

**Channel Governance of Chinese Liquor Firm: the case of Sichuan
Luzhou Laojiao**

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Thesis submitted as partial requirement for the conferral of the degree of
Doctor of Management

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Abstract

Channel governance is an important research topic in marketing. Both channel governance and control mechanisms will directly influence the behavior of channel members, and thus will affect the outcomes of channel governance. With the transformation of Chinese economy, people's ideology also will change. The effectiveness of traditional unilateral incentives, monitoring and enforcement mechanisms from one channel members against another is also being challenged, while the bilateral incentives, monitoring and enforcement mechanisms based on both parties have been paid more and more attention by channel members. In addition, as the impact of interdependence between channel members on the outcomes of channel governance is slowly perceived by scholars and validated with the resulting data, channel members are more inclined to reduce dependence on counterparties. Recently, Chinese liquor manufacturers represented by Luzhou Laojiao have embarked on innovative channel mode to resolve the conflict between channel members, and thus improve coordination between channel members. All these phenomena indicate that the mechanisms and instruments of channel governance are constantly extended in the channel governance practice. However, the effectiveness of these mechanisms and instruments on the governance outcomes has not been fully investigated, and the impact of the channel mode, the degree of interdependence between the manufacturers and distributors and other such factors on the relationship between channel governance mechanisms and governance outcomes also needs further clarification.

This thesis takes Luzhou Laojiao and its distributors system for the studying the following three issues. First, we simultaneously include unilateral and bilateral channel governance mechanisms in the framework of channel governance to study the impact of the six channel governance mechanisms (unilateral and bilateral incentive, monitoring and enforcement) on the outcomes of channel governance. Second, based on the findings of existing literature, the relative dependence between manufacturers and distributors will also affect the outcomes of channel governance and will also moderate the relationship between specific channel governance mechanisms and the corresponding governance outcomes. Therefore, this thesis also studies the impact of such relative dependence between manufacturers and distributors on the outcomes of channel governance in Luzhou Laojiao and

the moderating role of such interdependence on the relationship between channel governance mechanisms and outcomes investigated. Third, there are two typical channel modes in Luzhou Laojiao. One is traditional channel model and the other is innovative mode - QIQUAN model. The QIQUAN channel mode is significantly different from the traditional channel model in management, administration, operations and profits sharing, and in turn will have an impact on the outcomes of channel governance. Therefore, this thesis also studies the impact of channel model on the outcomes of channel governance in Luzhou Laojiao and the moderating role of the channel mode on the relationship between channel governance mechanism and outcomes investigated.

The results show that: 1) whether the unilateral or bilateral governance mechanisms, they all have a significant impact on the coordination among channel members. Among them, the unilateral incentive has a significant negative correlation with the coordination among channel members; while the bilateral incentive and enforcement mechanisms have a significant positive correlation with the coordination among channel members. In addition, the bilateral enforcement mechanism has a significant negative correlation with the conflict among channel members. 2) The channel mode has a significant positive correlation with the coordination among channel members, which shows that the QIQUAN channel mode facilitates coordination among channel members. However, the relationship between the channel mode and the conflict among channel members is not significant. In addition, the QIQUAN channel mode also enhances positive correlation between the bilateral monitoring mechanism and the coordination among channel members and weakens the negative correlation between the unilateral enforcement and the conflict among channel members. 3) Neither dependence of manufacturers on distributors nor the dependence of distributors on the manufacturer is conducive to coordination among channel members, which will also increase the conflict among channel members. Moreover, such a relative dependence will also moderate the relationship between the channel governance mechanism and the corresponding outcomes.

Through this study, it can complement the deficiency in study of a single or unilateral channel governance mechanism of the governance outcomes and broaden the depth and width in the study. Second, while examining the impact of the channel governance mechanism on the channel governance outcomes, we also study in an innovative manner the impact of the channel mode on the channel governance outcomes and explore the moderating role of the

channel mode on the relationship between the governance mechanism and governance outcomes, which makes our results more realistic and our findings have more applications.

