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The influence of dealers' referent power and legitimate power in *Guanxi* distribution networks: The case of Taiwan's SME firms

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The received wisdom in the Chinese world is that in order for a firm to succeed in business, it has to be plugged in *guanxi*– a social network of connections that characterize the Chinese way of conducting business. Nevertheless, scant attention is given to the empirical investigation of the influence of dealers' referent power and legitimate power on SME manufacturers' individual relationship outcomes in the *guanxi* epitomized distribution network. The principal objective of this study is to fill this void by examining the influence of dealers' referent power and legitimate power on SME manufacturers' relationship satisfaction, and the mediating influence of their *xinyong*, *ganqing* and *hezuo* in this relationship. The field study is conducted in Taiwan. Cooperating with the Small and Medium Enterprise Association of Taiwan (SMEAT), 1000 questionnaires are distributed to the association's members. A sample data of 400 SME manufacturers is collected for final data analysis. The results of this study show that, in the *guanxi* typified distribution network, dealers' referent power and legitimate power positively influence SME manufacturers' *xinyong* and *ganqing*, which in turn affect their *hezuo* and eventually their relationship satisfaction in a significant way. Managerial implications of the findings are discussed and limitations and future research directions are indicated.

Key words: Referent power, legitimate power, *guanxi*, *xinyong*, *Ganqing*, *hezuo*, relationship satisfaction, SME.

INTRODUCTION

It is widely recognized that personal relationships play an important role in business-to-business (B2B) distribution channels (Abdul-Muhmin, 2005). A lack of a positive personal chemistry is an often-cited reason for why business relationships either fail to develop or to be sustained over time (Andersen and Kumar, 2006). For business relationship outcomes in the B2B context, relationship satisfaction is one focal point of interest in marketing channel research studied in connection with relationship marketing (Rodríguez et al., 2006). Both in academic and practitioner circles, the current received wisdom is that, the ability to engineer relationship satisfaction among channel partners is a fundamental basis for implementing relationship marketing in channels of distribution (Lai, 2007). Consequently, research interest in channel relationship satisfaction is currently quite substantial (Morgan and Hunt, 1994; Rodríguez et al., 2006; Schellhase et al., 2000). Notwithstanding this, there is a paucity of studies that examine relationship

satisfaction in the B2B distribution channel epitomized by *guanxi*, especially in the Small-and-Medium-Enterprises (SMEs hereafter) environment. *Guanxi*, a mode of relationship (Zhuang et al., 2010) and an important way of doing business in the Chinese society (Zhuang and Zhou, 2004), refers to connections or networks, and it involves reciprocal obligations and favours between two parties in personal or business relations (Liu and Wang, 2000). Given the prominence of China as an emerging and potential economic giant in recent years (Fung and Lawrence, 2003), understanding how business exchange is conducted in the Chinese society through *guanxi* is no doubt indispensible. Contrary to Western wisdom, it is further argued that the findings in Western channels of distribution literature might not be applicable in the Chinese society since the ways relationship marketing and *guanxi* work might be dissimilar (Leung et al., 1995; Wang, 2007; Wong and Tam, 2000). Of specific interest to the current study is the need to explore the extent to

which exchange partners in Taiwan relate and the consequential relationship outcomes in the *guanxi* typified distribution network. In this regard, the influence of the important sources of channel power in the *guanxi* distribution network, such as referent and legitimate is sought. In particular, how do these channel power sources influence channel management outcomes, such as relationship satisfaction, in the Taiwanese *guanxi* distribution network? How does such a relationship function in the context of a dependent SME manufacturer and a dealer in the case of Taiwan?

SMEs in Taiwan refers to those with capital less than TWD 80 million (exchange rate: 1 TWD = 0.03 USD) or with the number of regular employees not exceeding 200 (Small and Medium Enterprise Administration, 2001). According to Numazaki (1997), due to Taiwanese cultural beliefs and strong desire to become independent, self-employed proprietors, extensive personal networks (that is, *guanxi*) are developed to survive competition and earn high returns. In addition, *guanxi* is used to build long-term SME competitive standing by minimizing risks, frustrations, and disappointments (Seligman, 1999). Therefore, it is generally accepted in Taiwan that one has to be plugged into the Chinese *guanxi* network to operate a successful business (Kao, 1993; Redding, 1995). In the manufacturing sector, SME firms in Taiwan also regard *guanxi* as a strategic tool (Hwang et al., 2009), a strategic resource (Luo, 1997), and the glue that holds their Chinese business society together (Lovett et al., 1999). Because of their lack of resources, these SME manufacturers are likely to rely on their dealers' skilled know-how/knowledge, reputation and their influential positions in the *guanxi* distribution network (Ke et al., 2009) to market their products in the marketplace, hence the importance of referent power and legitimate power in these networks. Besides, the influence of channel powers on distribution channel relations has been long recognized in marketing channels literature (Benton and Maloni, 2005; Sheu and Hu, 2009; Zhao et al., 2008). It is therefore interesting to note how these aforementioned sources of power influence channel relations in the SME manufacturer-dealer dyad within Taiwanese *guanxi* B2B environment.

