

## Copyright Undertaking

This thesis is protected by copyright, with all rights reserved.

**By reading and using the thesis, the reader understands and agrees to the following terms:**

1. The reader will abide by the rules and legal ordinances governing copyright regarding the use of the thesis.
2. The reader will use the thesis for the purpose of research or private study only and not for distribution or further reproduction or any other purpose.
3. The reader agrees to indemnify and hold the University harmless from and against any loss, damage, cost, liability or expenses arising from copyright infringement or unauthorized usage.

If you have reasons to believe that any materials in this thesis are deemed not suitable to be distributed in this form, or a copyright owner having difficulty with the material being included in our database, please contact [lbsys@polyu.edu.hk](mailto:lbsys@polyu.edu.hk) providing details. The Library will look into your claim and consider taking remedial action upon receipt of the written requests.

# **Partnering Relationships and Retailer Performance in China**

Student Name: Fok Chun Chu, Cecilia  
Student Number: 9698

Department of Business Studies  
For the degree of Master of Philosophy  
The Hong Kong Polytechnic University

March 1999

*Abstract of dissertation entitled:*

## **Partnering Relationships and Retailer Performance in China**

Franchising has become an increasingly common way for firms to find and maintain competitive advantage in recent decades. A number of business firms in many industries have been entering into a variety of inter-organizational relationships. Since 1995, China has started to take advantage of the logistical benefits of chain stores, and develop its domestic chains for the distribution of goods and services. This study attempts to look at the partnering relationship within this new retail format, and hence to better understand the home-grown franchising system in China's retail markets.

The development of partnerships or other forms of suppliers-retailers alliances has become an increasingly important strategic decision in mainland China. Different patterns of relational exchanges, within the channels occur and are associated with franchise partnerships, based on standard measures of relationship interactions between channel partners. This study is a descriptive summary of partnering activities in franchisors-to-franchisees relationship, from a dyadic perspective. Different issues regarding Chinese-style franchising are discussed. Comparisons are made between the market-driven and government induced partnering regimes, to identify any difference on behaviors and performance. Data was collected via interviews and a structured questionnaire, from a sample of 'franchise-chain' retailers in China. Correlation and regression analyses are used to study the relationships between the retailer motivation to form the chain, and the actual behavior and performance. Managerial implications of the research findings are discussed and conclusions are made about how, and why, different formation motives affect the relational behavior and the ultimate performance level of Chinese franchise chains.

Submitted by Fok Chun Chu Cecilia

For M.Phil in Business Studies

Hong Kong Polytechnic University

March 1999

# Acknowledgements

The endeavor of writing this dissertation is rarely of the author only. To all who have devoted their time and effort in helping the completion of this study, I am profoundly grateful. This sincerely thanks also go to those I shall probably unintentionally fail to mention in this acknowledgement.

To start with, I would like to thank Dr. Abhik Roy, my supervisor, who generously gave his invaluable advice, and many suggestions for improving the study. My heartfelt thanks also go to Mr. Leslie Yip, my honorable academic adviser, as well as Mr. Sherriff Luk, without their attentive, continuous encouragement and effort, this dissertation cannot be completed successfully.

I also wish to give special thanks to my honorable adviser, Mr. John J.Z. Zhang, General Manager of Coors Brewing Co. International, who contributed his tremendous effort and valuable insights for this study. Besides, special thanks to the following people for their most generous help in the data collection process.

They are:

吳曉雲副教授(南開大學國際商學院市場營銷系 ---主任)

馬世俊教授(廣西商業高等專科學校 --- 副校長)

陳新華講師(廣西商業高等專科學校信息系)

干勤副教授(重慶商學院經濟貿易系)

Earnest thanks to all my cherished friends, Kelvin, Winnie, Wallace, Frankle, Debbie, Dennis, Ian, Esther and Jameson for their kind assistance and precious support at different stages of this study.

I would also like to thank all my professors, and roommates in the past two years for their guidance and views, especially Catherine and Johnny, who have not only made the study a fruitful, but also a more enjoyable one.

Finally, the deepest gratitude to my family, who has always been there with encouragement and support for whatever I do and choose.

---

# Table of Contents

LIST OF TABLES.....	3
LIST OF FIGURES.....	4
CHAPTER 1 INTRODUCTION .....	5
1.1 FRANCHISING DEVELOPMENT IN CHINA .....	5
1.2 DISTRIBUTION REFORM IN CHINA .....	12
1.3 RESEARCH QUESTIONS .....	23
1.4 OBJECTIVES .....	24
1.5 SIGNIFICANCE OF STUDY .....	28
CHAPTER 2 LITERATURE REVIEW .....	30
2.1 MARKETING CHANNELS & DISTRIBUTION MANAGEMENT .....	30
2.2 RELATIONSHIP MARKETING .....	34
2.3 FRANCHISE RELATIONSHIPS .....	36
2.4 GOVERNANCE MODE .....	40
CHAPTER 3 CONCEPTUAL FRAMEWORK .....	42
3.1 INTRODUCTION .....	42
3.2 PARTNERSHIP .....	45
3.3 RELATIONAL BEHAVIOR .....	47
3.3.1 Marketing Planning .....	47
3.3.2 Expectation of Continuity .....	47
3.3.3 Communication .....	49
3.3.4 Information Exchange .....	50
3.4 PERFORMANCE .....	51
CHAPTER 4 METHOD .....	53
4.1 INTRODUCTION .....	53
4.2 UNIT OF ANALYSIS .....	53
4.3 THE PRELIMINARY STUDY .....	54
4.4 PRETEST .....	56
4.5 QUESTIONNAIRE SURVEY .....	56
4.6 QUESTIONNAIRES ADMINISTRATION .....	61
4.6.1 Sampling Plan .....	61
4.6.2 Sample Distribution .....	62
4.6.3 Respondent Selection .....	64
4.6.4 Actual Run .....	65
4.6.5 Data Analysis .....	65
4.7 RESEARCH ASSUMPTIONS .....	68

---

<b>CHAPTER 5 RESEARCH FINDINGS .....</b>	<b>69</b>
5.1 INTRODUCTION.....	69
5.2 GENERAL FINDINGS.....	70
5.2.1 <i>Organization Demographics</i> .....	70
5.2.2 <i>Classification of Two Groups</i> .....	74
5.2.3 <i>Formation Reasons</i> .....	78
5.2.4 <i>Relational Behavior</i> .....	82
5.2.5 <i>Performance Measures</i> .....	86
5.2.6 <i>Partnering Activities</i> .....	87
5.2.7 <i>Partnering Relationship</i> .....	89
5.2.8 <i>Ways to improve Partnering Relationship</i> .....	89
5.2.9 <i>Problems</i> .....	91
5.3 TESTS OF HYPOTHESES .....	93
<b>CHAPTER 6 CONCLUSION.....</b>	<b>105</b>
6.1 SUMMARY .....	105
6.2 IMPLICATIONS.....	109
6.2.1 <i>Government policy implication</i> .....	109
6.2.2 <i>Managerial Implication</i> .....	110
6.3 LIMITATIONS OF THE STUDY.....	114
<b>BIBLIOGRAPHY .....</b>	<b>116</b>
<b>APPENDICES.....</b>	<b>121</b>

---

## List of Tables

<i>Table 1.1 Gross Domestic Product .....</i>	<i>5</i>
<i>Table 1.2 The Number of Wholesale Stores, and their Employees, in China .....</i>	<i>20</i>
<i>Table 1.3 The Number of Retail Stores, and their Employees, in China .....</i>	<i>20</i>
<i>Table 1.4 Total Retail Sales of Consumer Goods (1993-1997) .....</i>	<i>21</i>
<i>Table 4.1 Multi-item Scales .....</i>	<i>59</i>
<i>Table 4.2 General Profile of the selected Four Regions.....</i>	<i>63</i>
<i>Table 5.1 General Characteristics of Respondents.....</i>	<i>70</i>
<i>Table 5.2 Mean score of chain formation between government-induced and market-driven.....</i>	<i>75</i>
<i>Table 5.3 Discriminant Analysis Result.....</i>	<i>77</i>
<i>Table 5.4 Key Reasons of Joining the Retail Chain.....</i>	<i>79</i>
<i>Table 5.5 Formation Reasons between Southern and Northern part of Respondents .....</i>	<i>80</i>
<i>Table 5.6 Factor Analysis on Formation Reasons of Retail Chain .....</i>	<i>81</i>
<i>Table 5.7 Factor Analysis on Relational Behavior.....</i>	<i>85</i>
<i>Table 5.8 Factor Analysis on Store Performance.....</i>	<i>86</i>
<i>Table 5.9 Ranking of Partnering Activities.....</i>	<i>87</i>
<i>Table 5.10 Factor Analysis on Ways of Improving Partnering Relationship .....</i>	<i>90</i>
<i>Table 5.11 Impact of Formation Motives on Relational Behavior .....</i>	<i>95</i>
<i>Table 5.12 Impact of Formation Motives on Performance.....</i>	<i>98</i>
<i>Table 5.13 Correlation between Performance Level against Relational Behavior (Composite Index).....</i>	<i>99</i>
<i>Table 5.14 Impact of Relational Behavior (Composite Index) on Performance.....</i>	<i>100</i>
<i>Table 5.15 Correlation between Relational Behavior and Performance.....</i>	<i>101</i>
<i>Table 5.16 Impact of Relational Behavior on Performance .....</i>	<i>102</i>
<i>Table 5.17 Impact of the Three dimensions of Relational Behavior on Performance .....</i>	<i>104</i>
<i>Table 6.1 Result of Hypothesis Testing.....</i>	<i>106</i>

---

## List of Figures

<i>Figure 1.1 The Purchasing Structure of the Franchising Outlets .....</i>	<i>10</i>
<i>Figure 1.2 Two Diagrams illustrate the flow in Wholesale &amp; Retail Market .....</i>	<i>15</i>
<i>Figure 3.1 Conceptual Framework showing the Dyadic Partnering Relationship in Chinese-style Franchising .....</i>	<i>44</i>



---

# Chapter 1

## Introduction

---

## Chapter 1 Introduction

### 1.1 Franchising Development in China

In China, franchising emerged as a trend in retailing in the early 1990s. This was one of a number of major changes that occurred as a result of the government's approval of foreign participation in retailing. Based on statistics gathered in developed countries, chain store operations become profitable to develop when the per capita GDP reaches a level of USD250-600. In China, the urban per capita GDP was RMB3179 (around USD370) in 1994, and in 1997, it reached RMB6079. Based on that figure, it can be shown that the prospect of the development of franchising in China is quite optimistic and thus can justify this research.

Thus, it appears that the economic environment in China is suitable for the development of chain store businesses. Not surprisingly, franchising has become an increasingly popular and viable way for foreign enterprises to enter the flourishing China market, as it shields these enterprises from currency risks and involves comparatively little capital outlay.

*Table 1.1 Gross Domestic Product*

Unit: 100 million Yuan			
	GNP	GDP	Per capita GDP (yuan)
1985	8989.1	8964.4	853
1990	18598.4	18547.9	1634
1995	57494.9	58478.1	4854
1996	66850.5	67884.6	5576
1997	73452.5	74772.4	6079

Source: Chinese Statistics Yearbook 1998

However, there is a great difference between the homegrown “franchising” in China and the typical understanding of franchising found in the extant literature, which is based on the way franchising is practiced in western countries. Since 1978, the government of China has adopted an open door policy to encourage trading and foreign investment in China. Many foreign investors have been attracted to invest in China, since low labor costs, a low tax policy, and a potentially lucrative consumer market in China have established a favorable investment environment for foreign capital.

A critical change in the China retail sector in 1997 was the emergence of retail chains. The development of franchising chains, as a distinct business form, has helped retailers in China develop strategic advantages by pooling resources, and enabled them to consolidate their position within the industry. It has also strengthened the barrier against entry by foreign retailers, and helped in promoting domestic companies. While there are interesting issues related to the challenges and benefits of traditional “co-operative” structures, such as strategic alliances or working partnerships, there are additional layers of complexity, which must also be considered, in the study of co-operative practices in the China retail market.

In China, local retail conglomerates are fast emerging, with prominent examples such as Shanghai Lianhua and Wangfujing Department Store. Other famous alliances have emerged, such as the supermarket chain between the National Hualian Mansion Corporation and Zhangshang Group, Xifu and Aozhiguang. According to the “Notice on the Issuance of Opinion on the Business Scope of Chain Stores” issued by the Ministry of Internal Trade (1997), there are three forms of chain store operation, namely, direct-chain operation, a

---

voluntary chain and business format franchising. Direct-chain operation is where one parent company owns and operates all the stores. A voluntary chain refers to the stores that are independent in all decision making but coordinated and supplied with a chain-store operator. According to Mendelsohn and Acheson (1989), business format franchising is the grant of a license by one person (the franchisor) to another (the franchisee), which entitles the franchisee to trade under the trademark/ tradename of the franchisor and to make use of an entire package, comprising all the elements necessary to establish a previously untrained person in the business developed by the franchisor and to run it with continuing assistance on a pre-determined basis. Among the three types of franchising, voluntary chain is the loosest kind of franchising, rather like a cooperation between business partners without any contract binding.

The Chinese Government has exerted great efforts to transform the retail sector from the traditional supply-driven system to an increasingly demand-driven one. One conspicuous change is that new players with different types of ownership structures, including cooperative and foreign joint ventures, have entered the scene, bringing diversity to the market place. Their operation has a potentially enormous impact on marketing operations and relationships between channel members. With the growth in sales both, independent and collectively owned retailers have gained greater bargaining power in terms of the goods they purchase. Moreover, their leverage has been improved in terms of some value-added services, like the provision of market information, free delivery services, joint advertising and sales promotional activities, and even staff training. This has changed the adversarial

relationships among retailers and suppliers to more cooperative partnerships, from which both enjoy better information and merchandise flow within the distribution system.

In China, chain store development has become a major focus of public policy regarding the retail sector since 1996. From a policy perspective, such programs are considered to be a major way to tackle problems, like the lack of proper distribution through existing channels and the low efficiency of state commerce. If market forces lead to it, then some money-losing state-owned enterprises will be allowed to go bankrupt, and mergers and acquisitions will be encouraged to improve enterprise structure. The government aims to keep control of about 1000 large-sized state enterprises, while all the small- and medium-size state-owned enterprises are to be set free, accounting for 99.8% of the national total.

In the past few years, more and more state-owned enterprises have been forced by the Government to join their operations together, forming a cooperative partnering relationship. This is more like a long-term strategic alliance between equals than a typical western franchising relationship, which involves a national manufacturer or service provider (franchiser) and a local business partner (franchisee). In their language, the Chinese regard this kind of partnering relationship between enterprises as “franchising”. More precisely, these are chain store operations involving a prolonged relationship, with the purpose of gaining higher efficiency and effectiveness in the distribution of goods and services to the market. The Chinese definition of franchising is consistent with the broad definition, since franchising represents an ongoing, continuous exchange between partners, over a lengthy period of time, rather than exchanges more traditionally defined as discrete transactions.

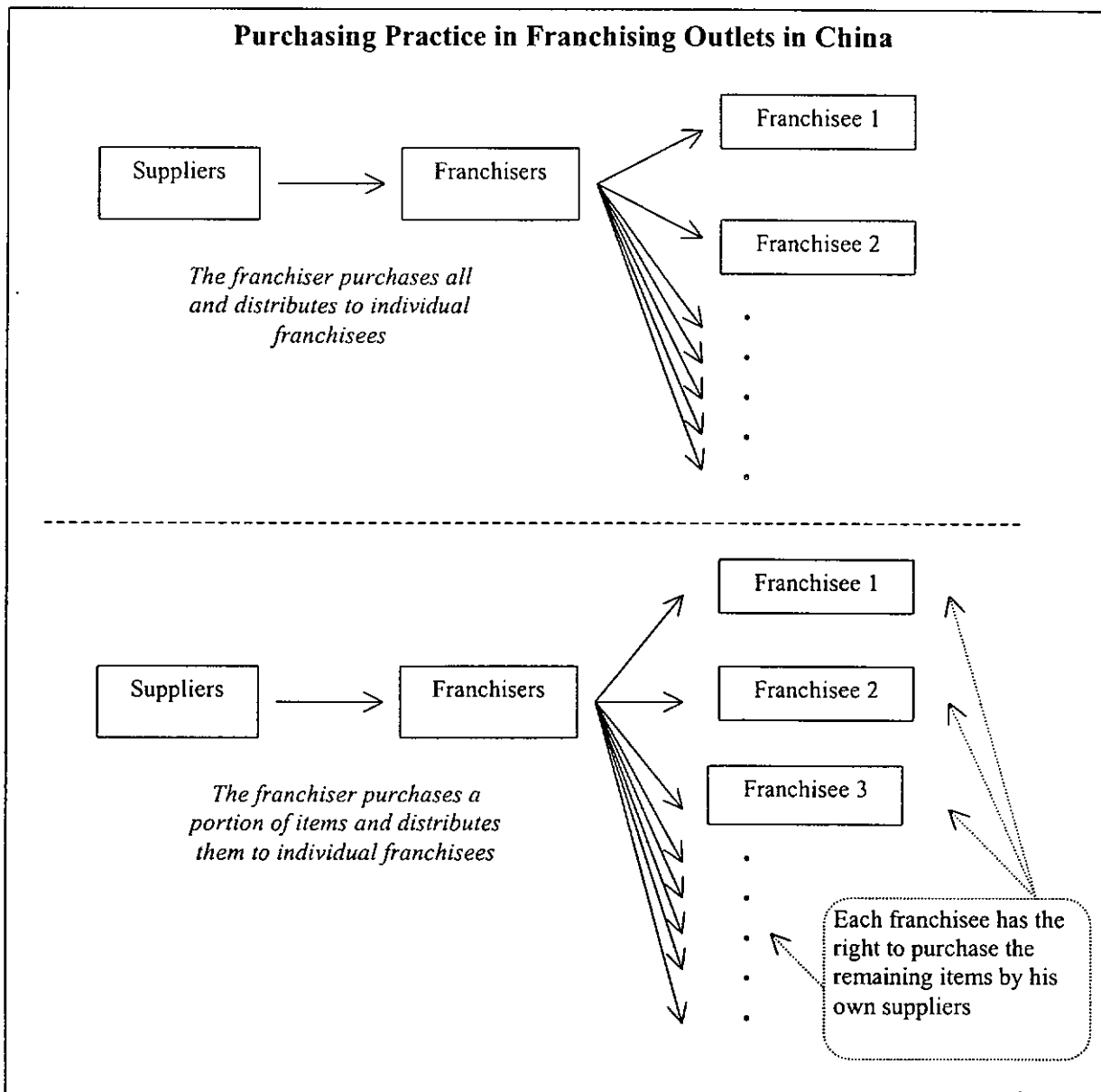
---

Webster (1992) described a franchise as a “complex multifaceted organization structure that results from multiple strategic alliance, usually combined with other forms of organization”. Thus, the environment between franchiser and franchisee is a venue for relational exchange to occur. Morgan and Hunt (1994) define relationship marketing as “establishing, developing, and maintaining successful relational exchanges”. According to Macneil (1980), all commercial transactions can be classified along a continuum, ranging from purely discrete to relational exchanges, while Miles et al. (1990) argue that purely discrete transactions involve one-shot, impersonal exchanges with minimal or no relational context. Within the context of China, such kinds of franchising relationships are well defined by Kaufmann and Stern (1988). They suggest that relational transactions be characterized by long-term, continuous, and complex relationships, in which any single exchange is of insignificant importance as compared to the implicit imperative to sustain the relationship itself.

Apart from this kind of administrative-driven franchising, another mode of franchise operation, which is formed under the market mechanism, can be found in the China market. Therefore, currently, there are two main kinds of franchising operations in the market; the administration-forced, which is typically for increasing efficiency, and the market-driven, which is typically established for expansion purposes. As stated by Strutton et al. (1993a), “franchising channels are implicitly based upon the recognition by individuals that they can benefit from joining and remaining part of the franchising system”. Within the franchising mode of operation, two different purchase patterns are identified, which demonstrate the complex partnering relationship among franchisors and franchisees.

---

Figure 1.1 The Purchasing Structure of the Franchising Outlets



### Distribution system in China

The Chinese retail industry can be described as a network of manufacturers, wholesalers and retailers, and the Figure 1.1 offers a simplified illustration of its structure and exchange pattern. It should be noted that the relationships appearing as lines between the various actors are those based on physical exchange and distribution of products. Information transfer and social ties are not included. Clearly, in the first type of purchasing practices, regarded as a typical way of franchising, distribution is controlled by the franchiser, who supplies all the goods sold. Franchisor is responsible for the overall purchases and franchisees are organized and directed to only one supplier. In this case, the franchisor has the main control of overall assortment decisions and distribution, while the franchisees act as autonomous firms. The second purchasing type is characterized by a more complicated linkage among suppliers, franchisers and franchisees. Still, the franchisor is responsible for the purchases; however, some products are decided and determined upon by individual franchisees. Then, a network of relationship is developed, based on a resource dependence approach (Pfeffer and Salancik 1978; Yuchtman and Seashore 1967), a network can be expected to emerge since organizations depend on scarce and strategically important resources that are controlled by actors in their external environment. To reduce uncertainty and assure themselves of a continuous flow of scarce resources, organizations will coordinate their behavior by forming exchange relations (Elg and Johansson 1997). Remarkably, a relationship can be both positively and negatively connected with another relationship simultaneously.



## 1.2 Distribution reform in China

Distribution is clearly part of the production process. After the product is manufactured in the factories, goods move from the producers to the final consumers through distribution channels, where a variety of services must be performed. According to Philip Kotler (1996), channels of distribution create form, time, place, and possession utilities; the channels provide information flows in both directions; assembling, grading, packaging, financing, risk-taking and negotiation are other components of the marketing process.

In China, distribution management is an integral part of the economic reform. Investment in distribution is a key factor during the economic transformation of a socialist economy as increased efficiency in goods distribution can accelerate economic development. Its importance is evident in the former USSR where inefficiency in the distribution system has caused food shortages even in years of bumper harvests.

The distribution reform has been gone through three distinct phases (Chow 1993; Luk 1995, 1998; Chow, Tseng 1996), each associated with different policy characteristics: In the past, under the central planned economy, all the manufacturers were completely state owned. The government planned the production of each good according to the reported production capacity of each manufacturer. They used price as a tool to control the demand of the market and forced demand to meet supply. The commercial system in China was basically one with centralized planning by the state and centralized control in the distribution of commodities by top-down administrative means. Under this system, business enterprises were subject to

---

many restrictions imposed by the administrative departments and had no autonomy to run their business independently. The business framework of China consisted of only one single distribution channel, which was monopolized by the state owned companies. In addition, regional protectionism was also encouraged by this system.

Since 1979, economic reforms have shattered the vertical, closed commercial system and allowed diverse channels to develop.

Three aspects of these reforms are noteworthy:

1. Private individuals, collectives, producers, and government units outside the Ministry of Commerce can now buy and sell more freely;
2. The vast majority of small-scale, state-owned commercial enterprises have been converted to private or collective ownership, and efforts are being made to convert the rural supply and marketing cooperatives to true cooperatives. Larger units in the state commercial system, while still state-owned, have had been established as companies separate from the administrative bureaucracy. They are now managed under responsibility system contracts that allow them to retain some profits, and they have more freedom to buy and sell as they wish.
3. The scope of planning has been greatly reduced, so that by the mid-1980's only a small number of commodities were subject to planned allocation at planned prices. Nowadays, only some daily necessities are control by the authorities.

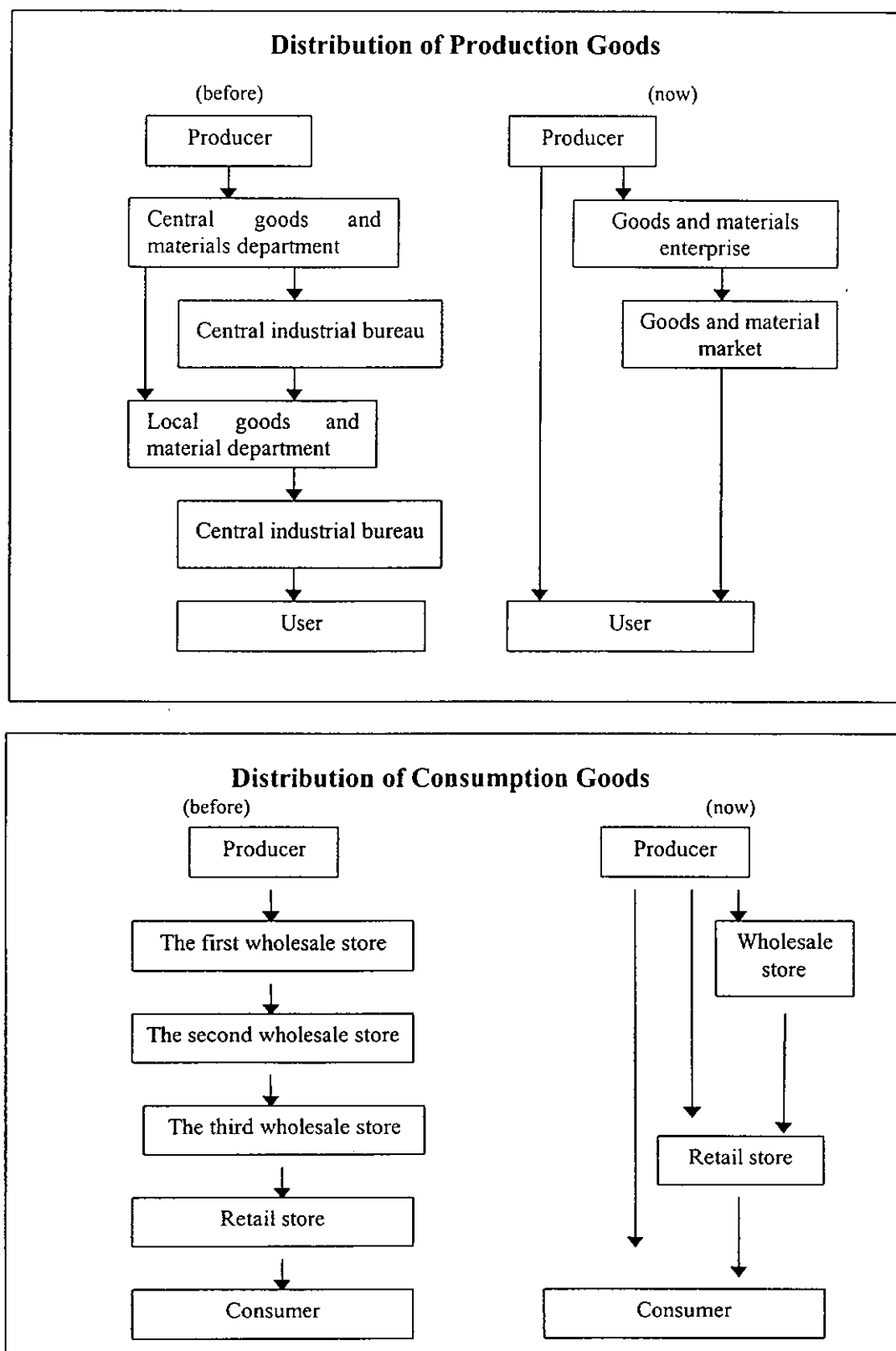
After a series of reforms, a more market-oriented economic system has been established. This system encompasses various means of business operation and multiple distribution patterns.

