

THE IMPACT OF MARKET ORIENTATION ON INDONESIAN MANUFACTURER-DISTRIBUTOR RELATIONSHIPS

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ABSTRACT

Market orientation delivered inconsistent results in marketing channels of developing economies where power imbalances exist between members. This study investigates the impact of market orientation on manufacturer-distributor relationships in Indonesia as a developing country with high industrial concentration. A Structural Equation Modeling analysis on 140 manufacturers revealed market orientation and long-term orientation were joint drivers that determined satisfaction and trust via dependence and role performance constructs. This suggests that to achieve relationship quality in channels characterized by trust and satisfaction, a market orientation view should be combined with an intention of manufacturer to build a longer term relationship with distributor.

Keywords: market orientation, manufacturer, distributor, Indonesia

INTRODUCTION

A rich body of literature revealed market orientation increased business performance, especially in developed economies [e.g. 11] [18] [40]. However, in developing economies characterized by rapid growth, the presence of sellers' markets and strong demand [16] [17], firms can achieve the benefits of marketing without necessarily adopt market-oriented view [1] [17]. In the context of marketing channels, a recent opposite result has been found in China as a developing country where its economy performed rapid growth. Here, [11] found market orientation increased retailer satisfaction in the context of power imbalance between retailers and their suppliers.

Similar to China, Indonesia demonstrated a robust economic performance in 2011 in the face of global economy turmoil. Economic growth achieved 6.5%, a record high for the past ten years [26]. In the economic posture, manufacturing sector holds a strong position, accounting for 29% of the Indonesian Gross Domestic Product [58]. Notwithstanding the growth, the market structure remains dominated by a few large firms as indicated by a high industrial concentration ratio [4] [52]. In the context of marketing channels, the high concentration may imply that the manufacturer has stronger power over its distributor and such manufacturer may dictate terms to its distributor [5] [8].

Based on the results inconsistency in the impact of market orientation in developing economies, this study investigates the impact of market orientation on manufacturer and distributor relationships in Indonesian marketing channels. Moreover, as [24] found the impact of market orientation was stronger for large firms than for small ones, hence this study uses medium-to-large manufacturers as research sample.

LITERATURE REVIEW AND HYPOTHESES

To provide the effect of market orientation on marketing channels in a concentrated industry, we relate manufacturer's market orientation (MO) with long-term orientation, dependence, role performance, trust, and satisfaction as constructs which may interplay in channel relationships [10] [11] [21] [47] [55].

Market orientation and satisfaction

Throughout the years, most market orientation research have applied either cultural perspective from [40] or behavioral perspective from [32]' definitions [7] [57]. Whilst the cultural perspective describes market orientation in activity-based characteristics of a firm, the cultural perspective is related to more fundamental characteristics of an organization [7]. The present study adopt the perspective of [40] as it encompasses three components: customer orientation, competitor orientation, and inter-functional coordination.

Satisfaction is a positive affective state resulting from an appraisal of all aspects of manufacturer and distributor relationships [22] [23]. It consists of economic and social satisfaction. [37] found the success of a market-oriented strategy generated the greater customer satisfaction. Moreover, [11] found that supplier market intelligence, as a dimension of market orientation [40], increased retailer economic satisfaction. Here, suppliers that implemented market intelligence were perform better in understanding their retailer's needs in economic terms and market condition than suppliers that are not market oriented. These findings lead to the first hypothesis:

Hypothesis 1: Market orientation positively influences manufacturer satisfaction

Market orientation and trust

Trust refers to a manufacturer willingness to confidently rely on a distributor [21] [53]. It consists of credibility and benevolence side of a distributor. [38] found that channel networking strengthens the positive influence of customer orientation on customer trust/commitment. Here, customer orientation, as a part of market orientation [40], generated more customer trust toward the firm if the strategy was combined with channel networking. Furthermore, [56] studied supply chain performance in Uganda and revealed market orientation improved trust. Firms who had a better market orientation and customer relationship strategy in their channel management would increase the trust level across the supply chain. Based on the findings, the proposed hypothesis is:

Hypothesis 2: Market orientation positively influences manufacturer's trust toward distributor

