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Effects of Supplier Market Orientation on Distributor Market Orientation and the Channel Relationship: The Distributor Perspective

A strategy for easing the tensions facing suppliers and distributors in their channel relationships may be the adoption of market-oriented behaviors. The authors develop a model of likely effects and empirically examine the consequences of a supplier's market orientation on the distributor's market orientation and other channel relationship factors. Results indicate that a supplier's market-oriented behaviors directly or indirectly affect all the channel relationship factors examined from the distributor's perspective, specifically the distributor's market orientation, trust, cooperative norms, commitment, and satisfaction with financial performance.

Global competition and maturing domestic markets are creating increasingly competitive conditions for channel partners. Competitive pressures encourage suppliers to decrease their investments in traditional channels, find alternative or dual channels of distribution, and require distributors to increase their channel investments (Arthur Andersen & Co. 1995; Frazier and Antia 1995). These trends have resulted in increased tensions in and deterioration of channel relationships. A viable strategy for easing channel tensions while countering future environmental threats from global competition may be the adoption of market-oriented behaviors. To date, research incorporating the market-orientation construct has indicated that market-oriented behaviors have positive effects on profitability (e.g., Ruekert 1992; Slater and Narver 1994; Webster 1992), employee attitudes (e.g., Jaworski and Kohli 1993), and salesperson orientations (Siguaw, Brown, and Widing 1994). This research stream has ignored, however, the potential impact of market orientation on channel relationships and the ramifications of market-oriented behaviors in a dyadic relationship. The lack of attention devoted to the study of market orientation in a channel relationship context is regrettable, given the potentially sweeping effects of a firm's market-oriented actions and the importance of productive channel relationships (see, for example, Kumar, Scheer, and Steenkamp 1995).

The research undertaken and described here is one of the first empirical studies designed to analyze the interrelationships of market orientation and other channel relationship elements in the dyad formed by a supplier and distributor. Although other research has involved examining the effects of market orientation on a company's own outcomes, no known research has involved examining the effects of one firm's market orientation on its channel partner. The article begins with a brief discussion of market orientation and the importance of dyadic research. Then we present a model depicting the hypothesized relationships of the market orientation of channel partners and the distributor's perception of trust, cooperative norms, commitment, and satisfaction with performance found in the supplier–distributor association. We use data collected from 179 supplier–distributor dyads to test the hypothesized relationships through path analysis using LISREL methodology and provide the results. We conclude with a discussion incorporating an overview of the study and managerial implications.

Background and Definition of Market Orientation

Before we present the conceptual development of the proposed model and the corresponding research propositions, some discussion of the market-orientation construct is necessary because of the mixed operationalizations presented to date in the literature (Dreher 1993). For the most part, definitions of *market orientation* have been developed from conceptualizations of the *marketing concept*; therefore, the variation in definitions can be attributed to the diverse manner in which the marketing concept has been defined over time. King (1965, p. 85) initially defined the

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marketing concept as "a managerial philosophy concerned with mobilization, utilization, and control of total corporate effort for the purpose of helping consumers solve selected problems in ways compatible with planned enhancement of the profit position of the firm." Consistent with King (1965), Barksdale and Darden (1971) and McNamara (1972) identify three components of the marketing concept: (1) the customer as a focal point for business activities, (2) the necessity of integrating marketing activities across functions, and (3) the need for a profit orientation. These balanced conceptualizations, however, have been opposed by other scholars. For example, Bell and Emory (1971) argue that profit is a consequence of customer orientation; therefore, customer orientation should take precedence over profit orientation. Day and Wensley (1983) contend that all previous conceptualizations of the marketing concept failed to address the need for a competitor orientation adequately.

By the late 1980s, the term *market orientation* was being used synonymously with *marketing concept* (Shapiro 1988; Webster 1988), and the governing determinants of a market orientation were identified as market information collection and usage. Shapiro (1988, p. 120) noted that an organization has a market orientation only if "[i]nformation on all important buying influences permeates every corporate function," whereas Selnes and Wesenberg (1993, p. 23) explained market orientation as a "response to market information."

In accordance with this informational focal point for market orientation, Kohli and Jaworski (1990) conceptualized market orientation as the implementation of the marketing concept and developed a measure (Kohli, Jaworski, and Kumar 1993) that focused on the firm's activities and behaviors regarding customer needs, competitive information, market intelligence, and the sharing of such knowledge across organizational functions. Narver and Slater (1990, p. 21) offered a similar view, suggesting that market orientation consists of three behavioral components (customer orientation, competitor orientation, and interfunctional coordination) that constitute "the activities of market information acquisition and dissemination and the coordinated creation of customer value."

More recently, Deshpandé and Farley (1996) slightly altered the definition of market orientation on the basis of a factor analysis of three market-orientation measures. Their definition emphasizes a customer orientation: "The set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs-assessment" (p. 13).

However, we adopt Kohli and Jaworski's (1990) definition of market orientation for use in this study as a more comprehensive conceptualization of the construct. Their definition states: "Market orientation is the organizationwide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organizationwide *responsiveness* to it" (p. 6).

The potential for using market orientation to improve channel relationships seems obvious from this definition. Market-oriented firms will gather and use information more actively and openly to satisfy customer needs to the betterment of all channel members than will their less market-oriented counterparts. Several conceptual and empirical studies have substantiated the logical benefits of adopting a market orientation, with the relationship between market orientation and better performance the most frequently touted advantage (e.g., Jaworski and Kohli 1993; Narver, Park, and Slater 1990; Pitt, Caruana, and Berthon 1996; Ruekert 1992; Selnes, Jaworski, and Kohli 1996). Yet the adoption of market-oriented behaviors has not been widespread; for example, one study indicated that only 36% of a sample of U.K. corporations have embraced a comprehensive market orientation (Greenley 1995a). With this research, we hope to demonstrate additional benefits of a market orientation as it pertains to channel relationships and, more important, to promote its increased use among businesses by demonstrating its strategic value in improving channel relationships.

