

DOCTOR OF BUSINESS ADMINISTRATION

(China Cohort)

Seeking for the Win-Win:

The critical factors that affect the effectiveness of channel incentive programs in
China's business-to-business market

Document One

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Introduction

Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel (also called a trade channel or distribution channel) (Kotler & Keller, 2006: 432). The effectiveness and efficiency of distribution channel is one of the critical factors for company success. The distribution channel can also be built as the competitive advantage of the manufactures (Kotler & Armstrong, 2001: 429). Distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioural systems in which people and companies interact to accomplish individual, company, and channel goals (Kotler & Armstrong, 2001: 435). Therefore, producers need to motivate channel members to achieve optimum performance and manage their behaviours. *Channel Incentive Programs* (CIP) are most frequently used instruments to achieve these goals (Gilliland, 2001; Qin, 2006). However, based on the author's experiences, the producers sometimes neglect some important factors that affect the effectiveness of the programs in a dynamic business environment. Thus, the results are different from what the producers and/or channel members expected.

Many studies and theories (Kotler & Keller, 2006: 447, Kotler & Armstrong, 2001:449, Rosenbloom 1999: 186, Rolnicki 1998: 168; Gilliland, 2001; Qin, 2006; etc.) have pointed out CIP is not only a method of compensation to the channel members but a set of management processes to guide their behaviours. Gilliland (2001) argued that channel research has tended to focus on the dyadic nature of the incentive arrangement, where it is unique to one supplier's relationship with one particular reseller. Therefore, an alternative view is to consider CIP as one of the interactive factors in the ecological business environment. The author tends to believe that CIP is a set of multilateral complicated business processes, which involve economical and social factors.

The proposed study will identify the critical factors that affect the effectiveness of CIP.

With the knowledge, producers can improve CIP's design and implementation to reach win-win situation with channel members in the long-term. The proposed study will also benefit other marketing researchers. By given limited time and resource, the author will focus on *business-to-business* (B-to-B) market, which includes government and enterprise customers, in the *People's Republic of China* (China). The author will conduct most part of the research in Motorola's *Government and Enterprise Mobility Business Unit* (EMB). EMB provides professional two-way radio and mobile computing products to government and enterprise customers. Most of the products are distributed through about 500 channel members. They are distributors, resellers, retailers (POS), solution partners, system integrators, global alliances, etc. It covers different kinds of B-to-B channels and different kinds of channel structures, from one-step to multiple steps. Thus, Motorola EMB provides a good marketing channel sample for the proposed study.

In the following sections, firstly, the author will further explain the reason why the subject is important to the channel distribution business; define the objective of the overall research and identify specific research questions. Secondly, the findings of the preliminary literature review and a hypothetical framework are also set out. Thirdly, the rationale behind the proposed methodologies is explained and the methodologies are mapped. Fourthly, the proposal for document 3, 4 and 5 are outlined. Finally, the possible ethical and political issues are listed with the outcomes of the proposed study in the last section.

There are not definitive and it is expected that some modifications may occur prior to submission of each document.

1. Subject and Objectives

Why study the critical factors that affect the effectiveness of CIP in China B-to-B market?

Distribution channel is important. Most of producers use intermediaries to bring their products to market. They try to forge a distribution channel – a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user (Kotler & Armstrong, 2001:432). As Donald Fites, the former CEO of Caterpillar, described, “After the product leaves our door, the dealers take over. They are the ones on the frontline. They’re the ones who live with the product for its lifetime. They’re the ones customer see. Although we offer financing and insurance, they arrange those deals for customers. They’re out there making sure that when a machine is delivered, it’s in the condition it’s suppose to be in. They’re out there training a customer’s operators. They service a product frequently throughout its life, carefully monitoring a machine’s health and scheduling repairs to prevent costly downtime. The customer... knows that there is a \$20-billion-plus company called Caterpillar. But the dealers create the image of a company doesn’t just stand behind its product but with its products, anywhere in the world.” (Kotler & Armstrong, 2001: 429) The effectiveness and efficiency of distribution channel is one of the critical success factors to the company success. Some manufacturers, like Caterpillar, are leveraging the distribution channel as their competitive advantage over other manufacturers. (Rosenbloom 1999: 177) Many studies have proven that the channel advantage also applies to the companies operating in China market, in addition, with cultural and economical uniqueness (Yi & Jaffe, 2006; Qin, 2006).

The distribution channel functions are also changing with the business and the market. Philip Kotler pointed out in his latest edition book – *Marketing Management*, “Too many U.S. manufacturers think their job is done once the product leaves the

factory. They should make a whole-channel view of the problem of distributing products to final users (Kotler & Keller, 2006: 633)." After about ten years "golden age" to NMCs, China market became one of the most competitive markets in the world since late 1990's. In a hypercompetitive economy with increasingly rational buyers faced with abundant choices, a company can win only by fine-tuning the value delivery process and choosing, providing and communicating superior value (Kotler and Keller 2006:34). More than the product and service fulfillment functions, the distribution channel is participating in almost every stage of value creation and delivery in China. As Yi & Jaffe (2006) argued, it is expected that channels become more productive as measured by average sales per establishment (wholesale and retail) as economic development progresses. Therefore, a producer needs to consider more and more factors when they design, develop, and implement the channel incentive programs.

Distribution channel is an eco-system with balanced different powers and forces. As Kotler and Armstrong pointed out, distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioural systems in which people and companies interact to accomplish individual, company, and channel goals. A distribution channel consists of independent business performing different functions based on their value and strength. Ideally, because of the success of individual channel members depends on overall channel success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their goals and activities, and cooperate to attain overall channel goals. By cooperating, they can more effectively serve and satisfy the target market. However, individual channel members rarely take such a broad view. They are usually more concerned with their own short-run goals and their dealing with those firms closest to them in the channel (Kotler & Armstrong, 2001: 435). In the business market, companies selling business goods and services often face well-trained and well-informed professional buyers who are skilled in evaluating competitive offerings (Kotler & Keller, 2006: 11). As described in Caterpillar case, the channel members

establish and manage the client relationship excessively. Therefore, once the distribution channel established, the producer cannot change the channel structure and channel members frequently and dramatically. Channel incentive programs are the most frequently used instruments by the producers to manage the conflict and motivate the channel members to top performance (Gilliland, 2001). As an interactive proceeding process, incentive program design, development and implementation must consider mutual benefits of multiple parties and sustainability.

Kotler and Keller pointed out (2006: 447), being able to stimulate channel members to top performance, a company needs to determine channel members' needs and construct a channel positioning so that its channel offering is tailored to provide superior value for them. Channel members' needs could be vastly different from one another. This job becomes more challenging to a global marketer considering the legislation and culture implications. What are those factors affecting the effectiveness of channel incentive programs most significantly in China B-to-B market? Much researches has been conducted in recent the years (Gilliland, 2001; Yi & Jaffe, 2006; Qin, 2006; Zhuang *et al*, 2007), however, the author didn't find a holistic report in area of CIP effectiveness analysis.

In summary, producers design, develop and implement channel incentive programs to manage and motivate the distribution channel member based on the understanding of their needs and the market environments. The traditional marketing theories in CIP, represented by Kotler and Rosenbloom, are more focused on customer value and channel partners' needs, but put less emphasis on other market environment factors, like competition, culture, communication, cooperation, etc. Producer might neglect some critical factors that affect the effectiveness of the programs. The program result could be quite different from what the producer expected. With better understanding of the critical factors to the success of the channel incentive programs, the producers and channel members can reach win-win situation in long-term.

Objective

The **primary objective** of this study is to identify the critical factors that affect the effectiveness of channel incentive programs in China B-to-B market. This study will provide a holistic framework for producers to build a decision process for channel incentive programs. It will also help the channel members understand the key factors that producers may consider. The author believes that an effective channel incentive program must reflect in balance of these critical factors to achieve win-win solution.

Research questions

The author developed research questions as follow,

- Why channel incentive program is important in B-to-B market?
- What are the criteria that the producers use to measure the effectiveness of channel incentive programs?
- What are the issues limiting the effectiveness of channel incentive programs?
- What are the factors that affect the effectiveness of channel incentive program most in producers' and channel member's views? Do they think differently or not, and why?
- How can we evaluate those factors to identify the most critical ones?
- What are the interactions among critical factors in the dynamic business and different culture environment? Can we build a framework?
- How can the producers leverage the findings of proposed study to improve channel incentive program effectiveness?

Channel Incentive Programs Effectiveness

According to marketing textbooks, channel incentive program is one of the tactics used by manufacturers to maximize overall channel performance and influence channel members' behaviours. (Kotler & Keller, 2006: 447, Kotler & Armstrong, 2001:449, Rosenbloom 1999: 186, Rolnicki 1998: 168) They highlighted that

producer's objectives and channel members' needs are two most critical factors to the success of channel incentive programs in general. They also articulated that to effectively leverage channel incentive programs can be quite challenging due to the complexity of channel system. (Rosenbloom 1999: 306, Rolnicki 1998: 24) Kotler and Armstrong (2001: 435) argued that the distribution channels are complex behaviour systems. However, those books provide neither a holistic view of the factors that influence the effectiveness of channel incentive programs nor the way of evaluating the effectiveness of the channel incentive programs. Interestingly, the books did provide many suggestions on how to motivate the channel members effectively based on their observation of common used tactics and programs (Rolnicki 1998: 171, Rosenbloom 1999: 187). Gilliland (2001) pointed out that channel research has tended to focus on the dyadic nature of the incentive arrangement, where it is unique to one supplier's relationship with one particular reseller. An alternative view is to consider as part of a supplier's standard operating management with its resellers, where a standard package of incentives is made available to almost all channel members. From this perspective, the incentive contract is important because most suppliers have dozens, if not hundreds or thousands, of geographically dispersed intermediaries. Thus, how to evaluate the effectiveness of channel incentive programs is worthy of investigation.

2. Preliminary Literature Review

As Fisher (2007: 122) articulated, defining the concepts and creating a conceptual framework is means of simplifying the research task. These two processes help the searcher clear away all the issues and materials that are not germane to the topic and research question and they also provide a ‘map’ of the field of study. Considering the complexity of channel incentive programs (Gilliland, 2001), the author chooses the structure approach rather than grounded approach (Fisher, 2007: 123) to guide this study. It might bring in some risks that limit the study in a preliminary hypothesis. However, the author will keep the flexibility of changing the preliminary hypothesis and conceptual framework along with the progress of the study.

Conceptual Framework

One hypothesis is there are a number of critical factors that affect the effectiveness of channel incentive programs in business-to-business markets. Another hypothesis is that some factors are relatively culture independent and some are more culture sensitive. The producers need to balance the critical factors to make channel incentive programs more effectively based on different producers’ objectives and channel members’ needs.

By reference Porter’s (1980: 4) five forces driving industry competition, the author describe the channel members’ business environment in figure 1.

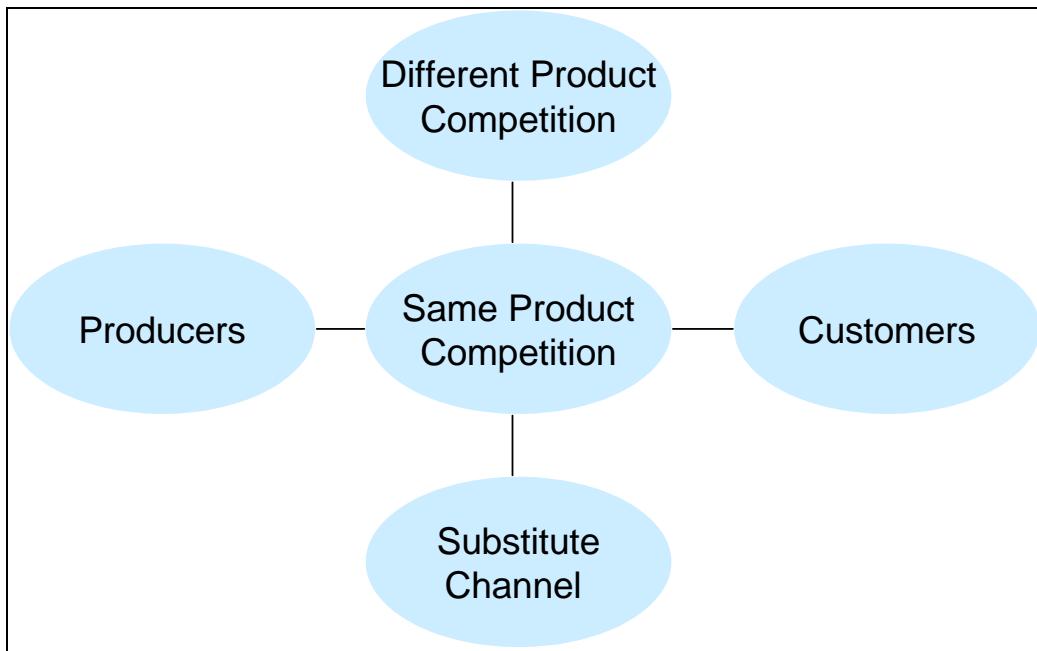


Figure 1 - Competitive Environment of Channel Members

Based on the hypothesis described above and experiences, the author tentatively maps the critical factors in the following hypothetical framework.

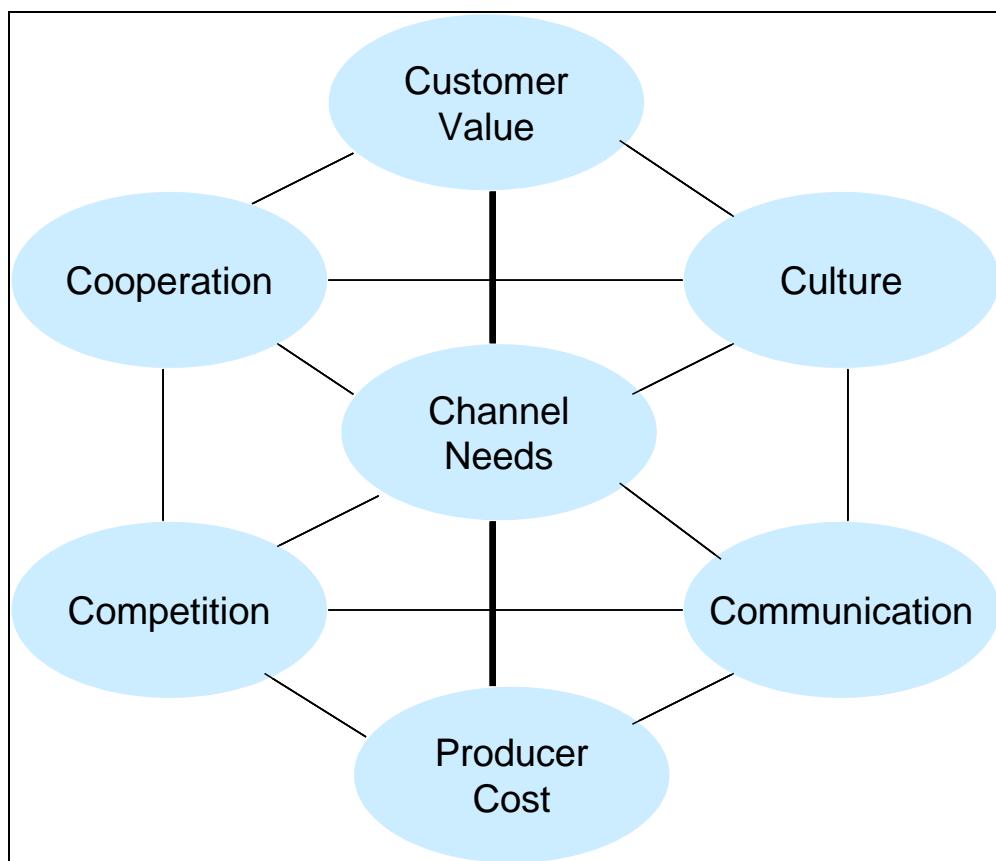


Figure 2 – a hypothetical framework

Theories and Concepts

There are many theories considered as the corner stones of the proposed study. Within limited time, the author explored the marketing theories (Kotler & Keller, 2006; Kotler & Armstrong, 2001) and marketing channels theories (Rosenbloom, 1999; Rolnicki 1998). There are more theories to be explored during the literature review, for examples, transaction cost theory (Williamson and Masten, 1999), sense making theory in organizations (Weick, 1995) behavioural game theory (Camerer, 2003), etc. More researches can be also helpful to the proposed study, for an instance, culture diversity in global business (Trompenaars and Hampden-Turner, 1998). The author noticed that, in recent years, there are many research studies of marketing channels had been done in China. (Yi and Jaffe, 2006; Qin, 2006; Zhuang, *et al*, 2007; Xiao and Guo, 2004; etc.) Those researches covered wide ranges from channel structure evaluation, channel motivation to channel conflict management. It is important to pay more attention on those literatures during the literature review. By leveraging the structured approach, the author defines the following concepts leading to further literature review.

Channel incentive: Objectives and Types

Channel incentive programs can be more complicated than most of people recognized. By leveraging grounded methodology, Gilliland (2001) studied 170 unique channel incentives used in 59 high technology suppliers' channel programs in B-to-B market. He built a channel incentives classification scheme. The incentives are organized into five major categories: credible channel policies, market development support, supplemental contact, high-powered incentives, and end-user encouragements. He also identified 16 subcategories linked with different desirable channel members' behaviors. Qin (2006) did similar reach in China, but from distributors' standpoints. She identified seven kinds of supports that producers provided to the distribution channels. Obviously, better understanding of the objectives and types builds the

essential ground of the proposed study.

Customer Value and Producer Costs: Marketing Theories

Nowadays, more and more people agree that the value delivery is the ultimate goal of any marketing activities. The author tends to believe that the measurements of channel incentive programs is to maximize the value to both end customers and channel members at the lowest producer's cost. Kotler and Keller (2006: 15) articulated that business shifted from a product-centric, "make-and-sell" philosophy, to a customer centric, "sense-and-respond" philosophy since mid-1950s. The company wants to be more effective than their competitors in creating, delivering, and communicating superior customer value to its chosen target markets. In the past decades, enabled by the new technologies, some companies reach beyond traditional marketing by introduce holistic marketing concept. The holistic marketing concept is based on the development, design and implementation of marketing programs, and activities that recognize their breadth and interdependencies. For components of holistic marketing are relationship marketing, integrated marketing, integrated marketing, internal marketing and social responsibility marketing. (Kotler & Keller, 2006: 17) As part of the value network (Kotler & Keller, 2006: 435), distribution channel is to convert potential buyers into profitable orders. Not only serve the markets, they must also make markets. Moreover, the distribution channel functions are more than selling and delivering product and service to the buyer or users. They contribute to every process in "value creation and delivery sequence (Kotler & Keller, 2006: 34)". The producer needs to balance "push and pull strategies" (Kotler & Keller, 2006: 432).

Channel Needs and Wants: Motivation Theory

The values to the channel members must address their needs and wants, which the motivation coming from. According to Maslow (1943), human behaviours are driven by different motivations; and the motivations can be classified based on the objectives that human wants to achieve. This theory also applies to analysis the motivations of channel members. Setting up and maintaining superior marketing channels for making

products and services available to customers usually involves a relatively long-term period to plan and implement. (Rosenbloom, 1999: 5). It is challenging to gain channel members' long-term commitment and motivate them consistently since they tend to think relative about short-term benefit (Shipley, *et al.*, 1984). Shipley *et al.* further cited the study made by Hofstede (1978) who found that individual channel members in different countries are motivated by different things. Many studies have been done in regards to channel motivation and satisfaction. (Shipley, *et al.* 1984; Kim, 1998; Wang, *et al.* 2007; Qin, 2006; etc.)

Competition and Cooperation: Behavioural Game Theory

Distribution channel members are living in a complicated dynamic competition environment as described in figure 1. One of the most controversial ones is the competition among channel members of same producer, normally called "channel conflicts". As Kotler & Armstrong (2001: 436) pointed out, some conflicts in the channel take the form of healthy competition. Such competition can be good for the channel – without it, the channel could become passive and non-innovative. Sometimes conflict can damage the channel. For the channel as a whole to perform well, each channel member's role must be specified and channel conflict must be managed. Cooperation, role assignment, and conflict management in the channel are attained through strong channel leadership of producer. Obviously, the producers encourage the competitions which increase sales revenue and total margin; but they discourage the competition among channel members potentially harmful to the revenue and margin gain. However, in most of the situations, end customers think oppositely. Normally, customers encourage the competition at any level in any form to lower the cost.

In traditional marketing theory, channel incentive programs are tactic based on the assumption of information parity and fully rationalized decision. In the authors' view, the channel behaviours are not fully rational in most of the time. That makes behavioural gaming theory (Camerer, 2003) more relevant when we try to discover the factors that affect the effectiveness of channel incentive programs.

Culture and Communication: Culture Diversity and Sensemaking Theory

Trompenaars and Hampden-turner wrote a book in 1998 about culture differences and how they affect the process of doing business and managing. They declared that,

“We cannot understand why individuals and organizations act as they do without considering the **meanings** they attribute to their environment. One culture may be inspired by the very thing that depresses another.” (p. 19)

Obviously, culture affects CIP effectiveness in many ways. For instance, the impact of interpersonal Guanxi to marketing channel behaviors has been studied in a research. Guanxi is a typical Chinese unique concept that involves rich explicit and implicit meanings. The research found that the Guanxi between the boundary individuals of firms did have significant and direct influence on the firms behaviors toward each other in channel dyads. (Zhuang, *et al*, 2007) Trompenaars and Hampden-turner (1998: 6) cited Schein's (1985) argument about where culture comes from: culture is the way in which a group of people solves problems and reconciles dilemmas.

As Trompenaars and Hampden-turner (1998: 1) declared that people can never understand other cultures and even it is impossible ever completely to understand people of their own culture. Therefore, the *Sensemaking* theory (Weick, 1995) might be helpful to explain the behaviours of channel members. Based on past experiences, the channel members build their “frame of reference”. Channel incentive programs as the stimulus are launched into the framework. Channel members go through the process of perceiving, interpreting, believing and acting process to make sure their behaviours make sense by all means. Another important research studies hysteresis phenomena in marketing. Zhuang *et al* published their study in 2001. It provides an alternative view on channel loyalty and reluctance to change.

Summary

Obviously, these factors are co-related and affected each other. Those factors reflect the nature of channel business. Based on the preliminary review above, the author identified, but not limited to, the major areas that will be studied in further critical

literature review. Those are channel incentive, customer value, producer cost, channel needs, competition, cooperation, culture, communication, etc.

3. Methodology

Rationale behind Methodology

Fisher (2007: 40) pointed out that methodology raises all sorts of philosophical questions about what it is possible for researchers to know and how valid their claims to knowledge might be. Therefore, as a new researcher, the author tried to understand the differences between methodology and method and different kinds of methodologies and methods. Based on the understandings, the author tentatively selects a basket of methodologies and methods to work on this proposed study.

A methodology shows how research questions are articulated with questions asked in the field (Clough and Nutbrown, 2002: 29). The author tends to apply interpretive approach as main methodology, and use realist approach and action research at different stages of the proposed study.

Interpretive Approach

The interpretive approach will deliver the qualitative research in the proposed study. As Fisher (2007: 47) argued that the interpretive researcher see the link between understanding and action as mediated through people's thinking, values and relationships with each other. The author believes the link between channel members' action and incentive program is indirect. That means there are other factors affect the effectiveness of channel incentive programs; and the channel members are not always clear the options for action. The complexity of channel incentive programs (Gilliland, 2001) can also support the selection of interpretive approach.

Interpretive researchers often take a processual perspective (Fisher, 2007: 49). From the processual viewpoint, the world is seen as an ambiguous place that people have to struggle to make sense of (Watson, 1994: Ch. 1). Fisher continuously declared that process are 'complex and dynamic' rather than linear and sequential. As described before, the channel business environment is complicated with dynamic competitions. Neither the producer nor the channel members are able to predict the effectiveness of a channel incentive program precisely. The factors affect the effectiveness are

dialogic. Fisher (2007: 50) points out that a complex understanding of a subject can only be achieved through close involvement with the subject of research. The author has opportunities to participate in the design, development, implementation and evaluation of the channel programs. The author considered *grounded approach*. Grounded theory methodologies inductively derive frameworks by directly studying the phenomenon of interest as Gilliland (2001) cited the theory published by Glaser & Strauss (1967) and Strauss & Corbin (1990). However, by given the time and resource limitation, structure approach seems to be more practical to achieve the objectives within reasonable time.

Realist Approach

The realist approach delivers the quantitative research in the proposed study. By comparing positivist and realist approach, the author chose realist approach. The realists tend to believe that the knowledge we acquire can give good indications of what should be done (Fisher 2007: 42). This character will contributes to solid down the criteria and major issues in measurement of the effectiveness. Realist research looks for associations between variables, and where possible tries to establish chain of cause and effect (Fisher, 2007: 42). This stance will help the author analyze the impact of critical factors to the effectiveness more precisely. Typically, realist researcher would involve structuring a problem by breaking it into its constituent parts. The relationship between these parts would then be studied, looking for recurrent patterns and associations (Fisher, 2007: 42). The hypotheses of the interactions of the critical factors will be tested by this approach. The *empirical analysis* will be tentatively considered as preferable approach since it is widely used by other marketing channel researchers (Gilliland, 2000; Mehta *et al*, 2001; Palmatier, *et al*, 2006; Koza & Dant 2007; etc.)

Action Research

From an action research standpoint, action and understating become enmeshed together in a cycle of learning in which there is a constant movement between reflection and action. (Fisher, 2007: 53) In the last stage of proposed study, the author

will apply the findings in one or two real business cases to improve the effectiveness of channel incentive programs. By leveraging action research methodology, the practice might be improved. (Elliott, 1991 in Fisher 2007: 54)

4. Research Design and Document Outline

Research Design

If we understand the research strategies as different ways of conceptualizing how business and management should be studied (Bryman & Bell, 2007: XXIX), then a research design provides a framework for the collection and analysis data (Bryman & Bell, 2007: 40). The research strategy can be categorized into quantitative and qualitative (Bryman & Bell, 2007: 28) and described in different kinds of methodological stances (Fisher, 2007: 15, 40). According to Bryman and Bell (2007: 71), research design can also be classified into five categories. In this proposed study, the author tentatively selects *comparative design* in both *qualitative research* and *quantitative research*.

As described before, Motorola and Symbol were two independent companies in China B-to-B market before 2006. Even now, two different sets of channel incentive programs are using respectively. In each set, there are different kinds of programs serving different business objectives. Those programs are offered different channel members in different product lines. In proposed study, a group of selected channel incentive programs will be analyzed comparatively. With the comparison, the factors that affect the effectiveness of the programs will be identified qualitatively. Comparative analysis will also contribute in the quantitative research to define the interactions of those critical factors. Moreover, it will be applied to evaluate the effectiveness improvements in practice of the theory at the last stage of research.

According to most of books about business research method, the basic elements are similar – topic selection, literature review, concept and theory framework formulation, conducting the study with selected methods, completing the analysis, writing up the findings and drawing conclusions. It is important to point out that, in practice, research is not a sequential process although a basic logic to the process can be defined (Fisher 2007: 3). Therefore, the research design needs to be flexible to

change; and the research plan can support the different stages of project be pursued in parallel.

Document 2

An extensive **literature review** is a crucial part, which build the foundation of a research project (Bryman & Bell, 2007: 93; Fishier, 2007: 98). It allows the research project to build upon the existing literatures. Fisher (2007: 98) emphasized the importance of criticism that makes the dissertation more robust. Byman and Bell (2007: 95) declared that the literature review provides the basis on which to justify the research questions and build the research design. The author tentatively selects the structure approach to explore the qualitative study. It should be judicious to draft and develop a conceptual framework during the literature review according to Fisher's arguments (2007: 125).

General information on marketing channel will be included in the literature review but focus will be placed on channel motivation through incentive programs in China B-to-B market. The factors might affect the effectiveness of channel incentive programs will be explored. Those factors may include producers' objectives and costs, channel wants and needs, customer value delivery, channel cooperation, channel conflict and competition, communication and culture, etc.

