

Predictors of Consumer Goods Importers' Trust and Commitment in an Emerging Market

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The purpose of this paper is to address the gap in the extant literature with regard to predictors and consequences of relationship trust and commitment behavior of consumer goods importers in an international setting. The study develops and empirically tests a theoretical model using structural equation modeling (SEM). The dataset for the paper constitutes responses of a representative sample of consumer goods importers. The findings broaden and deepen our understanding of how relationship outcomes concerning international exchange partners can help reinforce their relationships in an emerging market setting.

Field of Research: International Relationship Marketing

1. Introduction

The concept of commitment has emerged recently in international business literature especially in explaining importer behaviour as a counterpart of the process of internationalisation (Bianchi & Saleh 2011; Liang & Parkhe 1997; Skarmeas, Katsikeas & Schlegelmilch 2002). Theorisation of the concept of importer commitment to import supplier has been developed from some similar stream of research such as industrial distributors' commitment to suppliers (Coote, Forrest & Tam 2003; Kim & Oh 2002), retailers' commitment to suppliers (Morgan & Hunt 1994), buyer-supplier relationship (Miyamoto & Rexha 2004). The main research issue of this study is rooted in the paucity of our specific knowledge about the outcomes of relational engagement in international exchange between importers and importers of consumer goods. More specifically, knowledge gap exists in the realm of trust and commitment of importers' relationship with foreign suppliers (Johanson & Vahlne 2006). In general few prior studies investigated the predictors of importer trust and commitment that were undertaken mostly in the context of developed countries (e.g., Abdul-Muhmin 2002; Costa, Bradley & Sousa 2012). An extensive search of the international literature revealed that research has yet to explore the commitment and trust of consumer goods importers in the context of emerging nations (Saleh & Ali 2009). In view of this lacuna in the literature, this study integrates some unique predictor variables of trust and commitment into a novel research frame. The paper is framed under seven major sections: research question and objectives, literature review, theoretical framework, methodology, analysis of data, findings and discussion, contributions and limitations.

2. Research Question and Objectives

While previous research have emphasized the relational paradigm in exporters perspective in the context of developed countries, research capturing variables concerning relationship between importers and exporters especially from the view

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point of importers have not been well explored in developing country context. Therefore, the research question addressed in this research is: what are the predictor variables of trust and commitment in the consumer importer and foreign supplier relationship and how do they interact? To address this research question the aim of this study is set to develop a theoretical model capturing the variables associated with the relationship between consumer goods importers and their foreign counterpart. The main objectives of this paper are as follows:

1. To explore the nexus between importers relational perception of their exporters using theoretical underpinnings drawn from the extant literature
2. To develop a novel model of importers' suppliers' relationship and empirically test the validity of the model

3. Literature Review

Merging the streams of research with theoretical developments in international business, the theories of internationalisation process (IP) (Johanson & Vahlne 1977; Johanson & Wiedersheim-Paul 1975) focused on knowledge and experience gathering process as ingredients for firm to be committed to the market. In a recent seminal work, the pioneers of the IP approach acknowledged that knowledge and experience is instrumental for relationship commitment in the both sides of the importer exporter dyad (Johanson & Vahlne 2006). On the other hand, transaction cost (TC) economics (Williamson 1985) emerged as mainstream theory and has been used extensively to examine inter-firm relationships (Heide & John 1992; Noordewier, John & Nevin 1990). The theory asserts human and environmental aspects where interpersonal behavioral domains and socio-cultural environmental diversity/changes affect international business relationships.

Further, the trust and commitment theory (Morgan & Hunt 1994) signifies that the parties' abilities to judge circumstances rationally are affected by opportunism; such an attitude leads to decreased trust and commitment in the relationship. Environmental volatility is an ingredient to instigate transacting parties' proclivity to be opportunistic which is likely to occur if terms and clauses in a contract resulting are unspecified, thus leading to reduced commitment (Bianchi & Saleh 2010; Skarmeas, Katsikeas & Schlegelmilch 2002). Of the large number of contextual factors that contribute to relationship success/failure, trust and commitment are central to a successful relationship outcome (Kim & Oh 2002; Morgan & Hunt 1994). Most of the above variables discussed in the relevant literature explaining the international distributors' trust and commitment seem quite relevant. However, such literature appears to have overlooked or underestimated the potential predominant factors of commitment of consumer goods importers in developing countries.