Prior empirical studies related to the *guanxi* network have focused on the comparison between Western and Eastern perspectives of relationships (with significant differences being found) (Kao, 1993; Seligman, 1999), the comparison of relationship marketing and *guanxi* (with mixed results - some claiming them to be dissimilar while others similar) (Wang, 2007; Wong and Tam, 2000), the effects of channel relations and *guanxi* on export performance (with significant influence of *guanxi* being found) (Ambler et al., 1999), and the ethical dimensions of *guanxi* and their association with corruption and bribery (with significant association in the relationships being found) (Dunfee and Warren, 2001; Gu et al., 2008). With the exception of Zhuang et al. (2010), who investigate

coercive/non-coercive power and the impact of *guanxi* in Chinese marketing channels, research on power effects and relationship outcomes in the *guanxi* network remain scarce. Even in such an exceptional instance of Zhuang et al. (2010) study, the focus of the study lies in large B2B firms rather than in a SME context and moreover, without considering individual *guanxi* components. Besides, the investigation of coercive/non-coercive power, rather than individual sources of power (for example, referent power and legitimate power) might lead to potential loss of information due to the confounding effect of uni-dimensional coercive/non-coercive power (Leonidou, 2005). Referent power and legitimate power, two sources of non-coercive power, are important in Chinese culture, both in social and business circles (Wong and Tam, 2000). This is partly because of high power distance that characterizes the Chinese society (Trappey and Lai, 1996; Wong and Tam, 2000; Zhuang et al., 2010). Inspite of the importance of these two channel power sources in the Chinese society and the *guanxi* way of conducting business, little is known empirically about the extent to which they influence individual relationship outcomes in the B2B *guanxi* distribution network, particularly in the context of SMEs and therefore, warrant further empirical scrutiny.

As far as the contributions the current study concerns, the objectives are three-fold. Firstly, this study seeks to investigate the influence of dealers' referent power and legitimate power on SME manufacturers' relationship satisfaction in the *guanxi* distribution network. This endeavour is deemed important as the research findings are set to provide practical insights to managers who deal with SME manufacturers in the Chinese society to which less investigations devote efforts. Secondly, attention will be paid to the mediating impact of various sources of Chinese *guanxi* components, such as *xinyong*, *ganqing*, and *hezuo*, in this relationship. An extensive literature review indicates that this is a pioneering effort to explore the influence of *xinyong*, *ganqing*, and *hezuo* in the aforementioned power-relationship satisfaction relation-ship. By and large, this academic enquiry is expected to supplement academic knowledge to the existing body of literature on the *guanxi* distribution relationship in a Chinese business environment. Lastly, in order to explain relational exchanges that transpire in the *guanxi* distribution network, the Power-Dependency theory is employed to provide a theoretical grounding. This theoretical treatment is deemed to provide added insights to our understanding of how networked businesses embedded in social relationships with other businesses over time can generate various sources of the Chinese *guanxi* relationship and ultimately relationship satisfaction in the Chinese distribution system.

The rest of the article is organized as follows. A theo-retical background, conceptual framework and research hypotheses are provided. These are followed by the discussions of methodology and data analysis. Then,

conclusions are given. Finally, implications for business marketing practices are discussed.

LITERATURE REVIEW

The literature review will encompass three areas. The first part focuses on the power-dependency theory, followed in the second part by referent power and legitimate power in the *guanxi* network. The third part reviews relationship value variables in the context of the Chinese *guanxi* relationship, including *xinyong*, *ganqing*, and *hezuo* which refer to, trustworthy, relationship commitment, and cooperation in the Chinese society, respectively.

Power-dependency theory

The ability of one member to influence the decision variables of another member is termed power (Gaski, 1984), while dependence refers to the state of relying on or being controlled by another member (Emerson, 1962). The power-dependence theory is therefore a theory that revolves around power, power use, and power-balancing operations, and that rests on the central concept of dependence (Emerson, 1972a, b). According to Zhuang and Zhou (2004), a power-dependence perspective can be a useful model for the analysis of power in channels of distribution. Rawwas et al. (1997) argument further provides support for the applicability of the power-dependency theory in the use of power within the channel of distribution management context. According to the authors, a channel member's power can be used to specify appropriate roles, assure role congruence, commitment, resolve conflict, ensure trust, gain co-operation, and induce satisfactory role performance from the dependent partner in distribution channels. Therefore, drawing from this Power-Dependency theory, the current research submits that SME manufacturers' dependence on their dealers' referent power and legitimate power in the *guanxi* distribution network is likely to necessitate and enhance dealers' *guanxi* relationship with SME manufacturers, and consequently SME manufacturers' relationship satisfaction. The fundamental pretext is that SME manufacturers' dependence on their dealers' legitimate power and referent power reflects their dealers' need to utilize the power sources as strategic resources in the *guanxi* distribution network.

Referent power and legitimate power in *Guanxi* networks

Guanxi is a Mandarin Chinese word which is recognized throughout the Asian Chinese society (Lovett et al., 1999).

In Mandarin Chinese, *guanxi* refers to a psychological link and to behaviour exchanges between/among individuals that involve interactive relationships and connections (Leung et al., 2005). Despite the fact that this concept appears to be analogous to relationship marketing in the Western world, there is no consistent agreement on this argument so far. A considerable number of researchers support the similarity, rather than dissimilarity, between them (Ambler et al., 1999; Arias 1998; Leung et al., 2005), while researchers such as Wang (2007) argue that they are not synonymous.

Operating "*in a web-like interpersonal network in which Chinese is embedded, with the self at the center*," *guanxi* reflects not only how much influences one can impose on the related others, but also how much s/he can be influenced by others (Zhuang et al., 2008). In the Chinese society, people use the word *guanxi* to speak of someone who knows lots of people, who is well connected, and gets things done (Yeung and Tung, 1996). Based on one's reputation and experience in the *guanxi* network, other members will seek to identify with that reputable member. More so, the longer an individual stays in *guanxi* and accumulates experience in observing social norms, the more the individual can earn others' acceptability and legitimacy. Acceptability and reputation capital gives the individual a "face" and determines his/her standing in the social hierarchy in the Chinese society (Zhuang et al., 2010). Face is an individual's public image (Park and Luo, 2001) and is hence, contextually, an important concept in the Chinese society (Chen, 1995). In such a circumstance, experience and reputation capital become important and afford an individual legitimacy and face in the society at large (Zhuang and Zhou, 2004). By virtue of this, the individual ends up wielding referent power and legitimate power in the *guanxi* network (Zhuang and Zhou, 2004). Referent power in the current study is defined as SME manufacturers' desire to identify with reputable dealers (Leonidou et al., 2008; Zhao et al., 2008), while legitimate power is defined as the perception that dealers have the right to influence and SME manufacturers have an obligation to yield to this influence in the relationship (Benton and Maloni, 2005).

