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**Economic Satisfaction And Relationship
Commitment In Channels: The Moderating
Role Of Environmental Uncertainty,
Collaborative Communication And
Coordination Strategy**

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Economic Satisfaction and Relationship Commitment in Channels: The Moderating Role of Environmental Uncertainty, Collaborative Communication and Coordination Strategy

The paper explores the relationship between economic satisfaction within a relationship and relationship commitment. The moderating effects of three variables are considered: viz. (i) the use of behavior based coordination strategy (ii) the perceived level of environmental uncertainty and (iii) the use of collaborative communication strategy. The hypotheses are proved through a sample survey among 101 channel partners of mobile service providers in a state in India. The results indicate the moderating variables act as quasi moderators where in they both directly and indirectly impact the dependent variable

Introduction

Channel satisfaction and its consequent impact on channel relationships has been an important concern of both practitioners as well as researchers during the last three decades. This is in reaction to a world wide trend towards building closer, and more integrated relationships between manufacturers and channel intermediaries. It is being realized that one of the major prerequisites for achieving effective integration of channel operations is the existence of high levels of commitment to the relationships. The focus of managerial decisions with regard to channel management has thus shifted to a large extent on creating and maintaining relationship commitment. As Morgan and Hunt (1994) in their seminal work on channel commitment has put it “relationship commitment is central to all the relational exchanges between the firm and its various partners”. Drawing from studies from diverse domains such as marriage, social exchange, organizational behavior etc. they feel that, “Commitment and trust are very important because they encourage marketers to (1) work at preserving relationship investments by

cooperating with existing partners (2) resist attractive short-term alternatives in favor of the expected long-term benefits of staying with existing partners and (3) view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically”.

Channel satisfaction is undoubtedly a major factor that could lead to greater levels of channel commitment. Channel member satisfaction is defined as an overall positive affective state resulting from the appraisal of all aspects of a firm’s working relationship with another firm (eg. Frazier, Gill and Kale 1989, Gaski and Nevin 1985). However, there exists considerable variation among channel theorists on the exact definition of channel satisfaction (Andaleeb, 1996). In order to reduce this apparent variation in conceptualization, Geyskens and Steenkamp (2000) proposed a two way classification of channel satisfaction wherein satisfaction is defined in terms of its economic antecedents and social antecedents. Economic satisfaction is described as “a channel member’s evaluation of the economic outcome that flows from the relationship with its partners such as sales volume, margins and discounts”. Social satisfaction on the other hand is defined as a channel member’s “evaluation of the psychological aspects of its relationship in that interactions with the exchange partner are fulfilling, gratifying and facile”.

The central issue addressed by this study is the relationship between economic satisfaction and relationship commitment in distribution channels. Various studies have explained numerous antecedents and consequences of channel satisfaction. In their meta-analytic study of channel member satisfaction, Geyskens et al (1999) considered a

Structure Conduct Outcome (SCO) framework for presenting channel satisfaction in its theoretical perspective. Though Geyskens et al (1999) does not link economic satisfaction directly to commitment, satisfaction is presented as an indirect antecedent of commitment. Here we consider economic satisfaction as directly related to commitment and look at the moderating effect of other variables in this relationship.

The article is organized as follows: we begin by introducing the variables considered in the study in terms of how they have been presented in the existing literature and justify their inclusion from a theoretical perspective. This followed by describing the conceptual model and the hypothesis. In the next part we explain the empirical study that was carried out to validate the model. The article ends with a discussion on the results and suggesting themes for future research.

Theoretical Rationale

Several studies in the past have featured commitment as a dependent variable (eg. Geyskens et al, 1996; Morgan and Hunt, 1994). In this study we explore the relationship between economic satisfaction and relationship commitment. Relationship commitment is defined as a situation where “ the committed party believes the relationships worth working on to ensure that it endures indefinitely” (Morgan and Hunt 1994). It is natural to expect that a channel member who is satisfied with the economical dimension of the relationship is also committed to the relationship. While this may be so in most of the cases, it cannot really be taken for granted. It is assumed that certain environmental and behavioral factors influences the extent to which economic satisfaction results in

relationship commitment. The present study looks in to this aspect. Three factors are proposed to moderate the relationship between economic satisfaction and relationship commitment. Viz. (i) use of behavior based coordination strategy (ii) use of collaborative communication strategy and (iii) the perceived level of environmental uncertainty.