### *Wholesale Sector*

China's wholesale system of consumer goods had, for a long time been a three-tier structure. According to administrative regions, wholesale units were established to supply goods to assigned areas and retailers. The state-owned wholesalers basically monopolized distribution.

Following the reforms, the wholesale system now basically adheres to the principle of using the major cities in economic regions as the centers of distribution. The administrative and executive function of the Ministry of Commerce and its offices and bureaus at all levels are separated, and major cities are empowered to operate their own wholesale enterprises. Each city sets up, according to their own needs, wholesale agencies which manage themselves. Department stores are allowed to operate wholesale business. The method of pricing has also been changed. Prices are fixed by the quantity ordered or through consultation, irrespective of the clients, based on the wholesale price decided by the State. Figure 1.2 shows the distribution of production good and consumption goods.

Figure 1.2 Two Diagrams illustrate the Flow in Wholesale &amp; Retail Market



### *Retail Sector*

There is no doubt that the potential of the retail market in the mainland is enormous, but only to those who are alert to the development and changes of the legal and economic environment there. In the past, the range and category of products sold by a retail enterprise had to be approved by the State's commerce and administrative departments which categorized all products for retail according to industry, the manufacturing process involved, the size of the enterprises, and the nature of the products.

With the opening up of China's retail sector, which only began in 1992, China has attracted the attention of world players. Many large retailers rushed to capitalize on China's retail boom, for example, Japan's Daiei group has opened a supermarket in Tianjin; Jusco, Carrefour, McDonald's, Kentucky Fried Chicken, and Kodak are already on the scene. Statistics from the Hong Kong Franchise Association (1998) revealed that turnover for foreign owned retail operations account for 0.13% of the total in China. However, their activities were mainly in the form of joint ventures with local partners. Faced with her unique culture, western firms viewed joint ventures and strategic alliance as the most logical entrance strategies into China (Ajit S. Nair and Edwin R. Stafford 1998). Recent statistics from China's Latest Economic Statistics (China's Customs Statistics) showed that the percentage change in contracted equity joint ventures in May 1998 was 12.2% over 1997; co-operative joint ventures showed another 17.5% increase against 1997.

*Forms of retail operation*

Retail business in China at present can be classified into the following patterns, namely, state-owned enterprises, large department stores, other state-owned business enterprises, non-state sector and foreign retailers.

**State-owned enterprises:** state-owned enterprises mainly comprise various levels of large and small department stores and shops under the Ministry of Commerce. After more than ten years of reform, these enterprises have now become economic entities responsible for their own profit and loss, and they can operate independently and have independent accounts. The past hierarchical structure in the wholesale and distribution system has been changed. The wholesale and retail concerns and also that of commercial and industrial, can now establish a supply-marketing relationship. However, the provinces' state-owned commercial firms in general suffered worsening first-half losses. By referring to the report of the China News Agency (Aug 97), all sectors comprising the distribution system, including grain store and commodity sale outlets, suffered heavier losses than the previous year, with total losses amounting to more than 1 billion yuan, which promoted the Government to take remedial action. In particular, the 15th Communist Party Congress, held in September 1997, highlighted the reform of state-owned enterprises by means of ownership restructuring including public shareholding, workers joint-stock companies, mergers and acquisitions, as well as state assets. Moreover, the Government will support reforms of 1,000 large-sized state-owned enterprises in order to accelerate the enterprise structure improvement.

**Large department stores** have always played an important role in the retail system in China. As a result of continuing reforms in recent years, more and more trade organizations and chambers of commerce consisting of department stores have been formed. They are the dominant entity in the retail system of China.

**Other state-owned business enterprises** mainly include specialized retail shops of different industries and the recently developed centralized open markets in both rural and urban areas. These open markets are like modern shopping centres and sell products ranging from foodstuffs to household wares.

China's **non-state sector** has expanded rapidly and experienced healthy development in recent years. In 1996, about 72% of the overall retail sales of consumer goods and 57% of industrial output were handled by non-state enterprises (including collective-owned and privately-owned enterprises). The collectively owned commercial entities are mainly composed of supply and marketing cooperatives in the villages and cooperative shops in the cities. In supplying goods, the supply and marketing cooperatives of each country coordinate with cooperatives at village levels to buy collectively and then distribute their goods to the users. They often purchase directly from factories or from other regions, hence enlarging the channel of consumer goods to villages. These enterprises can purchase at different places or team up with certain factories or shops for their supply of goods. They can both retail and wholesale their goods.

Moreover, **foreign retailers** have found a number of ways of setting up shops in China. These include: the use of franchising arrangements; renting of concessions counters within state-owned department stores for goods such as cosmetics, and wine and liquor; store management contracting and retailing within real estate developments and even direct marketing.

To conclude, the distribution system currently has certain inherent problems. There consists of, retail outlets being widely dispersed, lacking in organization and scale economies, while the wholesale sector is lacking behind in organization, market share and direction, state enterprises lack creativeness, modern technology, and the issue of overleasing of concession counters.

In 1996, there were over 13.96 million retail enterprises in the whole country, with over 31.89 million employees; while there were 2.03 million wholesale stores, which involved 13.10 million employees. Tables 1.2 and 1.3 showing the number of wholesale and retail stores, and employment statistics for 1995-1996.



Table 1.2 The Number of Wholesale Stores, and their Employees, in China

	Wholesale	1994	Wholesale	1995	Wholesale	1996
	Stores (%)	Employees (%)	Stores (%)	Employees (%)	Stores (%)	Employees (%)
Total	1401671	10469523	1675156 (100)	11564890 (100)	2026002	13099023
State-owned	345086	5592739	365947 (21.9)	5813427 (50.3)	399830	6071628
Collectively owned	375566	3079382	418658 (25.0)	3185525 (27.5)	480018	3600738
Private	20300	171068	42984 (2.6)	376025 (3.3)	73823	646091
Self-employed	645221	1399050	832201 (49.7)	1909145 (16.5)	1047849	2419845
Joint Owned	3056	35911	3239 (0.2)	39489 (0.3)	4342	55994
Share holding	5302	149089	7376 (0.4)	195971 (1.7)	14529	233374
Others	7140	42284	4751 (0.3)	45308 (0.4)	5611	71353

Table 1.3 The Number of Retail Stores, and their Employees, in China

	Retail	1994	Retail	1995	Retail	1996
	Stores (%)	Employees (%)	Stores (%)	Employees (%)	Stores (%)	Employees (%)
Total	11875243	26531385	13286512 (100)	29950803 (100)	13963162	31892221
State-owned	249838	3599481	263566 (2.0)	3728502 (12.5)	257730	3621498
Collectively owned	706307	4353831	718540 (5.4)	4405763 (14.7)	670138	4111236
Private	71326	485116	95878 (0.7)	704524 (2.4)	125569	1004856
Self-employed	10773479	17596799	12155487 (91.5)	20551656 (68.6)	12880830	22513368
Joint Owned	9515	46921	18604 (0.1)	89040 (0.3)	3353	58282
Share holding	4208	299022	4561 (0.00)	323017 (1.1)	7835	441448
Others	60570	150235	29876 (0.2)	148301 (0.5)	17707	141533

Source: Chinese Statistics Yearbook 1998

China has become the second largest retail market in Asia behind Japan; during the period from 1991 to 1995, its market retail volume increased at an annual growth rate of 11%. Retail sales of consumer goods increased by 6.8% in nominal terms in 1998 to reach RMB2915.5 billion, and GDP has also reached RMB7974.8 billion in 1998. A more mature consumer market is foreseen, with increasingly selective demand of consumer goods. Increased unemployment and shifts in expenditure pattern from consumer goods to housing, investment, medical insurance, and education are major factors leading to a relatively low growth in demand of consumer goods in 1997. Market sales continue to rise, with total retail sales of consumer goods reaching 231.5 billion-yuan in August 1998, up by 9.3% with the growth rate up 1.2% from July 1998.

*Table 1.4 Total Retail Sales of Consumer Goods (1993-1997)*

Unit: 100 million Yuan						
	1993	1994	1995	1996	1997	1998 Jan-Aug*
TOTAL	12462.1	16264.7	20620	24774.1	27298.9	18580.2
By ownership						
State-own	4676.4	5193.9	6154.1	6745.1	6355.9	3917.9
Collective-own	2741	3375.2	3981.6	4567	4767	3097.9
Individual	3016.9	4626.6	6253.8	7923.7	9512.2	6785.3
By sector						
Wholesale & Retail	8726.9	11039.7	13801.3	16205.1	18108.3	12337.8
Catering Trade	800.1	1175.1	1579.2	2024.9	2433.3	1736.8
Manufacturing	1062.9	1272.8	1540.7	1775.3	1987.9	1260.6
Others	1872.2	2777.1	3698.8	4768.8	4769.4	3245

Source: Chinese Statistics Yearbook 1998

\* adopted from China Monthly Statistics, Issue 8 1998, State Statistical Bureau

Considering the current challenges of the state-owned enterprises, along with the introduction of foreign investments, competition has intensified in the retail sector. Essential expertise and management has been brought into domestic enterprises. From the government's viewpoint, domestic retail firms need to speed up reform by reorganizing themselves into enterprise groups or chain stores to make themselves more efficient nationally and competitive internationally. Since setting up chain stores, the group will establish a distribution centre, which can adjust the commodity mix to reduce price, and enhance its presence and competitiveness.

### 1.3 Research Questions

There is a continuing interest in franchising research because it, in its various forms, has been a familiar method of organizing channels of distribution for more than 100 years (Kaufmann 1996). Various franchise scholars (e.g. Dant and Winsor 1993; English 1993; McCammon 1965) have reiterated the importance of franchising within channel relationships; some investigators (e.g. Shipley 1984; Anderson and Narus 1990) have explored and studied partnership arrangements between distributors and suppliers; in supply chain management, Keeffe (1998) also highlighted the importance of “co-operating to compete” and the paradigm shift from firms versus firms competition to chain versus chain competition. However, little work has been done on reporting the changes in the China retail market with the development and rise of the franchising chain.

Therefore, more empirical studies on Chinese-style franchising operations are needed. This study aims to identify the characteristics of franchising chains in China, investigate its development, and figure out some commonly encountered problems. This might well turn out to be a major step forward in understanding the “partnering relationship” in China.

## 1.4 Objectives

China's open door policy was initiated in 1978, attracting the attention of global players and triggering a series of distribution reforms. Impressed by the significant achievements in the reforming of the distribution system, many large retailers rushed to capitalize on the subsequent retail boom. In 1998, China stressed the importance of major restructuring, mainly as a way to promote a wave of mergers to consolidate unwieldy industries. One of the most significant changes in the China retail sector is the emergence of retail chains. However, there is so far no study investigating the cause and effect of such changes. Many contributions to the current debate gloss over issues such as the importance of "guanxi" in channel distribution, the purchasing pattern and the structural changes in distribution. Thus, the relationship between this new retail operation format and its efficiency is far from being well understood.

Moving from a planned economy to a market-oriented economy, China's traditional distribution system has been re-structured and new purchasing patterns have emerged, in which the government still plays a significant role. From the latter's perspective, with the continuously deteriorating performance of state-owned enterprises, it is necessary for the government to continue on in a regulatory role in the re-structuring of enterprises. The central government proclaimed chain stores as a distinct business form, which could help develop strategic advantages by pooling resources, consolidating the industry, strengthening the barrier against entry by foreign retailers, and promoting domestic companies. In 1995, the Ministry of Internal Trade began to develop policies to stimulate the development of

domestic chains. In light of the structural and economic changes of the last decade in China retail sector, it is timely to explore the Chinese concepts of the franchising chain and the relationship embedded in this new retail format.

There has been a resurgence of research and theories about inter-firm relationships in marketing and channel management, but most of them are illustrated with western cases. For example, a study by Larson (1992) found that organizations are increasingly adopting a “network” structure. Many multinational companies initiated the network trend, and Western European industries made use of integration to increase industrial coordination (Elg and Johansson 1997). Moreover, Carman (1980) contends that there is an emergence of vertical marketing systems. Dwyer, Schurr, and Oh (1987) studied the closer buyer-supplier relationships and found that there is an increasing growth in “partnerships” and other forms of inter-firm alliances (Anderson and Narus 1990). For instance, European retailing alliances appear to focus mainly on operational matters such as cost reduction and joint buying power, and technology exchange (Robinson and Clarke-Hill 1995). Clearly, many of these findings generated from previous research may not be applicable to Asian economies. Therefore, the primary objective of this study is to close the gap in the extant literature, by incorporating an Asian example, China, to make the existing model more empirically sound and generalizable.

To sum up, a major objective of this paper is to improve the understanding of the franchising chain concept applied to the domestic retail chain market in China, and to investigate the

retailer performance that result from the interplay between government policy and the free-market mechanism.

Specifically, the major objectives of this study can be described in terms of the following questions:

- ✧ Are there different reasons for entering a retail franchise chain?
- ✧ Is there any difference(s) in relational behavior within the chain, which can be explained in terms of the motivations, or determining factors for entering a franchise chain?
- ✧ Is there any difference(s) in performance and outcomes, which can be related to the different reasons for entering the franchise chain?

An overview picture of franchise development is briefly presented; describing attempts to form the chain business. Franchising is not a new retailing concept in China with the penetration of KFC, McDonalds and the like, but the domestic nature of the franchising chain operation is a unique way of distribution by linking retailers of the same product category, to increase coordination, and to abide by the government policy. Therefore, this paper attempts to provide a conceptual development of dyadic partnering relationships which concerns the behavioral dimensions (the sharing of information between partners, commitment, expectation of continuity, flexibility, and communication) within the franchiser-to-franchisee context. By examining the roles and responses in franchise operations, a conceptual framework is used to explain the effects of formation motives on relational behavior and the performance of the retailer. It provides an alternative view of

---

channel relationships, including interactions between the franchisor and the franchisees. Partnering level is discussed by successively relating it to the relevant relational behavior. Finally, we hope this study can provide some additional insights regarding the problem areas and effect of government intervention on the operation of franchise chain, this might be relevant for foreign firms who consider using franchising as an entry strategy to China.

The paper begins with a brief overview of first, the China distribution system, and second, retail reform and franchising development, followed by exploring the two main purchase patterns in the China franchise operation, of which one being government-induced, and the other market-driven. In the final section, the differences in their relational behavior and the possible impact on business performance will be compared and analyzed. Some general conclusions are presented regarding the Chinese-style franchising chain, and the unresolved issues prevailing in retail chain operation in China.



## 1.5 Significance of Study

The proposed research is timely for several reasons:

The emergence of relationship marketing represents a shift of paradigm in marketing (Bagozzi 1995; Morgan and Hunt 1994; Peterson 1995; Sheth and Paravatiyar 1995), and it is widely discussed in contemporary marketing literature (e.g. Copulsky and Wolf, 1990; Christopher et al., 1991; Morgan and Hunt, 1994; Tjosvold and Wong, 1994; Payne, 1995). Its importance in today's business world is undeniable. Since China is a relational society where social relationships and governmental policy play a significant role, this research represents a timely attempt to assess the acceptance and generalizability of relationship marketing through the study of China's franchising operations.

China has been rapidly developing during the past ten years with an increasing number of firms starting up their business operations. There is a paucity of research on marketing phenomena in China; and this research serves as a handy reference for firms who are interested in exploring business opportunities in the China market.

The body of research on China's distribution channels is very limited at present. During the 1990s, there has been an explosion of academic interest in China and East Asia generally. But, most attention has focused on foreign-invested joint ventures (FIJVs). Only a few articles dealing specifically with distribution have been published in leading international journals (e.g. Davies 1994). This study fills the research gap by explaining how franchising, a channel management technique, operates in China.

In response to Dwyer, Schurr, and Oh's (1987) call for more research on the expansion and commitment phases of the relationship model, our study focuses on activities of partnering firms, discussing the impact of hidden, unreported variables on performance – variables such as information exchange, communication, and market planning, which appear in the latter stages of Dwyer, Schurr and Oh's relationship marketing model, while typical manufacturer-distributor relationships are oriented toward the awareness and exploration phase (Wilson and Vlosky 1997).

Basically, the Chinese Government plans to exert administrative power to develop franchising, which is characterized as a unilateral dependence relationship, to be a high level of partnering relationship in China. However, this is still a controversial issue since an alternative to 'managing' the formation of franchise chains is to allow them to develop under market mechanisms. The question arises, is it feasible for the Government to invest in developing and maintaining such a high level of partnering in China? By conducting research on partnering activities in the China franchising context, practitioners may gain insights to the particular types of partnering activities that should be cultivated or expected among potential relationship candidates.

---

# Chapter 2

## Literature Review

---

## **Chapter 2      Literature Review**

### **2.1      Marketing Channels & Distribution Management**

During recent years, distribution has received increased management attention. Stern & Sturdivant (1987) report that “a number of companies have out-stripped their competitors with imaginative strategies” (p.35). McKenna (1988) states that “tremendous innovation in distribution has already begun” (p.87). The future consequences of these changes are perceived to be very significant. Morgan (1991) expects that by the year 2000, “industrial distribution will be restructured radically” (p.64). These on-going changes can be explained as efforts to improve efficiency and effectiveness. The efficiency aspect mainly deals with improving performance logistics, through changes in the activities per se, may involve changes in the structure and content of the relationships between companies. The effectiveness perspective also put distribution in focus. In traditional channel literature, access to distribution channels has always been an important issue. Now, individual actors in distribution have become more powerful through increasing size, such as internationalization.

As such, efforts are being undertaken to change distribution activities in order to gain better efficiency and effectiveness. Each individual firm acts strategically to make such changes. Marketing channels can be viewed as sets of independent organizations involved in the process of making a product or service available for consumption (Stern and En-Ansary 1992). They are the networks of organizations that extend from the producer to the end user.

Typically several organizations are linked together to carry out the various activities of storage, transportation, sales contract, sorting, and repacking (Cravens et al. 1989). In short, distribution therefore, links various kinds of activities to each other, as well as linking various actors. Therefore, changes undertaken by one firm will affect the activities undertaken by other firms.

Wholesalers worldwide generally perform such functions as purchasing, selling, transportation, storage, financing, information gathering, production planning, risk management, and even management consulting. Yet, in a centrally planned economy, like China, most wholesalers have national distribution responsibilities and have taken over the selling function from local manufacturers. It has been assumed that the manufacturer takes on the position of the channel leader who influence the other channel members by exercising authority and power (Lamb et. al. 1992). Channel conflict does occur due to goal incompatibility (e.g. policy regarding the handling of large accounts, required inventory levels, overlapping distributor territories, size of distributor margins, distributor's primary obligations, and loyalty), domain dissents (e.g. Populations and territories to be served, technology to be used in marketing), communication breakdown, different perception of reality and ideological differences (e.g. Return policy) (Stern and En-Ansary 1992). Still, the Chinese Government purposely seeks to improve the performance of State-owned enterprises, to attain higher efficiency and effectiveness, through the use of franchising mode. How can activities in distribution be changed when no actor has complete control of the activities and resources needed to implement the desired changes? That explains the reason why a network approach is a fruitful way to get a valid description of the context.

---

A short overview of the traditional model of distribution channels and distribution systems, followed by a general presentation of the network perspective, as such, providing an alternative. Then, we analyze the distribution from a network view. Finally, we will discuss how governance structure could trigger a series of relational behavior and its impact on business performance.

### *Traditional Model of Distribution*

Distribution has been of interest to marketing scholars for a long time. Marketing distribution channels are defined as “the system of relationships that exists between institutions involved in the process of buying and selling” (Bowersox et. al., 1980; p1). Shaw (1912) presented the first “modern” view. When studying the phenomenon, a number of perspectives were adopted, i.e., the macro-level analysis focused on the role of distribution in the economic system and intermediaries function in distribution, while the micro-perspective, which is more economic and behavior oriented, relates to the marketing channel for a specific product group as well as the management problems of channel member.

According to Aldersonian models, it is more relevant to regard channels as an organized behavioral system in distribution analysis. In fact, a number of researchers (Stern 1969, Wilkinson 1974) have considered behavioral aspects, and concepts like power, conflicts, and roles have been analyzed in numerous studies (for an overview, see Hunt and Ray 1981). Robicheux and El-Ansary (1976) argue that “much of the empirical research has focused on particular behavioral constructs in isolation” (p.13). Gattorna (1978) comments that there is a

---

need to explore entirely new avenues in an effort to achieve a more meaningful conceptualization of channel structure and mechanics (p.506).

Later on, Stern, Reve and Ardt (1980) developed the political economy framework. The major contrast to the majority of earlier models, is that the fundamental activity in marketing channels is the transaction, in other words, the act of exchange between economic actors. This approach focuses on transaction, which highlights the relationship between parties, of which a dyadic perspective is employed. In other words, studies in the political economy tradition use “organizational economics” approaches, in particular, “relational contracting” (Reve 1986). While Acrol, Reve, and Stern (1983) state that the study of inter-organizational relations in marketing channels “should probably take the form of analyzing networks instead of dyads” (ibid. p.56) since political economy studies are still “dyadic”!

## 2.2 Relationship Marketing

### *Review of Relationship Marketing*

“Relationship Marketing” has received considerable and increasing attention in general marketing literature, and in marketing practice, during the 1990s. Morgan and Hunt (1994, p22) define relationship marketing as “all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges”. This concept has been widely explored in areas such as services marketing (Berry and Parasuraman, 1991), aftermarketing (Vavra, 1992), and strategic alliances (Day, 1990). Viewing franchising from a strategic alliance and network perspective is a result of the paradigm shift in marketing -- relationship marketing. In general, franchising represents an ongoing, continuous exchange over a lengthy period of time, rather than exchanges more traditionally defined as discrete transactions. Thus, the environment between franchisor and franchisee is a venue for relational exchange to occur. Winsor and Dant (1993) appear to view franchising as a wholesaling activity when they describe the use of “backward franchising”, while McCammon (1965) classifies franchising as a form of contractual system involving forward integration; English (1993) attempts to position franchising within the distribution channel by viewing it as a wholesaling activity.

In analyzing the partnering relationship of franchising, it is important to consider their relational behavior with regards to governance structure, as “Relationship Marketing is an emergent disciplinary framework for creating, developing and sustaining exchanges of value



between the parties involved, whereby exchanges relationships evolve to provide continuous and stable links in the supply chain” (Ballantyne 1994).

'Relationship marketing is a long-term, continuous series of transactions between parties... when a good working relationship is built, negotiating time and costs are reduced and the pattern of transactions becomes more predictable and secure... in recent years organizations have seen the advantages of generalizing relationship marketing to creating marketing networks' (Doyle, 1994). This clearly bolsters the confidence of the Chinese government in initiating the concept of franchising chains and would lessen the destitute performance of state-owned enterprises in the retail market.

## 2.3 Franchise Relationships

Though it is sometimes claimed that franchising has received less attention in literature than its influence in the United States (Curran and Stanworth 1983; Hoy 1994), research activity into this marketing channel has grown substantially over the past decade as it has attracted the attention of researchers, for example, Anand (1987); Frazier and Summers (1986); Schul, Little, and Pride (1985). However, much of the work in franchising concentrated on issues like power (e.g., Lusch and Brown 1982), conflict (e.g., Brown and Day 1981), and leadership (e.g., Schul, Prode, and Little 1983) within the dyad context of franchisor-franchisee relationships.

### *Strategic Advantages*

Franchising is a method of distributing and marketing goods and services, both nationally and internationally (Campball, Lafili 1989). According to Wood and Kiecker (1995, p.3), franchising is successful as it theoretically standardizes policies and procedures across all outlets such that operations resulting in greater efficiencies are exploited. By transferring the methods that work well in one situation to another, success is duplicated. If an exchange relationship enables both parties to better achieve a competitive advantage in the market place, the relationship provides strategic advantage. The very nature of franchising allows franchisees to benefit from system-wide economies of learning and volume without expansion of her individual span of control. Franchising has traditionally been discussed as a method of improving the competitive status of the franchisor, specifically as a means of rapid expansion of market presence with minimum capital investment. Moreover, the system

---

gives traders who do not have the necessary experience access to methods which they could not have learned otherwise or until much later and allows them to benefit from the reputation of the franchisor's business name (Sixteenth Report on Competition Policy, Number 108)

### Franchising

From the extant literature review, there is a typical understanding on the practice of franchising, which is different from the typical homegrown "franchising" in China. Franchising, under a business microscope, has more than one meaning. There are two types of franchising, namely, product franchising, like Pepsi-Cola or Ford, and business format franchising, like McDonalds or Holiday Inn. The major difference lies in the investment consideration, as there is not an investment consideration for all product franchising. The most widely recognized franchising method, "business format franchising", is typified by a parent company, the franchisor, granting franchisees the right to market the franchisor's goods and services while using brands, trademarks, production techniques, business procedures, and promotional methods previously developed by franchisor. The franchisors guides franchisees in site location, employee training, facility design and physical layout, daily operation, promotion developments and advertising scheduling. In return, franchisees agree to run their businesses according to the franchisor's stipulations, which frequently are very specific and highly standardized. In most cases, franchisees are bound by contracts that give the franchisor the legal right to specify how the business will be set up, how it will be run, when it will be changed, and how profits will be split. The actual day-to-day management and some elements of ownership are granted to franchisees, where a typical contract vests most aspects of coordination and control with the franchisor (Bond and Bond

---

1993). In business format franchising, it contains two main categories, retail and service. Understandably, retail franchises may sell tangible products, like food, clothing, appliances, toys, automobile parts, or they may sell services, such as automotive maintenance repair, health programs, decorating or accounting.

