

# Marketing Channel Connectivities within the Indonesian Manufacturing Sector

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**Abstract**—The connectivities between manufacturer and distributor across their joint marketing channels are investigated as a two-way modeling process. The likely channel connectivities may create uni-directional(s) and/or two-way directional(s) connectivities within the manufacturer and the distributor constructs. These connectivities can be treated as the focus target for both parties in improving their relationships that may lead to a better alignment to achieve the channel's goals.

**Index Terms**—Connectivities, manufacturer, distributor, alignment.

## I. INTRODUCTION

Indonesia is archipelago country with nine hundred and twenty two inhabited islands, and it comprises a complex mix of geographically-dispersed business markets. To access these markets its manufacturers operate in close proximity with their distributors. These distributors in-turn maintain close contact with their specific end-user markets and with these consumer bases. They competitively capture unique market knowledge - often geared against specific local competitiveness and local environment knowledge. Hence, each distributor contributes market knowledge and business value into their relationship with their partnering manufacturer.

The manufacturer creates saleable products and these are distributed by the distributor [1]. Consequently the distributor is drawn into cooperating with the manufacturer, and vice versa.

Through its distributors the manufacturer gains an avenue that moves in closer alignment with changes at its marketplaces, with changes in its consumers and with competitive changes. Similarly the distributor depends on the manufacturer for its supply of saleable products [1] and this motive builds its cooperation with its manufacturer [2]. Hence, both the manufacturer and the partnering distributor become involved in a mutually dependent relationship [2].

This study posits closely aligned manufacturer and distributor approaches across Indonesian business environments likely assists in the connectivities ordination across their interconnecting marketing channels, and with channel connectivity improvements performance, economic

benefits and/or degrees of satisfaction should be generated [3]. Thus within the Indonesian archipelago, the management of these manufacturer-distributor marketing channels remains an essential business success factor, and closely-aligned connectivities across these marketing channels can improve the market reach of both manufacturer and distributor.

Past research into marketing channels is typically one-way from manufacturer-to-distributor or from distributor-to-manufacturer. In the Indonesian context marketing channel studies [4]-[6] are also one-way, and restrictive in their manufacturer and distributor scope.

In this study we pursue the development of a two-way pairing approach. This approach can identify degrees of misalignment between the parties (distributor-manufacturer), and it can show which channel connectivities are operating either as a two-way exchange, or a one-way directed exchange, or not operating at all.

From the manufacturer's perspective, and from the distributor's perspective, a range of connectivity drivers are shown to interact [7]-[10]. Hence, the aim of this research is to establish a model that allows joint examination of the marketing channel's connectivities (factors) operating between the manufacturer and the distributor in an Indonesian context.

## II. LITERATURE REVIEW

Marketing channel literature suggests relationships are cultivated through long- term orientation (hereafter, LTO) as well as market orientation (hereafter, MO) [8], and Voldnes, Grønhaug, and Nilssen [11] adopt LTO as a basis for delivering successful exchange relationships and enhanced levels of both satisfaction and trust. Chung, Sternquist, and Chen [12] adopt LTO to grow trust, and competitive advantage in Japanese retailer- supplier relationships, whilst Siguaw, Simpson, and Baker [10] introduce supplier MO to deliver distributor satisfaction, and Liao, Chang, Wu, and Katrichis [13] conceptualize a performance related MO framework between suppliers and retailers from 514 MO articles.

### A. Market Orientation

MO likely plays a dynamic role in a business' success. Hwang, Chung, and Jin [8] suggest cultural considerations can moderate MO, and in Vietnam, MO has been shown to directly improve a business' performance [14]. In contrast, in Korea distributor (retailer) MO indirectly increases economic-satisfaction and also reduces manufacturer (supplier) channel connectivity influences [15]. Thus, in Eastern societies, MO links business-to-business or

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manufacturer-to-distributor relationships into outcomes (such as performance and economic satisfaction), and these past MO studies are typically considered from either behavioural or cultural perspectives [14].