The literature includes following sub-headings:

- The functions of channel incentive programs and the measurements of program effectiveness;
- The factors that affect the program effectiveness: issues and drives;
- Critical review and evaluating the contributions made in this study area;
- A conceptual framework: interactive factors affecting the effectiveness of channel programs in a dynamic business environment.

The literature review will also guide the proposed study in strengthening the research questions, designs and methods by learning from relevant literatures.

Document 3

It is a qualitative research by interpretative approach. A set of channel incentive programs will be selected from two different business units. Those programs represent different types of channel incentive programs (Gilliland, 2001). A series of **focus group** and **in-depth interviews** will be conducted to evaluate the effectiveness of those programs and identify the factors that affect the program effectiveness. Focus groups and in-depth interview will be conducted:

- From different business perspectives, e.g. producers (Motorola and Symbol), channel members (distributors, resellers, retailers, etc.) and customers (governments, large enterprises, small and medium companies, etc.);
- From different business roles and responsibilities, e.g. producer channel manager, producer marketing managers, producer large account sales persons, the owner of channel members, senior management of channel members, sales persons of channel members, etc.
- From different sub-groups, e.g. year of service, experiences, length of business relationships, loyalty to the producer, etc.

Participants will be selected from throughout the sales value chain. A draft of open-ended questions will be developed after the literature review.

Document 4

This document will focus on quantitative research by realism approach. The research will measure the impacts of the critical factors, which identified in *Document 2*, to the effectiveness of the incentive programs. A **questionnaire** will be designed and administered to a scale of channel members, in order to ascertain the views of a representative selection of the population, under study.

Considering the number of G&PS and EMB channel members (about 250 each), the about 300 sales peoples will be selected (about 150 each) by random. The margin of error will be managed within 95%. (Fisher, 2007: 190) The questionnaire will be designed in a **Likert scales** format. The author notices the advantage and

disadvantage of Likert scales highlighted by Fisher (2007: 197) and Bryman & Bell (2007: 249). **Cronbach's Alpha and SPSS** will be applied to check the reliability of statements and analyze the result.

The questionnaire will be further developed once the literature review is completed and finalized when the results of the focus groups and interviews are conducted. An independent survey company might be hired to ensure the neutrality.

Document 5

An action research builds on the findings of document three and four in document five. This research will ascertain and improve the theory by practicing in two to three real business cases. It will make the proposed research more practical.

The research can be started from a marketing program design workshop, which conducted in either G&PS or EMB channel business unit. The channel incentive program will be implemented and measured based on the theory discovered in previous studies. A refined instrument will be administered to collect the independent views and opinions of channel members. Comparative analysis will be leveraged to summarize the results.

5. The Risk and Issues

Political and Ethical

Being the leader of G&PS channel business in China, the author participates in many design works of channel incentive programs. It provides a fair understanding of channel incentive programs and effectiveness evaluation experiences. However, the author is also aware of the danger of subjectivity, like “the judge” as a researcher’s role (Fisher, 2007: 58). The author will make every effort to circumvent this.

The complexity of the subject involves many concepts and terminologies, which defined differently in different theories or circumstances. The concept of “channel conflict”, as an example, Kolter and Armstrong (2001:435) defined as “disagreement among marketing channel members on goals and roles – who should do what and for what reward” in 2001; However, for same concept, Kolter and Keller (2006:455) defined as “when one channel member’s actions prevent the channel from achieving its goal.” These two definitions are holding different standpoints. The author will make all the efforts to define the major concepts as precisely as possible in the literature review and map them clearly in a conceptual framework.

Some trade-offs have to be made in the research. The author notices the study might limit to two lines of businesses in Motorola, which might not be able to represent the B-to-B industries in China. However, the data accessibility might limit the author to reach channel members of other companies to make such an in-depth research. Time and resources are the factors that affect the duration and reliability of the results. For instance, it is realized that grounded approach could be the best route in qualitative research (Fisher, 2007: 125), but time constrain might force the author to choose structured approach finally. The author believes there are more factors need to balance at different stage of the research. The trade-offs will be highlighted in the analysis reports if applicable.

Methodological pluralism is another risk. As Fisher (2007: 56) pointed out, “If you are doing interpretivist research, then there is no way that an element of realism can

add to it. This is because taking a positivist perspective would undermine the methodological basis of the interpretivist approach.” After the literature review, one methodology will be selected as prime based on the defined concepts and conceptual framework. The author will apply only one methodology at each stage of research. The author hopes that the conclusions of the different researches can support each other.

The sensitivity and confidentiality are also viewed as potential ethical issues. Most of interviews might be audio-taped to facilitate the compilation of data. It will be highlighted at the beginning of the focus groups and interviews that the sessions are taped. Every encounters and participants will be given the opportunity to decline to participate. The business data that utilized in the research might be classified as Motorola proprieties and confidential. The author needs to acquire Motorola’s permission to publish the research result via any academic or business publications.

Outcomes

The proposed research will have concomitant benefits for three principle beneficiaries, namely the author, the host organization and marketing researchers generally:

The author will:

- understand the subject systematically and develop the in-depth cognition;
- develop research skills in interpretive, realism and action approaches;
- contribute a practical piece of research to the marketing channel study;
- obtain a worth post graduate qualification for the efforts invested;
- establish intellectual and academic abilities;
- explore a widely spread business network, e.g. NTU society, NTU student community, etc.

The host organization will benefit by:

- gaining an understanding of a topic that widely used in the business but

poorly comprehended;

- improving current business performance by applying the theory discovered and experience gained in the research;
- facilitating future behavioural changes in the marketing channel by incentive programs;

The marketing researchers will benefit by:

- gaining a comprehensive and in-depth understanding of the marketing channel incentive programs and the factors affecting the effectiveness;
- facilitating comparisons with existing and previous research in marketing channel management area.

6. Research Plan and Timetable

Tasks / Time	2007 S O N D	2008 J F M A M J J A S O N D	2009 J F M A M J J A S O N D	2010 J F M A M
Document 1 The research proposal	Green bar			
Document 2 Critical literature review and framework development		Yellow bars (multiple segments)		
- Literature planning and reading	Yellow bar			
- Framework Development	Yellow bar			
- Discussion and deliberation	Yellow bar			
- Summary and conclusion	Yellow bar			
Document 3 Interpretive Research - identifying the critical factors		Yellow bars (multiple segments)	Green bar	
- Research planning and questions development	Yellow bar			
- In-depth interview and focus group discussion	Yellow bar			
- Information analysis and deliberation	Yellow bar			
- Summary and conclusion	Yellow bar			
Document 4 Realism Research - measuring the critical factors	Yellow bar	Yellow bar	Green bar	
- Research planning and questionnaire development	Yellow bar	Yellow bar	Green bar	
- Survey and data collection	Yellow bar	Yellow bar	Green bar	
- Data Analysis and deliberation	Yellow bar	Yellow bar	Green bar	
- Summary and conclusion	Yellow bar	Yellow bar	Green bar	
Document 5 Action Research - real case implementations			Green bar	Yellow bar
- Research planning and case development			Green bar	Yellow bar
- Case implementation and measurement			Green bar	Yellow bar
- Data Analysis and deliberation			Green bar	Yellow bar
- Summary and conclusion			Green bar	Yellow bar
Document 6 Summary and lessons learned				Green bar

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DOCTOR OF BUSINESS ADMINISTRATION
(China Cohort)

Critical Literature Review

Exploring critical factors that affect the effectiveness of channel incentive programs in China business-to-business software market

Document Two

Wang Xin

Tuesday, October 18, 2011

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1. Introduction and Objectives

Software industry is one of the highest growing industries in the past twenty years. Especially, in the past 5 years, the global software market posted steady rates of growth and its trend is expected to continue over the forthcoming five years (Datamonitor, 2008). Datamonitor (2008) reported that the global software market generated total revenues of \$251.5 billion in 2007, representing a compound annual growth rate of 7.2% for the period spanning 2003-2007. As an example, Microsoft revenue grew from 3.8 billion U.S. dollar to 60 billion U.S. dollar during last 15 years.

According to its end-user, software can be categorized into consumer software and business software. Ender-users of consumer software are ordinary computer users who need “custom” programs of modest size, however, don’t have the in-house capability or resources to develop software (Campbell-Kelly, 1995). Ender-users of business software come primarily from government of all levels, and large companies from a wide range of industries, their market is for very large programs that the organizations did not have technological capability to develop themselves (Campbell-Kelly, 1995). Business software is distinguished from consumer software in that its products focus on primary service activities and value chain activities and the integration of the software that support these activities. This study will focus on business software in China’s government and enterprise market.

The software manufacturer depends on channel to perform a variety of functions on its behalf. On one hand, business software is usually complex, so manufacturer’s channel member should own a technical programming capability and knowledge of the targeted applications domain. On the other hand, Other than preload software and personal software, most of business software needs to be customized based on specific customer business environment. If enterprise customers are satisfied with

business software, they will be satisfied with the channel member who implement software and afford service, which leading to customer loyalty (Greenstein, 1997. P. 179-192). So channel partners play important roles in business software sales and marketing. Like hardware products, channel partners also improved software producers' market coverage, customer fulfilments and services quality. Software channel partners, other than hardware sales agents, they are more tightened up by customer industries and skills of certain business software. Both software producers and software channels hardly switch from one to another because of high switching cost. However, John P. Murry & Heide (1998) reported that 74% of distributors agree that incentive and promotion allowances enhance their profitability, yet 65% believe they do not receive their fair share of manufacturers' incentive; on the other hand, 85% of manufacturers believe the money given to retailers is ineffectively spent, and only 19% consider these expenditures good value. As noted by Ganesan (1993), channels and manufacturers often possess systematically different orientations toward their relationships. Differences in goals and preferences between a software company and its channel can lead to conflicts over how channel revenues and costs should be allocated among the participants and can produce incentive problems within the channel. So channel incentive is more important to manage and motivate the partners.

In 1950's, the term software had not yet been coined (it first came into use in about 1959), and computer programs were not a tradable commodity (Rosen, 1967). Some computer manufacturers supplied (i.e., bundled) operating-system software as an integral part of the computer system, because computers were so slow and small at that time. However, the continued growth in the intensity of computer operations during 1990s provided a growing chance for company's internal development capabilities (Steinmueller, 1996, p. 131-153). Accordingly, firms began to reconsider the make or buy decision for their entire data processing activity. If another firm could provide the technological knowledge and human resources to implement specialized software solutions, choose among complex competing hardware offerings, and deliver

useful information services to internal users, why not buy these services rather than produce them in-house? The growing complexity of data processing technologies and markets pushed companies toward the "buy" solution and a number of companies emerged to satisfy this demand. Now, the computer software industry is growing rapidly and is of increasing importance for the international competitiveness of other high-technology industries and national economies (Steinmueller, 1996), however, because software was bundled as an integral part of the computer system before, it has still received surprisingly little attention from scholars. Comparing with hardware industry, there are few studies in software channel management. How could hardware channel incentive theories be applied to B-to-B market of software industry? What are the critical factors that affect the effectiveness of channel incentive programs? How does Chinese culture influence the effectiveness? Can we discover a model to improve the channel incentive effectiveness in China's B-to-B software market? This review of literature is motivated by an interest in the answers to these questions.

2. Approach and Context

As noted in the introduction, channel relationship management has become a key factor in marketing research. Many companies begin to view channel members as their partnership and try to focus on establishing and maintaining lasting, stable exchange relationship with them. However, it is very difficult for them to establish lasting and stable relationship, because channel members' attitudes and objectives are not compatible usually. Effective approach to solve the question is that manufacturers use appropriate governance mechanisms—such as incentive programs, monitoring processes, and enforceable contracts. Among these governance mechanisms, channel incentive program is an important mechanism which can maintain and coordinate successful exchange relationships. This is because incentive arrangements can be crafted such that the reseller will comply with the supplier in order to receive remuneration of some kind. Because channel incentives are so closely tied to specific performance, they play a key role in allowing many suppliers to maintain productive relationships with channel members. On the other hand, suppliers often propose incentive programs that fail to motivate resellers, causing the offered incentive to be rejected outright (Narus & Anderson, 1996). The rejection of an incentive is problematic because a supplier's potential to control its channel cannot be realized until the reseller accepts the offer and performs as specified (Frazier, 1999). So, it is necessary for us to study channel incentive programs and identify the critical factors that affect the effectiveness of channel incentive programs.

In marketing channel research, a considerable amount of attention has been paid to channel incentive. Channel incentive has been typically defined as a series of mechanism to motivate channel members, including economic as well as non-economic mechanism. Past research has focused on three distinct views to assess the critical factors that affect the effectiveness of channel incentive programs. They are (1) economy view which is from Channel Incentive Theories; (2) culture view

which from Chinese Culture & Value “Guan-xi”; (3) cognitive view which is from organization sensemaking.

In case of economy view, this review explores channel incentive theories from economic view firstly. It begins with establishment of the CIP (channel incentive programs) concept, description of properties of CIP, and categorizing CIP.

Then, in case of culture view, the review study channel incentive theories from non-economic view or culture view. Every culture distinguishes itself from others by the specific solutions it chooses to certain problems which reveal themselves as unique. A few across-culture studies show culture a significant factor influencing behaviour of channel members (Kale, 1986; Frazier et al., 1989). Different culture will lead to different behaviour of channel member. Considering Chinese culture is very different from western culture, universal applications of western management theory may not work in Chinese market. In many cases, marketing channel theories and its relevant results in western cannot be put into China directly. The method to solve this problem is to adjust western theories based on Chinese practices. The Chinese cultural root is Confucianism which emphasizes the importance of interdependent social connections. In China, the interpersonal connections or relationships are called Guanxi, which is a Chinese term. Guanxi is deeply embedded in the mindset of Chinese and in every aspect of their personal and organizational interactions (Park & Luo, 2001). Good guanxi can bring a wide range of benefits including securing rare resources, bypassing or short-cutting the bureaucratic maze, obtaining information and privilege, selling otherwise unsellable goods, providing insurance against uncertainty, and providing assistance when problems arise (Fan, 2002). We will try to define Guanxi, identify the traits and levels of Guanxi, explore the relationship between Guanxi and channel behavior.

This is then followed by review of organizational sense making from cognitive view. The paper reviews traditional organizational sense making and modern

organizational sense making including Hsee's theory, explains the influence on channel behaviour.

The review will introduce two kinds of channel behaviour including channel coordination and channel conflict. It's well known that the result of channel conflict is not at their joint profit maximization levels and their profits are inferior to what could be achieved with coordinated behaviour. For manufacturers, they want to coordinate with channel member to improve channel performance, but because of channel opportunism, channel member' behaviour will lead to conflict. It subsequently moves on to orientations amongst channel behaviour, which is the reason why the channel members take an action on channel coordination and channel conflict.

Because improving distribution channel performance is every manufacturer's objective, then, the paper review the relationship between channel incentive programs (CIP) design and distribution channel performance, and consider the channel incentive programs design to improve performance.

However, although this will not be clearly defined within the review structure, the over objective will be to identify the critical factors that affect the effectiveness of channel incentive programs (see figure 1).

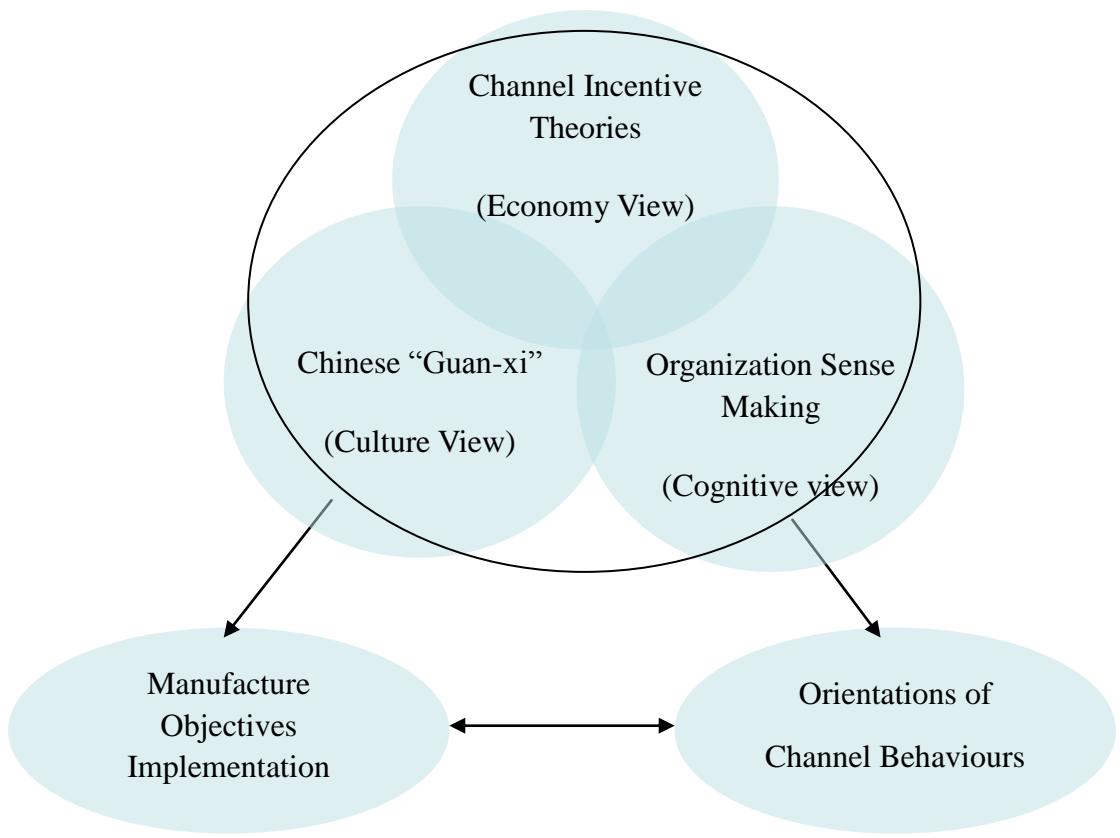


Figure 1. Elements and relationships essential to the review

It must be stressed however, that at this stage arguments are only partially developed. The main objective of the review is to provide the author with the opportunity to explore areas with which he is only partially familiar, and to provide a foundation for subsequent stages of investigation (DBA papers 3, 4, 5 and so on).

Last but not least, in the every part in this review, the author will introduce the relative research progress in China.

3. Channel Incentive Theories (economy view)

Many manufacturers rely on distributors to sell their products. The contractual relationship between the manufacturer and the distributors is subject to the moral hazard and adverse selection problem. Therefore, it is very important for manufacturer to design incentive program to motivate distributors. Channel incentive programs (CIP) and channel incentive theories have become hot topic in western literature.

Principal-agent Theory and Channel Incentive

Agency theory has spawned a large amount of recent research in economics, finance, accounting, organizational behavior, political science, and sociology. Its proponents prophesy that a revolution is at hand, that agency and related theories can greatly improve our understanding of why organizations exist and how they work (Hesterly, Liebeskind, and Zenger 1990). An agency relationship is present whenever one party (the principal) depends on another party (the agent) to undertake some action on the principal's behalf. Hence, any employment relationship is an agency relationship. The hiring firm, or a manager representing the owners' interests, is the principal and the employee is the agent. Given that most marketing departments consist of multiple employees at various organizational levels (product managers, salespeople, etc.), developing and implementing marketing strategies and programs necessarily involves managing agency relationships. At a more fundamental level, agency relationships are pervasive in marketing because the essence of marketing is exchange, and "the agency relationship is ... a significant component of almost all [exchange] transactions" (Arrow 1985). This is particularly true because most goods and services are distributed through intermediaries—such as wholesalers, retailers, or franchisees—who act as agents (in an agency theory sense) of the manufacturer or franchisor.

Channel incentive has received enormous interests from the economics, marketing, and operations literature in the past two decades. Most of the theoretic work used the principal-agent model to study various issues arising from channel incentive.

In the principal-agent model, a principal delegates a task to an agent. The success of the task depends on the agent's certain input (e.g. sales effort) that is unobservable to the principal. The principal needs to afford motivation for the agent for his input. The incentive can only depend on some measure that is verifiable to both parties, e.g. the sales volume. Therefore, the principal's problem is to design an effective incentive scheme, while anticipating the agent's optimal response to any given contract and satisfying the agent's participation constraint. Holmstrom (1979) demonstrates the inefficiency manifested as the agent shirks in his input (i.e., the moral hazard), because the input of agent cannot be observed (and verified) by the principal. He also characterizes the necessary and sufficient condition for information that is valuable to alleviate the moral hazard problem. Meth (1996) studies a multi-task agency model where the agent can exert the mean-increasing effort and the variance-reducing effort. From the principal's standpoint, the variance-reducing effort reduces the outcome variance, thereby improving the principal's ability to use the outcome to infer the agent's mean-increasing effort. Nevertheless, inducing the variance-reducing effort also suffers from the moral hazard problem due to its own unobservability (Baiman, 1990, p. 341-371; Bergen et al., 1992).

A distribution channel constitutes a set of agency relationships (Bergen, 1992). The manufacturer depends on resellers to perform a variety of functions on its behalf, including the provision of shelf space, local advertising, point-of-purchase promotion, and implementation of an effective pricing strategy. However, differences in goals and preferences between a manufacturer and a reseller can lead to conflicts over how channel revenues and costs should be allocated among the participants and can

produce incentive problems within the channel. If a powerful manufacturer attempts to increase profits by offering relatively low margins to a reseller, for instance, that reseller may not have adequate incentives to promote or price the product very aggressively. In turn, the reseller's tendency to shirk by under-promoting or overpricing the product under such circumstances may lower sales volume and lead to a less than optimal amount of profit for the manufacturer. The contractual relationship between the manufacturer and the distributors is subject to the moral hazard and adverse selection problem. The former is mainly caused by the fact that the agents' sales efforts are often unobservable to the firm, while the latter arises because the agents typically have better information about the market demand due to their close contact with the consumers.

Channel incentive has been studied extensively by using the principal-agent framework, where the firm (as the principal) design channel incentive scheme for its distributor (as the agents) who privately exert sales efforts (Coughlan, 1993; Albers, 1996). A manufacturer might attempt to control the actions of the members of its distribution channel in several ways by making it incentive compatible for them to engage in actions consistent with the firm's objectives. Basu et al. (1985) consider a firm designing an incentive scheme for a single channel member. Since channel members effort is unobservable to the firm, the incentive has to be based on the final sales, which depends on the sales effort as well as random noise that is out of the distributor's control. Basu et al. (1985) characterizes the optimal compensation scheme (a function of the final sales) that maximizes the firm's expected profit and satisfies the salesperson's minimum utility requirement. In particular, Basu et al. (1985) examines how the structure of the optimal incentive scheme (e.g., the proportion of salary to total incentive) changes in some parameters such as the sales uncertainty, the distributor's risk attitude and reservation utility. In general, the form of the optimal incentive plan is complex and hard to implement, but in reality, the reality, the incentive scheme often has a simple structure. The question is how much

efficiency is lost due to its simplicity. Some research work said not much. Mantrala and Raman (1990) examine the performance of the quota-based plan, where the incentive remains constant if the sales is below a target and increases linearly is sales when the sales exceeds the target. Numerical results show that such a simple performs close to the optimal incentive plan as suggested by Basu et al. (1985). Holmstrom and Milgrom (1987) argued that the linear incentive schemes could indeed be optimal under certain assumptions. Using Holmstrom and Milgrom's framework, Lal and Srinivasan (1993) study how the parameters (e.g., the fixed salary and the commission rate) of the linear contract change in the model parameters (e.g., the salesperson's risk aversion, cost of effort). In addition, they provide empirical studies to support the key conclusions drawn from the agency theory.

A critical assumption made in the above-mentioned work is that both the firm and the salesperson have equal knowledge about the sales environment. This assumption of information symmetry, however, may not suit well in the sales environments where the distributor has superior information about the local market. In the settings with information asymmetry (e.g., the distributor privately observes part of sales uncertainty *ex ante*), a typical approach is to offer a menu of incentives and let the distributor self-select. The information is then revealed from the distributor's contract choice. Lal and Staelin (1986) give a model framework for the setting where the distributor's selling skills are the source of information asymmetry, and demonstrate that offering a menu of incentives can be beneficial for the firm. Rao (1990) studies the similar setting and derives the optimal incentive plan under the assumption that both the manufacturer and the distributor are risk neutral. It is interesting that the optimal plan can be implemented as a menu of linear contracts. Gonik (1978) propose that each salesperson is asked to submit a forecast before the selling season in the IBM Brazilian Operations. The incentive depends on the final sales and the initial forecast. More specifically, for fixed sales volume, the incentive decreases in the forecast error (measured by the absolute difference between sales and

forecast), thus providing incentives for the distributor to submit a truthful forecast.

Establishment of CIP concept

Many scholars have given the definition of channel incentive programs (CIP), among those are Frazier (2000) and Gilliland (2003).

When incentivizing and “managing” channels, Frazier (2000) suggests, “Firms can rely on a mix of contracts, pricing and credit programs (e.g., functional discounts, margin guarantees, extended dating), promotional programs (e.g., market development funds, co-op programs, incentive or spiff programs, earned volume rebates, end-customer promotions), merchandising aids, training programs, and inventory buyback programs, among other components”. Reviewing Frazier’s (2000) channel incentive programs, these incentives are generally thought of in terms of margin discounts or spiffs, and practitioners actually use “a complex array of different tools-levers”

Recently, Gilliland (2003) considered channel incentives as behaviors or policies described in the supplier’s standard operating agreement, which are designed to motivate active intermediary support of the supplier’s distributor. In Gilliland’s opinion, Channel incentives have characteristic of one of the “back-end” dimensions of governance, along with monitoring and enforcement mechanisms, because they are designed to keep a relationship on track by ensuring that the supplier’s front-end plans are executed as anticipated.

Properties of CIP

Reviewing the sales channel selection literature, Properties of CIP can be distilled into four different frameworks, that’s to say, scholars proposed channel incentives have four inherent properties, such as incentive magnitude, incentive intensity,

incentive compatibility and incentive equity, which accounts for the reseller's motivation to accept the offered incentive (Gilliland, 2004) (Table 1).

The first property of CIP is incentive magnitude, which refers to the amount of financial gain that can be realized by the reseller (Murry & Heide, 1997). It's usually seen that suppliers typically give promotional allowances for the product being promoted or for other products. Klein and Leffler (1981) suggested that the more the allowance offered by a supplier exceeds the market standard or somehow represents a premium, the higher the likelihood that a distributor will agree to take part in a program. In Casson's (1991, p. 121-135) opinion, economic incentives and "enlightened self-interest" can improve participation.

The second property of CIP is incentive intensity, which refers to how closely reseller performance is linked to monetary compensation (Zenger & Marshall, 2000; Williamson, 1991). According to most theories of incentives, the effectiveness of these group rewards should be a function of incentive intensity. Especially, Kruse (1993) defined incentive intensity as the marginal gains in pay individuals derive from group performance.

The third property of CIP is incentive compatibility, which refers to the extent the incentive can be in alignment with the distributor's goals (Bergen et al., 1992). When the incentive is well in alignment with the distributor's goals, incentive compatibility is good.

The fourth property of CIP is incentive equity, which refers to the extent the reseller perceives the incentive to be fair, given the effort required (Ring & Van, 1994). Thus, an incentive is more likely to be accepted (and is more likely to achieve control for the supplier) when it is high in magnitude, immediate, compatible, and equitable. With this background of control and motivation in mind, the many existing incentives used in practice are now addressed.