Xinyong/trustworthiness in Chinese society

In Mandarin Chinese, *xinyong* refers to the trustworthiness, integrity, credibility, or the reputation and character of an individual; in business environments, *xinyong* is usually explained by an individual's credit rating or ability of return favours (Leung et al., 2005). The Chinese society is described as high in particularistic trust, but low in general trust in the larger, collective society (Redding, 1995). To the extent that the *guanxi* building represents efforts by individuals to deal with an environment lacking general trust, interpersonal trust is

essential in building a quality *guanxi*. In other words, Good *guanxi* fosters the development of reliable *xinyong* (Leung et al., 2005).

Therefore, the development of personalized *xinyong* within an individual's *guanxi* network is considered essential to the development of harmonious relationships and the success of business (Chen, 1995). Furthermore, in the *guanxi* relationship, parties are expected to do favours for each other and to fully return value in the long-term for all favours received (Davies et al., 1995). Individuals who fail to return favours are regarded as untrustworthy and are considered to lose face and respect (Chen, 1995). Individuals may not receive payment of favours right away and may even bank favours with the intention of pulling *guanxi* to receive help of a specific nature at a specific time (Bond, 1991). If individuals hope to bank and receive favours at some undefined point in the future, they must be able to *xinyong* (or trust) both the other's reliability and competence to deliver. The existence of *xinyong* and its connection to face also reinforces each individual's conscious commitment to accepting and returning favours (Chen, 1995). The current study defines *xinyong* as the SME manufacturer's willingness to rely on a dealer in whom it has confidence in (Ryu et al., 2009).

Ganqing/relationship commitment in Chinese society

According to Chen and Chen (2004), *ganqing* emphasizes the affective attachment between two individuals. *Ganqing* is used to illustrate what is known in the Western literature as the expressive and instrumental commitment aspects of a relationship (Zajonc, 1968). *Ganqing* refers to the degree of emotional understanding and connection, and the sharing of feelings of happiness and fears alike.

Additionally, it also indicates a sense of loyalty and solidarity, the willingness to take care of each other under all circumstances. The accumulation of *ganqing* will increase the closeness between two *guanxi* parties. Since it is related to enduring and emotional commitments and intimate social bonds, *ganqing* can closely represent relationship commitment in Western literature (Lee and Dawes, 2005; Leung et al., 2008). In this study, *ganqing* is defined as SME manufacturers' (that is, exchange parties') belief that a relationship with their dealers is important enough to warrant maximum efforts in maintaining it (Leonidou et al., 2008).

Hezuo/ cooperation in Chinese society

Chinese people believe in group-oriented social relationships in order to cooperatively deal with difficulties or provide solutions (Buttery and Leung, 1998). A

Mandarin Chinese word that closely describes this kind of cooperation between two business partners in the *guanxi* relationship is *hezuo*. *Hezuo* refers to sharing similar goals with another party and being willing to cooperate with these goals in order to obtain mutual benefits. Chinese people live and perceive themselves in the *guanxi* network, and regard *guanxi* as a valuable asset for mutual cooperation. So it is natural for them to enter the business world by taking advantage of *guanxi* and to do business according to *guanxi* (Lee et al., 2001). Thus, *hezuo* is identified as a key aspect for the *guanxi* relationship and grows as each partner perceives greater benefits from working together than from working independently (Zhuang et al., 2008). According to Ang and Leong (2000) and Luo (1997), g*uanxi* between two business parties implies a hidden norm of reciprocity that concerns equity and exchange of favours and long-term orientation. In other words, transactional partners cooperatively bond together through the obligation of reciprocal favour exchanges (Luo, 1997). This suggests that partners with close the *hezuo* relationship may care more about the long-term development of the relationship and mutual interests in the future (Liu et al., 2008). In addition, a person in the *hezuo* relationship expects that the person in a weaker position will receive better returns than the person in the stronger position as a matter of equality (Chen, 1995). The current study defines *hezuo* as the joint effort with voluntary actions by SME manufacturers' and their dealers in the *guanxi* distribution network towards individual and mutual goals (Skinner et al., 1992).

CONCEPTUAL FRAMEWORK AND HYPOTHESES

Drawing from the power-dependency theory, the extant literature from marketing channels, B2B, and SMEs, a conceptual model is developed in Figure 1. The model consists of six basic constructs, namely the two sources of power (that is, referent power and legitimate power), the three *guanxi* variables (that is, *xinyong*, *ganqing*, and *hezuo*) and the outcome variable of relationship satisfaction. Conceivably, dealers' referent power and legitimate power in the *guanxi* distribution network are expected to influence SME manufacturers' *xinyong* and *ganqing*, which in turn impact on their *hezuo* and consequently their relationship satisfaction with their dealers. Detailed explanations of the associations between these constructs are provided in the hypotheses developed hereafter.

