Trust and relationship commitment between direct selling distributors and customers

Jau-Shyong Wang

SHU-TE University, Department of Business Administration, No. 59, Hun Shan Rd., Yen Chau Village, Yen Chau, Kaohsiung County 82445, Taiwan (R.O.C.). E-mail: syong@mail.stu.edu.tw . Tel: +886-7- 6158000 ext 3100. Fax: +886-7- 3956211.

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With the trend and progress in technological development, relationship marketing is a popular and important marketing concept. Relationship marketing does not only provide different product lines to different types of customers, it also establishes stable long-term relationships with customers to obtain customer’s lifetime value. In the theory of relationship marketing, trust and commitment usually appear in a pair and are inseparable. If one of these variables is neglected, the relationship of both parties might only be a transition period agreement. This study referred to the key mediating variables (KMV) of Morgan and Hunt (1994) and established a trust-commitment model between customers and direct distributors. This study adopts direct selling customers as subjects and collects 172 valid questionnaires. The Partial Least Squares (PLS) method is applied. Analytical results indicate that opportunistic behavior and shared values affect cognitive trust and emotional trust. Similarly, cognitive trust and emotional trust positively affect customer relationship commitment.

Key words: Relationship commitment, trust, communication, opportunistic behavior

INTRODUCTION

The success of an enterprise does not depend on the enterprise’s subjective decisions but on the value and satisfaction the product and service can provide the customers. Also, appropriate and correct marketing behaviors can assist buyers and sellers find the best combination and for the goods to be transferred smoothly in a complicated situation of providing and demanding information. Under the transaction relationship of the buyer and seller, the importance played by trust and relationship commitment becomes an important indicator thus, the strategies of relationship marketing has its potential value. The existence of trust and relationship marketing can be used to determine whether the buyer and the seller have the main principle of strong emotions (Bejou and Palmer, 1998). In past literatures, trust and relationship commitment normally appear as a pair. Morgan and Hunt (1994) proposed a KMV model with trust-commitment as the main mediators. Using relationship marketing KMV model, their study focused on the transactions between partners and the relationship commitment and trust of the partners.

In organizational behavior, trust is quite an important topic for discussion. Zucker (1986) defined trust as “the belief of an individual or group that another individual or group will keep their promise”. The influence of trust on organizational citizenship behaviors increases everyday. Williams and Karau (1991) pointed out that the higher the trust, the more the employees will concentrate on their work. The higher the trust among the members of the organization, communication will also go more smoothly which will show a good result in the performance and decision quality of the team. In relationship marketing, commitment is considered as one of the main component of long-term relationships (Garbarino and Johnson, 1999). Blau (1964) believed that people will search for possible cases with the best interests. When a person found what they believed is an
optimal case, they will commit to their transaction relationships and will stop looking for other alternatives. If we have to explain commitment through the view of economics, it can be explained through relationship termination cost where the person should surrender a satisfying exchange relationship and re-establish new exchange relationship that requires higher cost. Blau (1964) believed that the procedure of a transaction follows the development of time. Both parties will mutually use commitment to continuously show their trustworthiness toward the exchange relationship. In summary, this study defines trust through the angle of marketing: “Trust is the display of benevolence and honesty of the seller, prioritizing only the interest of both parties and for buyers to have trust, they have to believe their transaction partners”.

Direct selling is a personal selling type of marketing method. Aside from buying the products, the members can also sell the product to others and can recruit or recommend downline distributors to sell the product together. The sales commission is based on the sales performance of both the member and his/her downline distributors. Different percentage of sales commission is given to different amount of sales volume. Because of many incidents of fraud, Taiwan's direct selling industry was often painted with a layer of mysterious and negative color because consumers usually draw an equal sign between a legal distribution company and an illegal rat club which frightens the people. It is only until the Fair Trade Law was implemented that the market starts to get back on track and the people starts to accept direct selling as a type of marketing approach. The annual sales volume of the direct selling industry also gradually increases.