Conceptual Framework and Hypotheses

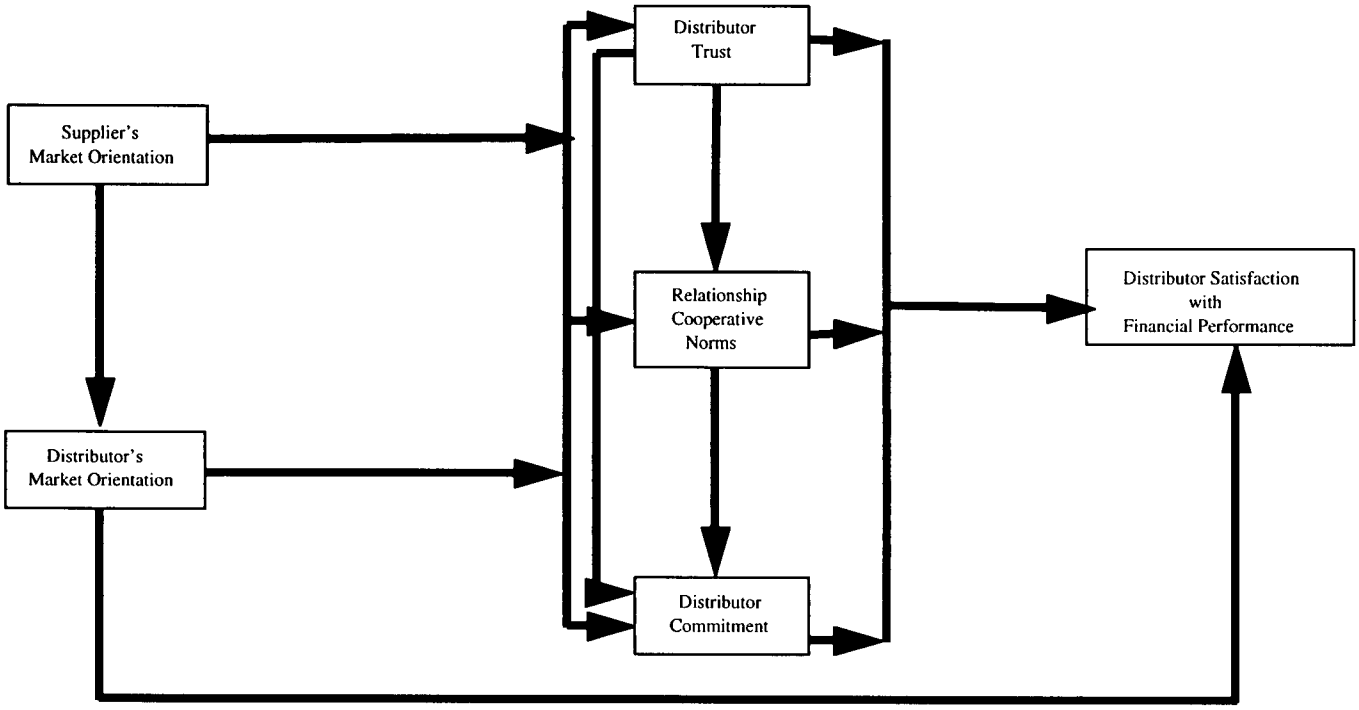
Much of the emerging research involving channels issues has centered on the dyadic relationship between firms (e.g., Anderson and Weitz 1992; Anderson and Narus 1990; Ganesan 1994)—a stream of study that has been labeled of "paramount interest" (Anderson, Håkansson, and Johanson 1994). Collecting dyadic data from both suppliers and distributors in a channel relationship has been encouraged strongly by researchers to facilitate academic and practitioner understanding of relationship development, management, and maintenance (Weitz and Jap 1995). Accordingly, we develop our model of channel relationship factors with a dyadic context in mind.

The model depicted in Figure 1 hypothesizes the likely effects of a supplier's market orientation on both the distributor's market orientation and its perception of various channel relationship factors, including trust, cooperative norms, commitment, and satisfaction with performance. The ordering of these variables in our model was conceptualized as the likely initial chain of events from the inception of the supplier–distributor relationship. The empirical data presented here investigate the hypothesized relationships at one point in time and thus provide a static perspective. However, we acknowledge that many of the relationships depicted might be reciprocal, in that one variable might affect a second variable, and over time, the second variable might affect the former variable.

Supplier and distributor market orientations. We begin our discussion of the hypothesized relationships by acknowledging that a supplier and its distributor each bring to the channel relationship their own defined set of market-oriented behaviors. These two sets of market-oriented behaviors are proposed to affect the overall channel relationship.

We first posit that the supplier's market orientation will affect the distributor's. Support for this hypothetical linkage can be established using reference group theory. A *reference group* is "some identifiable grouping to which an actor is related in some manner and the norms and values [are] shared

FIGURE 1
Relationships Variables: Hypothesized Model



in that group" (Shibutani 1955, p. 562) and has two primary functions (Kelley 1965). One function, the normative, is to motivate people to aspire to goals and norms established by the group. In this case, the group evaluates the group aspirant and can reward or punish actions. The second function of reference groups, the comparative, is to serve as "a standard or comparison point against which the person can evaluate himself and others" (Kelley 1965, p. 413). Although marketers certainly recognize the importance of reference group influence on individual consumer behavior (see, for example, Bearden and Etzel 1982; Englis and Solomon 1995; Moschis 1976), the functions of reference groups as defined by Kelley (1965) suggest that reference group influences also can affect the channel relationship, though the idea has not been subjected to study.

