's sales volume?
    - The importance of manufacturer on profit targeting?
5. Conflict in the:
    - Number of distributor's salesmen needed?
    - Inventory level?
    - Responsibility on product return?
    - Delivery correctness?
    - Sales target?
    - Term of Payment?
    - Retail price?
    - Information about stores?
6. Performance of the manufacturer in the:
    - Delivery correctness?
    - Products' availability?
    - Products' quality (easy to manage and marketable)?
    - Products' after-sales service (ex: return of products)?
    - Overall profitability?
    - Sales growth?
    - Term of Payments?

Appendix G
Profile of the Participants of the Qualitative Study

G1. Manufacturer 1 (M1)

M1 is a branch of M1A, a multinational German company which produces consumer goods. Founded in March 1882, M1 is a producer of a large skin care brand, PV. The company's business segment is divided into two main areas, the consumer business segment and the PW business segment. The former segment is the focus of the company's business which focuses on the international skin care market. Up to now, M1 has at least more than 150 affiliates and around 18,000 employees worldwide. With these profiles, M1 is categorised as a foreign-owned's large-sized business.

In Indonesia, M1 engages with 24 distributors. Originally, the company only had two distributors during 2005-2008 which later showed a poor performance. Hence, started from 2008, the company add more distributors including D1 as a connecting distributor in this study. D1 must manage three large areas and two small areas of distribution. Such limited areas cause only small contribution of D1 in M1's sales, around 15%.

G2. Manufacturer 2 (M2)

M2 was established in 1954 as M2A with milk as its main product named PC. In 1968, the company was acquired by a state-owned company, MI. Subsequently, in 1972 M2A had brought by D2 and its name was changed into M2.

In 1983, M2 went public through Jakarta Stock Exchange. Up to 1998, D2 owned majority of company's shares. However, the company further acquired by MF and subsequently in 2006 the company went private again. Finally, since 2007 the company was owned by MG because MG acquired MF. Therefore, recently M2 is a privately foreign-owned company.

M2 continuously becomes a market leader in Indonesian milk industry together with its derivative products. Recently, the company has production factories in Yogyakarta and Klaten, Central Java and headquartered in Jakarta. In total, the company has 5000 employees. Therefore, it can be categorised as a large business. The company only has one sole distributor, D2, since its first establishment (more than 40 years).

G3. Manufacturer 3 (M3)

M3 is a manufacturer of food and beverages products founded in 1977. In 1990, M3 listed its shares in Jakarta Stock Exchange and became a public company until recently. Subsequently, the company expanded its business to South East Asia by establishing production facilities and marketing offices throughout the regions. Currently, M3 succeeds to market its products to over 150,000 outlets throughout Indonesia along with other world regions. Headquartered in Jakarta, the company has four subsidiaries, M3A, M3B, M3C, and M3D.

The M3's product lines are grouped into three divisions called M1, M2, and M3. The M1 division consists of two sub-divisions, Candy-Wafer-Chocolate (CWC) and Biscuit-Instant Foods (BI). The M2 division encompasses two sub-divisions, Coffee and Health Foods. The last one, M3 division handles beverages products. In the first two cumulated quarters of 2012, the company has total net operating revenues of IDR 5,452,477,546 thousands and total employees of 7,090 people. Based on the Indonesian government criterions, M3 is considered as a domestic-owned and large-sized business.

The company has around 500 sub-distributors throughout Indonesia and around the world, under management of M3's internal distributor, DD. This current study

evaluates the M3's relationship with D3, a sub-distributor operated in Lamongan region of East Java (Indonesia). Based on depth interviews' findings, the sub-distributor is categorised as a small-sized distributor and it has business relationship with M3 since March 2011 (more than 2 years).

G4. Distributor 1 (D1)

D1 was founded in October 1973, following the separation of distribution unit from the marketing and production division of MB and its subsidiaries. In August 1994, the company listed its shares on the Jakarta Stock Exchange and named D1, a private-owned public company. Started from a general distributor company, D1's business expanded rapidly into four divisions: (1) Sales and distributor division of pharmaceutical products, (2) Sales and distribution division of over-the-counter (OTC) consumer and nutrition products, (3) Marketing and distribution division of medical equipment, and (4) Marketing and sales division of raw materials for the pharmaceutical, cosmetics, veterinary needs, and food industries.

Since 2008, the company had five subsidiaries, D1A, D1B, D1C, D1D, and D1E. Recently, D1 fully operates 42 branches along Indonesia, two regional distribution centres in Jakarta and Surabaya, and individual branch's warehouses together with distribution fleets. With its huge net sales, IDR 9,713,883 million as of 2010, and thousand employees, D1 is included as a large-sized business. As a large business, the company has successfully implemented Oracle software as integrated distribution software.