It should also be noted that there is no unanimity as to the predictors of trust and commitment in extant studies. For example, Moore (1998) examined one predictor (equity) of trust, Selnes (1998) examined two (competence and communication) predictors of trust, and Skarmeas et al. (2002) examined four (transaction-specific investment, opportunism, environmental volatility and cultural sensitivity) predictors of commitment. These studies found mixed support regarding the relationship between the above theoretical variables. Furthermore, some studies (e.g., Jonsson & Zineldin 2003; Kim & Oh 2002; Miyamoto & Rexha 2004) used trust and commitment as criteria variables against some interrelated and exogenous variables in different

context. The variables commonly used in these studies include transaction specific investment, communication and opportunism. However, as remarked earlier, knowledge and experience in the relationship have also been examined in the context of exporter commitment (Chetty & Eriksson 2002). This is equally important and may be relevant to include in a trust-commitment model in the importer-supplier setting.

The above overview of the mainstream relational norms such as trust, commitment and their consequences for performance, has established there are some factors which instigate trust and commitment. These in turn stimulate firms' desire to attain long-term business success. The review enabled this study to create a new theory out of the variables of interest and apply it to the importer-supplier context. The study considered the following: firstly, communication, knowledge and experience, and opportunism as predictor variables of trust; secondly, knowledge and experience, opportunism, environmental volatility and transaction-specific investment as predictor of commitment, and thirdly the interaction of trust and commitment.

4. Proposed Research Model and Hypotheses

The background of the study and review of relevant theory and literature suggest that there is no agreement among the scholars on the determinants of consumer importer trust and commitment to their foreign suppliers. Although a large number of factors of importer commitment have been identified in the literature, only potentially important factors are identified and included in the model for testing purposes. Therefore, Figure 1 depicts a model is set in the consumer importer-supplier context and consists of four exogenous and four endogenous variables. The proposed study consolidates and focuses on relevant studies where most of the identified variables have been examined from different perspectives. This has provided support to the variables in conceptualising the emerging context.

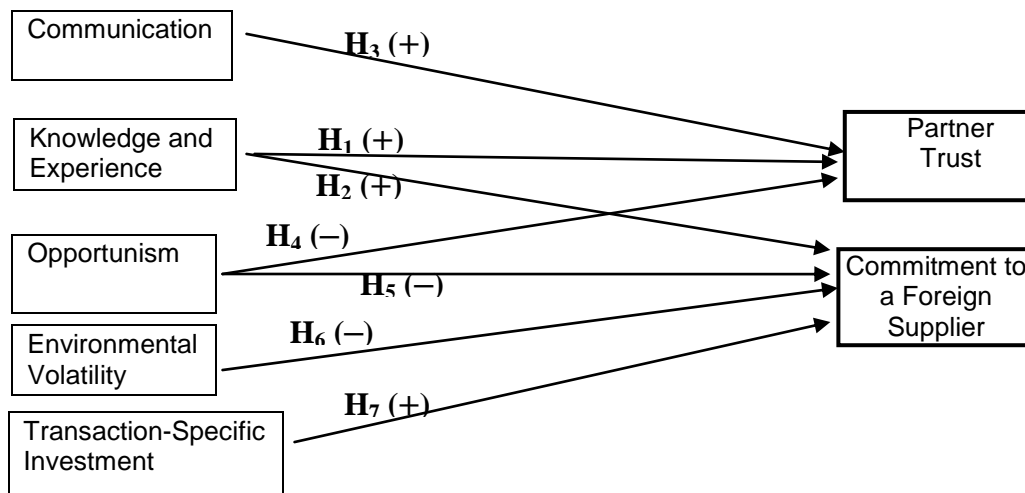


Figure 1: A Model for Antecedents and Consequences of Trust and Commitment

The theoretical links between the variables are discussed in the following subsections.