Properties of CIP	Explanation
incentive magnitude	the amount of financial gain that can be realized by the reseller
incentive intensity	how closely reseller performance is linked to monetary compensation
incentive compatibility	the extent the incentive is in alignment with the reseller's goals
incentive equity	the extent the reseller perceives the incentive to be fair, given the effort required

Table 1 - Properties of CIP

Categories and types of CIP

The study of channel incentive has gained urgency over the years (Gilliland, 2003, 2004). Channel incentive can be categorized as the following four categories:

Positive incentive and negative incentive

Although there are many possible sources of power, French and Raven (1959) have defined five, which seem common and important: reward, coercive, legitimate, referent, and expert power. If manufacture exerts reward, legitimate, referent, and expert power on distributor, it is called positive incentive. If manufacture exerts coercive power on distributor, it's called negative incentive. In terms of distributor orientation, these incentives engage a positive (moving towards them) orientation. (Table 2)

In the existing literature, positive incentive is commonly defined as generalized meaning of incentive, such as margin discounts, sales bonuses, provision of sales leads, promotional materials, provision of automated information and automated transaction tools and so on (Gilliland, 2004).

Negative incentive, which means punitive acts, indicate a "sick relationship" (Morgan & Hunt 1994), but they are legitimate (French & Raven 1959) in some

situations. For example, a supplier could take appropriate punitive action to halt one distributor whose dysfunctional behaviour undermines other distributors. A negative incentive is expected to create a “moving away from) orientation: distributors are expected to avoid them by changing their conduct. Automakers impose previously negotiated fines on their JIT suppliers for late delivery. Scheer (1993) suggested that punitive actions do not always indicate malice, for they are sometimes necessary, appropriate, or fair.

Therefore, negative incentive is acts through which the firm intentionally inflicts damaging consequences on its partner (Gaski & Nevin 1985). A firm can affect its partner's outcomes negatively, either contingently through an associated explicit influence attempt, or non-contingently through a direct power exercise (Scheer & Stem 1992). Punitive actions include, for example, a supplier paying fines for late delivery per its prior agreement with an industrial customer; a grocer unilaterally taking unauthorized deductions off an invoice for a vendor's improper polarization; or a mega-retailer shifting inventory it previously carried to its supplier, while unconditionally demanding more frequent deliveries of smaller lots and no increase in wholesale price (Kumar , Scheer & Steenkamp, 1998).

Incentive category	Theoretic precedence	Example
Positive incentive	Gilliland, 2004	margin discounts, sales bonuses, provision of sales leads, promotional materials, provision of automated information and automated transaction tools and so on
Negative incentive	Kumar, Scheer, Steenkamp, 1998	a supplier paying fines for late delivery per its prior agreement with an industrial customer; a grocer unilaterally taking unauthorized deductions off an invoice for a vendor's improper polarization; or a mega-retailer shifting inventory it previously carried to its supplier, while unconditionally demanding more frequent deliveries of smaller lots and no increase in wholesale price

Table 2 – Positive incentive and negative incentive

Cash incentive and Non-cash incentive

Gilliland and Bello (2001) suggested that manufacturer can compensate distributor by monetary-based payments or by services performed. (Table 3)

It is very common that many incentives compensate the reseller directly through providing them monetary rewards because of improving performance of specific tasks, for example, trade discounts, cash rebates, and so on. So Chu & Desai (1995) and Zenger & Marshall (2000) concluded that one key element of any incentive offering is the nature in which it compensates the reseller for its efforts especially by cash.

Non-cash incentives are not contingent on specific performance, for example, co-op advertising kits, sales support information and so on, and they can compensate the reseller indirectly through eventual sales or margin increases. Thus, besides trade discounts and other means of direct compensation, non-cash incentives include services performed, information shared, pledges made, and support tools provided to resellers (Rubin, 1990, p. 89-119).

In fact, despite their theoretical usefulness, Heide (1994) thought these classifications can be called “an oversimplification of the manner in which incentives can be allocated”.

Incentive category	Theoretic precedence	Example
Cash incentive	Chu & Desai (1995) Zenger & Marshall (2000)	compensate the reseller directly through providing them monetary rewards (e.g. trade discounts, cash rebates)
Non-cash incentive	Rubin(1990)	compensate the reseller indirectly through eventual sales or margin increases (e.g. services performed, information shared, pledges made, and support tools provided to resellers)

Table 3 - Cash incentive and Non-cash incentive

Channel incentives for high technology industry

Gilliland (2003) examined high-technology suppliers' channel programs which including 170 unique channel incentives applied in the reseller programs of high tech suppliers such as Sun Microsystems, Microsoft, Cisco Systems, and others, and he used qualitative data from the high technology industry and a grounded theory coding methodology to inductively derive a business-to-business channel incentives classification scheme. In his conclusion, the incentives are organized into 16 subcategories and 5 major categories: Credible Channel Policies, Market Development Support, Supplemental Contact, High-Powered Incentives, and End-User Encouragements. Gilliland (2003) suggested that each incentive subcategory is a means of controlling reseller behaviors and defined these incentive subcategories as the following (Table 4):

Credible Channel Policies are the supplier's ways to do business signaling dedication to a reseller-based selling model. These incentives mean the supplier's attempt to control reseller participation in its channel program from a control perspective.

Market Development Support incentives are the tools that are provided for the reseller to promote the brand. They represent the supplier's control of specific tasks performed by resellers.

Supplemental Contact incentives are programs, which designed to enhance reseller capabilities with extra-high levels of communication and information. These incentives are designed to control of the reseller's quality and efficiency of task performance.

High-Powered Incentives represent direct increases in monetary compensation for reseller performance. They represent control of reseller output.

End-User Encouragements build unique channel value through joint activities of suppliers and resellers, which represent supplier control of the length of reseller relationships.

Credible Channel Policies	Pledges to the channel	<p>Expansion of approved customer list for resellers.</p> <p>Migration to 100% channel reliance in certain divisions of the firm.</p> <p>When a customer wants to buy direct, the reseller is still compensated for its efforts.</p> <p>Direct sales reps are compensated equally whether they make a direct sale or support the reseller.</p>
	Conflict resolution strategies	<p>Resellers are compensated for account development efforts if sale is stolen by channel rival.</p> <p>Partner advisory council is instituted.</p>
Market Development Support	Sales support information	<p>Customer care hotline for resellers to call for shipping, delivery, and technical information.</p> <p>White papers, including product information and case study applications.</p> <p>Technicians available to answer tough presale support questions.</p> <p>Post-support follow-up to monitor service quality.</p> <p>Training seminars, technology workshops.</p>
	Market development tools market	<p>Promotional materials, sales leads, co-op programs, product demo programs, trade show support.</p> <p>Drop-in logos, free yellow pages advertising.</p> <p>Web-based event posting service so resellers can post information, share logos, exchange images, etc.</p> <p>Free release of all software upgrades.</p>
	Personal	Increase the number of channel managers from 3 to 12.

	assistances	<p>Empowered channel support staff.</p> <p>Make joint sales calls with resellers.</p> <p>Hired a credible director of channel services.</p>
	Discretionary funds	<p>Market development funds for resellers to apply to channel program as they see fit.</p> <p>Educational funds for resellers to acquire training outside normal market support program.</p>
	Certification programs	<p>Sales lead prioritization for certified resellers.</p> <p>Advanced sales, product, and technical resources for authorized resellers.</p> <p>Certified partners are invited to annual sales meeting and given increased exposure to end-users.</p> <p>Access to database and pdf files for program members.</p>
Supple-mental Contact	Communicati ons programs	<p>Video broadcasts of meetings to resellers.</p> <p>Holds quarterly update meetings on the state of the company.</p> <p>Communications program includes newsletter, fax blasts, e-mail announcements, channel broadcasts.</p>
	Automated information	<p>Single portal access to online incentive, educational, and technical support.</p> <p>Online status report for everything resellers have sold, triggering earned rewards.</p> <p>Customized profiles allow resellers to control information and how it is received.</p> <p>Virtual new product launch seminars over the web.</p> <p>Quarterly CDs that update all technical information.</p>
	Automated transactions	<p>Online configuration tool for pricing, quoting, and configuring orders.</p> <p>Online support vehicle to order spare parts, make warranty claims.</p>

		Automated status reports allow resellers to fill out reports online.
High-Powered Incentives	Unique sellable solutions	<p>New, sellable service and leasing programs.</p> <p>Multivendor service contracts so reseller can support multiple brands in the field.</p> <p>A product line that opens the doors to many consulting opportunities.</p>
	Immediate incentives to sell	<p>Cash bonuses to resellers that introduce certain services to new customers.</p> <p>Cash rebates pegged to sales growth</p> <p>Resellers earn points for sales that can be redeemed for cash, prizes, and trips.</p> <p>Targeted, announced deep margins for products.</p>
	Financial programs	<p>Discounts on smaller deals to improve reseller margins and lower end-user price.</p> <p>Quick bid program gives resellers quick responses to their special pricing requests so they can better-compete with companies that sell online.</p> <p>Allow resellers to spread out purchases over time.</p>
End-User Encouragements	Reseller marketing	<p>Nationally market reseller-developed solutions.</p> <p>Web site allows end-users to learn about resellers and link directly to them if desired.</p> <p>Resellers allowed to sponsor portions of end-user seminars.</p>
	Comarketing	<p>Works with resellers to create bundled solutions for targeted vertical markets.</p> <p>Enterprise sales force works with resellers to stimulate customer demand in new markets.</p> <p>Resellers brought in early on beta test sites.</p>
	Risk reduction programs	<p>“Try & buy” programs allow customers to “kick the tires” before committing to purchase.</p> <p>Mentoring programs ensure customer experience is positive.</p>

Table 4 - Channel incentive classification scheme

(Adapted from: Gilliland, D. (2003) 'Toward a business-to-business channel incentive classification scheme', *Industrial Marketing Management*, Vol 32, No.1, page 55-67.)

Channel incentives and channel member's decision-making

Just as generally thinking, channel incentives can cause incentive compatibility, which means channel incentives are congruent with the channel member's performance goals (Gilliland, 2004). A manufacturer might attempt to influence the actions of the members of its distribution channel in several ways by making it incentive compatible for them to engage in actions consistent with the firm's objectives (Bergen, 1992). Bergen (1992) suggests that incentive problems can sometimes be realized through various types of pricing mechanisms. For example, when the franchise fee is fixed, the retailer is better off selling a larger volume of the product and is thus motivated to do so (Moorthy 1987).

However, some researchers have found that channel incentives can cause incentive rejection, which means the reseller will not support the supplier's product. (Gilliland, 2004). Suppliers often propose incentive programs that fail to motivate resellers, causing the offered incentive to be rejected outright (Narus & Anderson, 1996). The rejection of an incentive is problematic because a supplier's potential to control its channel cannot be realized until the reseller accepts the offer and performs as specified (Frazier, 1999). Unfortunately, the problem described, reseller rejection, is so commonplace that Murry and Heide (1998) suggest it is often the reseller's "default position". Anand and Stern (1985) suggest that a supplier can influence a channel decision only if the reseller is willing to relinquish influence of that decision, and it is more likely to relinquish influence if doing so will enhance its performance. Thus, if an offered channel incentive does not contribute to higher reseller business

results it might be rejected by the resellers. Gilliland (2004) found that many incentives were rejected because the distributors perceived they might not be able to achieve those sales goals. Gilliland prescribed a four-step, theory-based process to help suppliers craft attractive incentive programs, which involves identifying resellers' performance needs, recognizing how each need suggests a different basis for incentive rejection, designing an incentive package such that the incentives support specific reseller needs, and considering unique channel conditions.

From the above review, we can infer that only channel incentive is not enough in order to motivate channel members. There may be some other factors to influence channel members behavior.

Relying on only Channel Incentive Theories (economy view) has its advantages and limitations. Channel Incentive Theories (economy view), no matter positive incentive or negative incentive, cash incentive or non-cash incentive, or channel incentives considering to overcome reseller rejection, or channel incentives for high technology industry, is from economy view. Some researchers have relying solely on economic performance to explain why channel members choose to accept or reject channel incentive. It represents an economic approach. It does not recognize the development of trust-based business relationships (Möller 1992), and concepts like Chinese culture & value "Guan-xi" are not part of the framework. Thus, it ignores recent literature on relationship marketing and management (Anderson & Narus 1999, p. 121). In fact, the development and advantages of cooperative buyer-seller relationships is very important for channel incentive. The advantages of close cooperative relationships are, for examples, that, through routinization, uncertainty is reduced and costs are lowered, and, through an open exchange of information, joint problem solving is facilitated. However, western relationship and Chinese guanxi has some same character, but more difference. Guanxi is seen as a potential solution for most problems of entering and operating in China. But, Channel Incentive Theories

(economy view) ignore the influence of guanxi on channel incentive, so it is partial. In the following part, we will review the nature of guanxi, and the relationship between guanxi and channel behavior.

4. Chinese Culture and Value “Guan-xi” (culture view)

Chinese culture roots of Guanxi

The nature of relationships depends on the long experience of those involved in building the relationships and depends on the institutional infrastructure of societies (Hill, 1995; and North, 2005, P. 131-150). Thus, the route to developing relationships can be very different in different cultures and belief systems. Not only are the paths to relationship building different, but also the relative importance of the attributes which comprise the kinship between people is likely to vary across cultures and in the same culture over time (Buttery & Wong, 1999). It is clear that Culture and belief systems are therefore important to understanding the nature and significance of social interactions (Dunning & Kim, 2007).

In China, the interpersonal connections or relationships are called Guanxi, which is a Chinese term. Guanxi is seen as a potential solution for most problems of entering and operating in China, because in the Chinese cultural roots is Confucianism which emphasizes the importance of interdependent social connections. In order to understand the importance of guanxi and how it operates, China's Confucian legacy must be understood.

With a history of more than 2500 years, Confucianism has exerted a main influence on the Chinese thinking modes and behaving ways. Especially, since the Han dynasty (BC 206–AD 220), Confucianism has held a fundamental and significant position in China, and its influence could be felt in many facets of Chinese life (Jacobs et al., 1995). In Confucian societies, an individual is first and foremost a relational being and part of a communitarian social system. Because the Chinese live in a network of personal and social inter-connections, and their incentive structures

and enforcement mechanisms is informal and not formal (North, 1990). Social order and stability depend on properly differentiated role relationships between particular individuals, for example, family, kinship networks, colleagues, neighbors, classmates, friendship circles, and even casual acquaintances make up the social framework, into which they grow and form the institutional system governing their behavior. At the same time, because Confucianism is powerful, the influence of Confucianism is not limited to China and other East Asian countries such as Japan and Korea are deeply affected by Confucianism too. Luo (2000) accounted for the pattern of life styles and attitudes of the overseas Chinese, and indeed the social and commercial fabric of which they are part.

Because of Confucian roots of Guanxi, nurturing and managing relationships in China at both the personal- or firm-level is hardly new. Many firms rely on friends and connections to do business.

Defining Guanxi

Because guanxi is very important, more and more scholars have studied guanxi. The existing publications on guanxi definition are summarized in Table 5.

In the Chinese business world, guanxi refers to the concept of drawing on established connections in order to secure favours in personal relationships, and it is understood as a special form of relationship that can tie the business partners by reciprocal exchanges of favors and obligations voluntarily and regularly (Alston, 1989). Thus, although guanxi is in general considered as an important element of Confucianism, it can also become an asset and a corporate culture at the firm level. Lee and Humphreys (2007) focus on firm-level guanxi which emphasizes the use of personal relationships in facilitating operations or problem solving in business transactions. More specifically, they define guanxi as a corporate culture stressing on the relationships between business partners for achieving mutual benefits and

involving the use of personal and/or inter-firm connections to secure favors in the long term.

In the extant literature, *guanxi* has various connotations. For example, Pye (1982, p. 156-169) regards *guanxi* as friendship with the implication of continued exchange of favors. Luo (1997a) states that *guanxi* refers to the concept of drawing on connections or networks in order to secure favors in personal or business relations. Lee and Ellis (2000) define *guanxi* in terms of reciprocal but unequal exchanges, giving face, trust and commitment, wining and dining, and most important, interpersonal bonds when they explore the benefits and costs of *guanxi*. Hence, *guanxi* is an informal social bond through which individuals carry expectations and obligations to facilitate exchange of favors among them (Leung, Lai, Chan, & Wong, 2005). It can be defined as a kind of interpersonal friendship in which individuals are committed to one another on a long-term basis by a hidden norm of reciprocity that concerns equity and exchange of favors (Ang & Leong, 2000). Also, *guanxi* involves cultivating personal relationships through the exchange of favors and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence, and creating a sense of obligation and indebtedness (Yang, 1994, p. 102-131).

Embeddedness theory suggests that economic action is embedded in structures of social relations (Granovetter, 1985). It also stresses the role of concrete personal relations and structures (or “networks”) of such relations in generating trust and discouraging malfeasance (Granovetter, 1985). If a transaction is embedded within a broader reciprocal social relationship, the transactors may rely on social sanctions to protect their interests (Dyer & Chu, 2000). Hence, as a kind of social relations, *guanxi* will have some connections with trust and risk to a certain extent.

Scholars	Guanxi definition
Alston (1989)	as a special form of relationship which can tie the business partners by reciprocal exchanges of favors and obligations voluntarily and regularly

Lee and Humphreys (2007)	as a corporate culture stressing on the relationships between business partners for achieving mutual benefits and involving the use of personal and/or inter-firm connections to secure favors in the long term.
Pye (1982)	as friendship with the implication of continued exchange of favors
Luo (1997)	the concept of drawing on connections or networks in order to secure favors in personal or business relations
Lee and Ellis (2000)	in terms of reciprocal but unequal exchanges, giving face, trust and commitment, wining and dining, and most important, interpersonal bonds when they explore the benefits and costs of guanxi
Leung, Lai, Chan, & Wong, (2005)	an informal social bond through which individuals carry expectations and obligations to facilitate exchange of favors among them
Ang & Leong (2000)	as a kind of interpersonal friendship in which individuals are committed to one another on a long-term basis by a hidden norm of reciprocity that concerns equity and exchange of favors
Yang (1994)	cultivating personal relationships through the exchange of favors and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence, and creating a sense of obligation and indebtedness
Dyer & Chu (2000)	guanxi will have some connections with trust and risk to a certain extent

Table 5 - Summary of existing studies on Guanxi definition

All these definitions are useful as they depict guanxi as special relationships. However, there are still some China concepts, such as xinyong, renqing and ganqing, should be distinguished from guanxi. In order to clarify the guanxi definition, it is vital to contrast the difference of related concept. Wang (2007) explored the underlying mechanism between Western relationship marketing and Chinese guanxi by examining the construct equivalence of the two concepts. In his literature, Wang (2007) defined some related Chinese terms and they are guanxi, xinyong, renqing, ganqing, when making cross-cultural comparisons of guanxi with relationship marketing.

Guanxi is composed of two Chinese characters, guan (gate) and xi (connection). One must pass the gate to be connected to networks. As such, guanxi generally refers to relationships or social connections based on mutual interests and benefits (Yang, 1994). It is a special type of relationship that bonds the exchange partners through reciprocal obligations to obtain resources through a continual cooperation and exchange of favors (Chen, 1995, p. 89-101).

Xinyong can be directly translated as “credit” (the word “credit card” in Chinese is xinyong ka), and equals to the Western version “trust.” Trust, in Chinese business relations, is more based on one’s credit of ability of return favors than relied on one’s integrity and competency, as in the Western relationship context. Trust, along with commitment, is regarded as a fundamental building block of a relationship model (Garbarino & Johnson, 1999), as it motivates marketers to work at maintaining relationship investments and keeping long-term benefits rather than short-term alternatives (Dwyer et al., 1987). Trust is an important factor in determining long-term orientation because it fosters the focus on future condition, which reduces the likelihood of opportunism (Geyskens & Steenkamp, 1996).

Renqing is a unique term in Chinese cultures, often referring to one’s emotional responses when faced with various situations of daily life, a resource that one can present to another person as a gift in the social exchange process, and a set of social norms that one should follow to get along well with other people (Hwang, 1987). Renqing is the underlying mechanism of guanxi. The term renqing involves exchanges of favors following certain social norms and behavioral rules. Renqing provides leverage in interpersonal exchanges of favors and is much more highly elaborated and more tightly bound up with ideas of reciprocity than it is in many other cultures (Hwang, 1987; Yang, 1994). Hwang (1987) advocated that renqing can be understood in terms of two basic rules — reciprocity and empathy — depending upon the participant’s role as a recipient or a benefactor in the guanxi. He defined

reciprocity as focusing on a recipient's behavior by the social norm expressed as "if you have received a drop of beneficence from other people, you should return to them a fountain of beneficence". He explained empathy as the ability to see a situation from another person's perspective and as focusing on the benefactor's behavior guided by Confucianism principle of forgiveness, propounded by the "do not do unto others that which you would not wish done unto you" and by its converse: "Do unto others as you wish done unto yourself" (Hwang, 1987).

Ganqing refers to feelings and emotional attachment among members of networks. It is often an indicator of closeness of guanxi. The most intimate ganqing is the qingqing, which is a blood-based emotional attachment existed among direct family members only. In a business relationship where there is no qingqing existing, one usually does ganqing investment in order to build a good guanxi (Wang, 2007).

On one hand, western relationship marketing and guanxi have some basic characteristics such as mutual understanding, cooperative behavior and long-term orientation. On the other hand, they have quite different underlying mechanisms. For example, guiding principles of a relational exchange in most Western cultures are driven by legality and rules, whereas guiding principles of relational behaviors in guanxi are driven more by morality and social norms (Arias, 1998). Trust, which plays a key role in relationship marketing, does not have the construct equivalence with xinyong in the Chinese culture and has limited impact on the development and maintenance of guanxi. Instead, what guides relational exchange behaviors in guanxi are reciprocal obligation and mutual assurance, which are based on renqing, a unique concept rooted in traditional Chinese culture. In particular, guanxi is cultivated and maintained through the exchange of renqing to attain mutual benefits.

Concept	Theoretic precedence	Basic characteristics
Guanxi	Yang (1994) Chen (1995)	relationships or social connections based on mutual interests and benefits; guiding principles of a relational exchange by legality

		and rules
Xinyong	Garbarino & Johnson, (1999); Dwyer et al. (1987); Geyskens & Steenkamp (1996)	based on one's credit of ability of return favors; maintaining relationship investments and keeping long-term benefits; reduces the likelihood of opportunism
Renqing	Hwang (1987); Hwang, (1987); Yang (1994)	the underlying mechanism of guanxi; exchanges of favors following certain social norms and behavioral rules; two basic rules — reciprocity and empathy
Ganqing	Wang (2007)	feelings and emotional attachment among members of networks; an indicator of closeness of guanxi; the most intimate ganqing is the qingqing
Western relationship	Arias (1998)	guiding principles of a relational exchange by legality and rules

Table 6 - Comparison of related concept of guanxi

Traits of Guanxi

Recently, Luo (2000) and Dunning & Kim (2007) have studied several important attributes of guanxi, which included utilitarian, reciprocal, transferable, personal, long-term and intangible.

Guanxi is essentially utilitarian, because guanxi bonds two persons through the exchange of favours rather than through sentiment. This relationship does not have to involve friends, though, where possible, this is preferred. Guanxi related ties that are no longer seen to achieve objectives are easily broken.

Guanxi is reciprocal because guanxi implies reciprocity in exchange for favours. The relationships established through the performance of reciprocal obligations means permanent, with one repayment requiring another expression of favour or consideration. Alston (1989) suggested that guanxi is not necessarily equally reciprocal, on the contrary, the exchange relationships often tend to favour the weaker partner.

Guanxi is transferable. For example, when A has guanxi with B, and B is a friend of C, then B can introduce or recommend A to C or vice versa. The extent and success of the transferability of guanxi mainly depends on how much satisfaction B feels about his guanxi with both A and C.

Guanxi is a highly personal concept, because guanxi operates at the level of the individual. Davies et al. (1995) advocated guanxi's essential ingredients are trust, honesty, reciprocity, respect and social status. This helps to explain why interpersonal loyalty is often more important than organisational affiliation or legal status in Chinese society.

Guanxi is long-term oriented. Every guanxi relationship is regarded as a stock of relational capital being conserved or augmented in times of abundance and plenty, but it can be drawn upon in times of need. It is developed and reinforced through continuous, long-term interpersonal associations and interactions.

Guanxi is intangible, because people who share a guanxi affinity are committed to one another by an informal and unwritten code of trust, forbearance, reciprocity and equity. The main enforcement mechanism is that disregarding these virtues often seriously damages one's respectability and social standings.

<i>Traits</i>	<i>Description</i>
<i>Utilitarian</i>	<i>Guanxi is purposefully driven by personal interests</i>
<i>Reciprocal</i>	<i>An individual's reputation is tied up with reciprocal obligations</i>
<i>Transferable</i>	<i>Guanxi is transferable through a third party as a referral</i>
<i>Personal</i>	<i>Guanxi is established between individuals</i>
<i>Long-term</i>	<i>Guanxi is reinforced through long-term cultivation</i>
<i>Intangible</i>	<i>Guanxi is maintained by an unspoken commitment</i>

Table 7 - Six traits of guanxi

Adapted from Dunning J. H., Kim C. The Cultural Roots of Guanxi: An Exploratory Study. The World Economy (2007): 329-341.

Levels of Guanxi Network

The existing literature on guanxi network levels can be divided into two categories.

Confucianism suggests that human relationships are leveled by the five cardinal relationships (Lee, Humphreys, 2007), which is the relationships between the ruler and subject, father and son, spouse and spouse, elder and younger brothers, and senior and junior friends. This category stresses the development of social harmony, order and stability by appropriate behaviors, for example, the seniors must be loving and benevolent to gain the respect and loyalty from the juniors, and vice versa.

Another category is advocated by Duo (2005), who notes that guanxi can be analyzed on four levels including tendering favors, nurturing long-term mutual benefits, nourishing personal relationships, and cultivating trust. This stratified explanation of guanxi is more illustrative and understandable, but this does not necessarily mean that guanxi is built by one level upon another, or there must be four levels of guanxi.

Tendering favor is achievable through many ways, but the most direct and useful method is by giving gifts. At this level, marketers are simply connected by reciprocal interests. Campbell and Peter (1998, p. 57-65) advocated a concise explanation of guanxi as it relates to two marketers. One marketer acts as a petitioner while the other serves as the resource allocator. Whenever the resource allocator is satisfied with requital such as a valuable gift from the petitioner, the allocator will help the petitioner acquire needed resources quickly and easily. Thus, guanxi can be

considered a common interest that binds the two parties. However, the survivability of this type of guanxi is low because it can be easily trumped by a third marketer offering more goods and services to the resource allocator.

Nurturing long-term mutual benefits results in a symbiotic relationship. Jonathan Story (2003) suggests that guanxi sometimes is valued more than written contracts. For instance, guanxi in the political community can be understood as a power distribution network, in which the power is arrayed from the top to the bottom. To have guanxi means to have connections to certain authorities in the network and the upper level authority is more effective because power is more centralized. However, it is necessary for the company to be approved by officials if wanting to run a company efficiently. If a company has guanxi with senior officials, the company can get faster approval of business conduct. Once the tie is established, the company may support the official's political career in many ways. Thus, the official and the company become strategic cooperation. In one viewpoint, this also suggests that the overall efficiency of conducting business is impeded by guanxi because it limits fair competition.

Nourishing personal relationships runs deeper than the above two levels because guanxi on this level is tied up with personal secrets and emotional intimacy on the basis of sincerity and frankness besides common interests. This type of emotion goes far beyond the connection that is set up by gift giving and wining-and-dining (Leung, Wong and Tam 2003). Once guanxi comes to this level, it is generally considered an intangible asset which is transferable, reciprocal, intangible, utilitarian, and personal (Richter, 1999, p. 171-192).

The personal dimension of guanxi strengthens the importance of trust implying that moral obligation is more important than legal contract. Once the strength of guanxi network reaches this level, the Chinese culture of Confucianism becomes so strong that the rule of law is sometimes rendered ineffective or blatantly ignored.

Once this type of trust is established among businesspeople, this connection without any legal assistance actually creates an informative and strategic coalition that grants these businesspeople with many exclusive market advantages.

Certainly, these four methods should be considered a continuous process rather than intermittent performance aimed at sustaining a strategic advantage through guanxi.

