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# The Influence of Market Orientation on Channel Relationships: A Dyadic Examination

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## Market Orientation and the Channel Dyad

Many companies have sought to alter channels of distribution to achieve the strategic gains necessary to compete in challenging global markets. At the same time, marketers have advocated adoption of the marketing concept and a market orientation to enhance competitive positioning. A meshing of the two concepts—using a market orientation to alter the channel of distribution relationship—may provide companies with a viable way of creating a sustainable competitive advantage and enhancing organizational performance.

Market-orientation research has found that market-oriented behaviors positively affect various corporate measures such as profitability, employees' attitudes, and salesperson orientations. In this study, authors Siguaw, Simpson, and Baker examine the influence of market orientation on key factors that may influence the performance of the channel, most notably trust, cooperation, and commitment. Using 179 matched sets of questionnaires from a national sample of distributor members of the National Association of Wholesalers and their key suppliers, they found that the direct effects of market orientation on trust, cooperation, and performance were significant.

## Managerial Implications

Their findings lend strong support to the importance of a market orientation in a channel relationship to strengthen the relationship and to enhance organizational performance. Further, this study highlights additional benefits to both parties in the channel dyad of seeking to fulfill customer needs. A mutually held market orientation allows channel members to better serve shifting market needs within the context of strategic partners pursuing the same goals. These market-oriented actions also strengthen channel alliances.

Mutual trust has been found to be more crucial to the formation of strong channel relationships than contractual agreements or techniques. To facilitate the creation of trusting channel relationships, firms should adopt market-oriented behaviors. This research clearly indicates that market orientation has a positive and significant effect on the level of trust in the dyadic relationship, and, thereby, indirectly influences cooperation and commitment. Consequently, the practice of market-oriented behaviors is a critical means of building and reinforcing trust in the channel relationship to keep channels intact and to reduce channel tensions.

Market orientation also has a positive direct and indirect effect on channel performance. Since better performance is the ultimate goal of business, a strong market orientation would appear a critical element for all firms.

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# Introduction

The challenges presented by foreign competition and maturing domestic markets have created tensions between manufacturers and other channel members that demand a satisfactory resolution (Frazier and Antia 1995; Webster 1992). Given the significant and broad effects of market orientation identified in prior research, one viable strategy for easing these strained channel relationships, while countering future environmental threats, may be the adoption of market-oriented behaviors. A high level of market orientation within a channel relationship would incorporate the advantages of corporate alliances, yet still allow the economies created by the performance of specialized, independent firms (Anderson and Weitz 1992).

The importance of market orientation to the marketing discipline is evidenced by the number of recent research studies incorporating the market orientation construct (Cadogan and Diamantopoulos 1995; Day 1994; Kohli, Jaworski, and Kumar 1993). To date, this research has indicated that market-oriented behaviors have positive effects on profitability (Ruekert 1992; Slater and Narver 1994; Webster 1992), employees' attitudes (Jaworski and Kohli 1993), and salesperson orientations (Siguaw, Brown, and Widing 1994). However, this research has ignored the potential impact of market orientation on channel relationships, and the ramifications of market-oriented behaviors within a dyadic relationship. The lack of attention devoted to the study of market orientation within a channel relationship context is regrettable given the sweeping effects of the firm's market-oriented actions and the established importance of good channel relationships (Kumar, Scheer, and Steenkamp 1995).

The empirical research undertaken and described here involves an analysis of the interrelationships of market orientation and other channel relationship elements within the dyad formed by the manufacturer and distributor. The paper begins with a brief discussion of market orientation and the importance of dyadic research. Then an iterative model is presented, which depicts the hypothesized direct and indirect relationships between the market orientation of the dyad, and the levels of trust, cooperation, commitment, and performance found within the manufacturer-distributor relationship. The roles of selected mediating variables—shared values, communication, relationship benefits, relationship duration, and relationship termination costs—are also included in the posited conceptualization. Data collected from 179 manufacturer-distributor dyads are used to test the hypothesized relationships via three-stage least squares regression and partial correlations, and the results are provided. The paper concludes with a discussion incorporating an overview of the study and managerial implications designed to assist the practitioner in evaluating the selection and pursuit of a specific company orientation.

# Background and Definition of Market Orientation

Before presenting the conceptual development of the proposed model along with the corresponding research propositions, some discussion of the market orientation construct will be offered due to 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, much of the variation in definitions may be attributed to the diverse manner in which the *marketing concept* has been defined over time. Initially, King (1965) defined the 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” (p. 85). Consistent with King (1965), Barksdale and Darden (1971) and McNamara (1972) identified 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, were opposed by other scholars. For example, Bell and Emory (1971) argued that profit is a consequence of customer orientation; therefore, customer orientation should take precedence over profit orientation. Conversely, Houston (1986) argued that profit should be the reason for adopting a customer orientation: “Satisfaction of the market’s demand is important to the extent that doing so yields profits” (p. 85).

Day and Wensley (1983) contended that all of the earlier conceptualizations of the marketing concept failed to adequately address the need for a competitor orientation. They cautioned that the three-pillar marketing concept is appropriate for a static market, but the dynamic nature of today’s marketplace requires the firm to also consider competitive offerings and strategies.

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. Indeed, 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,” while 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 upon the firm’s activities and behaviors regarding customer needs, competitive information, market intelligence, and the sharing of such knowledge across organizational functions. A profitability component was not incorporated into this conceptualization of market orientation.

Narver and Slater (1990) offered a somewhat different view of market orientation, suggesting that market orientation consists of three behavioral components (customer orientation, competitor orientation, and interfunctional coordination) and two decision criteria (long-term focus and profitability). Congruent with recent beliefs regarding the linkage between market orientation and market information, Narver and Slater proposed that the behavioral components comprise "the activities of market information acquisition and dissemination and the coordinated creation of customer value" (p. 21).

For the purposes of this study, we adopt a balanced view of market orientation that features concepts that have been synthesized from the literature. Thus, we define market orientation as the set of behaviors emanating from the organization's leadership whose primary objective is to acquire and utilize market information for the purpose of satisfying customer needs through superior organizational performance on an ongoing basis (Jaworski and Kohli 1993; Kohli and Jaworski 1990; Narver and Slater 1990; Slater, Narver, and Aaby 1994).