At present, the company has engaged with more than 100 manufacturers and directly supplies to more than 200,000 outlets throughout Indonesia. However, the company only handles a minimum of "B" class outlets with a minimum of IDR 200,000 for each

transaction. The lower class (micro outlet) is handled with sub-distributors. In this study, D1 has relationship with M1, a foreign-owned's large-sized manufacturer but with only small contribution of below 20% of the D1's sales. In total, M1 only achieve third rank in the contribution to the D1's sales.

G5. Distributor 2 (D2)

D2 was established as an Indonesian trading company in 1919 by Mr. D (privately owned firm). The transformation of the company began on 1988 by the spinning-off the sales and distribution division into a separate firm. The distribution company became a public company as it was listing in Jakarta Stock Exchange and Surabaya Stock Exchange in April 1990.

Recently, D2 has four separate business branches: (1) Sales and distribution of fast-moving-consumer-goods (FMCG), (2) Manufacturing, marketing, sales and distribution of household items, kitchen appliances, and LPG refills through D2A, (3) Manufacturing services of powdered products, (4) Direct selling of educational products through D2B. The D2's business that is explored in this study is the sales and distribution of FMCG.

D2 has 75 external sub-distributors across 16 provinces of Indonesia for assisting the company to reach many outlets (stores). Moreover, the company engages with 598 key accounts (large-sized retailers) which own 13,642 outlets around Indonesia. In details, such outlets and the other outlets which cooperate with D2 are divided into several categories: (1) Modern trade. This refers to key accounts and independent accounts which include hypermarkets, supermarkets, minimarkets, and convenient stores; (2) General trade, which is including small, medium, and large provisions; (3) Medical outlet, which is including pharmacist, midwives, and hospital; and (4) Route to

market, which refers to cash and carry businesses, wholesalers, agents, and sub-distributors. With 508 salespeople throughout its five regions, the company can be considered as a large business in Indonesia.

As a large and top-rank distributor in Indonesia, D2 has implemented integrated information technology system called Enterprise Resource Planning (ERP) with the SAP software as the main controller. It enables D2 to efficiently manage its business as well as interacts with 16 manufacturers as the company's clients. Among those clients, M2 is the largest sales contributor who generates up to 70% of D2's sales. This study uses M2 as the D2's connecting manufacturer.

Appendix H1
Certification of Interview Translation (M1)

This administrative form
has been removed

Note: a full English translated copy of the interview with M1 is available on request.

Appendix H2
Certification of Interview Translation (M2)

This administrative form
has been removed

Note: a full English translated copy of the interview with M2 is available on request.

Appendix H3
Certification of Interview Translation (M3)

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has been removed

Note: a full English translated copy of the interview with M3 is available on request.

Appendix H4
Certification of Interview Translation (D1)

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has been removed

Note: a full English translated copy of the interview with D1 is available on request.

Appendix H5
Certification of Interview Translation (D2)

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Note: a full English translated copy of the interview with D2 is available on request.

Appendix I

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer economic satisfaction (MESAT)	In terms of market share or sales value increase, their contribution must be significant, because anyway, they are our vehicle to deliver our products to stores. So far, compared to our other distributors, M1 can be ranked at the middle. All distributors at the middle and upper ranks are good in our opinion.	Yes, their sales growth has been quite good, especially for the past 5 years. They also have an improvement target for outlet transactions, and sales target.			If you look at D2's report, our turnover has totally grown; this should sufficiently reflect M2's [contribution] as D2's principal.	H1 (Pathway 1A) 7
Distributor's long-term orientation (DLTORT)				Having M1 under our wings gives an added value to our shares. The fact that we manage products of a foreign investment company will be taken into account [by investors], [appreciating] our-	We have dedicated teams for our special principal M2. We expand our infrastructure by adding [more people to] the sales team to support so we can serve more focused and better. Another expense is-	H1 (Pathway 1A) 7