Keywords: Channel Governance, Governance Mechanism, Channel mode, Relative Dependence

JEL Classification: M31

Resumo

A governança dos canais de distribuição é um tópico importante na pesquisa em Gestão de Empresas. Quer a governança dos canais de distribuição quer os mecanismos de controle irão influenciar o comportamento dos membros envolvidos, e deste modo irão afetar os resultados da governança do canal. A transformação da economia chinesa provoca mudanças na ideologia do povo chinês. A eficácia dos incentivos unilaterais tradicionais, os mecanismos de monitorização e “enforcement” por parte de um membro sobre outro membro estão a ser questionados, enquanto os incentivos bilaterais e os mecanismos de monitorização e “enforcement” discutidos pelas partes envolvidas têm recebido cada vez mais atenção. Por outro lado, como o impacto da interdependência entre os membros do canal e os resultados da governança são lentamente percebidos pelos académicos e necessitam de validação empíricas, os membros do canal estão mais inclinados para reduzir a dependência de contrapartes. Recentemente, os produtores chineses de licor representados pela Luzhou Laojiao iniciaram um modelo de canal de distribuição inovador para resolver os conflitos entre os membros, e deste modo melhorar a coordenação entre os diferentes membros participantes. Todos estes fenómenos indicam que os mecanismos e instrumentos de governança dos canais estão constantemente a ser postos em prova e melhorados na prática diária da governança dos canais. Contudo a eficácia destes mecanismos e instrumentos nos resultados da governança não foram totalmente investigados, e o impacto deste novo modelo de canal de distribuição, o grau de interdependência entre os produtores e os distribuidores e outros fatores que influenciam a relação entre os mecanismos de governança do canal e os resultados da governança também necessitam de maior clarificação.

Esta tese toma a Luzhou Laojiao e o seu sistema de distribuição como base para investigar as seguintes três questões. Primeiro, incluímos em simultâneo mecanismos unilaterais e bilaterais de governança de canais no quadro da governança para estudarmos o impacto de seis mecanismos de governança (incentivos bilaterais e unilaterais, monitorização e “enforcement”) nos resultados da governança do canal. Segundo, tomando como base a literatura existente, a dependência relativa entre os produtores e os distribuidores afeta os resultados da governança do canal e irá moderar a relação entre mecanismos específicos da governança do canal e os resultados correspondentes da governança. Deste modo, esta tese

estuda também o impacto dessa dependência relativa entre produtores e distribuidores nos resultados da governança do canal de distribuição da Luzhou Laojiao e o papel moderador dessa interdependência na relação entre a governança do canal e os resultados investigados. Terceiro, existem dois modelos típicos de canais na Luzhou Laojiao. Um é o modelo tradicional e o outro é modelo inovador – o modelo QIQUAN. Este modelo é significativamente diferente do modelo tradicional em termos de gestão, administração, partilha de operações e de lucro, e por isso vai ter um impacto nos resultados da governança do canal. Deste modo esta tese também estuda o impacto do modelo de canal nos resultados da governança na Luzhou Laojiao e o papel moderador do modelo de canal na relação entre os mecanismos de governança do canal e os resultados investigados.

Os resultados mostram que: 1) os mecanismos unilaterais e bilaterais de governança têm um impacto muito importante na coordenação entre os membros do canal. Entre eles, o incentivo unilateral tem uma forte correlação negativa com a coordenação entre membros do canal; enquanto os incentivos bilaterais e os mecanismos de “enforcement” têm uma forte correlação positiva com a coordenação entre os membros do canal. Além disso, o mecanismo de “enforcement” bilateral tem uma forte correlação negativa com o conflito entre membros do canal. 2) O modelo de canal tem uma forte correlação positiva com a coordenação entre os membros do canal, o que mostra que o modelo de canal QIQUAN facilita a coordenação entre os membros. Contudo, a relação entre o modelo de canal e o conflito entre os seus membros não é muito significativa. Por outro lado, o modelo de canal QIQUAN melhora também a correlação positiva entre os mecanismos bilaterais de monitorização e a coordenação entre os membros do canal e enfraquece a correlação negativa entre o “enforcement” unilateral e o conflito entre os membros. 3) Nem a dependência dos produtores nos distribuidores nem a dependência dos distribuidores nos produtores conduz à coordenação entre os membros do canal, o que aumenta o conflito entre os membros do canal. Além disso, esta dependência relativa irá moderar a relação entre os mecanismos de governança do canal e os resultados correspondentes.