<i>Levels of Guanxi Network</i>	<i>Theoretic precedence</i>	<i>Description</i>
<i>Tendering favors</i>	<i>Campbell and Peter (1998); Duo (2005)</i>	<i>giving gifts</i>
<i>Nurturing long-term mutual benefits</i>	<i>Jonathan Story (2003); Duo (2005)</i>	<i>If a company has guanxi with senior officials, the company can get faster approval of business conduct. Once the tie is established, the company may support the official's political career in many ways.</i>
<i>Nourishing personal relationships</i>	<i>Leung, Wong and Tam 2003; Richter 1999; Duo (2005)</i>	<i>tied up with personal secrets and emotional intimacy on the basis of sincerity and frankness besides common interests</i>
<i>Cultivating trust</i>	<i>Duo (2005)</i>	<i>implying that moral obligation is more important than legal contract</i>

Table 8 Levels of Guanxi Network

Guanxi and distribution channel

In China, the importance of business relationships is deeply rooted in Chinese society, characterized by Confucian codes of repeated favour-exchanges. Guanxi is important in a Chinese business context in that when a situation arises which is beyond an organization's or individual's capacity, the guanxi network could be called upon to achieve the desired results (Redding & Ng, 1982). In the literature, Davies et al. (1995) conducted an empirical study which suggests that there are three major

benefits resulting from the establishment of guanxi. First, when the information on domestic markets is limited for foreign investors, the guanxi network can be seen as an important source of information on market trends as well as on both present and potential opportunities and threats. Second, guanxi can get access to labor and physical resources as well as relations with local governments. Finally, guanxi provides benefits to a wide range of other issues, encompassing product transport and distribution to the building of organizational image and reputation. More recently, Lee et al. (2001) found that guanxi is positively related to organizational performance and offers ‘good means of facilitating transaction by allowing access to limited resource/information, preferential treatment in business dealings, and protection from external threats.’ In addition, Park and Luo (2001) take important in guanxi by suggesting that while a relationship follows successful transactions in the West, transactions often follow successful guanxi in China. They further assert that when China’s transition economy is uncertain, firms still can use guanxi as an entrepreneurial tool to bridge gaps in information and resource flows between unlinked firms or between firms and important outside stakeholders. Leung et al. (2007) explore how a quality business relationship is to be developed and maintained in a Chinese context and to explain the concept of expressive and instrumental ties of a *guanxi* model incorporating relationship-specific variables (face, favour-exchange and flexibility) and the quality of business relationship (cooperation, continuity and commitment) in the framework of capital exchange.

Therefore, it's easily found that guanxi is very important in Chinese society. Especially, in supply chain management, Lee and Humphreys (2007) investigates the influence of guanxi on three elements of supply chain management: strategic purchasing, outsourcing, and supplier development. They collected survey data from 175 companies in the electronics sector of Hong Kong and found that guanxi has a significant influence on these three supply management constructs.

Abramson and Ai (1997) noted that in China, the more of good *guanxi*-style buyer-seller relationships, the less of perceived uncertainty about the business environment, and the more of improved *performance* outcomes. Thus they concluded that *guanxi*-style buyer-seller relationships are a competitive advantage for the companies that use them in China. Moreover, Guanxi between a buyer and a supplier implies a hidden norm of reciprocity that concerns equity and exchange of favors and long-term orientation (Ang & Leong, 2000). This suggests that cooperative partners with close *guanxi* may care more about long-term development of the relationship and mutual interests in the future (Davies et al., 1995). Once the distributor is involved in a close *guanxi* with the supplier, and the *guanxi* is based on trust (Millington, Eberhardt, & Wilkinson, 2005). It can make the distributor believe that the supplier trusted by the distributor will look for long-term development of the relationship and mutual interests in the future, no matter a distributor has goodwill trust or competence trust in a supplier or not. What's more, since a supplier hoping to be dealing with a partner for the foreseeable future will not resort to opportunistic behavior (Joshi & Stump, 1999), the relational risk perceived by the buyer who believes in the supplier's goodwill and competence will decrease.

Now, some Chinese researchers have taken importance on the relationship between *guanxi* and distribution channel. For example, based the theory of power in marketing channels , Zhuang Gui-jun and Xi You-min (2004) investigated the impact of personal *guanxi* on exercises of power in Chinese marketing channels. They found that the personal *guanxi* between the suppliers and the distributors did not have significant affection on the distributors' exercises of noncoercive power , but it did have both significant and negative affect on distributors' exercises of coercive power. Wang Xiao-yu, Chao Gang-ling (2007) noted that personal relationship is of great significance to inter-organizational relationship. The two scholars investigated the influence of interpersonal relationship on such key relational variables as interpersonal trust, inter-organizational trust and relationship specific investment

between firms and found that intimacy of personal guanxi perceived by distributor between supplier and distributor is positively related to trust between them. So, when suppliers want to make deal with Chinese, they should learn to keep a good relationship with their distributors.

From the above research, we can find that those who have study channel incentive and channel behavior exclusively from a non-economy perspective have focused on the importance of guanxi on channel behavior. However, channel incentive from economy view is also very important for channel behavior (Gilliland, 2003). A common principle behind both the economic and non-economic streams of research is that behavior and relationships are built and maintained as a result of the interdependence among channel members. However, little is known about the impact that economic and non-economic interactions have on channel behavior and relationships. Rosenberg and Stern (1970), saw the necessity to incorporate both economic and non-economic features of behavior and relationships into a single framework. Ignoring the combined effect of these factors presents an incomplete and distorted view of the situation. To understand the interdependence between parties and the interfirm exchange process better, Stern and Reve (1980) called for a simultaneous analysis of economic and non-economic factors.

5. Organization Sense Making (cognitive view)

Decision making has been described as a central human activity, fundamental to individual, group, organizational and societal life. Researchers trying to understand decision making have come round to the view that it needs to be viewed from multiple perspectives. Mintzberg and Westley propose that the thinking first, or rational, model of decision making should be supplemented with two very different models-a seeing first, or intuitive, and a doing first, or experimentation, model.

Traditional organizational sense making and channel behavior

Traditional Organization Sense Making

Decision making has been described as a central human activity, fundamental to individual, group, organizational and societal life. Researchers trying to understand decision making have come round to the view that it can be viewed from multiple perspectives. In these perspectives, processes of perception and cognition have long been studied by psychologists interested in explaining individual behavior of decision making (Schneider, 1997). More recently, management scholars have become interested in studying perception and cognition to explain the organization behavior of decision making. While it may be worth noting that people in organizations perceive and think, even managers and members of top management teams, what is more controversial is to suggest that organizations may also perceive and think (Schneider & Angelmar, 1993). If we consider perception and cognition to be necessary functions of systems and consider organizations as systems (Miller, 1978, p. 79-86), then the question no longer is whether organizations perceive and think, but how they do so.

Before we review how organization perceive and think, we need to know what is

sensemaking. “Sensemaking” is a critical organizational activity (Weick, 1995, p. 1-35). Sensemaking activities such as environmental scanning and issue interpretation are key tasks that significantly influence organizational decisions and strategic change (Gioia & Thomas, 1996; Smircich & Stubbart, 1985; Thomas, Clark, & Gioia, 1993). Sensemaking is the process through which an organization acquires, interprets, and acts on information about its environment (Weick, 1995). Thomas et al., (1993) define sensemaking as “the reciprocal interaction of information seeking, meaning ascription, and action”. Similarly, Sackman (1991, p. 121-130) refers to sensemaking as a set of mechanisms that define an organization's “standards and rules for perceiving, interpreting, believing, and acting that are typically used”. Thus, organizational sensemaking is multidimensional based on the interplay of meaning and action (Weick et al., 2005).

Sensemaking occurs in organizations when members confront events, issues, and actions that are somehow surprising or confusing (Gioia & Thomas, 1996; Weick, 1993, 1995). As Weick argued, “The basic idea of sensemaking is that reality is an ongoing accomplishment that emerges from efforts to create order and make retrospective sense of what occurs” (1993: 635). Thus, sensemaking is a process of social construction (Berger & Luckmann, 1967, p. 62) in which individuals attempt to interpret and explain sets of cues from their environments. This happens through the production of “accounts”—discursive constructions of reality that interpret or explain (Antaki, 1994, p. 58)—or through the “activation” of existing accounts (Gioia & Thomas, 1996). In either case, sensemaking allows people to deal with uncertainty and ambiguity by creating rational accounts of the world that enable action. Sensemaking thus both precedes decision making and follows it: sensemaking provides the “clear questions and clear answers” (Weick, 1993: 636) that feed decision making, and decision making often stimulates the surprises and confusion that create occasions for sensemaking.

Then, we will review two facets, one is how certain groups influence others' understandings of issues (Maitlis, 2005), and how to communicate with each other; the other is organizational sensemaking examining the social processes associated with sensemaking more holistically in face of complex environments (Maitlis, 2005), and how to interpret and analyze information. Research that has addressed the social processes of organizational sensemaking has tended to follow one of two approaches.

The first facet investigates how certain groups influence others' understandings of issues. Leaders have received particular attention (Smircich & Stubbart, 1985). For example, Gioia and Chittipeddi (1991) argued that a critical leader behavior during strategic change is "sensegiving"—which they defined as "the process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality". Building on this work, other studies have examined the varieties of leader sensegiving. Gioia and Thomas (1996), for instance, suggested that leader sensegiving strategies may vary depending upon the strategic or political nature of an issue; Bartunek, Krim, Necochea, and Humphries (1999, p. 31-71) identified a range of different leader sensegiving strategies and found. All of this research highlights the importance of sensegiving as a fundamental leadership activity within organizational sensemaking.

Although this research offers a valuable foundation for appreciating the social dynamics of organizational sensemaking, it largely ignores the interaction of different members' sensemaking behaviors and how this interaction affects sensemaking processes. While previous studies provide insight into some of the strategies that leaders use to shape organizational understandings and accounts of issues, they have primarily focused on the role played by just one party or the other. Thus, relatively little is known about the dynamics of sensemaking when different parties engage simultaneously or reciprocally in such activities, or about the ways in which the accounts they generate are reconciled—or are not reconciled.

In fact, interaction of different members' sensemaking behaviors and how this interaction affects sensemaking processes are very important (Neill et al., 2007). Achieving collective outcomes necessitates that organizations develop collaborative mechanisms that bridge the gap between functional departments and allow for the free-flow of ideas (Dougherty, 1992). To reflect the complexity of the environment requires informational exchanges from multiple individuals with diverse knowledge, skills, and values (Hutt et al., 1988). Through interactions and shared experiences, organizational members come to develop an understanding-or interpretation-of their environment. The communication component of sensemaking embeds the group perspective within the mind of the individual manager. Rather than seeing the organization as a collection of individuals, this perspective sees the individual as a reflection of the group (Cook & Yanow, 1993). Given the inherent challenges in strategy formation and the limited capacity of individual decision makers, the sharing of strategic information is a necessary component of sensemaking. Strategic information exchange is the degree that relevant information is shared among members of a decision making team. Past research has demonstrated that communication enhances effective marketing strategy formulation (Hutt et al., 1988). Communication allows information to be seen in a broader context, specifically by individuals who might use or be influenced by it (Slater & Narver, 1995). Rather than necessitating a single interpretation, communication is a mechanism allowing for organized action despite interpretative differences (Donnellon, Gray, & Bougon, 1986) and is a central component of sensemaking (Weick et al., 2005).

A second approach to organizational sensemaking has examined the social processes associated with sensemaking more holistically, but it has tended to do so in contexts that are marked by crisis or extreme circumstances. Sensemaking activities are particularly critical in dynamic and turbulent contexts, where the need to create and maintain coherent understandings that sustain relationships and enable collective action is especially important and challenging (Weick, 1993). Weick's (1993) analysis

of the Mann Gulch disaster, for instance, suggests a dialectical relationship between social structure and sensemaking: the accounts generated by sensemaking facilitate the formation and reformation of social structure (the social roles and relationships among some group of members), while social roles and relationships provide a basis for sensemaking. Thus, Weick argued that without social roles and relationships in place, sensemaking can be difficult or impossible, leading to confusion and distress. In a study of sensemaking on aircraft carriers, Weick and Roberts (1993) developed the concepts of “collective mind” and “heedful interrelating” to describe how organization members can generate reliable collective action. Their study moved sensemaking away from a strictly cognitive metaphor by associating collective mind not with a super-ordinate set of cognitions, but with “a pattern of interrelated activities among many people” and by offering the argument that the intelligence of a collective mind depends upon the heedfulness with which people interrelate.

In dynamic and turbulent environments, interpreting by simultaneously assimilating multiple environmental dimensions with increased strategic complexity and analyzing a greater amount and variety of information through multiple perspective consideration are very important (Neill et al., 2007).

The notion of cognitive complexity has long been applied to individuals by measuring their ability to differentiate among and to integrate diverse stimuli (Schroder, Driver, & Streufert, 1967). Correspondingly, strategic complexity is the organization's capacity to construe its environment in a multidimensional way (Streufert & Swezey, 1986). Decisionmakers scan their environment and choose strategies based upon their preexisting schema (Hambrick, 1982). Schemas act as information-seeking structures that accept information and guide action (Neisser, 1976, P. 121-132). In sensemaking, schemas function to label stimuli in such ways as to suggest possible actions (Weick et al., 2005). At the organizational level, strategic orientations act as schemas by selecting and actively modifying experience — in

effect, shaping perceptions of the strategic situation. The particular strategic orientation employed influences which salient environmental aspects the organization believes will lead to a competitive advantage (Day & Nedungadi, 1994).

Several specific environmental domains serve as potential organizing schema. Boulding et al. (1994) identified four strategic dimensions as the cognitive framework for strategic decision making: competitor, customer, product, and macro-environmental. We adopt these dimensions in assessing an organization's strategic orientation. A competitor orientation focuses on current and potential competitors, while a customer orientation emphasizes the interests of target buyers. A product orientation represents an internal focus emphasizing quality and efficiency. A macro-environmental orientation emphasizes issues and trends outside of the organization's immediate industry. Strategically complex organizations are attuned to and utilize multiple dimensions when interpreting their environment and are capable of differentiating and integrating complex environmental information (Streufert & Swezey, 1986). Thus, strategic complexity is defined as an organization's capacity to construe its environment in a multidimensional manner. Through this cognitive framework, an organization makes sense of the situation by encoding and assigning meaning to environmental cues.

The strategic decision making process engages multiple participants representing different points-of-view. Deciding on a course of action involves a mingling of beliefs among decisionmakers (Frankwick, Ward, Hutt, & Reingen, 1994) and is part of sensemaking (Weick et al., 2005). Decision making is a way of ascribing meaning (Weick, 1995). It involves not only an analysis of the situation but also the formulation of alternatives and selection criteria (Milliken, 1990). In other words, decision making is an effort by organizational members to develop meaning as well as determine choice, which is embedded in sensemaking.

Multiple perspective consideration is defined as the differentiation and

integration of multiple perspectives during decision making. These perspectives entail the beliefs of organizational decision makers about the current situation, if action is appropriate, and what the consequences of those actions might be. In exploring multiple perspective consideration, this study considers three phases: identification, development, and selection. Mintzberg and colleagues (1976) have concluded that these phases are not addressed in a discrete, sequential manner, but rather are simultaneous, interrelated events. Organizations engage in complex decision making by simultaneously considering multiple perspectives during engagement in problem definition, alternative development, and solution selection. By cycling within the decision making process, organizations make sense of their environment by maneuvering from little understanding to deeper comprehension.

Organization Sense Making and Channel Behavior

The business environment is increasingly complex. This complexity derives in part from exponential increases in organizational information processing capabilities, an increasingly dynamic and global business environment, and increasing amounts of information about both the content and structure of this environment (Satish, 1997). Growing environmental complexity offers organizations both problems and opportunities. As interpretative systems (Daft & Weick, 1984), organizations can become overwhelmed with information. Managers commonly employ simplified “mental models,” focus on selected environmental domains, and utilize “rule of thumb” heuristics for decision making; what Simon (1957, p. 120-136) terms “bounded rationality.” Interdependent action and communication among multiple independent members, potentially focusing on different environmental domains, further complicates information processing within an organization. This becomes increasingly evident as organizations confront situations marked by ambiguity and complexity, as is frequently the case during marketing strategy formation.

Organizations can either reduce or absorb complexity (Boisot & Child, 1999). Organizations that reduce complexity focus internally and attempt to buffer their internal systems from the distractions of environmental change. Organizations that absorb complexity develop “complex adaptive systems” that seek to integrate and synthesize diverse and potentially conflicting aspects of their environment and consider multiple competing interpretations when formulating response options (Gell-Mann, 1994, P. 212-229). By developing more varied images of the environment, such organizations “engage in sensemaking that is more adaptive than ... organizations with more limited vocabularies” (Weick, 1995, p. 4). These organizations maintain a sensemaking capability, which is a bundle of collective routines that shape what information is assimilated, how it is interpreted, and which actions are considered (Sackman, 1991; Thomas, Clark, & Gioia, 1993; Weick, 1995; Weick, Sutcliffe, & Obstfeld, 2005).

Organizational sensemaking is a fundamentally social process: organization members interpret their environment in and through interactions with others, constructing accounts that allow them to comprehend the world and act collectively (Sackman, 1991; Weick & Roberts, 1993). Previous efforts to understand sensemaking in marketing have been based in market orientation. Studies of market orientation have examined the ability of a firm to collect and react to environmental information by generating, disseminating, and responding to information about customers and competitors (Jaworski & Kohli, 1993; Slater & Narver, 1995). Day (1994a) synthesizes these studies and argues that market driven organizations have superior market sensing and customer-linking capabilities. He, further, emphasizes that every discussion of a market orientation highlights the ability of a firm to continuously sense and act upon trends and events in the environment.

Recent sensemaking research, however, has either tended to focus on its cognitive aspects (e.g., Griffith, 1999; Thomas et al., 1993) or has examined social

processes that play out in extreme conditions or crisis situations (e.g., Weick, 1993; Weick & Roberts, 1993). Less attention has been paid to the sensemaking that occurs among channel members as they address a range of issues with manufacturer. Such channel members engage in sensemaking from a variety of organizational positions and personal backgrounds that create divergent frames of reference and lead them to take on different roles in sensemaking processes. Despite the challenges raised by the inherently social nature of sensemaking, organization sense making and channel behaviour remain relatively under examined.

Modern organizational sense making

Hsee's theory

Recent years have witnessed a growing interest among psychologists and other social scientists in subjective wellbeing and happiness. Here we review selected contributions of Christopher K. Hsee who is the typical representative of behaviour science to this development from the literature on behavioural decision theory. Hsee' research in decision making can be divided in the following categories: Inconsistencies in decision making; joint and separate evaluation in decision making; Cross-national differences in decision making; Elastic justification in decision making.

Inconsistencies in decision making

Most effects that have intrigued scholars of behavioural decision theories can be characterized as “inconsistencies.”

Inconsistencies of Decision and experience

A fundamental assumption of classic economic theory is that people are able to identify and choose what is best for them, conditional on being well-informed about their circumstances. This assumption is not an idiosyncratic doctrine of economics; it is shared by the general public.

Recent findings from behavioural-decision research provide evidence that people are not always able to choose what yields the greatest happiness or best experience (Loewenstein & Lerner, 2003, P. 619-642). People fail to choose optimally, either because they fail to predict accurately which option in the available choice set will generate the best experience or because they fail to base their choice on their prediction, or both (Hsee & Hastie, 2006).

To choose the experientially optimal option, decision-makers need to predict accurately the experiential consequences of their choice options. Individuals rely on a variety of strategies to make these predictions, including quick emotional responses triggered by associations with similar previous experiences, conscious recall and evaluations of related previous experiences, and savouring or simulation of future experiences to infer their hedonic qualities (Mellers, 2000). Behavioral-decision researchers have identified several systematic biases in these predictions, which include Impact bias, Projection bias, Distinction bias, Memory bias, Belief bias. The projection-bias research is concerned with the difference between prediction and experience in visceral states (aroused versus unaroused). The distinction-bias research focuses on the difference between evaluation modes (JE versus SE). The impact-bias research explores the extent to which non-focal events affect one's life and the extent to which a sense-making system operates. Experiencers are distracted by non-focal events and are immunized by the sense-making process whereas predictors are not. According to the memory-bias literature, experiencers undergo a sequence of momentary experiences as an event unfolds, whereas predictors base their prediction on a summary evaluation. And according to the belief-bias literature, experiencers

face specific circumstances, whereas predictors use lay theories derived from general circumstances.

To choose the experientially optimal option, decision-makers not only need to make accurate predictions of future experiences, but also need to act on their predictions. Yet they do not always do so. Instead of choosing what they predict will generate the greatest overall happiness, they variously choose the option that has the greatest immediate appeal (impulsivity), that fits their choice rules (rule-based choice), that is easy to justify (lay rationalism), or that yields the greatest token reward such as money (medium maximization).

Inconsistencies of Predicted Experience and Decision

Decision-makers are sometimes depicted as impulsive and overly influenced by ‘hot’, affective factors. Hsee (2003) suggested that decision-makers may be too ‘cold’ and overly focus on rationalistic attributes, such as economic values, quantitative specifications, and functions. In support of this proposition, he found a systematic inconsistency between predicted experience and decision. That is, people are more likely to favour a rationalistically-superior option when they make a decision than when they predict experience.

Internal and substantive inconsistencies in decision making

Hsee & Zhang (2004, P. 61-73) suggested that these inconsistencies fall into two general categories: internal and substantive inconsistencies. Most existing research on judgment and decision making concerns internal inconsistency (Kahneman, 1994). An internal inconsistency occurs when people’s decisions violate one or several basic axioms of rational decision theory, such as procedure invariance, descriptive invariance, cancellation, and transitivity. Hsee & Zhang (2004) point out that a prime example of internal inconsistency is the preference-reversal phenomenon, that the preference elicited using one method differs from the preference elicited using

a different -- but normatively equivalent -- method. This constitutes a violation of procedure invariance. Scholars of preference-reversals are interested in why decisions made under normatively equivalent conditions contradict each other and not in whether the decision in either condition is “good” or “bad” according to an external criterion. Hsee (1996) investigated a particular type of preference reversal (PR), existing between joint evaluation, where two stimulus options are evaluated side by side simultaneously, and separate evaluation, where these options are evaluated separately. He first examines how this PR differs from other the same alternatives types of PRs and review studies demonstrating this PR. He then propose an explanation, called the *evaluability hypothesis*, and report experiments that tested this hypothesis. According to this hypothesis, PRs between joint and separate evaluations occur because one of the attributes involved in the options is hard to evaluate independently and another attribute is relatively easy to evaluate independently.

Inspired by Kahneman and his co-authors’ work on decision, predicted, and experienced utilities, a new direction in judgment-and-decision research has emerged. It concerns the substantive inconsistency of decisions. A substantive inconsistency occurs when one’s decision is suboptimal according to some external substantive criterion, such as the maximization of (predicted) hedonic experience (Kahneman, 1994). The criterion requires decision-makers to choose the option that brings the greatest (predicted) experienced utility (Hsee & Zhang, 2004).

Cross-national differences in decision making

In recent years, researchers have come to discover systematic cross-national differences in many fundamental psychological effects, such as the construal of the self (Markus and Kitayama, 1991), the fundamental attribution error (Morris and Peng, 1994), the need for control (Sethi and Lepper, in press), to name just a few. However, little is known about whether people in different nations differ in risk preferences.

Hsee & Weber (1999) explored whether there are systematic cross-national differences in choice-inferred risk preferences between Americans and Chinese. He found that the Chinese were significantly more risk seeking than the Americans, yet that both nationals predicted exactly the opposite - that the Americans would be more risk seeking. He then compared Americans' and Chinese risk preferences in investment, medical and academic decisions, and found that Chinese were more risk seeking than Americans only in the investment domain and not in the other domains. These results are explained in terms of a 'cushion hypothesis', which suggests people in a collectivist society, such as China, are more likely to receive financial help if they are in need (i.e. they could be 'cushioned' if they fell), and consequently, they are less risk averse than those in an individualistic society such as the USA.

Elastic justification in decision making

When making judgments, one may encounter not only justifiable factors, i.e., attributes which the judge thinks that he/she should take into consideration, but also unjustifiable factors, i.e., attributes which the judge wants to take into consideration but knows he/she should not. Hsee (1996b) proposed that the influence of an unjustifiable factor on one's judgment depends on the presence of elasticity (ambiguity) in justifiable factors; the influence will be greater if there is elasticity than if there is not. He gave two studies involving different contexts to demonstrate the proposed elasticity effect and to suggest that the effect could be a result of a self-oriented justification process.

What's more, Hsee (1995) studied task-oriented decision situations where the decision maker faces two options, one superior on a factor directly related to the given task (called the A factor) and the other superior on a factor not central to the accomplishment of the task but tempting to the decision maker (called the B) factor. According to the elastic justification notion, the decision maker may find it unjustifiable to choose the B-superior option over the A-superior option if there is no

uncertainty in the A values of the two options, but will construct a justification and become more likely to choose the B-superior if there is uncertainty. In support of this proposition, Hsee (1995) gave two experiments employing a simulated decision situation and found that subjects were indeed more likely to choose the B-superior option when there was uncertainty in the A factor than when there was not, no matter whether the uncertainty resided in one of the options or in both options.

Hsee's theory and channel behavior

From the above review, we can find that Hsee don't study the behavioural decision theory about distribution channel directly, however his research can be used to explain distribution channel behaviour, because when channel members make decision, their decision may be effected by experience or by predicted experience, and even may be self-contradictory. Moreover, distribution channel behavioural decision may be cross-national differences, for example, Hsee & Weber (1999) pointed out there are systematic cross-national differences in choice-inferred risk preferences between Americans and Chinese, so, to some extent, when the manufacturer is US enterprise and distributor is Chinese enterprise, Chinese distributor may make decision in risk preference, for example, he may have more Channel opportunism.

Hsee's theory can explain human being's behaviour and decision making well, however, Hsee don't study channel member behaviour directly. But, Hsee's theory helps to explain why channel member choose to coordination or conflict in future research of DBA dissertation.

6. Orientations of Channel Behaviors

Channel behavior

There are two main domains in western channel theory: one is the channel structure which is to study how channel constructs, the other is the channel behaviour which is to study how the channel members realize, construct and deal with channel relationships. In channel behaviour domain, how the channel members to cope with conflict and how the channel members to get competition advantages through coordination are the study emphasis of western channel theory. In the following part, the paper will state channel conflict and channel coordination individually.

Channel Conflict

Definitions of channel conflict

In western countries, the theory of channel conflict derives from the research of conflict which comes from philosophy and sociology originally and forms conflict theory in organizational behaviour nowadays (Duarte & Davis, 2003).

Conflict has been defined several ways in both channel and organizational behaviour literatures (Pondy, 1967). Early definitions of conflict focused on a wide variety of phenomena, including four parts: the antecedent conditions of behavioural conflict (e.g., scarcity of resources); affective states of the channel members involved (e.g., tension, hostility); the perception or awareness of a conflict situation; and actual conflict behaviour, ranging from passive resistance to overt aggression (Pondy, 1967).

Pondy (1967) considers attempts to decide which of these phenomena is really ‘conflict’ to be an empty controversy. Instead, he argues for a broad working definition to embrace the entire conflict process, and thus all the phenomena above.

Within the tradition of broad definitions, Thomas (1990, p. 651-717) defines conflict as “the process that begins when one party perceives that the other has negatively affected, or is about to negatively affect, something that he or she cares about.”

For channel conflict, the study of conflict within channels of distribution has been a primary area of investigation for over forty years (Dant and Schul, 1992). Stern (1996) defined channel conflict as a situation in which one channel member perceives another channel member(s) to be engaged in behaviour that prevents or impedes it from achieving its goals. Gaski (1984, p. 11) considers channel conflict to be “the perception on the part of a channel member that its goal attainment is being impeded by another, with stress or tension the result.” While many definitions of channel conflict have been offered in the literature, (Gaski, 1984) the common theme appears to be that conflict exists within the channel if one channel member impedes the attainment of the goals of another channel member (Gaski, 1984). Pondy (1967) has conceptualized organizational conflict as a process comprising three main stages: the perceived, felt, and manifest conflict stages. Perceived conflict is a cognitive stage. It represents the point at which either the supplier or distributor becomes aware of some sources of conflict (perceptual incongruity, goal incompatibility and domain dispense). Felt conflict consists of stress, tension, or hostility resulting from perceived conflict. Manifest conflict is the behavioural or action stage of conflict. As Lusch (1976) notes, it is often characterized by verbal or written disagreements between channel members.