Theoretically, a franchising operation is a unilateral dependence relationship: A relation which can be organized in a unilateral fashion, by means of an authority structure that provides one exchange partner with the ability to develop rules, give instructions and in effect impose decisions on the other (Hart 1990; Simon 1991). Normally, franchising contracts contain unilateral specifications of standard operating procedures, incentives systems, monitoring mechanisms, and termination clauses (Rubin 1978, 1990). Needless to say, there are norms and standards of behavior that distinguish a relational exchange during the exploration phase of relationship development (Dwyer et. al., 1987), that evolves. Once franchising system parties unite and pass through their honeymoon period, norms, which did not exist prior to, or at the outset of, their relationship will emerge.

As an alternative method of distribution and business expansion, franchising has been increasingly developed over the past 40 years. According to Mendelsohn (1992b), this business format franchising has become established in 140 countries where it is in varying stages of development depending upon the economic, cultural, and legislative environments, and it has been developing in western economies for more than 130 year. Remarkably, it has become a mature industry in the United States, and also well established in many other countries. In the United States, it takes into account retail sales e.g. Wal-Mart in 1994 has a

---

sales figure of USD80 billion. In Australia, the total turnover of the franchising sector was \$42.7 billion for the 1993-94 financial year. IBIS Business Information estimates franchising will go on to account for over 60% or more of Australia's GDP in the late 21<sup>st</sup> century. Most inspiring, Arthur Andersen (1993) revealed that the success rate of franchises in the first year of business was 76.5% compared to 33.36% for small business in general. According to the statistics of the USA Department of Commerce, less than 5% of franchisor-owned outlets have been discontinued or have failed since 1971 – a 95% success rate!

Franchising has been increasingly utilized as an alternative method of distribution and business expansion over the past decades. Now, we see is the development in China; where continuous economic, political reform, and a unique cultural environment challenge the fundamental franchising relationships. It is contended that the retail market is undergoing a metamorphosis as new relationships emerge.

## 2.4 Governance Mode

Traditionally, governance has been defined very broadly as a “mode of organizing transactions” (Williamson and Ouchi 1981). In fact, governance is a multidimensional phenomenon, encompassing the initiation, termination, and ongoing relationship maintenance between a set of parties. Essentially, governance includes elements of establishing and structuring exchange of relationships as well as aspects of monitoring and enforcement (Heide, 1994).

The analysis of governance forms by Heide (1994) highlights some basic strategies for establishing and managing channel relationships. For example, to obtain certain behavior from franchisees, a franchisor fundamentally can choose between crafting an appropriate incentive structure by means of some combination of initial fees and royalty payments (Rubin 1990), developing a hierarchical system of rules and ex post monitoring (Stinchcombe 1985), selecting compatible channel members who subsequently can be subjected to socialization efforts (Ouchi 1979), or creating enforcement devices by means of requiring franchisees to make investments in brand-specific capital (Klein 1980).

Heide (1994) has classified these various forms of governance into three categories. Market governance relies primarily on the design of an incentive structure for obtaining certain behavior, whereas hierarchical and bilateral governance relies on a combination of rules and monitoring and socialization efforts, respectively.

Firstly, market governance is viewed as synonymous with the concept of *discrete* exchange (Goldberg 1976; Macneil 1978), whose distinguishing feature are well illustrated in Dwyer, Schurr, and Oh's (1987, p12) example of "a one-time purchase of unbranded gasoline out-of-town at an independent station paid for with cash."

Non-market governance is a heterogeneous phenomenon. Different relationship management strategies are appropriate for managing inter-firm relationship under different conditions. In *hierarchical and bilateral* exchange, the non-market governance approach can be explained in terms of organization theory -- Resource Dependence Theory (Pfeffer and Salancik 1978); institutional economics -- Transaction Cost Theory (Williamson 1975, 1985); contract law -- Relational Contracting Theory (Macneil 1978, 1980); and the Social Exchange Theory (Emerson 1962; Thibaut & Kelly, 1959).

Non-market governance mode seems to provide a more comprehensive view of the market structure, especially in China, which is said to be a person-governed country instead of a country governed by the rule of law. Relational behavior in franchise chains is likely to be influenced by the governance structure. It is partially true that, if there is undesirable policy from a higher level, there will be a counter measure at a lower level. Therefore, any investigation of this type of governance will provide a background for us to better interpret the relational behavior that has been adopted by franchisors and franchisees in China.

---

# Chapter 3

## Conceptual Framework

---



## **Chapter 3      Conceptual Framework**

### **3.1      Introduction**

A number of studies have attempted to model the close, interactive relationships between supplier and purchaser. The relationship development model (Dwyer, Schurr, and Oh, 1987) emphasizes the on-going features of a buyer-seller relationship and highlights the relational elements of buyer-seller exchange. It also provides sufficient generality to cover both inter-firm and firm-consumer relationships. The study of partnering relationship activities by Wilson and Vlosky (1997) provides insights using the case study approach. The issue of inter-organizational governance is examined in Heide (1994), where three different forms of governance are used to describe inter-firm relationships. The study of governance forms is an integral part of the analysis of basic strategies for establishing and managing channel relationships. Besides these studies, the work of Noordewier, et al. (1990), and the general model of interdependency, contracting and relational behavior in marketing channels (Lusch & Brown, 1996), stresses the importance of relational exchange with respect to normative contracts. Other studies in this research stream include Buchanan (1992), Ganesan (1994), Gundlach and Cadotte (1994), Heide (1994), and the study by Gassenheimer & Calantone (1994).

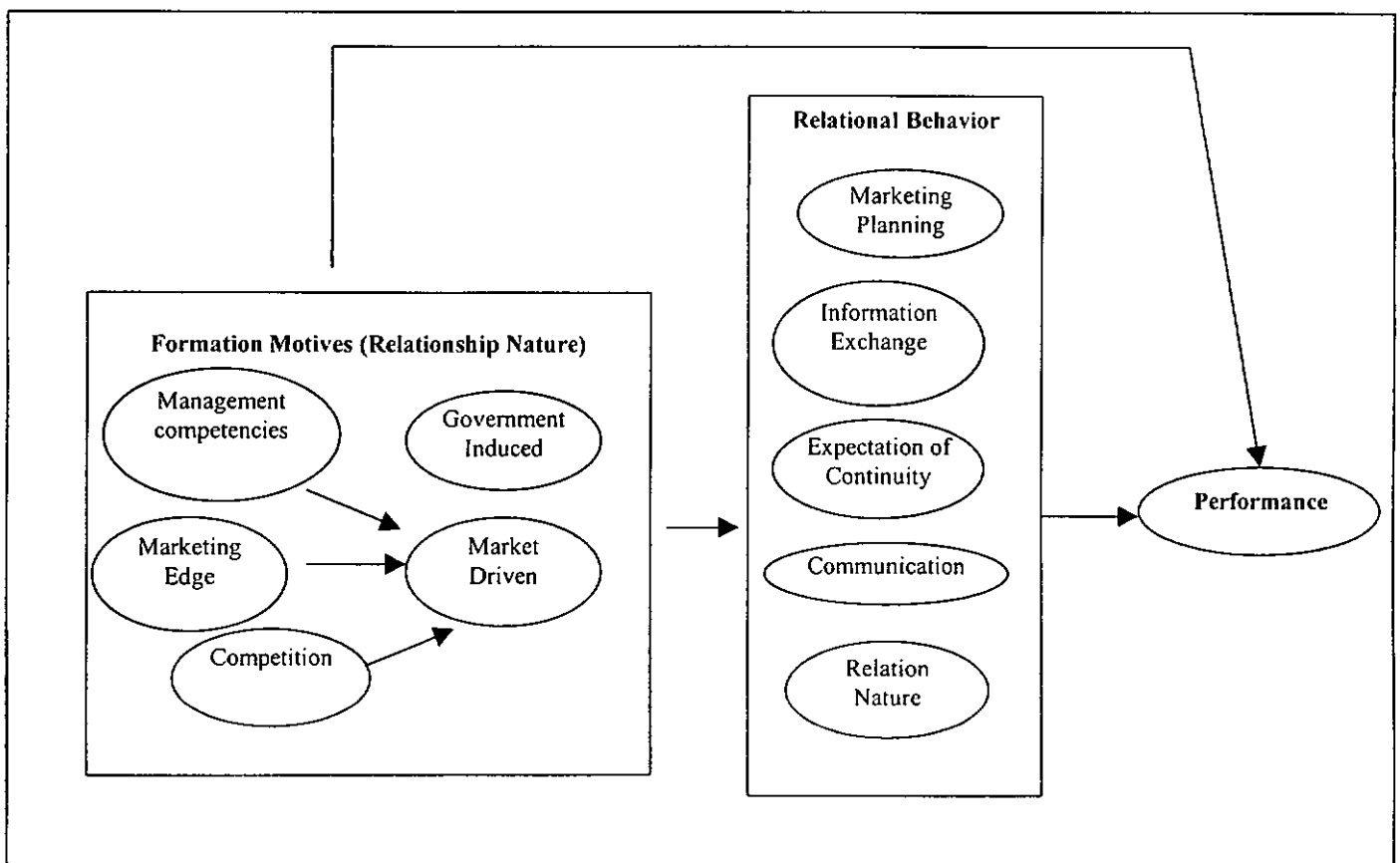
Drawing from the aforementioned theoretical and conceptual models in the literature, a conceptual framework is developed to empirically illustrate the impact of relational behavior on performance in the China retail sector.

A conceptual framework for the development of dyadic partnering relationship in Chinese-style franchising is displayed in Figure 3.1. The framework focuses on two important relationships. First is the relationship between the formation motives and partnering level, which is indicated by the relational behavior. Here, the influence of two major formation motives (i.e. government induced and market driven) on five specific relational behaviors (Heide & John, 1992; Kanfmann & Dant, 1992; Kozak & Cohen, 1997; Lewin & Johnston, 1997; Lusch & Brown, 1996; Noordewier et. al., 1990; Wilson & Vlosky, 1997) is examined. This part of the framework explicitly recognizes franchisees' driving forces as important variables influencing franchisees reactions to join the chain business and various opinion on franchisor behavior, where the partnering level of franchisor-to-franchisee is shown to influence the retailer performance. Second is the relationship between relational behavior and performance (Lusch & Brown, 1996; Noordewier et al., 1990), including the marketing goal achievement (e.g. customer satisfaction, labor profitability, market position and service standard), business performance (e.g. sales growth, profit growth, overall profitability, procurement accessibility, and store image), and operation (e.g. operation efficiency, supplier selection, and coverage). By incorporating these two relationships, where the inter-relationships of franchiser and franchisee are theorized to influence the overall performance, this framework presents a preliminary view of partnering relationship other than that examined in the existing franchise management literature. Finally, under the market environment of China, a comparison of the performance levels under the two formation situations is analyzed. This paper does not purport to explore all possible relationships nor all causal directions of relationships that might exist within formation motives, relational behavior, and performance. In other words, it is not considered that there is any feedback

---

loop relationship between the formation motives, relational behavior, and performance. Instead, this paper concentrates on those relationships are of particular interest to partnering relationship, especially the type that has been a phenomenon in China retailing in 1990s. To facilitate illustration, the relationships are depicted in the diagram below (Figure 3.1), with the variables being examined in the following section.

Figure 3.1 Conceptual Framework showing the Dyadic Partnering Relationship in Chinese-style Franchising



### 3.2 Partnership

Partnerships are defined as purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence. Partnerships may be in horizontal (between suppliers) or vertical form (between suppliers and buyers). In this study, a horizontal partnership between retailers or distributors is examined.

In the case of China, the existence of the market-driven partnering relationship can be explained by “Firms join partnerships for the purpose of achieving goals that individual firms could not attain easily. These alliances and partnerships are motivated primarily to gain competitive advantage in the marketplace” (Mohr and Spekman, 1994). The partners seek expansion and a better management approach.

The other basic type of partnering relationship is that induced by government. The government’s intention in developing this type of franchise chain is, presumably, to provide all the support necessary to ensure a high level of partnering relationship among the franchising partners. This is simply because the chain is formed mainly due to the impact of government, by appointing one of the retail shops as leader to centralize all merchandise purchasing, without considering whether other member stores were willing to join the chain, therefore conflicts are inevitable among member stores, as they all have their own sources of suppliers. This will, in turn, affect the efficiency and effectiveness of operation. Therefore,

we postulate that government-induced partnerships exhibit a lower level of partnering than market-driven partnerships and as such, will result in a poorer performance.

Consider that the level of partnering is affected by environmental uncertainty (i.e. an unanticipated change in circumstances). In the case of China, government policy and intervention in the market such as tax reduction or compulsory linking up with some parties to form a chain, can positively or adversely affect both the partnering level and performance. According to Duck (1991), a relationship only begins when both parties are interested in forming such a relationship. Therefore, we can assume that both parties must be interested in, and willing to, participate in forming a relationship. If coercion can be proved, the marriage will be annulled and a number of dysfunctional relationships can be inferred (Tynan, 1997).

Judging from the above, government-induced partnerships might not have a positive impact on operation and the following hypothesis is therefore developed to validate the hypothetical relationship between government-induced and market-driven relationship.

- 1A: Government-induced partnerships exhibit a lower level of relational behavior than that of market-driven partnerships.
  - 1B: Market-driven partnering relationship is associated with a higher level of relational behavior than government-induced partnering relationship.
  - 2: There is a positive correlation between the level of relational behavior and the business performance of franchise chains.
-

### 3.3 Relational Behavior

Relational behavior has relevance because it deals with more than just attitudes or feelings, but rather with actions taken in a channel setting (Lusch & Brown 1996). In the present study, four dimensions of relational behavior will be considered. Since they are unobservable constructs, an inventory of representative activities supported by Wilson and Vlosky (1997) will be used for measurement. These activities include measures of the level of marketing planning, expectation of continuity, communication, and information exchange.

#### 3.3.1 Marketing Planning

Shared planning and strategies that facilitate mutual cooperation and coordinated activities (Narus and Anderson, 1987) characterize successful partnerships. It should therefore hold that there is a positive relationship between the joint marketing planning effort, the partnering level of the relationship, and business performance, and giving rise to the following hypothesis:

- 3: There is a positive relationship between the level of joint marketing planning among franchising partners, and the level of business performance of franchise chain.

#### 3.3.2 Expectation of Continuity

Morgan and Hunt (1994), along with Gundlach, Achrol, and Mentzer (1995) highlight the crucial role of commitment for successful relationship marketing. Here, commitment refers to the strength of a firm's business ties with its channel members. Without strong business

---

ties, the motivation necessary for members of a channel relationship to work closely together is unlikely to be present (Kim & Frazier, 1997).

According to Wilson and Mummalaneni (1988), commitment is determined by multiple factors and can be viewed as the dedication to the continuation of a relationship. It can be measured as the behavioral intention regarding continued participation in the relationship and the inverse probability of leaving the relationship.

While Anderson and Weitz (1992) define commitment as “the adoption of a long-term orientation toward the relationship” and propose that mutual commitment result in channel members working together to serve end-customer needs better and increase mutual profitability beyond what either member could achieve operating independently.

John and Nevin (1990) found that performance in buyer-seller relationships is enhanced with a strong continuity expectation. While Noordewier et al., (1990) holds the view that continuity expectation makes more effective adaptation to uncertainty. Thus, as postulated, there seems to be a positive correlation between the level of partnering relationship and continuity expectation and performance outcomes.

- 4: There is a positive relationship between the level of continuity expectation and the level of business performance of franchise chain.

### 3.3.3 Communication

Communication and bargaining is described as the willingness to negotiate to reach a position where each party is able to achieve benefits greater than the burden and obligation to remain a party to the relationship (Dwyer, Schurr, and Oh, 1987). It provides the means by which channel activities are coordinated (Stern and El-Ansary, 1990). Mohr and Nevin (1990) suggest that partnerships rely on higher frequency and more bi-directional flows. Narus and Anderson (1987) suggest that maintaining multiple communication levels between the distributor and supplier is important as a means of enhancing understanding. They imply that communication affects coordination, “the frequency and quality of information exchange ... [affects] the degree to which the parties understand each other’s goals and coordinate their efforts to achieve those goals.” This view assumes that more communication will facilitate a better understanding among franchising parties. A better partnering relationship will then give rise to a better business performance.

- 5: There is a positive relationship between the degree of communication flows among franchising partners and the level of business performance.



### 3.3.4 Information Exchange

Feedback and mutual participation in goal setting are important aspects of communication (Grabner and Rosenberg 1969; and Guiltinan, Rejab, and Rogers 1980). All these can be reflected through information exchange activities, such as allowing access to computer files for manufacturer and distributors, use of electronic data interchange, and frequency of exchange. In China retailing, barcode systems and electronic databases have already been implemented in most department stores and retail shops to speed up and accurately monitor the ordering system to ensure on-time delivery. All these ensure timely information flow among member stores. In such cases, it is theorized that partnering relationships will be enhanced with higher levels of information exchange and better performance will then result.

- 5: There is a positive relationship between the level of information exchange and the level of business performance.

### 3.4 Performance

According to our proposed framework, performance is treated as a dependent variable, which can be measured with a number of indicators of both a financial and non-financial nature.

Performance represents the last variable in the framework. As shown, performance depends upon the condition of forming the chain business and relational behavior. Past research argues that performance is influenced by franchisee satisfaction, for example, Lusch (1976b) theorized channel satisfaction to be a major determinant of the performance of the channel operation. In fact, franchisee satisfaction as suggested by Hunt and Nevin (1974), would lead to higher morale, greater cooperation, lower absenteeism, higher commitment, fewer terminations of contracts, and reduced efforts to seek protective legislation. In our framework, performance is measured by such attributes as sales growth, profit growth, overall profitability, customer satisfaction, store image, market position, service standard, procurement accessibility, operation efficiency, labor profitability, supplier selection, and geographic coverage (as chain operation aids to get sufficient market coverage by interacting with a substantially larger number of retailers).

Parallel to the argument presented above, when a franchisee joins a chain operation in a particular condition involving a series of relational behaviors, then a partnering level is set in a motion that may ultimately lead to high or low performance. This relationship is advanced by the proposition of H1B, which stated as “Market-driven partnering relationship is

---

associated with a higher level of relational behavior than government-induced partnering relationship. In other words, under conditions of market-driven and high partnering level, retailer performance will be positive”.

---

# Chapter 4

## Method

---

## **Chapter 4      Method**

### **4.1      Introduction**

This research was undertaken to understand the characteristics of retail chain operation in China, with regard to their formation, operation and underlying motivation. Research here is intended mainly for the purpose of describing the characteristics of certain groups; estimating the proportion of people in a specified population who behave in a certain way, making specific predictions or discovering relations and interactions among variables (Sekaran, 1992). Another purpose of this study was an attempt to assess the partnering relationship of homegrown franchising chain in China.

### **4.2      Unit of analysis**

The research was conducted in a non-contrived setting with minimal interference. The basic method of data collection consisted of a field study to examine the behavior and perception of franchising chain retailers. The data was collected over five months at the store level, that is the unit of analysis was the individual chain retailer. The individual store rather than the chain was selected because one of the key variables of interest in this study, the retailer's motivation in joining the chain, is a function of circumstance and ought to vary from store to store. Each store not only has different joining motives, but also different participation requirements. It is quite possible that, even within the same chain and selling similar products, not all participating stores became part of the chain due to the same motivation. A store in Nanning may join the chain induced by government subsidies like tax relaxation,

while another store in the same chain may consider the good reputation of the chain as a motivating factor. Therefore, to minimize the high, expected variance within the same chain, store-level analysis was employed. The data collection process of the research consisted of three stages, namely, a preliminary study, a pretest of the questionnaire and the questionnaire administration.

### 4.3 The Preliminary study

The design of this study utilized the framework developed by Wilson and Vlosky (1997), Lusch and Brown (1996), and Heide (1994). The research instrument used to gather data in this study was a written questionnaire. In constructing the questionnaire scale items, relevant literatures and survey instruments developed in past studies were analyzed at the stage of exploratory research. The formation motivation measures examined in this study stem from structured discussions with some Chinese purchasing professionals and also some refinements of criteria used in existing literature were made. The measures on relational behavior were derived from a synthesis of key relational behavior measurement studies discussed in the literature. Interviews with Chinese retail personnel also facilitated item development. The performance measures examined in the last section of this study were made after consultation with some Chinese purchasing professionals, coupled with an integration of performance measurement studies discussed in the earlier literature, where issues such as strategic purchasing planning, just-in-time strategies, and supplier partnering have all been studied with respect to required purchasing performance measurements (Fearon, 1987). The items used in Part Two and Three mainly consist of Likert scales.

Originally, the Likert scale was developed to measure attitudes, but these psychological scales have been used to measure behavior as well as attitudes (Wrenn, 1997). Here the Likert-type scale was used to obtain responses to a set of item statements describing the relational behavior domain, which consisted of commitment, communication, information exchange, joint planning, performance review, and expectation of continuity. The purpose was to assign scores to the subjects. Using this preliminary questionnaire, personal interviews were held by approaching a group of chain retailers in Guilin. A list of formation attributes and motivations were shown to four chain retailers for comments to see if any attributes should be added or refined in this study. During the interviews, respondents were free to discuss what evaluative criteria were considered in their decision for joining the chain, key changes and issues in the reform of the retail sector, and chain store development with reference to the frequency of being mentioned by sampled retailers. Then, a comprehensive set of attributes presented in descriptive sentences was used to constitute a more accurate representation of the Chinese franchising setting. In fact, the main purpose was to check the questionnaire for clarity and ease of completion, as well as to collect other relevant information for improvement and modification of the questionnaire. After reviewing the feedback and advice from the preliminary study, some redundant and irrelevant attributes were eliminated, with other questions rephrased and modified to become more in tune with the languages used in Mainland China.

#### 4.4 Pretest

Prior to the actual survey, a pretest was conducted. In the pretest stage, five retailers were selected, using convenience sampling, to answer the questionnaires in Nanning. In this manner we could examine whether any modifications to the survey instrument were necessary before conducting large-scale data collection. The objectives of the pre-test were to ensure the consistency of questionnaires, refine the procedures for the actual survey, examine the validity of this study, estimate the time required to complete the survey questionnaire, and the length of time for questionnaire turnaround.

#### 4.5 Questionnaire Survey

Finally, actual data collection began in July 1998. Personal interview, allowing for direct contact between respondents and interviewers, was adopted for this study since it provides an opportunity for interviewers to clarify and control the representativeness of the study. The final version of the questionnaire was divided into four sections, as shown in the Appendix. Generally, each interview lasted 30 minutes. Both closed and open-ended questions were included, aiming to solicit information concerning the impact and future direction of franchising chain development in China.

The first section, consisting of eleven questions, was included to collect information on organizational demographics, such as the nature of the business, ownership type, operation scale, duration of the partnering relationship and its nature, familiarity level of partners, selection criteria of franchisers, and the expectation of marketing roles from franchisors.

---



The second section was designed to examine the formation of retail chains and important attributes in the partnering relationship. Respondents were asked to indicate the extent, to which they agreed with 16 statements regarding the various incentives for retail chain development. Each statement was assessed using a 7-point Likert scale, ranging from “strongly disagree” (1 point), “disagree” (2 point), “slightly disagree” (3 point), “neither agree nor disagree” (4 point), “slightly agree” (5 point), “agree” (6 point), and “strongly agree” (7 point). This was followed by a question recording the motivation of partnering relationships. The importance of each attribute was measured on a 5-point Likert scale ranging from “not important at all” (1 point), “below average importance” (2 point), “average importance” (3 point), “above average importance” (4 point), “very important” (5 point). Respondents were required to rate the dimensions according to the extent of importance of these motivation factors in inducing them to participate in the partnering relationship.

The third part of the questionnaire consisted of questions about the respondent’s routine partnering activities, which were for the purpose of collecting information about their behavior within the partnership. A set of 33 statements was used, for each behavior under investigation borrowed from a previous study. The items and scale formats were based on previous items developed by the list of researchers shown in Table 4.1. Each scale had undergone previous measure investigations, and as noted by Churchill (1974), borrowed scales tend to have higher reliability values than newly developed ones. Respondents rated each statement along a 7-point continuum. We mostly employed 7 point scales since they are believed to have a higher reliability value compared to the normal range of 5 scale points.

---

Nunnally (1978) suggests that variance increases with the number of scale points and greater variance generally increases reliability. The responses could range from “strongly disagree” (1 point), through “disagree” (2 point), “slightly disagree” (3 point), “neither agree nor disagree” (4 point), “slightly agree” (5 point), “agree” (6 point), to “strongly agree” (7 point). The purpose of these scales was to measure the working relationship between the principal/ franchiser and the franchisee.

The last part of the questionnaire, comprising fourteen questions, focused on evaluating the performance of the retail store. Apart from some forced choices, neutral point scales were adopted to allow respondents to express their feelings toward the subject of inquiry. Attention was focused on how franchisees perceived the working relationship, their contributions to relationship quality, and the ways in which the partnering relationship could be improved. In this manner, the overall goal was to critically examine the problems of franchising chain development within China.