# Importance of Dyadic Research

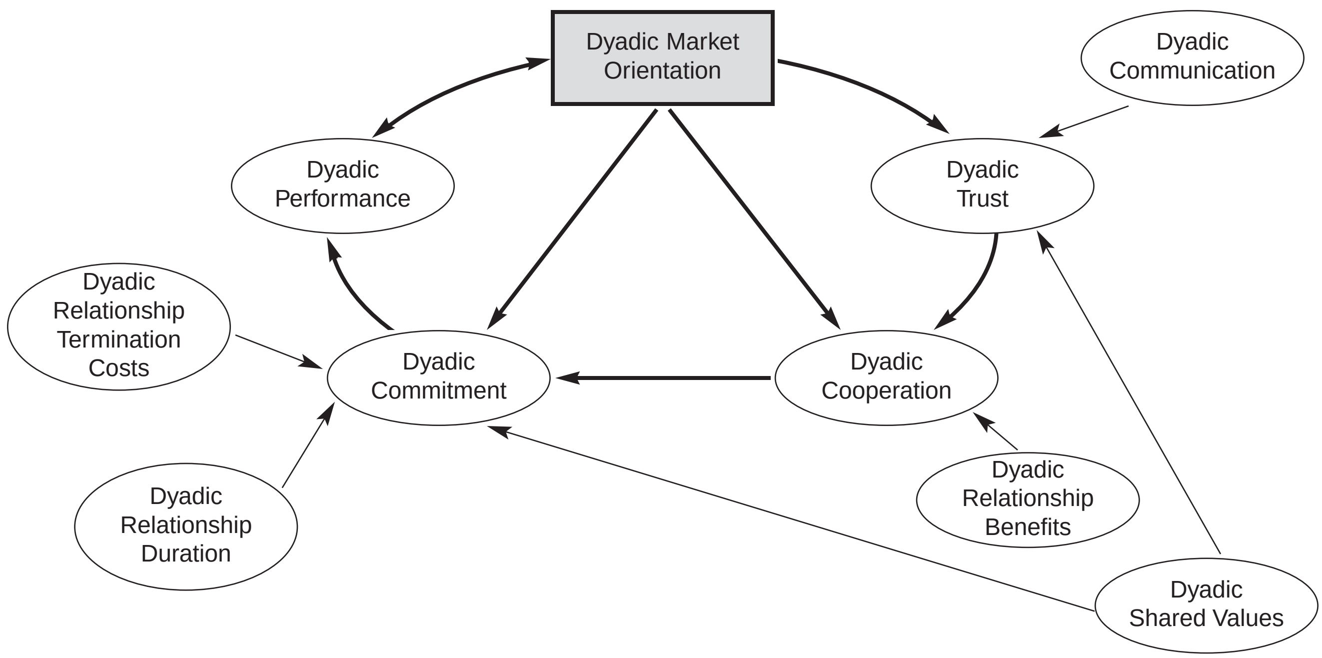
Much of the emerging research involving channels issues has centered on the dyadic relationship between firms (Anderson and Narus 1990; Anderson and Weitz 1992; Ganesan 1994) — a stream of study that has been labeled of "paramount interest" (Anderson, Håkansson, and Johanson 1994). Collecting dyadic data from both suppliers and distributors within a channel relationship has been strongly encouraged by researchers to facilitate academic and practitioner understanding of relationship development, management, and maintenance (Weitz and Jap 1995). In the current study, we recognize that the relevant level of analysis is with the dyad that is formed and the relationship developed between participants in the channel rather than with the individual organizations. Indeed, 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." Thus, we wish to emphasize that the framework and hypotheses presented in this study focus on the *dyadic relationship* rather than on the individual behaviors and attitudes of the supplier and distributor.

# Conceptual Framework and Hypotheses

The model to be developed and tested in this paper is presented in Figure 1. The model is circular to depict the ongoing, iterative relationship or process that is characteristic of manufacturer-supplier relationships; this nonrecursive process has been defined and supported in previous studies (Anderson and Weitz 1992). In the proposed model, market orientation is hypothesized to directly impact the other major constructs of interest (trust, cooperation, commitment, and performance). Additionally, market orientation implicitly is hypothesized to indirectly affect the relationships between trust, cooperation, commitment, and performance via the proposed direct effect of market orientation on trust. Although the posited model implies a cycle that occurs over time, the empirical data presented here investigates the hypothesized relationships at one point in time and thus provides a static perspective. Support for the use of cross-sectional data to examine channel relationships is derived from Weitz and Jap (1995), who noted that such relationships typically develop incrementally.

While the focus of this study is on the relationships between market orientation, trust, cooperation, commitment, and performance, secondary relationships involving the constructs of communication, shared values, relationship duration, relationship benefits, and relationship termination costs are also investigated to assist with model specification. Admittedly, the list of mediating constructs included in this model is necessarily limited and other relevant variables may be omitted; however, those mediating variables well substantiated in the literature are incorporated to avoid an omission of specification error. After presenting a discussion of our conceptualization of the market orientation of the dyad, we will present the hypotheses relative to the primary variables in the model followed by the hypotheses relating the secondary variables to the primary ones.

**Figure 1. Proposed Effects of Market Orientation on Channel of Distribution Relationship Variables**




### Market Orientation of the Dyad

The market orientation of the channel dyad is posited to consist of the distributor's market orientation and the supplier's market orientation, as well as the distributor's perception of the supplier's market orientation and the supplier's perception of the distributor's market orientation. That is, the level of market orientation within the dyad will be determined by the actual market-oriented behaviors of both participants, *and* by how each party perceives the other party's market orientation. Through their verbal and nonverbal communication, distributors and suppliers presumably reveal their *actual* market orientation to each other, which may not necessarily be the intended market orientation (see Anderson and Weitz 1992 for communication of *commitment* behavior). Interpretation of this behavior will, in turn, be affected by each party's own market-oriented behaviors. Each participant in the channel relationship must perceive the other participant's market orientation as meeting or exceeding its own and/or the market orientation of any alternative party before the latter participant will be perceived as market-oriented (see Anderson, Håkansson, and Johanson 1994 regarding similar effects for other relationship variables). Thus, the market orientation of the dyad will be high only if actual and perceived behaviors of each party are highly market-oriented.

### Primary Relationships

*Market Orientation and Trust.* Trust has been called a "fundamental relationship model building block" (Wilson 1995, p. 337) and involves confidence that the other party will behave in a fair, noncoercive, concerned manner (Carnevale and Wechsler 1992; Cook and Wall 1980; Hrebiniak 1971; Rotter 1967). "The development of trust in a relationship is reciprocal, so that individuals [or firms] respond in kind to the trust or mistrust directed toward them" (Carnevale and Wechsler 1992, p. 473). Other studies have also supported this progression of trust in a relationship (Becker 1987; Garfinkel 1964; Golembiewski and McConkie 1975; Luhman 1979). Thus, as greater trust is placed in the supplier, the distributor presumably responds in a manner meant to encourage the supplier to place greater trust in the distributor and vice versa. One form of trust is identification-based; this manifestation of trust is defined by Shapiro, Sheppard, and Cheraskin (1992, p. 371) as "the highest order of trust [which] assumes that one party has fully internalized the other's preferences." By definition, a market-oriented organization collects information concerning customer needs, and strives to meet those needs in a competitive fashion, thereby internalizing its customers' preferences. Prior research has also indicated that individuals trust organizations that allow open communication and the opportunity to participate (Carnevale and Wechsler 1992). Since communication between customers and the firm regarding needs, services, and products is an integral part of market orientation, and because market orientation permits customer input into the production process, which in turn increases joint identification, distributors of a market-oriented supplier should have greater trust in the supplying organization. Further, the basis of a market orientation is the gathering and utilization of information to satisfy customer needs. These corporate actions demonstrate concern and noncoerciveness, and thus increase trust in the relationship. These arguments suggest that a high level of market orientation within the dyad should increase the level of trust within the dyad. Therefore, the market orientation of the dyad is hypothesized to influence the level of dyadic trust which is a function of the degree of trust between two parties.

$H_1$: The greater the market orientation of the dyad, the greater the level of trust within the dyadic relationship.