4.1 Knowledge and Experience Vs Trust and Commitment

The knowledge-gathering process in the international market allows buying firms to make better purchases of quality products, resulting in reduced costs and increased profits in the importer-exporter relationship (Homburg et al. 2002). This suggests that an importer's knowledge and experience of consumer and/or business goods is essential for quality consumption and/or high standard reproduction. Ultimately this affects importers and their suppliers' relationship in terms of the degree of trust. However, it is essential for consumer goods importers' to establish long-term relationship commitment in which trust and commitment play a parallel role (e.g., Siguaw, Simpson & Baker 1998). In view of the above the following two hypotheses are worth exploring:

Hypothesis 1: *There is a positive relationship between the perceived effect of consumer goods importers' knowledge and experience and their trust in the importer-supplier relationship.*

Hypothesis 2: *There is a positive relationship between the perceived effect of consumer goods importers' knowledge and experience and their commitment to the importer-supplier relationship.*

4.2 Communication Vs Importer Trust

Research suggests that frequent, high quality and timely communication of information results in greater trust (Mohr & Sohi 1995; Morgan & Hunt 1994). Some studies (e.g., Kwon & Suh 2004; Morgan & Hunt 1994) found significant positive support for the above assertion while others found insignificant results in a different context (Moore 1998). The above mixed findings suggest that the lack of agreement among scholars makes it possible to test the following hypothesis:

Hypothesis 3: *There is a positive relationship between the perceived effect of consumer importers' communication and their trust in the importer-supplier relationship.*

4.3 Opportunism Vs Trust and Commitment

An overseas supplier may be involved in opportunistic behaviour in order to obtain an undue advantage over its trading partner by ignoring the principle of fair transaction and contract (Wathne & Heide 2000). This means that when a party believes that the other transacting partner is acting opportunistically, such a perception will lead to a decline in trust. Accordingly, if one party in a relationship perceives that the other party is no longer trustworthy due to the other party's opportunism, this drift will lead to decreased commitment in the relationship (Morgan & Hunt 1994). However, none of these studies developed an integrated approach to validate these findings from a consumer import-supply perspective. Hence, two null hypotheses are suggested for testing:

Hypothesis 4: *There is a positive relationship between the consumer importers' perceived negative effect of suppliers' opportunism and their trust.*

Hypothesis 5: *There is a positive relationship between the consumer importers' perceived negative effect of suppliers' opportunism and their commitment.*

4.4 Environmental Volatility Vs Commitment

Rapid volatility in international markets exaggerates the uncertainty of the demand and supply situation because of one party's imprecise predictions concerning the future direction/outcome of the potential transaction. It is contended that environmental volatility creates threats and/or otherwise opportunities for transacting firms (Saleh & Ali 2009). Further volatility profoundly diminishes the willingness of proper responses and affects the commitment of the parties involved (Saleh & Ali 2009). Such turbulent environmental events have an impact on consumer and business product importers' commitment to their relationships but these have not been tested in any context. It is therefore proposed:

Hypothesis 6: *There is a positive relationship between the consumer importers' perceived negative effect of environmental volatility and their commitment.*

4.5 Transaction-Specific Investment Vs Commitment

A review of the related consumer and business buyer-seller studies revealed that some studies (e.g., Kim 2001; Kim & Oh 2002; Skarmas, Katsikeas & Schlegelmilch 2002) examined the effect of transaction-specific investment. All found a positive significant relationship between the transaction-specific investment and their commitment (including importer commitment). Since all of these studies were conducted in developed countries, further validation in an emerging market setting using a comparable research methodology may enhance the generalisability of TSI's impact on importer commitment. The following hypothesis is therefore worth testing:

Hypothesis 7: *There is a positive relationship between the perceived effect of consumer goods importers' transaction-specific investment and their commitment to the importer-supplier relationship.*