Moderating Role of Behavior-based coordination efforts

Over the years there has been a discernible shift in emphasis from control to coordination in channels literature. Coordination implies the alignment of activities of the channel members to achieve the desired outcomes. Coordination is defined as the degree to which the manufacturer and dealer activities are well organized and synchronized (Gultinan, Rejab and Rodgers, 1980). From a microeconomic perspective, a channel-dyad is said to be coordinated when all managerial control variables are set at the values that maximized the sum of manufacturer plus retailer profits (Igene and Parry, 1995). To achieve the desired levels of coordination, considerable effort is required from the part of the supplier. Celly and Frazier (1996) suggests two distinct types of coordination efforts which could be used by the supplier to coordinate the activities of the channel namely outcome based coordination efforts and behaviour-based coordination efforts.

Outcome based coordination efforts imply focusing most of the attention on short term 'bottom-line' results like sales growth, market share, target achievement etc. in the personal communication with the distributor personnel. Behaviour-based coordination efforts in contrast place emphasis on tasks and activities like customer education, sales person training, selling techniques etc. Further, behavior-based efforts involve a greater deal of information exchange (Frazier and Summers, 1984) and a general emphasis on sharing expertise. Behavior based coordination is inherently more relationship oriented since issues related to the task of accomplishing results are focused on rather than on the results themselves. Thus, behavior based

coordination would emphasize much less on short term results and more on long term results. If the channel principal choose to adopt outcome oriented coordination, the channel partner will be encouraged to be more keen on short term result oriented activities rather than on long term relationship building activities. This would lead to an erosion of commitment in the relationship since the channel partner will be reluctant to invest much less resources for the long term benefit of the relationship and instead would concentrate on immediate outcomes.

On the otherhand, if economic satisfaction is coupled with behavior based coordination attempts, the orientation of the channel partner will be more on relationship building activities that fosters commitment. Thus, the following hypothesis may be stated:

H1: A behavior oriented coordination strategy will positively moderate the relationship between economic satisfaction and relationship commitment.

Moderating role of Use of collaborative communication strategy

Mohr and Nevin (1990) proposed a classification of communication strategies to be applicable to channel management contexts based on the various combinations of communication facets. A collaborative communication strategy entails frequent, bi-directional, formal and non-coercive communication between channel members and as opposed to this, autonomous communication involves infrequent, uni-dimensional and coercive communication. In fact inter-channel communication in this sense has been visualized as a continuum anchored between collaborative communication and autonomous communication. According to Mohr, Fischer and Nevin (1996), collaborative communication places emphasis on shared interests and common goals and thus leads to volitional compliance between partners. Empirical studies have associated the use of collaborative communication with greater levels of channel member satisfaction (Keith, Jackson and Crosby, 1990; Mohr, Fischer and Nevin, 1996) and coordination (Guiltinan, Rejab and Rodgers, 1980).

Morgan and Hunt (1994) associate collaborative communication with cooperative attitudes, which creates an atmosphere of mutual support and respect. Kumar (1996) advocates the use of bilateral communication to create trust between channel members. Greater frequency of communication between the members of the channel dyad will lead to a greater appreciation of the operational tactics and will thus result in better cooperation. Anderson, Lodish and Weitz (1987) underlines the importance of direct and frequent communication in enhancing mutual trust and goal compatibility. While economic performance would make a channel partner quite satisfied with the present channel situation, a long lasting commitment requires significant level of trust on the long term sustainability and viability of the partnership. Unless bilateral, frequent and non-coercive mode of communication is encouraged, it may not be possible for channel partners to share their views and concerns openly with the channel principal thereby creating frustration and feelings of anxiety in the minds of the channel principal. Instead, if collaborative communication is encouraged as a matter of strategic choice, the channel partners will be able to understand better the decisions of the channel principal since doubts about the viability of certain decisions can be cleared leaving no room for doubts and loss of trust.