*Trust and Cooperation.* Trust within the dyad is hypothesized to positively influence cooperative behavior in which parties unite to accomplish shared goals (Anderson and Narus 1990). We suggest that trust is an attitude or frame of mind, while cooperation is the behavioral result of this attitude. This conceptualization is consistent with Morgan and Hunt (1994, p. 24) who argued that "'willingness to rely' should be viewed as an outcome . . . of trust," where willingness to rely is the *behavioral* intention of trust. The relationship between cooperation and trust may actually be bi-directional, but "the initiation of the relationship is based on a certain level of 'beginning' trust" (Neilson and Wilson 1994, p. 6). Hence, initial feelings of trust lead to cooperative efforts, which, if satisfactory, in turn lead to increased levels of trust, which then increase efforts to cooperate. Although the direction of causation is open for discussion, the proposed relationship, which indicates that trust must be present to gain cooperative behavior, has been previously supported in the social science and marketing literature (Deutsch 1960; Loomis 1959; Morgan and Hunt 1994; Pruitt 1981).

$H_2$: The greater the level of trust within the dyad, the greater the cooperation demonstrated within the dyadic relationship.

*Cooperation and Commitment.* Commitment has been previously 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 a critical *consequence* of cooperation (Anderson, Håkansson and Johanson 1994). We believe that the appropriate linkage among these variables is trust → cooperation → commitment.

Commitment is measured in this study as a psychological attachment (Angle and Lawson 1993; Porter et al. 1974). Cooperation is hypothesized to directly influence commitment, where commitment is defined as "an exchange partner *believing* that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it" (Morgan and Hunt 1994, p. 23). We do not believe that commitment can be achieved without initial cooperative efforts serving as a behavioral intent (outward expression) of the trust between the two parties. That is, some form of cooperation (as a behavioral expression of trust) must exist between two parties prior to the parties feeling that they are committed to the relationship. This posited relationship between cooperation and commitment is contrary to Morgan and Hunt (1994) who indicated support for their contention that "[a] partner committed to the relationship will cooperate with another member because of a desire to make the relationship work" (p. 26). While committed partners will certainly seek to continue cooperating with one another after commitment is established, cooperation must exist first. Therefore, we believe the placement of cooperation between trust and commitment is logical and theoretically sound. Accordingly:

$H_3$: The greater the cooperation of the dyad, the greater the commitment within the dyadic relationship.

*Commitment and Performance.* Commitment to a relationship is thought to result in a higher performance level (*Business Week* 1986; Stern and El-Ansary 1990), and provide advantages (e.g., greater satisfaction of customer needs, greater access to market information or critical resources, etc.) not found in traditional channels (Anderson and Weitz 1992; Buchanan 1992; Hickson et al. 1971). Only partial empirical support for this perspective has been reported in the literature, however. Kumar, Hibbard, and Stern (1994) found that affective relationship commitment results in better organizational performance, whereas calculative and moral commitment resulted in lower performance. Heide and Stump (1995) indicated that relationship continuity (measured as the expectation that the relationship would continue in the future) had a positive effect on performance only when conditions of high uncertainty and specific assets were involved; otherwise, continuity had a low or negative influence on performance. Similarly, Buchanan (1992) reported that the level of dependence between trade partners had a significant effect on performance under conditions of high uncertainty. Although previous research has provided equivocal results regarding the relationship between commitment and performance, we expect that the commitment construct we have included in our framework will affect performance in a manner similar to that of the affective relationship commitment construct tested by Kumar, Hibbard, and Stern (1994). That is, persistent behavior designed to sustain the dyadic relationship will benefit the performance of both parties within the dyad. Thus, we propose the following:

$H_4$: The greater the commitment of the dyad, the greater the performance of the dyad.

*Performance and Market Orientation.* Our model is completed by linking performance and market orientation. Firms that recognize the direct and indirect effects of market orientation on performance would likely pursue higher levels of market-oriented behaviors to attain increased performance goals; that is, higher levels of performance are hypothesized to encourage behaviors that will result in greater levels of market orientation. The hypothesized association between performance and market orientation is roughly equivalent to the finding that higher profits will increase the probability of continuing a business relationship (Gladstein 1984). Therefore, we propose that the greater the benefits (e.g., higher market share and profits) indirectly derived from the practice of market-oriented behaviors through the trust-cooperation-commitment linkage, the more likely a firm is to increase its efforts at developing and maintaining such an orientation. Hence:

$H_5$: The greater the performance of the dyad, the greater the practice of market-oriented behaviors within the dyadic relationship.

*Market Orientation and Cooperation.* In the conceptualized model, market orientation is posited to positively and directly affect cooperation. Although an association between market orientation and cooperation has not been previously proposed in the literature, by definition channel members who are market-oriented are seeking to provide a superior value to meet the needs of their customers. Therefore, market-oriented channel members have a common goal of serving customers and when these parties exert efforts to achieve this common goal they are engaging in cooperative behaviors (Anderson and Narus 1990). Accordingly:

$H_6$: The greater the market orientation of the dyad, the greater the level of cooperation within the dyadic relationship.

*Market Orientation and Commitment.* Few studies have examined the relationship between market orientation and commitment posited in our model. A strong association between market orientation and organizational commitment of employees has been empirically tested and supported (Jaworski and Kohli 1993; Siguaw, Brown, and Widing 1994); however, the linkage between market orientation and commitment to the channel relationship has not been explicitly examined in prior studies, although variables closely related to channel commitment have been investigated. For example, Kohli and Jaworski (1990) conceptualized a causal relationship between market orientation and "repeat business from customers," while Narver and Slater (1990) empirically tested and found support for an association between market orientation and customer retention. The theoretical underpinnings thus suggest a positive relationship between market orientation and commitment; consequently, we assert:

$H_7$: The greater the market orientation of the dyad, the greater the level of commitment within the dyadic relationship.

*Market Orientation and Performance.* In the hypothesized model, market orientation is posited to have a direct and positive effect on channel performance. Although this relationship has frequently been assumed to exist (Houston 1986; Webster 1988), empirical evidence provides only equivocal support. Narver and Slater (1990, p. 32) found that "market orientation is an important determinant of profitability." Their finding is consistent with studies by Lusch and Laczniak (1987), Ruekert (1992), and Webster (1992). Other researchers have reported that market orientation is significantly related to judgmental performance measures, but not necessarily to objective measures, such as market share, sales growth, and profit margin (Diamantopoulos and Hart 1993; Jaworski and Kohli 1993). In their discussion, Jaworski and Kohli (1993) conjectured that certain objective measures (e.g., market share) may not be good indicators of performance or that a lagged effect of market orientation on these variables may occur. Although some inconsistencies in findings exist, the weight of the evidence does appear to support a linkage between market orientation and performance; thus, the proposed model is specified to test the following hypothesis:

$H_8$: The greater the market orientation of the dyad, the greater the performance within the dyadic relationship.

## Secondary Relationships

*Communication.* While we propose that market orientation should lead to increased trust within the relationship, communication between channel members will also influence trust. Anderson and Narus (1990, p. 44) define communication "as the formal as well as informal sharing of meaningful and timely information between firms." Communication has routinely been cited in the literature as a positive influence upon trust (Dwyer, Schurr, and Oh 1987; Mellinger 1956; Morgan and Hunt 1994), and increased interaction has been found to specifically strengthen dyadic trust (Samter and Burleson 1984). Therefore:

$H_9$: The greater the communication between the supplier and distributor, the greater the perceptions of trust within the relationship.