Table 4.1 Multi-item Scales

Scale measurement	Sources
<i>Marketing Planning</i> (7 items, 7-item Likert scale, "strongly disagree – strongly agree")	Adapted from Noordewier, et. al. (1990), Kozak & Cohen (1997), Wilson & Vlosky (1997)
1 We are willing to put considerable effort and investment into building our business with the principal/ franchisor	
2 A comprehensive quality training is regularly conducted for our personnel	
3 The relationship we have with the principal/ franchisor makes use of many controls	
4 We conduct joint marketing planning with the principal/ franchisor	
5 A written marketing plan embraces all the requirement binding our relationship	
6 There is an agreement on the overall marketing objectives	
7 Joint programs are launched to market the chain's products	
<i>Performance review</i> (2 items, 7-item Likert scale, "strongly disagree – strongly agree")	Adapted from Wilson & Vlosky (1997)
1 We conduct annual performance review with the principal/ franchisor	
2 Our performance is assessed through a formal evaluation program	
<i>Expectation of Continuity</i> (6 items, 7-item Likert scale, "strongly disagree – strongly agree")	Adapted from Noordewier, John & Nevin (1990) and Lusch & Brown (1996)
1 Our relationship with the principal/ franchisor is expected to last for a long time	
2 The relationship we have with the principal/ franchisor is essentially "evergreen"	
3 Our relationship with the principal/ franchisor is a long term alliance	
4 We expect our partnering relationship to be maintained at the existing level	
5 Our relationship will get a great improvement	
6 We would like to get rid of the relationship	
<i>Communication</i> (4 items, 7-item Likert scale, "strongly disagree – strongly agree")	Adapted from Lewin & Johnston (1997), Wilson & Vlosky (1997)
1 We have regular meeting with the principal/ franchisor	
2 Accurate, timely communication is a key to our relationship maintenance with the principal/ franchisor	
3 We are committed to improvements that may benefit relationships with our principal/ franchisor as a whole and not only ourselves	
4 We have frequent telephone communication with the principal/ franchiser	

Scale measurement	Sources
<p><i>Information exchange</i> (6 items, 7-item Likert scale, “strongly disagree – strongly agree”)</p> <ol style="list-style-type: none"> <li>1 Exchange of information in this relationship takes place frequently and informally, and not only according to a prespecified agreement</li> <li>2 It is expected that we keep each other informed about events or changes that may affect the other party</li> <li>3 It is expected that both parties will provide proprietary information if it can help the other party</li> <li>4 In this relationship, it is expected that both parties respect the confidentiality of the information shared and neither of us is expected to withhold important information</li> <li>5 We always provide information that might help our principal/ franchisor to plan</li> <li>6 We share information with the principal/ franchisor that we would not have shared before the partnership program was implemented</li> </ol>	<p>Adapted from Heide &amp; John (1992); Heide &amp; Miner (1992); Kanfmann &amp; Dant (1992); Noordewier et al., (1990); Kozak &amp; Cohen (1997)</p>
<p><i>Flexibility</i> (3 items, 7-item Likert scale, “strongly disagree – strongly agree”)</p> <ol style="list-style-type: none"> <li>1 Flexibility in response to request for changes is a characteristic of this relationship</li> <li>2 The parties expect to be able to make adjustments in the ongoing relationship to cope with changing circumstances</li> <li>3 When some unexpected situation arises, both parties would rather work out a new deal than hold each other to the original terms</li> </ol>	<p>Adapted from Heide (1994); Heide &amp; John (1992); Heide &amp; Miner (1992); Noordewier et al., (1990)</p>

## 4.6 Questionnaires Administration

### 4.6.1 Sampling Plan

The target population of this survey was chain retailers in the Mainland China, but a current, accurate list of appropriate stores was not available, which raised the difficulty of establishing a relevant sampling frame. Therefore, convenience samples of the non-probability sampling technique were used in this study. Presumably, all respondents were franchisees or member stores, who had partnering relationship with franchisor or principal. They could be of any ownership type, like state-owned, privately-owned or collectives. The chain operation could be at the national or provincial level. In the case of national level, any retail chain that had at least one or two retail outlets were accepted in our study. For the provincial level, any retail chain that had less than three retail outlets in the same province were not qualified and so not considered in this study. However, for those retail chains that consisted of more than ten retail outlets, a maximum of three retail outlets were drawn for investigation. Those retail outlets that had less than five permanent staff are not considered in the study. The desired sample was a heterogeneous set of retailers, drawn from the spectrum of industries in China in this study because the homegrown franchising business is still at an early stage of development in China.

### 4.6.2 Sample Distribution

To minimize regional and provincial bias in China and in order to increase the geographic coverage of retail outlets in the sample, four regions, namely Beijing, Tianjin, Chongqing and Nanning were selected for investigation in this survey. (Appendix) The major reason of selecting these four provinces was because the chosen cities are very typical and representative in that they are regarded as first-tier cities under the classification scheme of the State Statistics Bureau (1998). Therefore, they reflect the considerations of: (1) the possible impact of economic development on franchising operation, and (2) regional differences in management styles in respect to the following characteristics depicted in Table 4.2 and to be elaborated on further.

Beijing, being the nation's capital and, hence, the political and commercial center, is the source of information and policies on reform. Tianjin is a major retail and wholesale center in northern China and has been one of the major open cities gradually developed. These two cities together provide a picture of franchising development in northern China. Chongqing, a strategic economic development city, is also included in our study. Nanning is an ideal city for which to run various distribution reform programs on an experimental basis since franchising outlets were introduced in Guangxi by 1997. It is worthwhile to examine this southern inland region as franchising outlets in Guangxi are being developed at a faster pace than those in Shanghai and Wuhan. All these help to maximize what we can learn in relation to the recent changes in government franchising policy, and they also allow us to examine any new problems that may be encountered among franchising firms in China.

Table 4.2 General Profile of the selected Four Regions

Region	Tianjin	Beijing	Chongqing	Nanning
	A municipality directly under the central government administration	Capital of the PRC, and the country's political, cultural and international exchange center	In 1983, one of the first batch of independent cities to carry out comprehensive economic reforms	Capital of the Guangxi Zhuang Autonomous region
	Since 1985, opened to foreign investors and enjoy preferential economic policies	One of the four centrally administered municipalities along with Shanghai, Tianjin, and Chongqing, enjoy similar autonomy in economic, financial and administrative decision-making as a province	In 1997 March, become the fourth centrally administered municipality	
		China's second largest retail center after Shanghai	Represents one of the breakthrough of China' initiative to speed up economic development of the central and western regions	
Retail sales of consumer goods	Rmb 58.7 billion (+9.7%) in 1998, accounting for 2% of the national total	Rmb 116.7 billion (+12.9%) in 1998, accounting for 4% of the national total	Rmb 55.4 billion (+15.3%) in 1998, accounting for 1.9% of the national total	Guangxi: Rmb 73.4 billion (+10.2%) in 1998, accounting for 2.5% of the national total Nanning: Rmb 11.5 billion (1997) Guilin: Rmb 4.6 billion (1997)
		Sales by chain stores recorded Rmb 10 billion, accounting for 8% of the municipality's total retail sales of consumer goods		
Population (mn)	9.6	12.5	30.6	Guangxi: 46.8 Nanning: 2.8 (1997) Guilin: 1.3 (1997)
Per capita GDP(Rmb)	14041	18423	4686.3	Guangxi: 4688 Nanning: 23.2 billion Guilin: 10.5 billion

### 4.6.3 Respondent Selection

Past findings indicate that careful selection of informants in conjunction with the use of internally consistent multi-item scales can provide reliable and valid data in a variety of channel settings. Other studies (Phillips 1980, 1981) have also shown that informant data are generally more reliable in the reporting of concrete and observable phenomena. Therefore, in order to achieve a solid representation of chain retailers across a number of different industries, sampled retailers were selected and qualified as key informants according to the criteria set forth by Campbell (1955), Phillips (1981), and Brown and Lusch (1992). Those respondents from middle to senior ranks of the organization, who were in a good position to know about both the firm's environment and chain operations, were interviewed. The respondents had access to the desired information and were knowledgeable about economic and structural reforms of chains and willing to communicate with researchers. They were informed about the purpose and methodology of the study and asked for their cooperation and support. One informant per retailer was considered sufficient for relatively small organizations, consisting of only ten employees on the average. The pilot study revealed that in almost all cases, the owner makes virtually all the decisions and there is no other knowledgeable informant within the store, while for larger retail stores, the top manager is usually the key spokesman. Each respondent was asked to fill out a ten-page questionnaire. The response rate per retail store was virtually 100% as our Chinese collaborators followed up the whole process. In total, 106 completely usable responses out of 124 questionnaires were returned and made available for model estimation. Eighteen sets of questionnaires were not included due to data incompleteness.



#### 4.6.4 Actual Run

Questionnaires were sent to the designated regions, Beijing, Tianjin, Chongqing and Nanning, where four major contacts selected who acted as our collaborators in their respective region. Each of them was briefed on the criteria for sampling and asked to conduct face-to-face interviews, only with those retail chain store managers who met the criteria set before. Careful monitoring by the researchers and our Chinese collaborators ensured that the guidelines were met. A total of 124 retail outlets were personally contacted and participated in this study. After editing, 106 copies were found to be qualified for model analysis.

#### 4.6.5 Data Analysis

The construct validity of a measurement refers to the extent to which an operationalization of a construct actually measures what it purports to measure (Zaltman, Pinson and Angelman, 1973). In this study, item-total correlations and common factor analysis were used to assess the internal consistency of scale items by calculating the coefficient alpha and dropping items with very low item-to-total correlations. Nunnally (1967) suggests that reliabilities over 0.5 are adequate for basic research. Nunnally (1978) also suggests 0.7 as the adequate level. The impact of low reliability is to attenuate correlation, biasing results toward insignificance. The hypotheses were tested empirically in the context of relationships between franchisors/ principals and their franchisees/ member stores.

### *T-test*

Independent samples t-test was performed in this study to identify the mean difference of formation motives between two groups of respondents, market-driven and government-induced. Besides, how the southern and northern parts of respondents differ in their behavior pattern and formation motives were also examined.

### *Factor Analysis*

Factor analysis can be used to analyze the inter-relationships between a large number of variables in terms of their common underlying dimensions (factors). The purpose of factor analysis is to reduce a data set with  $n$  variables to a smaller number of significant variables called factors (Green, Tull, and Albaum). Hair et al. (1992) stated that this statistical approach involved finding a way of condensing the information contained in a number of original variables into a smaller set of dimensions (factors) with a minimum loss of information. In this study, based on the 106 qualified responses, principal component factor analysis, which provides a unique solution as it looks at the total variance among the variables, with varimax rotation was employed to, identify the underlying data structure of the partnering formation motives and relationship natures, as well as respondents' perception on relational behavior. Then, it is possible to do further analysis with the factor analysis results, with the most common method being to use factor scores based on the factor structure. Since the results of a factor analysis can be strongly influenced by the presence of error in the original data, Hair et al. (1992) recommend using factor scores if the scales used to collect the original data are "well-constructed, valid, and reliable" instruments.

*Regression*

The goal of regression analysis is to obtain estimates of the unknown parameters  $\beta_1 \dots \beta_k$  which indicate how a change in one of the independent variables affects the value taken by the dependent variable. Application of regression analysis exists in almost every field, such as economics, political science, sociology, psychology and education. In this study, in order to develop further insights into the impact of the various relational categories of predictions on the retailer performance and different motivations on the behavior pattern, we ran a series of regression analyses. First, the underlying formation motives were regressed on each of the five categories of behavioral predictors. Then, a regression analysis was conducted so that the incremental contributions used to explain the variance of each of the five categories of behavioral predictors could be examined (Cohen and Cohen 1975).

After identifying the underlying factor of the formation motives and the dimension of relational behavior, the factor scores were used as the testing variables on the differences between different groups of respondents on their formation motives and relational behavior in the partnering relationship.

Moreover, to examine the extent that formation motivation and perception of relational behavior were related to the performance of a retail store, simple regression was performed. Factor scores of four formation motives and five dimensions of relational behavior were used as independent variables. Thus, regression analysis was used to test how each individual independent variable contributes significantly to the dependent variables.

---

#### 4.7 Research Assumptions

The responses to the instrument were honest and candid expressions of true feelings and attitudes of respondents.

The instruments were effective measurement tools for collecting information on relational behavior and how respondents regarded “chain” operation as an administrative duty.

---

# Chapter 5

## Research Findings

---

## **Chapter 5      Research Findings**

### **5.1      Introduction**

This chapter presents findings from the data collected by means of questionnaire and is shown in the Appendix. The questionnaire used in this study was designed with the following objectives in mind:

- ✧ To establish the reasons for forming a domestic retail chain, whether government-induced or market-driven. Within the market-driven regime, further refinements are considered.
- ✧ To determine whether there is any correlation or relationship between government-induced or market-driven motives and a list of critical relational behaviors.
- ✧ To determine the performance of retail chains and compare whether market-driven chains are outperformed by government-induced or vice versa.

In addition, some questions, relating to major objectives of the study, are included as secondary objectives. The aim of these questions is:

- ✧ To examine whether there is any government intervention in the partnering relationship.
- ✧ To identify problem areas in China retail operations.

There are two main sections in this Chapter. The first section starts with the demographic details of the surveyed retail stores and includes a discussion of the motives that the stores admit to for entering a franchise chain. The result is a profile of the units analyzed in this study and a categorization of these stores. In section two, we present the results of the tests

of the hypotheses in the proposed framework as outlined previously. SPSS (7.0 for Windows) was used for all data analysis.

## 5.2 General Findings

### 5.2.1 Organization Demographics

In total, 106 interviews were completed in four provinces in China, namely Chongqing and Nanning, representing the southern and central part of China; and Beijing and Tianjin from the north. A brief summary of the general characteristics of the respondents in the survey is presented in Table 5.1.

*Table 5.1 General Characteristics of Respondents*

<i>Characteristics</i>	<i>Frequency (N)</i>	<i>Percent of Sample n=106</i>
Region:		
Nanning	23	21.7
Chongqing	18	17
Beijing	33	31.1
Tianjin	32	30.2
Ownership structure:		
State-owned	50	47.2
Collectives	11	10.4
Private-owned	21	19.8
Share-holding	8	7.5
Foreign-invested	3	2.8
Joint venture	13	12.3
Operation scale:		
Number of full-time staff		
Less than 5	12	11.3
6-11	41	38.7
12-17	16	15.1
More than 17	37	34.9

<i>Characteristics</i>	<i>Frequency (N)</i>	<i>Percent of Sample n=106</i>
Number of retail outlets		
Less than 3	11	10.6
4-7	30	28.8
8-11	22	21.2
More than 12	41	39.4
Relationship nature:		
Franchising chain	20	18.9
Direct-chain operation	68	64.2
Voluntary chain	17	16
Type of retail institution:		
Food-oriented retailer	30	28.3
General merchandise	63	59.4
Service-oriented	12	11.3
Length of business relationship with franchisor		
Less than 5 years		75.3
5-10		10.3
10-20		4.6
More than 20 years		6.5
Total monthly sales revenue (RMB) in 1998		
Below 250000		48.5
250001-500000		23.2
500001-750000		9.1
Above 750001		19.2
Selection criteria of franchisor		
Company reputation		30.5
Future development potential		20.8
Partner's quality (enthusiasm)		29
Financial support		19.4
Product variety		23.9
Well-developed distribution network		21
Familiarity level with franchisor		
Very familiar		40.6
Familiar		36.8
Moderately familiar		12.3
Unfamiliar		10.4



*Type of retail institution*

For the sake of analysis, the retail institutions were examined from the perspective of store-based retail strategy mix, and service versus goods retail strategy mix. More specifically, three major categories are food-oriented retailers, which accounts for 28.3%, general merchandisers, which takes up 59.4%, and service-oriented retailers amounting to 11.3%. As shown in Table 5.1, the sampled respondents covered a wide variety of stores of different sizes and business categories.

*Ownership structure*

Of the 106 surveyed retailers that provided information about their ownership structure, 47.2% are state-owned enterprises, 10.4% are collectives, 19.8% are privately-owned, 7.5% are share-holding, 2.8% are foreign-invested, and 12.3% are joint ventures. The increasing interest of state-owned enterprises in chain operations can be explained in a number of ways. Firstly, the focus of economic reform since 1997 was on increasing state-owned enterprises' efficiency. All domestic retail firms needed to speed up reform by re-organizing themselves into enterprise groups or chain stores to make themselves more efficient nationally and more competitive internationally. Besides, the implementation of the "share-holding enterprise system", during the 15<sup>th</sup> National Congress of the Communist Party of China in October 1997, encouraged and facilitated the rise of share-holding enterprises. The growing participation of foreign companies, due to the relaxation of Chinese regulations on ownership control of foreign invested companies after 1994, also contributed to the growth of franchise chain systems in China.

*Relationship nature*

Among the 106 respondents, nearly 64% are retail stores, operating in a direct-chain format; franchising chains make up 19%; with voluntary chains accounting for the remaining 16% of the sample.

*Operation scale*

Of the 106 sampled retailers, 38% have 6-11 paid full time employees, with around 35% having more than 17 full time staff. 35% have more than 12 outlets throughout China, and only 28% have 4 to 7 outlets. This illustrates that the survey covers both small and medium-size chain operations in China. Therefore, the findings can be said to provide a realistic picture of chain development in China at this point in time.

*Location*

The surveyed retail stores are representative of three regions: Northern China, Central China, and Southern China. There are vast differences between towns and countries, the eastern and western part of the country, coastal and inland regions, in terms of living environment, level of development, market openness, and local market size. For ease of investigation, the surveyed retail stores are grouped under two main categories – Northern China and Southern China. There is a substantial gap between the northern and southern regions mainly because of a significant difference in the speed of the economic transition process. Compared to the northern region, the inland region (Chongqing, Nanning) is characterized by a lower level of development in terms of GDP per capita, a less open economic system and a less intense competitive environment. The local governments of these inland cities continue to offer supportive measures to the development of chain stores. At the moment, chain retailers are

encouraged by benefits, such as tax exemption, less stringent application procedures, decoration allowances and other preferential treatment. The market potential of the inland region is quite high in terms of population and purchasing power, as measured by household consumption, is higher than in the northern cities.

### 5.2.2 Classification of Two Groups

We classified the sample into two groups according to their motives for entering a chain. One category is market driven – retail stores are joined together to form a chain operation owing to market forces, mainly to cope with market competition and to strive for better performance; while the other one is government induced – the chain is formed mainly due to the government's administrative forces, for example, following the government instructions or to gain government incentives. State-owned enterprises mostly fall into the category of government-induced chain.

#### *T-test*

By using question P1Q8 (see Appendix), which is an open-ended question, respondents were allowed to express their feelings towards the subject of inquiry. These responses were combined with the answers to the specific statements in question P2Q1. The scores, on each of a number of items, were used to determine the category that respondents belonged to, and a two-sample t test of mean scores showed a significant difference between the two groups (Table 5.2). Along a list of formation motives statements, as shown in Table 5.2, the mean score having a higher value is associated with the group of government induced. For those retail chains formed under government instruction, or in following the administrative duties,

and who are required to regularly report to the government, are associated to government-induced.

*Table 5.2 Mean score of chain formation between government-induced and market-driven*

Formation reasons	Mean score		t-value	d.f.
	Government -induced	Market driven		
Under the control of franchisor	5.6	4.8	2.2	97
An administrative relationship	4.8205	2.8947	4.3	75
To facilitate the distribution of goods	4.7	4	2.2	97
Own desire to join the chain	4.3	5.7	-4.0	97
Verified by an official contract	4.3	5.4	-3.4	95
Due to the re-structuring of state-owned enterprises	3.1026	2.3947	1.72	75
A government's trial policy	3	2.7105	0.74	75
Regularly report to the Government	2.6863	2.1458	1.7	97
Government instruction	2.6471	1.4167	4.09	97
The Government can terminate it	2.2157	1.9375	1.06	97
With the support of Government subsidies	2	1.6383	1.4	96

\* $p < 0.05$

### *Discriminant Analysis*

A well-accepted way to validate a classification procedure is to estimate the classification function on a subset of the sample, and validate the results against a holdout sample (Anderson 1985). Unfortunately, maximum likelihood estimation requires a large sample relative to the number of terms, and 106 retail stores is not enough to be split into sub-samples. A popular classification method, though not as robust as logistic regression, is discriminant analysis (Press & Wilson 1978). A discriminant function was estimated and found to significantly discriminate between government induced and market driven (Table 5.3A) franchise stores. Here, one canonical discriminant function, and all formation reasons are used in the analysis. The discriminant function correctly classified 80.3% of the observations (52% of the sample as government-induced, 43% as market-driven). From Table 5.3B, the coefficients of each formation reason, in the order of importance, are listed. As shown by the table, the formation reasons having a positive coefficient were found to be

more government-oriented. For example, it is the national policy to form chain businesses to strengthen domestic retailers' competitiveness to compete against foreign retailers, and it is also a way to get government subsidies. Those formation reasons showing a negative coefficient are related to market-driven. Under a market-driven situation, higher autonomy in supplier selection is given to the franchisees and franchisors, they can decide what they need, but in a government-induced situation, where government may affect distribution activities, leading to lower flexibility of the franchisee, less competitive advantage in procurement and purchasing activities results.

This reinforces the result of the two-sample t-test as presented at Table 5.2 (using the open-ended questions in P1Q8), which reveals a more balanced sample (48% government-induced, 45% market-driven). Finally, our results show evidence of reliability with the classification groups, in which there are 39 government-induced and 32 market-driven respondents. All in all, the two groups identified through t-test and discriminant analysis were well categorized and good for further analysis.

Table 5.3 Discriminant Analysis Result

## A. Classification Result

Recod-govt/Mkt-driven			Predicted Membership		Total
			Government Induced	Market Driven	
Original	Count	Government induced	32	7	39
		Market driven	7	25	32
		Ungrouped cases	1	3	4
	%	Government induced	82.1	17.9	100.0
		Market driven	21.9	78.1	100.0
		Ungrouped cases	25.0	75.0	100.0

## B. Standardized Canonical Discriminant Function Coefficients

Formation Reasons	Coefficients	Group – Govt or Mkt
More selection on goods purchased	0.76	Govt
A consultant advise	0.52	Govt
A reaction to foreign retailers	0.36	Govt
For future expansion	0.35	Govt
A way to get government subsidies	0.28	Govt
Encouraged by national policy	0.17	Govt
Response to local competition	0.15	Govt
To foster a good store image	0.09	Govt
Enhance competitive advantage in marketing activities	0.08	Govt
To get trained and qualified management skill	0.05	Govt
Access to preferential loans	0.03	Govt
Gain competitive advantage in procurement activities	-0.71	Mkt
A higher autonomy in supplier selection	-0.27	Mkt
To get rid of local competitive force	-0.21	Mkt
To enjoy a privilege tax rate	-0.12	Mkt

### 5.2.3 Formation Reasons

To investigate the underlying reasons for forming a retail chain, respondents were asked to state their agreement level against a set of 16 statements. As the China retail market becomes more mature and diversified, local retail stores will have an excellent market for their products. In order to secure a larger share of this vast market, they should fine-tune their strategies to strengthen cooperation with chain partners, actively establish their brand and store reputation, gain wider selection in merchandise management, and enhance their overall competitiveness. It explains why retail stores stepped up their efforts to form chain operations.

Results in Table 5.4 indicate the major reasons for forming a retail chain. The findings reveal that almost all are motivated by store image enhancement (54.7%), competitive advantages gained in marketing and procurement activities (35.8%), showing little impact of government policy.

However, apart from market forces, the main force driving management to join this partnering relationship is “business development” in the long run. On the whole, results indicate that the government plays an insignificant role, only accounting for 27.2%, in the working relationship between franchisor/ principal and franchisee/ member stores. The lower the level of government involvement in operational decision making of the chain store, the higher the autonomy the franchisor/ principal has, and the greater the efficiency of operation.

*Table 5.4 Key Reasons of Joining the Retail Chain*

Key Reasons in joining the retail chain	Percentage of respondents
Foster a good store image	54.7
Enhance competitive advantage in marketing activities	50.5
Facilitate business expansion	42.9
Gain competitive advantage in procurement activities	35.8
Future expansion	34.3
Wider selection in merchandise management	30.5
Own desire to join	30.2
Get rid of local competitive force	30.1
Response to local competition	29.5
Get trained & qualified management skill	26.9

Interestingly, as shown in Table 5.5, there is a great difference between the southern and northern part of respondents in the partnering motives. Remarkably, southern respondents are mostly encouraged by government motivations in forming a chain operation, where those statements relating to government policy have a higher mean value. As mentioned before, southern and central China is typically used as trial areas for chain store operations, and this explains why there seems to be much more government support in the development of chain business and this kind of partnering relationship. As a matter of fact, the government strategically proposes a lot of privileges to attract retailers in the southern part of China to join in a chain store operation. On the other hand, results indicate that the majority of retailers in northern China establish chain operation mainly due to the intense foreign competitive force they encounter. In order to survive in this fierce environment, they need to think of new retailing concepts to distinguish themselves from foreign retailers and to strengthen the competitiveness, thus, homegrown franchising offers an alternative for them.



Table 5.5 Formation Reasons between Southern and Northern part of Respondents

Formation reasons	Mean value		t-value	d.f.
	Northern part of retailers	Southern part of retailers		
Enhance procurement accessibility	6	4.1	-7.1	103
No government involvement	5.5	3.3	-6.07	101
Own desire to join the chain	5.4	4.3	-3.1	103
To get rid of the local competition	3.6	2.7	-3.04	103
As a consultant advise	2.9	2.2	-2.3	101
National policy	2.5	3.2	2.43	104
With the support of government subsidies	1.6	2.4	2.84	103
Access to preferential loans	1.6	2.5	4.2	103
To enjoy tax privilege	1.5	2.7	5.7	104
A way to get government subsidies	1.2	2	4.5	102

\* $p < 0.05$ 

To further analyze the formation reasons into greater details, a principal component factor analysis was conducted on a set of sixteen motive statements to explore the underlying dimensions of partnering motivation and for further analysis in the next section. Table 5.6 summarizes the findings produced and the subsequent varimax rotation. Principal component factor analysis with an eigenvalue of 1 or greater was rotated by the varimax analysis. Variables on each factor with factor loading of 0.5 were included in the table. From Table 11, there are four main factors of formation reasons. The most important of these, in terms of explaining the overall variance in the formation of retail chain in China, is a factor we label “Management competencies and Image”, which accounts for 31% of the variance of the data. The second factor can be referred to as “Marketing Edge”, the third dimension is labeled as “Competitive Force”, and the fourth one can be regarded as “Government Force”.

