

# The Precursors and Outcomes of Trust in the Power Unbalanced China Home Appliance Retailing Industry

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**Executive Briefing:** China's electronic retailing sector is highly concentrated with only three main retailers. This provides a unique situation for examining the determinant factors and outcomes of trust in power-unbalanced relationships. Retailer buyers from China's home appliance retailing industry participated in this research (n=327), and answered questions about their relationship with a supplier who was more powerful and one that was less powerful. Communication effectiveness (+), opportunism(-), and conflict (-) are determinant factors leading to trust. Relationship commitment and cooperation are outcomes of mutual trust. Although power symmetry was proposed to have a moderating effect on the negative relationship between conflict and relationship commitment this was not supported.



Retailer power is an issue in China home appliance industry. The market is characterized by a high degree of concentration. The power of Chinese electronic appliance retailers enables them to get products from suppliers at extremely low prices and charge other non-primary business fees. Then retailers sell their products at a reasonable low price and gain economic scale by selling great volume. In 2006, the Chinese government issued "Administrative Measures of Fair Exchange between Supplier and Retailer", which tries to adjust the improper relationship between manufacturer and retailers, restricting retailers from forcing suppliers to launch sales promotions, charging suppliers additional fees not stated in the contract, or delaying contract terms of payment.

In an unbalanced power relationship, the continuity of the business relationship is of key concern for the less powerful party. Therefore, examining the nature of trust and relationship commitment in a unbalanced power relationship could not only help both retailers and suppliers in Chinese home appliance industry to develop a more sustainable and healthier partnership, but also help channel members from other power unbalanced industries to properly exercise their power and develop a win-win situation in more international markets. In this paper, we mainly investigate the antecedent factors and consequences of retailer's trust in suppliers in the China home appliance retailing industry. Additionally, we examined the moderating effect of power symmetry on the associated relationship of conflict-trust and conflict- commitment.

## Commitment-Trust Theory

Commitment-Trust Theory indicates that the presence of relationship commitment and trust is central to successful relationship marketing. The theory explains main factors that promote productive, effective, and relational exchanges. They posit that shared values, communication, and non-opportunistic behavior are indicators of trust. It is also suggested that relationship termination costs, relationship benefits and shared values are antecedents of relationship commitment. On the other hand, trust and commitment directly lead to cooperative behaviors that are conducive to relationship success. Trust leads to outcomes of cooperation and functional conflict. Commitment and trust are key because they encourage marketers to (1) work at preserving relationship investments by cooperating with exchange partners, (2) resist attractive short-term alternatives in favor of the expected long-term benefits of staying with existing partners, and (3) view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically. Trust-Commitment theory provides theoretic background for the main part of our conceptual framework in this study, the indicators and outcomes of trust in China home appliance retailer-supplier relationship.

## Social Exchange Theory

Social exchange theory is best understood as a framework for explicating movement of resources between dyads of a network via a social process. The theory views the exchange relationship between specific actors (person or firm) as actions contingent on rewarding reactions from others. This interaction

between two parties results in various contingencies, where the actors modify their resources to each other's expectations.

This theory provides theoretic background for the moderating effect of power symmetry in this study. In symmetrical channel relationships, both parties would be motivated to make efforts to resolve conflicts, and develop mutual trust and relationship commitment, meanwhile they would also receive rewards raised from partner's equal efforts. In contrast, when there is a lack of power balance, one party would largely rely on another's decision. The powerful party does not need to go through this giving stage before they could gain rewards from the less powerful party, such as obtaining a lower wholesale price. The mechanism of this give-reward process could not functionally work, thus mutual trust and relationship commitment would be further weakened in the long run.

## Data Collection

The data used to test the model were collected in a survey of retail buyers (n=327) from two local, one regional, and one national home appliance retailers in China.

## Results

The purpose of our research is to explain the antecedents and outcomes of trust in buyer-supplier relationship of China home appliance retail industry. The data used for model testing was obtained from retailer buyers, who were asked to focus on their business relationships with suppliers. Two antecedents of trust, communication effectiveness and opportunism, and two outcomes of trust, relationship commitment and cooperation are drawn from Commitment-Trust Theory. In our model, conflict is theorized to have an inverse relationship with trust based. Furthermore, the moderating effect of power symmetry on the main effect between conflict and commitment was hypothesized.

In model testing, we used communication effectiveness (+), opportunism (-) and conflict (-) as independent variables, and trust as the dependent variable. These relationships were significant. Research findings also reveal that trust is positively related to cooperation and relationship commitment. Our research findings of antecedents and outcomes of trust are consistent with Commitment-Trust Theory.

Our findings did not support the moderating effect of power symmetry. Although conflict has more negative influence on relationship commitment when a retailer's power is larger than supplier, as compared to the opposite situation, it is not significant. ♦ [gBR Article 04-04, Copyright © 2010.](#)

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