Este estudo, ao incluir simultaneamente mecanismos unilaterais e bilaterais de governança aprofunda e alarga os estudos existentes. Por outro lado, ao estudarmos o impacto dos mecanismos de governança do canal nos resultados da governança, estamos a estudar de uma maneira inovadora o impacto do modelo de canal nos resultados da governança e a explorar o papel moderador do modelo de canal na relação entre os mecanismos de governança e os resultados da governança, o que faz com que os nossos resultados estejam

relacionados com a realidade e sejam úteis ao mundo empresarial.

Palavras Chave: Governança de canais de distribuição, Mecanismos de Governança, Modelos de canais de distribuição, Dependência relativa, China

Classificação JEL: M31

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Chapter 1: Introduction

1.1 Research Background

Chinese Liquor Industry has experienced a rapid growth for the past ten years, for example, the market value of Luzhou Laojiao has been increased by more than 30 times since 2003, during the same period, the number corresponding to Wuliangye and Guizhou Maotai are about 24 and 40 times, respectively¹. It has been well accepted that there are at least three reasons contributing to such amazing performance in Chinese Liquor Industry. The first one is the rapid development of China's economy; the second one is the upgrading of liquor consumption driven by general improvement of people's income; and the third reason is that substantial increase in political and business social activities has greatly promoted the consumption of mid to high-end liquor; Meanwhile, as for reasons contributing to rapid growth of liquor, there is more in-depth exploration in the industry as well: for instance, large-scale investment of domestic fixed asset has stimulated the rapid growth in liquor industry's output and there is a strong positive correlation between these two aspects; on the other hand, relying on their strong brand influence and super control force on channels, these famous vine, through controlling the production and raising prices to manipulate the market expectations, not only shape the sheep-flock effect on market which leads to such phenomenon that second-tier and third-tier brands raised prices collectively, but also create a scene of prosperity that both prices and production have increased for the whole industry.

If the macro environment cannot be intervened but only to be predicted and adapted, then channel governance is worth being studied and attempted by enterprises obviously. However, most enterprises in the liquor industry still remain in the price competition, package competition, promotion competition and so on while ignore their own construction of channel network and maintenance of relationship among channel members. The present liquor enterprises generally rely on single channel model, which would be just called traditional

¹ I calculate those numbers using the equation of "market value = number of shares × stock price". In 2003, the total number of share for Luzhou Laojiao is about 256 million, and the stock price is about 4 Yuan, however, those numbers are now 1.4 billion and 24 Yuan, respectively. As a result, the market value of Luzhou Laojiao (LUZHOU LAOJIAO) has been increased by about 33 times. By the same way, we can get the numbers for Guizhou Maotai, and Wuliangye. The data used for this calculation is obtained from the Financial Research Database of RESSET (<http://www.resset.cn>).

channel model. By contrast, Luzhou Laojiao, in addition to the traditional channel model, is trying to establish another kind of channel model which is expected to change the relationships among channel members. These two channel models would be described as follows:

Traditional channel model: the product distribution right of specified area or channel is granted to the dealers, and the manufacturers and dealers agree upon products' subject, price, regions, channel, market support and other rights and obligations in the form of distribution contract. In other words, the dealers buy products directly from the manufactures and then sell these products to consumers through distribution, group purchase, stores selling famous cigarette and wine, supermarket and sales field and other channels to earn the spread. In a specific region, there can be several dealers of the product or sole dealer; besides, dealers not only can be dealers of one kind of products but also dealers of several products.