*Table 5.6 Factor Analysis on Formation Reasons of Retail Chain*

Dimensions of Formation Reasons	Factor Loading	Reliability Test	Cumulative Percentage	Eigenvalues
<b>Factor 1 Management competencies and Image</b>		0.79	31.3	5.01
A consultant's advise	0.55			
To get trained & qualified management skill	0.84			
Enhance competitive advantage in marketing activities	0.76			
To foster a good store image	0.81			
A superior store image	0.85			
To enjoy a privilege tax rate	0.50			
<b>Factor 2 Marketing Edge</b>		0.74	49.7	2.94
Gain competitive advantage in procurement activities	0.76			
A higher autonomy in supplier selection	0.84			
More selection in goods purchases	0.85			
Encouraged by national policy	0.50			
<b>Factor 3 Competitive Force</b>		0.75	59.6	1.59
Response to local competition	0.76			
A reaction to foreign retailers	0.50			
To get rid of local competitive force	0.78			
A consultant advise	0.57			
For future expansion	0.54			
<b>Factor 4 Government Force</b>		0.65	67.8	1.32
Encouraged by national policy	0.50			
A reaction to foreign retailers	0.73			
A way to get government subsidies	0.80			
Access to preferential loans	0.74			
Factor loadings cut-off point: 0.5				
Kaiser-Meyer-Olkin measures of Sampling Adequacy: 0.753				
Bartlett's test of Sphericity: Chi-Square 610.6 (120 d.f.)				

#### 5.2.4 Relational Behavior

Principal component factor analysis was conducted on the set of thirty-three statements to explore the underlying dimensions of relational behavior. Table 5.7 summarizes the findings produced and subsequent varimax rotation. One good rule of thumb for determining the number of factors is the “eigenvalue greater than one” criteria, which allows us to be fairly sure that any factors that we held will account for at least the variance used in the analysis, was adopted.

Originally, there were thirty-three statements though, after rotating them, we only tap those items with a loading greater than 0.5, and the final factor solution only represents 71.5% of the variance of the data. The cumulative percentage shows the explanation power of each factor. Besides, as suggested by the Scree test result, five dimensions out of a total of twenty-two statements, which showed a clear factor structure without any redundancy, were captured. In our study of the China context, these twenty-two statements captured a new set of five dimensions instead of the original six dimensions that were quoted in existing literature. Some of them are re-named for better interpretation and representation of our framework and represented by the following table.

From the factor analysis result in Table 5.7, there are five main dimensions of relational behavior. Among these dimensions, the most important, in terms of the overall variance explanation in measures of relational behavior, is the “Expectation of Continuity”, which accounts for 34.4% of the variance of the data. 6-items Likert scale adapted from Noordewier, John & Nevin (1990), and Lusch & Brown (1996) initially operationalized it.

---

The items in this scale tapped the extent to which parties value their ongoing relation, as suggested by Axelrod (1984). Expectation of future interaction could represent an incentive to abide by the norms of the relationship and serve as an enforcement mechanism. The final scale had 6 items with a coefficient alpha of 0.83.

The second factor can be referred to as “Joint Planning”; it tapped the franchisees’ cooperation to the relationship. A 7-item Likert scale adapted from Noordewier, et al. (1990), Kozak & Cohen (1997) and Wilson & Vlosky (1997) operationalized it. Planning in a bilateral governance mode is a decentralized activity, in that the parties exchange information and participate in the process in a joint fashion (Bonoma 1976; Frazier, Spekman & O’Neal 1988; Noordewier et al. 1990). Consequently, a total of 5 items with a coefficient alpha of 0.85 was obtained

The third dimension is labeled as “Information Exchange”. This tapped the extent to which franchisees or partners kept each other fully informed about important issues, events and changes, and was operationalized with a 6-item Likert scale (Heide & John, 1992; Heide & Miner, 1992; Kanfmann & Dant, 1992; Noordewier et al., 1990; Kozak & Cohen, 1997). The coefficient alpha for these 4-items was 0.83.

The fourth one can be regarded as “Communication”; a 4-item Likert scale, adapted from Lewin & Johnston (1997), Wilson & Vlosky (1997) operationalized it. These 4 items tapped the extent to which a formal mechanism for communication existed within the partnering relationship. It was defined as the ability of the franchisor/ principal to provide timely and

---

trustworthy information, similar to the definition and operationalization employed by Anderson and Narus (1990). Specifically, it tapped the extent to which communication flows were structured and regularized (Anderson et al 1987). Accordingly, the 3-items took these qualities into consideration, with a coefficient alpha of 0.7.

Finally, the last one is defined as “Relation Nature”. The two statements captured by the fifth factor are pertaining to a kind of “relationship”. Surprisingly two items were generated and formed this new dimension in our study which got a coefficient alpha of 0.82. However, as they are irrelevant to the dimensions of relational behavior. These two dimensions are not included in the coming section of hypothesis testing.

Table 5.7 Factor Analysis on Relational Behavior

Dimensions of Relational Behavior	Factor Loading	Reliability Coefficient	Cumulative Percentage	Eigenvalues
<b>Factor 1 Expectation of Continuity</b>		0.83	34.40	6.87
An evergreen relationship	0.85			
To maintain at the current level	0.77			
A long term alliance	0.73			
Expected to have a long-lasting relationship	0.68			
A great improvement	0.69			
Willing to put efforts and investment	0.61			
<b>Factor 2 Joint Planning</b>		0.85	47.90	2.70
Agreement on overall marketing objective	0.85			
A written marketing plan	0.83			
Joint marketing planning	0.76			
A formal evaluation program	0.64			
Joint programs	0.63			
<b>Factor 3 Information Exchange</b>		0.83	56.81	1.79
Proprietary information	0.84			
Always keep other party inform of sudden events	0.82			
Information confidentiality	0.77			
Frequent information exchange	0.71			
<b>Factor 4 Communication</b>		0.70	65.53	1.74
Regular meeting	0.87			
Accurate and timely communication	0.82			
Frequent telephone communication	0.76			
<b>Factor 5 Relation Nature</b>		0.82	71.5	1.10
A "partnership" relationship	0.92			
A separate financial and personnel management	0.90			

Factor loadings cut-off point: 0.5

Kaiser-Meyer-Olkin measures of Sampling Adequacy: 0.777

Bartlett's test of Sphericity: Chi-Square 842.29 (190 d.f.)

### 5.2.5 Performance Measures

To explore the underlying dimensions of store performance, a principal component factor analysis was conducted with three main dimensions being generated as a result. The most important of these, in terms of explaining overall variance in the performance measures, is a factor we label 'Marketing Goals'. The second factor can be referred to as 'Business Performance', while the third dimension is labeled 'Operation', and accounting for 74.2% of the variance of data.

*Table 5.8 Factor Analysis on Store Performance*

Dimensions of performance	Factor Loading	Reliability Coefficient	Cumulative Percentage	Eigenvalues
<b>Factor 1 Marketing Goals</b>		0.88	53.9	6.47
Customer satisfaction	0.80			
Service standard	0.90			
Labor profitability	0.86			
Market position	0.70			
<b>Factor 2 Business Performance</b>		0.88	64.5	1.27
Sales growth	0.76			
Profit growth	0.84			
Overall profitability	0.85			
Procurement accessibility	0.48			
Store image	0.60			
<b>Factor 3 Operation</b>		0.66	74.2	1.17
Operation efficiency	0.62			
Selection of supplier	0.88			
Geographic coverage	0.53			

Factor loadings cut-off point: 0.5

Kaiser-Meyer-Olkin measures of Sampling Adequacy: 0.874

Bartlett's test of Sphericity: Chi-Square 760.3 (66 d.f.)

### 5.2.6 Partnering Activities

Among the following partnering activities, we attempted to find the activities that franchising partners are mostly likely to exhibit in a relationship of high partnering level. To provide an overall ranking of partnering activities that are expected, weightings are assigned to the frequencies of each of the activities, and then an index is derived to show the corresponding importance. The index given in Table 5.9 shows the list of different partnering activities that are expected between franchisors/ principals and franchisees/ member stores, and ranked in order of importance.

*Table 5.9 Ranking of Partnering Activities*

Ranking	Partnering activities	Index
1	Marketing planning	100
2	Market research	47.6
3	New product or services development	46.3
4	Promotion campaign	35
5	Sales training	31.7
6	Pricing strategy	24.3
7	JIT inventory management	18.7
8	Co-operative advertising	12
9	Seeking of financial assistance	6.7
10	Performance review	5.3
11	Communication between parties	4.7



From Table 5.9, we notice that marketing planning, market research and new product or service development, have a greater importance relative to other activities. Today, China's retail market is undergoing immense and rapid changes; competition is not only intensifying but also becoming multi-layered. China retailers should clearly re-define their marketing strategy from the strategic perspective. In formulating marketing strategy, and subsequent market segmentation and positioning strategy, they must take into consideration China's actual market conditions and characteristics, which can be accomplished by conducting market research. In a bid to maintain a bigger market share in the long term, and to cope with various new phenomena emerging in the retail sector, it is necessary and essential to commit sufficient resources to market research. By so doing, pricing, design, and packaging of products could be tailored to the preferences and spending power of mainland consumers. This is especially so for a country where diverse differences exist between urban and rural areas, and between coastal and inland regions in terms of living environment and consumption pattern. Market research is undoubtedly an important tool in entering the China market, and this explains why there are an increasing number of multinational research and consultancy organizations successfully establishing footholds there. More and more resources are committed to research and development, more new product and services can be put on to the market, and greater profit and customer satisfaction can be generated. Moreover, in realizing the importance of product quality, chain retailers must put more effort into developing technology and be stronger in product development in order to enjoy a high degree of product and store recognition.

### 5.2.7 Partnering Relationship

Regarding the quality of the working relationship, 36.8% of respondents were satisfied with their existing partnering relationship and 44.3% of respondents regarded it as a very close “cooperative” relationship, and acknowledged that the relationship would enhance their future development. The majority of respondents (61%) expected that their relationship would grow closer and better in the next five years and many significant benefits would be gained in committing to this relationship in the future. The major advantages are as follows: (1) after joining the chain, franchisees admitted that they would enjoy improvements in both store image (40.6%) and procurement accessibility (32.1%). (2) More encouragingly, 80.2% of respondents revealed that the relationship was crucial and essential to their sales turnover improvement. (3) Besides, the relationship helps to secure a plentiful source of high quality merchandise and services (74.5%).

### 5.2.8 Ways to improve Partnering Relationship

Judging from the above-mentioned advantages of the partnering relationship in chain store operation emphasis must be placed on how to strengthen the partnering relationship in order to gain better performance. By applying the factor analysis approach, a list of possible ways to improve current partnering relationships is summarized into three main dimensions (Table 5.10). The most important one, in terms of explaining the overall variance, is a factor we named “Resources Sharing”. The second factor can be referred to as “Operation Flexibility”, and the third dimension is labeled as “Government Support”, which represents 70.8% of the variance of the data.

Among the ten possible ways of improving the relationship, our attention was drawn to:

- (1) Under the dimension of operation flexibility, 47.2% of respondents thought that the franchiser/ principal, and 42.5% said that they would be better off if allowed more autonomy in decision making.
- (2) While on the dimension of resource sharing, 40.6% highlighted the importance of the adoption of a centralized distribution center, which would better improve the partnering relationship.

*Table 5.10 Factor Analysis on Ways of Improving Partnering Relationship*

Ways to improve partnering relationship	Factor Loading	Reliability Test	Cumulative Percentage	Eigenvalues
<b>Factor 1 Resources sharing</b>		0.82	40.4	4.04
A detailed operation manual	0.75			
More resources sharing	0.88			
More communication	0.85			
Highly use of centralized distribution center	0.57			
<b>Factor 2 Flexibility in operation</b>		0.72	59.4	1.90
More autonomy in supplier selection	0.73			
More autonomy in decision making	0.80			
More marketing research	0.70			
More marketing functions to be held by franchisor/ principal	0.60			
<b>Factor 3 Government support</b>		0.93	70.8	1.14
More professional training	0.95			
More government subsidies	0.95			

Factor loadings cut-off point: 0.5

Kaiser-Meyer-Olkin measures of Sampling Adequacy: 0.699

Bartlett's test of Sphericity: Chi-Square 383.2 (45 d.f.)

### 5.2.9 Problems

Findings also indicated the problems that retailers most commonly encountered in running chain operations in China. They are summarized as follows:

Due to the very nature of strategic alliances, involved parties share common goals, and ideally, they are expected to act instinctively for the benefits of one another (Achrol 1996). However, our result shows a different story in that some chains would like to split up their relationship with the parent company after one year of co-operation because of some conflict. Conflicts arise from distribution inconsistency and goal incompatibility. The chain members are currently responsible for all their own human resources, operation and marketing management functions as reported.

In addition, they also lack professional “franchising chain management” advice, focusing only on the economic efficiency of the unit without taking the key success factors of operating a chain business into consideration, factors such as site selection, management system, sales distribution, personnel training, inefficiency, and conflict. For example, as revealed by our study, chains are mostly concerned with purchasing, on-time delivery and sales activities, without a good understanding that there should be a comprehensive plan with well-defined functions in personnel training, market research, and promotion which are also essential in running the whole operation efficiently. To conclude, lack of marketing and management know-how and insufficient policy support is key problems.

Moreover, there is no systematic operation manual provided to franchisees/ member stores. They are supported by some government concession like tax reduction, better to say, tax exemption, or low-interest loans for store decoration, but without any intangible assets, such as patent rights, reputation, or social status. Many newly established chains even lack a clear organization culture of cohesiveness. They focus on economies of scale from bulk purchases, neglecting the importance and development of overall coordination. At the commencement of a chain business, the franchisor/ principal and franchisees/ member stores are required to make a large investment, creating financial difficulties for them. Worse still, some of them are joined according to government policy, so that not only the organization structure and operation, but also the role definition among franchising parties are not clearly defined. In such a case, how can a franchising chain, without a clear marketing objective, improve business performance?

### 5.3 Tests of Hypotheses

In this section, the results of hypothesis testing within the proposed framework are presented. Based on findings drawn from the discriminant analysis and factor analysis in the previous section, we come to investigate:

- ❖ how the level of relational behavior is affected by the formation reasons;
- ❖ how the performance level is influenced by the reasons found within the market-driven and government-induced situations;
- ❖ the impact of relational behavior on performance

First of all, we examine how each of the five relational behaviors is affected by the formation motives; in other words, are there any differences in behavior under two different formation regimes – government induced and market-driven?

The estimated model, determined by regressing formation motives against the dependent variables and consisting of the five dimensions of relational behavior, is shown in Table 5.11. We first derived two main independent variables from the factor analysis about partnering motivation. The first of these independent variables, which we call ‘market-driven’ or [mkt], is a multi-dimensional construct, which includes Factor 1 – Management Competencies, Factor 2 -- Marketing Edge, Factor 3 – Competitive Force. We refer to the second independent variable, which is a unidimensional construct, as government-induced [govt]. To get a representative value of the multi-dimensional variable we use a weighted average approach. The variance explained (the explanatory power of each factor) is used as a

---

weight for the factor score on each of the three main factors, and we form a composite index for the [mkt] variable. In our analysis, the continuous scale is adopted as it was noticed that, even though some retailers joined under the provision of government support and privileges, i.e. government-induced, they may also be motivated by some market-driven forces at the same time. In order to visualize a more predictive value of these kinds of hybrid cases, it is better to apply the approach of composite index instead of using dummy variables (0 or 1) to forecast the impact of these variables.

Table 5.11 Impact of Formation Motives on Relational Behavior

Independent variable	Unstandardized coefficient	t-value	Sig.	R <sup>2</sup> adjusted	F-value (Sig.)
EXPCONT N=69				0.11	5.18 (0.008)*
Constant	-0.02	-0.22	0.83		
Govt	-1.61	-1.60	0.11		
Mkt	0.54	2.68	0.01*		
JPLAN N=69				0.14	6.72 (0.002)*
Constant	0.07	0.62	0.54		
Govt	0.83	0.89	0.38		
Mkt	0.68	3.61	0.001*		
INFEXCH N=69				0.07	3.50 (0.04)*
Constant	0.01	0.12	0.90		
Govt	-0.18	-0.18	0.86		
Mkt	0.51	2.62	0.01*		
COMMUN N=69				0.04	2.38 (0.10)
Constant	-0.02	-0.18	0.86		
Govt	-2.05	-1.93	0.06**		
Mkt	-0.24	-1.13	0.26		
RELATION N=69				-0.01	0.61 (0.55)
Constant	0.004	0.04	0.97		
Govt	-0.01	-0.01	0.99		
Mkt	-0.24	-1.10	0.28		

\* $p < 0.05$ \*\* $p < 0.1$ 

As can be seen from Table 5.11, three major dimensions of relational behaviors, expectation of continuity ( $f=5.18$ ,  $p<0.05$ ), joint planning ( $f=6.72$ ,  $p<0.05$ ), and information exchange ( $f=3.5$ ,  $p<0.05$ ) are statistically significant and can be explained as the formation reasons of both market-driven and government-induced chains.



It is interesting to note that market-driven variables tend to be statistically significant and positively contribute to the explanation of the three dimensions of relational behavior – expectation of continuity ( $t=2.68$ ,  $p<0.05$ ), joint planning ( $t=3.61$ ,  $p<0.05$ ) and information behavior ( $t=2.62$ ,  $p<0.05$ ) in China.

Firstly, expectation of continuity. It is undeniable that when the chain is formed out of self-interest, members are more likely to be devoted to the relationship. High commitment from member stores, who are willing to put considerable efforts into building and improving the working relationship, with result in competitive benefits of chain operation. This is consistent with Dwyer, Schurr, and Oh (1987)'s saying that commitment is the implicit or explicit pledge of relationship continuity between partners. Therefore, there is a higher level of continuity expectation in a market-driven situation.

Secondly, a higher level of joint planning among franchising partners is attained when it is formed under market-driven conditions. When the chain is formed under market forces with a view to gain a greater competitive edge, they are more willing to share market information and participate in all marketing activities in a joint fashion, in accordance with Bonoma (1976), Frazier, Spekman and O'Neal (1988) and Noordewier (1990).

Besides, regarding the dimensions of information exchange, it is statistically supported that a higher level of information exchange among franchising partners exists under the market-driven regime.

---

However, one dimension, communication, warrants some discussion here, even though there is a negative and marginal significant ( $t=-2.05$ ,  $p<0.1$ ). Among these four dimensions, continuity of expectation, joint planning, information exchange, and communication, a large extent can be explained negatively by the formation motives, especially in government-induced situations. In other words, there is a lower level of communication between partners under the government-induced situation. Since they are forced to get into a chain business between partners owing to some administrative forces or duties, they may not all share the same interests. Therefore, they are reluctant to disclose and share relevant and desired information to other partners.

To conclude, the results support the argument that the motives for entering the chain affect the level of relational behavior between franchising partners. In other words, there is a relationship between formation motives and the level of relational behavior. Besides, the results indicate that the market-driven structure is associated with a higher level of relational behavior, in particular, the dimensions of expectation of continuity, joint planning, and information exchange in China's retail market. Finally, a surprising result is that the government-induced structure negatively contributes to the explanation of the level of communication among franchising partners.

Secondly, we investigate whether the performance level of franchise chains is influenced by formation motives.

Table 5.12 Impact of Formation Motives on Performance

Independent variable	Unstandardized coefficient	t-value	Sig.	R <sup>2</sup> adjusted	F-value (Sig.)
Overall N=66				0.47	29.28 (0.000)*
Constant	0.08	0.59	0.56		
Govt	-1.92	-1.59	0.12		
Mkt	2.04	7.48	0.000*		
Market Goal N=66				0.17	7.81 (0.001)*
Constant	0.03	0.22	0.83		
Govt	-1.69	-1.60	0.11		
Mkt	0.86	3.61	0.00*		
Business Performance N=66				0.04	2.16 (0.12)
Constant	0.08	0.75	0.45		
Govt	0.61	0.67	0.51		
Mkt	0.40	1.97	0.05*		
Operation N=66				0.13	6.04 (0.004)*
Constant	-0.02	-0.19	0.85		
Govt	-0.84	-0.82	0.41		
Mkt	0.78	3.37	0.001*		

\* $p < 0.05$

From the results shown in Table 5.12, it is statistically significant ( $F=29.28$ ,  $p<0.05$ ) that overall retailer performance can be explained by formation reasons. In a market-driven setting, the performance is positive and significant ( $t=7.48$ ,  $p<0.05$ ), showing that a chain derived by marketing-related forces focuses more on improving performance and strengthening company image, thus, there is a positive correlation between the level of

partnering and the business performance of franchise chains. In other words, under conditions of government-inducement and low partnering levels, retailer performance will be lower. In order to get a closer understanding of performance; we decomposed it into three main dimensions (market goal achievement, business performance, and operation). Results show that the non-government mode of relationship is positively correlated with the achievement of market goals ( $F=7.81$ ,  $p<0.05$ ) and operation ( $F=6.04$ ,  $p<0.05$ ).

Finally, in this part, our aim is to examine how retailer performance is affected by relational behavior.

First of all, we combine the five dimensions of relational behavior, taken together with their corresponding variance, to get a weighted average or composite index for the relational behavior construct, named [Composite-RB], to investigate whether there is an association between the level of performance and relational behavior. The pattern of results in Table 5.13, showing that there is a positive and significant correlation relationship (Pearson correlation: 0.68) between the performance level of chain retailers [FSOVERAL] and the level of relational behavior.

*Table 5.13 Correlation between Performance Level against Relational Behavior (Composite Index)*

N=64	FSOVERAL
Composite-RB    Pearson Correlation	0.545
Sig. (2-tailed)	0.000*

\*correlation is significant at the 0.01 level (2-tailed)

Table 5.14 Impact of Relational Behavior (Composite Index) on Performance

	Independent variable	Unstandardized coefficient	t-value	Sig.	R <sup>2</sup> adjusted	F-value (Sig.)
Overall N=64	Constant	0.16	0.95	0.34	0.34	32.71 (0.000)*
	Composite-RB	1.63	5.72	0.00*		
Market-driven N=28	Constant	0.04	0.15	0.88	0.22	8.15 (0.009)*
	Composite-RB	1.23	2.86	0.01*		
Government-induced N=33	Constant	0.281	1.21	0.24	0.41	24.23 (0.000)*
	Composite-RB	1.97	4.92	0.000*		

\* $p < 0.05$ 

Again, results indicate that the composite index of relational behavior is statistically significant ( $t=5.72$ ,  $p<0.05$ ) to the explanation of performance level, no matter whether government-induced, market-driven or on the overall situation. Therefore, no matter which governance mode is concerned, there is a positive correlation between the level of relational behavior and retailer performance.

After examining the impact of relational behavior on performance by means of weighted average, a more in-depth study on each of the five dimensions of relational behavior was developed. We start by reviewing the general correlation pattern of relational behavior and performance level in Table 5.15

Table 5.15 Correlation between Relational Behavior and Performance

N=64		<i>F</i> SOVERAL
EXPCONT	Pearson Correlation	0.54
	Sig. (2-tailed)	0.000*
JPLAN	Pearson Correlation	0.46
	Sig. (2-tailed)	0.000*
INFEXCH	Pearson Correlation	0.29
	Sig. (2-tailed)	0.02*
COMMUN	Pearson Correlation	-0.07
	Sig. (2-tailed)	0.59
RELATION	Pearson Correlation	0.03
	Sig. (2-tailed)	0.82

\* correlation is significant at the 0.05 level (2-tailed)

The table shows that expectation of continuity, joint planning, and information exchange, have a positive and significant relationship with the level of performance of chain retailers, as expected in our propositions of H3, H4, and H6, where there is a positive relationship between joint planning, expectation of continuity, information exchange and the performance level. Nevertheless, the results generated indicate that communication has a negative relationship with performance level, which is out of our expectation, and thus, H5 cannot be accepted in the case of the China retail chain.

Lastly, we examine, more specifically, which dimension out of the five relational behaviors contributes significantly to the performance level of a retail chain in China, and whether the performance of a market-driven regime outperforms that of government-induced.

In the regression model shown in Table 5.16, the level of relational behavior is statistically significant to performance ( $F=17.75$ ,  $p<0.05$ ). It once again, affirms that there is a relationship between the level of relational behavior and performance.

Table 5.16 Impact of Relational Behavior on Performance

Independent variable	Unstandardized coefficient	t-value	Sig.	R <sup>2</sup> adjusted	F-value (Sig.)
Overall N=64				0.57	17.75 (0.000)*
EXPCONT	0.92	6.66	0.000*		
JPLAN	0.74	5.48	0.000*		
INFEXCH	0.54	3.77	0.000*		
COMMUN	-0.18	-1.29	0.20		
RELATION	0.08	0.64	0.53		
Market-driven N=28				0.43	5.05 (0.003)*
EXPCONT	0.77	2.66	0.01*		
JPLAN	0.96	3.97	0.001*		
INFEXCH	0.52	2.08	0.05**		
COMMUN	-0.45	-1.84	0.08		
RELATION	0.10	0.41	0.69		
Government-induced N=33				0.66	13.29 (0.000)*
EXPCONT	1.03	5.68	0.000*		
JPLAN	0.51	2.53	0.02*		
INFEXCH	0.58	3.02	0.01*		
COMMUN	0.07	-0.33	0.75		
RELATION	0.13	0.58	0.57		

\* $p<0.05$

\*\* $p<0.1$

Based on the above analysis, three dimensions of relational behavior are confirmed to be significant in explaining the performance level of franchise chains in China.

Drawing from the above results, we can use another way to further demonstrate the argument already made -- the Chow (1960) test, in which a structural break was applied in order to test the equality of coefficient vectors in two or more linear regression models. Dufour (1982, p.566) generalizes the Chow test, as a terminology gaining acceptance for the deficient rank test, to “testing the equality of coefficient vectors in several regressions when explanatory variable matrices have arbitrary ranks”. At this stage, three independent variables, namely, expectation of continuity (X1), joint planning (X2) and information exchange (X3), are said to be significant to the explanation of performance level and are included in analyzing the following hypothesis, with the findings summarized in Table 5.17:

$H_0$  = there is no difference, in terms of the impact of independent variables, on the performance level between market-driven and government-induced.

$H_1$  = there is a significant difference, in terms of the impact of independent variables, on the performance level between market-driven and government-induced.