The existence of trust and commitment between each other has been considered as the key to the success of relationship marketing strategy. In the theory of relationship marketing, trust and commitment usually appear in a pair and are inseparable. If one of these variables is neglected, the relationship of both parties might only be a transition period agreement (Garbarino and Johnson, 1999). This study adopts direct selling as the subject. It established a trust-relationship commitment model for customers and investigates the influencing relationships of the constructs based on the past literatures and the commitment-trust theory of Morgan and Hunt (1994).

**LITERATURE REVIEW**

**Communication**

Communication is where an individual or a group of people establish a common and coordinated activity through the exchange information of concepts, suggestions and attitudes to obtain a specific goal. Deaux and Wrighasman (1993) believed that communication is where a party transmits his/her suggestions, attitudes, knowledge, concepts and feelings to another party’s track through verbal or nonverbal channels. This can occur between two people, between a group and an organization or even to countries and societies. From the viewpoint of inter-organizational level, Anderson and Narus (1990) believed that the significance of communication lies in the sharing of meaningful and time-limited information to the cooperative partners through official or non-official communication channel between cooperative firms. This behavior can be contributive to goal adjustments, task coordination and interfirm learning. Duncan and Moriarty (1998) believed that communication is the information exchange and sharing of two parties. Without this procedure, the relationship between trust and commitment cannot be established. Therefore, communication can be regarded as the key index of a relationship’s extension.

In the communication cooperation of the relationship of owners, Farrelly et al. (2003) investigated the market orientation and communication cooperation between owners. The result of their study showed that communication positively affects trust. In the relationship between suppliers and retailers, the hypothesis of Zineldin and Jonsson (2000) proposed that communication and trust has a positive relationship and the results of the data analysis showed that this hypothesis is significant. The result of their study showed that shared value and opportunistic behavior are the most important elements of trust and commitment. Direct selling is a type of marketing method that sells the product and services face-to-face with the customers. The distributor usually conducts the demonstration or explanation independently. The direct selling emphasize on the sales of the members therefore, the communication between the distributor and the customer is very important. Thus, this study established H$_1$ and H$_2$:

H$_1$: Communication between the distributor and the customer positively affects customer’s cognitive trust.

H$_2$: Communication between the distributor and the customer positively affects customer’s emotional trust.

**Opportunistic behavior**

Williamson (1985) defined opportunistic behavior as “the organization intentionally transmitting incomplete or twisted information to others that would mislead, twist, hide and confuse other people”. Opportunistic behavior is not only cheating openly, but also adopting a more insignificant method but still have the purpose of leading people to go the wrong way, twist the truth, pretend and
create confusion. In the research of trust and commitment between customers and the e-bank industry, Mukherjee and Nath (2003) proposed a negative correlation between opportunistic behavior and trust. The result found that opportunistic behavior and trust has a significant negative relationship. Robert and Shelby (1994) believed that the probability for opportunistic behavior to occur increases when the uncertainty in a transaction activity is high because trust can reduce the opportunistic behaviors of both parties. Opportunistic behaviors can hurt the trusting relationship of two parties. Aside from arousing economical production, the buyer and the seller can use interdependence to mutually nurture the trust between each other and reduce opportunistic behaviors and establish a long-term cooperation with mutual existence for the benefits of both parties to be more closely connected (Bell and Anderson, 2000). Sabel (1993) also pointed out that the relationship of opportunism and trust is a thing with both sides and has a negative relationship. Therefore, it is because of the opportunistic behavior of a party or the two parties that would reduce the trust between organizations. This study believed that opportunistic behavior is a natural behavior of human beings and it cannot avoid reducing the contribution of trust in a relationship. Thus, this study established \( H_3 \) and \( H_4 \):

\[ H_3: \text{The opportunistic behavior of the direct selling customers negatively affects customer’s cognitive trust.} \]

\[ H_4: \text{The opportunistic behavior of the direct selling customers negatively affects customer’s emotional trust.} \]

**Shared values**

Fukuyama (1995) defined shared values as the foundation of trust. This signifies that both parties have similar symbolic system and explanatory logic which means that the goal and benefits of both parties can be compatible. Rokeach (1973) pointed out that the more different the values of an individual with the other team members, the harder it is to understand each other. Individuals will also cause conflicts in interaction which will reduce the cooperation satisfaction and team commitment and the individual also won’t have a good work performance. Therefore, this study believes that when the values of the employees have a big difference, it will affect the decisions of the employees on whether they are willing to do their best to cooperate with others.