The channel relationship can be perceived as a reference group that uses normative influence when, for example, a distributor feels compelled to conform to norms established by the supplier in order to continue the channel partnership. This normative function appears commonplace in a channel in which a large or well-established supplier sets goals and norms of behavior for the distributor. The distributor then is willing to behave in a manner dictated by the supplier to reap the reward of higher profits. As Gassenheimer and Calantone (1994, p. 196) note in their study of the office systems and furniture industry, "operating suggestions from the supplier can become strategic mandates" for the distributor. The normative function of reference group theory therefore suggests that a market-oriented supplier can encourage the adoption of market-oriented behaviors by distributors interested in winning favors from suppliers, thereby increasing profits and further cementing the partnership.

The comparative function of reference group theory occurs when the distributor examines the behaviors and attitudes of its supplier to obtain a benchmark or guide for its own behavior. The comparative function might be more prevalent in channels in which members are more equal in size and power or when relationship factors are emphasized (*Harvard Business Review* 1996). Under these circumstances, the supplier can "provide the points of comparison" by which the distributor assesses its own attitudes and behaviors (Assael 1995, p. 527). The distributor uses these standards as a point of reference or model for adapting its own behavior to identify more closely with the behaviors of its supplier. Using these two theoretical bases, we expect the supplier's market orientation to affect the distributor's market orientation in the distributor's efforts to comply with its reference group's norms or in meeting some perceived standard. In accordance with these arguments, we offer the following hypothesis:

> H_1: The greater the supplier's market orientation, the greater the distributor's market orientation.

Supplier market orientation and distributor trust. Trust has been called a "fundamental relationship model building block" (Wilson 1995, p. 337) and requires credibility and benevolence. *Credibility* is comprised of the belief that a trading partner is expert and reliable in conducting transactions effectively; *benevolence* is based on the beneficial "in-

tentions and motives" of one partner for the other (Ganesan 1994).

Using this definition in a channel relationship context, the market orientation of the supplier is likely to increase the distributor's trust because a market-oriented supplier will (1) share information and advantages with the firm without being asked to do so (Smeltzer 1997); (2) convey favorable motives and intentions, which are necessary for increased levels of trust; and (3) maintain open communications and responsiveness to customer needs, which should convey greater competence, credibility, and reliability to trading partners. Prior research has indicated that people trust organizations that allow open communication and the opportunity to participate (Carnevale and Wechsler 1992), necessary conditions for a market orientation.

These arguments suggest that when a supplier is operating in a market-oriented manner, the distributor will report increased levels of relationship trust in its channel partner. Stated more formally,

> H_2: The greater the supplier's market orientation, the greater the distributor's trust in the supplier.

Supplier market orientation and distributor cooperative norms. In the conceptualized model, the supplier's market orientation is posited to affect the distributor's perception of cooperative norms in the relationship positively and directly. The cooperative norms construct reflects the belief that both parties in a relationship must combine their efforts, or cooperate, to be successful (Cannon and Perreault 1997). Therefore, in this study, *cooperative norms* are defined as the perception of the joint efforts of both the supplier and distributor to achieve mutual and individual goals successfully (Cannon and Perreault 1997; Stern and Reve 1980) while refraining from opportunistic actions.

Although an association between market orientation and cooperative norms has not been proposed in literature, by definition, channel members who are market oriented are seeking to put their customers' needs at the forefront of organizational concerns (Deshpandé, Farley, and Webster 1993). If a supplier is market oriented and working to satisfy a distributor's needs, the distributor is likely to perceive the norms of the dyadic relationship as cooperative because both parties are working toward the mutual goal of need satisfaction. A non-market-oriented supplier, conversely, may put its own goals and need satisfaction ahead of the distributor's or resort to the use of punishment or coercion to force distributor compliance, which leads to channel conflict rather than cooperative norms. Therefore,

> H_3: The greater the supplier's market orientation, the greater the distributor's perception of cooperative norms in the relationship.

Supplier market orientation and distributor commitment. Commitment is defined as "a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship" (Anderson and Weitz 1992, p. 19). Market-oriented suppliers devote considerable resources to satisfying distributors' needs. The distributors' perceptions of these market-oriented efforts by suppliers should result in a greater commitment to maintain the relationship with such devoted suppliers. Although the link between market orientation and commitment to the channel relationship has not been examined explicitly in prior studies, other variables closely related to channel commitment have been investigated. For example, Kohli and Jaworski (1990) conceptualize a causal relationship between market orientation and "repeat business from customers," whereas Narver and Slater (1990) empirically test and find support for an association between market orientation and customer retention. Also, a strong association between market orientation and organizational commitment of employees has been tested empirically and supported (Jaworski and Kohli 1993; Siguaw, Brown, and Widing 1994). Although channel members are not literal employees of each other's firms, Baker and Hawes (1993, p. 85) note that "a channel dyad can be thought of as an 'organization' because the success of each organization is dependent on the success of the other," which suggests that the former empirical findings can be applied to channel relationships. Consequently, we assert that

> H_4: The greater the supplier's market orientation, the greater the distributor's commitment to the relationship.

Distributor's market orientation and relationship variables. The distributor's own market orientation can influence its trust, perception of cooperative norms, and commitment as a function of internal and external comparisons. First, as is suggested by reference group and equity theory, the distributor may use its own market orientation as an internal benchmark by which to compare the actual market-oriented behaviors of the supplier. The distributor must perceive the supplier's market orientation as meeting or exceeding its own before the supplier will be judged "market oriented" (for similar effects in other relationship variables, see Anderson, Håkansson, and Johanson 1994). A supplier's failure to achieve the market-orientation benchmark established by the distributor likely will affect the channel relationship negatively.