*Shared Values.* Shared business values are measured as the degree to which two channel members believe in the utilization of the same business practices (Hunt, Wood, and Chonko 1989). The absence of a common culture composed of similar business values makes the maintenance of the relationship very difficult (Wilson 1995). For example, one channel member may believe in utilizing questionable practices to increase sales, while the other believes that long-term rewards will only be achieved through ethical behaviors. Consequently, while the two parties may be involved in an exchange transaction or series of exchange transactions, they are reluctant to trust and commit to an exchange *relationship* due to fundamental differences in the way they practice business. In this case, the parties recognize that a further meshing of the two organizations would be difficult because of differences in their basic business values. Prior research has indicated that channel members with congruent values will have greater trust in and commitment to the relationship (Morgan and Hunt 1994). Thus:

$H_{10}$: The greater the similarity in shared values within a dyad, the greater the perceptions of trust between these channel members.

$H_{11}$: The greater the similarity in shared values within a dyad, the greater the perceptions of commitment between these channel members.

*Relationship Benefits.* While trust is hypothesized to increase cooperation, cooperation is also posited to be influenced by the benefits of the dyadic relationship. Cooperation is necessary to derive the potential benefits of the dyadic relationship (Anderson and Weitz 1992). Buchanan (1992, p. 67) notes that if trade partners value one another's resources, "they are unlikely to act opportunistically." In other words, channel members are more likely to undertake cooperative behaviors together when one or both parties perceive benefits of the required effort.

$H_{12}$: The greater the perceived benefits of the relationship, the greater the cooperation within the dyad.

*Relationship Termination Costs and Relationship Duration. C*ommitment is hypothesized to be influenced by two additional factors—relationship termination costs and the duration of the business relationship. Relationship termination costs are those expenses that would be incurred or investments that would be lost if the relationship ended. High switching costs may increase a party's "interest in maintaining a quality relationship" (Dwyer, Schurr, and Oh 1987, p. 14), whereas, low termination costs may encourage the dissatisfied party to exit the relationship (Buchanan 1992).

The duration of the business association is hypothesized to influence commitment within the relationship. Although relationship longevity does not sufficiently capture relationship commitment, duration of a relationship likely influences commitment (Kelley 1983). That is, the longer the business association has endured between the two parties, the more likely the parties are to feel committed to the relationship.

$H_{13}$: The greater the relationship termination costs, the greater the commitment between these channel members.

$H_{14}$: The greater the duration of the business association, the greater the commitment between these channel members.

# Methods

### Data Collection

To test the hypotheses generated from the model presented in Figure 1, data were collected from matching manufacturer and distributor dyads. Names of distributors were culled from the membership rosters of associations affiliated with the National Association of Wholesalers (NAW); these associations included Associated Equipment Distributors, Fluid Power Distributors Association, International Wholesale Furniture Association, National Electronic Distributors Association, National Fastener Distributors Association, National Welding Supply Association, and Power Transmission Distributors Association. Each distributor was first contacted by telephone to secure cooperation in the study and to obtain the name of a person with the distributor's primary supplier who was most knowledgeable about the relationship. Coded questionnaires were mailed to all informants along with a cover letter on university stationery explaining the coding system (to match the manufacturer/distributor dyad), the purpose of the study, and the confidentiality of responses. Surveys were returned to the researchers via pre-addressed, 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 manufacturers for an overall response rate of 36.95 percent. Of these respondents, 179 matched sets (a total of 358) of questionnaires were received from distributors and their corresponding manufacturers. These matched responses provided the data utilized in the subsequent analysis.

### Measures

All constructs included in this research, with the exception of relationship duration, were measured using multi-item scales drawn from prior studies (see Appendix A for Scale Development and Properties). The scales used to measure the constructs were exactly the same for both the distributors and the suppliers with the exception of minor changes in wording to reflect the perspective of the party receiving the questionnaire. For example, an item on the communication scale sent to the suppliers read, "We hesitate to give this distributorship too much information," while the same item on the scale sent to the distributors read, "We hesitate to give this supplier too much information." The response categories for each scale were anchored by 1 (Strongly Disagree) and 7 (Strongly Agree), with the exception of the market orientation, commitment, and performance scales. While these scales were also measured using seven-point response categories, the wording of the response alternatives was slightly altered to better fit the wording of the scale items.

All measures were determined by averaging the responses to each item in a particular scale. These mean dyadic responses were used to test the model; however, distributor and supplier responses were compared to determine the extent of agreement between the two groups. As Table 1 indicates, there were significant differences in the responses of the two groups on almost every construct (market orientation, relationship benefits, and commitment were exceptions); these diverse perceptions on the part of channel members raise interesting questions for future research. Further, these differences tend to bias the results of the model toward insignificance. The means, standard deviations, Cronbach alphas, and construct intercorrelations for the constructs are presented in Table 2.

**Table 1. Assessment of Agreement/Disagreement Between Suppliers' and Distributors' Responses**

| Variable | Distributor Mean | Supplier Mean | F-value | p-value |
|---|---|---|---|---|
| Market Orientation | 5.13 | 5.08 | .44 | .51 |
| Trust | 5.45 | 5.69 | 4.95 | .03 |
| Relationship Termination Costs | 4.95 | 4.36 | 24.66 | .00 |
| Relationship Benefits | 4.29 | 4.42 | .95 | .33 |
| Communication | 4.71 | 5.17 | 17.55 | .00 |
| Shared Values | 6.51 | 6.65 | 3.02 | .08 |
| Cooperation | 5.36 | 5.58 | 4.48 | .04 |
| Commitment | 5.59 | 5.70 | 2.05 | .15 |
| Performance | 4.64 | 5.34 | 26.46 | .00 |

**Table 2. Means, Standard Deviations, Alphas, and Correlations of Measures**

| | Mean | Standard Deviation | Alpha | D1 | D2 | D3 | D4 | D5 | D6 | D7 | D8 | D9 | D10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| D1 | 5.10 | .70 | * | 1.00 | | | | | | | | | |
| D2 | 5.57 | 1.03 | .95 | .61 | 1.00 | | | | | | | | |
| D3 | 4.66 | 1.15 | .88 | .29 | .13 | 1.00 | | | | | | | |
| D4 | 4.49 | 1.20 | .75 | .49 | .48 | .49 | 1.00 | | | | | | |
| D5 | 4.94 | 1.06 | .82 | .48 | .53 | .39 | .62 | 1.00 | | | | | |
| D6 | 7.58 | .75 | * | .27 | .31 | .12 | .23 | .24 | 1.00 | | | | |
| D7 | 5.47 | .98 | .83 | .48 | .66 | .22 | .38 | .51 | .22 | 1.00 | | | |
| D8 | 6.18 | .86 | .90 | .49 | .59 | .46 | .51 | .52 | .31 | .55 | 1.00 | | |
| D9 | 5.04 | 1.65 | .92 | .19 | .20 | -.03** | .15 | .13 | .13 | .18 | .14 | 1.00 | |
| D10 | 8.41 | 13.73 | * | .06** | .02** | .17 | .13 | .04** | .11 | .02** | .13 | .01** | 1.00 |

* Alpha value unable to be calculated
** p > .05
D1 = marketing orientation (DYADMO)
D2 = trust (DYADTRST)
D3 = relationship termination costs (DYADCOST)
D4 = relationship benefits (DYADBENF)
D5 = communication (DYADCOMM)
D6 = shared values (DYADVALU)
D7 = cooperation (DYADCOOP)
D8 = commitment (DYADCOMT)
D9 = performance (DYADPERF)
D10 = relationship duration (DYADDUR)