Dealer's referent power, and SME manufacturer's *Xinyong* and *Ganqing*

Referent power can be earned from one's good repu-tation (Zhao et al., 2008). In the Chinese society, *guanxi*
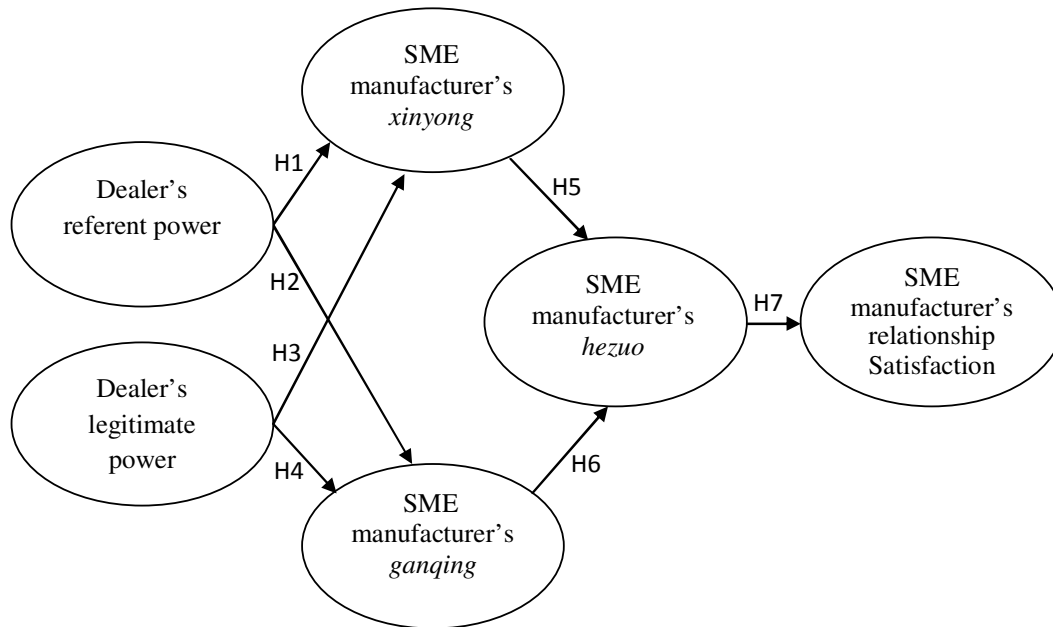
Figure 1. Conceptual framework.

members will seek to possess high social status through a good reputation in order to gain face, or a noble image (Wong et al., 2007). In the context of this study, face will force dealers in the *guanxi* distribution network to be responsible, demonstrate integrity, give favours, appear generous, and give a good impression to SME manufacturers. Eventually the credit rating of the dealers increases, and they earn reputation and image. In such a circumstance, SME manufacturers are likely to work dependently with their dealers to take the advantage of and depend on this reputation capital for their survival. As such, these dealers' referent power is formed. Since reputation in the *guanxi* relationship takes valuable time and costs to build (Zhao et al., 2008), reputable dealers are more likely not to default in future long-term relations in order to maintain their established integrity and credibility and to retain their face. Ultimately, dealers will be perceived as trustworthy and SME manufacturers will be willing to share their feelings/emotion with, take care of, and behave loyally to (that is, devote relationship commitment to) their dealers. It can therefore, be argued that dealers' referent power is likely to lead to SME manufacturers' desire to associate with the dealers, and develop *xinyong* in the dealers and be committed to the *ganqing* relationship. Prior empirical studies in the Western B2B large firm context also reveal a positive linkage between referent power and trust (Benton and Maloni, 2005; Ganesan, 1994) as well as relationship commitment (Maloni and Benton, 2000). Accordingly, the more the referent power the dealer wields, the more likely the SME manufacturer will have *xinyong* in and commit *ganqing* to the dealer in the *guanxi* distribution network. Drawing from the preceding deliberations, it is therefore

hypothesized that:

H1: The greater the referent power the dealer earns, the higher the degree of the SME manufacturer's *xinyong* in the dealer will be.
H2: The greater the referent power the dealer earns, the higher the degree of the SME manufacturer's *ganqing* to the dealer will be.

Dealer's legitimate power, and SME manufacturer's *Xinyong* and *Ganqing*

Legitimate power is derived from social norms and values, to exert influence on others (Benton and Maloni, 2005). Legitimate power is granted because of the influencing firm's roles and positions (Brown et al., 1995), and is internalized by the influenced firm to accept being influenced (Maloni and Benton, 2000). Legitimate power is more pronounced in the Chinese society where power distance and one's social status or position in the society is venerated (Zhao et al., 2008). Besides, in the Chinese society, legitimate power is granted when individuals own their social standing and face because of their approved social attributes (Park and Luo, 2001; Wong et al., 2007). In the Chinese SME manufacture-dealer *guanxi* distribution network, powerful dealers normally stay in the market longer, have extensive connections with business partners, and earn renowned social status (Ke et al., 2009; Lee and Turban, 2001). They are the influencing firms and wield the right to influence SME manufacturers. SME manufacturers are the influenced firms and will be bound to have confidence in these dealers' competence,

credibility and integrity in exercising business. It will be convinced that these dealers will do favours for SME manufacturers because of their social status and the Chinese business norm, as well as their being afraid of losing face if they do not exercise favours. Moreover, SME manufacturers will feel obligated to keep loyal to and show their willingness for solidarity with these dealer firms in order to keep long-term working relationships with the dealers. As a result, these dependent SME manufacturers will post trust in and commit to the relationship with the dealer firms, thus, SME manufacturers' *xinyong* in the dealer firms is likely developed and their *ganqing* with the dealers is devotedly granted. Conceivably, the more the legitimate power the dealer wields, the more likely the SME manufacturer will have *xinyong* in and commit *ganqing* to the relationship. Western literature has also witnessed a positive relationship between legitimate power and trust (Hunt et al., 1987; Yukl et al., 1996) and relationship commitment (Brown et al., 1995; Zhao et al., 2008). Based on the forgoing discussion, it is therefore hypothesized that:

H3: The greater the legitimate power the dealer earns, the higher the degree of the SME manufacturer's *xinyong* in the dealer will be.
H4: The greater the legitimate power the dealer earns, the higher the degree of the SME manufacturer's *ganqing* to the dealer will be.