Under this model, the manufactures can execute management and control upon prices and logistics trend of the dealers by such means as security deposit, adjustment of marketing costs, and also encourage these dealers who have reached their expected performances in such way as annual awards and annual rebates. On the surface, both incentive and supervisory control have ways and means, but their effectiveness obviously deserves to be evaluated. For instance, low price, fleeing goods, dumping goods and so on emerge one after another.

QIQUAN channel model: Luzhou Laojiao innovated the QIQUAN model on the basis of traditional channel model. In other words, dealers in specified regions, convened by the manufactures, set up a jointly funded business company (namely, QIQUAN Company), and the manufactures grant the sole distribution right to QIQUAN Company. Then, the manufactures and QIQUAN Company shall agree upon products' subject, price, regions, channel, market support and other rights and obligations in the form of distribution contract. And the dealers and QIQUAN Company shall agree upon products' subject, price, regions, channel, market support and other rights and obligations in the form of distribution contract. That is to say, the QIQUAN Company shall buy products from the manufactures and then sell these products to various terminal online shops or to consumers directly through dealers within the region. QIQUAN Company make profits through management benefits and the dealers can also make profits through dividends from the QIQUAN Company on the basis of original spread. Within certain regions, it's only QIQUAN Company that has the distribution right of this product, and dealers within this region all buy products from QIQUAN Company to sell. Besides, QIQUAN Company only sells serial products of Luzhou Laojiao.

Under this model, dealers within this region, bonded by equity, form an alliance with shared interests and shall be jointly responsible for the price, logistics and corporate earnings within this region. At the same time, QIQUAN Company can provide financing support for customers; when the price of the product rises, dealers who are shareholders can share profits brought by rise in product's price. These measures above have alleviated the contradiction and conflict between manufactures and dealers to some degree.

Obviously, innovation in channel model is not a panacea to solve all problems existing in the channel governance. Consequently, it's essential and necessary for us to understand thoroughly the governance mechanism under different channel models and to know about how different channel models exert influence upon the effect of channel governance.

1.2 Research Problem

Research related to channel governance (interfirm marketing relationships and exchange) has been the thrust of many efforts aimed to gain a deeper understanding of channel outcomes in marketing (e.g. Anderson and Narus 1990; Dahlstorm and Nygaard 1999; Dwyer, Schurr and Oh 1987; John 1984; Wathne and Heide 2000). Most of these efforts recognize the need to structure and maintain interfirm relationships as they provide strategic advantages and are highly valued strategic assets (e.g. Johnson 1999). While different theoretical frameworks have been applied to the understanding of channel governance, most research focuses on governance and the control mechanisms designed and enacted to enhance positive exchange outcomes such as trust (e.g. Anderson and Narus, 1990; Morgan and Hunt, 1994), commitment (e.g. Anderson and Weitz, 1992; Fein and Anderson, 1997) and satisfaction (e.g. Frazier, Gill and Kale, 1989; Geyskens, Steenkamp and Kumar, 1999; Mohr, Fisher and Nevin, 1996; Rauch, Rosenbusch, Unger, and Frese, 2016). Positive outcomes can also be augmented by limiting potentially harmful behaviors such as conflict (e.g. Frazier, Gill and Kale, 1989; Gaski, 1984; Jap and Ganesan, 2000) and opportunism (e.g. Brown, Dev and Lee, 2000; John, 1984; Stump and Heide, 1996).

Despite the depth and breadth of theoretical work, the hypothesized relationships still support equivocal responses to governance (positive and negative) and the empirical findings have been inconsistent (Gilliland and Manning, 2002). For example, it has been shown that bureaucratic control can both decrease as well as increase opportunism (e.g. Dahlstorm and Nygaard 1999; John, 1984). In addition, while prior conceptual research has posited that

relationship characteristics which act as relational governance norms may moderate the role between control and opportunism (Heide and John, 1992), empirical findings have been equivocal in this regard (e.g. Lusch and Brown, 1992) suggesting that under certain conditions relational norms do not develop sufficiently to forestall opportunistic behaviors.