Second, as is suggested by social exchange theory (Thibaut and Kelley 1959), the distributor's market orientation should influence trust, cooperative norms, and commitment directly because of the external intelligence-gathering facet of market orientation. A highly market-oriented distributor collects information about customer needs, competitive tactics and strategies, market trends and developments, new products, technological advances, and the business environment in general, which necessitates greater communication with its suppliers, alternative suppliers, competitors, trade associations, and so forth. Thus, market-oriented distributors are more knowledgeable about their industry, which results in a greater knowledge of and broader basis of comparison with their suppliers. This knowledge base provides the distributors with external benchmarks for comparing the market orientation of their suppliers with alternative suppliers (regarding comparison level evaluations, see Anderson and Narus 1984; Thibaut and Kelley 1959). As a result, the intelligence-gathering aspect of market orientation influences the distributor's perceptions of trust, cooperative norms, and commitment in the supplier–distributor relation-

ship. Using the previous arguments of internal and external comparisons, we propose the following:

H_5: The greater the distributor's market orientation, the greater its (a) trust, (b) cooperative norms, and (c) commitment to the supplier.

Distributor market orientation and distributor performance. The distributor's adoption of a market orientation should increase its satisfaction with performance. A market orientation enables the distributor to create a competitive advantage by establishing superior value through responsiveness to customers' needs, unlike non-market-oriented firms that can seem unconcerned with customers and their needs. Recent research provides support for the long-held marketing assumption that a market orientation results in better performance. Most notably, the pioneering empirical work by Narver and Slater (1990) finds that market orientation has a significant effect on profitability. Other study results echo the positive effects of market orientation on various measures of business performance: return on assets, sales, and new product success (Slater and Narver 1994); dollar/kroner share of the served market and judgmental assessments (Selnes, Jaworski, and Kohli 1996); product quality, new product success, and current profitability in small firms (Pelham and Wilson 1996); and successful product innovation (Atuahene-Gima 1996). This mounting evidence provides ample support for the following hypothesis:

H_6: The greater the distributor's market orientation, the greater its satisfaction with its financial performance.

Trust and cooperative norms. A distributor's trust in the supplier is hypothesized to influence positively cooperative norms in which parties unite to accomplish shared goals (Anderson and Narus 1990). Both trust and cooperative norms contain an element of benevolence, or concern for each other and a joint effort directed at benefiting both organizations. We maintain that the distributor's perception of cooperative norms in a relationship is an outcome of perceived trust in the supplier. As the distributor's trust—perceptions of supplier credibility and benevolence—in the supplier increases, the distributor is more likely to perceive greater levels of cooperation as the norm in the relationship. The proposed relationship, which indicates that trust must be present to gain cooperative behavior, has been supported previously in literature (Deutsch 1960; Loomis 1959; Pruitt 1981).

H_7: The greater the distributor's trust in the supplier, the greater its perception of cooperative norms in the relationship.

Trust and commitment. A direct link between trust and commitment often has been reported in the literature (e.g., Andaleeb 1996, Moorman, Zaltman, and Deshpandé 1992; Morgan and Hunt 1994). We likewise propose that the distributor's trust in the supplier will influence its commitment to the relationship with the supplier, because we believe that commitment to a relationship would not be established without a foundation of trust in place. Therefore,

H_8: The greater the distributor's trust in the supplier, the greater its commitment to the relationship.

Cooperative norms and commitment. Commitment previously has been found to be an outcome of trust (Achrol 1991; Moorman, Zaltman, and Deshpandé 1992; Morgan and Hunt 1994); similarly, a recent study posited commitment as an outcome of cooperation (Anderson, Håkansson, and Johanson 1994). In this study, we adopt the Anderson, Håkansson, and Johanson conceptualization, in which cooperative norms lead to commitment, because we believe that an established cooperative environment is a necessary precursor to commitment in the initial stages of the channel relationship. Accordingly, we hypothesize that cooperative norms directly influence commitment:

H_9: The greater the distributor's perception of cooperative norms in the channel relationship, the greater its commitment to the relationship.

Trust and performance. Conceptually, trust is believed to influence performance positively (e.g., Sonnenberg 1994), though there is a paucity of empirical research to support such a view. One study found a direct, positive link between trust and performance (Dion, Easterling, and Miller 1995), whereas others have reported an indirect relationship between them (e.g., McAllister 1995). In this study, we posit a direct relationship with the belief that a distributor will be more satisfied with its financial performance when it has a high level of trust in its supplier. Moreover, a distributor might work more diligently to enhance performance with a partner it believes is more credible and benevolent than alternative partners. Therefore,

H_{10}: The greater the distributor's trust in the supplier, the greater its satisfaction with its financial performance.

Cooperative norms and performance. The link between cooperative behavior and performance has received little research attention, though Katzenbach and Smith (1993) focus on a recurring phenomenon in which truly cooperative teams synergistically perform at levels that are superior to the sum of the team members' individual best efforts. Furthermore, they state that "teams will become the primary unit of performance in high-performance organizations" (p. 119). The synergistic effects of teams also should apply to channel partners working toward a common goal; therefore, cooperative partners will lead to the improved financial performance of both partners. On the basis of this argument, the cooperative norms established between a supplier and distributor are expected to influence performance positively. Therefore,

H_{11}: The greater the distributor's perception of cooperative norms in the channel relationship, the greater its satisfaction with its financial performance.

Commitment and performance. Commitment to a relationship frequently is believed to result in a higher performance level (e.g., *BusinessWeek* 1986; Stern and El-Ansary 1990); however, the empirical findings regarding the relationship between commitment and performance are equivocal. Many studies have found that the relationship is dependent on the type of commitment examined. For example, Becker and colleagues (1996) report that commitment to supervisors is related positively to employee performance, but commitment to the organization is unrelated to

employee performance. Kumar, Hibbard, and Stern (1994) state that affective relationship commitment results in better organizational performance, whereas calculative and moral commitment results in lower performance. Heide and Stump (1995) indicate that relationship continuity (measured as the expectation that the relationship will continue in the future) has a positive effect on performance in conditions of high uncertainty and when specific assets are involved; otherwise, continuity has a low or negative influence on performance. The results of other studies have been more straightforward. Bashaw and Grant (1994), for example, find that job and career commitment are related positively and significantly to sales performance; Holm, Eriksson, and Johanson (1996) find that relationship commitment had a strong effect on relationship profitability. Extrapolating the results of these studies, we posit that behavior designed to indicate commitment to the relationship will improve the distributor's satisfaction with its performance. Therefore, we propose the following:

H_{12}: The greater the distributor's commitment to the relationship, the greater its satisfaction with its financial performance.