SME manufacturer's *Xinyong*, *Ganqing* and *Hezuo*

According to marketing channels literature, cooperation necessity depends on the mutual dependence of channel members, which in turn results from the specialization of channel members in certain functions (Coughlan et al., 2001). A good cooperative relationship can benefit partners in many ways such as enhancing capability, creating a good channel environment, using inter-firm resources efficiently, and helping solve conflict-based problems (Mehta et al., 1996). In the Chinese *guanxi* society, one party's *xinyong* such as its integrity, good rating in credit and trustworthy can harmonize its relationship with its partner (Chen, 1995). Since the confidence in partners with respect to their reliability and honesty relationship is developed, uncertainty towards the partner declines. Joint actions with the partners such as joint learning activities and joint efforts will thus, be formed. Thus, close working relationships such as sharing similar goals, rather than working independently, can be encouraged between channel partners (Lai et al., 2009; Selnes and Sallis, 2003) and long-term relationships will be formed and mutual, dependent cooperation will be fostered (Morgan and Hunt, 1994). In the *guanxi* distribution network, through two-sided mutual cooperative relationships to obtain better returns and benefits, two firms therefore seek to have the *hezuo* relationship. Such a trustworthy-cooperation relationship

is also evident in Western literature, such as Hausman and Stock (2003) and Morgan and Hunt (1994) have pointed out.

Regarding the *ganqing* and *hezuo* relationship, understanding, connecting and sharing between exchange parties is of great value for channel relationship maintenance (Moorman et al., 1992). With great channel dependent relationships, firms are expected not to pursue self interests in the short-term (Morgan and Hunt, 1994) and not to behave opportunistically (Bruggen et al., 2005; Gundlach et al., 1995), thus break up the relationship and eventually terminating it (Morgan and Hunt, 1994). Based on such a belief, firms are committed to work together to maximize mutual benefit and thus *ganqing* emerges. Therefore, in the case of the *guanxi* distribution network, cooperation is warranted and *hezuo* is eminent. Since the *ganqing* relationship also indicates a sense of loyalty and solidarity, social norms in the Chinese *guanxi* relationship will force exchange parties to greater cooperation between each others, and thus again the *hezuo* relationship. In Western literature, a positive linkage between relationship commitment and cooperation is also identified by Benton and Maloni (2005) and Jap and Ganesan (2000). Accordingly, the aforementioned point of view and related literature evidence suggest, higher levels of SME manufacturers' *xinyong* and *hezuo* relationship with dealers will promote a higher level of *hezuo* business interchanges. H5 and H6 are hence hypothesized:

H5: The higher the degree of the SME manufacturer's xinyong in the dealer is, the greater the hezuo of the SME manufacturer will be.
H6: The higher the degree of the SME manufacturer's ganqing to the dealer is, the greater the hezuo of the SME manufacturer will be.

SME manufacturer's *hezuo* and relationship satisfaction

In the current study, relationship satisfaction is communicated as a firm's cognitive and affective evaluations based on personal experience across all episodes within the dependent relationship with another firm (Lages et al., 2008). Relationship satisfaction can be overall satisfaction with economic benefits or socio-psychological satisfaction emanating from a relationship (Geyskens and Steenkamp, 2000; Geyskens et al., 1999). Partners with close *hezuo* relationship are likely to care more about mutual cooperative interests and long-term relationship (Liu et al., 2008). Mutual cooperative working relations such as sharing similar goals are thus easily developed. Such dependent working relations in social exchanges will yield economic benefits for the partnering firms by reducing transactional cost, increasing sales volumes and profitability (Kalwani and Narayandas,

1995), thus, and economical relationship satisfaction. Cooperative working relations also create a good channel environment that facilitates solving of conflict-based problems (Mehta et al., 1996) and harmonize relationship between partnering firms, thus, social and psychological relationship satisfaction. Therefore, the assessment of a firm's overall cooperative working relationship with its channel partner will result in emotional and rational states, which in turn, leads to relationship satisfaction (Geyskens et al., 1999). Accordingly, in the *guanxi* distribution network, mutual cooperation reinforced by the practice of reciprocation of favors is more likely to trigger SME manufacturers' economic and socio-psychological satisfaction, thus overall relationship satisfaction with the relationship with their dealers (Ambler et al., 1999; Geyskens and Steenkamp, 2000). The extant marketing channel literature also indicates the existence of a positive linkage between cooperation and relationship satisfaction in Western business environments (Anderson and Narus, 1990; Mehta et al., 2006). Drawing from the forgoing discussion, it is therefore, hypothesized that:

H7: The greater the hezuo of the SME manufacturer is, the higher the degree of relationship satisfaction.

RESEARCH METHODOLOGY

Measurement instrument and questionnaire design

Research measurements were operationalised mainly on the basis of previous works and further consultation with field and academic experts. Minor modifications were made in order to fit the current research context/purposes and the opinion of experts. Dealers' "referent power" was measured by a five-item scale using Gaski's (1988) and Lee's (2001) studies, while a five-item scale for the "legitimate power" scale was adapted from Brown et al. (1995) and Gaski's (1988) works. With respect to the scales of SME manufacturers' "*xinyong*", "*ganqing*" and "*hezuo*", a six-item scale, a five-item scale, and a five-item scale were used, respectively. These scales were modified from the works of Kabadayi and Ryu (2007), Abudul-Muhmin (2005) and Morgan and Hunt (1994), and Cannon and Perreault (1999) and Maloni and Benton (2000), respectively. Finally, SME manufacturers' "relationship satisfaction" was measured by a six-item scale adapted from the works of Benton and Maloni (2005) and Cannon and Perreault (1999). Individual scales and their corresponding measurement items are printed in the Appendix section.