In the relationship between doctors and insurance personnel, Cote and Latham (2003) investigated on the scope of relationship quality and how to establish trust and commitment in a relationship to further affect financial benefits. The result of their study discovered that shared values positively affect relationship commitment. In the research of trust and commitment between custo- mers and the e-bank industry, Mukherjee and Nath (2003) separately proposed a positive correlation between shared values and commitment and between shared values and trust. The results found that the hypotheses of shared values on relationship commitment and on trust are significant. The foundation of a trusting relationship is through the consistency of values (Sitkin and Roth, 1993). When the members of an organization have mutual goals and values, they would tend to trust each other which proved that shared values and mutual visions can stimulate the development of trust in a relationship (Tsai and Ghoshal, 1998). Thus, this study established \( H_5 \) and \( H_6 \):

\[ H_5: \text{Shared values of the direct selling customer positively affect customer’s cognitive trust.} \]

\[ H_6: \text{Shared values of the direct selling customer positively affect customer’s emotional trust.} \]

**Interpersonal trust**

Interpersonal trust comprises the foundation of interactions between individuals, and includes individual cognition and emotions related to specific incidents, processes or individuals. Interpersonal trust is formed over a long period, and results from the accumulated experiences of both parties that gradually form a trust system (Dwyer et al., 1987). Rotter (1980) asserted that a close relationship exists between the level of interpersonal trust and socio-economic status. For instance, children from families with high socio-economic status generally have high levels of interpersonal trust, whereas those from low social status families feel that they have little reason to trust others due to personal dissatisfaction and their realization of the benefits enjoyed by those with power and denied to themselves. The levels of interpersonal trust and reliability are strongly related. Individuals with high interpersonal trust seldom lie or deceive others and seldom steal.

**Cognitive trust and emotional trust**

Lewis and Wiegert (1985) observed that cognitive and emotional trust underlie interpersonal trust. Cognitive trust is produced when a trustor analyzes the evidence regarding the trustworthiness of a trustee. Meanwhile, emotional trust is the emotional attachment of the trustor to the trustee, and their willingness to trust another party. Individuals with high interpersonal trust rarely suffer
cognitive dissonance, mental disorders or adaptation difficulties. Additionally, people like and respect individuals with high interpersonal trust because such individuals provide others with respect and opportunities. Such individuals typically have many friends and good interpersonal relationship skills.

Cognitive trust is when a customer felt the professional spirit and contribution in the work experience of a customer service personnel and trust his/her preparation and ability in his/her work. Emotional trust is the trust produced in the emotions after a rational decision and a certain level of satisfaction is attained. Therefore, after the satisfaction produced by the customer toward the customer service's image reached a certain level, the customer will produce emotional trust toward the customer service personnel. This study used the cognitive trust and emotional trust to investigate the interpersonal trust of the customer toward the distributors. Similarly, the effect of the two types of trust toward relationship marketing is also tested. Thus, this study established H7 and H8:

H7: The cognitive trust of customers toward the distributors positively affects customer's relationship commitment.
H8: The emotional trust of customers toward the distributors positively affects customer's relationship commitment.

Relationship commitment

Morgan and Hunt (1994) defined relationship commitment as the belief between transaction partners that maintaining their continuous relationship is important and are willing to exert their best effort to maintain it. In the services relationship marketing area, Berry and Parasuraman (1991) maintain that “relationships are built on the foundation of mutual commitment.”

Garbarino and Johnson (1999) believed that commitment is the feeling of adoration, loyalty, concern on their blessings, agreement and even pride of the customer toward an organization. Dwyer et al. (1987) believed that when the buyer is predicted to have a higher relationship termination cost, the intention of the buyer to maintain their relationship is promoted. Relationship commitment is a type of consistent need produced by both partners to maintain their relationship. If the partners established a good relationship, both parties will surely agree to continue with the commitment for cooperation. On the contrary, if this relationship is not maintained with the best effort of the partners, the intention of leaving is higher.