Methods

Data Collection

To test the model presented in Figure 1, data were collected to assess both sides of a dyadic relationship between a supplier and distributor. Names of distributors were culled from the membership rosters of associations affiliated with the National Association of Wholesalers; these associations included the Associated Equipment Distributors, Fluid Power Distributors Association, National Electronic Distributors Association, National Fastener Distributors Association, National Welding Supply Association, and Power Transmission Distributors Association. Each distributor was contacted by telephone to obtain cooperation. In addition to providing the name of the person who was most knowledgeable about the relationship with the distributor's primary supplier, the distributor was asked to provide the name of an informant in the supplier's firm who had the most knowledge about the distributor. Coded questionnaires were mailed to all informants along with a cover letter on university stationery explaining the coding system (to match the supplier–distributor dyad), the purpose of the study, and the confidentiality of responses. Surveys were returned to the researchers by preaddressed, postage-paid envelopes enclosed with the questionnaires. One follow-up mailing with a duplicate questionnaire and cover letter was sent to nonrespondents.

A total of 1127 supplier–distributor dyads received questionnaires. The two mailings resulted in responses from 453 distributors and 380 suppliers, for an overall response rate of 36.96%. Of these respondents, 179 matched sets (a total of 358) of questionnaires were received from distributors and their corresponding suppliers. These matched responses provided the data used in the subsequent analyses.

Measures

All constructs included in this research were measured using multi-item scales drawn from prior studies. The response categories for each scale were anchored by 1 (Strongly disagree) and 7 (Strongly agree), with the exception of the market orientation, performance, and cooperative norms scales, which used anchors of 1 (Not at all) and 7 (To an extreme extent), 1 (Strongly dissatisfied) and 7 (Strongly satisfied), and 1 (Very inaccurate description) and 7 (Very accurate description), respectively. All constructs were formed by averaging the responses to each item in a particular scale. Although each of the scales have been reported in literature, a scale validation procedure was accomplished using (1) the analysis of item intercorrelations, (2) the analysis of item–total correlations, (3) exploratory factor analysis, and (4) confirmatory factor analysis (CFA). The purpose of this stage of the analysis was to identify and eliminate poorly performing items for the reflective measures. Scale items are displayed in the Appendix; means, standard deviations, and Cronbach's alphas for each purified scale appear in Table 1.

Market orientation. Market orientation was measured using the scale first reported by Jaworski and Kohli (1993); this scale later was labeled MARKOR (Kohli, Jaworski, and Kumar 1993). Jaworski and Kohli (1993) propose that market orientation is a function of (1) the extent to which a firm generates intelligence about the market, (2) the dissemination of that information throughout the firm, and (3) the extent to which an organization responds based on the information gathered and disseminated. Analysis conducted

TABLE 1
Correlation Matrix

Construct	Mean	Standard Deviation	Alpha	SMO	DMO	TRUST1	TRUST2	COOP	COMMIT	PERF
SMO	4.70	.89	.71	1.00						
DMO	4.86	.79	.56	.12	1.00					
TRUST1	5.58	1.08	.80	–.05	.19**	1.00				
TRUST2	5.54	1.25	.94	–.05	.18**	.79*	1.00			
COOP	5.16	1.14	.84	–.10	.22*	.62*	.68*	1.00		
COMMIT	5.69	.97	.65	–.05	.28*	.41*	.39*	.50*	1.00	
PERF	5.34	1.09	N/A	.22*	–.08	.09	.09	–.05	.05	1.00

*$p < .01$, **$p < .05$; all other correlations are insignificant.
Note: SMO = supplier market orientation; DMO = distributor market orientation; TRUST1 = benevolence; TRUST2 = credibility; COOP = cooperation; COMMIT = commitment; PERF = performance.

by Kohli, Jaworski, and Kumar (1993) indicates that only 20 of the original 32 items performed adequately. These 20 items formed the basis for our market orientation measure.

For the distributor sample, the item–total correlations were all acceptable, with the lowest being .40. A covariance matrix composed of the 20 items was submitted to CFA, which constrained each item to load on the theoretically correct facet of market orientation (i.e., information gathering, dissemination, and responsiveness). The initial three-factor solution did not provide an adequate fit to the data (χ^2 = 462.10 [df] = 167], p = .0; root mean square error of approximation [RMSEA] = .108). Items were removed sequentially on the basis of the diagnostics provided with the LISREL program and an assessment of the conceptual impact of removing an item (MacCallum 1986). Eventually, a model was identified that provided an adequate fit to the data based on fit indices. In addition, and perhaps more important, the model appeared to retain the appropriate items, providing a high degree of confidence that the conceptual domain of each facet of market orientation was being represented adequately. The final model fit was (χ^2 = 51.66 [df = 41], p = .12; RMSEA = .041). This construct is identified as DMO (distributor market orientation).

The same procedure was followed for supplier's market orientation. The item–total correlation analysis for the supplier sample indicated that 1 item should be excluded from further analysis (item–total correlation = .16). The remaining 19 items were submitted to CFA, with each item being constrained to load on the conceptually correct facet of market orientation. The initial CFA solution did not result in a good fit to the data (χ^2 = 375.58 [df = 149], p = .0; RMSEA = .096). As with the distributor sample, items were trimmed from the model on the basis of LISREL diagnostics and theoretical concerns. The final model provided a fit of (χ^2 = 54.266 [df = 41], p = .08; RMSEA = .044). This construct is identified as SMO (supplier market orientation).