Even when economic satisfaction is high, anxiety about the sustainability of the prevailing economic situation is always a reality. In fact, this anxiety may lead to situations where the present level of profits are 'ripped off' the system and are not sufficiently invested for the long term benefit of the relationship. The linkage between economic satisfaction and relationship commitment is facilitated when the legitimate concerns and anxieties of a channel partner is well addressed than when the concerns or anxieties are not allowed to be expressed. In the latter case, the economic satisfaction will be viewed as a short term phenomenon that can be reversed any day.

Moderating role of Environmental Uncertainty

Environmental uncertainty has been considered as an important variable in the channel management literature. It is considered to an important antecedent for several constructs linked to channel member behavior. Dwyer and Oh (1987) considers environmental characteristics like munificence to be an extremely importance predictor of conflict resolution strategy choice. Achrol, Reve and Stern (1983) proposes that high environmental uncertainty would lead to greater adoption of problem solving and persuasion strategies for conflict resolution among channel members. Celly and Frazer (1996) shows how environmental uncertainty influences the choice of coordination strategies. Environmental uncertainty is explained as “the difficulty in making accurate predictions about the future” (Achrol and Stern 1988). According to Celly and Frazier (1996), outcome based coordination efforts are unlikely to serve as motivators during periods of environmental uncertainty. Environmental uncertainty influences a channel member’s expectations about the certainty of the task environment and thereby creates doubts about the longevity of favorable market conditions. This naturally propels the channel member to take shot term decisions and reduce the time span of the goals. Further perceptions of high levels of environmental uncertainty may lead to a lack of interest in investing for the long term sustainability of the relationship. This may result in greater levels of opportunism and lack of trust. Thus even when there is a significant level of satisfaction with the economic outcome of the relationship, perceptions of environmental uncertainty will prevent the channel member’s feeling of commitment towards the relationship. Hence it can be proposed:

H3: High levels of perceived environmental uncertainty will negatively moderate the relationship between economic satisfaction and relationship commitment.

MODEL VALIDATION

The validation procedure closely follows the methodology adopted by researchers in the past (eg. Ganesan 1993, Kumar, Scheer and Steenkamp, 1995, Celly and Frazier, 1996, Mohr and Sohi, 1995, Li and Dant, 1999) who studied channel management variables in the context of dyadic

relationships. The hypotheses were considered in the context of mobile service providers in the south Indian state of Kerala. The mobile service providers marketed their services through a network of channel partners who were mandated to be exclusive to one service provider. In Kerala there are about 5 mobile service providers. (Weiss and Heide (1993) justified the focus on a specific product/buying situation on the basis of (i) need to develop context-sensitive measures (ii) greater minimization achieved in the variation on non-focal variables and (iii) greater simplification achieved in the survey form.

SAMPLE SURVEY

To test the validity of the conceptual model, data were collected from 103 channel partners of mobile service providers in the state of Kerala in India. Channel partners belonging to six different suppliers participated in the survey. The distributors and their suppliers were involved in the marketing of products like personal computers, peripherals, secondary storage devices, and high-end servers. The distributors were also involved in the installation and maintenance of these products.

The unit of analysis was defined as the distributor firm as represented by the distributor principal who interacts with the supplier firm. Since all the distributor firms were either owner managed or managed by professional managers representing a group of partners, the views expressed by the distributor principal more or less represented that of the distributor organisation.

Sampling Procedure

A list of channel partners owing allegiance to the six service providers was compiled from different secondary sources. This list consisted of more than 300 names. From this list a small

sample of 110 were selected. The sample selection did not follow a probabilistic or random procedure due to time and resource constraints. Further, during the course of the preliminary survey it was noticed that the respondents were reluctant to respond to mail or telephonic interviews. Hence it was necessary to meet all the respondents in person. A total of 101 channel partners mostly located in the main cities of the state were contacted over a period of seven months.

Data were collected from the distributor principal by means of a structured questionnaire. A letter of introduction from the research supervisor accompanied the questionnaire. The introductory letter explained the purpose of the study and assured total confidentiality for the responses provided. In most cases an appointment was fixed over the phone with the respondent before the personal interview. On an average each respondent took about twenty to thirty minutes to fill up the questionnaire. Several respondents retained the questionnaire with them for a few days since they were too busy to fill up the questionnaire during office hours.