Most marketing channel literature suggests MO is an antecedent to the channel relationship. In Chinese manufacturer-distributor channels, Luo, Hsu, and Liu [16] find channel connectivity, over-time, strengthens both the distributor's MO orientation and their channel trust toward the manufacturer. Tukamuhabwa [17]'s Uganda study of 306 small-to-mid-size enterprises supports that MO improves marketing channel trust. Hence this Indonesian manufacturer and distributor study posits that a stronger MO increases channel trust. However manufacturer MO [10] can indirectly influence the distributor's role performance and its market reach [1].

In the Indonesian context, the manufacturer is generally larger and so exerts power over the distributor. The manufacturer also dominates the marketing decisions around their products, and often the distributor meekly follows the MO set by the manufacturer. Hence, from the distributor's perspective, MO is unlikely to influence the manufacturer's performance and its dominant position within the marketing channel relationship. Thus, in this study MO is not considered as part of the distributor domain.

### *B. Long-Term Orientation*

LTO is another important connectivities channel driver. LTO also aids in the build of competitive advantage [18]. In some Western cultures studies, LTO is considered a business relationship outcome [19]. In Eastern cultures, where Confucianism predominates, LTO is shown to be a precursor of the business relationship [12], [20] - preceding dependence, conflict, satisfaction, and trust. In Indonesia, the business culture is neither Western nor Confucian [21], hence we test Indonesian manufacturers and distributors under an Eastern culture framework because of its geographical location, and its cultural similarities, and we treat LTO as an input driver to the marketing channel.

LTO and MO both drive the downstream channel attributes [7]-[9], [20]. Hence, this study considers MO and LTO as joint co-drivers. This is supported by both MO [22] and LTO [23] being long-term strategic solutions. In addition, MO improves when marketing channel cultures and connectivities systems improve, and as the business becomes more competitive over time [22].

In different studies Chung, Sternquist, and Chen [12] and Chung et al. [20] use either MO or LTO as their sole driver of performance and competitive advantage. However, as LTO and MO both provide long term perspectives [22], [23]; they are likely co-drivers of performance. Here, MO considers upstream customers (distributors) and competitor [22], as solutions to deliver additional profits, and LTO deploys cooperative upstream transaction approaches with its channel partners [8].

Indonesia has many highly concentrated business markets with only a few businesses holding over 75% of an industry sector's business [24], and these oligopolies typically generate strong profits. Such oligopoly markets also exert significant barriers toward the entry of new firms and so can

be less willing to innovate, and may tend to perform below their peak competitiveness levels [25]. Setiawan, Emvalomatis, and Lansink [26] longitudinally (1995-2006) show a low technical efficiency emerges in the concentrated Indonesian manufactured foods and beverages sector. In such concentrated markets the manufacturer dominates its market space, exerts power over its distributors [2] and adopts the role of marketing channel leader, and may be lethargic in pursuing marketing channel efficiencies. Alternatively, by engaging both MO and LTO concurrently, a superior business performance - with (or without) a market dominance position is achievable.

Past manufacturer and distributor relationship research is typically approached from a behavioural or a governance perspective [27]. Governance considers externally influencing strategies and authoritative coordination mechanisms, whilst the behavioural perspective encompasses connectivities (interactions) between marketing channel members.

As manufacturer and distributor relationship interactions have not been investigated within the Indonesian context, this study focuses on business-to-business relationships, and it adopts a behavioural approach that is driven by the following independent constructs.

### *C. Independent Constructs*

#### *1) Manufacturer orientation*

This study considers Indonesian manufacturers that are established businesses, and as ones holding both a LTO and MO. This ensures the manufacturer and its distributor, have over time, solidified their understanding their marketing channel and its connectivities. Hence, from this joint input driver perspective, managers under interview can provide thoughtful analysis regarding their marketing channel connectivities (and possible mediating and/or moderating behavioral effects) between themselves their associated distributor(s).

#### *2) Distributor orientation*

A matched-question behavioral approach is adopted to assess the distributor end of the marketing channel, and again - like the manufacturer, the distributor domain also likely exhibits mediating and/or moderating effects. However, as the MO of the distributor operates in two-ways - encompassing strategies that serve both its downstream manufacturer and its upstream channel customers [1] - consequently is not used as a channel construct driver for the distributor. Thus, from the distributor's perspective the marketing channel model has distributor LTO as its one driver. This follows the findings of Chung et al. [20] and Hwang et al. [8] that within collectivist cultures, LTO is a driver of marketing channel behavior.

