

Long-Term Orientation As A Determinant Of Relationship Quality Between Channel Members

Sungmin Ryu, Sungkyunkwan University, South Korea
Chul Woo Moon, Sungkyunkwan University, South Korea

ABSTRACT

This study assesses the effects of Long-Term Orientation culture on inter-organizational trust and conflict. This research examines the role of one important cultural factor, namely long-term orientation, as it relates to contractual relationships between manufacturers and their suppliers. As LTO cultures have become accepted as a crucial factor for describing nations, this study should prove invaluable to our understanding of inter-organizational relationships affected by differing levels of long-term orientation. The authors investigate the effects of LTO in the relationship between a manufacturer and its supplier. These results reveal that, LTO culture significantly affects the relationships between channel members. In particular, high LTO culture positively affects the generation of trust. Whereas high LTO culture suppresses the conflict between channel members, low LTO cultures do not suppress conflict between channel members.

Keywords: Cross-national buyer-seller relationship, Long-term orientation culture, Contracts,

INTRODUCTION

Most of the newly developing countries in Asia are characterized by channel relationships particular to them (Kale 1986). It is tempting to surmise that the level of economic development might be a significant determinant of channel relationships across cultures. This conclusion, however, may be unwarranted (Sheth, Gardner, & Garrett 1988). Rather, the influence of socio-cultural values may be more crucial to the structure of these relationships (Doney & Cannon 1997).

East Asian countries, particularly ones with long-term orientation (LTO) cultures (Korea, Japan, China, Taiwan, and Hong Kong), exhibit channel relationship structures that mirror their socio-cultural orientation: not only are Inter-organizational relationships long-term in these countries, but also one generally finds that the channel members harbor long-term perspectives. LTO, Hofstede's fifth dimension of national culture (Hofstede, 1991), refers to the extent to which a society evidences a pragmatic future-oriented perspective, rather than a conventional historic or short-term point of view (Mooij 1997). Thus, investigations into the influence of LTO cultures in this area may prove helpful to our understanding of channel relationships.

No significant comparative research into the effects of culture on the Inter-organizational behavior between different countries has been published in the relevant literature (Chang & Ding 1995). Thus, the generalization of relational variables, such as trust and power, to dissimilar cultures in Inter-organizational relationships is a rather limited pursuit at present (Doney & Cannon 1997). As LTO as a national culture-characteristic is a relatively new concept, no empirical evidence of the impact of LTO on the interaction between channel members has been reported. This raises a question as to the applicability of research findings pertaining to variables in high-LTO countries.

The principal objective of this study was to gain insight into the influence of culture on inter-organizational phenomena. In particular, this study assesses the effects of LTO culture on inter-organizational trust and conflict. As

LTO cultures have become accepted as a crucial factor for describing nations (Newman & Nolle 1996), this study should prove invaluable to our understanding of inter-organizational relationships affected by differing levels of long-term orientation. In this study, we will compare the extent of relational variables, including trust and conflict, in high-LTO countries as compared to those in low LTO countries.

The context of this study is the relationship between a manufacturer and its supplier. In the following section, we will provide the theoretical background. The relationship between LTO cultures and relational variables will be reviewed. This study will also provide the dimensions of LTO relevant to channel relationships. Finally, hypotheses will be proposed.

THEORETICAL BACKGROUNDS & HYPOTHESES

Long Term Orientation Culture

Members of East Asian countries, such as Korea, Japan, China, Taiwan, and Hong Kong, understand all social interactions within the context of long-term interactions. Their personal and business relationships are maintained and reinforced through continuous, long-term associations (Yeung & Tung, 1996). These societies tend to foster virtues oriented towards future rewards, and thus these countries score high on the LTO index (Hofstede 1991).

By way of contrast, social transactions in Western countries are more generally viewed as isolated occurrences. The objective of these transactions is to maintain balance in each transaction, with a great deal of emphasis placed on immediate gains from the interaction (Yeung & Tung, 1996). Countries such as the USA, the UK, and Canada score low on the LTO index (Hofstede 1991).

Hofstede (1991) originally suggests that, among several dimensions of LTO, perseverance and thrift most adequately reflect LTO. The dimension of connection, as proposed by Yeung & Tung (1996) also mirror LTO fairly faithfully. These two dimensions appear to have particular relevance: Connection, Thrift, and Perseverance.