Satisfaction and long-term orientation

Long-term orientation is a synergy between a manufacturer's goals and its joint outcomes with distributor that is expected to benefit the business in the long-run [21] [60]. [46] explored Korean retailers and found economic satisfaction enhanced long-term orientation on low-dependent retailers. In addition, the low dependence retailers are more likely to focus on economic satisfaction than economic conflict. Furthermore, [47] found that the standardization of productive processes moderated the positive impact of satisfaction on long-term orientation of supply relationships. Based on these findings, the study posits that manufacturer satisfaction increases manufacturer's long-term orientation toward its distributor as follows:

Hypothesis 3: Manufacturer satisfaction positively influences manufacturer long-term orientation

Long-term orientation and manufacturer perception on distributor's role performance

A firm's role performance refers to how well the firm deliver its performance in a channel relationship with its partner [20] [59]. In this study, manufacturer delivers its perception on distributor's role performance. [43] investigated the role of importer role performance and found relationship quality improved importer role performance. Here, relationship quality consists of continuity expectations, trust, and cooperation dimensions. As continuity expectations refers to a secure relationship [30], the expectations of a long-term relationship are main indicators of relationship quality [43]. Taking further, [3] revealed that a higher relationship quality which was characterized by relationship continuity expectations enhanced distributor performance. As long-term orientation is a main component for a relationship quality, therefore the association between long-term orientation and role performance in this research is as follows:

Hypothesis 4: Manufacturer long-term orientation positively influences manufacturer's perception on distributor's role performance

Long-term orientation and dependence

Dependence is a manufacturer's need to maintain its marketing channel relationship with its distributor in order to achieve its desired outcomes [19] [21]. [10] revealed that in Japanese channel relationships, the retailer long-term orientation toward suppliers enhanced supplier dependence. [45] found when manufacturers help their suppliers to achieve technological advancement, a collaborative partnership emerged. This implies a long-term orientation is needed to build dependency of suppliers with their manufacturers. Based on the previous findings, in this study a willingness of the manufacturer to extend their long term relationship to their distributors may encourage a manufacturer to increase dependency toward its distributor. This leads to following hypothesis:

Hypothesis 5: Manufacturer long-term orientation positively influences manufacturer dependence

Manufacturer perception on distributor's role performance and dependence

[10] revealed in their performance-based model of Japanese channel relationship that suppliers role performance positively influenced retailers dependence on the suppliers. They argue that even traditional Japanese channel relationships do not favor a role performance aspect, however the economic recession pushed Japanese retailers to choose suppliers with a sound performance as the suppliers are crucial for economic gain. This view increases the dependency of retailers toward their suppliers. The finding was strengthened by the research of [50] which found that both in U.S. and Japan contexts, the role performance of the supplier increased retailers' economic dependence on suppliers. Based on these research findings, the following hypothesis is:

Hypothesis 6: Manufacturer perception on distributor's role performance positively influences manufacturer dependence

Manufacturer perception on distributor's role performance and trust

[54] found that exporter role performance positively influenced quality of the importer-exporter relationship. Since relationship quality operationalized as a higher-order construct comprised of trust, commitment, and satisfaction, it means the role performance may also improve trust aspect of the relationship quality. [9] strengthen the relationship as they found role performance of a supplier increased buyer's credibility (trust) both in the initiation and maintenance stages. They argue that five aspects of supplier role performance are important in the view of buyers and managers. The successful delivery of the aspects leverages the reliability of the supplier in the perception of Chinese buyers. Therefore, these findings lead to the hypothesis:

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Hypothesis 7: Manufacturer perception on distributor's role performance positively influences manufacturer's trust toward distributor

Dependence and trust

[29] compared trust and dependence aspects in the business relationship in the UK construction industry and revealed that the buyers' dependence on the suppliers positively influenced their trust in the suppliers. Furthermore, the study of [51] in Malaysian manufacturing found that interdependence, a joint dependence between partners [33] [44], improved relationship capital between partners which composed of trust, communication, and commitment dimensions. The study explains that interdependency leverages deeper integration via stronger relationship capital because all parties are motivated in striving mutual results. These lead to the following hypothesis:

Hypothesis 8: Manufacturer dependence positively influences manufacturer's trust toward distributor

All hypotheses are depicted in the conceptual framework of Figure 1:

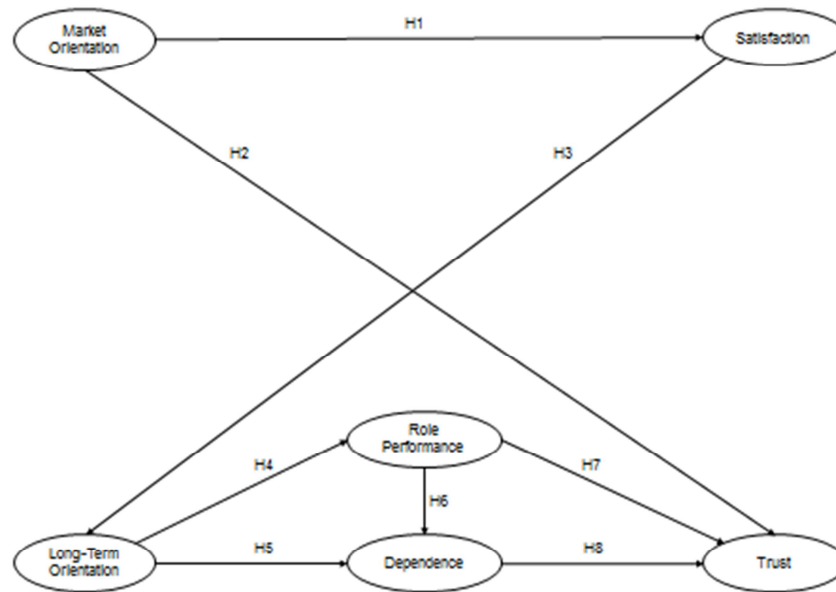


Figure 1. Conceptual framework

THE METHODOLOGY

Data collection

The sample was originally drawn in random from the 2009 directory of medium-to-large businesses from [27]. Having trialed, many listed companies refused, had incorrect contacts, or no longer existed. Therefore, we conducted a snow-ball technique by contacting manufacturer persons through researcher and other local networks. The questionnaires were distributed directly to the respondents and collected after completion. Respondents in this study are the manufacturer's representatives who highly knowledgeable regarding the relationship with distributor. These included supervisor, manager, and/or owner of the companies. The study had captured manufacturers from forty nine (49) industries in the survey occurred from October 2011 to February 2012 in 5 major Indonesian cities on Java Island.

The final sample was 140 respondents. Most respondents are male (65.7%) and the job positions was 66.4% supervisor, 20.7% manager, and 12.9% owner. Most held their position for 1-5 years (70%) and possess an undergraduate qualification (52.1%). The mix represents medium (59.3%) and large (39.3%) sized businesses. Most businesses were domestically owned (85%). Most companies aged between 1-15 years (57.1%) and have distributors between 1-5 distributors (52.9%). The majority of firms have 1-5 years relationship with distributor (39.3%).

Measurement

The measurements scales were 5-point Likert-type scales ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), except for role performance which anchored from 1 (Very Poor) to 5 (Very Good). In the market orientation construct, respondents deliver their perception toward

their company strategies in serving outlets as the customers, handling competitors, and in the interfunctional coordination. In the other constructs, respondents express their perception toward the company's distributor.

The initial items were pretested in the form of in-depth interviews with several distribution managers. Consequently, some items were modified to better fit the context of the research. Having collected the data, we conducted validity and reliability tests through Confirmatory Factor Analysis (CFA). Based on the CFA results, the low factor loading items were removed from the scales.

The measurement for market orientation was adapted from [40] which revealed good reliability ($\alpha=0.72$). The satisfaction scale was adapted from [48], [35], and [49]. Only economic aspect showed acceptable reliability ($\alpha=0.76$). The scale for long-term orientation was adapted from [21] and it indicated acceptable reliability ($\alpha=0.88$). The role performance measure was adapted from [34], [59], and [6]. The scale exhibited good reliability ($\alpha=0.80$). The measurement scale for dependence was adapted from [21], [31], and [14]. The scale showed acceptable reliability ($\alpha=0.77$). Trust was adapted from [33], [34], [28], and [39]. Here, only credibility dimension was reliable ($\alpha=0.70$). The selected items, the item loadings, and the Cronbach Alpha (α) are presented in Table 1.