Table 5.17 Impact of the Three dimensions of Relational Behavior on Performance

Independent variable	Unstandardized coefficient	t-value	Sig.	R <sup>2</sup> adjusted	F-value (Sig.)
Overall N=64				0.57	28.94 (0.000)*
EXPCONT	0.91	6.61	0.000*		
JPLAN	0.74	5.52	0.000*		
INFEXCH	0.52	3.65	0.001*		
Market-driven N=28				0.39	6.92 (0.002)*
EXPCONT	0.87	3.01	0.01*		
JPLAN	0.89	3.65	0.001*		
INFEXCH	0.44	1.73	0.01*		
Government-induced N=33				0.68	23.22 (0.000)*
EXPCONT	1.01	6.17	0.000*		
JPLAN	0.51	2.83	0.01*		
INFEXCH	0.59	3.19	0.003*		

\* $p < 0.05$ In our case, three independent variables are included, then  $K=4$ ,  $N=64$ 

	ESS	D.F.
$PERF_{overall} = 0.91X_1 + 0.74X_2 + 0.52X_3$	$ESS_{overall} = 71.1$	60
$PERF_{mkt} = 0.87X_1 + 0.89X_2 + 0.44X_3$	$ESS_{mkt} = 37.9$	24
$PERF_{govt} = 1.01X_1 + 0.51X_2 + 0.59X_3$	$ESS_{govt} = 28.9$	29
	$ESS_4 = ESS_{mkt} + ESS_{govt} = 66.8$	45
	$ESS_5 = ESS_{overall} - ESS_4 = 4.3$	4
$\rightarrow \text{Chow} = [4.3/4] / [66.8/53]$ $= 0.85$		

As indicated above, the Chow-test is calculated at 0.85. Assuming that  $\alpha=0.05$  had been selected,  $F_{(0.05, 4, 53)} = 2.56$ , as  $0.85 < 2.56$ , therefore we cannot reject  $H_0$ . In summary, on the basis of the Chow test, it is concluded that the three relational behaviors are statistically insignificant at the 0.05 level of significance to the explanation of performance of both market-driven and government-induced structures.

---

# Chapter 6

# Conclusion

---

## Chapter 6 Conclusion

### 6.1 Summary

The main premise of this study is that, conceptually, there are two invisible forces governing purchasing activities in China's retail market. These forces, termed as government-induced and market-driven, are linked to the motives of entering into a retail partnership or franchising chain as they are referred to in China. The analysis uses a dyadic perspective to investigate the performance of chain retailers.

Table 6.1 summarizes the result of hypothesis testing. On the whole, all the hypotheses are supported except H5, stating that the level of communication is positively associated with higher retailer performance. The finding that communication is inversely correlated with performance can be explained by the following reasons. Firstly, telecommunications technology is very common but still needs further improvement which in turn de-motivates members from communicating with other partners, and ultimately influencing their understanding and performance. Besides, retailers in China think that regular meetings and frequent visits are annoying activities which drive them away from communicating with other partners. Even though China is moving towards to a market-oriented economy, at this transitional stage of development; almost all retailers are trained to work for their own provinces and local government as stipulated by the very nature of a planned economy. Worse still, cross-provincial and cross-minister communications are highly prohibited for protectionist reasons, making communication even more difficult. Therefore, management

should be aware of the importance of the problem and put more effort in improving communication and the partnering relationship.

*Table 6.1 Result of Hypothesis Testing*

		Support	Partially support
H1A	Government-induced partnership exhibits a lower level of relational behavior than market-driven partnership	X	
H1B	Market-driven partnering relationship is associated with a higher level of relational behavior	X	
H2	There is a positive correlation between the level of relational behavior and the business performance of franchise chains	X	
H3	There is a positive relationship between the level of joint planning among franchising partners and the level of business performance	X	
H4	There is a positive relationship between the level of continuity expectation and the level of business performance	X	
H5	There is a positive relationship between the level of communication and the level of business performance		X
H6	There is a positive relationship between the level of information exchange and the level of business performance	X	

Another striking result shows that government participation in the franchise operation is insignificant. However, one should carefully note that there is an invisible hand – the Chinese government still plays an active role in developing the chain business in China by fixing some policies and motivating chain retailers by offering various favorable conditions to them.

Among the five dimensions of relational behavior, expectation of continuity appears to have the greatest importance in our findings. According to extant literature, commitment is determined by the dedication to the continuation of a relationship and performance is enhanced with a stronger continuity expectation.

When considering how retailer performance is influenced by the level of relational behavior under the situation of being either market-driven and government-induced, results indicate that three dimensions of relational behavior, comprising information exchange, expectation of continuity, and joint planning, are said to be positively and significantly contributing to performance level. What effect does this really have on management decisions and what are the implications for government policy?

However, it is surprising, based on the Chow test's result, to discover that there is no significant difference in the impact of relational behavior on the performance level between the market-driven and government-induced situation. It is mainly due to the following reasons. Firstly, China is moving from a planned economy to a market economy, but there is a long way for her to go. Right now, this is the transitional period, therefore how can we distinguish a truly market-driven chain from a totally government-induced one in a so-called socially capitalist society? Therefore, it is questionable that there are any pure market-driven enterprises in the market, due to the fact that franchising started after an announcement was made in Shanghai in May 1996, while this research was undertaken in 1997. During the time of the conducting of the research, most chains were newly developed with less than three years of operations. Therefore, even though they realized the importance of adopting

---

different market-oriented behaviors, how could we measure the impact of market or non-market related behavior on performance for chain retailers with only one to two years of operation? It would seem that they were still in the early stages of development, and it would be too early to draw any conclusion about the impact on performance at the moment of the undertaking of the research.

## 6.2 Implications

Judging from the preceding sections of analysis, major implications from both government and managerial perspectives are discussed.

### 6.2.1 Government policy implication

From the analysis, “government-induced partnership is associated with a lower level of partnering than a market-driven one” and significant differences in relational behavior are identified. These imply that getting more market-oriented activities in franchise chains, which are created as a result of government intervention or pressure, is a major concern in the long run.

At present, the government has utilized some administrative forces to ask retail stores to join together, if it is feasible at their early stage of development, with sufficient financial and operational support from the government. However, our analysis shows that market-oriented activities have the greatest impact in the long run and are necessary to ensure the future development of retail chains. The Government must play the game according to market forces in order to create a more stable change and steady growth. Therefore, it is suggested that the Chinese government should put more effort into enhancing marketing know-how by providing more training to improve the partnering relationship and reduce government interference like subsidies, tax reduction and so forth.

### 6.2.2 Managerial Implication

Our findings show that three dimensions of relational behavior are found to be critical to the development and maintenance of partnering relationship. As supported by extant literatures, expectation of continuity, joint planning, and information exchange are essential elements in consolidating the partnering relationship. Expectedly, our analysis shows that business performance is strongly dependent on the relationship between participating firms in a franchise chain. Undoubtedly, closer partnership enhances the retailer performance. We believe that in an industry as competitive as retailing in China, one must develop practices that differentiate oneself from others, especially foreign competitors. From our findings, one of the greatest competitive advantages is the long-lasting partnering relationship that develops over the years, as the relationship would evolve into a more trusting and personalized one. Therefore, it is advised that sufficient resources be made available to facilitate and strengthen the three dimensions of relational behavior in order to sustain the relationship and improve business performance.

Since franchising in China is defined differently, new entrants to China must be very cautious before they apply western franchising techniques and concepts. International franchising facilitates the expansion of a firm's operations into foreign countries. Typically, franchising takes place for the reason of efficient expansion. In China, with its history of bureaucratic intervention, channel relationships are more administrative in nature, even as the economy becomes more market-oriented, and the approach towards conducting chain operations is very different from the West. The establishment of a merchandise



replenishment and distribution system is essential for chain stores to operate successfully. Chain stores are concerned with purchasing inexpensive products regularly and efficiently.

Additionally, improving the quality of the labor force is another unresolved issue. The only way to tackle this is through comprehensive education. Moreover, more professional training is needed. Therefore, international marketers need to address the issue of providing marketing training to their channel partners when operating in the China market. Since the Chinese government is aware of the problem of the shortage of personnel, starting from June 1998, the central government has implemented a policy that requires managers of franchising stores to receive training on aspects of human resources and marketing. This might ensure that, in future, franchising development might become healthier and chains prove to be an efficient and successful way for multinational firms to distribute their products. Through various kinds of store development programs and training seminars, more advanced techniques of operating chains can be adopted for future expansion. This study highlights some of the areas, such as market planning and information exchange, which might be emphasized in training programs.

It is undeniable that distribution strategy is an integral part of the overall market entry strategy. Selecting the appropriate marketing channels to distribute products to an overseas target market has been considered as one of the most difficult strategic marketing questions for international marketers (Rosenbloom & Larsen, 1991; Keegan 1989). So far, continuous economic and distribution reforms offer foreign firms abundant investment opportunities in the attractive China market. On the other hand, as distribution systems become more

---

responsive to market demand, new comers to channel membership in China, like private enterprises, inevitably increase competition in the market place. The emerging distribution channels represent both a threat and an opportunity for firms planning to enter China. Without doubt, gaining a powerful distribution network is a critical success factor in any consumer products or services market. Competitors strive to establish an extensive distribution network to act as an entry barrier. However, building and maintaining a powerful and extensive distribution network in a large geographic area like China, requires a lot of investment. Proliferation of distribution channels, in different operational forms, compels foreign firms to think creatively of ways to reach the China market. Moreover, it is suggested that network development is important in that much of the risk in doing business in volatile environments can be reduced. An extensive distribution network cannot be built in a short period of time since a lot of resources need to be continually invested. Apart from huge investment, a strategy for using resources effectively is also important when doing business in China. Relationships are of utmost importance in China, and thus, maintaining a good relationship is critical, whether with channel members, business partners, or state-owned enterprises.

With a view to establishing a socialist market economy, the Chinese government is now embarking on three major reforms, state-owned enterprise (SOE) reforms, bank reforms, and government reforms. Despite twenty years of economic reforms and efforts to turn around the state sector, over half of state-owned enterprises still lose money. The shareholding system might become a major form of ownership structure resulting in the downsizing of the state sector. Distribution reforms have improved distribution system efficiency but it seems

---

that there is still a long way for the system to move before it nears convergence with Western systems. During this transitional period, there appears to be different kinds of ownership structure as greater autonomy is allowed in enterprise restructuring. A business can adopt any management form such as organizing an enterprise group, mergers, organizing a share holding company, lease, responsibility management, or purchase. Thus, a number of retail enterprises are still evolving and it is difficult to define accurately their status at this time. In this study, for the sake of investigation, we assume there are two governance modes in the retail market, but some are still changing. Therefore, it is suggested that international marketers should not only be acquainted with the macro policies driving distribution reform, but also the forms of competition, and rules of behavior governing participants in the distribution business. Businesses should be regularly alerted to the latest developments and changes in the legal and economic environment, and ready to take advantage of the emerging market. This is a prerequisite to a successful operation in the China market.

### 6.3 Limitations of the Study

There are some limitations in this study that need to be acknowledged. First of all, doing research in China is not an easy task. Availability of information sources, credibility of information, and the reluctance to release the required information by Chinese respondents are all well-documented issues encountered by researchers. In this study, convenience sampling was adopted, and along with the use of key informants, the necessary and essential information was accessed. However, some respondents are still conservative and unwilling to discuss, in concrete terms, the trends in distribution reform. Through careful measurement of the perceptions of practicing managers regarding changes in the retail and distribution sector, information has been collected, which we believe is reliable and credible. Even though the statistical results, generated from the non-probability sampling technique, of the study may only be generalizable to the cities under investigation; the findings still provide a good reference for international marketers.

Moreover, since China is so large and diverse, there is a huge gap between regions. Because of the presence of the dramatic regional differences in income, administration, culture, and management style, it is very difficult to simplify China's distribution system. Variations in franchising operations and marketing behavior could be caused by regional differences in culture, economic development, and policies adopted by local authorities. It was commonly found that the conceptual understanding of the same term in the questionnaires was interpreted differently in various cities. The more explanation the interviewers made, the more likely the respondents provide biased responses. This is an issue being addressed by

multinational research companies, which have established a presence there. However it must be said that, as in other parts of the world, commercial research on the behaviors and motivations of channel members is limited when compared to the vast amount of information collected about consumer attitudes, preferences and behaviors.

Lastly, the scales used in this study were mainly drawn from previously published studies, which were developed in western countries. It is questionable whether these scales really fit China' s situation or accurately reflects the scenario there.

---

# Bibliography

---

## Bibliography

- Achrol Ravi S., "Changes in the theory of interorganizational relations in marketing : Toward a network paradigm", *Journal of the Academy of Marketing Science*, Vol.25, No.1, pp56-71.
- Achrol Ravi S., "Evolution of the marketing organization: New forms for turbulent environments", *Journal of Marketing*, Vol.55, pp77-93, October 1991.
- Aijo Toivo S., "The theoretical and philosophical underpinnings of relationship marketing -- Environmental factors behind the changing marketing paradigm", *European Journal of Marketing*, Vol.30, No.2, 1996, pp8-18.
- Alston Jon P., "Wa, Guanxi and Inhwa: Managerial principles in Japan, China and Korea", *Business Horizons*, March-April 1989, pp26-31.
- Ambler Tim, "The derivation of Guanxi", *Marketing Management*, Summer 1995, Vol.4, No.1, p27.
- Anderson Cristina P. & Tansuhaj Patriya S., "Exploring third world export distribution strategies", *Advances in International Marketing*, Vol.4, pp141-158, 1990.
- Anderson Erin & Coughlan Anne T., "International market entry and expansion via independent or integrated channels of distribution", *Journal of Marketing*, Vol.51, pp71-82, January 1987.
- Anderson Erin & Weitz Barton, "The use of pledges to build and sustain commitment in distribution channels", *Journal of Marketing Research*, Vol.XXIX, pp18-34, February 1992.
- Anderson James C., Hakansson Hakan & Johanson Jan, "Dyadic business relationships within a business network context", *Journal of Marketing*, Vol.58, pp1-15, October 1994.
- Anonymous, "Franchising in China", *East Asian Executive Reports*, 16(4): 6,10+, 1994 Apr 15.
- Barnett Timothy R. & Arnold Danny R., "Justification and application of path-goal contingency leadership theory to marketing channel leadership", *Journal of Business Research* 19, pp283-292, 1989.
- Blois Keith J., "Relationship marketing in organizational marketers: When is it appropriate?", *Journal of Marketing Management*, 1996, 12, pp161-173.
- Boyle Brett, Dwyer F. Robert, Robicheaux Robert A. & Simpson James T., "Influence strategies in marketing channels: Measures and use in different relationship structures", *Journal of Marketing Research*, Vol.XXIX, pp462-473, November 1992.
- Brunner James A., Chen Jiwei, Sun Chao & Zhou Nanping, "The role of Guanxi in negotiations in the Pacific Basin", *Journal of Global Marketing*, Vol.3(2), pp7-23, 1989.
- Bucklin Louis P., Ramaswamy Venkatram & Majumdar Sumit K., "Analyzing channel structures of business markets via the Structure-Output Paradigm", *International Journal of Research in Marketing*, 13, pp73-87, 1996.
- Cannon Joseph P. & Sheth Jagdish N., "Developing a curriculum to enhance teaching of relationship marketing", *Journal of Marketing Education*, Vol.16, Summer 1994, pp3-14.
- Carman James M., "A cross-national comparison of relations in automobile channels of distribution", *Advances in International Marketing*, Vol.4, pp1-32, 1990.
- Carter Tony, "Strategic customer development in China", *The Columbia Journal of World Business*, Winter 1996, pp57-64.
- Cavusgil Tamer, Yeoh Poh-Lin & Mitri Michel, "Selecting foreign distributors", *Industrial Marketing Management* 24, pp297-304, 1995.
- Celly Kirti Sawhney & Frazier Gary L., "Outcome-based and behavior-based coordination efforts in channel relationships", *Journal of Marketing Research*, Vol.XXXIII, pp200-210, May 1996.
- Chang Kuochung & Ding Cheng G., "The influence of culture on industrial buying selection criteria in Taiwan and Mainland China", *Industrial Marketing Management* 24; pp277-284, 1995.
- Chow, Charlotte, "Franchising in China", *Franchising World*, 26(3): 33-34, 1994, May/Jun.

- 
- Christy Richard, Oliver Gordon & Penn Joe, "Relationship marketing in consumer markets", *Journal of Marketing Management*, 1996, 12, pp175-187.
- Cravens David W., Shipp Shannon H. & Cravens Karen S., "Reforming the traditional organization: The mandate for developing networks", *Business Horizons*, July-August 1994, pp19-28.
- Croft Robin & Woodruffe Helen, "Network marketing: The ultimate in international distribution?", *Journal of Marketing Management*, 1996, 12, pp201-214.
- Cronin Aidan, "Marketing to China -- A framework", in Stanley J. Paliwoda edition, *New Perspectives on International Marketing*.
- Cui Geng, "The different faces of the Chinese consumer", *The China Business Review*, July-August, 1997 pp34-39.
- Cunningham & Culligan K., "Competitiveness through networks of relationships in information technology product markets", in Stanley J. Paliwoda edition, *New Perspectives on International Marketing*.
- Dahlstrom Robert & Dwyer F. Robert, "The political economy of distribution systems: Network perspectives and propositions", *Journal of Marketing Theory & Practice*, 1997 5:2 Spring.
- Dant Rajiv P., "Motivation for franchising: Rhetoric versus reality", *International Small Business Journal* 14, 1, pp10-34.
- Davies Howard, Leung Thomas K.P., Luk Sherriff T.K. & Wong Yiu-hing, "The benefit of 'Guanxi'", *Industrial Marketing Management* 24, pp207-214, 1995.
- Dickson Peter R., "Distribution portfolio analysis and the channel dependence matrix: New techniques for understanding and managing the channel", *Journal of Marketing*, Vol.47, pp35-44, Summer 1983.
- Dion Paul, Easterling Debbie & Miller Shirley Jo, "What is really necessary in successful buyer/seller relationships?", *Industrial Marketing Management* 24, pp1-9, 1995.
- Doney Patricia M. and Cannon Joseph P., "An examination of the nature of trust in buyer-seller relationships", *Journal of Marketing*, Vol.61, pp35-51, April 1997.
- Dwyer Robert, Schurr Paul H. & Oh Sejo, "Developing buyer-seller relationships", *Journal of Marketing*, Vol.51, pp11-27, April 1987.
- Easton Geoff & Hakansson Hakan, "Markets as networks: Editorial introduction", *International Journal of Research in Marketing* 13, pp407-413, 1996.
- El-Ansary Adel, "Supplier relationships: A channel management approach to merchant/wholesaler sales force effectiveness", *Journal of Marketing Channels*, Vol.2 (3), pp107-122, 1993.
- Elg Ulf & Johansson Ulf, "Networking when national boundaries dissolve -- The Swedish food sector", *European Journal of Marketing*, Vol.30, No.2, 1996, pp61-74.
- Elizabeth J. Wilson & Richard P. Vlosky, "Partnering relationship activities: Building theory from case study research", *Journal of Business Research*, Vol.39, No.1, pp59-70, May 1997.
- Erdener Carolyn & Chan Peng, "International franchising strategy: Kentucky fried chicken in China", Paper appeared in the *Proceedings of the Cross-Cultural Management in China Conference*, August 26-28, 1996.
- Erramilli Krishna and Rao C. P., "Service firms' international entry-mode choice: A modified transaction-cost analysis approach", *Journal of Marketing*, Vol.57, pp19-38, July 1993.
- Evangelista Felicitas U., "Linking business relationships to marketing strategy and export performance: A proposed conceptual framework", *Advances in International Marketing*, Vol.8, pp59-83, 1996.
- Felstead Alan, "Shifting the frontier of control: Small firm autonomy within a franchise", *International Small Business Journal* 12, 2, pp50-62.
- Forsgren Mats & Johnson Jan, "Managing internationalization in business networks", Gordon & Breach, pp1-16, 1992.
-



- 
- Frazier Gary L. & Lassar, Walfried M. "Determinants of distribution intensity", *Journal of Marketing*, Vol.60, pp39-51, October 1996.
- Fulop Christina & Forward Jim, "Insights into franchising: A review of empirical and theoretical perspectives", *The Service Industries Journal*, Vol.17, No.4, 1997 October, pp603-625.
- Gadde Lars-Erik & Mattsson Lars-Gunnar, "Analyzing dynamics in distribution -- A network approach", Paper to be presented at the 9th IMP Conference, 1993 Sept.
- Ganesan Shankar, "Determinants of long-term orientation in buyer-seller relationships", *Journal of Marketing*, Vol.58, pp1-19, April 1994.
- Gassenheimer Jule B. & Calantone Roger J., "Managing economic dependence and relational activities within a competitive channel environment", *Journal of Business Research* 29, pp189-197, 1994.
- Gummesson Evert, "Relationship marketing and imaginary organizations: A synthesis", *European Journal of Marketing*, Vol.30, No.2, 1996, pp31-44.
- Gummesson Evert, Lehtinen Uolevi & Gronroos Christian, "Comment on 'Nordic perspectives on relationship marketing'", *European Journal of Marketing* Vol.31, No.1, 1997, pp10-16.
- Gundlach Gregory T. & Murphy Patrick E., "Ethical and legal foundations of relational marketing exchanges", *Journal of Marketing*, Vol.57, pp35-46, October 1993.
- Halinen Aino, "Service quality in professional business services: A relationship approach", *Advances in Services Marketing and Management*, Vol.5, pp315-341, 1996.
- Hansen Scott W., Swan John E. & Powers Thomas L., "Vendor relationships as predictors of organizational buyer complaint response styles", *Journal of Business Research* 40, pp65-77, 1997.
- Heide Jan B., "Interorganizational governance in marketing channels", *Journal of Marketing*, Vol.58, pp71-85, January 1994.
- Hollander Stanley C. & Omura Glenn S., "Chain store developments and their political, strategic, and social interdependencies", *Journal of Retailing*, Vol.65, No.3, Fall 1989.
- Holmlund Maria & Kock Soren, "Buyer perceived service quality in industrial networks", *Industrial Marketing Management* 24, pp109-121, 1995.
- Hsieh Cheng-Ho & Liu Chiping, "The importance of personal contact in trading with China", *Review of Business*, Vol.14, No.2, Winter 1992, pp41-42.
- Hsieh Tsun-uan, "Prospering through relationships in Asia", *The McKinsey Quarterly*, 1996, No.4, pp4-13.
- Iacobucci Dawn & Hopkins Nigel, "Modeling dyadic interactions and networks in marketing", *Journal of Marketing Research*, Vol.XXIX, pp5-17, February 1992.
- Iacobucci Dawn & Ostrom Amy, "Commercial and interpersonal relationships: Using the structure of interpersonal relationships to understand individual-to-individual, individual-to-firm, and firm-to-firm relationships in commerce", *International Journal of Research in Marketing*, 13, pp53-72, 1996.
- Joseph Benoy, Gardner John T., Thach Sharon & Vernon Frances, "How industrial distributors view distributor-supplier partnership arrangements", *Industrial Marketing Management* 24, pp27-36, 1995.
- Kamis Tali Levine, "Tickling Chinese taste buds", *The China Business Review*, Jan-Feb, 1996, pp44-47.
- Kindel Thomas Irby, "A cultural approach to negotiations", *Advances in Chinese Industrial Studies*, Vol.1, Part B, pp127-135, 1990.
- Lambert Douglas M., Adams Ronald J., & Emmelhainz Margaret A., "Supplier selection criteria in the healthcare industry: A comparison of importance and performance", *International Journal of Purchasing and Materials Management*, Winter 1997, pp16-48.
-