5. Method

5.1 Empirical Research Setting

Given the research setting, the Export-Import Control Bureau of Bangladesh (EICBB) was used as the focus of this study. The study identified 450 consumer goods importing firms as potential informants. The multi-item measures for respective constructs were developed and included in the study instrument. The development of measures began by reviewing previously published studies. Some minor revisions to the measurement instrument were made in terms of wording and themes to the scales based on a pretesting, using a sample of 50 firms following Hair *et al.* (2010). The final instrument was then mailed to a total of 450 target respondents consenting to participate in the study. A total of 85 responses were collected from consumer importers. After two weeks 280 questionnaires were mailed to the consumer importing firms who did not respond in the first round. The second mail-out generated 62 responses from consumer importers. After eliminating those questionnaires that had more than 20% unanswered or partially answered questionnaires (Hair *et al.* 2010), the usable total response rate for consumer goods stood at 131 with a response rate

Saleh & Quazi

of 29%. Finally, 131 valid cases and five independent variables satisfied a very good case-to-variable ratio for CFA and SEM analysis (Tabachnick & Fidell 2001).

Three open-ended questions were included at the end of the survey instrument asking key respondents to indicate how long they had imported goods from their major supplier, level of their educational qualifications, and the duration of the firm's importing activities.

6. Data Analysis and Results

The proposed conceptual model indicates that this research proposes a multidimensional empirical research setting to investigate the theoretical relationship path drawn from the literature. Further, the framework seeks to quantify the data (Malhotra 2002) in explaining the causal relationships. To test such multidimensional path relationship, Structure Equation Modelling (SEM) is appropriate because in the estimation process, SEM has the power to produce regression weights, variances, covariance, and correlations in its iterative process (Holmes-Smith, Coote & Cunningham 2004). SEM is such analytical technique which has the advantages over other statistical tools to specify, estimate, and test theoretical relationships between endogenous and latent, exogenous variables together (Byrne 2001). Thus, to test the hypothesised interactions between the constructs, the SEM model was estimated, using least square estimation procedure. Under the measurement estimation process, CFA (confirmatory factor analysis) was conducted under SEM. The analysis shows that the factor loadings for all constructs were above of the minimum cut-off value of .50 (Hair et al. 2010) and the fit statistics for the CFA model were parsimonious. Finally, the SEM model estimation results and model fit statistics are presented in Table 1.

Table 1: Results of Model Estimation

Hypotheses	Standardised β (CR/t-value)
H ₁ KNEX →TR	.127 (1.83) γ
H ₂ KNEX →CMT	.355 (4.18)***
H ₃ CM →TR	.129 (1.48) NS
H ₄ OP →TR	-.292 (-5.27)***
H ₅ OP →CMT	-.108 (-2.45)**
H ₆ EN →CMT	-.188 (-1.77) γ
H ₇ TS →CMT	.001 (.010) NS
Fit Statistics:	$\chi^2/df=1.30$, IFI=.96, TLI=.95, CFI=.95, RMSEA=.04

Significance Level of CR (Critical Ratio) values: *** 1%, ** 5%, γ 10%

Legend: KNEX=Knowledge & Experience, CM=Communication, OP=Opportunism, EN=Environmental Volatility, TS=Transaction-Specific Investment, TR=Trust, CMT=Commitment

The fit indices of the tested model achieved adequate as well as parsimonious fit. For import category-level analysis, five hypotheses were accepted and found to be highly significant for both samples (H₁, H₂, H₄, H₅, H₈, H₉). H₁ suggests that knowledge and experience has a marginally positive ($\beta = .13$, $p < .10$) significant effect on consumer importer trust. H₂ suggests that importer knowledge and experience is related to importer commitment to an import supplier ($\beta = .36$, $p < .001$ and therefore, H₂ is fully supported. Communication between importer and supplier is not significantly ($\beta = .13$, NS) and not supported. However, as expected, the results revealed that a supplier's inclination to be opportunistic has a negative significant effect on consumer importers'

Saleh & Quazi

trust ($\beta = -.29$, $p < .001$) and commitment ($\beta = -.11$, $p < .01$). Hence, H_4 and H_5 are fully supported.