Table 1. Results of factor analysis

Measurement Item	Item Loading	Cronbach Alpha (α)
Market Orientation (MO)		0.72
As a manufacturer, our competing strategies include:		
1. A regular evaluation of our competitors' strategic strenghts.	0.701	
2. Rapid responses to competitors' threats.	0.781	
3. Share information across all company departments about how best to help stores/outlets.	0.502	
4. Regularly measure individual store/outlet's satisfaction level.	0.537	
Long-Term Orientation (LTO)		0.88
Our working relationship with this distributor:		
1. Will be profitable in the long run.	0.826	
2. Is focused on joint long-term objectives.	0.883	
3. Is expected to last long.	0.809	
Role Performance (RP)		0.80
How good is the performance of this distributor compared to the average industry performance on:		
1. Their infrastructure readiness (e.g., buildings, warehouses, and offices)?	0.582	
2. Level of sales volume?	0.822	
3. Sales growth rate?	0.875	
4. Payment of their liabilities (Terms of payment/TOP)?	0.584	
Dependence (DEP)		
As a manufacturer, we believe:		
1. A good sales volume will be hard to achieve if our relation with this distributor is severed.	0.577	
2. The competencies of this distributor is essential for the sale of our products.	0.749	
3. Our communication with this distributor is good.	0.605	
4. We need this distributor to achieve our profit target.	0.794	
Satisfaction (SAT)		0.76
Our working relationship with this distributor:		
1. Has resulted in [us having] a dominant market share in the distributor's sales area.	0.766	
2. Has increased our profit in the distributor's sales area.	0.759	
3. Is satisfactory in terms of profit margin.	0.627	
Trust (TRUST)		0.70
We believe this distributor will:		
1. Perform their obligations to us (e.g., complying with Terms of Payment, delivery accuracy, etc.).	0.674	
2. Comply with our contractual agreements.	0.741	
3. Remain loyal to our relationship.	0.577	

In addition, the mean, standard deviation, correlation, and covariance matrix for the constructs are shown in Table 2.

Table 2. Mean, standard deviation, correlation, and covariance matrix

	Mean	SD	MO	LTO	RP	DEP	SAT	TRUST
1. MO	4.048	0.585	1.000	0.165	0.066	0.104	0.175	0.108
2. LTO	4.060	0.612	0.461**	1.000	0.155	0.182	0.202	0.165
3. RP	3.752	0.546	0.207**	0.463**	1.000	0.169	0.117	0.147
4. DEP	3.893	0.582	0.306**	0.512**	0.532**	1.000	0.123	0.149
5. SAT	3.998	0.580	0.516**	0.568**	0.369**	0.364**	1.000	0.137
6. TRUST	4.002	0.497	0.371**	0.544**	0.541**	0.515**	0.474**	1.000

**Significant at the 0.01 level (one-tailed)

Values below diagonal are the correlations, whilst values above diagonal are the covariances

The quantitative findings of this study were validated by in-depth interviews with three manufacturers. This was to seek evidences that may occur in the relationship between variables in the final model.

FINDINGS AND DISCUSSIONS

Structural Equation Modeling (SEM) was performed to test the hypotheses. Market orientation and long-term orientation act as exogenous (independent) variables whilst role performance, dependence, trust, and satisfaction are the endogenous (dependent) variables. In order to overcome the problem of ordinal nature of response items, a composite scale was conducted [13]. The result of final model revealed a good fit ($\chi^2=6.602$, $df=6$, p value=0.359, CFI=0.998, GFI=0.985, TLI=0.995, RMSR=0.009, RMSEA=0.027) as described in Table 3 below.