The implications for the researcher are that conflict should not be considered to be a single phenomenon. It follows that channel conflict study should include its sources and its forms.

Studies of channel conflict

As we all know, conflict is pervasive and virtually inevitable in B-to-B relationships and particularly when there is a functional interdependency between two

businesses as in a marketing channel (e.g., Refs. [Reve& Stern, 1979]). In the last two decades, channel conflict issues in supply chains have received considerable attention from both practitioners and researchers, and a large number of theoretical and empirical studies have been performed.

The research can be categorized into two opposite views.

Some scholars take an opinion that channel conflict is negatively related to channel performance, thus can be dysfunctional. Some empirical studies have found the expected inverse relationship between conflict and performance (Cronin & Baker, 1993). For example, Kelly and Peters (1977) argued that conflict is negatively related to performance, but developed limited evidence to support the claim. Webb & Hogan's (2002) findings indicate that hybrid channel conflict is an important determinant of both channel performance and satisfaction and the frequency of conflict, but not its intensity, has a negative effect on channel system performance. Their suggestion shows that whereas the hybrid channel conflict can reduce channel performance, it can also serve as a mechanism forcing internal channel coalitions to work harder and smarter to serve their markets. Lee D. Y. (2001) investigated the relations between power, conflict and satisfaction with channel relationships from the Chinese distributors' perspective, and the results indicate that there is negatively relationship between channel conflict and satisfaction with relationship. The primary construct linkages studied here are supported and are found to be similar to those in Western channels, but the strengths of the relations are quite different. Duarte and Davies (2003) explain the reason is that conflict is an opponent-centered behavior, it can ultimately degenerate into moves that intentionally aim to destroy, injure, or obstruct another party, thus being malignant not only for the parties involved but also for the entire channel system. The sources of channel conflict are an antecedent condition and reflect an underlying mechanism of incompatibility between channel partners (Brown & Day, 1981). Stern and Heskett (1969, p. 288-305) suggest primary

sources of conflict as goal incompatibility. Each channel member has its own set of goal and objectives to satisfy, which may be incompatible with those from other channel members. Goals are incompatible not merely when they are different, but rather when they are unattainable simultaneously (Cadotte & Stern, 1979). Incompatible goals are a potential cause of conflict, because they induce behaviour by one channel member that hinders the achievement of another channel member's goals. The primary emphasis of the past literature reduces conflict to a negative force that must be managed (Walters, 1974), reduced (Reve and Stem, 1979) or resolved (Dant and Schul, 1992).

Other scholars take an opinion that channel conflict is positively related to channel performance, thus can be functional. For example, Pearson (1976) found no statistically significant difference in performance between channels with relationships characterized by conflict and those with relationships characterized by cooperation, while Rosson and Ford (1980) found manifest conflict to correlate positively with performance. Assael (1969), in a 2-year exploratory study in franchise channels, found that in the presence of special requirements, conflict can be constructive and may have a positive impact on channel performance. Lusch (1976), in franchise channels, found that conflict between car manufacturers and their dealers did not always reduce performance. There are several explanations for the lack of a clear relationship between conflict and performance. The most common is that conflict is not necessarily dysfunctional (Pondy, 1967). Stern et al. (1996) contend that without any conflict, a channel system may even lose its viability, because its channel members tend to become passive and non-innovative. However, while most of the previous research recognizes the potential of conflict to be either functional or dysfunctional, (Anderson and Narus, 1990) the functional nature of conflict has been largely ignored. From the work of Pondy (1967) and Brown and Day (1981), functional conflict is conflict where conflict aftermath or outcome results in long-term benefits to all (or both in the case of a dyad) channel members. The literature has

isolated numerous, possible benefits from conflict in the channel. Assael(1969) for example determined that functional conflict can: (1) require critical inquiries of organizational policies; (2) improve communication and grievance procedures; (3) standardize modes of conflict resolution; (4) result in more equitable distribution of power and resources; and (5) develop countervailing power. Others have suggested that functional conflict can produce a sense of unity (Walters, 1974), produce higher financial performance (Dommermuth, 1976), lead to a reappraisal of channel policies (Rosenbloom, 1973), and keep the organization responsive to the environment (Brett, 1984).

From the above literature, we can see that the literature has recognized that conflict may lead to functional or dysfunctional consequences (Anderson & Narus, 1990). But whether conflict lead to functional or lead to dysfunctional consequences can't be discussed or regarded in the same frame of mind. It can't be concluded that conflict must lead to functional consequences or dysfunctional consequences. It depends on. Despite the emphasis in the channels' literature on the negative or positive effects of conflict, the notion of "specific conditions, specific analysis" is widely held (Morgan & Hunt, 1994). Past literature has suggested three different methods of determining whether conflict will be functional or dysfunctional: sources of conflict, levels of conflict, and conflict management (Hunt, 1995).

The literature suggests that the source (cause) of the conflict will influence whether the conflict will be functional or dysfunctional (Ross & Lusch, 1982). For example, Litterer (1966) suggests that if conflict is caused by incompatible goals, then the conflict is (will be) dysfunctional; if caused by incompatible means, conflict is more likely to be functional because it may bring about a search for better means.

The level of conflict literature suggests that it is the amount of conflict experienced by the parties involved that determines whether conflict aftermath will be functional or dysfunctional. That is, a conflict threshold exists. Below the threshold,

conflict has a greater probability of being functional. Above the threshold, conflict has a greater probability of being dysfunctional (Brown & Day, 1981).

According to intensity, issue importance and frequency of conflict, Magrath & Hardy (1988, P. 88-101) divided channel of distribution conflict into three levels which are low levels, moderate levels and high levels of conflict. They thought that different levels of conflict exert different influence on channel efficiency. This division is reasonable on one hand, but unclear on the other hand. Rosenbloom (1973) has suggested that low levels of conflict may have little effect on channel efficiency, moderate levels may actually increase efficiency (for example, make channel members to strengthen adaptability, more hypersensitive to market opportunity), but that excessive conflict is dysfunctional, as it may detract from channel efficiency (for example, damage and retaliate each other among channel members). This research focuses on manifest conflict, because it is the only stage in which the distributor and the supplier communicate their disagreements to each other.

Finally, the management of conflict literature suggests that “the presence of conflict per se does not determine the outcomes, but the resolution processes which are operative” (Rosenberg & Stem, 1970, p. 45). Properly managed conflict increases the probability that conflict aftermath will be positive, and therefore, the conflict will be viewed as functional. On the other hand, poorly managed conflict will result in negatively perceived conflict aftermath and, therefore, conflict will more likely be viewed as dysfunctional. The key elements for proper conflict management are providing an environment of trust, openness and communication (Tjosvold, 1984).

From the above research, we can find that it can't be deduced that conflict is good or bad simply, and whether conflict within the channel will be viewed as functional or dysfunctional is effected by the factors including the source of conflict, the level of conflict, and the management of conflict. So, manufacturer should make fully use of functional conflict and turn dysfunctional conflict into functional conflict.

Channel coordination

Effective coordination plays an important role in the successful operation of modern manufacturing and distribution systems. Achieving effective coordination between the supplier and the buyers is a current managerial concern as well as an important research issue. Past inter-organizational studies have included cooperation in conceptual model (cf. Frazier 1983b) and have recognized cooperation as a necessary component in channel relationships (Brown 1981; Frazier & Rody 1991). Retailers need to understand how cooperation is developed and maintained to experience long-term satisfying relationships (Childers & Ruekert 1981).

Yet, most studies that have directly confronted the issue of cooperation have viewed the phenomena as either a form of satisfaction (Anderson & Narus, 1990), or the inverse of conflict (Ross, Lusch & Brown 1982).

Definitions of channel coordination

Channel coordination is defined as behaviour and behaviour intention of mutual benefit. Distribution of channel behaviour theory suggest that channel coordination is rooted from interdependence of channel member and interdependence is consequence of function specialization of channel member (Stem, 1992). Jeuland and Shugan (1983) demonstrated the concept of channel coordination in a simple manufacturer-retailer supply chain in their seminal paper. Their basic assumption was that the manufacturer and the retailer have separate profit and cost considerations that lead to different inventory policies. Typically, the retailer's order quantity is smaller than the manufacturer's production lot size. In order to coordinate the channel, the manufacturer offers the retailer an incentive contract in terms of quantity discounts to induce the retailer to increase its order quantity (Tarakci, 2006).

So, we can conclude, to some extant, channel coordination is achieved if the

retailer's order quantity that optimizes profit under the incentive contract also optimizes the total profit of the supply chain.

Channel coordination in game theory

Over the past decade marketing scientists have developed a significant and multifarious literature concerning the structure and coordination in distribution, and its related issues have also generated considerable researches in both the marketing and economic literature (Choi, 1991; Coughlan, 1985; Douglas, 1975; Ingene & Parry, 1995; Jeuland & Shugan, 1983; McGuire & Staelin, 1983). Many of these studies have limited to manufacturers and their channel intermediaries, and the analysis of competition and cooperation were used by game theory (Chen et al., 2006).

McGuire and Staelin (1983) studied the impact of product substitutability on Nash equilibrium distribution structures in a duopoly where each manufacturer distributes its goods through an exclusive distributor. Jeuland and Shugan (1983) focused on channel coordination in the context of a single producer and a single distributor channel. They found that coordination between a producer and a distributor via a quantity discount schedule could lead to higher profit for channel members. Jeuland and Shugan (1988) analyzed the possibility of channel coordination without formal arrangement such as vertical integration or contracts. They argued that channel members, being aware of interdependencies between themselves, might form conjectures concerning other members' reactions to their own actions. Iyer (1988) studied channel coordination under both price and non-price (e.g., customer service) competition.

In another expansion, Choi (1991) addressed channel profits when the channel structure consists of two manufacturers and a single common distributor. The model consisted of three non-cooperative games: the Manufacturer–Stackelberg game, the Retailer–Stackelberg game and Vertical–Nash equilibrium. Choi proposed product

differentiation and cost reduction as methods to encourage channel coordination. Sudhir (2001) extended Choi's channel structure by studying vertical manufacturer and distributor interaction as well as horizontal interactions between the manufacturers. Sudhir (2001) modeled manufacturer–retailer interactions by using the Manufacturer–Stackelberg and Vertical–Nash equilibrium games.

Rather than two manufacturers using a common distributor, Ingene and Parry (1995) took the opposite approach and studied channel coordination by focusing on a single manufacturer using two competing distributors. They also used a non-cooperative Stackelberg game, where the manufacturer could apply either two-part tariffs or a schedule for quantity discounts. They found that while quantity discount schedule had facilitated channel coordination, the two-part tariff did not. Gerstner and Hess (1991) looked at a monopolist manufacturer distributed goods through a single, independent distributor with two types of customers: those who were willing to pay a high price and the others were only willing to pay a low price. They found that when the manufacturer used price promotion, it would motivate distributor's participation. In previous research, Gerstner, Hess, and Holthausen (1994) extended their model by having a single manufacturer with several competitive distributors. The manufacturer employed a pull discount strategy by offering consumers a low price, and then set wholesale prices after observing the markup percentage used by distributors. Lee and Staelin (1997) attempted to provide a generalized model allowing two manufacturers to interact with two distributors.

Manufacturers may coordinate with distributors through several different methods. In particular, the rise in distributor power has created significant problems and conflicts for manufacturers (Bandyopadhyay & Divakar, 1999). The growing power of large distributors (e.g., key accounts) has increased significantly in the past decade. Many of these large distributors depend on promotional allowances from manufacturers and no manufacturers can unilaterally stop offering trade allowance

without losing distributor support (Kotler, 2003). Segal-Horn and McGee (1989, p. 24-48) suggested several methods for manufacturers to diminish these concerns including vertical integration, franchising and alternative channels such as a mail order, electronic commerce or telemarketing thereby reducing the importance of intermediaries (Keh & Shieh, 2001).

From the above research, it can be found that the focus of the literature has been primarily on the channel coordination in game theory. The research context involves from “a single producer and a single distributor channel” to “two manufacturers and a single common distributor”, then to “a single manufacturer using two competing distributors”; the research model involves from Nash equilibrium game to Stackelberg game. These research identified equilibrium marketing channel coordination by using a classical demand function, and classical economic theory often ignored transaction costs. In 2006, Chen et al. develop a transaction cost linear demand function to investigate channel decision marking when transaction costs exist, they use game theory to compare a non-cooperative equilibrium of a differential game played under Stackelberg strategies. By focusing on the effect of the distributor’s transaction costs with respect to the marketing decision variables, especially the transaction cost and profit distribution, they obtain a fuller understanding of the entire decision structure. However, while the intention was to use a model as simple as possible to highlight the important issue, this work is obviously limited by some particular assumptions. In their paper, it is only assuming that the transaction cost efficiency index to customers is the same (e.g., $k_1=k_2=k$). In reality, they affect each other tremendously since locations are different, customers are different and there are different preferences for each type of distribution channel. So, it is important for future researches to consider the uniqueness of each distributor (e.g., services), preferences of different customers (e.g., perceived transaction costs), and an empirical analysis in the model.

Orientations amongst channel behavior

Previous research in marketing (John P. Murry & Heide, 1998), economics (Klein & Leffler, 1981), sociology (Granovetter 1985), and organization theory (Ouchi 1980) suggests that channel behaviour is influenced by two types of variables. The first is the nature of the interpersonal relationship that exists between the boundary personnel in the retailer's and manufacturer's firms, designed to reduce or eliminate goal incompatibility between the parties in the first place. The second are various organization-level variables, including incentive premiums (promotional allowances) , which make it economically attractive for a party to engage in particular behaviors. John P. Murry and Heide (1998) extend previous research by examining both the independent and joint effects of these factors on one of channel behaviour -retailer participation. On the basis of an empirical study involving a conjoint task, the authors show that the presence of a strong interpersonal relationship does not diminish the importance of other variables, such as incentives. Within the limits of the conjoint task, the results also suggest that interpersonal relationships are less important determinants of participation than economic incentives.

As noted previously, conflict and cooperation are the two dominant sentiments that regulate exchange relationships (Dixon & Wilkinson, 1986). Conflict is defined as interference that hinders the accomplishment of individual and/or mutual goals (Stern & Reve, 1980). In contrast, cooperation is the joint striving toward individual and mutual goals (Brown 1981).

Conflict and cooperation stem from the nature of the interdependence among exchange partners (Dixon & Wilkinson, 1986) and can co-exist in a relationship (Alderson & Narus, 1990). For example, a great deal of media coverage in the auto industry has focused on the impact of declining consumer demand on the financial performance of auto manufacturers and dealers. Manufacturers blame their poor

performance on dealers by complaining that unethical practices of dealer are ruining the industry's reputation. On the other hand, car dealers blame declining performance on manufacturers by claiming that manufacturers are preventing them from being innovative retailers (Treece, Zellner, & Konrad 1989). Despite this conflict, manufacturers and dealers cooperate with one another because they are dependent on each other to achieve desired goals (cf. Dwyer 1980). They choose to cooperate for both political reasons (Anderson & Narus 1984; Frazier 1983b) and economic reasons (Williamson 1988). Alderson (1965) established the notion that the economic survival and prosperity of individual firms are achieved within the channel by managing relations so that cooperation and conflict find some level of balance satisfactory to channel participants.

The transactional cost and relational exchange literatures use cooperation and conflict as a middle ground for explaining the rationales for channel relations (Williamson 1988). Macneil's (1978) work on relational norms suggests that cooperation increases the mutuality, solidarity, and role integrity of channel relations, while Williamson's (1988) study of economic organizations emphasizes the importance of cooperation in safeguarding transactions against the hazards of opportunism. However, as was illustrated in the auto industry, neither conflict nor cooperation in isolation describe the dominant sentiments of the manufacturer-dealer relationship.

While inter-organizational relationships can be characterized by conflict and cooperation simultaneously, conflict and cooperation do tend to be inversely related (Frazier 1983b). Previous research has not empirically examined the conflict-cooperation linkage; however, Frazier (1983b) has suggested that the resolution of conflict leads to cooperation.

The manufacturer depends on resellers to perform a variety of functions on its behalf, including the provision of shelf space, local advertising, point-of-purchase

promotion, and implementation of an effective pricing strategy. However, differences in goals and preferences between a manufacturer and a reseller can lead to conflicts over how channel revenues and costs should be allocated among the participants and can produce incentive problems within the channel. If a powerful manufacturer attempts to increase profits by offering relatively low margins to a reseller, for instance, that reseller may not have adequate incentives to promote or price the product

7. Manufacturer Objectives Implementation

Transaction cost and producer business objectives

Deciding what levels of integration the firm should use within its channels of distribution in various level markets is difficult for any firm(Erdem, 1993). At one extreme, the firm can perform all marketing and distribution functions itself. At the other extreme, the firm can choose not to perform any of the necessary functions, instead using outside merchants who take title to the firm's goods for resale to other middlemen and final buyers. Between these extremes, a continuum of market hierarchy options is usually available (Anderson & Gatignon 1986).

Stem and El-Ansary (1988) stress that the channel integration decision is a critical component of any firm's marketing channel strategy. Choosing the right level of channel integration can make the difference between success and failure in a market, as it represents a point of vulnerability for the firm in terms of both market response and opportunity losses (Root 1987). Moreover, the correct decision must be made early, because initial commitments may not be easy to terminate. The question that must be answered is what degree of forward integration firms should choose and why.

Most empirical research in the channels literature has centered on the management of ongoing dyadic channel relationships rather than on the structure of the channel. Fortunately, interest in channel integration issues has been rising among channels researchers in recent years, in part because of the development of transaction cost analysis by Williamson (1975, p. 56-85, 1985, p. 79-95; see Anderson and Weitz 1986). Important empirical studies on channel integration have been performed by Erdem (1993), Mols (2000), Anderson (1985), and John and Weitz (1988). Erdem

(1993) relates TCA to the same channel structures in its original use, summarizes the major vertically integrated channel structures and emphasizes the significant role of exercised power in these systems. Mols (2000) analysed and explained the existence of dual distribution channels by the use of transaction cost theory. Anderson (1985) and John and Weitz (1988) developed and tested models based on transaction cost analysis. These studies represent an excellent start, but a variety of important research issues remain unresolved.

To what extent should a firm perform all marketing distribution functions internally instead of relying heavily on outside intermediaries? The traditional answer in the marketing literature has been based on a production cost argument (Stem and El-Ansary 1988). The assumption has been that all firms desire more control, which leads to a preference for integration, but that such arrangements will not be feasible unless the associated fixed costs can be spread over a large volume of business.

Furthermore, as the volume of business increases, firms are able to specialize in the performance of marketing-distribution functions and reap the benefits of economies of scale. Though production costs appear important, especially in terms of "efficiency" as opposed to "control," they alone are insufficient to explain variations in channel integration. For example, a production cost explanation cannot account for the use of market exchanges by large firms or different degrees of integration by firms of smaller size and less experience.

Transaction cost analysis (Williamson 1975, p. 56-85; 1985, p. 79-95) offers another perspective to help us understand better the forces shaping channel structure. A transaction is a process by which a good or service is transferred across a technologically separable interface (Williamson, 1975, p. 56-85). In the classical economic theory it is not only argued that the price mechanism to be able to coordinate the behavior of transaction, but also assumed that consumer information is symmetric in the market. Since both buyers and sellers have the same amount of

information; the transaction can be executed without cost. In reality markets are often inefficient (e.g., information asymmetry) and uncertain (e.g., product and process uncertainty). In order to process a transaction, customers must conduct activities such as searching for information, negotiating terms, and monitoring the on-going process to ensure a favorable deal (Coase, 1937). The cost involved with such transaction-related activities cost represent transaction cost. McEachern (2000) argued that the transaction costs are the costs of time and information required to carry out market exchange.

Transaction cost theoretically explains why a buyer or a seller chooses a particular form of transaction instead of the other. The principle of transaction cost is that people like to conduct transactions in a way that minimize their transaction cost because transaction cost provides no value to either the buyer or seller. Williamson (1979) observed that human nature and the environment of exchange can cause market failure due to unacceptably high transaction costs in transaction processes; differences in the character of exchange level such as uncertainty, frequency and asset specificity can influence the transaction cost.

From the above analysis of transaction cost, we could see that the basic premise of transaction cost analysis (TCA) is that the firm will internalize activities that it is able to perform at lower cost and will rely on the market for activities in which other providers have an advantage. TCA is built on a microanalytic framework with strong behavioral reality. Channel members are assumed to be subject to bounded rationality. Furthermore, at least some actors are assumed to be opportunistic (i.e., having a tendency to cheat other parties) if given the chance. Imperfect, or asymmetric, information may give such actors an exploitable advantage in their dealings with other parties.

Transaction costs (i.e., the costs of governing the system) tend to be low in highly competitive markets, thereby providing little or no incentive to substitute

internal organization for market exchange. In contrast, when faced with an inability of markets to impose behavioral constraints and enforce simple contracts, firms are expected to internalize transactions to reduce costs of exchange. A limit on integration is the fact that organizations are not perfect and transaction costs also are present within them.

Though TCA tends to downplay the impact of production costs on forward integration, the objective is to minimize the sum of transaction and production costs in making forward integration decisions (John & Weitz 1988; Williamson, 1985, p. 79-95). The higher the costs of contracting externally, the greater is the incentive to internalize transactions.

Unlike production costs, transaction costs are very difficult to measure because they represent the potential consequences of alternative decisions. Researchers examining transaction cost issues almost never attempt to measure such costs directly, but rather test whether organizational relations align with the attributes of transactions as predicted by transaction cost reasoning (Williamson 1985, p. 79-95). "The level of specialized assets required to support the exchange, the uncertainty surrounding the exchange, and the frequency of exchange are identified as the principal factors that make market-mediated exchange inefficient" (John & Weitz 1988, p. 121-122). Asset specificity is the extent to which specialized investments are needed to support an exchange, whereas uncertainty reflects the ability to predict relevant contingencies, both internal and external to the firm. "Frequency" refers to the distinction between one-time and recurrent exchange.

Relying on only transaction cost theory has its advantages and limitations. Transaction cost theory has restrictive, explicitly stated behavioral assumptions, and a number of testable propositions can be advanced from the framework. It represents a static structural approach, it does not recognize the development of trust-based business relationships. Thus, it ignores recent literature on relationship marketing and

management (Anderson & Narus, 1999). In fact, the parties in the relationship may view each other as extensions of the firm and thus as an external source of a broad range of resources such as people, knowledge and network connections (Dyer & Singh, 1998). Key elements in close relationships are the interdependence between the supplier and the distributor, the mutual trust and openness, shared objectives and a commitment to doing business with each other on a long-term basis. These business-to-business relationships have been found to have a complex pattern of interaction between the members of the two organizations and bonds of different types and strengths, i.e. economic, informational, organizational, knowledge, technical and social bonds (Hakansson, 1982, p. 98-108). By entering into a closer cooperative relationship involving investments in transaction-specific assets, it is possible to improve daily interaction, product and process developments and hence the performance of the companies in the relationship (Ford et al. 1998).

Measurements of distribution channel performance

Many scholars have studied the channel performance measurement. For example, Pegram (1965) found that most of producer take channel performance variable as sales performance, stock keeping, sales ability, attitudes of channel members, competition faced by channel members and development of channel members. Gaski and Nevin (1985) defined channel performance as the degree to which a supplier's relationship with a dealer contributes to fulfillment of the supplier's objectives. They propose that channel performance is the consequence of interaction of channel members and can be studied from coordination, satisfaction, promises and et al. Kumar, Stern and Aulakh (1992) integrated other scholar's opinion, and constituted four model (including rational goal model, human relations model, internal process model, open system model) to measure distributor's performance from manufacture's opinion.

From the above research, we found performance measurement has been categorized as either objective or subjective (Van de Ven & Ferry, 1980) (Table 9). Objective measures are those that require “a direct assessment of organizational properties without any conceptual transformation”; whereas subjective measures are those that require “an indirect assessment of organizational properties by instruments which measure group perceptions” (Payne & Pugh, 1976). For example, objective measures of performance include cost reduction, production ratio, time efficiency, stock amount, etc. Unfortunately, previous research has not found little convergent validity of the two measures.

In Pennings’ (1973) research, he reported low correlations between the objective and subjective measures of group performance even when these measures were collected from the same sample base. But we can’t draw a conclusion that objective measures are more valid than subjective measures, because objective organization documents can have serious limitations and sometimes are less accurate than asking respondents directly.

Subjective measure, such as, degree of dedication, developing potential, satisfaction, quality of distribution relationship and enterprise image, can be further divided into two categories: self-report evaluations and supervisors’ evaluations. If the correlations between supervisors’ evaluations and objective performance measures are low, then the correlation between self-report assessments and objective measures can only be worse. Indeed, Connolly, Jessup and Valacich (1990) even reported a negative correlation between them. As a result, they advise that both self-report assessments and objective measures should be used together to ensure measurement accuracy. However, objective measures may not exist for many real-world systems, that’s to say, they can be very costly to acquire.

To conclude, it is ideal to include both objective and subjective measures together, because the two measures represent somewhat different constructs.

Measurements of distribution channel performance	Items
Objective measures	cost reduction, production ratio, time efficiency, stock amount, etc
Subjective measure	degree of dedication, developing potential, satisfaction, quality of distribution relationship and enterprise image

Table 9: Measurements of distribution channel performance

Considerations of CIP to improve distribution channel performance

Nowadays, supplier's incentive programs play an important role in keeping relationships with independent channel distributors. Previous research in marketing, economics, sociology, and organization theory suggests that two types of variables influence channel incentive. The first is the western channel incentive theory, and the second is Chinese guanxi. Therefore, considerations of CIP to improve distribution channel performance involve the two facets.

There are many literatures in western channel incentive theory to study the relationship between CIP and distribution channel performance directly or indirectly. For example, Murry and Heide (1997) suggested that carefully crafted incentive program motivate distributors to participate in suppliers' promotional programs. Chu and Desai (1995) advanced that excellent incentive program can support suppliers' customer service objectives. Narus and Anderson (1996) showed that incentive program is able to seek continuation of an ongoing relationship. Also, because information is embedded in incentives, role ambiguity is reduced, end-user needs more clearly identified (Challagalla & Shervani, 1996), and opportunistic behaviors less likely to occur (Stump & Heide, 1996). Therefore, Gilliland and Bello (2001) draw a conclusion that these factors enhance the supplier's ability to control its channel and to subsequently attain high performance outcomes. Clearly, channel

incentives are so closely tied to specific performance, so they play a key role in allowing many suppliers to maintain productive relationships with channel members.

Many researches examine how and when guanxi operates as a governance mechanism that influences firm marketing competence and performance in the transitional economy of China. Through the accumulation of trust, guanxi helps nurture goodwill and cooperative norms among partners in a channel system (Doney & Cannon, 1997). These shared values and norms are critical ingredients that offer a platform for channel partners to work together to expand their markets (Heide & John, 1992). This is especially true with distribution channels in China's growing markets (Gu et al., 2008). Mutual trust in channel members' reliability and integrity, when verified and reinforced over time, encourages collaboration (Dwyer, Schurr, & Oh 1987). Channel members also help firms resist environmental threats because channel partners bonded in a guanxi network would assume sacrifice in anticipation of reciprocal rewards when the threats subside (Zhang, Cavusgil, & Roath 2003). In short, guanxi reduces transactional costs and suppresses opportunistic behaviors that are typical problem areas in inter-firm relationships (Doney & Cannon, 1997).

Guanxi also enhances channel capability through its intrinsic control benefit. Given the complex web of favors and obligations, control benefits of guanxi operate at both the firm and the individual levels. At the corporate level, China's SOEs and local-government-owned enterprises are known to first "cooperate" with their likes before working with others (Boisot & Child, 1996). The shared organizational culture and operating procedures enable them to be more effectively monitored, leading to effective channel governance. This also makes interfirm transfer of favors easier.