Connection

East Asian countries consider connections between people to be very important (Yeung & Tung, 1996). These connections are known in Korean as *kwankye*, in Chinese as *guanxi*, and in Japanese as *kankei* (Yeung & Tung, 1996). These similar pronounced vocabularies are maintained basically via the nurturing of long-term benefits (Yeung & Tung, 1996). If the connection is predicated on short-term gains, it tends to prove unstable, because short-term favors are easily duplicated by others. Thus, connections in East Asian countries imply long-term orientation (Yeung & Tung, 1996).

Perseverance

Perseverance refers to a determined and consistent effort to achieve goals (Hofstede 1991). Goals are future positions a channel member wishes to occupy, and goals exist only if the desired position differs from the actual state (Cadotte & Stern 1979). Whenever a firm anticipates its goals to be difficult to achieve, it should persist in its efforts to accomplish its goal over a longer term. Thus, perseverance implies a high level of long-term orientation. East Asian countries score high on the value of perseverance (Hofstede 1991). The Rokeach Value Survey did not address the notion of perseverance, and thus Western countries exhibit a lower level of perseverance than is the case in East Asian countries.

When we discuss the effects of cross-cultural effect on the behavior of channel members, it is generally pointed out that the variance in individual differences in terms of the degree of cultural influence on the behavior of group members (Chen, Chen, & Meindl 1998; Markus and Kitayama, 1991). For example, a channel member in a high LTO culture tends to be less affected by LTO culture than would a member of a low LTO culture. Thus, a channel member in a high LTO culture could evidence lower LTO than the channel member in the low LTO culture does. In this study, we have carefully considered the different levels of cultural influence on the behavior of channel

members. Channel members were asked about their perceptions of their countries' levels of LTO culture.

Trust

Trust refers to a party's expectation that its exchange partner will perform as expected (Anderson & Weitz 1989). Trust has generally been viewed as involving vulnerability and uncertainty on the part of the trustor, as the trustor risks self-interest seeking behavior on the part of the trustee (Chiles & McMackin 1996). Trust, in this context, is unnecessary if the trustor has the power to influence the trusted party, because the trustor does not then have to take the risk. Trust exists whenever channel firms are dependent on each other, and thus mutual risk is involved (reference?). High interdependence engenders an environment in which trust can be cultivated and can flourish (Kumar, Scheer, and Steenkamp 1995).

Trust, as proposed herein, consists of two dimensions. One is benevolence and the other is credibility. Benevolence refers to the extent to which one partner is genuinely interested in the other partner's welfare and is motivated to seek joint gain (Doney & Cannon 1997). Thus, benevolence by definition reflects the existence of collective goals between channel members. Benevolence implies that partners have built goodwill that goes beyond that of a regular business or professional relationship, and concerns for partners rather than one's own self-interest only (Chen *et al.* 1998).

Credibility is the extent to which the partner's word or written statement can be relied on (Doney & Cannon 1997), and suggests that each party is responsible for its own behavior and its consequences (Chen *et al.* 1998). A channel firm must form an evaluation of its partner's ability to meet its obligations. Thus, credibility results from this evaluation which, in turn, is dependent on the experience of interaction with the partner. For example, when a firm evidences a consistent and stable pattern of reliable behavior, the firm will tend to enjoy a good reputation for credibility.

High LTO cultures foster long-term relationship expectations among channel members, and thus firms are inclined to generate goal compatibility with their channel partners. Thus, firms in high LTO cultures are less likely to exercise power solely for their own interests. The exercise of power for a firm's own interest breaks the goal compatibility between channel firms and results in the partner's frustration (Foe and Foe 1974). Thus, the partner is likely to retaliate against the self-interest-seeking partner (Lawler & Bacharach 1987). As channel members of high LTO cultures seek to avoid negative outcomes resulting from the breakage of the goal compatibility, those parties do not need to worry about the vulnerability stemming from trust in their partners. Therefore, higher LTO cultures foster an environment in which trust is generated. In conclusion, the level of trust will tend to be high in high LTO societies, whereas trust will not be as strong in low LTO societies.