As the data were collected in a non-English speaking country (that is, Taiwan, also see the research setting section) and the scales were mainly adapted from English literature, a back-translation technique (Reynolds et al., 1993) was followed to ensure equivalent meaning between the original and back-translated versions. A refinement of the questionnaire then proceeded with the involvement of subject experts. The questionnaire was modified according to their comments and suggestions.

Research setting, research sample and data collection

The current study investigated dealers' referent power and legitimate power on the *guanxi* distribution channel relationship outcomes from the viewpoints of SME manufacturers. Therefore, the sample unit of analysis was SME manufacturers, especially in Taiwan. The Small and Medium Enterprise Association of Taiwan (SMEAT) was selected as the sampling frame. By cooperating with the SMEAT Association, 1000 SME manufacturers were randomly selected from the association membership database and the questionnaire was distributed to the SME manufacturing owners or the manufacturers' officials who were in charge of either sales or marketing. These participants were considered competent to evaluate their firms' relationships with their dealers. Prior to the distribution of the questionnaire in person, these potential participants were contacted and informed of the significance of the current study by telephone. A total of 400 usable questionnaires were retrieved for the final data analysis, representing a response rate of 40%.

Following Armstrong and Overton's (1977) procedure, potential non-response bias was assessed, computing the differences between early and late respondents' profiles. The results indicated that there were no differences between their company sizes, respondent experiences, company annual incomes and types of industry at a confidence level of 0.05. Furthermore, the means of the six research variables used in the current study also provided non-significant difference results between these two groups. That is, this provided a minimal level of non-respondent bias for this study.

DATA ANALYSES AND RESULTS

The two-step procedure suggested by Anderson and Gerbing (1988) was applied to analyze the research data. That is, the accuracy of multi-item construct measures was assessed, followed by a test of the research model and hypotheses. In both data analysis stages, the current study mainly used structural-equation-modelling (SEM) technique. The computation SEM software was AMOS 5.

Sample description

The sample profiles presented in Table 1 showed that more than two thirds of the participating SME manufacturers employed less than or equal to 10 workers and the majority of the remainders had a workforce between 11-21 employees. Around half of the participating SME manufacturers had less than or equal to 5 years experience, followed by twenty-six percent (26%), seventeen percent (17%), and about six percent (6%) with 6 to 10, 11 to 19, and 20 or more years experience, respectively. A majority of the participants had revenues less than or equal to US$90 million, and the reminders made revenues between 90-190, 190-300, and more than US$300 million. The analysis also indicated that consumable and non-consumable goods SME manufacturers almost equally occupied the research sample, although the former constituted a slightly higher proportion.

Measurement accuracy assessment

At this stage, a confirmatory-factor-analysis (CFA) was performed to access the measurement model. Overall acceptable CFA model fit indices used in this study

Table 1. Sample demographic characteristics.

Number of employees	Frequency	%	Annual sales revenue	Frequency	%
$\leqq 5$	102	25.5	$\leqq$ USD30 millions	177	44.2
6-10	169	42.2	USD30-90 (millions)	139	34.8
11-2l	76	19.0	USD90-190 (millions)	50	12.5
21-50	28	7.0	USD190-300 (millions)	14	3.5
$\leqq 51$	25	6.3	$\geqq$ USD300 millions	20	5.0
Total	400	100.0	Total	400	100.0
Work experience	**Frequency**	**%**	**Industries**	**Freq**	**%**
$\leqq 2$ years	41	10.3	Consumable manufacturing	226	56.6
3-5 years	162	40.4	Non-consumable manufacturing	174	43.4
6-10 years	104	26.0	Total	400	100.0
11-19 years	68	17.0			
$\geqq 20$ years	25	6.3			
Total	400	100.0			

included: the $\chi^2/(df)$ (Chi-square/degree of freedom) value equal to or less than 5.00, the comparative fit index (CFI) value equal to or higher than 0.90, the non-normed fit index (NNFI) value equal to or higher than 0.90, the incremental fit index (IFI) value equal to or higher than 0.90, and the root mean square error of approximation (RMSEA) value equal to or less than 0.08. Recommended statistics for the final overall model assessment showed an acceptable fit of the measurement model to the data, including $\chi^2/(df)$ being 3.32, CFI being 0.91, NNFI being 0.90, IFI being 0.91, and RMSEA being 0.076. The examinations of the accuracy, including reliability and validity, of the research scale measurements followed. Combined with good model fit indices, Cronbach's test, the composite reliability (CR) index, the average-variance-extracted (AVE) measure, the measurement item factor loading to its corresponding construct, and the chi-squire difference in all two-factor (that is, any paired latent constructs) CFA tests (which restricted the factor inter-correlations to unity) were used for the measurement reliability and validity assessment. As can be observed in Tables 2 and 3, the Cronbach's test results indicated all item-total values and all α values were higher than 0.3 and 0.7, respectively; all the CR values and AVE values were higher than 0.7 and 0.5, respectively; individual factor loading coefficients of the corresponding constructs were statistically significant and higher than 0.7; all chi-squire differences in two-factor CFA tests were significant. Accordingly, the above analysis results provided evidence for acceptable levels of research measurement accuracy.

Research model assessment and research hypothesis testing

The research model was estimated and the hypotheses

testing proceeded. As shown in Table 4, all the research model fit statistics were within or approaching to the acceptable ranges, that is, $\chi^2/(df)$ being 3.35, CFI being 0.90, NNFI being 0.89, IFI being 0.90, and RMSEA being 0.079. The individual hypothesis testing results are also shown in Table 5. The β coefficients for H1, H2, H3, H4, H5, H6, and H7 were 0.683, 0.690, 0.502, 0.211, 0.440, 0.572, and 0.929, respectively. All hypothesis β coefficients were significant at a confidence level (p value) of 0.001 except for H4, which was at a 0.01 level. Therefore, these results provided support for all the proposed seven hypotheses.

