



The role of satisfaction, trust and contractual obligation on long-term orientation



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ARTICLE INFO

Article history:

Received 1 April 2012

Received in revised form 1 December 2012

Accepted 1 October 2013

Available online 26 September 2014

Keywords:

Long-term orientation

Satisfaction

Trust

Contractual obligation

Cultures

ABSTRACT

In light of the uniqueness associated with collective cultures of China and emerging economy markets, this study contributes to the extant literature by examining the moderating role of national culture on the relationship between satisfaction, trust and legal contract and their respective impact on long-term orientation. Our findings reveal that although satisfaction has an influence on long-term orientation, different pathways exist among Western and Chinese managers. In addition, while an interacting effect between trust and contract determines long-term orientation among Western managers, no such moderating effect is evident among the sample of Chinese managers. Several theoretical and managerial implications are extracted and directions for future research provided.

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1. Introduction

The extant marketing literature reveals a growing interest in the area of business payoff and includes a plethora of work on the development of long-term buyer–seller relationships with a shifting emphasis from transactions to a relationship ethos (Anderson & Narus, 1990; Smith, 1997; Wilson, 1995). Adopting a long-term orientation captures both the desire and utility associated with a relationship approach and assumes a degree of stability whereby the exchange will last long enough for both parties to realize their long-term benefits (Anderson & Weitz, 1992; Bello, Chelariu, & Zhang, 2003; Gounaris, 2005; Noordewier, John, & Nevin, 1990).

In managing such working relationships, research suggests that satisfaction, trust and legal contract play pivotal roles in determining relations over the long-term (Geyskens, Steenkamp, Scheer, & Kumar, 1996; Lin & Wang, 2008). Ultimately most exchange parties have an interest in developing long-term relationships, as they have the potential to bring about certain benefits that can lead to sustained competitive advantage, customer satisfaction, market share and greater profitability (Flint, Woodruff, & Gardial, 1997; Reichheld & Sasser, 1990). In shifting away from transaction specific investments for creating dependence and a long-term orientation, trust often plays a pivotal role to successfully help foster relationships (Madhok, 2006). However, in itself, trust may

not necessarily guarantee longevity, particularly where an exchange partner behaves opportunistically. In such situations, a formal control or legal contract may prove instrumental in preventing opportunistic behavior.

The extant literature provides contrasting views and conflicting evidence regarding the effect of trust-based relational governance and contract-based formal governance on inter-firm cooperation and long-term orientation (Lee & Cavusgil, 2006; Lui, Wong, & Liu, 2009; Ness & Haugland, 2005). Some scholars argue that these two mechanisms are distinct and can be substituted for each other. For example, the presence of a contract may imply the lack of credibility in one's goodwill (Das & Teng, 1998). Such a substitute effect assumes that the simultaneous presence of contract and trust contribute nothing further to the future of the working relationship (Ryall & Sampson, 2009; Wuyts & Geyskens, 2005). In contrast, other researchers have argued that trust cannot guarantee long-term relations due to the high vulnerability of exchange parties acting opportunistically. According to such research, well-specified contracts may increase the penalties for opportunistic behavior and promote more trusting relationships (Gulati, 1995; Poppo & Zenger, 2002).

Such contrasting views provide a void that warrants further investigation given its importance in inter-firm cooperation and the context of long-term relationship development. A review of the pertinent literature reveals that extant studies tend to be undertaken in Western economies and such findings may not necessarily be applicable in oriental or more collectivistic societies (Geyskens & Steenkamp, 2000). In addition, on occasions where studies examine collective cultures, like in China, Western theories often provide frameworks for such research.

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From a cross-cultural perspective, it is likely that different governance mechanisms are preferred by managers from different cultures (Lin & Wang, 2008; Wang, 2007) and researchers acknowledge the importance of nationality or culture as a variable that influences the propensity to trust (Galland, 2002; Gulati, 1995; Madhok, 2006; Miller & Mitamura, 2003). This becomes even more important from a global marketing perspective, because adopting appropriate control mechanisms (either relational or legal), is likely to play a crucial role in facilitating international trade relations. Conflict often arises from miscommunication and misunderstanding as managers from different cultures choose governance mechanisms that fit in with their own cultural background (Wang, Lin, Chan, & Shi, 2005). Through analyzing the subject in greater magnitude, this research makes an important contribution to the extant literature by examining the formal control vs. relational control debate in an international exchange relationship setting. In particular, this study investigates the role of national culture with regard to contractual obligation on the satisfaction, trust and long-term orientation relationship.