H1a: Trust between channel members will be strong in high LTO cultures (Korea).

H1b: Trust between channel members will not be strong in low LTO cultures (U.S.).

Conflict

Inter-organizational conflict refers to one party's perception of the other as a barrier to the attainment of its goals (Mukhopadhyay and Gupta 1998). In inter-organizational relationships, the existence of conflict tends to hamper the relationship. Thus, channel members must seek ways to ameliorate conflict.

Conflict can be characterized as occurring at three levels (Katsikeas, 1992). The first level of conflict involves the emergence of the causes of conflict (antecedents of conflict), including the existence of exchange parties' conflicting goals. The second level of conflict is referred to as manifest conflict. Manifest conflict involves disagreements over the policies and procedures employed to achieve the goals of individual channel members. The third level of conflict involves the results of manifest conflict. This study focuses on the second level of conflict: the existence of conflict.

There are many sources of inter-organizational conflict. For instance, when a manufacturer expects its part supplier to deliver the parts in a timely manner, a failure on the part of the supplier to provide timely delivery causes a conflict between the manufacturer and the supplier. The manufacturer would, in that case, tend to view the supplier's poor delivery performance as preventing it from achieving efficient procurement performance.

As channel members in high LTO cultures attempt to maintain long-term relationships with channel partners, they are likely to attempt to ameliorate such conflicts. For instance, channel members are less likely to exercise power solely for their own interests, as the exercise of power solely for self-interest would cause a conflict between channel members. By way of contrast, channel members in low LTO cultures do not generally attempt to alleviate inter-organizational conflicts, due to their low expectations of long-term relationships with their channel partners. Therefore, high LTO cultures foster an environment in which conflict decreases, whereas low LTO cultures do not.

H2a: Conflict between channel members will not be strong in high LTO culture (Korea).

H2b: Conflict between channel members will be strong in low LTO culture (U.S.).

RESEARCH DESIGN

Context

In an effort to test the hypotheses, I assessed the purchasing relationship between manufacturers and their suppliers in Korea and in the United States of America. I selected these two countries for two key reasons. First, the two countries are representative, respectively, of high and low LTO cultures. Korea is among the most LTO-oriented cultures (Hofstede 1991), and the U.S. has been repeatedly identified as a short-term perspective country (Jacobs, 1991). Second, even though Korea has undergone precipitous development over the past 30 years, very little research has been conducted concerning interfirm relationships in Korea. Thus, it is worthwhile to extend our knowledge regarding channel relationships in Korea.

Sample

Manufacturers in Korea were selected via a systematic random sample of 500 firms from the mailing list of the *Korea Manufacturer's Association* in Korea. The sample of respondents was drawn from a variety of interfirm relationships in order to enhance the generalizability of the results by minimizing the effects of industry-specific characteristics. Manufacturers in U.S. included 840 firms from the Dun and Bradstreet list. Manufacturers with SIC codes from 3011 to 3999 were included.

Each informant was subsequently mailed a questionnaire and asked to complete it with regard to a major supplier. After callbacks and a second mailing, 115 (Korea) and 126 (U.S.) questionnaires were ultimately collected. The response rates were approximately 23% (Korea) and 15% (U.S.). We assessed non-response bias by comparing the early respondents with late respondents. No significant differences were detected regarding the following variables: number of employees, percentage of purchasing volume, and years of experience. The results suggested that non-response bias may not exist.

Measurement

The Korean version of the questionnaire was translated by the author, whose native tongue is Korean. In order to ensure that the translated questionnaire was identical to the English version, a person who is quite fluent in both English and Korean back-translated the questionnaire from Korean to English. Several translation differences occurring between the two translators were corrected.

LTO culture

Since studies of LTO culture have been quite rare, the researchers prepared 6 items associated with LTO. The items for LTO included two dimensions, connection and perseverance. These dimensions are very meaningful to relationship maintenance, and consistent efforts to achieve future goals (Hofstede 1991).

Conflict

Conflict is assessed using three items. The scale assesses the extent of disagreement between exchange parties. The items included the following: the existence of conflict, major disagreement on key issues, and arguments on key decisions. The first two items were adopted from the study of Kumar, Scheer, and Steenkamp (1995).