The items remaining for both the information-gathering and disseminating facets are the same for SMO and DMO, and two of the four items remaining for SMO and DMO are the same. In keeping with the manner in which the scale was used by Jaworski and Kohli (1993) and Selnes, Jaworski, and Kohli (1996), scores for market orientation for both distributors and suppliers were created by averaging the items that make up each facet of market orientation and then averaging each of the facet scores.

Trust. Trust was measured using scales first presented by Ganesan (1994), who conceptualized trust as being composed of two dimensions, benevolence (five items) and credibility (seven items). The preliminary analysis did not indicate any poorly performing items, though the initial CFA did not result in an adequate fit (χ^2 = 110.84 [df = 53], p = .0; RMSEA = .081). However, the deletion of three items (on the basis of LISREL diagnostics) increased the fit to an acceptable level (χ^2 = 33.206 [df = 26], p = .156; RMSEA = .041). An examination of the remaining items indicated a high degree of content validity.

Cooperative norms. Cooperative norms were measured using a scale developed by Cannon (1992). The scale is composed of six items that require respondents to indicate the extent to which the items accurately describe their experience with the specified trading partner. The item–total correlations and exploratory factor analysis did not indicate any problems with the unidimensionality of the scale. However, the initial CFA did not provide an acceptable fit (χ^2 = 23.13 [df = 9], p = .006; RMSEA = .097). The deletion of a single item resulted in an adequate fit to the data (χ^2 = 5.68 [df = 5], p = .338; RMSEA = .026).

Commitment. A distributor's commitment to the relationship was measured using a six-item scale first presented by Anderson and Weitz (1992). The item–total correlations were high, and the factor analysis resulted in a single factor solution. Although the initial CFA did not provide an adequate fit, the deletion of a single item resulted in an excellent fit (χ^2 = 1.86 [df = 2], p = .399; RMSEA = .000).

Satisfaction with financial performance. Although it would seem that "objective" financial measures are the preferred way to measure organizational performance, several studies have questioned the use of these measures (Govindarajan 1988; Naman and Slevin 1993; Sandberg and Hofer 1987; Sapienza, Smith, and Gannon 1988). These researchers argue that often respondents are unwilling to provide objective performance data, or they provide it in a way that is either not representative of true organizational performance or not consistent with that provided by other firms. Accordingly, a measure developed by Naman and Slevin (1993) was used to assess organizational performance. The measure calls for respondents to indicate their degree of satisfaction with seven items (e.g., cash flow, gross profit margin, return on investment). Naman and Slevin (1993) argue that, in addition to overcoming the problems mentioned previously, this scale provides the capability to measure the true multi-attribute nature of organizational performance rather than relying on a single measure. Because the satisfaction with financial performance measure is formative, the items constituting the scale were averaged to create the overall performance scale (cf. Bollen and Lennox 1991; MacCallum and Browne 1993).

Analytical Procedures

Path analysis through LISREL 8 (Jöreskog and Sörbom 1993) was used to test the hypotheses represented by Figure 1. The correlation matrices of the constructs appear in Table 1. The error variances of the observed variables were fixed to a value equal to ($1 - \alpha$) times the variance of the observed variable to fix the portion of the variance in the indicator that comes from sources other than the concept the variable is indicating (Hayduk 1987). This is consistent with other published research using LISREL in a similar fashion (e.g., Ganesan 1994; Spreng, MacKenzie, and Olshavsky 1996).

Results

The analysis of the model presented in Figure 1 resulted in a very good fit to the data (χ^2 = 8.278 [df = 5], p = .142; RMSEA = .0644, comparative fit index [CFI] = .990). Table 2 presents the standardized path coefficients and the t-values associated with the estimates. Supplier market orientation has a significant effect on DMO (H_1; γ = .264, $p < .05$) and

TABLE 2
Standardized Parameter Estimates, t-values, and Summary of Results

Structural Path	Standardized Coefficient	t-value	Hypothesis
SMO → DMO	.264	2.043**	H_1
SMO → TRUST	–.107	–1.023	H_2
SMO → COOPERATION	–.149	–1.793	H_3
SMO → COMMITMENT	.253	2.053**	H_4
DMO → TRUST	.282	2.424**	H_5
DMO → COOPERATION	.250	2.396**	H_5
DMO → COMMITMENT	.081	.543	H_5
DMO → PERFORMANCE	–.092	–.589	H_6
TRUST → COOPERATION	.763	5.820*	H_7
TRUST → COMMITMENT	–.217	–.949	H_8
TRUST → PERFORMANCE	.644	2.583**	H_9
COOPERATION → COMMITMENT	.854	2.870*	H_{10}
COOPERATION → PERFORMANCE	–.890	–2.832*	H_{11}
COMMITMENT → PERFORMANCE	.436	2.233**	H_{12}
Chi-square with 5 degrees of freedom	= 8.278 (p = .142)		
Goodness of fit (GFI)	= .985		
Adjusted goodness of fit (AGFI)	= .915		
Root mean square error of approximation (RMSEA)	= .064		
Comparative fit index (CFI)	= .990		

*$p < .01$.
**$p < .05$.
***$p < .10$.

distributor commitment (H_4; $\gamma = .253$, $p < .05$), but not on distributor trust (H_2; $\gamma = -.107$) or cooperative norms (H_3; $\gamma = -.149$). The DMO is significantly related to distributor trust (H_{5a}; $\beta = .282$, $p < .05$) and cooperative norms (H_{5b}; $\beta = .250$, $p < .05$). Finally, DMO does not have a significant, direct effect on distributor satisfaction with financial performance (H_6; $\lambda = -.092$) or commitment (H_{5c}; $\beta = .081$).