## Analysis

The iterative model, representing $H_{1\text{-}5}$ and $_{9\text{-}14}$, was tested using three-stage least squares regression. This technique has been utilized to test other similarly structured (i.e., nonrecursive) models that have been reported in the marketing literature (e.g., Anderson and Weitz 1992). The hypotheses can be represented by the following system of equations:

$$\text{DYADTRST} = \beta_{10} + \beta_{11}\text{DYADMO} + \beta_{12}\text{DYADCOM} + \beta_{13}\text{DYADVALU} \qquad \text{(Equation 1)}$$

$$\text{DYADCOOP} = \beta_{20} + \beta_{21}\text{DYADTRST} + \beta_{22}\text{DYADBENF} \qquad \text{(Equation 2)}$$

$$\text{DYADCOMT} = \beta_{30} + \beta_{31}\text{DYADCOOP} + \beta_{32}\text{DYADCOST} + \beta_{33}\text{DYADVALU} + \beta_{34}\text{DYADDUR} \qquad \text{(Equation 3)}$$

$$\text{DYADPERF} = \beta_{40} + \beta_{41}\text{DYADCOMT} \qquad \text{(Equation 4)}$$

$$\text{DYADMO} = \beta_{50} + \beta_{51}\text{DYADPERF} \qquad \text{(Equation 5)}$$

For parsimonious reasons and to avoid the increased level of multicollinearity that would be introduced into the system of equations, the direct effects of market orientation on cooperation, commitment, and performance, represented by $H_{6\text{-}8}$, were tested using partial correlation analysis. This method of analysis allows the determination of the relationship between two variables while controlling for the effects of other variables.

# Results

### Three-stage Least Squares

This section presents the results of the tests of the iterative model, $H_{1\text{-}5}$ and $_{9\text{-}14}$, which are summarized in Table 3. The system of equations used to test these hypotheses has a system-weighted $R^2$ of .39.

**Table 3. Results of Three-stage Least Squares Regression Analysis**

| Endogenous Variable | Hypothesized Influences | Hypothesis Tested | Estimated Coefficients (Standardized) | t-statistic | p-value |
|---|---|---|---|---|---|
| Trust | Market Orientation | $H_1$ | $\beta_{11} = .66$ | 8.86 | .0001 |
| | Communication | $H_9$ | $\beta_{12} = .28$ | 5.61 | .0001 |
| | Shared Values | $H_{10}$ | $\beta_{13} = .17$ | 2.97 | .0032 |
| Cooperation | Trust | $H_2$ | $\beta_{21} = .63$ | 14.58 | .0001 |
| | Relationship Benefits | $H_{12}$ | $\beta_{22} = .04$ | 1.13 | .2600 |
| Commitment | Cooperation | $H_3$ | $\beta_{31} = .42$ | 11.20 | .0001 |
| | Relationship Termination Costs | $H_{13}$ | $\beta_{32} = .26$ | 8.43 | .0001 |
| | Shared Values | $H_{11}$ | $\beta_{33} = .16$ | 3.37 | .0009 |
| | Relationship Duration | $H_{14}$ | $\beta_{34} = .00$ | .98 | .3299 |
| Performance | Commitment | $H_4$ | $\beta_{41} = .40$ | 3.35 | .0009 |
| Market Orientation | Performance | $H_5$ | $\beta_{51} = .10$ | 4.40 | .0001 |

Sample size (n) = 179 dyads (a total of 358 respondents)

*Trust.* Equation 1 tests the hypothesized effects of market orientation, communication and shared values on trust; strong support was found for all three hypotheses ($H_1$,$H_9$, $H_{10}$). $H_1$ proposed that the level of market orientation in the relationship has a positive effect on the level of trust in the relationship. As shown in Table 3, the regression coefficient is positive and highly significant ($\beta_{11} = .66$, $p < .01$). The findings also indicate that the level of communication in the relationship has a significant and positive effect on the level of trust in the relationship ($\beta_{12} = .28$, $p < .01$). Finally, the regression coefficient provides strong support for $H_{10}$, which proposed that the greater the degree of shared values, the higher the level of trust in the relationship ($\beta_{13} = .17$, $p < .01$).

*Cooperation.* The estimated values of equation 2 provide tests of the effects of trust and relationship benefits on cooperation ($H_2$ and $H_{12}$ ) The positive relationship posited between the level of trust in the relationship and the level of cooperation ($H_2$) receives strong support ($\beta_{21} = .63$, $p < .01$). However, the results indicate that the benefits resulting from a relationship do not have a significant impact on the level of dyadic cooperation ($H_{12}$), since the regression coefficient, although in the predicted direction, is not significant ($\beta_{22} = .04$, $p = .26$).

*Commitment.* Equation 3 provides tests of the hypotheses that cooperation ($H_3$), shared values ($H_{11}$), relationship duration ($H_{14}$), and relationship termination costs

($H_{13}$) are all positively related to each partner's degree of commitment to the dyadic relationship. As proposed, there is a strong positive relationship between cooperation and commitment ($\beta_{31}$ = .42, p < .01). In addition, Table 3 shows that both shared values and relationship termination costs are significantly and positively related to commitment. This finding indicates that firms have a tendency to be committed to other firms that are like themselves (shared values), and where costs associated with finding an alternative trading partner are high as predicted by research into the effect of transaction specific assets (Heide and John 1988). Interestingly, the amount of time the relationship between the two firms has been in place (DYADDUR) did not have a significant influence on cooperation between the firms ($\beta_{34}$ = .00, p > .05).

*Performance.* The fourth equation provides a test of $H_4$ which proposes that commitment will result in a higher degree of performance. The regression coefficient is significant and positive, which provides support for the hypothesis ($\beta_{41}$ = .40, p < .01).

*Market Orientation.* The model presented in Figure 1 proposes that there is a nonrecursive relationship between the variables included in the model such that if partners in dyadic relationships attribute part of their performance to the direct and indirect effects of market orientation, higher levels of performance should then lead to higher levels of market orientation ($H_5$). As Table 3 indicates, performance is positively and significantly related to market orientation ($\beta_{51}$ = .10, p < .01).

### Partial Correlation Analysis

The results of the partial correlation analysis used to test the direct effects of market orientation on cooperation, commitment, and performance ($H_{6\text{-}8}$) are presented in this section and summarized in Table 4.

**Table 4. Results of Partial Correlation Analysis**

| Correlation Pair | Hypothesis Tested | Partial Correlation Coefficient | p-value |
|---|---|---|---|
| Market Orientation and Cooperation[a] | $H_6$ | .10 | .06 |
| Market Orientation and Commitment[b] | $H_7$ | .02 | .75 |
| Market Orientation and Performance[c] | $H_8$ | .14 | .02 |

[a] Correlation calculated while controlling for trust, communication, relationship benefits, and shared values.

[b] Correlation calculated while controlling for trust, cooperation, communication, relationship benefits, shared values, relationship termination costs, and relationship duration.

[c] Correlation calculated while controlling for trust, cooperation, commitment, communication, relationship benefits, shared values, relationship termination costs, and relationship duration.