Trust

Two dimensions of trust--credibility and benevolence--were assessed using three and two items, respectively. The credibility scale assesses the partner’s commitment to its promises, the degree to which the partner keeps promises, and the reliability of the partner’s sincerity. The items for benevolence included the exchange partner’s concern about the success of the business, and the partner’s concern regarding the welfare of the respondent’s company. These items were previously used by Doney and Cannon (1997).

Power Asymmetry as a Control Variable

Power asymmetry between a manufacturer and its supplier was calculated by the deduction of the supplier’s power from manufacturer’s power.

ANALYSIS AND RESULTS

Table 1
Mean of LTO of the two cultures

Variable	Mean of LTO		Std Deviation	
	Korea	U.S.A	Korea	U.S.A.
LTO1	5.41	4.88	.95	1.40
LTO2	5.83	5.65	.87	1.16
LTO3	5.56	4.47	.89	1.31
LTO4	4.84	3.12	1.21	1.32
LTO1234	21.64	18.13	2.89	3.63

Table 2
ANOVA Test of LTO of the Two Cultures

LTO1234					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	696.111	1	696.111	62.950	.000
Within Groups	2499.153	226	11.058		
Total	3195.263	227			

In all of the items, Korean channel members evidenced higher LTO values than were recorded in the U.S. channel members (Table 1). This result is generally in accordance with literature showing that Asian countries are more long-term oriented than Western countries (Hofstede, 1991). The results of ANOVA as reported in Table 2 show that there is a difference between the two countries in terms of their LTO culture. The reliability tests of independent variables showed reasonably high Alpha values (Table 3). Table 4 shows a fairly low level of correlations among LTO, TRUST and CONFLICT.

Table 3
Reliability for Independent Variables

Scales	Alpha	Standardized Loading
Long-Term Orientation Culture (LTO)	.7203	
LTO1: working toward future goal		.52
LTO2: working for future life		.54
LTO3: maintaining relationship for future life		.63
LTO4: working hard for improving relationship quality for future		.88
Trust (TRUST)	.7510	
CRED1: partner's commitment to its promise		.46
CRED2: keeping promise of partner		.58
CRED3: counting on partner's sincereness		.62
BENE1: partner's concern about respondent's firm		.54
BENE2: partner's concern about welfare of respondent's company		.65
Conflict (CONFLICT)	.8022	
CONFLICT1: the existence of conflict between companies		.53
CONFLICT2: the existence of major disagreement on key issues		.47
CONFLICT3: frequent argue about key decisions		.55

Table 4
Correlation Matrix

	1	2	3
1. LTO	1.0000	.1763	-.0849
2. TRUST	.2093	1.0000	-.6175
3. CONFLICT	-.3338	-.5261	1.0000

NOTES: The lower triangular matrix provides the correlations for Korea data, and the upper triangular matrix indicates the correlations for US data.

Table 5
Regression Analysis for hypothesis

Country: Korea		
Independent Variables	Dependent Variables	
	Trust	Conflict
LTO	.1946 (2.011) ^a	-.3353 (-3.513) ^b
POWASYM	-.2067 (-2.135) ^a	-.0214 (-.224)
R Square	.0863	.1119

a : reject Ho at p < .05 (1-tailed test.)

b : reject Ho at p < .01 (1-tailed test.)

POWASYM : control variable

Country : The U.S.A.

Independent Variables	Dependent Variables	
	Trust	Conflict
LTO	.1752 (1.954)	-.9759 (-.842)
POWASYM	-.0096 (-0.108)	.0803 (.891)
R Square	.1765	.1165

a : reject Ho at p < .05 (1-tailed test.)

b : reject Ho at p < .01 (1-tailed test.)

POWASYM : control variable

Tests of Hypotheses

H1a argues that the high long-term orientation culture in Korea positively influences the buyer's trust in the supplier. By way of contrast, H1b argues that the low LTO in the U.S. exerts no effects on the buyer's trust in the supplier. The results shown in Table 5 demonstrate that H1a is supported ($\beta = .195, p \leq .05$). H1b is also supported because it was not significant at a p-level of .05. The control variable of power asymmetry between the buyer and supplier also significantly influences the buyer's trust in the supplier ($\beta = -.207, p \leq .05$).