Distributor trust is related significantly and positively to both cooperative norms (H_7; $\beta = .763$, $p < .01$) and distributor satisfaction with financial performance (H_9; $\beta = .644$, $p < .01$); however, trust does not affect distributor commitment directly (H_8; $\beta = -.217$). Cooperative norms are related significantly and positively to commitment (H_{10}; $\beta = .854$, $p < .01$) but related negatively to satisfaction with financial performance (H_{11}; $\beta = -.890$, $p < .01$). Finally, commitment is related positively to satisfaction with financial performance (H_{12}; $\beta = .436$, $p < .05$).

Discussion and Conclusions

Although marketers have recognized the potential significance of a market orientation, empirical research that involves examining its effects is still in its infancy. This study models and tests potential effects of a supplier's market orientation on channel relationship factors using a dyadic framework, substantially adding to the emerging stream of literature on the importance of adopting a market orientation. The empirical test results suggest that a supplier's market orientation affects its distributor's market orientation and commitment to the relationship. Furthermore, the distributor's market orientation has a direct effect on its trust and perception of cooperative norms. These relationship variables—trust, cooperative norms, and commitment—have a direct effect on the distributor's satisfaction with its financial performance.

These findings are important for several reasons. The results of the study indicate that the supplier's market orientation can affect the distributor through direct effects on the distributor's market orientation and commitment to the relationship. The effects of the distributor's own market orientation, as a comparative point of reference, is a previously undisclosed finding in channels literature. This effect suggests that distributors benchmark their own market-oriented behaviors to those of their suppliers, as is indicated by reference group theory. In this case, suppliers may be able to establish the market-orientation norm in distribution channels and influence the way their distributors treat customers through the way the suppliers treat the distributors; in other words, through modeling behavior. This finding is especially relevant to suppliers such as automobile manufacturers that overtly are concerned with end-user satisfaction. The use of modeling to alter distributor behavior rather than coercion or punishment, which can damage various aspects of a channel relationship (Boyle, Dwyer, and Robicheaux 1992; Skinner, Gassenheimer, and Kelley 1992), should further strengthen channel ties and improve downstream customer orientation.

The finding that the distributor's market orientation has a significant effect on its trust and perception of cooperative norms in its relationship with the supplier suggests that suppliers might want to assess the market orientation of prospective distributors. First, as is suggested by social exchange theory, SMO should meet or exceed DMO, or the entire relationship might be affected negatively. Second,

suppliers might want to "stack the deck" in favor of good channel relationships by contracting initially with distributors that have high market orientations.

In a competitive environment, distributors continually seek better conditions with alternative suppliers. The direct effect of SMO on distributor commitment identified in this study suggests that the supplier's market orientation can be a useful strategy for suppliers to develop distributor commitment and thereby strengthen and stabilize the channel relationship. As Morgan and Hunt (1994) find, both commitment and trust are "key to understanding the relationship development process" (p. 32) and "key mediating variables that contribute to relationship marketing success" (p. 31). Because of the importance of a commitment to the channel relationship, a better understanding of its antecedents could result in an improved channel relationship.

Each of the relationship variables included in this study has been identified in previous research as being of paramount importance to the development and maintenance of the stable channel relationships needed in a competitive market. Providing new insight into channel relationships, we find that a supplier can affect its relationship—the trust, cooperative norms, commitment, and satisfaction with performance factors—with a channel partner both directly and indirectly by improving its market orientation. The adoption of market-oriented behaviors appears to be a solid strategy for developing "winning" channel alliances.

The findings from this study are also important because they provide support for channel relationships identified in previous research. For example, distributor trust in the supplier was found to influence the distributor's perception of cooperative norms (in support of previous findings by Anderson and Narus 1990; Morgan and Hunt 1994), which in turn influenced the distributor's commitment to the relationship. This provides support to the causal path posited by Anderson, Håkansson, and Johanson (1994). The direct effects of trust, cooperative norms, and commitment on performance found in this study significantly attest to the importance of these channel relationship variables and provide empirical results for relationships that have received only limited investigation in the literature.

The negative direct effect of the distributor's perception of cooperative norms on the distributor's satisfaction with performance was surprising but not unexplainable. Although it is beyond the scope of our analysis, we speculate from this finding that the cooperation–performance relationship is nonmonotonic: some degree of adherence to cooperative norms has a positive affect on performance satisfaction, but satisfaction with performance might be sacrificed when too much importance is placed on cooperation, perhaps at the expense of profits. This conjecture is partially supported by Anderson and Narus (1990), who indicate that functional conflict in a channel relationship increases productivity.

Also surprising was the lack of direct effects of trust on commitment that has been found in other research (e.g., Morgan and Hunt 1994). The difference in findings might be attributable to a difference in measuring constructs. We used a behavioral measure for commitment and a two-dimensional measure for trust (benevolence and credibility), whereas Morgan and Hunt's commitment measure was more attitudinal in nature, and their single dimension of trust tapped reliability, integrity, and confidence and was more akin to our credibility dimension.

Finally, the ultimate test of any business strategy is the effects of the strategy on financial performance. Although unexpected, our finding that there is no main effect from market orientation to performance is supported by Greenley (1995b), whose results suggest that firms operating in turbulent environments might not benefit economically from a market orientation. We endorse Greenley's explanation that the relationship between market orientation and performance might lag because "[m]ajor changes in customer needs ... will require major modifications to marketing operations, if satisfaction of customer needs is to be sustained. However, when the costs of these modifications are spread over the long term, it is likely that profits can be increased" (p. 10). The implication, then, is that marketers should adopt a market orientation to strengthen channel ties but realize that direct effects on performance might not accrue immediately.