Table 3. Results of model fit

Model Fit Indices	Value	Threshold*	Assessment
Chi-Square (χ^2)	6.602		
Degrees of Freedom (df)	6		
Probability (p)	0.359	> 0.05	Good
Comparative Fit Index (CFI)	0.998	≥ 0.97	Good
Goodness-of-Fit Index (GFI)	0.985	> 0.95	Good
Tucker-Lewis Index (TLI)	0.995	≥ 0.97	Good
Root Mean Square Residual (RMSR)	0.009	≤ 0.08	Good
Root Mean Square Error of Approximation (RMSEA)	0.027	< 0.08	Good

*Source: [25]

Hypothesis 1, which proposed a positive effect of market orientation on satisfaction, was supported ($\gamma_1=0.481$, $t=3.701$, $p<0.01$). Hypothesis 2, which predicted a positive influence of market orientation on trust, was also supported ($\gamma_2=0.335$, $t=3.160$, $p<0.01$). Hypothesis 3, which posited a positive influence of satisfaction on long-term orientation, was not supported. However, the relationship was supported in the opposite direction ($\gamma_3=0.434$, $t=3.737$, $p<0.01$). Hypothesis 4, which proposed a positive effect of long-term orientation on role performance, was supported ($\gamma_4=0.571$, $t=6.399$, $p<0.01$). Hypothesis 5, which predicted a

positive influence of long-term orientation on dependence, was supported ($\gamma_5=0.379$, $t=3.502$, $\rho<0.01$). Hypothesis 6, which posited a positive influence of role performance to dependence, was supported ($\beta_1=0.463$, $t=4.076$, $\rho<0.01$). Hypothesis 7, which proposed a positive effect of role performance on trust, was supported ($\beta_2=0.432$, $t=3.059$, $\rho<0.01$). Hypothesis 8 which predicted a positive influence of dependence to trust, was also supported ($\beta_3=0.308$, $t=2.081$, $\rho<0.05$). Finally, the independent variables (market orientation and long-term orientation) were significantly covaried ($\phi=0.585$, $t=5.051$, $\rho<0.001$). The results are shown in Table 4 and Figure 2.

Table 4. Results of hypotheses testing

Path	Estimate	t-value	Symbol	Assessment
H1: Market Orientation \rightarrow Satisfaction	0.481	3.701*	γ_1	Supported
H2: Market Orientation \rightarrow Trust	0.335	3.160**	γ_2	Supported
H3: Satisfaction \rightarrow Long-Term Orientation	0.434	3.737*!	γ_3	Unsupported
H4: Long-Term Orientation \rightarrow Role Performance	0.571	6.399*	γ_4	Supported
H5: Long-Term Orientation \rightarrow Dependence	0.379	3.502*	γ_5	Supported
H6: Role Performance \rightarrow Dependence	0.463	4.076*	β_1	Supported
H7: Role Performance \rightarrow Trust	0.432	3.059**	β_2	Supported
H8: Dependence \rightarrow Trust	0.308	2.081***	β_3	Supported
Covariance:				
Market Orientation \longleftrightarrow Long-Term Orientation	0.585	5.051*	ϕ	

*Significant at the 0.001 level (two-tailed)

**Significant at the 0.01 level (two-tailed)

***Significant at the 0.05 level (two-tailed)

*!Significant at the 0.001 level (two-tailed) in an opposite direction. The estimate and t-values applied for the opposite direction (long-term orientation \rightarrow satisfaction)