DEVELOPMENT OF MEASUREMENT SCALES

All the constructs were measured using multi-item scales. Conceptual definitions as well as research studies in which the same or similar constructs were measured guided measure development. With the exception of economic *satisfaction* with the relationship, all the constructs used in the study had received psychometric attention in the domain of marketing channels research.

Use of Behaviour-Based Coordination Strategy

This construct was measured using the items developed by Celly and Frazier (1996) in their study. The respondents were asked to recollect all their interactions with the supplier personnel and to indicate on a five-point scale the emphasis placed by the supplier personnel on five

specific issues. The scale was anchored between very high emphasis and very little emphasis. The arithmetic mean of the responses obtained against the five items from each respondent firm was used as an indicator for the construct.

Use of Collaborative Communication

The construct was measured using scales adapted from Mohr, Fischer and Nevin (1996). The construct was operationalised using 12 items which measured the extent of collaborative communication in the channel relationship in terms of the frequency of communication, extent to which the communication is bi-directional, extent to which the communication is formal and the extent to which the communication is non-coercive. The arithmetic mean calculated from the responses obtained for the 12 items for each respondent firm was used as an index of collaborative communication for further analysis.

Channel Commitment

Channel commitment was measured using the scale developed by Kumar et al (1995). The scale consists of 12 statements which deals with the different aspects of relationship commitment.

Environmental Uncertainty

Environmental uncertainty was measure using the scale developed by Celly and Frazier (1997). The scale include a set of 12 bi polar statements that together describe the various dimensions of environmental uncertainty.

Economic Satisfaction

Economic satisfaction was operationalised using nine items. The specific items were developed on the basis of the insights derived from the pre-study interviews. The arithmetic mean of the

responses obtained against the five items from each respondent firm was used as the index of satisfaction for further analysis.

VALIDATION OF MEASURES

In empirical research a thorough measurement analysis of the instruments is essential to establish that the empirical findings accurately reflect the proposed constructs. Following Bagozzi (1980), Bagozzi and Philips (1982) and Venkatraman and Grant (1986) the following measurement properties were considered for validating the measurement scales used in the study (i) internal consistency of operationalisation (reliability and unidimensionality), (ii) convergent validity and (iii) discriminant validity.

Unidimensionality, Convergent Validity and Reliability of the Measures:

Unidimensionality of the measures were assessed using the confirmatory factor analysis method. In this method, a measurement model is specified for each construct. In this model, individual items constituting the construct are examined to see how closely they represent the same construct. Confirmatory factor analysis was used to assess the unidimensionality of the constructs. A goodness of fit index (GFI) of 0.90 or higher for the model suggests that there is no evidence of a lack of unidimensionality (Joreskog and Sorbom, 1993). Table.2 presents the GFI indices of all the seven constructs. All the seven constructs have their values above 0.90, which goes to indicate that evidence for lack of unidimensionality is not found in any of the constructs. Reliability of the measurement scales was assessed by Cornbach's coefficient alpha. Values of 0.7 and above for coefficient alpha is considered to indicate strong reliability for the scale (Nunnally, 1978). Table 3 presents the reliability coefficients for all the seven constructs. Since all the seven constructs have coefficient alpha values above 0.7, reliability of the scale is established. Convergent validity of the model was assessed using the Bentler and Bonett's (1980) incremental fit index. A Bentler Bonett fit index value of more than 0.90 is considered by

researchers to be a satisfactory fit index (Bentler and Bonett, 1980). Table.2 lists the Bentler Bonett fit index value for all the seven constructs. Since all the constructs have a Bentler Bonett index value of more than 0.90, convergent validity of the measures are established

Discriminant Validity:

To assess discriminant validity of the measures the nested model confirmatory factor analysis was used. In this method confirmatory factor analysis was run on pairs of measures initially with unconstrained inter-construct correlations and then with the inter-construct correlations fixed at unity. The difference between the Chi-square goodness of fit values of the constrained and unconstrained models is used as an indicator of discriminant validity of the constructs. If the Chi-square values are significant, the discriminant validity of the measures is considered to be established (Anderson and Gerbing, 1988). Table.2 lists the Chi-square goodness of fit values of the ten pairs of tests and the difference between the Chi-Square values of the constrained and unconstrained models. The respective degrees of freedom are shown in brackets. As the table indicates all the Chi- Square differences between the constrained and unconstrained models were significant based on the one-degree freedom of difference thus providing evidence of discriminant validity between the constructs in the model.