$H_6$ proposes that market orientation directly and positively impacts the degree of cooperation in the dyadic relationship. The partial correlation coefficient between market orientation and cooperation was calculated, controlling for each of the variables that were hypothesized to enter the model prior to cooperation (i.e., trust, communication, relationship benefits, and shared values). Table 4 indicates that the coefficient (.10, $p = .06$) was marginally significant, indicating that there is some direct impact of market orientation on cooperation. To conduct the test for $H_7$, the partial correlations coefficient between market orientation and commitment was calculated while controlling for the effects of trust, cooperation, communication, relationship benefits, shared values, relationship duration, and relationship termination costs. The coefficient, .02 ($p = .75$), was not significant indicating there is no direct relationship between market orientation and commitment when controlling for the effects of the other variables specified in the model. Finally, to conduct the test for $H_8$, the partial correlation coefficient between market orientation and performance was calculated while controlling for all the other variables specified in the model. In this case the coefficient, .14 ($p = .02$), was significant, indicating that market orientation influences performance even when the effects of the other variables in the model are controlled.

# Discussion and Conclusions

Although marketers have recognized the potential significance of a market orientation, empirical research examining its effects is still in its infancy. This study models and supports the effects of market orientation in the channel relationship using a dyadic framework, substantially adding to the emerging stream of literature regarding the importance of adopting a market orientation. Furthermore, for the most part, previous research models incorporating the key constructs used in this study have been recursive models, and, consequently, have not examined how the outcome variable (performance) may, in turn, affect the source variable (market orientation). Three-stage least squares regression and partial correlation analysis were used to find support for the proposed model (see Table 5 for summary of findings). In large, the model suggests that market orientation is a way of instilling and promoting trust in a channel relationship, which then leads to greater cooperation and commitment. Greater relationship commitment ultimately results in enhanced organizational performance, which then works to further improve market orientation; thus, the cycle continues.

**Table 5. Summary of Findings**

| Hypothesis | | Conclusion |
|---|---|---|
| $H_1$: | The greater the market orientation of the dyad, the greater the level of trust within the dyadic relationship. | Supported |
| $H_2$: | The greater the level of trust within the dyad, the greater the cooperation demonstrated within the dyadic relationship. | Supported |
| $H_3$: | The greater the cooperation of the dyad, the greater the commitment within the dyadic relationship. | Supported |
| $H_4$: | The greater the commitment of the dyad, the greater the performance of the dyad. | Supported |
| $H_5$: | The greater the performance of the dyad, the greater the practice of market-oriented behaviors within the dyadic relationship. | Supported |
| $H_6$: | The greater the market orientation of the dyad, the greater the level of cooperation within the dyadic relationship. | Marginally supported |
| $H_7$: | The greater the market orientation of the dyad, the greater the level of commitment within the dyadic relationship. | Not supported |
| $H_8$: | The greater the market orientation of the dyad, the greater the performance within the dyadic relationship. | Supported |
| $H_9$: | The greater the communication between the supplier and distributor, the greater the perceptions of trust within the relationship. | Supported |
| $H_{10}$: | The greater the similarity in shared values within a dyad, the greater the perceptions of trust between these channel members. | Supported |
| $H_{11}$: | The greater the similarity in shared values within a dyad, the greater the perceptions of commitment between these channel members. | Supported |
| $H_{12}$: | The greater the perceived benefits of the relationship, the greater the cooperation within the dyad. | Not supported |
| $H_{13}$: | The greater the relationship termination costs, the greater the commitment between these channel members. | Supported |
| $H_{14}$: | The greater the duration of the business association, the greater the commitment between these channel members. | Not supported |

The direct effects of market orientation on cooperation and commitment were not completely supported, as neither relationship was significant at the .05 level. However, the findings indicated that market orientation does have a direct effect on performance; thus, the supported model depicts a bidirectional relationship between market orientation and performance.

Consistent with Morgan and Hunt (1994), our study found support for the posited relationship between trust and cooperation—the more channel members feel that they can trust one another, the more they are willing to cooperate with each other. Contrary to Morgan and Hunt, however, who found that trust and commitment lead to cooperation, we found that cooperation leads to commitment. This ordering is somewhat substantiated by Skinner, Gassenheimer, and Kelley (1992) where cooperation led to satisfaction and by Macneil (1978) who indicated that cooperation enhanced solidarity in channel relationships.

The attitudinal measure, commitment, was found in our study to affect the ultimate measure of a business—performance. This finding is especially significant because the linkage has been subjected to only limited empirical research (Heide and Stump 1995; Kumar, Hibbard, and Stern 1994). Finally, performance was found to significantly impact market orientation, completing the iterative cycle. This study found that a high level of performance directly increases the level of market orientation the firm pursues.

The model examined in this study also included secondary variables that may strengthen the association of the primary variables examined. Communication and shared values were found to have a significant effect on trust in the channel dyadic relationship in our study, lending support to previous findings (Morgan and Hunt 1994). Our analyses also substantiated prior findings that shared values (Morgan and Hunt 1994) and relationship termination costs (Anderson and Weitz 1992; Morgan and Hunt 1994) have a significant impact on commitment to the channel relationship.

Our findings indicate that the explicit communication of relationship benefits is not necessary to elicit cooperation in the channel. Additionally, relationship duration is less influential in determining commitment than expected. As Ganesan (1994) noted, long-term orientation (or a belief that the exchange relationship will continue into the future) is apparently a better indicator of closeness in relationship than length of the relationship.

### Managerial Implications

Recent studies have detailed two prominent trends in channel relationships. One trend indicates a deterioration of channel relationships as global competition has encouraged manufacturers to utilize dual channels of distribution and reduce investments in their traditional channels while requiring greater channel investments (and thus risk) on the part of distributors (Arthur Anderson & Co. 1995; Frazier and Antia 1995). On the other hand, there appears to be a trend toward developing strong relational exchanges to offset competitive thrusts and augment long-term stability (Nevin 1995; Weitz and Jap 1995). This study examines the utilization of market orientation as a strategic means of ensuring strong channel ties to enhance organizational performance and counter environmental threats. Strong channel alliances "can lead to a competitive positional advantage by enabling the alliance partners to perform various value chain activities at a lower cost and/or in a way that leads to differentiation" (Varadarajan and Cunningham 1995, p. 292). Further, Fites (1996, p. 86) notes that "the global winners over the next 10 to 20 years are going to be the companies with the best distribution organizations that also provide superb customer support.

Market-oriented suppliers and distributors have associations equivalent to corporate alliances, which should provide a competitive advantage capable of thwarting environmental threats to either organization. Strong strategic partnerships between manufacturers and their distributors merge the goals of each firm, allowing for rapid channel adjustments to meet the challenges of global competition and changing domestic markets (Siguaw and Honeycutt 1993). The merged goal of market-oriented channel members is the satisfaction of customer needs. This focus on customers needs has been highly touted as the dominant contributing factor in the successful turnaround of Caterpillar (Fites 1996); furthermore, Arthur Anderson & Co. (1995) has advocated adoption of a market orientation for the wholesaling industry. Our study highlights the importance and benefits of both parties in the channel dyad seeking to fulfill customer needs. A mutually held market orientation allows channel members to better serve shifting market needs within the context of strategic partners pursuing the same goals. Conversely, firms failing to establish alliances maintain adversarial relationships (Spekman 1988), which continue to promote the individual interests of each firm (Bucklin 1966; El-Ansary 1975).