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's long-term orientation (DLTORT)				-capacity to manage foreign principals. If the growth is good, it means D1's margin and turnover will increase.	-for costs spent on our innovations in the system and our supply chain processes, and our warehouses. When we expand our network infrastructure and sales team, we trust that the sales will continue to grow. With the sales growing, our top line will then continue to increase.	H1 (Pathway 1A) 7
Manufacturer's dependence (MDEP)	We are currently employing D1's. It is because we've had experience using own sales force. By then, distributors were [responsible] for delivering goods, whilst taking orders was done by our salespeople. Yet, it was proved to be not a good practice. It was-		It is clearly easier to employ our own salespeople, since we'll hold the same opinion and principal salespeople are definitely more loyal. Yet, we now employ D3 ['s salespeople] because we want to seize wider market. If this is found to be-	Say, if M1 distribute [their products] through D1 nation-wide, our market share will certainly be larger since we have 42 branches. It is [from] an overall business perspective]. It means that their distribution will be more even.		H1 (Pathway 1B) 8

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's dependence (MDEP)	-before 2008, in the period of 2005-early 2008. It was ineffective; employing distributors' sales force is a better [practice]. D1 have a good warehousing system; they have a rack system that places products into certain racks according to their slots. The slot system at their warehouse is excellent. When they want to pick up an item, they can find it immediately. It is D1's main strength.		-self-manageable, we may take [it] over, but not in the near term. We calculate it on region basis, so the contribution of D3 alone for their region is considerable, approximately 26%. Our regions are Surabaya, Sidoarjo, Madura, Gresik, Lamongan, Tuban, and Bojonegoro. So, they have contributed 26% for Lamongan. No, especially for companies at the level of M3, many desire to be our distributor because our products are selling well. So, should a sub-distributor becomes problematic, [we] just have to do calculation,-			H1 (Pathway 1B) 8

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's economic satisfaction (DESAT)			-terminate them, and someone will be ready to replace them. If we use sub-distributor's salespeople, these people may think that they are employees of the sub distributor, yet why they get instructions from the Principal. In my opinion, they are not too strong in terms of delegation of supervisor tasks. D3 desire so, yet their owner lacks leverage on their supervisor. When I gave them a form to be completed, there was still no result [reported] from their visits. The results were communicated verbally; so, when there was a problem, the supervisor would-	We desire at least a 2-digit margin. It means higher than 10%, because we still have to bear operating costs, approx. 3% to 4%. These three percent are operating cost. M1's margin to D1, as far I know, is still below 2 digits. All figures are gross. It is still profitable, but, it is not big. Profitable but thin. Yes, we indeed want an increase in value. And, also there is an element of prestige.		H1 (Pathway 1B) 8

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's economic satisfaction (DESAT)			-report to me. But [it was] never in writing, so there was no record whether the problem had been resolved or not.			H1 (Pathway 1B) 8
Manufacturer's view of the distributor's role performance (MDPERF)		In the past, the data was messy. Before SAP was installed, it was a lot disorganized. It was difficult to know the number of outlets covered by D2, whilst we needed it badly to set our target. Sometimes, they were a bit not transparent about this matter. With SAP, D2 are now transparent because M2 can do monitoring more easily. Now, we know the number of [our] outlets. It is not [a source of] conflict anymore.				H1 (Pathway 1C) 9

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's view of the manufacturer's role performance (DMPERF)					So far, their support has been good enough because actually we are engaged in a continuous development for other aspects in order for us to retain this principal. Thus, we continually make innovations; even regarding the system called SAP, D2 had utilised it before M2.	H1 (Pathway 1C) 9
Distributor's long-term orientation (DLTORT)				Nation-wide, we employ Oracle, so our system is on-line already. The advantage for [our] principals is that we can produce reports timely and accurately. Also, we have used a warehouse management system for our-	First, in terms of teamwork, it is good because the principal and the distributor do not view [the job] differently. We do it [i.e. the distribution] as one team. We develop many points [of sales] together; we even have the same-	H2 (Pathway 2A) 10

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's long-term orientation (DLTORT)				-warehouses. Our delivery people are equipped with PDAs (Personal Digital Assistants), so the process from placing orders up to delivery of goods at outlets has a time table, [and] the position of goods can be tracked.	-figure as our target. There is no difference between the principal's target and D2's target and we do this through a process called SNOP. SNOP consists of several steps. That is, pre-demand meeting, demand meeting, supply meeting, pre-SNOP meeting, and SNOP executive meeting. This cycle is routinely followed.	H2 (Pathway 2A) 10
Manufacturer's market orientation (MMORT)	Salespeople are always from distributors, not from the principal. They are the ones opening invoices or taking orders. Distributors will be invited to a joint meeting since theirs are the supply side. For large accounts, they take care-	Meetings between our team and D2's team are informally and formally held once a month. But, it doesn't preclude any chance to informally share [information any time] we meet. Within M2, [sharing] can be either informal or formal,-				H2 (Pathway 2A) 10