Table .1 Reliability, Convergent validity and Unidimensionality of Measures

	Construct	Number of indicators	GFI	Cornbach's alpha	Bentler Bonett's index
1.	Environmental uncertainty	8	0.925	0.655	0.934
2.	Use of Behavior based coordination	12	0.91	0.787	0.912
3.	Use of Collaborative communication	18	0.924	0.655	0.92
4.	Economic satisfaction	9	0.95	0.725	0.90

5.	Commitment	9	0.946	0.745	0.835
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Table.2 Discriminant validity of measures

Test No.	Description of the test	Chi-Square constrained model (<i>df</i>)	Chi-Square Unconstrained model (<i>df</i>)	Difference
1.	Relationship commitment and economic satisfaction	386.444(135)	323.012 (134)	63.43
2.	Relationship commitment and Use of Behavior based coordination	520.969(189)	472.593(188)	48.376
3.	Relationship Commitment Use of Collaborative communication	1078.610 (324)	967.155(323)	111.455
4.	Relationship commitment and environmental uncertainty	403.866 (119)	340.675(118)	63.191
5.	Economic Satisfaction and Use of Behavior based coordination strategy	545.233 (189)	485.478 (188)	59.755
6.	Economic Satisfaction and Collaborative communication	996.209(324)	958.517(323)	37.692
7.	Economic satisfaction and Environmental uncertainty	370.726(118)	310.321(117)	60.405
8.	Use of Behavior based coordination and collaborative communication	1314.812 (405)	1206.777(404)	108.035
9.	Use of Behavior based coordination and Environmental uncertainty	530.396 (170)	474.374(169)	56.0
10.	Collaborative communication and Environmental uncertainty	985.263(299)	912.177(298)	73.086

Data Analysis

The hypothesis were tested using moderated multiple regression analysis. Past studies have used this technique for determining the influence of potential moderator variables (eg. Stone and Hollenbeck, 1989, Baron and Kenny 1986, Stank, Emmelhainz and Daugherty, 1995). The approach recommended by Cohen and Cohen (1983) was followed for applying the MMR technique. The tests for the three potential moderators were assessed through three separate regression equations. The independent variable here is perception of economic satisfaction. Here

we follow the approach specified by Sharma, Durand and Gur arie, (1981) to identify the nature of the moderator variable. As per this approach, three regression equations are considered:

$$Y = a + b_1 X \dots\dots\dots(1)$$

$$Y = a + b_1X +b_2M \dots\dots\dots(2)$$

$$Y = a + b_1X + b_2 M + b_3 X*M \dots\dots\dots(3)$$

Where Y is the dependent variable, X is the independent variable and M is the potential moderating variable. As per Sharma, Durand and Gur arie (1981), M, can be deemed as a pure moderator, if equations (1) and (2) should not be different but should be different from equations (3) ie. $b_2 = 0$ but $b_3 \neq 0$. However if $b_2 \neq b_3 \neq 0$, then, M is called as a quassi moderator. Such a variable is both a predictor as well as a moderator at the same time.

Moderating effect of behavior based coordination strategy

The moderating effect of behavior based coordination strategy on the economic satisfaction, relationship commitment relationship was assess using the three regression equations. In equation (1), the independent variable was economic satisfaction with the relationship, in equation (2) the independent variables were: a) economic satisfaction with the relationship as well as b) the use of behavior based coordination strategy and in equation (3) the independent variables were a) the economic satisfaction b) the use of behavior based coordination strategy and c) the cross product of economic satisfaction and behavior based communication strategy. The results of the three regression analysis are given in table. 3

Table.3 moderator regression results of behavior based coordination

	Equation (1)		Equation (2)		Equation (3)	
	Beta	P value	Beta	P value	Beta	P value
Economic satisfaction	0.461	.000	0.24	.05	-.316	.12
Use of Behavior based coordination	N.A		0.489	0.00	-.067	.15
Cross product of Economic satisfaction and	N.A		N.A		.943	.19

Use of behavior based coordination						
R square	0.213		0.386		0.391	
Significance level of F	0.00		0.00		0.00	

The beta values generated by the three equations show that behavior based coordination strategy are not a true moderator but a quasi moderator. This is because, as is seen from the beta coefficients, the main effect as well as the interaction effect of behavior based coordination is significant. The change in R square is of course not very steep from the first equation to the next equation. The results imply that greater use of behavior based coordination directly impacts relationship commitment as well as moderates the impact of economic satisfaction on relationship commitment.