Fites (1996) notes that the factor that really makes the relationship work is not contractual agreements or techniques, but mutual trust. To create trusting channel relationships, firms should adopt market-oriented behaviors. Our research clearly indicates that market orientation has a positive and significant effect on the level of trust in the dyadic relationship, and, thereby, indirectly influences cooperation and commitment. Market-oriented behaviors serve as a means of initializing feelings of trust in the early stages of the relationship and as a method of maintaining high levels of trust in the latter stages of the association. The impact of market orientation on trust is especially important given that trust and commitment have been identified as key mediating variables in the relationship marketing process (Morgan and Hunt 1994), and because "[p]ractitioners are 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). Consequently, the practice of market-oriented behaviors is a critical means of building and reinforcing trust in the channel relationship to keep channels intact and to reduce channel tensions.

Market orientation also has a positive direct and indirect effect on channel performance. Since better performance is the ultimate goal of business, a strong market orientation would appear a critical element for all firms. Firms wanting to adopt a market orientation, and have this orientation acknowledged by other channel members, must actively and publicly acquire and utilize information in day-to-day operations to achieve long-term customer satisfaction through superior organizational performance. In other words, the firms must continuously be seen by other channel members to collect/generate information, and overtly react based on that information. However, a note of caution regarding the adoption of a market orientation is warranted. The activities and behaviors associated with a market orientation necessitates the commitment of resources (Kohli and Jaworski 1990); therefore, a firm should ascertain that the benefits of better channel relationships and the corresponding increase in performance will more than offset the costs related to market-oriented actions. Based upon this information, practitioners may elect to position their companies at varying degrees along the market-orientation continuum; thus, some firms may choose to adopt only a limited set of market-oriented behaviors, where the marginal cost of market orientation equals the marginal revenue generated from enhanced channel performance.

Our study indicated that trust has a significant effect on cooperation. This finding suggests that channel members must be cooperative with one another in the relationship before channel members are willing to commit to the relationship. After all, commitment to a relationship occurs when two channel members are determined to maintain an enduring and stable relationship with one another (Moorman, Zaltman, and Deshpandé, 1992; Morgan and Hunt 1994), with both parties willing to take risks in the relationship (Gundlach and Murphy 1993), and to make short-term sacrifices to sustain the relationship, if necessary (Dwyer, Schurr, and Oh 1987). Anderson and Weitz (1992) emphasize the importance of stability for commitment and a virtual pledge for continuity in the relationship. Channel relationships may encounter problems periodically, such as missed deadlines for delivery, but the intent of the parties is to sustain the relationship over the long term. This desire for a sustained and enduring relationship would be dubious if the channel members are uncooperative.

Our findings also indicate that members who are committed to maintaining their channel relationship will outperform other channel structures whose members lack a basic foundation of commitment. This study also found that increased performance directly increases the level of market orientation the firm pursues. As organizations recognize the benefits directly and indirectly derived from a market orientation, they may escalate market-oriented actions to yield even greater rewards in terms of strengthened channel bonds and financial gains.

These findings indicate that companies should strive to increase communication and associate with channel members who have similar values to increase trust and commitment in the dyadic relationship. Relationship termination costs significantly affected commitment, which may suggest that commitment to the relationship may be solidified by channel members investing heavily in each other's business. Both suppliers and distributors may be well served to require idiosyncratic investments that would make it difficult to terminate the relationship (Williamson 1983).

### Limitations of the Study and Suggestions for Future Research

While the findings from this study are significant to channel relationship research, they are based on cross-sectional data that do not fully capture the dynamics of change and connectedness between the parties in the relationship. Future research efforts should focus on long-term characteristics and effects of channel relationship; as Kohli and Jaworski (1990, p. 16) note "[a] change in orientation takes place slowly." Indeed, Lichtenthal and Wilson (1992, p. 205) identify some of the 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." Kohli and Jaworski (1990) found that firms seeking a greater market orientation planned to complete the process over a period of four years. Data collected over this four-year period would provide valuable insight into the effects of various levels of market-oriented behaviors.

Future research should also investigate the appropriate method to be used to calculate true "dyadic" scores from respondents in different organizations. This study utilized the aggregation approach suggested by Kumar, Hibbard, and Stern (1994).

However, others have noted limitations in this method as well as in the latent-trait approach that was proposed but rejected by Kumar, Hibbard, and Stern (1994). As pointed out by Weitz and Jap (1995), the problems associated with how to combine scores from two organizations into a true "dyadic" score has the potential to severely "impede empirical research on channel relationships" (p. 317). Perhaps the long stream of research that has been conducted relative to the use of multiple informants within an organization can be utilized to develop an appropriate methodology for the combination of information from informants in different organizations.

Future research should more carefully examine the market-orientation construct and measures of the construct. First, possible antecedents of market orientation, such as organizational culture and values, and outcome measures other than those specified in this research should be examined. Second, a measure of actual or true market orientation in a relationship should be refined. Although the MARKOR scale measures self-reported market orientation, in a dyadic relationship the self-perceived level of market orientation of one dyad member may not necessarily agree with perceptions of the other dyad member. For the purposes of this study, we measured market orientation using the MARKOR scale (Jaworski and Kohli 1993) and adjusted the results by the Customer Orientation scale (Deshpandé, Farley, and Webster 1993) in an effort to measure "true" market orientation. A less cumbersome scale would allow each channel member to periodically measure its level of market orientation as perceived by the other party and make adjustments as needed. As each party defines the suitable level of market orientation within the dyad, the degree of trust, cooperation, commitment, and performance will rise or fall in a corresponding fashion.

Finally, as previously noted, the responses of the supplier and distributor groups were significantly different on most constructs of interest to this study. The effects of these different perceptions on channel performance should be investigated. Further, studies that seek to determine the steps necessary for altering the perceptions of channel partners would be invaluable to practitioners seeking to enhance channel relationships. For example, what specific requirements are essential for generating equivalent levels of commitment or trust for both parties in the dyad? Similarly, what levels and modes of communication are necessary to create the perception that the supplier provides more than adequate information? As our model indicates, increasing perceived levels of these key constructs will only serve to heighten performance.

# Appendix A. Scale Development and Properties

There are potential methodological problems associated with using data collected from two firms involved in a dyadic relationship (Weitz and Jap 1995). Primarily, the problem lies in how one goes about using both scores to represent the "dyadic score." This problem is similar to the issues associated with combining scores collected from multiple informants within the same organization. According to Kumar, Hibbard, and Stern (1994), there are primarily two methods that can be utilized to combine these scores — the "aggregation" approach and the "latent trait" approach. The aggregation approach pools the responses from each respondent and creates a dyadic score by averaging their responses to each construct. The latent trait approach treats the two responses as indicators of a latent construct that can be modeled using structural equation techniques. Based on arguments presented by Kumar, Hibbard, and Stern (1994), as well as the use of this approach in other studies (Anderson and Weitz 1992; Kaufman and Stern 1988), we chose to use the "aggregation" approach. As pointed out by Kumar, Hibbard, and Stern (1994), this approach reduces random error but not necessarily systematic error. However, if one assumes, as have others (Anderson 1987; Anderson and Narus 1990; Marsh and Bailey 1991), that informant bias factors are uncorrelated, then systematic error may be less as well. Accordingly, all measures were determined by averaging the responses to each item in a particular scale.