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's market orientation (MMORT)	-more of supply. It is a two-way [sharing], right; so information that we glean from our market research, which I have mentioned, will surely be shared with our salespeople to pass an understanding of our current position. On the other hand, information from the stores or the consumers, which is daily-generated in nature, can also be taken by us as a feedback. That is what I mean by two-way. Thus, the information reflects activities, especially those of our competitors, occurring at stores. This information is passed to us, which is then reviewed-	-because we have a regular monthly meeting between field sales force and other internal departments, e.g. Marketing and R&D. Say, there is a tip from a salesman telling that our competitor in Area A is running a discount program for purchase of their products. This info will then be passed to our marketing [division for them] to counter that competitor's action. E.g. a kind of gimmick, such as product purchase giveaway.				H2 (Pathway 2A) 10

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's market orientation (MMORT)	-by us should it have impact on our products or our sales in the future. We also usually prepare an action plan right away. We will perform activities that may be better than our competitors. If a competitor has already carried out [a program] for a month, say in March, whilst we [originally plan to] launch ours in April, we, noticing that the competitor has already made a move, accelerate our program to start from mid March instead of April.					H2 (Pathway 2A) 10
Distributor's long-term orientation (DLTORT)				One of [our selling values] is our infrastructure, system and distribution-	We have dedicated teams for our special principal M2. We expand our infrastructure by-	H2 (Pathway 2B) 11

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's long-term orientation (DLTORT)				- [network] with 42 branches across Indonesia; not all distributors have [such a good infrastructure]. We have [distribution points] in all provinces; even we have more than one branch in some [provinces].	-adding [more people to] the sales team to support so we can serve more focused and better.	H2 (Pathway 2B) 11
Manufacturer's long-term orientation (MLTORT)	D1 have a good warehousing system; they have a rack system that places products into certain racks according to their slots. The slot system at their warehouse is excellent. It is D1's main strength. What may happen is a change of policy, so a change in leadership may or may not be followed by a change in policy or a new policy. Like what I-	In terms of target sales, for example, we set 80 tons for Jakarta area, but D2 can achieve 90 tons. It is an example of their good performance, namely achieving more than 100%. It often happens in some areas. From a historical perspective, we've been cooperating with D2 for a long time, so in this sense, they know well what we require. And vice-				H2 (Pathway 2B) 11

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's long-term orientation (MLTORT)	-said, we will do evaluation every year. So, if a contract is finished in a year, we'll evaluate it, and if it is extended, it will be entered with new targets or commitments related to sales; the actual impacts [of any change of management] will then be felt. New parameters [imposed] may affect our long-term relationship [with distributors].	-versa, so we mutually need each other that we have developed an intense communication. We understand one another. If we have complaints for improvements in the field, D2 are able to immediately fulfil what are required by M2, so in this regard, our communication with them has already been good.				H2 (Pathway 2B) 11
Distributor's view of the manufacturer's role performance (DMPERF)					Yes. But, there is something called a buffer in D2. As long as the buffer can still cover [the fulfilment], everything should be fine. But, at certain times, if fulfilment is long-	H2 (Pathway 2C) 12

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's view of the manufacturer's role performance (DMPERF)					-overdue, the buffer I have will be exhausted, and this becomes a problem. But we will tell them that this is urgent, that they have to take action internally, so the products [concerned] can soon be fulfilled. If not, the products will be unavailable in the market.	H2 (Pathway 2C) 12
Manufacturer's view of the distributor's role performance (MDPERF)		So far we do, and their reasoning still makes sense; sometimes, it is just a technical issue like transport. In fact, every now and then hurdles come from M2's internal party, e.g. a required product has not been completely produced, or its production has been finished but it-				H2 (Pathway 2C) 12

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's view of the distributor's role performance (MDPERF)		-cannot be consigned since it has not yet gone through a release process by our Quality Assurance team. Indeed, we admit that they sometimes face constraints, causing misses of targets.				H2 (Pathway 2C) 12
Manufacturer's market orientation (MMORT)	Process-wise, it is their job, because they receive orders and have to convert them into transactions. For us, the principal, we definitely will do the same thing in the context that we just make sure, i.e. clarify whether they have cross-checked the orders well or whether their delivery process is good, on time, on items ordered, etc. So, [we just]-					1

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's market orientation (MMORT)	-check their work process. Last year, they were on target. They are fine with outlets that we categorize as large and medium, i.e. they visit [them] routinely because there is [a service level] item called visit frequency that we've agreed.					1
Manufacturer's long-term orientation (MLTORT)	They are still able to deliver the level of satisfaction that we expect. We evaluate [them] every year and this has already been our third year; we will continue.					1
Manufacturer's long-term orientation (MLTORT)	We surely want it to keep growing. The easiest parameter [to see] is whether we can increase our sales. Their sales volume and growth is moderate.-					2