At the individual level, guanxi's control benefits are also strong. Vanhonacker (2004) notes that some managers are more effective than others because they have built up a set of obligations with other managers, and they can get things done by using people who "owe" them. Brand managers in China cultivate guanxi among

managers of a channel system and among government officials (Park & Luo, 2001) to accumulate obligations from others. The managers have increased control over guanxi partners' attitudes, decisions, and behaviors because of a surplus of obligations. Through mutual obligations and reciprocal favors, corporate channel capability is strengthened with better controls. Especially, Gu et al. (2008) confirm guanxi's direct effects on market performance and its indirect effects mediated through channel capability and responsive capability. The findings suggest that firms can improve market access and growth through guanxi networks, but managers need to capitalize on them from the personal to the corporate level. This study shows that personal networks are popular universally, but in China, they have unique, distinct ways of operation. In summary, it is not difficult to find that the inherent benefits of guanxi can affect firms' market performance positively through improved channel capability.

We can see from the above literatures that considerations of CIP to improve distribution channel performance involve the two important factors: western channel incentive and Chinese guanxi. However, there is little previous research to examine the two factors to influence channel performance. So, it's necessary to extend previous research by examining both the independent and joint effects of these factors on channel performance.

8. Conclusion and Discussion

In this review, we look at the critical factors that affect the effectiveness of channel incentive programs. There are three distinct views to assess the critical factors that affect the effectiveness of channel incentive programs.

The first is Channel Incentive Theories from economy view. Categories and types of channel incentive programs include positive incentive and negative incentive, cash incentive and non-cash incentive, channel incentives for high technology industry and so on. The study of channel incentive program is very important is because that many research identify a conclusion that channel incentive program is positively related to distribution channel performance.

The second is Chinese Culture & Value “Guan-xi” from culture view. Guanxi is deeply embedded in the mindset of Chinese and in every aspect of their personal and organizational interactions (Park & Luo, 2001). Guanxi is very important is for channel behavior and channel relationship. For Chinese guan-xi, the review finds the Chinese culture roots of guan-xi is Confucianism which emphasizes the importance of interdependent social connections, give existing publications on guan-xi definition and draw a conclusion that guan-xi is a special form of relationship which can tie the business partners by reciprocal exchanges of favours and obligations voluntarily and regularly. Then the review compare related concept of guan-xi, such as ren-qing, gan-qing, western relationship, and study several important attributes of guan-xi, which included utilitarian, reciprocal, transferable, personal, long-term and intangible. Based on the review of guan-xi, the paper found that cooperative partners with close guanxi may care more about long-term development of the relationship and mutual interests in the future, easily get to channel coordination.

The third is organization sensemaking from cognitive view. In face of complex business environments, different channel member will make different decision

because of different cognition and sensemaking.

One may wonder why the supplier would not simply offer an incentive package that covers the spectrum of possible reseller performance concerns. Then, a reseller could select the incentive that addresses its particular situation, ignoring others on the menu until its performance needs change. In fact, recent research implies that suppliers are expanding the breadth of incentives offered (Gilliland, 2003; Narus & Anderson, 1996). While this may be a worthwhile strategy in some cases, two important issues should be considered.

First of all, managing many different incentives burdens the supplier, particularly if the incentives promote opposite behaviours. For instance, if a supplier simultaneously encourages the reseller to focus on short-term selling activities and the long-term acquisition of expertise, confusion may result. The supplier should be aware that many incentives, such as providing personal assistance in the field and co-marketing, require the investment of a good deal of money and effort. It is unlikely that a supplier could devote adequate resources towards an incentive package that is overly broad.

A more important consideration may be the incentive program's potential effect on supplier performance. Because of the control characteristics inherent in channel incentives, suppliers can craft incentive packages to address their own performance concerns. For instance, a supplier concerned with goal attainment may offer high-powered incentives in hopes that resellers will immediately pursue short-term selling activities. If the concern is adaptability, an incentive can be offered to motivate the reseller to expand into new markets. Thus, if a full range of incentives is offered to resellers, it is likely that some would detract from the supplier's own effort to achieve high performance. Thus, the incentive package should carefully consider both the resellers' and supplier's performance concerns.

When manufactures make channel incentive program, they need to consider orientations amongst channel behaviour, that is, why some channel member choose to coordination, why other channel member choose to conflict. In this review, we found that in China's business-to-business market there are many factors that will affect channel behaviour, among them, three factors are very critical, which are channel incentive program, organizational sense making and Chinese "guan-xi". The three factors are the critical factors that affect the effectiveness of channel incentive programs and are very important for future research.

Future research

As a way forward, the author has presented, via DBA Document 1 (research proposal) the future research. This will form the basis of the next stage of research designed to discover:

- Why channel incentive program is important in B-to-B software market?
- What are the criteria that the producers use to measure the effectiveness of channel incentive programs?
- What are the issues limiting the effectiveness of channel incentive programs?
- What are the factors that affect the effectiveness of channel incentive program most in producers' and channel member's views? Do they think differently or not, and why?
- How can we evaluate those factors to identify the most critical ones?
- What are the interactions among critical factors in the dynamic business and different culture environment? Can we build a framework?
- How can the producers leverage the findings of proposed study to improve channel incentive program effectiveness?

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DOCTOR OF BUSINESS ADMINISTRATION

(China Cohort)

Exploring Antecedents of the Effectiveness of Channel Incentive Programs in China Business-to-Business Market

Document Three

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1. Introduction

As a key part of marketing process, distribution is an important antecedent that influences companies' performance. Therefore, how to build up effective and efficient cooperate relationship between channel members, including manufacturers, distributors and resellers becomes a significant issue both in practice and academic research. Among various influential factors for distribution channels, the "channel incentive programs" (CIPs) is in particular crucial for improvement of cooperation and performance among different parties of channel distribution. (Waller and Bishop, 1990; Rajagopalan, 1997; McLean and Postlewaite, 2002; Raghu, Sen and Rao, 2003)

In traditional marketing theory, channel incentive programs are tactically based on the assumption of information parity and fully rationalised decision. However, in most cases, channel behaviours are not fully rational (reference?). Thus, the author believes that besides the CIP, there are other kinds of factors influencing the channel members' actions and the effectiveness of. Accordingly, the overall performance of the distribution channel will be influenced finally.

Based on social exchange theory (Cook and Whitmeyer, 1992) and bounded rationality theory (Lipman, 1991; Simon, 1995; March, 2006), the author argues that there are two kinds of antecedents affecting the effectiveness of the CIPs. The first includes rational elements that are based on traditional economic analysis and rational decision-making process, while the other includes social or cultural factors such as Guanxi in China and cognitive factors such as sensemaking in organisation behaviour. After reviewing literature, a conceptual model is to be proposed as basis of further investigation.

In order to verify the author's point of view, qualitative research was conducted through interviews with managers from a big manufacturer, its main distributor and reseller. This study used an interpretive approach to analyse the interview data to investigate the key influential factors for the successful planning and effectiveness of CIPs, with a purpose is to refine the original conceptual framework.

The author transcribed, interpreted, and identified some key influential factors after analysis of unstructured interviews, for improvement of the effectiveness of CIP, including economic considerations on benefit-cost analysis; cultural and social considerations, such as Guanxi and trust; and cognitive considerations mainly focusing on organizational sensemaking. It is constructive to draw preliminary deductions, because they will drive a wider scope quantitative study in future research. .

Overall, the current study conceptually and operationally investigates the influences of economic, cultural and cognitive factors on channel behaviours and effectiveness of CIPs. Based on previous research, the author proposed a conceptual framework and discussed several possible antecedents and their relationships in this framework model. Following introduction to methodology and data analysis, conclusions are drawn, resulting in a newly established model on improvement of CIP. Implications are provided at the end of the paper.

2. Conceptual framework

The framework developed in document 2 of this thesis was used as the foundation for the current research. Document 2 synthesised existing literature and documented three distinct perspectives of the factors that influence forecasting accuracy. In marketing channel research, a considerable amount of attention has been paid to channel incentive. Channel incentive is defined as a series of mechanism to motivate channel members, including economic and non-economic mechanism (Iyer, 1997).

This study proposes that there are three views to explore the antecedents of channel behaviours and incentive program effectiveness. On the one hand, the relationship between suppliers and distributors is based on economic exchange and agency relationships (Bergen, 1992). In such relationships, economic profit dominants the behaviours of distributors, thus they further influence the effectiveness of CIP. In order to make a rational choice, distributors tend to compare economic benefits with transaction costs and profits. Then, they try to make the best choice on whether and/or to what degree to implement the original target of manufacturers effectively. This part is about economic consideration based on rational action theory (Goldthorpe, 1998).

On the other hand, according to **bounded rationality theory**, which is used to refer to economic actors' behaviour that is 'intended rational, but only limitedly so' (Simon, 1961, p. xxiv), people cannot make complete rational choice even though they have the original motivation and purpose to do so. This is because as economic actors, humans only have a limited capacity to process information, address complexity and make optimal choices. Thus, even if the original consideration is a rational assessment on service quality, they cannot avoid irrational thinking from time to time due to a human's bounded rationality limitation.

Concretely, in distribution relationships, when distributors decide whether to carry out sales promotion as required by manufacturers, they cannot make a fully 'rational' decision. Hereby both cultural and cognitive factors influence people's rational judgments based on economic considerations including transaction cost analysis and benefit evaluation from the incentive programs. Compared with Western countries, Guanxi plays an important role in business relationships in China. Guanxi tends to have some positive influence on trust. However, when Guanxi dominants the transactions between parties instead of contracts, problems may occur and damage the good Guanxi network between suppliers and distributors. Thus, Guanxi is supposed to have impacts on trust, channel behaviours and the effectiveness of CIP.

In addition, **sensemaking** plays a central role in the determination of human behavior, regardless of people are acting in formal organizations or elsewhere (Weick, Sutcliffe and Obstfeld, 2005). Compared to business-consumer relationships, business-business relationships among channel members are more complex involving with not only transaction relationships but also partnerships. As partners, distributors and manufacturers need collaborations. When a new CIP is launched by the manufacturers, how the channel members make sense of it becomes important, i.e., how do they turn the circumstances into a situation that is comprehended explicitly in words and that serves as a springboard into action, will influence whether they choose to cooperated or not.

Based on the discussion above, this paper aims to explore the impacts of economic profit, Guanxi and sensemaking on the effectiveness of channel incentive programs, respectively. Figure 1 shows the conceptual framework of this study.

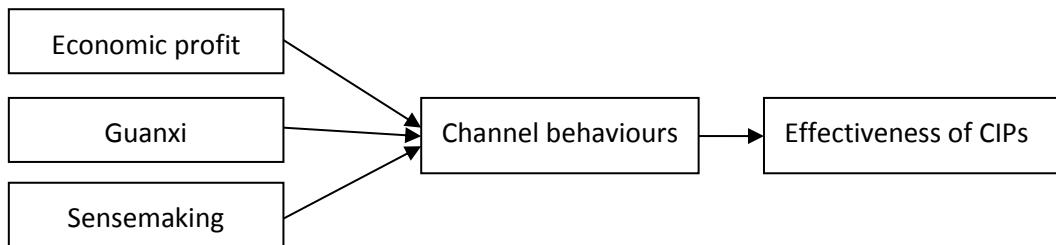


Figure 1 Conceptual framework

2.1 Channel incentive programs and the role of economic profit

The concept and content of CIPs have been defined by many scholars such as Frazier (2000) and Grilliland (2003). Frazier (2000) suggests that firms rely on a mix of contracts, pricing and credit programs (e.g., functional discounts, margin guarantees, extended dating and so on), promotional programs (e.g., market development funds, co-op programs, incentive or spiff programs, earned volume rebates, end-customer promotions and so forth), merchandising aids, training programs, and inventory buyback programs, among other components.” According to Gilliland (2003), channel incentives are behaviours or policies described in the supplier’s standard operating agreement, which are designed to motivate active intermediary support of the supplier’s distributor. CIP can be viewed as one of the “back-end” dimensions of governance, along with monitoring and enforcement mechanisms, because they are designed to keep a relationship on track by ensuring that the supplier’s front-end plans are executed as anticipated.

CIPs include four properties: incentive magnitude, incentive intensity, incentive compatibility and incentive equity, which account for the reseller’s motivation to accept the offered incentive (Gilliland, 2004). First, incentive magnitude refers to the amount of financial gain that can be realised by the

reseller (Murry & Heide, 1997). It is usually seen that suppliers typically give promotional allowances for the product being promoted or for other products. Klein and Leffler (1981) suggest that the more the allowance offered by a supplier exceeds the market standard or somehow represents a premium, the higher the likelihood that a distributor will agree to take part in a program.

Second, incentive intensity, refers to how closely is the reseller performance linked to monetary compensation (Zenger & Marshall, 2000; Williamson, 1991). According to most theories on incentives, the effectiveness of these group rewards should be a function of incentive intensity. Especially, Kruse (1993) define incentive intensity as the marginal gains in pay individuals derive from group performance. Third, incentive compatibility about the extent the incentive can be in alignment with the distributor's goals (Bergen et al., 1992). When the incentive is well in alignment with the distributor's goals, incentive compatibility is good, otherwise, not. Fourth, incentive equity refers to the extent the reseller perceives the incentive to be fair, given the effort required (Ring & Van, 1994). Thus, an incentive is more likely to be accepted (and is more likely to achieve control for the supplier) when it is high in magnitude, immediate, compatible, and equitable aspects. With this background of control and motivation in mind, many existing incentives used in practice are now addressed.

According to the analysis above, if a CIP contains high incentive magnitude, intensity, compatibility and equity, it means reseller will have a better attitude towards the CIP. They can get higher **economic profit** from improving sales; simultaneously they can achieve their own organizational goals better if the CIP has higher compatibility. Thus, reseller will tend to cooperate rather than conflict with the manufacturers. At the same time, manufacturers' goals/aims can be better transferred to the distributor. Therefore, the higher the incentive magnitude, incentive intensity, incentive compatibility and incentive equity of the CIP is, the higher benefit the reseller will get and the more likely they will take coordinate rather than conflict orientation. Thus, economic profit could be the basic factor influencing the channel behaviour and the effectiveness of a CIP.

2.2 Chinese Guanxi and channel behaviour

Guanxi is an important Chinese word with complex concept and has been studied broadly by academics in the field of social sciences. Davies (1995, p.22) defines the term Guanxi as “social interactions within the network place and its members in the equivalent of an infinitely repeated game with a set of people they know.” Interpersonal relationships or Guanxi orientations are rooted in Chinese culture (Jacobs et al., 1995). With Chinese culture background, people and organizations demonstrate obvious differences in their behaviours. Among many uniqueness of Chinese culture, Guanxi has been a core research topic on cross-cultural management and international marketing areas.

In China, the importance of business relationships is deeply rooted in Chinese society, characterized by Confucian codes of repeated favour-exchanges. Guanxi is important in a Chinese business context whereby a situation arises which is beyond an organization’s or individual’s capacity, the Guanxi network could be called upon to achieve the desired results (Redding & Ng, 1982).

Davies et al. (1995) conducted an empirical study that suggests there are three major benefits resulting from the establishment of Guanxi. First, when the information on domestic markets is limited for foreign investors, the Guanxi network can be seen as an important source of information on market trends as well as on both present and potential opportunities and threats. Second, Guanxi can get access to labour and physical resources as well as relations with local governments. Finally, Guanxi provides benefits to a wide range of other issues, encompassing products transportation and distribution that shape organisational image and reputation.

In terms of the influence of Guanxi on business relationship, Leung et al. (2007) explored how a quality business relationship is to be developed and maintained in a Chinese context and explained the concept of expressive and instrumental ties of a Guanxi model incorporating relationship-specific variables (face, favour-exchange and flexibility) and the quality of business

relationship (cooperation, continuity and commitment) in the framework of capital exchange.

Abramson and Ai (1997) note that in China, the more of good Guanxi-style buyer-seller relationships, the less of perceived uncertainty about the business environment, and the more of improved performance outcomes. Thus they concluded that Guanxi-style buyer-seller relationships are a competitive advantage for the companies that use them in China. Moreover, Guanxi between a buyer and a supplier implies a hidden norm of reciprocity that concerns equity and exchange of favors and long-term orientation (Ang& Leong, 2000). This suggests that cooperative partners with close Guanxi may care more about long-term development of the relationship and mutual interests in the future (Davies et al., 1995; Su et al., 2009).

For particular incentive programs, if supplier and distributor have good Guanxi, distributors will show a higher intention of cooperative orientation.

2.3 Sensemaking and channel behaviour

A fundamental assumption of classic economic theory is that people are able to identify and choose what is best for them, when they are been well informed about their circumstances. This assumption is not an idiosyncratic doctrine of economics; it is shared by the general public. Recent findings from behavioural-decision research provide evidence that people are not always able to choose what yields the greatest happiness or best experience (Loewenstein & Lerner, 2003, p. 619-642). People fail to choose optimally, either because they fail to predict accurately which option in the available choices set will generate the best experience or because they fail to base their choice on their prediction, or both (Hsee & Hastie, 2006).

In economic perspective, the prisoner's dilemma is a widely used example in game theory that attempts to illustrate why or how two individuals may not cooperate with each other, even if it is in their best interest to do so. It demonstrates that while cooperation would give the best outcome, people might nevertheless act selfishly. Channel members are assumed to be subject to

bounded rationality. Some actors are assumed to be opportunistic (i.e. having a tendency to cheat other parties) if given the chance. Imperfect, asymmetric, or information may give such actors an exploitable advantage in their dealings with other parties.

Being different from that of traditional economics, organizational sense-making is a fundamentally social process. As stated by Taylor and Van Every (2000, p.275), “*Sensemaking is a way station on the road to a consensually constructed, coordinated system of action.*” At that way station, circumstances are “turned into a situation that is comprehended explicitly in words and that serves as a springboard to action” (Taylor and Van Every, 2000). Sensemaking is more about the interplay of action and interpretation than the influence of evaluation on choice. Before people making their choice, they will first interpret the actions occurred with certain meanings, which is the process of sensemaking. However, sensemaking will influence their decision.

In the context of CIP, when the manufacturers take an action (e.g., a new incentive programs), the distributors may probably interpret this action with some meanings, or ask, “What’s the story here?” After figure out their answers to this question, they may ask “now what should I do?” thus, they will make their choice and take corresponding actions with their sensemaking.

The best situation is that the distributors make sense as what the manufacturers mean to give them, i.e. distributors’ sensemaking consists of the manufacturers’ sensegiving without misunderstanding. Sensegiving is a sensemaking variance undertaken to create meanings for a target audience, and the content of sensegiving and the target affect how people interpret the actions they confront (Weick, Sutcliffe and Obstfeld, 2005). For example, when manufacturers launch a new incentive program, they have to take the possible sensemaking of the channel members into account. If they did differently or conflict sensemaking compared with the manufacturers’ original purpose, they will interpret manufacturers’ action (new incentive program launch) into a negative one and then tend not to coordinate (Bisel and Arterburn, 2012).

Compared to economic view and cultural view, cognitive view seems to be under-development in the research (Cottam, 1989; Bensaou and Anderson, 1999;

Rajagopal, 2009). Actually, without rational evaluation and Guanxi concern, sometimes people make decision with heuristic thinking in a Chinese context. The current research is aimed to explore relevant phenomena from a cognitive view.

2.3 Channel behaviour and the effectiveness of the CIPs

The transactional cost and relational exchange literature use cooperation and conflict as a middle ground to explain the rationale for channel relations (Williamson, 1988). Conflict and cooperation are the two dominant sentiments that regulate exchange relationships (Dixon & Wilkinson, 1986). Conflict is defined as interference that hinders the accomplishment of individual and/or mutual goals (Stern & Reve, 1980). In contrast, cooperation is the joint striving toward individual and mutual goals (Brown 1981). Sometime conflict can be lead to cooperation when it is solved properly (Balasubramanian and Bhardwaj, 2004).

The manufacturer depends on resellers to perform a variety of functions on its behalf, including the provision of shelf space, local advertising, point-of-purchase, promotion, and implementation of an effective pricing strategy. However, differences in goals and preferences between a manufacturer and a reseller may lead to conflicts over how channel revenues and costs should be allocated among the participants, as a result, this may produce incentive problems within the channel. For instance, if a powerful manufacturer attempts to increase profits by offering relatively low margins to a reseller, the reseller may not have adequate incentives to promote or price the product.

While inter-organizational relationships can be characterised by conflict and cooperation simultaneously, conflict and cooperation do tend to be inversely related (Frazier1983). Frazier (1983) has suggested that the resolution of conflict leads to cooperation.

Coordination. In channel relationships, coordination can be viewed as behaviour or behaviour intention of mutual benefits. According to Stem (1992),

channel coordination is rooted from interdependence of channel member, which is consequence of functional specialisation of channel member.

Jeuland and Shugan (1983) demonstrate that the concept of channel coordination in a simple manufacturer-retailer supply chain in their seminal paper. Their basic assumption was that the manufacturer and the retailer have separate profit and cost considerations that lead to different inventory policies. Typically, the retailer's order quantity is smaller than the manufacturer's production lot size. In order to achieve channel coordination, the manufacturer offers the retailer an incentive contract in terms of quantity discounts to induce the retailer to increase its order quantity.

Thus, this research proposed that channel coordination can be achieved if the retailer's order quantity that optimises profit under the incentive contract also optimises the total profit of the supply chain.

Conflict. Conflict has been defined several ways in both channel and organizational behaviour literature (Pondy, 1967). Early definitions of conflict focused on a wide variety of phenomena, mainly including four parts: the antecedent conditions of behavioural conflict (e.g. scarcity of resources); affective states of the channel members involved (e.g. tension, hostility); the perception or awareness of a conflict situation; and actual conflict behaviour, ranging from passive resistance to overt aggression (Pondy, 1967).

For channel conflict, the study of conflict within channels of distribution has been a primary area of investigation for over forty years (Rosenberg and Stern, 1971; Dant and Schul, 1992; Hinds and Bailey, 2003; Cui, Raju and Zhang, 2007). Stern (1996) defines channel conflict as a situation in which one channel member perceives (an)other channel member(s) to be engaged in behaviour that prevents or impedes it from achieving its goals. Gaski (1984, p. 11) considers channel conflict to be “the perception on the part of a channel member that its goal attainment is being impeded by another, with stress or tension the result.” Conflict have been offered in the literature (Gaski, 1984), the common theme appears to be that conflict exists within the channel if one channel member impedes the attainment of the goals of another channel member (Gaski, 1984). Pondy (1967) has conceptualised organisational conflict

as a process comprising of three main stages: the perceived, felt, and manifest conflict stages. Perceived conflict is a cognitive stage. It represents the point at which either the supplier or distributor becomes aware of some sources of conflict (perceptual incongruity, goal incompatibility and domain dispense). Felt conflict consists of stress, tension, or hostility resulting from perceived conflict. Manifest conflict is the behavioural or action stage of conflict. As Lusch (1976) notes, it is often characterised by verbal or written disagreements between channel members.

Obviously, different channel behaviours, conflict or coordination, have different influence on the final effectiveness of the CIP. Effective coordination plays an important role in the successful operation of modern manufacturing and distribution systems. Macneil's (1978) work on relational norms suggests that cooperation increases the mutuality, solidarity, and role integrity of channel relations, while Williamson's (1988) study of economic organizations emphasises the importance of cooperation in safeguarding transactions against the hazards of opportunism. Studies that have directly confronted the issue of cooperation have viewed the phenomena as either a form of satisfaction (Anderson & Narus, 1990), or the inverse of conflict (Ross, Lusch & Brown 1982). Rajagopal (2009) found that buyer-supplier co-dependency and relationship quality significantly affects the supplier performance. Thus, coordination has been viewed as a positive factor increasing a CIP's effectiveness.

Compared to coordination, conflict has more complex influence on a CIP's effectiveness. Previous research shows that conflict may lead to functional or dysfunctional consequences (Anderson & Narus, 1990). Several factors will influence whether the conflict will be functional or dysfunctional (Ross & Lusch, 1982). The first factor is the cause of the conflict. Litterer (1966) suggests that if conflict is caused by incompatible goals, then the conflict will be dysfunctional; if caused by incompatible means, conflict is more likely to be functional because it may bring about a search for better means. Shrum, Chompalov and Genuth (2001) found that trust influence conflict in inter-organizational relationships, thus has impact on collaboration performance.

The second factor is the level and intensity of conflict. Brown and Day (1981) show that conflict has a greater probability of being functional when is below some kind of threshold; it will tend to be dysfunctional when is higher than the threshold. Rosenbloom (1973) has suggested that low levels of conflict may have little effect on channel efficiency, moderate levels may actually increase efficiency (for example, make channel members to strengthen adaptability, more hypersensitive to market opportunities), but that excessive conflict is dysfunctional, as it may detract from channel efficiency (for example, damage and retaliate each other among channel members).

The third one is the management of conflict. Previous studies show that “the presence of conflict per se does not determine the outcomes, but the resolution processes which are operative” (Rosenberg & Stem, 1970: 45). Properly managed conflict increases the probability that conflict aftermath will be positive, and therefore, the conflict will be viewed as functional. On the other hand, poorly managed conflict will result in negatively perceived conflict aftermath and, therefore, conflict will more likely be viewed as dysfunctional.

From the analysis above, we conclude that coordination usually has positive effects on a CIP’s effectiveness while conflict cannot be regarded as good or bad simply. Whether conflict within the channel are viewed as functional or dysfunctional is effected by the factors including the source of conflict, the level of conflict, and the management of conflict. Therefore, manufacturers should make fully use of functional conflict and turn dysfunctional conflict into functional conflict.

This paper aims to investigate the impact of economic profit, Guanxi and sensemaking on channel behaviour, including cooperation and conflict, and the influence of channel behaviour to CIPs effectiveness.

3. Research methodology

3.1 Methodology

Methodology clarifies the purpose of the research and provides the rational for the way chosen to conduct the research the topics. In principle, there are two methodological approaches, positivism and interpretivism (see Easterby-Smith, Thorpe et al. 1991; Williams 2000). The positivism approach regards social reality as ordered and independent phenomena and is concerned with facts. The positivist paradigm, which has its origins in natural science, may not always be constructive in appreciating the management process, such as the intricacies in the embedded social processes (Srivastava and Teo, 2006).

In contrast to positivism research, in the interpretative paradigm, from an ontological perspective, social reality is the product of processes, sociality, , interaction and construction between the various social actors in different situations. There is no absolute social reality, but it exists in the meanings of social construction (Bergerand & Luckman, 1967). Erickson (1986) defines ***interpretive research*** as a perspective including ethnographic case study, constructivism, and some other research approaches. This methodology reflects the main research objectives and determines the methods of information collection. The current research analyses the conceptual framework shown in Figure 1, aiming to make some counter measurements to improve the existing models and frameworks, thus the interpretivism is adopted. The research is to answer the following questions:

1. What impacts does **economic profit** have on channel behaviour and effectiveness of CIPs?
2. How does **Guanxi** influence channel behaviour and effectiveness of CIPs?
3. How does **sensemaking** influence channel behaviour and effectiveness of CIPs?
4. What are the interactions among economic profit, Guanxi and sensemaking, if any?

3.2 Methods

This research applies both qualitative methods and quantitative methods. Qualitative methods, such as observation and in-depth interviews, are broadly used in interpretive research. Maanen (1988) argues that qualitative methods have been described as an array of interpretative techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of selected phenomena in the social world.” Bryman and Bell (2007, p. 405) proposed several steps in qualitative research: general research questions; selecting relevant subjects; collection of relevant data; interpretation of data, conceptual and theoretical work and writing up conclusions. Keedy (2001) proposed that there are two themes regarding the interaction of theory and practice. In the first theme, interpretivists often use theory and constructs to establish frameworks, to build “shells” in which to collect data, or simply to clarify the researcher’s intentions. In the second theme, studying interpretations of discovered practices can represent emerging findings grounded in the data themselves. In the current research, the author follows these two themes to reach the final objectives.