In conclusion, we contribute to channel research in two major respects. First, the study provides substantive support for previous findings and additional insights about the interrelationships of trust, cooperation, and commitment. Second, and most important, this study provides clear evidence that market orientation is an important, influential force on channel relationships. This evidence is especially timely for organizations seeking a means to fight the trend toward deteriorating channel relationships (Frazier and Antia 1995) or debating whether to heed the call to strengthen channel ties by "placing more emphasis on using relational norms and attitudes such as trust and commitment to maintain continuity rather than the use of authoritative control mechanisms or vertical integration" (Weitz and Jap 1995, p. 317). Although activities and behaviors associated with a market orientation can be costly (Kohli and Jaworski 1990), marketers should not view a high level of market orientation as counterproductive. As Greenley (1995b, p. 10) notes, "an increased level of market orientation should ensure the effectiveness of new marketing operations, which should lead to higher performance in the *long term*" [emphasis added].

Study Limitations and Directions for Further Research

Although the findings from this study are significant to channel relationship research, they are based on cross-sectional data, which do not fully capture the dynamics of change and connectedness between the parties in a channel relationship. Future research efforts should focus on the long-term characteristics and effects of channel relationships. As Kohli and Jaworski (1990, p. 16) note, "[a] change in orientation takes place slowly." Indeed, Lichtenthal and Wilson (1992, p. 205) identify some reasons market orientation is a time-consuming process: "[i]n the short or intermediate run, capital equipment commitments, limits of technology, financing constraints, the need to retrain labor, and even established union rules prohibit rapid adjustment of the product service

benefit bundle the firm offers." Furthermore, though the relationships between the constructs in our model are specified as recursive, nearly all are interrelated over time; therefore, a longitudinal study could examine these iterative relationships and draw the causal inferences that we could not.

The surprising negative relationship found in this study between cooperative norms and satisfaction with performance leads us to suspect that the cooperative norms construct might be problematic for several reasons. Few studies actually incorporate the cooperation variable, despite its probable importance in the channel relationship. Some of the studies that do use the variable have experienced problems, as in Anderson and Narus's (1990) study, in which the posited path from trust → cooperation was changed to cooperation → trust on the basis of the analysis. These authors speculated that their cooperation measure tapped past cooperation while their trust measure yielded a present state. The variable "conflict" also may be clouding the issue. In-

APPENDIX
Measures

Market Orientation*

1. In this business unit, we meet with customers at least once a year to find out what products or services they will need in the future.
2. In this business unit, we do a lot of in-house market research.
3. We are slow to detect changes in our customers' product preferences. (R)**
4. We poll end users at least once a year to assess the quality of our products and services.
5. We are slow to detect fundamental shifts in our industry (e.g., competition, technology, regulation). (R)**
6. We periodically review the likely effect of changes in our business environment (e.g., regulation) on customers.
7. We have interdepartmental meetings at least once a quarter to discuss market trends and developments.
8. Marketing personnel in our business unit spend time discussing customers' future needs with other functional departments.
9. When something important happens to a major customer in your business market, the whole business unit knows about it within a short period.
10. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.**
11. When one department finds out something important about competitors, it is slow to alert other departments.**
12. It takes us forever to decide how to respond to our competitor's price changes. (R) [D]
13. For one reason or another we tend to ignore changes in our customer's product or service needs. (R)**
14. We periodically review our product development efforts to ensure that they are in line with what our customers want.**
15. Several departments get together periodically to plan a response to changes taking place in our business environment.**
16. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.
17. The activities of the different departments in this business unit are well coordinated. [S]
18. Customer complaints fall on deaf ears in this business unit. (R) [D]
19. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion. (R) [S]
20. When we find that customers would like us to modify a product or service, the departments involved make concerted efforts to do so.

Trust: Credibility

1. This supplier has been frank in dealing with us.**
2. Promises made by this supplier are reliable.
3. This supplier is knowledgeable regarding his/her products.
4. This supplier has problems understanding our position. (R)
5. This supplier does not make false claims.
6. This supplier is not open in dealing with us. (R)
7. This supplier has problems answering our questions. (R)**

Trust: Benevolence

1. This supplier has made sacrifices for us in the past. **
2. This supplier cares for us.
3. In times of shortages, this supplier has gone out on a limb for us.
4. This supplier is like a friend.
5. We feel this supplier has been on our side.

Commitment to the Relationship

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

Cooperative Norms

1. No matter who is at fault, problems are joint responsibilities.
2. Both sides are concerned about the other's profitability.
3. One party will not take advantage of a strong bargaining position.
4. Both sides are willing to make cooperative changes.
5. We must work together to be successful.**
6. We do not mind owing each other favors.

Performance

1. Cash Flow
2. Return on Shareholder Equity
3. Gross Profit Margin
4. Net Profit from Operations
5. Profit to Sales Ratio
6. Return on Investment
7. Ability to Fund Business Growth from Profits

*Wording was changed to reflect whether a distributor or supplier was completing the questionnaire.
**These items were dropped from further analysis for both the supplier market-orientation and the distributor market-orientation measures.
Note: Items denoted with a [D] or [S] were retained for only the distributor market-orientation or supplier market-orientation measures, respectively. (R) = reverse-scored item.

stead of cooperation existing on a continuum, with end points of uncooperative and cooperative, the uncooperative endpoint could be conflict, because cooperation "some may argue is the opposite of conflict" (Hunt 1995, p. 419). At the functional level, this version could have positive effects on the relationship (Hunt 1995; Morgan and Hunt 1994). This discussion, as well as our findings in this study, indicate that the cooperation variable merits additional study.

Additional research also might incorporate a dependency construct into the model, because the importance of two partners to each other might be a major moderator. Although our respondents represent many different industries, one reviewer astutely notes that relationships between channel members in highly concentrated industries (i.e., limited number of suppliers have a limited number of distributors to which they sell) might be substantially different from those in industries that are highly fragmented (i.e., many suppliers have many distributors to which they sell). In addition to dependency, other variables, such as organizational culture and shared values, should be examined as to their moderating effects on market orientation.

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