In the development process of relationships, the trust among buyers would lead the suppliers to strive for better performance and adopt more behaviors. Therefore, the trust toward a partner will affect relationship commitment of a manufacturer. Moorman et al. (1992) also discovered that the trust of the users of marketing researches toward the research providers will be significantly affected by the relationship commitment of the research users.

RESEARCH METHODOLOGY

Research model

This study investigated the effect in the trust and relationship commitment between customers and distributors. According to the trust-relationship commitment theory of Morgan and Hunt (1994), this study established the causal integrated model of the six constructs, communication, opportunistic behavior, shared values, cognitive trust, emotional trust and relationship commitment to investigate the effect among constructs. Figure 1 shows the model of this study.

Data analysis

This study used SPSS for the descriptive analysis and Partial Least Squares (PLS) method was used for other analyses. This method by Wold (1966) and has been widely used for management studies (Wixom and Watson, 2001). PLS is considered to be a mature estimation method, especially in estimating the path coefficient in causal models (Fornell et al., 1990). PLS can avoid the limit of small samples and overcome the collinearity problems in the Multivariate Data Analysis. It can make the cause-and-effect relationships among potential variables into a model. PLS is a very practical statistical analysis technique. It can analyze the cause-and-effect model and at the same time, it has reflective and formative indicators unlike LISREL which only has the technique to handle analysis of reflective indicators. Furthermore, researchers should conform to requirements such as normality, randomness and large sample when adopting LISREL or multiple regression analysis in the study but the requirements in adopting PLS is more lenient (Wold, 1982). During PLS analysis, a structural model and the hypotheses regarding constructs should be first established. Every indicator or construct comprises a group of measures. Therefore, the forecasting ability of the structural model is examined using composite reliability,
As PLS does not have a default data distribution, there is no need for data to conform to a normal distribution. Similarly, PLS does not provide an estimation of the path coefficient of trust intervals and statistical significance. To estimate the significance of the path coefficient, Bollen and Stine (1992) recommend using the Boot-Strap method to estimate the significance of the path coefficient and this method was applied to test the significance of the model coefficients.

Study context
This study used questionnaire survey to collect data. In Taiwan, the reason most of the consumers joined the company as distributors is mainly because distributors can accumulate sales bonuses and get discounts and incentives that only distributors can avail. Therefore, the distributors in Taiwan were used as the subject.

Survey development
This study used questionnaire survey and adopted the questionnaire of Morgan and Hunt (1994) and Johnson and Grayson (2005). The questionnaire requested every respondent to designate a specific distribution company and distributor in their mind that they constantly interact with and fill up the questionnaire according to their actual experiences. For the pilot test, this study selected 30 direct selling companies’ customers from the top ten direct selling companies each and requests them to evaluate the desirability of the contents of the questionnaire to increase its validity. This study made the necessary corrections on the content of questionnaire and revised unclear questions to increase the reliability of the questionnaire. 1000 questionnaires were randomly distributed to the distributors through the help of the direct selling companies.

Table 1. Respondents’ age and educational background.

<table>
<thead>
<tr>
<th>Age</th>
<th>Percentage of age</th>
<th>Educational background</th>
<th>Percentage of educational background</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-30</td>
<td>48.55</td>
<td>Junior High School</td>
<td>2.70</td>
</tr>
<tr>
<td>31-40</td>
<td>37.34</td>
<td>High School</td>
<td>28.22</td>
</tr>
<tr>
<td>41-50</td>
<td>10.17</td>
<td>Community College</td>
<td>19.34</td>
</tr>
<tr>
<td>51-60</td>
<td>2.70</td>
<td>University</td>
<td>46.43</td>
</tr>
<tr>
<td>60- above</td>
<td>1.24</td>
<td>Graduate School</td>
<td>3.31</td>
</tr>
</tbody>
</table>

Respondents
After almost six months of conducting the survey, the final valid number of questionnaires obtained in Taiwan is 172 questionnaires representing a return rate of 17.2%. Among the respondents, there are more female customers than male customers. There are 107 female respondents (62.2%) and 65 male respondents (37.8%). The educational backgrounds of the distributors include master’s degree but since there is only a handful, it shows no significance in the statistics. The direct selling customers age concentrates on 21–50 years old where the highest percentage is in 21-30 years of age (48.55%). This shows that the trend of the direct selling business is in young people. The educational level also shows obvious increase. 65.77% of the direct selling customers are college graduates which show that college education in Taiwan is very common (Table 1). In other constructs, the difference between the mean of cognitive trust and emotional trust is not big which shows that Taiwanese direct
selling customers are very rational and are not easily affected by sympathy.