Case study

Yin (2003) defines the case as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and the context are not clearly evident. Case study research can mean single and multiple case studies. The case study entails a detailed and intensive analysis of a single case. The most common use of the term – case associates the case study with a location, such as a workplace or organisation. In a case study approach, the case is an object of interest in its own right and according to Bryman and Bell (2007), the researcher aims to provide an in-depth elucidation of it. The strength of the case study lies in its ability to enable the researcher to intensively investigate the case in-depth, to probe and get at its complexity, often through long term immersion in (Arthur, et al, 2012).

This dissertation is specifically focused on the case of Motorola Solutions in China, along with its largest distributor in China, Digital China and one large reseller, Shanghai Shuteng.

The reason why Motorola Solutions has been chosen is because: first, this company is a large B2B company, and has successfully operated in China for over 25 years since mid-80's; second, the author had worked in this company for several years, and had taken charge of the CIPs. Most of these programs designed by the author and they are currently still in operation. The familiarity with such processes provides the author unique opportunities to understand the relationships between Motorola Solutions and its distributor China Digital, offering constructive insider insights.

Digital China is one of the largest distributors in China. Motorola has over five years' cooperative history with Digital China. Thus, it is useful for this study to explore and understand the effectiveness of CIPs and its influential factors in-depth via interviews with both Digital China and Motorola. A reseller in Shanghai has also been chosen. However, this study mainly focuses on analysing interviews of the manufacturer and the distributor for the following reasons: First, previous literature on channel behaviours shows that it is reasonable to use one channel tier for research, usually between manufacturer and distributor; second, some companies do not have a distributor, thus reseller also plays the role of distributor and they cooperate with manufacturer directly; third, the incentive effectiveness on distributor is the basis for the next tier of reseller.

The following sections provide the background of Motorola Solutions (manufacturer), Digital China (distributor) and Shanghai Shuteng (reseller), respectively.

Motorola Solutions' background

Motorola Corporation was divided into two divisions in January 2011 including Motorola Mobility and Motorola Solutions. Motorola Solutions serves both enterprise and government customers with core markets in public safety government agencies and commercial enterprises. The company provides public

safety communications from infrastructure to applications and devices such as radios as well as task-specific mobile computing devices for enterprises. It produces data capture devices such as barcode scanners and RFID radio-frequency identification (FRID) products for business, and also brings unlicensed wireless broadband capabilities and wireless local area networks (WLAN) to retail enterprises.

As a company provides solutions to business and government clients, channel business plays a crucial role for Motorola Solutions. Thus, the company has such channel programs as Partner Empower, which aims to build up “a new path to a successful relationship”. Partner Empower helps its partners expand their relationships with Motorola. The sales, marketing and technical benefits help them improve effectiveness at every stage of the sales cycle, while simplified systems and processes make it easier for the valued channel partners to conduct business with Motorola. Besides, Motorola has other CIPs in China to improve the relationships with channel partners and the market performance.

In May 2012, Motorola has an organizational transform in a two-way radio business unit. The divisions, including Sell-in, Sell-thru and Sell-out, have changed into high-end special market (e.g., railway, police, petro, etc.) and low-end commercial market (e.g., construction, security guarding, food service and retailers, etc.).

In 2012, Motorola launched several new products in low-end market. Together with the products under the brand of “SMT” (Shanghai Motorola Telecommunication) in Motorola’s joint-venture and acquired Japanese company Vertex’s product, there are a dozen of products. Although the low-end market has developed rapidly, the rivalry is also severe. Intense launch of new products has increased the market competition, and laid pressure on the channel. Thus, an effective CIP is important to prevent possible channel conflict.

Digital China’s Background

Digital China Holdings Limited (“Digital China” or the “Group”; Stock Code: 00861) is an integrated IT services provider in China. Digital China was listed on the main board of The Stock Exchange of Hong Kong Limited on 1

June 2001 following a spin off from the Legend Group. It focuses on providing customers with sophisticated and applicable IT solutions, driving technological innovations for work and life and enhancing the digitalisation process in China. In order to achieve these goals, the Group is striving to become the premier IT services provider with the most comprehensive services for a majority of Chinese users. Digital China focuses on eight major business segments in the China market: IT Planning, Business Process Outsourcing, Application Development, System Integration, Hardware Infrastructure Services, Maintenance, Hardware Installation, Distribution and Retail. A full range of IT services are available to industry clients, large enterprises, SMEs and individual consumers.

Digital China has become the reseller of Motorola's two-way radio business in 2008. Currently, it is responsible for the distribution of two low price two-way radio family - CP1200/1300/1660 and MagOne A8 (a sub-brand owned by Motorola). CP series with "Motorola" brand are the most expensive products among Motorola's product range in the commercial market, and has gradually taken place of GP2000 series that has already been sold in Chinese market for eight years.

Shanghai Shuteng's Background

Shanghai Shuteng Communication Device Co Ltd was set up in 2003, which is specialised on the sales and communication services of mobile devices and solutions. As Motorola authorized reseller, in 2005, Shuteng founded a subsidiary Shanghai Shuxing Electronic Device Co. Ltd as an agency exclusively for Motorola's two-way radios. With this change, Shuxing wants to gain more support from Motorola by showing sales force commitment and brand loyalty. At meanwhile, it also minimized Shuteng internal sales person conflicts and competition.

Interview

As one of the most commonly recognised forms of qualitative research method, interview is a method for data collection in which selected participants are asked questions to find out what they do, think or feel (Collis & Hussey, 2009),

however, interviews are more than questions and answers. All types of interviews can be conducted with individuals or groups, using face-to-face, telephone or video conferencing methods. Carolyn (cited from Arthur, 2012) points out in-depth interviews are purposeful interactions in which investigator attempts to learn what another person knows about the topic, what he or she thinks and feels about it, and what significance or meaning it might have.

The interviews conducted by this research were semi-structured and tape-recorded. Compared to unstructured interviews with maybe just one single question that the interviewer asks and the interviewee is then allowed to respond freely (Bryman and Bell, 2007: 474), semi-structured interviews usually have an interview guide with a list of specific topics that would be covered in the interview. Semi-structured interviews are selected to prevent the interviewees being constrained as to the type and extent of information they have and could provide.

As suggested by Bryman and Bell (2007, p. 420), a piece of research should minimize contamination of the social world by keeping research structure to a minimum to enhance the opportunity of “genuinely revealing the perspective” of the subject being studied, the author adopted semi-structured interview format. This would allow us to see the research issues through the eyes of research participants. The interviews started relatively open-ended and have fairly general questions rather than specific and focused research questions

Totally, six in-depth interviews were conducted via phone with length from one hour to 1.5 hours. All of these interviewees are general managers or managers who are responsible for channel businesses. Details of interviewees were shown in the following table.

Channel role	Company	Interviewee	Title	Data	Interview length
Manufacturer	Motorola	Wang H.M.	GM of Channel Business	June 5 2012	1.5 hours
				July 14 2012	1.5 hours
		Wang H.L.	Channel Sales Director	July 11 2012	1 hour

		Yu J.	Channel Sales Manager	July 11 2012	1 hour
Distributor	Digital China	Zhang Z.H.	GM of Telecom Business	July 14 2012	1.5 hours
		Yu L.B.	Product Director of Telecom Business	July 12 2012	1 hour
Reseller	Shanghai Shuteng	Pei B.	GM of Distributors	July 12 2012	1 hour

In order to getting more information about sensemaking, the author made follow-up interviewees with Wang H.L., Yu J., Yu L.B. and Zhang Z.H. for about 20 minutes, respectively, on July 25 2012.

In all the one-to-one interviews, the meetings were audio recorded. The interviewees were aware of the nature of the interview and had signed the interview consent form. Leading questions were asked with following up questions to explore specific logic in depth. The questions and responses were subsequently transcribed based on notes taken during the interviews and referenced against the recording. The author makes effort to collect relevant information, analyse and synthesise some data and results and finally to obtain meaningful results and findings of his own. After data collection, the paper use content analysis as data analysis method.

4. Findings and discussion

4.1 Motorola's CIP: content, designing and effectiveness

There are three kinds of CIPs. Authorization incentive, sales incentive and marketing support. First, authorisation incentive is to give one reseller exclusive sales authority. Digital China has exclusive right to distribute MagOne A8 and CP series in China market. Second, sales incentives includes Sell-in Rebate, Sell-thru Rebate and Business Development Fund (Conditional Rebate One, CR1 and CR2) for resellers to achieve target sales volume or value. Business Development Fund is for supporting resellers to explore and develop the market. Third, marketing support refers to the Co-marketing Fund provided by Motorola's Marketing Department. Besides, they also have MCR (Motorola

Chanel Reseller) Talent Club as supporting programs. Sales incentives are based on economic consideration, with overall rebate percentage of 15%-17%. Sell-in Rebate accounts for 5%-6%, Sell-Thru Rebate takes 5%-6%, CR1 takes 2%-3% and CR2 takes 2%.

Motorola's goals of CIPs are to increase growth rate, improve efficiency of resource use and increase resellers' margin. Growth rate target is comprised of three parts: the base target, stretch 1 target and stretch 2 target. The reseller can get about 10% of the order price as rebate. However, our sales target will only achieve at stretch 1 level. At that level, the reseller will get another 3% for rebate. For stretch 2, they can get 2%-3% rebate.

The design of CIPs with goals above is based on the flowing factors. First, it should be helpful for achieving the target sales value and volume. Second, it should be effective on stimulating channel behaviour. Third, CIPs should moderate the channel benefit distribution. Fourth, the manufacturer have a long-term orientation when designing the incentive programs.

However, the effectiveness of the incentive programs seems not as good as what they were expected. Interviewees from Motorola don't think Digital China has got essential improvement in business operation" and "have started to find other plans". Interviewees from Digital China feel that "simple price rebate is not enough for our development now" and they need "more customized incentive programs". Motorola means to help the reseller with training, but the reseller thinks that, "The training doesn't help much for our distributors". For distributors of reseller, they also think the reseller did not do well, "They just enjoy the fruit of Motorola...they didn't explore the market but just maintain it". Thus, we it can be seen the effectiveness of CIPs declines from the manufacturers to the reseller then to the distributors.

According to the interviews, main factors that influence channel behaviour and CIP effectiveness include economic benefit, Guanxi and trust and sensemaking difference, which have been proposed in the previous section of this paper. The following part is to discuss respectively the role of economic benefit, Guanxi and trust and sensemaking in the channel relationship and their effects on CIP effectiveness.

4.2 Economic profit: the main objective of both parties

From the interview data economic profit seems to be the most important factors to each party in the channel relationships. As one interviewee in Motorola said,

“I don’t think Guanxi and trust has any impact on channel incentive programs. Channel incentive program is an economic concept. The effectiveness of incentive program is something calculated by different parties with common benefits.”

The reasons why the channel member care about economic benefits are various. First, compared to manufacturers with brand equity, channel members do not have brands asset and they care more about instant and short-term benefit. Therefore, manufacturers use principle of “maximising market share” while channel members operating under the “maximizing benefit” principle. Second, economic benefit influences distributors profit directly. As said by Shanghai Shuteng,

“If the award amount is not high, for example just 10 or 15 thousands Yuan, we usually don’t care about that.”

As described by Shanghai Shuteng, Motorola’s incentive programs are not strong enough as before because of performance decline, they could get 4-5 Yuan per points before but just 1 Yuan now. And the cashing process is very long. So they are “not very active on that” (*See interview 6 in Appendix*).

Second, as said by Digital China, Motorola has not paid CRI in time, and the reward level is too low to stimulate the distributors, so they don’t want to do that anymore. What’s more, the worry about economic risk lets the reseller take an uncooperative behaviour. Yu L.B. said,

“if the Sell-in volume exceeds Sell-thru for successive years, we would give up annual premium and quit if such situation lasts for a long time”

Thus, it can be concluded economic profit is the fundamental factor influence the effectiveness of the CIP.

When taking economic earnings into consideration, the objectives consistence between manufacturers and distributors seem important. From the interview, it can be seen that the manufacturer believes the distributors just hold short-term views and only care about short-term monetary incentives.

“The distributor (Digital China) mainly focuses on turnover and benefit. In the past three or four years, its sales value has increased from millions to hundreds of millions RMB. At the same time, some problems emerged in the process of high growth, such as the increasing stock level, lack of ability to achieve the benefit target, etc. This year, they have acquired several product series, and are trying to focus on developing goals.”

However, in fact, for distributors, they also focus on their long-term development.

One manager from Digital China claimed, “*Currently, Motorola put emphasis on price incentive programs but ignores to communicate with us on non-price factors...Motorola has to take more customized incentive program. Simple price rebate is not enough for our development now. Price and volume is just surficial incentive measures. They are lack of further incentive programs and weak on market research.*”.

Thus, the distributors are more aware of the profit, turnover and cash flow. This is not because they do not care about non-monetary, but because Motorola does not offer such kind of incentives.

Also, the manufacturers and resellers seem not to understand the goal of each other. Digital China has complained,

“We are not clear about each other’s strategies and market positioning... ...Motorola doesn’t have accurate expectation and positioning on Digital China. Digital China initiated with low-end product. Gradually, we think we have got advantage on high-end market with high profit ratio. But Motorola still regards us as low-and-middle reseller.”

Pei B. from Shanghai Shuteng mentioned,

“Motorola doesn’t know their operations well. First they may feel no need to know; second they may believe they have done well on market shares and don’t pay much attention on us. Motorola doesn’t do very well. Another manufacturer that is the competitor of Motorola Hytera can help the distributors resolving problems and deeply understand their business.”

Therefor, in order to let these CIPs based on economic consideration work well, Motorola has to pay more attention to understand the business objectives and real needs of their channel members.

In conclusion, the manufacturer aims to design an effective CIP with two main economic factors, “the rebate ratio and price”. However, their inconsistency and misunderstanding of each other’s business objective reduce the effectiveness of the CIP, even though they are clear about the surficial target of the incentive program. Manufacturer regards itself as long-term oriented and distributors as short-term oriented. Actually, manufacturers ignored the fact that distributors also care about long-term business even brand development.

In previous research, financial factors are usually regarded as the most important factor in CIPs. Because it is involved in the contract and often takes up the most time during negotiations, economic benefit is usually viewed as the core of CIP, just as indicated in the interviews above. However, it is recommended that financial factors are just the appearance, what does matter is the underlying factor. Win-win CIPs should be developed from mutual beneficial relationships combining short- and long-term benefits, based on deep understanding of each other. Financial factors are just the appearance or tool of such relationship. From the interview data, it is very common to equal CIP to “financial incentives” simply.

4.3 Guanxi: a two-edged sword

Guanxi was usually considered having positive influence in business relationships. Also, this study originally proposed that Guanxi is good for cooperative channel behaviour. However, from the study, it was found that Guanxi is a two-edged sword. On the one side, it is good for communication

and complementation effectiveness. On the other side, from a long-term view, using Guanxi to deal with business may damage their relationships. This finding is useful and has high practical implications that are discussed as follows.

Good Guanxi usually means manufacturers and channel members have high trust on each other. Then they can communicate openly to each other. Besides, with good Guanxi, channel members will more likely show coordination behaviours to the manufacturers. As Wang H.L. (can you show the name? number the managers otherwise, and indicate which department) said,

“Communication cost would be very high without trust... even become suspicious.”

Pei B. from the reseller said, *“If we have good Guanxi, I can do what I can to help you. For example, if you call me to stock 200 more two-way radios, and we have good relationship, I’ll not hesitate.”*

If the channel members do not trust the manufacturer, they will suspect the reasonableness of the target and be reluctant to cooperate. Therefore, Guanxi tends to have obviously positive effects on effective communication and CIP effectiveness.

Sometimes Guanxi can help “resolve” the problem quickly. However, when a problem or accident occurs, it leads to other problems and may consequently damage each other’s relationship. In terms of the source of trust, one interviewee mentioned that if their co-operator’s action consistent with their words, they will trust them. Otherwise the trust will be damaged. Also, manufacturer’s shifting to other resellers will damage existing reseller’s trust.

Interviewee from Motorola, Wang H.L., talked an example when using Guanxi finally damage their relationships.

“Guanxi is two-edged. Good Guanxi can help ‘resolve’ the problem quickly. However, this will probably lead to further problems in the future. We have experienced such situations. Once a time, Digital China helped Motorola store to prepare for an incoming project. Two parties came to an agreement

for time and fee via e-mail. Then some problems occurred. The unexpected problems damaged the trust between the two parties. If this were done under contract rather than oral promise and e-mail confirmation based on Guanxi, there.”

Thus, Guanxi is good for the communication and complementation of CIPs, but it should be used carefully. When an interviewee looked back for an experience under the guide of Guanxi rather than contract, he said,

Pei B. said,

“Even with good Guanxi, we have to do business according to the contract. Without contract, Guanxi could bring risk. Sometimes we don’t sign contract because of Guanxi, but they have problems, it will be hard to get money back . If your distributors express difficulties to you, you also feel uncomfortable to force them to do what is required by the manufacturer.” (See interview 6 in Appendix).

In addition,, how to transform Guanxi from an interpersonal level into an organisational level is another question. As Yu from Motorola described,

“The critical issue is to establish trust between companies. Even if we have good personal Guanxi, we still couldn’t achieve common sense without trust between our companies.”

Realising Guanxi may have negative influence; some interviewees try to avoid being influencing by Guanxi when making decision. Wang H.M. from Motorola said:

“For me, neither Guanxi nor trust should be the factors I take into account. I think these two factors are social one. I try to avoid being affected by Guanxi or trust...Channel incentive is some kind of science. We use group decision and process to avoid personal Guanxi and trust.”

Also, Zhang Z.H. from Digital China said, “I’ve built up good relationships with people in Motorola for businesses. But I won’t be influenced by personal relationships when making decision.”

Thus, Guanxi is an influential factor for the effectiveness of CIPs. However, the effect is on double sides. As Yu L.B. said,

“Guanxi, trust and benefit interact with each other and will lead to positive or negative circles.”

The main positive affect of Guanxi that is that it can increase the cooperation efficiency, while negative affect is that the abuse of Guanxi will damage their long-term business relationships. Some interviewees have realised the negative affect of Guanxi and try to avoid being influenced by it.

It is interesting that businessmen's attitudes towards Guanxi has changed dramatically in China. After decades of economic development and internationalisation, more and more people (such as Wang H.M. and Zhang Z.H. in this study) tend to view traditional Chinese Guanxi as “outdated” concept. All interviewees in this research have mentioned that Guanxi does play a role in channel cooperation and has influence on the effectiveness of CIPs. However, most of them are trying to avoid being influenced by Guanxi. This contrasts with the view regarding Guanxi as important “intangible asset” ten years ago. Many professional managers such as Wang H.M. are trying to use “rational decision” as the criterion of their professional competence instead of traditional Guanxi. However, this tendency has conflicts with Chinese traditional business practice. During the process of building up new rules with traditional practice abandonment, it is natural that some conflicts and inconsistency will take place.

4.4 Sensemaking: an important but usually ignored factor

In principle, compared to economic consideration and Guanxi, the interviewees seem not to realise the existing sensemaking problems. Most interviewees have said that they try to consider economic profit and avoid being influenced by Guanxi. However, they did not even realize the importance and influence of sensemaking. This is mainly because of human being's cognitive limitation. Human beings have willingness to make sense of one event to deal with cognitive dissonance in sub-consciousness, which is usually not realised by themselves. What they notice is just the result that they have a judgment or

conclusion. What is more, they will make decision with such judgments based on “the fact they believe” rather than the “fact”.

Making sense of an event is human being’s cognitive instinct. Thus, every CIP will be definitely made sense by the manufacturer, distributor and reseller respectively. This paper found that there exist obvious sensemaking differences for them. In channel relationships, each party holds their own sense on one same thing, which is usually different from each other. When the manufacturer takes an action, the purpose may be misunderstood by resellers and distributors, thus, the action would seem not to make sense to them. Although all of parties have mentioned that economic benefit is important in channel incentive, distributors have taken the Annual Sales Plan as usual and for granted, while the manufacturer still view these incentive as “effective”, and spend much time on designing, communicating and complementing this kind of incentive program. Another example is the meeting every two months between Motorola and its distributors. Motorola has a meeting to communicate the sales target and its feasibility with distributors every two months. Yu J. from Motorola said,

“It is very helpful for the two parties. But they (distributors) don’t think so. They view that as a waste of time and the time will be more productive if they do other work.”

Besides, the manufacturers view temporary promotion as an important one and believe the resellers and distributors care most about short-term benefits. As Wang H.M. from Motorola said,

“The manufacturers pay more attention to long-term development while their channel members care about short-term benefit more” (See interview 3 in Appendix).

However, in fact, both resellers and distributors lay more emphasis on long-term incentives or non-economic rewards, such as the Platinum and Golden Award. Motorola also focuses on long-term development of the market. So the manufacturer and channel members should have common goal for long-term growth. What caused the misunderstanding between each other’s emphasis and real purpose?

Manufacturers believe the channel just care about short-term and direct money incentive; but they themselves need long-term market development. Resellers and distributors trust that the manufacturer just cares about the sales number, while they need more help on long-term planning and support. In short, they have misunderstood each other's real need thus could not get what they need. No matter monetary or not, the channel appeals for more CIPs based on the understanding of their businesses.

Once a time Motorola planed to give 200 thousands to Digital China for promotion. It was thought as a good policy by Motorola for Digital China. But out of Moto's surprise, Digital China refused. Economically, there was no reason to refuse. Because the fund offered by Motorola can be used to improve the distributor's sales. It was a win-win deal. However, cognitively, Digital China was worried about the actual pay of this money. One incentive policy, which seems to be good to both sides, does not work for the distributor (*See more details interview 3 in Appendix*).

As a result, the examples above indicate the problem of fatigue of CIPs. In the past five years, Motorola has not changed the structure of their CIPs. Distributors are very clear about it and thus become fatigue some. Interviewees from distributor and reseller all mentioned that Motorola's CIPs are lack of innovation, and Motorola pays no attention to them at all. Is this the truth? Or, this conclusion is just their imagination from sensemaking. In the interviewees, Motorola representatives said they work hard to understand the market seriously to design/update CIPs every year. The cognitive inconsistence seems obvious between the two parties, which influences the CIP's effectiveness. The reasons behind these issues need to be addressed.

First, sensegiving has been ignored by the manufacturer. Sensegiving is “the process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality” (Gioia and Chittipeddi, 1991, p. 442). It usually takes place as a result of top-down communication, and most sense is made through the social processes of sensemaking at the recipient level. In the channel incentive program system, manufacturer plays the sensegiving role; they should pay attention to helping

the channels to make sense of their CIPs via various actions. However, most times they just know that the problem exists but are not aware of ways to deal with it.

Second, stereotypes hold by the two parties cause the inconsistency. People tend to have the stereotype that manufacturer has their own brand and cares about long-term development, while distributors are lack of strategic consciousness. Thus, people in these organisations tend to hold these kinds of stereotypes and make sense of each other's action with this. As discussed before, this influences the attitudes and decision-making process of each party. In fact, for manufacturers, some managers are short-term profit oriented; while distributors believe they are more long-term oriented because they themselves in some cases, are the owners of the company. In order to make the incentive programs meaningful for each party, manufacturer and channel members have to realise and try to avoid such kind of stereotypes when making decisions.

Third, sense is in the eyes of beholder, and is formed by persons with different identities. According to sensemaking theory, identity is a resource for sensemaking. The sensemaker is singular and no individual ever acts like a single sensemaker, because each individual has a lot of identities. When distributors make sense of one promotion event, on the one side, they represent the company, and always try to make a rational decision from economic view. On the other side, they are individually connected with the person in charge from the manufacturer; thus, they cannot avoid making decision according to personal emotions. For example, some interviewees mentioned that they try to make decision based on company's benefit avoiding personal relationships:

“We have to do business according to the contract.” (See interview6 in Appendix). (Manager, Pei B.)

“Channel incentive is some kind of science. We use group decision and process to avoid personal Guanxi and trust.” (Manager Wang H.M.)

However, in fact, when they actually make sense of one event, they are still affected by their personal identities (See interview1 in Appendix).

These problems may be attributed to lack of communication. However, in fact, Motorola have formal communication with distributors and resellers every month. Thus, communication is just the superficial reason, while behind that it is the cognitive problem. They have not realised how did they make sense of co-operator's actions, and what kinds of damage misunderstanding of sensemaking has on their businesses. It is recommended by this research that the possible reasons are the ones listed above rather than only communication issues.

After Motorola and its channel members realise that and pay attention to what in their mind, they can solve these problems and reach an agreement to some degree. In short, the cognitive inconsistency for sensemaking is a crucial factor influencing CIP effectiveness. However, this factor has been under studied in previous literature. This may be because of understanding sensemaking needs careful observation, and it is hard to be measured quantitatively. Mention how Guanxi becomes a good example here as a two-side sword.

4.5 Interaction among these factors

There are interactions among economic benefit, Guanxi and sensemaking as discussed above. These factors are not independent but related with each other.

Economic consideration is the basis of Guanxi, it also is the starting point when they make sense of each other's action. As one interviewee claimed,

"Neither Guanxi nor trust is the most important. Benefit is the ultimate goal. Maybe you can do business based on Guanxi or trust for one time, the thing that matters in the long run is more beneficial. Thus, both Guanxi and trust are established on the basis of common benefits. Achieving the target and obtain profit is critical."

The above means that economic consideration is the most important factor when manufacturer and channel members make decision.

However, this does not mean their final decision is really based on rational economic analysis. When one tries to make rational choice just based on economic calculation, and finally one believes that s/he has made a rational decision, that may not be the truth. For example, the GM of Motorola Business Channel said, he believes “90% of our decision is rational”. However, from the inconsistence of his understanding and what the distributors really thought, it can be seen that his decision is just what he thought “rational”.

Economic factors are basic and important for effectiveness of CIPs, but this relationship will be influenced by the other two factors dramatically, Guanxi and sensemaking. If one policy is economically beneficial for the distributor, it may still does not work if the Guanxi has been damaged between them. At the same time, if they have bad Guanxi thus with low trust on each other, they will probably not make sense of what should be making sense from rational and economic analysis. The promotion fund example is just evidence. When Motorola planned to give 200 thousands to Digital China for promotion. Economically, the fund offered by Motorola can help improving the distributor's sales. However, Digital China was worried about the actual pay of this money. Thus, they refused.

On the other side, if manufacturer and channel members have good Guanxi and high trust, they will tend to make sense of their actions from a positive view. Thus, this will strengthen their economic analysis and further improve the effectiveness of CIPs.

In short, economic profit is the basic consideration when channel members make decision, however, Guanxi and sensemaking will influence their economic analysis thus finally influences their decision. Compared to Guanxi, which has been regarded by most interviewees as a double-side sword and try to avoid doing business with “Guanxi”, sensemaking is a factor that has seldom been realised by them. Both in practice and research, economic and cultural factors have been paid much attention to, while cognitive factors are usually being neglected thus far away from being explored. This is the one most important contribution of this study.

Finally, trust is some result of Guanxi and previous cooperation. It has obvious effect on sensemaking. Trust level will influence whether the channel member make sense of manufacturer's CIPs from a positive view or not. With low trust, channel members will suspect the target and the aim of the manufacturer. This may further lead to the termination of cooperation. Moreover, trust has impact on channel members' performance and economic benefit. Therefore, these factors are interrelated to each other, and together, will influence channel behaviour and effectiveness of the CIP.

Based on both previous literature and new findings, a new conceptual framework is proposed as Figure 2. This conceptual framework includes the following points:

- (1) Economic profit, Guanxi and sensemaking interact with each other.
- (2) Guanxi has impact on channel behaviour through the mediation of trust.
- (3) Economic profit and sensemaking have impacts on channel behaviour.
- (4) Trust influences channel behaviour and sensemaking. Good Guanxi has positive impact on cooperation, negative impact on conflict, and positive impact on sensemaking.
- (5) Sensemaking will moderate the relationship between economic profit and channel behaviour; while economic profit will moderate the relationship between trust and channel behaviour.
- (6) Channel behaviour, including cooperation and conflict has impact on effectiveness of CIPs.