The dynamics that interplay between the manufacturer and distributor are relationship engagements between these parties, and these are termed their channel connectivities.

This study considers potential areas for improvement in Indonesian business-to-business marketing channels - by assessing each sizeable manufacturer and its principal distributor, and by determining their most significant channel connectivities as they apply across the marketing channel's

dependent constructs, and as they mediate the connectivities pathways within its marketing channel.

#### D. Dependent Constructs

Chung et al. [20] in Japan, Chung et al. [7] and Hwang et al. [8] in China show Asian relationships may be affected by the power asymmetry between channel members, and these authors deploy a mix of trust, role-performance, dependence, conflict, and satisfaction in their studies. Thus, beyond market orientation and long-term orientation, the mediating constructs of this research are: trust, role-performance, dependence, conflict, and satisfaction.

##### 1) Role-performance

In past studies between the distributor's role-performance and the manufacturer's role-performance, Obadia and Vida [28] finds from economic perspective an importer's role-performance positively influences an exporter's role-performance. In addition, Chen, Huang, and Sternquist [29] find the manufacturer's role-performance increases the distributor's trust on the manufacturer's credibility. As such manufacturer-distributor channel relationships perform best when reciprocal two-way channel-actions operate between the parties.

##### 2) Satisfaction

In channel relationships the manufacturer influences the distributor and yet is dependent on the distributor's satisfaction). Bordonaba-Juste and Polo-Redondo [30] find distributor's satisfaction rises when there is interdependence between manufacturer and distributor. Nyaga, Whipple, and Lynch [31] compare buyer (distributor) and supplier (manufacturer) relationships and find where both parties' relationship perspectives are similar channel satisfaction and performance increase. These suggest satisfaction of either the manufacturer or the distributor emerges when two-way dependence (interdependence) between both parties exists.

##### 3) Trust

In Indonesian marketing channels, Herlambang, Batt, and McGregor [4] find a lack of mutual trust between manufacturer and distributor creates manufacturer or distributor internal conflict. Under power asymmetry, Setyawan et al. [6] add shared trust between the manufacturer and distributor positively influences distributor economic performance. This shared trust likely also adds to the manufacturers' economic performance. These indicate two-way trust determines relationship of the manufacturer and the distributor.

##### 4) Dependence

Past study show the distributor dependence toward manufacturer positively influences the distributor satisfaction [32]. Here, Mangin, Valenciano, and Kopyay [32] find the distributor's exclusive agreements signed with the manufacturer(s) increase the distributor's satisfaction. Provided the distributor dependence may create interdependence (two-way dependence) with the manufacturer [2] and both parties share similar positive influences of interdependence [31], thus the dependence of the manufacturer may lead to the distributor satisfaction. This may occur because the distributor may expect a continuity of profit achievement in the future and thus it indicates the

contribution of two-way dependence in the channel relationships.

##### 5) Conflict

Conflicts are inevitable due to interdependency of manufacturer and distributor in search for mutual objectives [33]. Conflict decreased satisfaction [34] between the manufacturer and the distributor. Thus, the interdependence between both parties [2] and their similar perspectives on the channel relationships [31], [35] may imply that their conflict influence either the manufacturer or the distributor domain.

Against the background, this study proposes that common two-way connectivities exist across the marketing channel between the manufacturer and the distributor. The drivers of these connectivities, together with the mediating constructs, are displayed in Fig. 1.

### III. PROPOSED METHODOLOGY

To investigate the two-way channel connectivities, this study proposes a quantitative survey. The collected data may be suitably analyzed under Structural Equation Modeling (SEM) and either validated with bootstrapping or by randomly splitting the data set and running a calibration and validation testing approach. Fig. 2 portrays the proposed methodology of this study.

This study will be conducted within the Indonesian island of Java. Java contains over 80 per cent of total Indonesia manufacturing industry [36] and it is a major contributor to the Indonesian economy [36]. BPS-Statistics Indonesia [37] groups the low-end of medium sized Indonesian manufacturer's as having in excess of 20 employees. Where these, or larger manufacturers, have been trading for at least one year with their principal distributor, they are deemed eligible for inclusion in this study. The BPS-Statistics Indonesia [37] data base is randomly sampled for 160 manufacturers (and their principal distributor is then sourced).