In H2a, it is hypothesized that high LTO cultures negatively affect the incidence of conflict between channel members. Consistent with this hypothesis, the result confirms the existence of a negative relationship between high long-term orientation culture and conflict between channel members ($\beta = .359, p \leq .01$). By way of contrast, it is hypothesized that low LTO culture exerts no significant effect on the conflict between channel members. This result demonstrates the non-relationship between low LTO culture and conflict between channel members, which bolsters hypothesis H2b.

CONCLUSION & DISCUSSION

Theoretical Implication

These results reveal that, LTO culture significantly affects the relationships between channel members. In particular, high LTO culture positively affects the generation of trust. The previous literature suggests that trust is high in East Asian countries (Dore 1987, Ouchi 1981). The results of this study implies that it is LTO culture that generates trust between channel members in East Asian countries. Channel members in high LTO cultures tend to anticipate benefits over the long-term; thus, they do not risk self-interest-seeking behavior on the part of their partners. If a party behaves dishonestly, the party would have to abrogate the long-term benefits accruing from the relationship with its partners. Thus, in high LTO cultures, channel members generate trust. By way of contrast, low LTO cultures do not cultivate trust between channel members. As channel members in low LTO cultures do not expect long-term benefits to accrue from their relationships with their partners, they are more likely to look forward to the short-term benefits resulting from dishonest behavior.

Whereas high LTO culture suppresses the conflict between channel members, low LTO cultures do not suppress conflict between channel members. Channel members in high LTO cultures need to take care of conflict, since they anticipate long-term relationships with their partners. They cannot continue their relationship without alleviating conflicts between them, since conflicts would deteriorate their relationships. By way of contrast, channel members in low LTO cultures do not anticipate long-term relationships, and thus they are less likely to attempt to alleviate conflicts between them than channel members in high LTO culture.

Power asymmetry between the buyer and supplier also negatively influence the buyer's trust in the supplier. This indicates that the more power a buyer possesses over the supplier, the less the buyer trusts the supplier. This reveals that the more powerful party does not trust the less powerful partner, because the powerful party can accomplish what it wishes to without relying on trust. This effect of the control variable of power asymmetry on trust is consistent with the results of Kumar, Sheer, and Steenkamp (1995).

Managerial Implications

As more and more companies are operating globally, greater understanding of different countries' cultures is crucial. According to the findings presented herein, manufacturers operating in Korea should consider LTO culture a crucial factor in managing their relationships with their exchange partners. LTO culture profoundly affects the development of inter-organizational trust. Trust generates a host of benefits such as the use of just-in-time (JIT) systems and vendor-managed inventory (VMI), both of which increase inter-organizational efficiency. Thus, companies adopting LTO cultures in Korea might enjoy improved performance.

Without understanding LTO cultures, global companies may have difficulty maintaining healthy relationships with their suppliers. For instance, when a global buyer pursues a short-term contract with a local

supplier who can be readily replaced by another supplier, the local partner with the long-term perspective might be embarrassed by the unexpected behavior. Thus, the relationship will sour, as the global buyer cannot anticipate cooperation from local suppliers. Thus, global companies need to focus on understanding LTO cultures before they formulate channel strategies.

Limitation

This study examined only one dimension of culture--namely, long-term orientation. In particular, this study does not include other cultural dimensions, such as collectivism or power distance (Hofstede 1991). These other cultural dimensions could influence the relationship between channel members. Therefore, the results obtained from LTO are limited.

Another limitation of this study was the small channel member sample size. Although the sample size is generally in line with the channel's literature, the small sample size significantly influences the stability of the parameter estimates. Thus, the results obtained from the data should be interpreted quite cautiously.

AUTHOR INFORMATION

Sungmin Ryu, is an Associate Professor of Marketing at Sungkyunkwan University, Korea. Dr. Ryu's research interests center around buyer-seller relationships, B2B marketing and retail and distribution industries.

Chul Woo Moon is an Associate Professor of Strategy at Sungkyunkwan University, Korea. Professor Moon's major areas of research interests include retail industry strategy, media and entertainment industry strategy, and post-merger integration strategies.

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NOTES