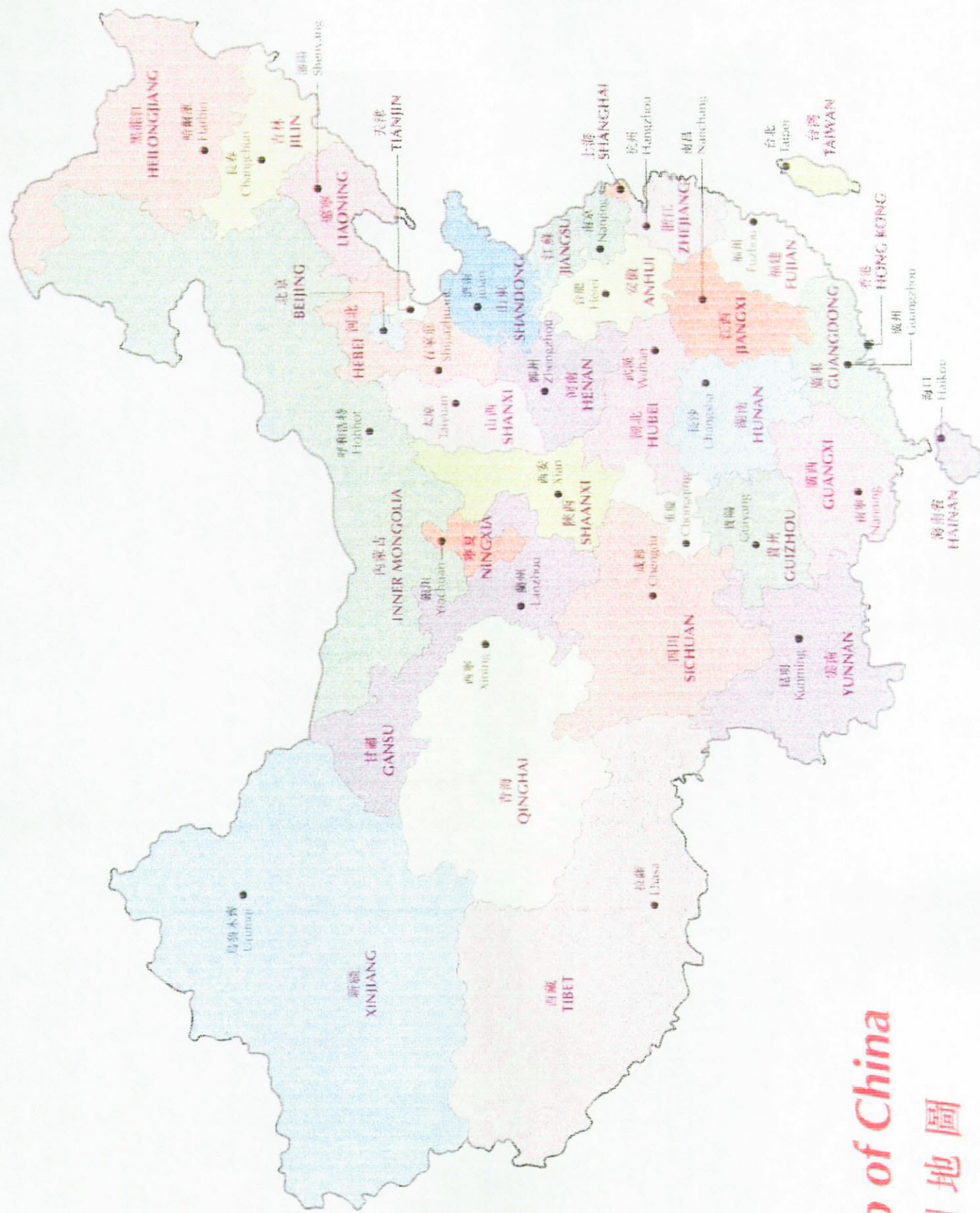
- 
- Larsen Trina L. & Rosenbloom Bert, "A functional approach to international channel structure and the role of independent wholesalers", *Journal of Marketing Channels*, Vol.2(4), pp65-82, 1993.
- Leung, Wong Y.H. & Tam J.L.M., "Adaptation and the relationship building process in the People's Republic of China (PRC)", *Journal of International Consumer Marketing*, Vol.8(2), pp7-26, 1995.
- Linn, Gene, "More than just burgers at stake", *Asian Business*, 30(4): 8, 1994 Apr.
- Luk Sherriff T.K., "Structural changes in China's distribution system".
- Luo Yadong, "Guanxi and performance of foreign-invested enterprises in China: An empirical inquiry", *Management International Review*, Vol.37, 1997/1, pp51-70.
- Lusch Robert F. & Brown James R., "Interdependency, Contracting, and relational behavior in marketing channels", *Journal of Marketing*, Vol.60, pp19-38, October 1996.
- Magrath Allan J. & Hardy Kenneth G., "Six steps to distribution network design", *Business Horizons*, January-February 1990, pp48-52.
- Mattsson Lars-Gunnar, "'Relationship marketing' and the 'Markets-as-Networks approach' -- A comparative analysis of two evolving streams of research", *Journal of Marketing Management*, 1997, 14, pp447-461.
- Menon, Anil, Bharadwaj, Sundar G. & Howell, Roy, "The quality and effectiveness of marketing strategy: Effects of functional and dysfunctional conflict in intraorganizational relationships", *Journal of the Academy of Marketing Science*, 24(4): pp299-313, 1996 Fall.
- Mohr Jakki & Nevin John R., "Communication strategies in marketing channels: A theoretical perspective", *Journal of Marketing*, pp36-49, October 1990.
- Mohr Jakki J., Fisher Robert J. & Nevin John R., "Collaborative communication in interfirm relationships: moderating effects of integration and control", *Journal of Marketing* Vol.60, pp103-115, July 1996.
- Moorman Christine, Deshpande Rohit & Zaltman Gerald, "Factors affecting trust in market research relationships", *Journal of Marketing*, Vol.57, pp81-101, January 1993.
- Moorman Christine, Zaltman Gerald & Deshpande Rohit, "Relationships between providers and users of market research: The dynamics of Trust within and between organizations", *Journal of Marketing Research*, Vol. XXIX, pp314-328, August 1992.
- Morgan Robert M. & Hunt Shelby D., "The commitment-trust theory of relationship marketing", *Journal of Marketing*, Vol.58, pp20-38, July 1994.
- Neuhaus Patricia, "Critical incidents in internal customer-supplier relationships: Results of an empirical study", *Advances in Services Marketing and Management*, Vol.5, pp283-313, 1996.
- Noordewier Thomas G., George John & Nevin John R., "Performance outcomes of purchasing arrangements in industrial buyer-vendor relationships", *Journal of Marketing*, October 1990, pp80-93.
- Perrien Jean & Ricard Line, "The meaning of a marketing relationship -- A pilot study", *Industrial Marketing Management* 24, pp37-43, 1995.
- Perrien Jean, Paradis Sylvie & Banting Peter M., "Dissolution of a relationship", *Industrial Marketing Management* 24, pp317-327, 1995.
- Piercy Nigel F & Cravens David W., "The network paradigm and the marketing organization -- Developing a new management agenda", *European Journal of Marketing* Vol.29, No.3, 1995, pp7-34.
- Qualls William J. & Rosa Jose Antonio, "Assessing industrial buyers' perceptions of quality and their effects on satisfaction", *Industrial Marketing Management* 24, pp359-368, 1995.
- Ramaseshan & Patton Mark A., "Factors influencing international channel choice of small business exporters", *International Marketing Review*, Vol.11, No.4, 1994, pp19-34.
-

- 
- Rangan Kasturi & Jaikumar Ramchandran, "Integrating distribution strategy and tactics: A model and an application", *Management Science*, Vol.37, No.11, pp1377-1389, November 1991.
- Rosenbloom Bert, "Motivating your international channel partners", *Business Horizons*, March-April 1990, pp53-57.
- Rylander David, Strutton David & Pelton Lou E., "Toward a synthesized framework of relational commitment: Implications for marketing channel theory and practice", *Journal of Marketing Theory and Practice*, Spring 1997, pp58-71.
- Saitoh Tadashi, "The present distribution situation in China", *JETRO China Newsletter* No. 130, pp1-15.
- Saunders John, Saker James & Smith Gareth, "Afterword: An agenda for research into strategic marketing planning", *Journal of Marketing Management*, 1996, 12, pp215-230.
- Schmitz Judith M., "Understanding the persuasion process between industrial buyers and sellers", *Industrial Marketing Management* 24, pp83-90, 1995.
- Sheaves Daphne E. & Barnes James G., "The fundamentals of relationships: An exploration of the concept to guide marketing implementation", *Advances in Services Marketing and Management*, Vol.5, pp215-245, 1996.
- Shipley David, Egan Colin & Edgett Scott, "Meeting source selection criteria: Direct versus distributor channels", *Industrial Marketing Management* 20, pp297-303, 1991.
- Simpson James T. & Mayo Donna T., "Relationship management: A call for fewer influence attempts?", *Journal of Business Research* 39, pp209-218, 1997.
- Simpson James T. & Wren Brent M., "Buyer-seller relationships in the wood products industry", *Journal of Business Research*, Vol.39, No.1, pp45-52, May 1997.
- Smith Paul M., Ross Erik S. & Smith Timothy, "A case study of distributor-supplier business relationships", *Journal of Business Research*, Vol.39, No.1, pp39-44, May 1997.
- Storbacka Kaj, Strandvik Tore & Gronroos Christian, "Managing customer relationships for profit: The dynamics of relationship quality", *International Journal of Service Industry Management*, Vol.5, No.5, 1994, pp21-38.
- Stump Rodney L. & Heide Jan B., "Controlling supplier opportunism in industrial relationships", *Journal of Marketing Research*, Vol.XXXIII, pp431-441, November 1996.
- Takala Tuomo & Unsitalo Outi, "An alternative view of relationship marketing: A framework for ethical analysis", *European Journal of Marketing*, Vol.30, No.2, 1996, pp45-60.
- Turnbull Peter, "Development of the interaction approach and relationship marketing", UMIST.
- Walker Orville C., Jr., "The adaptability of network organizations: Some unexplored questions", *Journal of the Academy of Marketing Science*, Vol.25, No.1, pp75-82, 1997.
- Walters Bruce A., Steve Peters & Dess Gregory G., "Strategic alliances and joint ventures: Making them work", *Business Horizons*, July-August 1994, pp5-10.
- Wensley Robin, "A critical review of research in marketing", *British Journal of Management*, Vol.6, Special Issue, ppS63-S82, December, 1995.
- Wilson David T. & Moller K.E. Kristan, "Buyer-seller relationships -- Alternative conceptualizations", in Stanley J. Paliwoda edition, *New Perspectives on International Marketing*.
- Worthington Steve & Horne Suzanne, "Relationship marketing: The case of the University Alumni Affinity Credit Card", *Journal of Marketing Management*, 1996, 12, pp189-199.
- Zhang Samuel X. and Snyder Jeffrey L., "The five P's", *The China Business Review*, March-April, 1988, pp14-18.
-

---

# Appendices

---



Map of China

中國地圖

# **A Survey on Partnering Relationship and Retailer Performance in China**

---

This academic research project is sponsored by the Hong Kong Polytechnic University with the aim at exploring some major issues in the development of retail chain and facilitating the comparison of partnering relationship between the franchising parties, at a retail store level and system level, in China.

You are assured that complete confidentiality will be observed ie. neither you nor your company will be identified by name in the final report. It is estimated that the following questions can be answered in around thirty minutes. You are requested to complete the questionnaire from the "perspective of your company", any personal comments that you may wish to add by way of clarification are welcomed.

---

Department of Business Studies  
The Hong Kong Polytechnic University

## Part I Organization Demographics

The questions included in this section aiming at learning more about two key issues: (1) the background of your retail store and company; (2) the nature of relationship between the principal/ franchisor and your store.

1. How long have you run your current business? \_\_\_\_\_

2. Which of the following best describe the nature of your current business ?

- |                     |                          |                                |                          |
|---------------------|--------------------------|--------------------------------|--------------------------|
| Supermarket         | <input type="checkbox"/> | Department Store               | <input type="checkbox"/> |
| Watch and Jewellery | <input type="checkbox"/> | Fashion and Clothing           | <input type="checkbox"/> |
| Optical Shop        | <input type="checkbox"/> | Shoes                          | <input type="checkbox"/> |
| Audio and Visual    | <input type="checkbox"/> | Pharmaceutical and Medical     | <input type="checkbox"/> |
| Convenience Store   | <input type="checkbox"/> | Others... please specify _____ | <input type="checkbox"/> |

3. What is the ownership nature of your existing company/ store?

- |                                   |                          |
|-----------------------------------|--------------------------|
| State-owned                       | <input type="checkbox"/> |
| Collectives                       | <input type="checkbox"/> |
| Privately-owned                   | <input type="checkbox"/> |
| Share-holding                     | <input type="checkbox"/> |
| Foreign-invested                  | <input type="checkbox"/> |
| Joint Venture                     | <input type="checkbox"/> |
| Others, please specify..... _____ | <input type="checkbox"/> |

4. Please indicate the size of your retail store in terms of the following:

a. The Average Monthly Sales Revenue in 1997 (RMB)

- |                                       |                          |
|---------------------------------------|--------------------------|
| Below 250,000... please specify _____ | <input type="checkbox"/> |
| 250,001 - 500,000                     | <input type="checkbox"/> |
| 500,001 - 750,000                     | <input type="checkbox"/> |
| Above 750,001 ...please specify _____ | <input type="checkbox"/> |

b. The Average Monthly Sales Revenue in 1998 (RMB)

- |                                       |                          |
|---------------------------------------|--------------------------|
| Below 250,000... please specify _____ | <input type="checkbox"/> |
| 250,001 - 500,000                     | <input type="checkbox"/> |
| 500,001 - 750,000                     | <input type="checkbox"/> |
| Above 750,001 please specify _____    | <input type="checkbox"/> |

c. Number of retail outlets operated by your store throughout China

- |                                       |                          |
|---------------------------------------|--------------------------|
| Less than 3                           | <input type="checkbox"/> |
| 4 - 7                                 | <input type="checkbox"/> |
| 8 - 11                                | <input type="checkbox"/> |
| More than 12 ... please specify _____ | <input type="checkbox"/> |

d. Number of full-time employees working in your store (exclude other retail outlets in China)

- |                                      |                          |
|--------------------------------------|--------------------------|
| Less than 5                          | <input type="checkbox"/> |
| 6 - 11                               | <input type="checkbox"/> |
| 12 - 17                              | <input type="checkbox"/> |
| More than 18... please specify _____ | <input type="checkbox"/> |

5. Please state the company name of your principal/ franchisor ? \_\_\_\_\_

6. What is the nature of your relationship with the principal/ franchisor?

- |   |                          |
|---|--------------------------|
| a. A franchising chain, where the store is managed and supplied under a contract.                         | <input type="checkbox"/> |
| b. A Direct-chain operation, where one parent company owns and operates all the stores.                   | <input type="checkbox"/> |
| c. A Voluntary chain, the stores are independent but coordinated and supplied with a chain-store operator | <input type="checkbox"/> |
| d. None of the above.. please specify _____   | <input type="checkbox"/> |

7a. How long have you been doing business with the principal/ franchisor? \_\_\_\_\_

7b. At what time did your store start to enter into a chain business? \_\_\_\_\_

8. How did you know the principal/ franchisor ? \_\_\_\_\_

9. To what extent you were familiar with your principal/ franchisor before joining the chain?

- |                     |                          |
|---------------------|--------------------------|
| Very familiar       | <input type="checkbox"/> |
| Familiar            | <input type="checkbox"/> |
| Moderately familiar | <input type="checkbox"/> |
| Unfamiliar          | <input type="checkbox"/> |

10. From your own experience, what would you suggest to a potential participant about the major criteria used in choosing a franchisor/ principal, when joining a chain like yours?

---

---

11. What do you expect are the five major marketing roles or functions of the principal/franchisor?

- |   |                          |
|---|--------------------------|
| a. Marketing planning                         | <input type="checkbox"/> |
| b. Sales training                             | <input type="checkbox"/> |
| c. Performance review                         | <input type="checkbox"/> |
| d. Co-operative advertising                   | <input type="checkbox"/> |
| e. New product or service development program | <input type="checkbox"/> |
| f. JIT Inventory management                   | <input type="checkbox"/> |
| g. Sharing of Customer List                   | <input type="checkbox"/> |
| h. Logistic Planning                          | <input type="checkbox"/> |
| i. Selection of Suppliers                     | <input type="checkbox"/> |
| j. Communication between both parties         | <input type="checkbox"/> |
| k. Pricing strategy                           | <input type="checkbox"/> |
| l. Promotion campaign                         | <input type="checkbox"/> |
| m. Marketing Research                         | <input type="checkbox"/> |
| n. Seeking financial assistance               | <input type="checkbox"/> |

Major reasons/ other comments:

---

---



## Part II Formation History

In this section, we are interested in your opinion about the formation of this retail chain and the operation issues. There are no right or wrong answers to any of the following statements. Please indicate the extent of your agreement or disagreement by circling the number best describing your idea to the statement.

1. To what extent do you agree on the following statements pertaining to the formation of this retail chain. Please check on the following scales to reveal your opinion by choosing the relevant number, where "1" represents "Strongly Disagree" and "7" refers to "Strongly Agree" with it.

	Strongly Disagree 1	Disagree 2	Slightly Disagree 3	Neither Agree Nor Disagree 4	Slightly Agree 5	Agree 6	Strongly Agree 7
				Strongly Disagree			Strongly Agree
a. The relationship was developed according to the Government's instruction.	1	2	3	4	5	6	7
b. The relationship was developed by your own desire and you were freely join the chain.	1	2	3	4	5	6	7
c. The chain was established mainly with the support of the Government subsidies.	1	2	3	4	5	6	7
d. The chain was established to facilitate business expansion.	1	2	3	4	5	6	7
e. The chain was established to facilitate the distribution of goods.	1	2	3	4	5	6	7
f. The chain was initiated and established in respect to the re-structuring of state-owned enterprises.	1	2	3	4	5	6	7
g. The chain is just an administrative relationship, without any contract binding.	1	2	3	4	5	6	7
h. The chain was established to enhance/ or improve procurement accessibility.	1	2	3	4	5	6	7
i. The relationship gives rise to a significant restructuring in your existing business.	1	2	3	4	5	6	7
j. The chain was monitored by a well-defined operation manual.	1	2	3	4	5	6	7
k. There was no Government involvement in the relationship.	1	2	3	4	5	6	7
l. The chain has to report regularly to the Government.	1	2	3	4	5	6	7
m. The relationship is legally verified by an official contract.	1	2	3	4	5	6	7
n. The management of the chain is under the control of the franchisor/ principal.	1	2	3	4	5	6	7
o. The Government has the right to terminate the chain relationship.	1	2	3	4	5	6	7
p. The chain was just a trial policy.	1	2	3	4	5	6	7

2. Of the following statements, please show the level of importance to your company's initial interest in the partnering relationship. Please use the following scales to indicate your responses by circling the relevant number, where "1" represents "Unimportant at all" and "5" refers to "Very Important".

Unimportant at all	Below Average Importance	Average Importance	Above Average Importance	Very Important			
1	2	3	4	5			
			Unimportant at all		Very Important		
a. As encouraged by the national policy on developing franchising chains in China.			1	2	3	4	5
b. In response to the moves of local competitors.			1	2	3	4	5
c. As a reaction to compete against foreign retailers in the China market			1	2	3	4	5
d. As a way to get rid of the local competitive force.			1	2	3	4	5
e. Advised by an independent consultant.			1	2	3	4	5
f. This is the only way to get government subsidies.			1	2	3	4	5
g. This can gain competitive advantages in procurement activities.			1	2	3	4	5
h. This is the easiest way to get trained and qualified management skills.			1	2	3	4	5
i. As the only way to enjoy a privilege tax rate.			1	2	3	4	5
j. This can enhance competitive advantages in marketing activities.			1	2	3	4	5
k. As a crucial way to foster a good store image.			1	2	3	4	5
l. As a strategic move to future expansion.			1	2	3	4	5
m. Easy access to preferential loans for store expansion.			1	2	3	4	5
n. To retain a higher autonomy in supplier selection.			1	2	3	4	5
o. As a way to have more selections in goods purchases.			1	2	3	4	5
p. To enjoy a superior store image due to a standardized chain logo and name.			1	2	3	4	5
q. Others, please specify....			1	2	3	4	5

### Part III

### Partnering Activities

In this section, we are interested in your opinion on the partnering level between franchisor/ principal and their franchisees (the store)/ membership stores by investigating their working relationship and relational behaviour.

1. To what extent do you agree on the following statement about your working relationship with your franchisor/ principal. Please check on the following scales to indicate your responses, where "1" represents "Strongly Disagree" and "7" refers to "Strongly Agree" with it.

	Strongly Disagree 1	Disagree 2	Slightly Disagree 3	Neither Agree Nor Disagree 4	Slightly Agree 5	Agree 6	Strongly Agree 7
	Strongly Disagree						Strongly Agree
a. We are willing to put considerable effort and investment into building our business with the principal/ franchisor.	1	2	3	4	5	6	7
b. The business relationship with this principal/ franchisor can well be described as being a "partnership".	1	2	3	4	5	6	7
c. The business relationship with this principal/ franchisor can be described as a "father-and-son" relationship.	1	2	3	4	5	6	7
d. A comprehensive quality training is regularly conducted for our personnel by the franchisor/ principal.	1	2	3	4	5	6	7
e. The relationship we have with the principal/ franchisor makes use of many controls.	1	2	3	4	5	6	7
f. We conduct joint marketing planning with the principal/ franchisor.	1	2	3	4	5	6	7
g. A written marketing plan embraces all the requirement binding our relationship.	1	2	3	4	5	6	7
h. There is an agreement on the overall marketing objectives.	1	2	3	4	5	6	7
i. Joint programs are launched to market the chain's products.	1	2	3	4	5	6	7
j. Franchisees/ member stores are independent from the franchisor/ principal in areas of financial and personnel management.	1	2	3	4	5	6	7
k. We are committed to improvements that may benefit relationships with our principal/ franchisor as a whole and not only ourselves.	1	2	3	4	5	6	7
l. We conduct annual performance review with the principal/ franchisor.	1	2	3	4	5	6	7
m. Our performance is assessed through a formal evaluation program.	1	2	3	4	5	6	7
n. Our relationship with the principal/ franchisor is expected to last for a long time.	1	2	3	4	5	6	7
o. Our relationship with the principal/ franchisor is persistent and sustained forever.	1	2	3	4	5	6	7
p. The relationship we have with the principal/ franchisor is essentially "evergreen".	1	2	3	4	5	6	7
q. Our relationship with the principal/ franchisor is a long term alliance.	1	2	3	4	5	6	7
r. We expect our partnering relationship to be maintained at the existing level.	1	2	3	4	5	6	7
s. Our relationship will get a great improvement.	1	2	3	4	5	6	7
t. We would like to get rid of the relationship.	1	2	3	4	5	6	7
u. We have regular meeting with the principal/ franchisor.	1	2	3	4	5	6	7

	Strongly Disagree						Strongly Agree
v. Accurate, timely communication is a key to our relationship maintenance with the principal/ franchisor.	1	2	3	4	5	6	7
w. We have frequent telephone communication with the principal/ franchisor.	1	2	3	4	5	6	7
x. Exchange of information in this relationship takes place frequently and informally, and not only according to a prespecified agreement.	1	2	3	4	5	6	7
y. It is expected that we keep each other informed about events or changes that may affect the other party.	1	2	3	4	5	6	7
z. It is expected that both parties will provide proprietary information if it can help the other party.	1	2	3	4	5	6	7
aa. In this relationship, it is expected that both parties respect the confidentiality of the information shared and neither of us is expected to withhold important information.	1	2	3	4	5	6	7
ab. We always provide information that might help our principal/ franchisor to plan.	1	2	3	4	5	6	7
ac. We share information with the principal/ franchisor that we would not have shared before the partnership program was implemented.	1	2	3	4	5	6	7
ad. Flexibility in response to request for changes is a characteristic of this relationship.	1	2	3	4	5	6	7
ae. The parties expect to be able to make adjustments in the ongoing relationship to cope with changing circumstances.	1	2	3	4	5	6	7
af. When some unexpected situation arises, both parties would rather work out a new deal than hold each other to the original terms.	1	2	3	4	5	6	7
ag. We are always examining ways of sharing the risks associated with purchasing and holding inventories during periods of market volatility	1	2	3	4	5	6	7

2. Of the following activities of the chain, please indicate to what extent do you consider the level of Government involvement in the working relationship between the franchisor/ principal and franchisee/ member store. Circle the number to best indicate your choice, with "1" representing "The activities are initiated, coordinated & tightly control by the Government", "2" indicating that "No Government involvement but the chain has to report to the Government", "3" refers to "The activities are initiated by the parties freely, but the Government plays a coordinate role only" and "4" stating that "No Involvement from the Government at all".

a. Marketing planning	1	2	3	4
b. Sales training	1	2	3	4
c. Performance review	1	2	3	4
d. Co-operative advertising	1	2	3	4
e. New product or service development program	1	2	3	4
f. JIT Inventory management	1	2	3	4
g. Sharing of Customer List	1	2	3	4
h. Logistic Planning	1	2	3	4
i. Selection of suppliers	1	2	3	4
j. Communication between both parties	1	2	3	4
k. Pricing strategy	1	2	3	4
l. Promotion campaign	1	2	3	4
m. Marketing research	1	2	3	4
n. Seeking financial assistance	1	2	3	4

## Part IV Business Performance

In this section, the overall performance level of the retail store will be evaluated.

1. We would like to get some key figures from the last two financial years if applied, of the following aspects:

	1996	1997	1998
Turnover in RMB ('000)	_____	_____	_____
Gross Investment in RMB ('000)	_____	_____	_____

2. How do you predict the future of your business ?

- Growing ☐  
 Maintaining at the same size ☐  
 Shrinking ☐

3. How do you predict the future of the chain ?

- Growing ☐  
 Maintaining at the same size ☐  
 Shrinking ☐

4. How do you predict your relationship with the principal/ franchisor in the next five years?

- Getting Closer ☐  
 Maintaining ☐  
 Deteriorating ☐

5. To what extent the existing relationship between you and the principal/ franchisor contribute to accomplishing the following objectives. Please check on the following scales to show your opinion by circling the relevant number, where "1" represents "Not of Any Value" and "5" refers to "Highly Valuable".

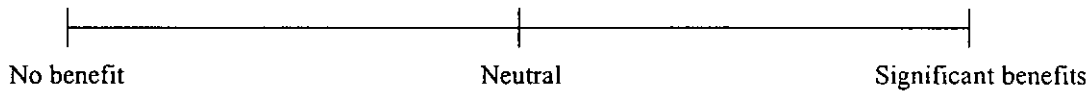
	Unimportant at all 1	Below Average Importance 2	Average Importance 3	Above Average Importance 4	Very Important 5
	Unimportant at all				Very Important
a. To determine an optimal distribution network	1	2	3	4	5
b. To enhance the communication between you and the principal/ franchisor	1	2	3	4	5
c. To improve sales turnover	1	2	3	4	5
d. To prevent marketing mistakes	1	2	3	4	5
e. To determine a sales projection for the investment	1	2	3	4	5
f. To lower the operational cost	1	2	3	4	5
g. To respond to market changes more rapidly	1	2	3	4	5
h. To better cooperate with each party	1	2	3	4	5
i. To improve customer satisfaction	1	2	3	4	5
j. To tighten the commitment from each party	1	2	3	4	5
k. To resolve the conflict between the franchisor/ principal and franchisee/ member store	1	2	3	4	5
l. To ensure the quality of marketing program	1	2	3	4	5
m. To secure the supplies of high quality products	1	2	3	4	5
n. To improve the image of the chain	1	2	3	4	5
o. Others... please specify _____	1	2	3	4	5

6. Of the above items from (a) to (o), please indicate the three most important objectives that has been achieved successfully. 1. \_\_\_\_\_ 2. \_\_\_\_\_ 3. \_\_\_\_\_

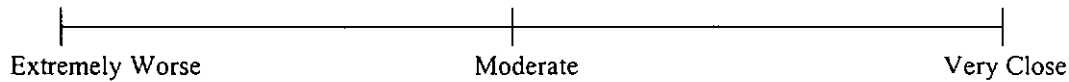
7. Please rate the business performance of your store over the last year after joining the chain in terms of the following aspects. Please check on the following scales and to indicate your choice with the most appropriate number, where "1" represents "No Improvement at all" and "5" refers to "Great Improvement".

	No Improvement at all 1	Slight Improvement 2	Average Improvement 3	Above average Improvement 4	Great Improvement 5
	No improvement at all				Great Improvement
a. Sales growth	1	2	3	4	5
b. Profit growth	1	2	3	4	5
c. Overall profitability	1	2	3	4	5
d. Customer satisfaction	1	2	3	4	5
e. Service standards	1	2	3	4	5
f. Labour profitability	1	2	3	4	5
g. Market position	1	2	3	4	5
h. Procurement accessibility	1	2	3	4	5
i. Store image	1	2	3	4	5
j. Operation efficiency	1	2	3	4	5
k. Selection of Supplier	1	2	3	4	5
l. Geographic coverage	1	2	3	4	5

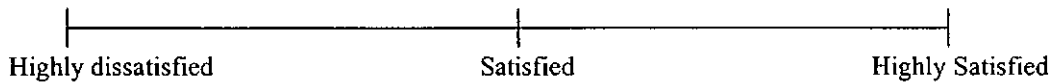
8. On the following continuum scale, please indicate your company's perception of the potential benefits in committing to the relationship.