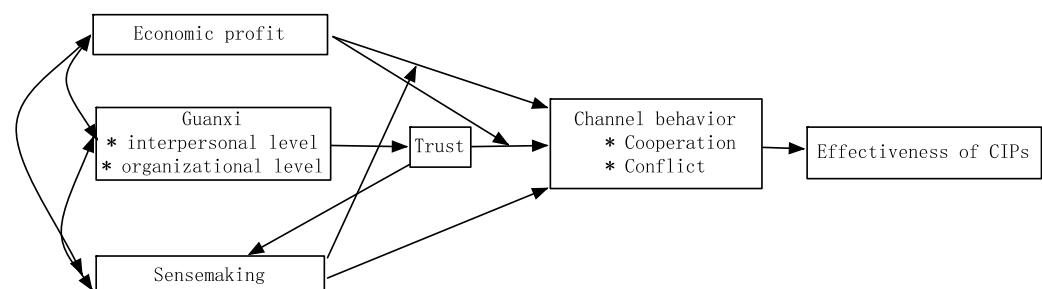


Figure 2 New conceptual framework

5. Conclusion

5.1 Contribution and implications

Based on the framework integrating economic, social and cultural and cognitive perspectives, this paper aimed to investigate the antecedents of channel behaviour and effectiveness of the channel incentive programs. With six one-to-one interviews from a large international manufacturer, Motorola, one of its largest resellers, Digital China, and one distributor, Shanghai Shuteng, this paper generates important results. The findings show that economic benefit, cultural Guanxi and trust, and cognitive sensemaking are three influential factors to the channel behaviour and the CIP's effectiveness, forming both theoretical and practical implications.

Theoretically, the paper proposed the sensemaking perspective and combined it with two other common factors, economic profit and Guanxi. Cost-benefit analysis and Chinese Guanxi have been widely used in previous literatures for investigating channel behaviour and supplier-buyer relationships. However, there is a gap in this field on the consideration of sensemaking, which is a deeper influential factor behind people's behaviours and choices. The findings of this paper is helpful to fill this gap by explore how channel members make sense of manufacturer's CIPs and what impact does this kind of sensemaking have on reseller and distributor's channel behaviours. Second, it challenges the traditional view that channel members tend to think relatively about short-term benefit (Shipley, et al., 1984) and show that they also have long-term views and strategic orientation. This research shows that economic benefit is not enough for stimulate channel members, and they are interested in such honours as "platinum and golden award". Finally, in traditional marketing theory, channel incentive programs are tactic based on the assumption of information parity and fully rationalized decision. This research shows that channel behaviours are not fully rational but will be influenced by Guanxi or sensemaking. This calls for attention on other factors that is not economic related but also has impact on channel behaviours and effectiveness. Further, Guanxi has been found to not only support relationships but also sometimes

damage established relationships, when channel members make choice just based on good Guanxi regardless of economic analysis and contract restriction.

The paper also offers some practical implications. First, manufacturers have to figure out the real need of its channel members and make customised CIPs. Distributors are usually considered as short-term and profit driven. Actually, this research shows that they are becoming keen on long-term development. Thus, manufacturers should shift from aiming at simple and universal incentive program to delivering diversified ones according to dynamic needs of channel members.

Second, all channel members should use Guanxi carefully. The findings of this research emphasize that Guanxi should be used under regular business guideline and ethics, otherwise, it may lead to problems of damaging each other's relationships and trust. In fact, some practitioners have realized this point and try to avoid being affected by personal Guanxi network. They believe this helps to make a rational decision.

Third, both manufacturer and channel members are recommended to make positive sense of each other's actions and pay attention to non-economic factors especially cognitive sensemaking. Most businessmen try to make rational decisions based on economic analysis. This behaviour increases their "benefit orientation". With different goals, manufacturers and each member in the channel become keen on game play to earn their own benefits. This may lead to zero-sum result and damage their trust. In one word, all players in the channel assume that they are rational and "self-profit maximisation" oriented. This has led to many misunderstandings even conflicts.

According to this research, the author argues that economic-based game play should not dominate the channel, while a partnership view should be adopted. A partnership view calls for regarding each other as the partner with common benefit rather than competitor, understanding the partners' real need, thus making full use of channel resources and improve the incentive effectiveness.

5.2 Limitations and further research

This paper has some limitations. It is a qualitative research with interpretive analysis method. Therefore some points of view may not be able to avoid the author's subjectivity. In order to support the propositions more soundly, a further study with empirical data and evidence is needed. Future research can be quantitative to, test relevant findings. Related scales for measurement of the important constructs in this framework can be borrowed and developed including perceived benefit, Guanxi, sense making, coordination behaviour, and incentive effectiveness for quantitative testing. Then, a survey could be conducted with questionnaires with these measurements. Regressions, Structural Equal Models and other quantitate analysis methods will be used with SPSS, AMOS or other analysis software.

Out of these three factors, sensemaking could be the focus of future study too. First, cognitive factors are lack of research compared with economic and cultural factors. Second, from this study, it can be seen that sensemaking is an important factor influencing the effectiveness of CIPs. Thus, to study how sensemaking influences channel members' attitude and behaviours is important for improving the CIP's effectiveness. Conducting a further research on sensemaking is meaningful both practically and theoretically.

6. Appendix: Interview Transcripts

Interview 1: General Manager of Channel Business, Wang H.M.

What factors do you take into account when design the channel incentive program?

First, it should be helpful for achieving target sales value and volume. **Second**, it should effective on stimulating the channel behaviour. Channel is the expansion of the manufacturers and their behaviour represents the manufacturer's behaviour. However, manufacturers and their channel members have different emphasis. The manufacturers pay more attention on long-term development while their channel members care about short-term benefit more. This is mainly because that they have different goals. **Third**, the CIP aims to moderate the channel benefit distribution. When the distributors are exclusive sales, they will share the most part of benefit. Thus, we will conduct support programs for the distributors directly, for example, we have financial or other support for core projects or target industries to allocate part of the benefit to the second or third tire channel members. This is also because we have different goals with our distributors. **Fourth**, we have a principle as “support for urgency not for the poor”. We held a long-term orientation when designing the incentive programs. For example, we have certain clients such as those in the forestry, which has low budget for communication. Therefore, the distributors and resellers don't want to invest on develop these market. However, these areas have high potential in the future market. As we have a long-term view, we invest on these markets to improve our market share and aim to obtain satisfying reward in the future.

The existence of incentive program is just because we manufacturers, resellers and distributors have **different goals** and sometimes there are even conflicts. Thus, it is necessary for us to use money to stimulate them according to our sales target and strategic goals.

The manufacturers have brand equity in the market, thus, we are aware of the long-term development of our brands. But the channel usually don't have brands asset and they care more about instant and short-term benefit. Manufacturers use principle of “maximizing market share” while channel members operating under the “maximizing benefit” principle. Manufacturers hope to keep moderate competition in the channel, but channel members prefer low competition and exclusive sales is what they want most.

These differences are unavoidable. There is no need to understand or try to resolve them. This is a game play between manufacturers and the channel members. As long as the channel can achieve the goal set by the

manufacturers, then the relationship will keep on going. Let along the differences, we try to find out our common stand for cooperate.

We are laying more emphasis on supporting our distributors than resellers. This is because the performance of Digital China is declining, and we want to keep it as Motorola's distributor as we have not found right candidate. Thus, we compromised on sales target and decreased the price to Digital China.

What did you plan to help Digital China with this program?

Digital China doesn't have enough capability to improve the market, so we give them more resources to help **them** go through this tough period. And we hope it can recover into growth after this year.

Have you achieve the target goal in the past half year with this program?

It seems OK for the sales of A8. But I don't think Digital China has got essential improvement in business operation. We have started to find other plans for next year.

What is the influence of manufacturers on channel members?

With increasing influence of A8, our channel members hope we can help maintain the price. Thus we have adjusted the promotions. CP series have gradually taken place of GP2000. We will help the distributors with advertising on CP to attract previous GP2000 customers.

Motorola has been paying more attention on low-end market and increases the market input. There exist conflicts among SMT, MagOne and Vertex in Shanghai.

What is the role of Guanxi and trust?

I don't think Guanxi and trust has any impact on channel incentive programs. Channel incentive program is an economic concept. The effectiveness of incentive program is something calculated by different parties with common benefits.

We usually build up trust with familial affection, but Westerners with faith. Guanxi and trust is the same. In Western world, people are encouraged to build up "social network". I think it is not easy in China to build up trust among people. For me, neither Guanxi nor trust should be the factors I take into account. I think these two factors are social one. I try to avoid being affected by Guanxi or trust.

Theoretically, in the recruitment stage, Guanxi and trust does matter. After that, we have to treat our partners fairly. Channel incentive is some kind of science. We use group decision and process to avoid personal Guanxi and trust.

I think 90% of our behaviour is reasonable. Difference does exist because we are human beings.

Do you think there exist sensemaking difference between supplier and their distributors?

No doubt there is. The manufacturer oriented to the west, but distributors went to the east. Similar phenomena can be found in promotions. There are two reasons, first is because of market change, and second is because of designing flaw. This is the failure of channel incentives.

This could not be avoided completely. We cannot capture all possible variables when we design the program. Also we may have mistakes when allocating weight on each variable. So I don't think there is 100% successful CIP. 70% is already wonderful.

I don't have any assessing approaches, but just use our working experiences. One important factor is your competitor. We pay much attention on our competitors' promotions to keep our competence.

Interview 2: Channel Sales Director, Wang H.L.

What are main incentive programs to the distributors?

There are three categories of our incentive programs: authorization incentive, sales incentive and marketing support. **Authorization incentive** is to give one distributor exclusive sales authority. Digital China has exclusive sales for A8 and CP series. **Sales incentive** includes Sell-in Rebate, Sell-thru Rebate and Business Development Fund (or Conditional Rebate One) for resellers achieving target sales volume or value. Business Development Fund is for supporting distributors to explore and develop the market. **Marketing support** refers to the Co-marketing Fund provided by Motorola's Marketing Department.

Besides, we also have CR2 (Conditional Rebate 2) as the premium fund for the distributors sales performance and MCR (Motorola Channel Reseller) Talent Club of the Marketing Department. The Talent Club is used to select excellent reseller and give them reward in the end of the year.

The distributor (Digital China) mainly focuses on turnover and benefit. In the past three or four years, its sales value has increased from millions to hundreds of millions RMB. At the same time, some problems emerged in the process of high growth, such as the increasing stock level, lack of ability to achieve the benefit target, etc. This year, they have acquired several product series, and are trying to focus on their developing goals.

What is the percentage of sales incentive programs?

The overall percentage is 15-17% of the order price. It should not be much higher in case that the retail price would be raised and influence sales

volume; also not be too lower to stimulate the channel. Sell-in Rebate accounts for 5-6%, Sell-Thru Rebate takes 5-6%, CR1 takes 2-3% and CR2 takes 2%. This year Sell-Thru Rebate was cancelled, which helps reduce the order price and transfer some funds to CR2 for supporting resellers. This is because Sell-Thru has some negative effects. For example, the distributor will allocate more stock to the next channel members, which may lead to the risk of cash withdrawal. Besides, it is hard for our governance on what reported by the distributors.

In terms of marketing activities, we lay emphasis on product and brand promotions, public relationships, MCR and the premium for channel members in the end of each year. At the beginning, sales and marketing department communicate with the distributors about the annual plan, and they also have communication and coordination in implementation process.

Main targets include: (1) growth rate; (2) efficiency of resource use (capital, working force and other cost); (3) increasing resellers' margin. We can help them increase the margin but not the profit.

Growth rate target is comprised of three parts: the base target, stretch 1 target and stretch 2 target. The reseller can get about 10% of the order price as rebate. However, our sales target will only achieve at stretch 1 level. At that level, the reseller will get another 3% for rebate. For stretch 2, they can get 2-3% rebate.

We have a formal communication with our distributors every season and one or two times for problem solving every month. These meetings usually cover the following topics: the network, number and support of second-tire agency, market share and brand maintenance.

What is the role of Guanxi and trust?

Trust is very important. Communication cost would be very high without trust. Two parties may have different interpretations on the same issue and even become suspicious.

Guanxi is two-edged. Good Guanxi can help “resolve” the problem quickly. However, this will probably lead to further problems in the future. We have experienced such situations. Once a time, Digital China helped Motorola store a good prepared for an incoming project. Two parties came to an agreement for time and fee via e-mail. Then some problem occurred. The unexpected problem damaged the trust between the two parties. If this were done under contract rather than oral promise and e-mail confirmation based on Guanxi, there would be fewer problems with the unexpected change.

The biggest positive affect of Guanxi and trust is that they can increase the cooperation efficiency.

Do you think there exist sensemaking difference between supplier and their distributors?

There does exist sensemaking difference. For example, the manufacturer has a promotion policy with “get one battery for free if bought two two-way radios”. But the distributors may not give the battery for the end consumers but leave them for selling. Some distributors may take the batteries back to the manufacture for asking for cash withdraw, because they see this policy as some cash bonus for their sales.

However, I think at most times, we can get same understanding after communication.

Interview 3: Channel Sales Manager, Yu J.

Who do you discuss with when make decision?

I report to and discuss with the Channel Sales Director and he will ask for approval from the General Manager.

What factors do you take into account when design the channel incentive program?

There are two factors: the rebate ratio and price. If the ratio is too high it will influence the retailing price; if too low it will lack of incentive effect.

Do you have written rules and process for the goals and expectations of the two parties?

We has written ones ourselves, but we just make phone or oral ones with our distributors.

Do you have certain mechanism to evaluate the resellers' target complementation?

No. But we have feedback when they didn't achieve the goals. We could not help them with the profit, but we calculate the margin. If they didn't achieve the target, we'll have meeting with their boss to discuss the reasons. Their possible reasons include the target was set too high, or the product doesn't take profit. However, the margin of our product is very high, but the profit was covered by their cost. We help them to analyse their business profiles and to figure out what cost can be reduced.

What do you think is the role of Guanxi and trust?

If our Guanxi is good, they can tell me some true information; if not good, they just say some surficial words.

Trust is the most important. If the channel member doesn't trust you, they will suspect the reasonableness of the target we set for them, and try to bargain for as lower price as possible. Sometimes they may think the reason

why we set this goal is just because we don't want them to achieve that and get the premium, or we just want to let them out.

In one word, channel members will suspect the target and aim of the manufacture. What's worse, that may lead to the termination of cooperation.

What do you think is the relationship between Guanxi and trust?

I think Guanxi usually exists in personal level and is informal. It helps us improve the communication effectiveness and know more about the truth of each other. In organizational level, trust is more important. The critical issue is to establish trust between companies. Even if we have good personal Guanxi, we still couldn't achieve common sense without trust between our companies.

For example, person in charge in Digital China can talk me frankly about their purpose and plan. But return to the business, as we represent for each other's company, he felt Motorola is not trustworthy and he then went to Motorola's Asian-Pacific headquarter to ask for more resources. Then, a vicious circle emerged and the trust level decreased.

Do you think there exist sensemaking difference between supplier and their distributors?

Yes. There exists such difference. For example, we have a meeting to communicate the sales target and its feasibility with distributors every two months. We think it is very helpful for the two parties. But they don't think so. They view that as a waste of time and the time will be more productive if they do other works.

Is that phenomena common?

It is much more common than before. For example, the original purpose of our target is to increase each party's benefit. But distributors may think we set goals just for showing to our boss, and that is not achievable. Then they will not want to cooperate and sit down for a meeting on that.

There is another example, once a time we want to give 200 thousands to Digital China for promotion. But they refused. Possible reasons are as following: they are afraid of the actual pay of this money and they asked Motorola cooperate with the distributors directly. This is related to low trust and their forecast of the market.

Interview 4: General Manager of Telecom Business, Zhang Z.H.

What are main incentive programs from Motorola? Can you give some comments on these programs?

Motorola accounts for 95% of our business. They have Sell-in Rebate and Sell-thru Rebate for us. We are one of its 11 resellers; I don't know whether they have the same programs as us. A8 is the high-end product in the low-end market. But the launch of A6, SMT has put high pressure on A8. CP series will take place of GP2000 this year completely.

Motorola has to take more **customized** incentive program. Simple price rebate is not enough for our development now. Price and volume is just superficial incentive measures. They are lack of further incentive programs and weak on market research.

In my opinion, channel incentive is price and positioning. Programs based on price include **Order price, Sell-in & Sell-thru Rebate, CR 1, etc.**, all of which are about money.

Other kinds of incentive issues include: (1) Product positioning: What are the target market and industry? (2) Channel strategy: What are the proper distributors? (3) Product line strategy: What is the future of the product? How to separate the market from other products? If the manufacturers continually put new products into the market, these products and their resellers would invade our existing market. For example, put a new product with adding functions on an existing product. This kind of behavior is irresponsible.

Currently, Motorola put emphasis on price incentive programs but ignores to communicate with us on non-price factors. Thus, distributors are more rational and aware of the profit, turnover and cash flow.

Why do you think that the manufacturers and distributors seem to not understand the goal of each other?

We are not clear about each other's strategies and market positioning. For example, Motorola doesn't have accurate expectation and positioning on Digital China. Digital China initiated with low-end product. Gradually, we think we have got advantage on high-end market with high profit ratio. But Motorola still regards us as low-and-middle reseller. We have high cost to cover, thus we are going to step to high-end market with digital product developing. They haven't taken the advantage of Digital China. And our demand has become very clear already. It is so clear now but hard to change. This restrains the developing of our cooperation.

Have you ever communicated that with Motorola?

Last year, we want to do high-end products such as Moto Turbo. So we started cooperation with Kenwood. However, Motorola gave us high pressure so we cancelled the cooperation with Kenwood. Motorola didn't give us positive support but great pressure.

The biggest problem Motorola is facing with is neither price nor incentive, but the crisis of trust! It does matter that whether they are willing to face and resolve that.

What do you think is the role of Guanxi and trust?

There are two kinds of Guanxi, one is based on work, and the other one is personal relationship. The latter is usually based on cooperation.

When it comes to trust, we have to hear what they say and see what they do. If the words consist with the action, we'll increase our trust on them. Otherwise, our trust will be damaged.

Overall, Guanxi and trust is very important. Compared with affections, they are established on rational basis of business performance and development. For example, we have sold out 310,000 two-way radios since 2007 for Motorola. We also do business for its other products such as tablet computer. Although we didn't make much money on that, we have established a good team. Also I've built up good relationship with people in Moto for business. But I won't be influenced by personal relationship when making decision.

Moto has damaged our trust recently by such issue as the market change of GP2000 series and their shifting to other resellers for CP products. So our Guanxi and trust is deteriorating dramatically.

Do you think there exist sensemaking difference between supplier and their distributors?

This is an important point. There exists sensemaking difference that influences our decision-making and result. It is natural that we have different view on whether the sales target should be 60 or 80 thousands. But it is crucial to find out "right point" to design an effective program.

Interview 5: Product Director of Telecom Business, Yu L.B.

What are main incentive programs for distributors from Motorola? Can you give some comments on these programs?

For distributors, most incentive programs are rebate for target achievement or excess. Also they have supports for marketing activities and training. But the training does help much for our distributors.

How do you discuss with the manufacture on incentive program designing?

In the past, we did well. However, as the manufacturer has higher performance pressure, they no longer set the target according to fact of the market. They just care about our stock but not how many we could sell out. If the Sell-in volume exceeds Sell-thru for successive years, some resellers

will give up the annual premium. We would quit if such situation lasts for a long time.

What is the reason for the probable quit?

The Asia-Pacific headquarter of Motorola has too high expectation on China, which goes far away from the reality of Chinese market. Since 2008, many products were overstocked. Their requirement for growth rate goes beyond what can be achieved.

Do you often communicate with Motorola about that?

The problem is that who we can get touch and communicate with usually doesn't have decision-making authority. Thus, the whole process of communication will be very long from 4 to 6 months. After communication, we can achieve some goal accepted by both. However the goal is still very high, Motorola just reallocated the volume on us to other resellers. This year we signed the MOU in the middle of the year. We try to finish the goal in the first three seasons, but it is usually hard in the fourth season.

Now Motorola has abandoned many incentive programs. We still hope they can have fund to support our sales.

How do you stimulate your distributors?

We used CR1 program. But the manufacturer hasn't paid in time. And the reward level is too low to stimulate our distributors. So we don't want to do that anymore.

Why the manufacture's high target is regarded by "pressure" rather than "growth" by you?

The growth rate kept around 20% in the past several years. As Moto has launched several low-end products, it is hard for us to keep the same growth rate as before for existing products. At the same time, the manufacturer reduces the support and resource to us with cost consideration.

There exist promotions to the distributors from Moto and Digital China respectively. We provide the following incentives to our resellers: regular rebate, promotions and training. We have Digital China University for improving sales skills.

In your communication, do you have clear aim and target?

We have clear aims with Motorola. But it may not be so clear when communicate with our distributors, which depends on their capabilities and competencies. Communications with distributors is conducted by our sales, whose personal skills and capabilities is importance for distributors' acceptance.

What is the main content of goals with manufacturers and distributors respectively?

With Moto there are two goals: improving sales volume including sell-in and sell-thru; and keep certain numbers of distributors, which could be achieved via developing new ones.

With the resellers our main targets include sales volume and other business terms such as delivery time and service.

I don't think there is any misunderstanding of Digital China on Moto's target. We have consistent goal with Moto, but when it comes to the understanding and complementation of our distributors, inconsistency occurs. Maybe we set too high sales target to them.

Do you communicate with manufacturers and resellers about the purpose of the business?

Because these products are low-end with little profit, the distributors have not enough energy to make such kind of discussion or do market research. There exists some rigid demand for certain products as A8 products. Thus, even there is just 10-Yuan profit; the distributors still keep this business.

For new products, we need more incentive programs.

How to achieve target consistence between you and the resellers?

First, choose some key resellers and let them drive other small resellers. Key resellers are our extension. We use different strategies for different products. For popular products with low profit, we incentive the resellers with volume. For new products needing long-term operation we set promotion with resellers together.

What do you think is the role of Guanxi and trust?

Neither Guanxi nor trust is the most important. Benefit is the ultimate goal. Maybe you can do business based on Guanxi or trust for one time, the thing matters in the long run is till benefit. So both Guanxi and trust are established on the basis of common benefit. Achieving the target and obtain profit is critical.

However, Guanxi and trust can reduce communication cost. Without good Guanxi and trust, well-designed incentive programs may not get good result.

Guanxi, trust and benefit interact with each other and will lead to positive or negative circle.

Do you think there exist sensemaking difference between supplier and their distributors?

We have very clear goals. Thus there is seldom any misunderstanding between the manufacturer and us. When we design an incentive program, we also take account of the resellers' needs.

Do you collect feedbacks and make adjustment during the complementation process?

We discussed with the key resellers when designing the program.

Interview 6: General Manager of Distributors, Mr. Pei B.

What are main incentive programs to you from the manufacture and distributor?

From Moto, first is Moto's Talent Club. Motorola's incentive programs are not so strong as before because of performance decline. We get the reward with sales points. In the past, one point deserves 4-5 Yuan but now it is just 1 Yuan. And the cashing process is very long. So we are not very active on that. They have Talent Club for well-performed distributors' traveling award. Second is the annual award. The amount is not high and cashing process is very long. So we don't care about that, either. Third is seasonal award. This is temporarily set when they felt there is difficulty for achieving target.

If the award amount is not high, for example just 10 or 15 thousands Yuan, we usually don't care about that.

From the distributors, they have different policies for resellers. Basically all are with money.

Which do you care about more, the manufacturer or distributor?

Personally, I think the manufacturer is more importance. The distributor is just Moto's co-operator. In most cases Moto's decisions will influence the view and behaviours of their distributors. Especially for such big manufacturers as Moto, we do their business not only for economic earning but also consider their reputation, authority and other soft benefits such as training and guiding.

Business is not only decided by the income or profit.

However, to many small resellers, they are not so care about the manufacturer but focus on profit. And cooperation relationship is not so important for them.

Shanghai is a city with high brand awareness. If you don't cooperate with Motorola, it seems loosing face. But there are also some distributors who performed well without close relationship with manufacturer.

Distributors' voice power in the channel incentive programs depends on the performance and market influence. If we take 30-40% of the overall sales of Digital China, we'll have higher voice power.

How well do you think Motorola and Digital China know your operations?

Not well. First they may feel no need to know; second they may believe they have done well on market shares and don't pay much attention on us. Motorola doesn't do very well. Another manufacturer that is the competitor of Motorola Hytera can help the distributors resolving problems and deeply understand their business. However they also can't provide customized service, either. Hytera have no distributors so their resellers are stickier to them. Doing business directly with Hytera give distributors more support and resource. Motorola pay much effort on the end consumers rather than the channel.

How do you think the reseller's work?

They are enjoying the fruit of Motorola. They didn't explore the market but just maintain it. The pressure of reseller leads to the result that who sells most that gets most. When they have high pressure, they will take temporary promotion measure for emergency. Resellers keep most resource and manufacturer may feel lack of power to explore the market.

What do you think is the role of Guanxi and trust?

In China they are very important. If we have good **Guanxi**, I can do what I can to help you. For example, if you call me to stock 200 more two-way radios, and we have good relationship, I'll not hesitate.

Trust is very important in business. It can reduce communication cost.

However, even with good Guanxi, we have to do business according to the contract. Without contract, Guanxi could bring risk. Sometimes we don't sign contract because of Guanxi, but they have problems the money will hard to be back. If your distributors say difficulties to you, you also feel not comfort to force them.

Do you think there exist sensemaking difference between supplier and their distributors?

In terms of sales target, I think it's clear after communication. However in terms of the perception of manufacturer and resellers' purpose behind a behaviour, there may be difference or misunderstandings. The Talent Club is not so good as before. I don't know why. If I think why Digital China gives us support is because the product is not attractive or has little potential, I'll refuse to do the business.

Distributors may have little understanding on manufacturer's behaviour and try to figure out possible reasons. But they usually know the distributors' promotion well.

I think both manufacturers and distributors will not tell us their real reason or purpose. So we have to make judgment.

Comparative interviews on effectiveness of CIP

This study involves three parties in the channel, manufacturer, distributors and resellers. In order to compare their views, I asked them three common questions related to the effectiveness of CIP. Following is the brief transcript.

Could you please list three most effective incentive measures?

Motorola Mr. Wang: Exclusive distributing authorization; channel rebate; market promoting.

Motorola Mr. Yu: Channel rebate; monthly distributor promotion (mainly for the second-tire distributor of Digital China); customer promotion.

Digital China, Mr. Zhang: Rebate is OK but too short-viewed. Splitting the product lines also works. Backward of Motorola's CIP is as following. First, they don't give us a long-term strategic orientation on each product. This is what we care about. Second, Motorola didn't designed different CIP to different distributors. They should customize the training and supporting plan for distributors specializing in certain industry and those not.

Digital China, Mr. Yu: Project-based authorization (usually for government and state-owned enterprises); annual rebate; platinum and golden resellers.

Why do you think these are most effective ones?

Motorola Mr. Wang: (1) Exclusive distributing authorization: as Motorola is the leader in this market, give them distributing itself is a kind of support, which means a long-term commitment. (2) Channel rebate: it's money and influences resellers' profit directly. (3) Marketing promotion: this means resources for supporting their market exploration.

Motorola Mr. Yu: Channel rebate and monthly distributing promotion can increase their profit. Customer promotion improves sales.

Digital China, Mr. Yu: These programs increase our benefit, or make us have a feeling of honour (platinum or golden reseller).

Do you think manufacturer and the channel members have the same view on that?

Motorola Mr. Wang: I think we have the same overall view, despite of possible ranking difference.

Motorola Mr. Yu: I think the resellers may prefer distributing promotion and customer promotion better because they can be fulfilled quickly. Rebate may be viewed as a measure just for manufacturers' sales target and benefit.

Digital China, Mr. Yu: Manufacturer and resellers have different standing points. Manufacturer want to earn highest profit with least invest. But resellers require more resources.

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