**Measurement model analysis**

This study adopted structural equation model (SEM) in the data analysis. SEM includes two stages: measurement model analysis and structural model analysis. The measurement model verifies whether the measuring variable can accurately measure other latent variables in the research model. The measurement model includes reliability (individual item reliability and composite reliability of the latent variables) and validity (construct validity) tests.

This study adopted Cronbach’s $\alpha$ coefficient to measure whether the reliability of the study conforms to Nunnally’s (1978) suggested value of reliability. The value of Cronbach’s $\alpha$ should be at least greater than 0.5 and the most ideal value is more than 0.7. After testing the reliability of Taiwan, it was found that the Cronbach’s $\alpha$ of every construct is between 0.718~0.860 and the questions that did not contribute to the increase in the value of the reliability coefficient are deleted. The composite reliability is between 0.811~0.901 which is greater than the suggested value of 0.7 of Hair et al. (1998). This shows that the results measured from the questionnaires has an acceptable stability and consistency (Table 2). To assess the reliability of the single measure, we note the correlation of the indicator and the construct. The factor loading measures reliability as a score that should be greater than 0.7. Factor loadings less than 0.5 are not acceptable and therefore are excluded from the analysis (Chin 1998). In the final model, all the factor loadings of the indicators are greater than 0.5. Aside from the factor loading of the variable “stopping the relationship with the distributor will cause loses in the discounts.” which is 0.58, and most are higher than 0.68, so the constructs achieve reliability.

The average variance extracted (AVE) measures the variance of the measuring variables of the latent variables. High AVE shows that the latent variable has high convergent validity. Fornell and Larcker (1981) suggested that the value should be greater than 0.5. The AVE of the constructs listed in Table 3 are all between 0.53~0.72. Thus, the model exhibits good convergent validity. Table 3 lists the discriminant validity of all of the study constructs. The average variance extracted root mean square of all constructs exceeded the correlation coefficients among constructs; therefore, the constructs in the model have sufficient discriminant validity (Fornell and Larcker, 1981). Similarly, the correlated forecasting and explanation variables were integrated into the model to avoid errors associated with deleting the wrong principal component that cannot be induced by traditional principal component analysis. By combining principle component analysis and path analysis, errors in identifying the most appropriate regression coefficient assemble of the forecasting and explanation variables are avoided.

**Common method variance**

To avoid the occurrence of common method variance (CMV), post-hoc test was applied. This study adopted Harman’s single-factor test based from the suggestion of Anderson and Bateman (1997). Through exploratory factor analysis, the data undergo unrotated factor analysis. The results did not discover any single factor and the explanation ratio of the factors is not concentrated. Therefore, the possibility of CMV assumed by this study in the first place is not very high.
The PLS method emphasizes the possibility of establishing formative indicators. Because PLS is different from using the covariate of samples as the estimation method, the goodness of fit index (GFI) was not determined. Thus, $R^2$ and path coefficients were the main indices used to determine the model goodness of fit (Chin, 1998). The explanatory capability ($R^2$) of latent independent variables towards the overall model was divided among cognitive trust (0.595), emotional trust (0.505), and relationship commitment (0.538). All latent independent variables were greater than 0.530 which means that they have high explanatory abilities (Figure 2).

Figure 2 shows that communication and shared values have significant direct positive effect on cognitive trust and emotional trust where effective knowledge, transfer of feelings and mutual goals and benefits will increase the trust of the customers toward distributor’s professional experience and ability. Similarly, the satisfying service of the distributor also obtained the emotional trust of the customers. Because many fraud causes of direct selling in the past cause consumers to lose their trust toward the direct selling product, the professionalism and care of the distributors are the factors that help consumers gradually regain their confidence toward the direct selling products again. Thus, hypotheses $H_1$, $H_2$, $H_5$ and $H_6$ are supported. Furthermore, cognitive trust and emotional trust all have significant direct positive effects. The path coefficients are 0.396 and 0.355, respectively. The interpersonal trust of customers toward the distributors positively affects the identification and loyalty of the customers toward the distributors. Similarly, they are willing to exert their best effort to maintain the relationship of both parties. Thus, hypotheses $H_7$ and $H_8$ are supported.