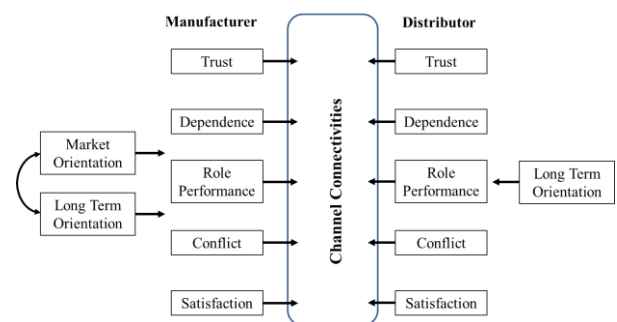


Fig. 1. Research model.

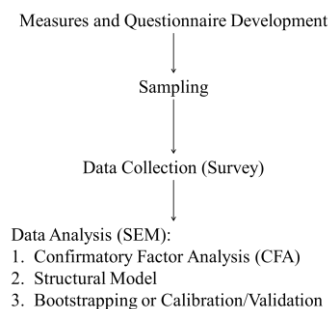


Fig. 2. Map of proposed methodology.

This study's data will be collected through direct physical contact with each manufacturer or through local contact networks initiating personal manufacturer and distributor connections. Highest sales generating distributors are deemed to be principal distributors.

The reflective measures from past studies build the construct items for the manufacturer and distributor questionnaires. Content and face validity of measures is then gauged under focus groups and pre-testing by academics and practitioners, and questionnaire drafts are translated by a certified translator and trialed by select Indonesian manufacturers and distributors. As the measures used in this study are adapted from prior studies, Confirmatory Factor Analysis (CFA) and factor reduction under maximum likelihood is to be conducted [38].

For SEM analysis, Kline [39] suggests 10 cases per construct, whilst Hair et al. [38] proposes 20 cases per construct. Hence, this study seeks in excess of 160 paired manufacturer-distributor cases [38]. Measures gained from the data collection are assessed for SEM applicability with means and two standard deviations residing within the questionnaire range maxima and minima [38], and with suitable kurtosis, skew, spread, dimensionality (Cronbach's alpha) loadings, and correlation levels between constructs [38]. This study will adopt single item composite analysis to develop the structural model. It follows Grace and Bollen [40]'s explanation that composites provides a very useful tool for research by allowing widely generalized interpretations from the data.

The propositions testing will be conducted from the manufacturer perspective, followed by the testing from the distributor perspective. Finally, the comparison of both sides of the marketing channel perspectives will be conducted.

#### IV. CONTRIBUTIONS

This study contributes to further understanding of manufacturer and distributor relationships by matching the perspectives of the manufacturer and the distributor. The likely channel connectivities between both perspectives may create uni-directional(s) and/or two-way directional(s) connectivities within the manufacturer and the distributor constructs. Uni-directional pathway may indicate strong dependence from either parties and suggest some degree of relationship imbalance. Two-way connectivities may indicate the existence of mutual dependence in the channel relationships. Better understanding of these connectivities can help both the manufacturers and their distributors to improve their relationship and strategy alignments to better achieve the channel's goals.

#### V. CONCLUSION

This study aims to establish a model that allows joint examination of the marketing channel's connectivities operating between the manufacturers and their distributors in Indonesian context. It investigates the existence of two-way channel connectivities between both parties. Therefore, it proposes that common two-way connectivities likely exist

across the marketing channel between the manufacturer and the distributor.

Based on the relevant past studies, this study proposes MO and LTO as joint drivers for the channel relationships in the manufacturer domain, while LTO is act as a sole driver in the distributor domain. The channel relationships in both domains are composed of mediating constructs. They are role-performance, satisfaction, trust, dependence, and conflict. These constructs are proposed to form channel connectivities, either from the manufacturer or the distributor perspectives. Using SEM analysis for matched data sets, two-way and/or uni-directional(s) connectivities may emerge as the focus target of the manufacturer and the distributor in improving the performance of their working relationships. Such improvement may lead to a better alignment for achieving the channel's goals.

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influence knowledge transfer and experiential learning.