Moderating effect of Environmental Uncertainty

The moderating effect of environmental uncertainty on the economic satisfaction, relationship commitment relationship was assessed using the three regression equations. In equation (1), the independent variable was economic satisfaction with the relationship, in equation (2) the independent variables were: a) economic satisfaction with the relationship as well as b) the perceived level of environmental uncertainty and in equation (3) the independent variables were a) the economic satisfaction b) the perceived level of environmental uncertainty and c) the cross product of economic satisfaction and environmental uncertainty. The results of the three regression analysis are given in table. 4

Table.4 Moderator regression results of environmental uncertainty

values	Beta	P value	Beta	P value	Beta	P value
Economic satisfaction	0.461	.000	0.482	.00	-.092	.15
Environmental uncertainty	N.A		-0.149	0.13	-.634	.146
Cross product of Economic satisfaction and environmental uncertainty	N.A		N.A		-.917	.140

R square	0.213	0.236	0.249
Significance level of F	0.00	0.00	0.00

The results indicate that environmental uncertainty has both a direct as well as an indirect impact on relationship commitment. While environmental uncertainty negatively impacts relationship commitment, it also moderates the relationship between economic satisfaction and relationship commitment. This indicates that under greater levels of environmental uncertainty, any increase in economic satisfaction will not lead to a considerable increase in relationship commitment. While under less environmental uncertainty, higher perceived economic satisfaction will lead to greater relationship commitment.

Moderating effect of Collaborative communication

The moderating effect of the level of collaborative communication on the economic satisfaction, relationship commitment relationship was assessed using the three regression equations. In equation (1), the independent variable was economic satisfaction with the relationship, in equation (2) the independent variables were: a) economic satisfaction with the relationship as well as b) the level of collaborative communication and in equation (3) the independent variables were a) the economic satisfaction b) the level of collaborative communication and c) the cross product of economic satisfaction and level of collaborative communication. The results of the three regression analysis are given in table. 5

Table.5 Moderator variable regression of collaborative communication

	Equation (1)		Equation (2)		Equation (3)	
	Beta	P value	Beta	P value	Beta	P value
Economic satisfaction	0.461	.000	0.419	.00	0.043	.132
Level of collaborative communication	N.A		0.166	0.1	.531	.11

Cross product of Economic satisfaction and the level of collaborative communication	N.A		N.A		.777	.139
R square	0.213		0.252		0.257	
Significance level of F	0.00		0.00		0.00	

Collaborative communication is also being shown to be having both a direct as well as an indirect impact on relationship commitment. Higher levels of collaborative commitment affect relationship commitment in two ways. While it directly leads to greater relationship commitment, it also facilitates the linkage between economic satisfaction and relationship commitment.

DISCUSSION

The study looks at an important issue related to channel relationships viz. the linkage between economic satisfaction and relationship commitment. While economic satisfaction is typically expected to boost relationship commitment, the study looks at other variables that may facilitate or reduce the strength of this linkage. The study establishes the moderating effect of three such variables: (i) use of behavior based coordination strategies (ii) environmental uncertainty and (iii) the use of collaborative communication. The research study assumed that the relationship between economic satisfaction and relationship commitment is not a direct and straightforward affair but involves other relevant variables whose impact has to be taken into consideration. In fact practitioners should look at the results from the point of view of using different strategies apart from economic incentives to improve channel commitment. In several areas, despite significant levels of profits, channel partners are not ready to invest in a long term

relationship. This disinclination is born out of several behavioral as well as environmental factors. The study is an attempt to explore some of these factors that impact the relationship.

The study is not entirely devoid of limitations. The sampling methodology deviates substantially from a pure random sampling based methodology and therefore reduces the generalisability of the study. Future studies could look at different contexts as well as inclusion of other moderators.

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