**DISCUSSION**

In economic activities, the roles played by trust are to reduce transaction costs, coordinate with mechanisms, improve organization performance and create competitive advantages. In a society with a high level of trust, it is easy to create large-scale enterprises through interpersonal cooperation. It is also easy for businesses to have strategic alliances or cooperation among
themselves and promote a flourishing development in the society (Luhmann, 1979). This study referred to the trust- relationship commitment model of Morgan and Hunt (1994) and investigated on the relationship of trust and relationship commitment between customers and distributors. The results found that communication has a significant positive effect on cognitive trust and emotional trust (H₃ and H₄). This shows that good communication and professional knowledge on products are the only way to promote customer's trust. The opportunistic behavior of the customer is the factor that would endanger the mutual trust with the distributor (H₅ and H₆). It will have a negative effect regardless whether on professional or emotional trust. Shared values positively affect interpersonal trust (H₅ and H₆). When the distributor and the customer has shared viewpoints on the product (ex., beneficial to health), the trust of the customers toward the distributor would be promoted. Cognitive trust has a signi-

ficant positive effect on commitment. This shows that when the customers rely or depend on the distributors, the commitment relationship between the two parties is improved (H₇). For example, customers will be willing to maintain their dependent relationship with the distributors and will continuously purchase the products when the customers trust the professional knowledge of the distributors on the products. Emotional trust has a significant positive effect on relationship commitment. This shows that emotional trust formed from the caring and service of the distributor toward the customer can effectively promote the relationship commitment of the customers (H₆).

For direct selling industry, customer trust and customer loyalty related subjects are worth studying because past distributors gave the general consumers negative impres- sions including peer pressure, untrustworthiness, bad service and annoyance (Wotruba and Pribova, 1996) which still exist until today. Because of the uniqueness in the products and method of expansion of the direct selling, it changed the focus and standard of retail business in the past such as setting up of shops, advertisements, prices, selling strategies. It also developed an organizational web where people are the center and interpersonal skeletons replace traditional laws. Because greater flexibility and market keenness is needed in the operation of this business, the focus of direct selling should be established in interpersonal trust and not on the selling of the products. The attitudes and the behaviors of the seller will affect the satisfaction on products and trust on distributors of customers. The companies should teach their distributors low pressure selling techniques and improve their selling abilities and professional skills to promote customer’s trust (Kennedy et al., 2001).

Therefore, the conclusions obtained by this study on actual settings provide appropriate implications. Good communication and the customer's shared values are the factors that promote the trust of the customers and later, obtain customer's commitment and loyalty. With regards to the loyalty of the customers toward the direct selling products, aside from the effectiveness of the product, the more important point is to focus on the interpersonal trust of the distributors. Aside from searching for an effective method to establish the customer’s trust (ex., establishing quality, brand, price or service guarantees), distributors need to exert more effort in establishing the emotional trust of the customers to obtain the customer’s commitment and establish a win-win result.

Limitation

Because this study used cross section data, there are surely some limitations in the actual scenario. At present, the studies regarding “trust” and “commitment” all used cross section data. If it is possible to add vertical section data and aimed at a specific market to measure the relation-ship of system level trust and interpersonal level trust, the result will be more accurate. In the measurement of variables, this study used Likert Scales to measure the perception of direct selling customers towards related variables. The respondents used a subjective judgment and perception. Therefore some of the collected data might have a level of deviation or contort. In addition, direct selling customers are categorized as recessive group and to get to the direct selling customers, this study still have to request the distribution company to get in touch with their direct selling customers. Therefore, this study used a convenient sampling method to distribute the questionnaires. This, more or less, will cause limitations toward this study’s measurement but this study still has a specific internal validity.

REFERENCES