9. How would you assess the cooperative relationship with the principal/ franchisor?



10. How satisfy would you consider the existing partnering relationship with the principal/ franchisor ?



11. In the next three years, in which of the following functional area(s) would you prefer to develop a closer working relationship with the principal/ franchisor? Please show your opinion by listing them in an ascending order of "1,2,3,4,5 ...up to 13" where "1" denotes the most preferable functions in Column A. Please also indicate in Column B your opinion about five areas that your principal/ franchisor has achieved satisfactory by putting a "tick" on the relevant dimension.

	<u>Column A</u>	<u>Column B</u>
a. Marketing planning	_____	_____
b. Sales training	_____	_____
c. Performance review	_____	_____
d. Co-operative advertising	_____	_____
e. New product or service development program	_____	_____
f. JIT Inventory management	_____	_____
g. Sharing of Customer List	_____	_____
h. Logistic Planning	_____	_____
i. Selection of suppliers	_____	_____
j. Communication between both parties	_____	_____
k. Pricing strategy	_____	_____
l. Promotion Campaign	_____	_____
m. Marketing Research	_____	_____
n. Seeking of financial assistance	_____	_____

12. From a managerial perspective, which of the following can best describe the driving force(s) of this partnering relationship? (You can choose more than 1 choice)

- |   |                          |
|---|--------------------------|
| a. Get to be promoted to a higher administrative rank   | <input type="checkbox"/> |
| b. As a way to gain self achievement                    | <input type="checkbox"/> |
| c. Possible to earn more money                          | <input type="checkbox"/> |
| d. As a responsibility to support the government policy | <input type="checkbox"/> |
| e. Subject to market forces                             | <input type="checkbox"/> |
| f. As a way to have further business development        | <input type="checkbox"/> |
| g. Others, please specify... _____                      | <input type="checkbox"/> |

13. From a managerial perspective, to what extent do you think the following methods can better improve the current partnering relationship? Please check on the following scales and to indicate your level of importance by circling the most appropriate number, where "1" represents "Unimportant at all" and "5" refers to "Very Important".

	Unimportant at all 1	Below Average Importance 2	Average Importance 3	Above Average Importance 4	Very Important 5
	Unimportant at all				Very Important
a. More professional training provided by the Government	1	2	3	4	5
b. More financial subsidies from Government	1	2	3	4	5
c. A detailed operation manual provided by the franchisor/ principal	1	2	3	4	5
d. More resources shared between both parties	1	2	3	4	5
e. More communication between both parties	1	2	3	4	5
f. More autonomy in supplier selection	1	2	3	4	5
g. Greatly use of centralised distribution centre	1	2	3	4	5
h. More autonomy in decision making of each store	1	2	3	4	5
i. More marketing research to be conducted	1	2	3	4	5
j. More marketing functions to be taken by the franchisor/ principal	1	2	3	4	5
k Others, please specify ... _____	1	2	3	4	5

14. From a managerial perspective, which of the following is/ are the problem(s) commonly encountered by the domestic retail chain in China? (You can choose more than 1 choice)

- |   |                          |
|---|--------------------------|
| a. Little coordination or consistency between the franchisor/ principal and franchisees | <input type="checkbox"/> |
| b. Chains are only in name, with a separate management and supply system                | <input type="checkbox"/> |
| c. Lack of policy support   | <input type="checkbox"/> |
| d. Without sufficient government financial subsidies                                    | <input type="checkbox"/> |
| e. Tightly government management and control  | <input type="checkbox"/> |
| f. Severe foreign competition   | <input type="checkbox"/> |
| g. Great local competition  | <input type="checkbox"/> |
| h. Lack of management knowhow   | <input type="checkbox"/> |
| i. Lack of Marketing knowhow  | <input type="checkbox"/> |
| j. Unmatching with the legal system   | <input type="checkbox"/> |
| k. Others...please specify _____  | <input type="checkbox"/> |

-----  
Thank you for answering this questionnaire. Please fill in the following detail and return to the author.

Do you wish to receive a copy of the findings from this questionnaire? Yes/ No

Company: \_\_\_\_\_

Name of respondent: \_\_\_\_\_

Respondent's Position: \_\_\_\_\_



# 中國零售店的夥伴關係及零售商表現之研究

---

香港理工大學商學系現正進行一項有關中國連鎖店發展的研究，旨在探討連鎖店在中國的發展所面對的市場營銷管理問題及了解連鎖店店舖系統間的夥伴關係。希望閣下支持此學術調查研究及根據貴公司/店的經驗來回答問卷。

此項調查中的一切資料絕對保密。無論閣下或貴公司的名稱都不會刊登於研究報告中。

---

香港理工大學商學系

## 第一部份：企業背景

本部份的問題旨在讓我們了解貴零售店舖和公司的背景及貴店舖與連鎖店創辦者的關係。

1. 貴店經營現時的業務有多久？ \_\_\_\_\_
2. 貴店現時的業務性質屬於以下哪一類？（請選出最恰當的一項）

超級市場	<input type="checkbox"/>	百貨公司	<input type="checkbox"/>
鐘錶珠寶	<input type="checkbox"/>	成衣服裝	<input type="checkbox"/>
眼鏡專門店	<input type="checkbox"/>	鞋類	<input type="checkbox"/>
視聽器材	<input type="checkbox"/>	醫療用品	<input type="checkbox"/>
便利店	<input type="checkbox"/>	其他（請註明） _____	<input type="checkbox"/>
3. 貴店舖的所有權屬於什麼性質？

國營	<input type="checkbox"/>
集體企業	<input type="checkbox"/>
私營	<input type="checkbox"/>
股份制	<input type="checkbox"/>
外資	<input type="checkbox"/>
中外合資	<input type="checkbox"/>
其他（請註明） _____	<input type="checkbox"/>
4. 請回答以下各題，以表示貴零售店之規模：
  - (a) 1997年每月平均營業額（以人民幣計算）

二十五萬以下	<input type="checkbox"/>
二十五萬零一至五十萬	<input type="checkbox"/>
五十萬零一至七十五萬	<input type="checkbox"/>
七十五萬零一或以上（請註明） _____	<input type="checkbox"/>
  - (b) 1998年的每月平均營業額（以人民幣計算）

二十五萬以下	<input type="checkbox"/>
二十五萬零一至五十萬	<input type="checkbox"/>
五十萬零一至七十五萬	<input type="checkbox"/>
七十五萬零一或以上（請註明） _____	<input type="checkbox"/>
  - (c) 目前，貴店舖於中國境內設有的分店數目：

少於3 間	<input type="checkbox"/>
4—7 間	<input type="checkbox"/>
8—11 間	<input type="checkbox"/>
12 間或以上，請註明 _____	<input type="checkbox"/>
  - (d) 貴店舖（不包括於中國境內其他分店）僱用多少名全職員工？

少於5人	<input type="checkbox"/>
6 至11人	<input type="checkbox"/>
12 至17人	<input type="checkbox"/>
18人以上，請註明 _____	<input type="checkbox"/>
5. 請問你所屬的連鎖店創辦者的公司名稱： \_\_\_\_\_
6. 你與連鎖店創辦者的關係屬於：

a. 特許經營連鎖性質 - 店舖由經營者以合約形式管理及供應產品	<input type="checkbox"/>
b. 直營連鎖性質 - 店舖由一間母公司擁有及經營其下各店舖	<input type="checkbox"/>
c. 自由連鎖性質 - 店舖各獨立經營，但由一位連鎖店統籌活動管理及供應產品	<input type="checkbox"/>
d. 不屬以上任何一項，請註明 _____	<input type="checkbox"/>

7a. 貴店與連鎖店創辦者生意上的往來有多久？\_\_\_\_\_

7b. 貴店何時加入連鎖？\_\_\_\_\_

8. 你如何認識連鎖店創辦者？\_\_\_\_\_

9. 在加入連鎖前，你與連鎖店創辦者的認識程度有多深？

- |      |                          |
|------|--------------------------|
| 非常熟悉 | <input type="checkbox"/> |
| 熟悉   | <input type="checkbox"/> |
| 一般   | <input type="checkbox"/> |
| 毫不認識 | <input type="checkbox"/> |

10. 根據您的經驗，對於一位準參加連鎖者來說，於挑選連鎖店創辦者時，有那幾方面的挑選準則必須特別留意呢？

---

---

11. 您期望連鎖店創辦者應擔任下列哪五個主要市場營銷角色或工能？（請選擇其中五項）

- |                |                          |
|----------------|--------------------------|
| a. 市場營銷策劃      | <input type="checkbox"/> |
| b. 銷售培訓        | <input type="checkbox"/> |
| c. 檢討效績        | <input type="checkbox"/> |
| d. 合作性的廣告活動    | <input type="checkbox"/> |
| e. 新產品或服務的發展計劃 | <input type="checkbox"/> |
| f. 即時交收的倉務管理   | <input type="checkbox"/> |
| g. 顧客名單分享      | <input type="checkbox"/> |
| h. 運輸統籌規劃      | <input type="checkbox"/> |
| i. 供應商的選擇      | <input type="checkbox"/> |
| j. 夥伴間的溝通橋樑    | <input type="checkbox"/> |
| k. 擬訂價格策略      | <input type="checkbox"/> |
| l. 宣傳活動        | <input type="checkbox"/> |
| m. 市場研究活動      | <input type="checkbox"/> |
| n. 財政上之輔助      | <input type="checkbox"/> |

理由在於： \_\_\_\_\_

\_\_\_\_\_

## 第二部份：連鎖組合的歷史

這部份，我們希望了解您對參與這零售連鎖及其經營問題的意見。以下各項句子並無對或錯，請根據您的同意與否程度圈出最適當的數字。

1. 您是否同意下列各項有關成立這連鎖店的背後原因。請細閱各項，然後選出適當的數字表示你的意見，請以“1”代表完全不同意，而“7”則代表完全同意。

	完全不同意 1	不同意 2	頗不同意 3	無意見 4	頗同意 5	同意 6	完全同意 7
(a) 夥伴關係是在政府指令下而發展的	1	2	3	4	5	6	7
(b) 夥伴關係是根據您個人的意向而發展的，而您們可自由組合	1	2	3	4	5	6	7
(c) 連鎖店主要倚靠政府的資助而設立	1	2	3	4	5	6	7
(d) 連鎖店主要是因為需要拓展業務而設立	1	2	3	4	5	6	7
(e) 設立連鎖店是為了解決複雜的分銷問題	1	2	3	4	5	6	7
(f) 連鎖店的設立是由於國企改革安排所致	1	2	3	4	5	6	7
(g) 連鎖店只是屬於一行政指令下的上下級關係，沒有受任何契約約束	1	2	3	4	5	6	7
(h) 設立連鎖店有助進貨程序	1	2	3	4	5	6	7
(i) 夥伴關係對您現在的業務產生重大的重組	1	2	3	4	5	6	7
(j) 連鎖店受詳盡的操作守則監管	1	2	3	4	5	6	7
(k) 政府沒有參與這夥伴關係	1	2	3	4	5	6	7
(l) 連鎖店需要定期向政府報告	1	2	3	4	5	6	7
(m) 夥伴關係是通過詳細的正式契約落實	1	2	3	4	5	6	7
(n) 連鎖業務的管理是由連鎖店創辦者控制	1	2	3	4	5	6	7
(o) 政府有權終止我們的連鎖關係	1	2	3	4	5	6	7
(p) 連鎖店主要是一試行方案	1	2	3	4	5	6	7

2. 下列各項目可能作解釋貴店舖對夥伴關係首先產生興趣的原因。請您按其重要程度作出適當的選擇，以“1”代表完全不重要，“5”代表非常重要。

完全不重要 1	重要性低於一般 2	重要性一般 3	重要性高於一般 4	非常重要 5	
	完全不 不重要			非常 重要	
(a) 獲有關中國特許經營連鎖店的國家政策之鼓勵所致	1	2	3	4	5
(b) 對同業競爭者成立連鎖店所作的一種回應	1	2	3	4	5
(c) 提高對外國零售商的競爭優勢	1	2	3	4	5
(d) 削弱同業競爭勢力	1	2	3	4	5
(e) 受獨立顧問的意見	1	2	3	4	5
(f) 這是獲取政府資助的唯一途徑	1	2	3	4	5
(g) 此舉可在採購活動中獲取競爭優勢	1	2	3	4	5
(h) 這是一個最方便的方法以獲取先進 的零售管理技巧	1	2	3	4	5
(i) 這是獲取優惠稅務的唯一途徑	1	2	3	4	5
(j) 此舉可在市場推行活動中提高競爭優勢	1	2	3	4	5
(k) 這是建立良好店舖形象的關鍵途徑	1	2	3	4	5
(l) 此乃策略性擴張的管理決定	1	2	3	4	5
(m) 為擴充店舖獲取優惠貸款	1	2	3	4	5
(n) 可在選擇供應商方面保持高度的自主權	1	2	3	4	5
(o) 在採購方面，有更多貨品的選擇	1	2	3	4	5
(p) 由於有標準化的連鎖標誌及名稱，故可享有高級 的店舖形象	1	2	3	4	5
(q) 其他，請說明 _____	1	2	3	4	5

### 第三部份： 夥伴活動

這部份的問題主要研究貴店舖與連鎖店創辦者的日常活動及合作關係，有助分析貴店舖與連鎖店創辦者之間的夥伴程度。

1. 請指出您對以下各項反映有關貴店與連鎖店創辦者的合作關係的同意程度。請細閱各選項，然後選出最合適的數字，“1”代表完全不同意，“7”則代表完全同意。

	完全不同意 1	不同意 2	頗不同意 3	無意見 4	頗同意 5	同意 6	完全同意 7
	完全 不同意				完全 同意		
(a) 我方願意爲了與連鎖店創辦者建立業務而付出相當大的努力和投資	1	2	3	4	5	6	7
(b) 與這位連鎖店創辦者的業務關係可以形容爲“夥伴”	1	2	3	4	5	6	7
(c) 與這位連鎖店創辦者的業務關係可稱爲“父子”關係	1	2	3	4	5	6	7
(d) 我方的員工定期獲得連鎖店創辦者所安排的高質素綜合訓練	1	2	3	4	5	6	7
(e) 我方與連鎖店創辦者的關係受多方面的控制	1	2	3	4	5	6	7
(f) 我方與連鎖店創辦者共同制訂市場計劃	1	2	3	4	5	6	7
(g) 一份市場計劃書包含了連繫店舖與連鎖店創辦者雙方緊密關係的所有要素	1	2	3	4	5	6	7
(h) 店舖與連鎖店創辦者之間已有協議訂明整體市場目標	1	2	3	4	5	6	7
(i) 店舖與連鎖店創辦者之間已實施聯合計劃將連鎖店的產品推出市場	1	2	3	4	5	6	7
(j) 店舖/有各自獨立財政及人事管理權	1	2	3	4	5	6	7
(k) 我們不謹爲我方進行改善，更致力於增進我們與連鎖店創辦者間於整體關係上的裨益	1	2	3	4	5	6	7
(l) 我們與連鎖店創辦者每年進行表現回顧	1	2	3	4	5	6	7
(m) 我們的表現通過正式的評估程序來評審	1	2	3	4	5	6	7
(n) 我們期望與連鎖店創辦者的關係可以維持一段長時間	1	2	3	4	5	6	7
(o) 我們與連鎖店創辦者的關係是恒久的	1	2	3	4	5	6	7
(p) 我們與連鎖店創辦者的關係基本上是“日久常新”的	1	2	3	4	5	6	7
(q) 我們與連鎖店創辦者的關係是長期盟友	1	2	3	4	5	6	7
(r) 我們期望這夥伴關係可維持現狀	1	2	3	4	5	6	7
(s) 我們的夥伴關係將獲重大改善	1	2	3	4	5	6	7
(t) 我們想擺脫這夥伴關係	1	2	3	4	5	6	7
(u) 我們與連鎖店創辦者有定期的會議	1	2	3	4	5	6	7
(v) 維持我們與連鎖店創辦者的關係之關鍵在於有準確、及時的相互溝通	1	2	3	4	5	6	7

	完全 不同意						完全 同意
(w) 我們與連鎖店創辦者有頻密的電話通訊	1	2	3	4	5	6	7
(x) 在這夥伴關係下，我們不會規限在預定的協議時間中交換資料，而非正式的資料交流也時常進行	1	2	3	4	5	6	7
(y) 我們會互相傳達有關各項可能對另一方構成影響的事情或變化	1	2	3	4	5	6	7
(z) 我們雙方會在能夠幫助另一方的情況下提供獨有的資料	1	2	3	4	5	6	7
(aa) 在這夥伴關係下，我們雙方會尊重共同擁有資料的機密性，更相信任何一方都不會拒絕提供重要資料	1	2	3	4	5	6	7
(ab) 我們當隨時向連鎖店創辦者提供可助他制訂市場計劃的資料	1	2	3	4	5	6	7
(ac) 我們現在與連鎖店創辦者共同分享一些在推行夥伴計劃之前不會分享的資料	1	2	3	4	5	6	7
(ad) 就要求作出改善的靈活性是這項夥伴關係的特色	1	2	3	4	5	6	7
(ae) 雙方能夠在不斷延續這夥伴關係的大前提下作出調節，以應付幻變無常的情況	1	2	3	4	5	6	7
(af) 當有意料之外的情況時，雙方會放棄原來所遵照的條款，而商討另一新的協議	1	2	3	4	5	6	7
(ag) 在面對這幻變無常的市場，我們時常協商新的方案以減輕因購貨及存貨所帶來的損失	1	2	3	4	5	6	7

2. 下列各項活動中，請指出政府在他們（連鎖店創辦者與被授權經營之店舖／成員店舖）合作關係中的參與程度。請細閱各選項，然後選出最合適的數字，“1”代表“活動乃由政府發起，協調及嚴格控制”，“2”代表“政府沒有參與，但連鎖店必須向政府報告”，“3”代表“活動由雙方自由提出，但政府亦扮演協調人的角色”，“4”代表“政府完全沒有參與”

a. 市場營銷策劃	1	2	3	4
b. 銷售培訓	1	2	3	4
c. 檢討效績	1	2	3	4
d. 合作性的廣告活動	1	2	3	4
e. 新產品或服務的發展計劃	1	2	3	4
f. 即時交收的倉務管理	1	2	3	4
g. 顧客名單分享	1	2	3	4
h. 運輸統籌規劃	1	2	3	4
i. 供應商的選擇	1	2	3	4
j. 夥伴間的溝通橋樑	1	2	3	4
k. 擬訂價格策略	1	2	3	4
l. 宣傳活動	1	2	3	4
m. 市場研究活動	1	2	3	4
n. 財政上之輔助	1	2	3	4

#### 第四部份： 業務表現

這部份的問題主要在了解貴零售店的業務表現。

1. 請您就下列各項提供過去兩個財政年度內的一些數據：

	1996	1997	1998
營業額（人民幣）（'000）	_____	_____	_____
純投資額（人民幣）（'000）	_____	_____	_____

2. 您預見將來您的企業會怎樣？

- 不斷增長 ☐
- 維持現狀 ☐
- 萎縮 ☐

3. 您預計將來你的連鎖店會怎樣？

- 不斷增長 ☐
- 維持現狀 ☐
- 萎縮 ☐

4. 在未來五年內，您預見您與連鎖店創辦者的關係會怎樣？

- 不斷增長 ☐
- 維持不變 ☐
- 變壞 ☐

5. 您與連鎖店創辦者的現有關係對達成下列目標有多重要？

請由 1 至 5 中挑選，“1”代表完全不重要，“5”代表非常重要。

	完全不重要 1	重要性低於一般 2	重要性一般 3	重要性高於一般 4	非常重要 5
(a) 建立一個理想的分銷網絡	1	2	3	4	5
(b) 促進您與連鎖店創辦者間之訊息溝通	1	2	3	4	5
(c) 提高銷售額	1	2	3	4	5
(d) 防止營銷上的問題	1	2	3	4	5
(e) 決定投資的銷售額	1	2	3	4	5
(f) 減低運作成本	1	2	3	4	5
(g) 對幻變的市場作出較快的回應	1	2	3	4	5
(h) 提高各成員店的協作性	1	2	3	4	5
(i) 改善顧客的滿足感	1	2	3	4	5
(j) 維繫各成員店間的投入感	1	2	3	4	5
(k) 分解連鎖店創辦者與成員店舖／被授權經營之店舖之間的糾紛	1	2	3	4	5
(l) 確保市場營銷計劃的質素	1	2	3	4	5
(m) 確保高質素的產品供應	1	2	3	4	5
(n) 改良連鎖店的型象	1	2	3	4	5
(o) 其他，請註明 _____	1	2	3	4	5
6. 以上的目標，那三項較為重要？	1. _____	2. _____	3. _____		

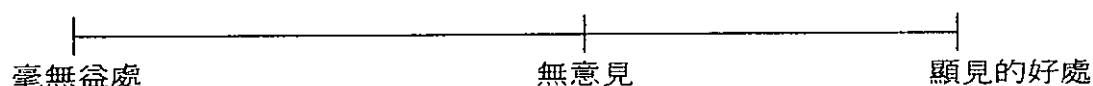


7. 請根據貴零售店舖參與連鎖後的業績作一評估。請在下列各選項中，選取最適表達貴公司表現的項目。“1”代表沒有任何改進，而“5”代表有極大的改進。

沒有任何改進    較少改進    平均改進    高於平均改進    極大的改進  
1                      2                      3                      4                      5

	沒有 任何改進				極大 改進
(a) 銷售增長	1	2	3	4	5
(b) 利潤	1	2	3	4	5
(c) 整體賺錢機會	1	2	3	4	5
(d) 顧客滿意程度	1	2	3	4	5
(e) 服務質素	1	2	3	4	5
(f) 員工工作效率	1	2	3	4	5
(g) 在市場上的市場佔有率	1	2	3	4	5
(h) 進貨方便程度	1	2	3	4	5
(i) 店舖形象	1	2	3	4	5
(j) 運作上效應	1	2	3	4	5
(k) 供應商的選擇	1	2	3	4	5
(l) 地理上分佈情況	1	2	3	4	5

8. 請在下列連貫性尺準上劃出貴店對投入夥伴關係中可享有的潛在益處的看法？



9. 您會如何評估與連鎖店創辦者的協作關係？



10. 您對現在的夥伴關係有多滿意？



11.

在未來三年內，您會希望在下列哪些運作方面與連鎖創辦者有更多的合作關係呢？請依其重要程度，由“1”至“13”，“1”為最重要的一環，按先後排列於“甲”欄中。此外，請於“乙”欄中選出五項您認為連鎖店創辦者表現出色的活動。請在適當的空白格上加“✓”號。

	甲” 欄	“乙” 欄
(a) 市場營銷策劃	_____	_____
(b) 銷售培訓	_____	_____
(c) 檢討效績	_____	_____
(d) 合作性的廣告活動	_____	_____
(e) 新產品或服務的發展計劃	_____	_____
(f) 即時交收的倉務管理	_____	_____
(g) 顧客名單分享	_____	_____
(h) 運輸統籌規劃	_____	_____
(i) 供應商的選擇	_____	_____
(j) 夥伴間的溝通橋樑	_____	_____
(k) 擬訂價格策略	_____	_____
(l) 宣傳活動	_____	_____
(m) 市場研究活動	_____	_____
(n) 財政上之輔助	_____	_____

12. 從管理角度來看，下列哪一項最能解釋參與這項夥伴關係的原因？  
(可選多於一項)

- (a) 有晉升到更高的行政席位的機會
- (b) 是唯一獲取個人成就感的途徑
- (c) 能賺取更高薪酬
- (d) 是一項支持政府政策的舉動
- (e) 由於市場壓力所致
- (f) 經營及擴充業務的需要
- (g) 其他，請註明\_\_\_\_\_

☐  
☐  
☐  
☐  
☐  
☐  
☐

13. 從管理角度來看，下列哪一項（可選多於一項）能改善現時雙方間的夥伴關係呢？請您按其重要程度作出適當的選擇。“1”代表完全不重要，“5”代表非常重要

完全不重要      重要性低於一般      重要性一般      重要性高於一般      非常重要  
1                                  2                                  3                                  4                                  5

	完全不重要			非常重要	
	1	2	3	4	5
a. 政府提供更多的專業訓練	1	2	3	4	5
b. 政府提供更多的財務津貼貸款支助	1	2	3	4	5
c. 一套完善詳盡的運作手冊	1	2	3	4	5
d. 提高夥伴間的資源交流	1	2	3	4	5
e. 改善夥伴間的溝通	1	2	3	4	5
f. 提高選擇供應商之自由度	1	2	3	4	5
g. 強化中央分銷站的概念及使用	1	2	3	4	5
h. 提高店舖自主決策權	1	2	3	4	5
i. 加強市場研究活動	1	2	3	4	5
j. 連鎖店創辦者應肩負多項市場策劃活動	1	2	3	4	5
k. 其他，請註明 _____	1	2	3	4	5

14. 從管理角度來看，以下哪項是國內零售連鎖業最常遇到的問題？（可選多於一項）

- |                             |                          |
|-----------------------------|--------------------------|
| a. 連鎖店創辦者與被授權經營之店舖之間缺乏協調及一致 | <input type="checkbox"/> |
| b. 只則重名義上連鎖，各店舖仍獨立管理及進貨     | <input type="checkbox"/> |
| c. 缺乏政策上的支持                 | <input type="checkbox"/> |
| d. 政府財政資助不足                 | <input type="checkbox"/> |
| e. 政府的嚴密監管及控制               | <input type="checkbox"/> |
| f. 嚴峻的外商競爭                  | <input type="checkbox"/> |
| g. 內地競爭劇烈                   | <input type="checkbox"/> |
| h. 缺乏管理知識                   | <input type="checkbox"/> |
| i. 缺乏市場營銷技巧                 | <input type="checkbox"/> |
| j. 與國內法律系統不乎                | <input type="checkbox"/> |
| k. 其他，請註明 _____             | <input type="checkbox"/> |

感謝您回答了這份問卷。請把下列資料填好並交回作者。

公司：\_\_\_\_\_

答卷人姓名：\_\_\_\_\_

答卷人職位：\_\_\_\_\_