DISCUSSION AND CONCLUSIONS

This study utilizes the power dependency theory to provide a theoretical grounding for the conceptual framework that seeks to explicate the Chinese *guanxi* distribution network in the SME business environment. More specifically, this study proposes that dealers' referent power and legitimate power are important drivers of three Chinese *guanxi* components: *xinyong*, *ganqing*, and *hezuo*, which consequently lead to SME manufacturer's relationship satisfaction in a Chinese culture embedded *guanxi* distribution context. To confirm the proposed hypotheses of the research framework, data are collected from Taiwan's SME manufacturers with the help of the SMEAT association of Taiwan. As expected, the analysis results support all the research hypotheses in this study. Overall, this provides support to the research propositions that dealers' referent power and legitimate power should be recognized as significant for manufacturers' relationship satisfaction in the SME setting.

An interesting finding from the results is that dealers' referent power influences both SME manufacturers'

Table 2. Accuracy analysis statistics.

Research construct		Mean value*	Cronbach's test		C.R. value	AVE value	Factor loading
			Item-total	α value			
Referent power (RP)	RP1		3.91	0.752			0.815
	RP2	3.98	3.89	0.737	0.860	0.862	0.610	0.812
	RP3		4.01	0.671			0.743
	RP5		4.09	0.667			0.751
Legitimate power (LP)	LP2		3.96	0.635			0.706
	LP3	3.72	3.74	0.764	0.877	0.881	0.651	0.816
	LP4		3.52	0.786			0.853
	LP5		3.67	0.774			0.843
Xinyong (XY)	TR1		3.86	0.718			0.763
	TR2		3.86	0.791			0.850
	TR3	3.86	3.74	0.774	0.900	0.901	0.646	0.817
	TR4		3.87	0.778			0.830
	TR5		3.97	0.703			0.755
Ganqing (GQ)	RC1		4.01	0.745			0.796
	RC2		4.11	0.796			0.834
	RC3	4.09	4.04	0.794	0.915	0.915	0.683	0.837
	RC4		4.11	0.794			0.845
	RC5		4.19	0.779			0.818
Hezuo (HZ)	CO1		4.04	0.678			0.765
	CO2		4.01	0.673			0.725
	CO3	3.99	4.05	0.723	0.871	0.871	0.574	0.781
	CO4		3.98	0.709			0.752
	CO5		3.89	0.700			0.765
Relationship satisfaction (RS)	RS1		3.99	0.731			0.793
	RS2		4.04	0.747			0.783
	RS3	4.03	4.06	0.749	0.902	0.902	0.606	0.783
	RS4		4.02	0.756			0.778
	RS5		4.05	0.692			0.728
	RS6		4.03	0.722			0.803

C.R.: Composite reliability; AVE: average variance reliability; S.V.: shared variance; *scores: 1–strongly disagree; 3–neutral; 5–strongly agree; [a]significance level <0.05; [b]significance level <0.01; [c]significance level <0.001; Measurement CFA model fits: χ^2/(df): 3.32, CFI: 0. 91, NNFI: 0.90, IFI= 0.91, RMSEA= 0. 076.

Table 3. Chi-Squire differences (constrained-unconstrained) in all two-factor CFA tests [$\Delta\chi^2(1)$].

Research construct	RP	LP	TR	GQ	HZ	RS
Referent power (RP)	--					
Legitimate power (LP)	89.87[c]	--				
Xinyong (XY)	62.72[c]	83.89[c]	--			
Ganqing (GQ)	86.20[c]	111.64[c]	80.44[c]	--		
Hezuo (HZ)	73.64[c]	101.66[c]	67.58[c]	77.78[c]	--	
Relationship Satisfaction (RS)	79.71[c]	108.00[c]	77.93[c]	90.18[c]	78.13[c]	--

[a]Significance level <0.05; [b]significance level <0.01; [c]significance level <0.001.

Table 4. Analysis results of the research structural model and related hypotheses.

Path coefficients	Hypothesis	Factor loading
Referent power → *Xinyong*	H1	0.683[c]
Referent power → *Ganqing*	H2	0.690[c]
Legitimate power → *Xinyong*	H3	0.502[c]
Legitimate power → *Ganqing*	H4	0.211[b]
Xinyong → *Hezuo*	H5	0.440[c]
Ganqing → *Hezuo*	H6	0.572[c]
Hezuo → Relationship satisfaction	H7	0.929[c]

[a]Significance level <0.05; [b]significance level <0.01; [c]significance level<0.001; research structural model fits: χ^2/(df): 3.35, CFI: 0. 90, NFI: 0.89, IFI= 0.90, RMSEA= 0. 076.

xinyong and ganqing more than their legitimate power does on the same even though legitimate power noted to be very pronounced in the Chinese society. Perhaps a possible explanation could be that reputation capital for dealer firms is a kind of personal property and resource that SME manufacturers may seek to take advantage of in order to build on to their face or survive business whereas dealer firms' legitimacy stems from social norms which might be viewed to be of lesser resource in *guanxi*.

MANAGERIAL IMPLICATIONS

The current study provides some implications for managers in dealer firms that would like to maintain their distribution relationship with their dependent and less powerful partners (that is, SME manufacturers) in a Chinese *guanxi* context. The results of this study show that dealers' referent power and legitimate power influence important Chinese *guanxi* relationship values, especially *xinyong and ganqing.* Drawing from this result, managers in dealer firms are therefore, encouraged to strategically and increasingly acquire referent power and legitimate power in order to increase their effectiveness on SME manufacturers' perception of the aforementioned two values (*xinyong* and *ganqing*).