We hypothesised that environmental volatility has a negative effect on importer commitment. The results suggest that environmental volatility has a marginally significant ($\beta = -.19$, $p < .10$) effect on consumer importers commitment. Consequently, H_6 is supported. We also hypothesised that importer transaction-specific investment is positively related to consumer importers' commitment to their import suppliers. The results suggest that it is not significant ($\beta = .01$, NS) in the consumer importer context. Thus, H_7 is not supported. H_8 and H_9 suggest that importer trust ($\beta = .59$, $p < .001$) and commitment ($\beta = .348$, $p < .001$) have positive and significant effects on importer performance consequences. As a result, H_8 and H_9 are fully supported.

7. Discussion and Research Implications

The results clearly suggest that knowledge and experience are primary tools that boost consumer product importers' commitment to their relationship and lend support to the recent arguments put forward by pioneers of the IP approach (Johanson & Vahlne 2006). However, the assertion that a high degree of knowledge and experience builds trust is not validated by the importers. This indicates that such importing firms in general are not concerned with enhancing international business knowledge and experience so that they can build a trusting relationship with suppliers. Similarly, the non significant effect of bilateral communication between the importer and supplier on importer trust signifies that the mechanism and importance of communication for consumer product importers are not alike.

As expected, the effect of supplier opportunism on importer trust and commitment implies that when the importer believes that supply partners engage in opportunistic proclivity, this perception leads to loss of trust in importer supplier relationship (Bianchi & Saleh 2011). Correspondingly, as previously postulated, such an opportunistic drift of suppliers results in a diminished commitment to the relationship because importers believe it is not feasible to trust their suppliers in a long-term relationship (Morgan & Hunt 1994). This finding lends support to what has been found in previous studies (Bianchi & Saleh 2011; Skarmeas, Katsikeas & Schlegelmilch 2002), and suggests that if a supplier's guile and self-interest-seeking stance is axiomatic, the long-term relationship will be compromised and importer transaction costs with such a supplier will increase (Williamson 1985). As a result, importing firms need to be cautious when establishing contracts and agreements with the supplier by clarifying all terms and conditions to avoid situational advantage due to vague provisions and stipulations in the transaction.

Rather than positing a relationship between environmental volatility and TSI, the results suggest that volatility is not a significant factor for the consumer goods importers. Similarly, consumer product importer TSI has no effect on their commitment, suggesting that they maintain an *ad hoc* relationship with their supplier and are likely to switch frequently from one supplier to another. The result of the impact of knowledge and experience on importer commitment is unique and lends support to the similar developing country findings of generic importer context (Bianchi & Saleh 2010).

8. Contribution to Theory and Practice

This study contributes to the theory and provides some useful practical directions for import managers when dealing with consumer products. Firstly, this study has constructed a model for the concept of commitment and trust where importers of consumer goods perceive their foreign suppliers in different ways. Specifically, constructs have been articulated concerning the relationship dynamics for: foreign suppliers' opportunism; communication between importers and suppliers; importers' knowledge about and experience of the process and products they deal in.

Secondly, the research extends the tenets about existing transaction costs and internationalisation processes by refining a theory on trust and commitment in a new research setting, which is an emerging market economy.

Thirdly, this study contributes to the body of knowledge by revealing consumer product importers' perceptions of their suppliers.

Finally, this study contributes to an understanding of how importers should endeavour to enhance their relationship trust and commitment in an international exchange situation.

Limitations and Future Research Directions

This study has some limitations that are noteworthy. The research has some inherent limitations which include the use of cross-sectional data based on a relatively small sample drawn from a single country. This study tested a theoretically grounded model integrating some of the key antecedents of relational governance. However, some other variables that may have a direct and indirect association and impact on relationship commitment were not examined. The predictors and linkages were investigated only from a foreign distributor perspective. Future research should examine the predictors and linkages from both manufacturers' and distributors' perspectives where these factors could converge (Gençtürk & Aulakh 2007). In terms of coverage, future research can broaden the scope of the research by focusing on the perception of both consumer goods and business goods importers in a number of developing countries.

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Saleh & Quazi

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Saleh & Quazi

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