2. Conceptual development

2.1. Satisfaction and long term orientation

Satisfaction refers to the positive affective state resulting from the appraisal of all aspects of a firm's working relationship with an exchange partner (Anderson & Narus, 1984). Previous research in marketing channels suggests that satisfaction increases one's understanding of and cooperation with another, which in-turn reduces the need for litigation and facilitates better relations (Hunt & Nevin, 1974). When exchange parties are satisfied with the way a relationship is going, this provides confidence and belief that their partners will deliver what is expected. Such levels of satisfaction eventually motivate exchange parties to develop a long-term orientation of the particular relationship. Following this argument, we expect that satisfaction with the relationship will lead to a long-term orientation between exchange parties.

H1. High levels of satisfaction are positively associated with long-term orientation in buyer-seller relationship exchange.

2.2. Trust and long-term orientation

Trust is the willingness to rely on a partner in whom one has confidence (Moorman, Zaltman, & Deshpandé, 1992). In a trusting relationship, it is expected that an exchange party's promises can be relied upon (Ganesan, 1994). Research shows that in high trusting relationships, exchange parties frequently respond to each other's needs through trying to provide solutions over the long run, rather than acting opportunistically through short-term initiatives (Boersma, Buckley, & Ghauri, 2003; Ganesan, 1994; Kim, 2001; Lewin & Johnston, 1997). With trust, parties in a relationship develop confidence over the long-term, and its presence plays an enforcement role that reduces the likelihood of the other party acting opportunistically. As such, we hypothesize a positive relationship between trust and long-term orientation.

H2. High levels of trust are positively associated with a long-term orientation in buyer-seller relationship exchange.

2.3. Satisfaction and trust

The pertinent literature examining the relationship between satisfaction and trust appears to be somewhat inconsistent. For example, although some researchers consider trust as an antecedent of satisfaction (Andaleeb, 1996; Anderson & Narus, 1990; Dwyer, Schurr, & Oh, 1987), others conceptualize trust as an outcome of satisfaction (Ganesan, 1994; John & Reve, 1982; Selnes, 1998; Siguaw, Simpson, & Baker, 1998). Although conceivably satisfaction and trust may be interrelated

and mutually reinforced during different stages of relationships, our conceptualization is in line with the latter, which assumes satisfaction as an important contributing source of trust (Selnes, 1998). We therefore posit trust, as the outcome relating to a series of mutual expectations or anticipation of the partner's behavior or their perceived fulfillment of obligations. In short, trust can be largely accrued as a result of prior experience and satisfaction with the relationship exchange, thus, we hypothesize that:

H3. High levels of satisfaction will enhance the degree of trust in buyer-seller relationship exchange.

2.4. The role of national culture

It is important to consider, however, that not all satisfied relationships will exhibit similar characteristics across cultures. This will depend very much on the nature of exchange relationships and cultural values among exchange parties. While some may progress into long-term relations that are characterized by high levels of commitment, those with weak ties may be more vulnerable to opportunistic behavior and dissolution (Barnes, 2005). The presence of trust is therefore instrumental in providing the leverage so that expectation outcomes can be reliably predicted (Barnes, Leonidou, Siu, & Leonidou, 2010). Research by Dwyer et al. (1987) suggests that the relationship between satisfaction, trust, commitment and a long-term relationship takes place in a sequence of different stages. As such it is reasonable to expect that trust plays a mediating role between satisfaction and long-term orientation and such an effect may be different across cultures.

2.5. The Western perspective

In the West, exchange relationships frequently emerge based on contractual mechanisms (Wang, 2007). In such contexts where satisfaction often stems from an exchange party's fulfillment of the contractual obligation, the relationship exchange may not directly transfer into a long-term orientation until trust has been established. This is because satisfaction stemming from the fulfillment of a contract itself can only generate short-term benefits, and if exchange parties are only concerned with short-term objectives associated with transactional activities, the relationship is likely to be short-lived. One of the key differences between a short and long-term orientation is whether the exchange party has confidence in the other and is willing to invest in the future of the relationship.

Without satisfaction a long-term relationship is unlikely to be cultivated. However, when exchange parties are satisfied with one another, there is a strong likelihood that long-term relationships will be fostered. Once an exchange partner is considered trustworthy, they are expected to behave in an appropriate fashion in the future (Poppo & Zenger, 2002). In other words, satisfaction resulting from past exchange will lead to a long-term orientation only when trust between such relationship parties has been established. Based on this discussion, we predict that trust serves to mediate the effect of satisfaction on long-term orientation among Western managers.

H4. Trust has a significant mediating effect on the satisfaction-long-term orientation relationship among Western exchange partners.

2.6. The Chinese perspective

According to Wang (2007), one of the key differences between Western relationship marketing and Chinese *guanxi* is the closeness among parties in the network. The Chinese *guanxi* relation has a particularistic nature and relational exchange often materializes based on kinship, extended family or friendship (Hwang, 1987). Trust in Chinese *guanxi* networks is often exclusive to insiders and business relationships are established based on knowing others well. Therefore, exchange

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