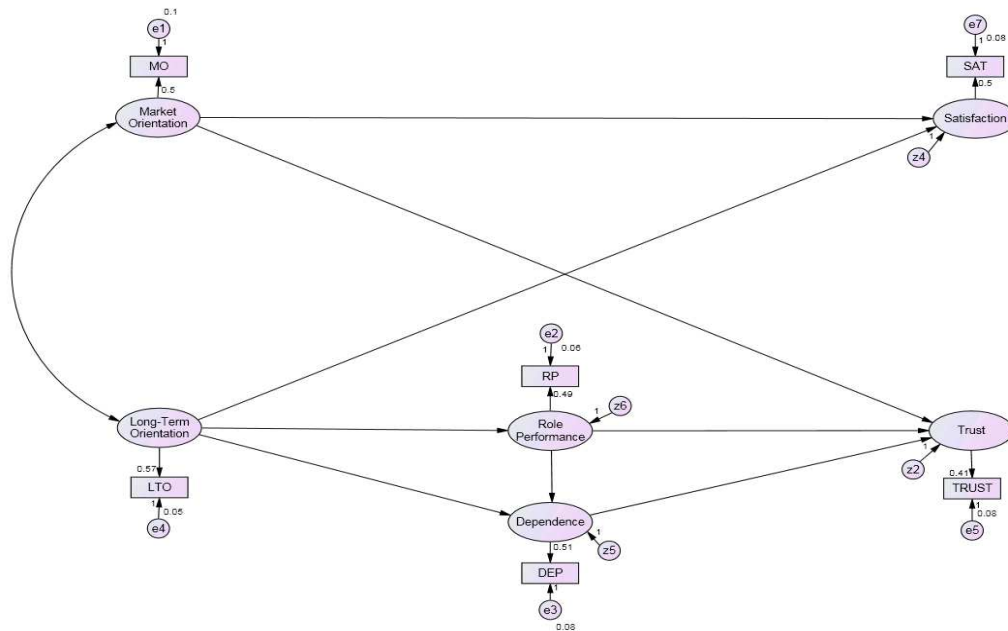


Figure 2. The final model

The results shows market orientation plays an important role in channels in a developing economy. This is contrary to [16] argument that market orientation is not necessary in developing economy. Results of in-depth interviews may explain the situation. Respondents argue they face a stiff market competition, therefore retention of customer and proactive responses to competitor must conducted regularly.

Market orientation and long-term orientation of manufacturer toward distributor act as joint drivers of the relationship in channels because as manufacturer has greater power over distributor, the intentions of manufacturer would determine relationship quality in channels. As such, a manufacturer intention to be more market-oriented and to build longer term relationship with distributor may leverage positive perceptions toward distributor's performance and the dependence on distributor. In the end, the positive views would increase manufacturer's trust on distributor and manufacturer's satisfaction on the relationship with distributor.

Trust and satisfaction role as the outcomes of relationships is inherent with findings from many literatures on channels [e.g. 36] [41] [42]. This may stem from perspectives that trust and satisfaction are components of relationship quality [2] [12] [15]. Hence, the intentions to become more market-oriented and the development of longer term relationship toward distributors targeted to improve relationship quality with distributors.

Regarding the opposite direction on the relationship between long-term orientation and satisfaction (H3), evidences from the in-depth interview may shed the light. For the manufacturer who has developed a long term relationship with its distributor, the relationship increases the covered outlets by the distributor. As such, this progress satisfies the manufacturer. Moreover, the other respondent explains that the incentives as stimulators of long-term relationship have increased the performance of distributor. The increasing performance then makes manufacturer economically satisfied.

Findings from the in-depth interview may also explain the covariance between market orientation and long-term orientation. The correlation was perhaps best explained from the interfunctional coordination aspect of the market orientation. Here, the manufacturers always do regular meetings (for instance, monthly) with their distributors to discuss how to best serve the outlets. These activities harmonize manufacturer-distributor relationship and contribute to the maintenance of long-term cooperation. However, the intention of manufacturer to build long-term relationship depends on the distributor performance itself. Generally, the manufacturer ought to continue the working relationship only if the distributor shows a satisfying performance. A proper performance would likely lead to a long-term view in the relationship. In turn, a long-term orientation would likely drive manufacturer to involve the distributor in the regular business planning.

Several limitations of the research should be noted. Since commitment is commonly viewed as a part of relationship quality, future research should include this construct. Moreover, the present study encompasses multiple industries which present difficulties in comparing dynamics between industries. Further research should test limited number of industries which share similar characteristics in nature. Here, deeper comparison could be explored for insights on specific market dynamics of the channels.

CONCLUSIONS

This study explores the impact of market orientation on marketing channels in Indonesian manufacturing sectors. The results confirm that market orientation is important in the context of developing economy where power imbalance exists. Here, market orientation and long-term orientation of manufacturer toward distributor jointly drive relationships in channel which eventually increase manufacturer satisfaction and trust on distributor.

Regarding managerial implications, providing situation where manufacturer has greater power, the manufacturer should implement market-oriented views and develop long-term orientation toward distributor because it may insist distributor to enhance its performance.

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