The model presented in Figure 1 proposes that there are five primary constructs and five mediating constructs. The measurement of each of these will be discussed in turn in the subsequent paragraphs. With the exception of one of the market orientation scales and the relationship termination costs scale, all scales exhibited unidimensionality evidenced by the following criteria: (1) high item intercorrelations, (2) high item-total correlations, and (3) a factor analysis that indicated the presence of a single factor with all factor loadings greater than .4 and having the theoretically correct sign. Internal consistency was assessed by calculating the Cronbach alpha and comparing the results to the widely accepted criteria established by Nunnally (1978).

*Market Orientation (DYADMO).* As discussed previously, this study conceptualizes dyadic market orientation to be composed of the actual market orientation exhibited by the suppliers and distributors as well as the perceptions each has of the other party's level of market orientation. The actual market orientation was measured using the MARKOR scale first reported by Jaworski and Kohli (1993). Perceptions of the other party's market orientation was measured using the Customer Orientation scale developed by Deshpandé, Farley, and Webster (1993).

Jaworski and Kohli (1993) presented a comprehensive study designed to validate the MARKOR scale. They proposed 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. After initially developing a 32-item scale, their subsequent analysis resulted in a 20-item scale in which the intelligence-dissemination and responsiveness components were collapsed into a single factor. This 20-item scale was utilized in the current analysis.

Our initial analysis of the inter-item and item-total correlations indicated that 3 of the 20 items did not exhibit a high degree of correlation with the other items. The item-total correlations for the three items were .31, .39, and .29. In addition, the average correlations of the three items with the other items in the scale were .18, .21, and .17, respectively. Based on this evidence, these three items were deleted from the scale. An exploratory factor analysis of the remaining 17 items indicated a three-factor solution. However, loadings for the first factor were quite high (between .68 and .44) and a scree test of the eigenvalues indicated a break between the first and second factor with the first eigenvalue being more than twice as large as the second (5.26 vs. 2.12). Based on this analysis and consistent with Jaworski and Kohli (1993), the 17 items were utilized as a unidimensional scale. The Cronbach alpha value of .86 indicated a high degree of internal consistency.

The scale developed by Deshpandé, Farley, and Webster (1993) was used to measure one party's perceptions of the extent to which the other party exhibited market-oriented behaviors. The scale also had a high degree of internal consistency as indicated by the Cronbach alpha level of .86.

For each respondent, the average score for the MARKOR scale was added to the average score for the customer-orientation scale to develop the score for the market orientation of the dyad. Accordingly, higher scores indicate higher levels of dyadic market orientation.

*Trust (DYADTRST).* Trust was measured using an 18-item scale first presented by Ganesan (1994). In addition to being unidimensional, the scale exhibited a Cronbach alpha level of .95, which indicates a high degree of internal consistency.

*Cooperation (DYADCOOP).* Cooperation was assessed 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/inaccurately describe their experience with the specified trading partner. The Cronbach alpha for the scale was a very acceptable .83.

*Commitment (DYADCOMT).* A seven-item scale developed by Morgan and Hunt (1994) was used to measure commitment. The Cronbach alpha level of .90 indicates a high degree of internal consistency.

*Performance (DYADPERF).* Two different types of performance data were collected. First, respondents were asked to provide a number of actual "objective" financial measures (e.g., annual dollar sales volume, change in market share, change in sales, return on assets). While it would appear that objective financial measures are the preferred way to measure organizational performance, a number of studies have questioned the use of these measures (Govindarajan 1988; Naman and Slevin 1993; Sandberg and Hofer 1987; Sapienza, Smith, and Gannon 1988). Essentially these researchers argue that oftentimes respondents are unwilling to provide "objective" performance data; if they do it, it may not be representative of true organizational performance or may not be consistent with data provided by other firms. Accordingly, a measure developed by Naman and Slevin (1993) was also utilized to evaluate organizational performance. The measure called for respondents to indicate their degree of satisfaction with seven items (e.g., cash flow, gross profit margin, return on investment) using a response scale anchored by Strongly Dissatisfied (1) and Strongly Satisfied (7). Naman and Slevin (1993) argue that in addition to overcoming the problems mentioned above, this scale provides the ability (1) to measure the true multi-dimensional nature of organizational performance rather than relying on single measures and (2) allows the assessment of inter-method reliability. The reliability of the scale was assessed by calculating the Cronbach alpha, which was a very high .92. Only the subjective measure was utilized in the subsequent analysis because the large number of returned questionnaires with missing objective financial data prohibited the effective use of this information.

*Communication (DYADCOMM).* This construct was measured using a six-item scale developed by Anderson and Weitz (1992). In addition to meeting the previously mentioned tests for unidimensionality, the scale had a Cronbach alpha level of .82.

*Relationship Benefits (DYADBENF).* The relationship benefits variable was adapted from a measure presented by Anderson and Weitz (1992) and was designed to provide an assessment of the types of non-financial benefits accruing to both firms involved in a dyadic relationship. In addition to being unidimensional based on the criteria presented earlier, the measure, which consists of five items, had an associated Cronbach alpha level of .75.

*Relationship Termination Costs (DYADCOST).* The construct known as relationship termination costs was measured using a 12-item scale adapted from Anderson and Weitz (1992). The inter-item correlations for the scale items were all highly significant and in the appropriate direction (i.e., positive). The item-total correlations were also high and there was no appreciable increase in reliability based on the deletion of any single item. However, the factor analysis indicated a three-factor solution. Closer inspection indicated that while three factors were extracted, the loadings on the first factor were all high (.67 to .40) and in the theoretically correct direction. In addition, a scree test indicated a significant break between the first and second eigenvalue (5.30 vs. 1.31). Finally, there were only three cross-loadings that exceeded .4: two on the second factor and one on the third factor. Given this evidence, and the fact that the scale was designed by Anderson and Weitz (1992) to be unidimensional, it was decided to use all the items in the scale. The Cronbach alpha level of .88 indicated a high degree of internal consistency.

*Shared Values (DYADVALU).* A five-item scale first presented by Hunt, Wood, and Chonko (1989) was used to measure shared values. Both suppliers and distributors were asked to respond to each of the five items based on the degree to which they agreed/disagreed with the statement as it pertained to their own firm. In addition, the suppliers and distributors responded to the five items based on how they (the responding firm) believed the other party in the dyadic relationship would agree/disagree with the statements concerning their own firm (the responding firm).

Thus, each item resulted in two scores — one indicating the degree to which the statement reflected the perceptions of the responding firm and one indicating the extent to which the responding firm felt the other firm in the dyadic relationship would agree or disagree with the statement concerning the responding firm.

The score for the scale was created by first calculating the absolute value of the difference between the two scores. Since this resulted in lower scores indicating a higher degree of agreement, the "difference" scores were reversed so that higher values represented a situation in which the responding firm felt that there were no differences between its values and those of the other firm involved in the dyadic relationship. The difficulty in assessing the psychometric properties of scales based on difference scores has been discussed by Iacobucci, Grayson, and Ostrom (1994), who provide their discussion relative to the SERVQUAL scale (Zeithaml, Parasuraman, and Berry (1990). As Iacobucci, Grayson, and Ostrom point out, difference score based constructs have been proven in some cases to be unreliable even if the component scales are quite reliable. However, in addition to assessing service quality, difference scores have a long history of use in the organizational theory literature. Accordingly, it was decided to utilize the scale in this research.

*Relationship Duration (DYADDUR).* This construct was measured by a single item that simply asked each respondent to indicate the length of time the business relationship had endured between the two firms.

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