Compared with legitimate power, referent power has stronger effects on these two values. To this extent, managers in dealer firms are recommended to not only build up their reputation but also need to accumulate more over time in the *guanxi* network. As the reputation represents dealers' previous performances, the way they do their business in this network and how they treat their partners as their favourite friends, continuing to maintain this irreplaceable image to SME manufacturers can facilitate their perceptions of the valued outcomes in the *guanxi* network. Moreover, by employing effective communication skills dealers can enhance SME manufacturers' perception of their reputation capital. This can be achieved by for example, managers in dealer firms learning new and different communication skills necessary to project effectively their reputation capital to SME manufacturers.

In addition, the strategy to enhance legitimate power is also necessary to be considered. In this regard, managers in dealer firms are encouraged to make some beneficial rules for SME manufacturers to obey, which makes them feel the authority of dealer firms. Such beneficial social rules once acceptable tend to buttress dealers' legitimacy, and upon which SME manufacturers' *xinyong* and *ganqing* can be generated and reinforced. More so, by expanding their *guanxi* connections and accumulating long-term experience, dealers also increase their social status in the *guanxi* network and henceforth SME manufacturers' perception of their legitimate power. To that extent, dealers are encouraged to continuously expand their *guanxi* connections as well as accumulating long-term experience.

Finally, given that referent power has more significant positive influence on SME manufacturers' *xinyong* and *ganqing* than legitimate power does, the current research submits that more particular attention should be accorded to increased acquisition and utilization of referent power by managers in dealers' firms.

FUTURE RESEARCH

Owing to the nature of the current study, a few critical limitations should be addressed for future research. First, this study only collected data from SME manufacturers, as the dealer-SME manufacturer relationship is a dyad relationship, paired data can provide further understand-ding for the relationship proposed in this study. Second, the current study modifies existing scales from Western culture, plus consultation with local Taiwanese experts to develop three *guanxi* component scales - *xinyong*, *ganqing*, and *hezuo.* Future research is encouraged to develop the scales using a large scale investigation in the Chinese society and thus more appropriate for the Chinese context. This is likely to make the result of this framework more robust. Third, this study only investigates two non-mediated power sources in the *guanxi* context. Future studies can extend this conceptual framework to include other non-mediated channel power sources such as information power and expert power.

Fourth, future studies might consider expanding the current research model to include distribution channel outcomes such as firm performance as a more complete channel management model. Fifth, the current study is limited to a sample of SMEs in the manufacturing industry in Taiwan. Subsequent research could consider the moderating effects of various SEMs industries as well as countries influenced by Chinese culture, such as in the area of Far East Asia - Japan and South Korea, and in the South East Asian region such as Vietnam.

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APPENDIX

Research construct measurement

Referent power: (Source: Gaski, 1988; Lee, 2001; Cronbach α = 0.86, CR = 0.862, AVE = 0.61).

RP1: We like the way our major dealer treats us.
RP2: We want to identify with our major dealer.
RP3: The approval of our major dealer means a lot to us.
RP4: We respect our major dealer (removed during scale accuracy assessment).
RP5: Our major dealer is friendly.

Legitimate power: (Source: Brown et al., 1995; Gaski, 1988; Cronbach α = 0.86, CR = 0.862, AVE = 0.61).

LP1.   Our major dealer has the right to expect our cooperation. (removed during scale accuracy assessment)
LP2.   Our firm has an obligation to accept the major dealer's orders.
LP3.   Our firm is duty bound to obey the major dealer.
LP4.   The major dealer is entitled to direct our firm's actions on the job.
LP5.   The major dealer has authority over us.

Xinyong: (Source: Kabadayi and Ryu, 2007; Cronbach α = 0.9, CR = 0.901, AVE = 0.646).

XY1: When making important decisions, our major dealer is concerned about our welfare.
XY2: When it comes to things that are important to us, we can depend on our major dealer's support
XY3: We can count on our major dear to consider how its decisions and actions will affect us.
XY4: Though circumstances change, we believe that our major dealer will be ready and willing to offer us assistance and support.
XY5: Our major dealer keeps promises it makes to our firm.
XY6: Our firm can count on the major dealer to be sincere (removed during scale accuracy assessment).

Ganqing: (Source: Abdul-Muhmin, 2005; Morgan and Hunt, 1994; Cronbach α = 0.915, CR = 0.915, AVE = 0.683).

GQ1: The relationship with our major dealer means very much to us.
GQ2: The relationship we have with our major dealer is something we are very committed to.
GQ3: The relationship we have with our major dealer is something we intend to maintain indefinitely.
GQ4: The relationship we have with our major dealer deserves our maximum effort to maintain.
GQ4: We won't do anything to jeopardize the relationship with our major dealer.

Hezuo: (sources: Benton and Maloni, 2005; Cannon and Perreault, 1999; Cronbach α = 0.871, CR = 0.871, AVE = 0.574).

HZ1: We can work together well in this business to be successful.
HZ: No matter who is at fault, problems between the major dealer and our firm are joint responsibilities.
HZ2: Both sides are willing to make cooperative changes.
HZ3: One party will not take advantage of a strong bargaining position.
HZ4: We do not mind owing each other favors.

Relationship satisfaction [sources: Benton and Maloni (2005) and Cannon and Perreault (1999); Cronbach α = 0.871, CR = 0.871, AVE = 0.574]

RS1: We are satisfied with the services we get from our major dealer.
RS2: We will continue selling our products to our major dealer.
RS3: Our major dealer is a good company to do business with.
RS4: We do not regret doing business with our major dealer.
RS5: If we had to do it all over again, we would still choose to use this dealer.

All the items are measured in a 5-point Likert scale 1=strongly disagree, 5= strongly agree.