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's long-term orientation (MLTORT)	-Bearing in mind that this distributor is ranked at the middle, they are good in terms of performance; they are still able to deliver the level of satisfaction that we expect.					2
Manufacturer's market orientation (MMORT)	As I said, we usually handle large accounts ourselves. To handle means to directly set targets, set various kinds of commitment and develop promotional programs; later on, we involve distributors. Distributors will be invited to a joint meeting since theirs are the supply side. For large accounts, they take care more of supply.					2

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's market orientation (MMORT)		We do it indirectly. But, essentially we just monitor it in a sense of [confirming] whether activities carried out by D2 or a sub-distributor to retailers have met the latter's expectation. One [of such monitoring] is conducted by internal audit or area control staff stationed at branches. One form [of satisfaction assessment] is a service level assessment. Here, retailer satisfaction is measured, and so is distribution from sub-distributors to retailers, e.g. whether their salespeople often or seldom pay visits.				3

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's view of the distributor's role performance (MDPERF)		We often find on the field, during our visits, stores claiming that they are seldom visited by D2. Reports like this are treated as our complaints to D2 for their field performance evaluation.				3
Manufacturer's dependence (MDEP)		Maybe at the beginning, we won't be 100% confident because replacing a distributor is no easy matter. The compensation is very huge. Should we choose other distributor, maybe we cannot fully abandon D2. Maybe [the job will be split] fifty-fifty at first, because it is D2 that hold knowledge about the field – the outlet database belongs to them, so it is too risky to totally release them.				4

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's market orientation (MMORT)		From a historical perspective, we've been cooperating with D2 for a long time, so in this sense, they know well what we require. And vice versa, so we mutually need each other that we have developed an intense communication. Meetings between our team and D2's team are informally and formally held once a month. But, it doesn't preclude any chance to informally share [information any time] we meet.				4
Manufacturer's long-term orientation (MLTORT)		So far, it seems to be. The indicator is that they have been so far met the-- target that we set. For the past five-				5

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Manufacturer's long-term orientation (MLTORT)		-years, they got 100% consistently. So, they're good enough.				5
Manufacturer's dependence (MDEP)		From a historical perspective, we've been cooperating with D2 for a long time, so in this sense, they know well what we require. And vice versa, so we mutually need each other that we have developed an intense communication.				5
The manufacturer's economic satisfaction (MESAT)	Their sales volume and growth is moderate. Bearing in mind that this distributor is ranked at the middle, they are good in terms of performance; they are still able to deliver the level of satisfaction that we expect.					6

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
The manufacturer's long-term orientation (MLTORT)	We surely want it to keep growing. The easiest parameter [to see] is whether we can increase our sales. We have a long-term relationship and we are personally close to their operation team.					6
Distributor's long-term orientation (DLTORT)					When we expand our network infrastructure and sales team, we trust that the sales will continue to grow. With the sales growing, our top line will then continue to increase. With a good top line, we can expect a good bottom line.	13
Distributor's economic satisfaction (DESAT)					If you look at D2's report, our turnover has totally grown; this should sufficiently reflect-	13

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's economic satisfaction (DESAT)					-M2's [contribution] as D2's principal. Our market share also swells, because M2 have been the number one milk [producer] since 2009 in Indonesia with a significant market and volume growths compared to other competitors.	13
Distributor's dependence (DDEP)				Such a dependency surely exists, because for our cooperation with them, D1 should make some investment in infrastructure, fleet, and sales force, so losing them will not be desired by D1. It will cause difficulties for us since we may then have to lay off some personnel if they cannot be re-		14

Qualitative Evidence Supporting Hypotheses and Figure 5.3 Pathways (Continued)

Theme	M1	M2	M3	D1	D2	Channel Pathway
Distributor's dependence (DDEP)				-assigned to other directorates, and we may have to sell [some of] our fleet. Business-wise, we'll experience a dive. D1 will not want the principal to go away; [we're keen on] maintaining it [i.e. the relationship] since we have made investment that must create returns.		14
Distributor's long-term orientation (DLTORT)				We are aware that such cooperation, especially with other principals, is renewed every other year. This means that there is a chance that this principal may someday break away so we have to keep them pleased that our contract will be extended.		14

Appendix J
Ethics Approval

This administrative form
has been removed