These inconsistencies may be due in part to two factors: a limited conceptualization and assessment of opportunism in exchange relationships; and the lack of contextual factors that act as moderators. Prior research (Brown, Dev and Lee, 2000; Gilliland and Manning, 2002) has suggested that the inclusion of contextual factors can help in understanding of these relationships. One such contextual factor could be the channel mode of the governance mechanisms in the exchange relationship. An alternative theoretical direction, which incorporates an expanded analysis of opportunistic behaviors as well as incorporates channel mode may better explain the relationship between control and outcomes of governance.

In terms of channel governance instruments, as a liquor manufacturer, Luzhou Laojiao has taken a series of controls to guide the behavior of distributors, including incentives, monitoring and enforcement. These control measures include not only the unilateral control of the distributors by the manufacturer, but also the bilateral control between the manufacturers and distributors. Therefore, the first purpose of this thesis is to study the impact of these unilateral and bilateral controls on the outcomes of channel governance. In the existing studies, some of the studies have only considered the unilateral control of the trading partners by corresponding manufacturers (Celly and Frazier, 1996; Mohr et al., 1996), while some other studies have only studied the impact of bilateral relational norms on outcomes of channel governance (Kaufmann and Stern, 1992). Similarly, some other scholars have only studied the impact of a single governance instrument on the outcomes of channel governance. For example, Caldierao and Coughlan (2007) only studied the impact of incentive on outcomes of channel governance; Eisenhardt (1989) only studied the impact of monitoring on outcomes of channel governance; and Antia and Frazier (2001) only studied the impact of enforcement on outcomes of channel governance. However, this thesis studies the incentive and monitoring from both unilateral and bilateral control perspectives as well as the impact of enforcing these channel governance instruments on the outcomes of channel governance.

For the outcomes of channel governance, the recent studies have found that the relative dependence between manufacturers and distributors can also affect the behavior of channel members, and thus will affect the outcomes of channel governance (Shervani et al. 2007). In fact, such a relative dependence between manufacturers and distributors will also affect the

relationship between the above-mentioned channel governance instruments and the corresponding outcomes in addition to the outcomes of channel governance. Therefore, this is also a major issue to study in the thesis. The last and most important aspect of the thesis is that the entire system of Luzhou Laojiao is taken as the object and the channel mode is included into the framework of channel governance. On the one hand, we study the impact of the channel mode on the outcomes of channel governance. On the other hand, we study the impact of the channel mode as the moderator on the relationship between the channel governance instruments and outcomes of channel governance.

1.3 Research Questions

This study proposes a theoretical framework linking governance, relative dependence, channel mode and governance outcomes in interorganizational exchange relationships. The main purpose of this thesis is to study the following three aspects:

First, we followed the research framework set by Gilliland, Bello and Gundlach (2010) to study the impacts of unilateral governance mechanisms (including unilateral incentives, monitoring and enforcement) and bilateral governance mechanisms (including bilateral incentives, monitoring and enforcement) on outcomes of channel governance (the outcomes of channel governance are measured from two dimensions in the thesis: one represents the positive dimension of channel governance outcomes, namely coordination; the other represents the negative aspect of channel governance outcomes, namely conflict).

Secondly, we also followed the research framework of Gilliland, Bello and Gundlach (2010) to study the impact of the relative dependence between manufacturers and distributors on outcomes of channel governance. We also studied the moderating role of the relative dependence on the relationship between such channel governance mechanisms and the corresponding outcomes.

The last but not least, the entire system of Luzhou Laojiao is taken as the object and the channel model is included into the framework of channel governance. On the one hand, we study the impact of the channel model on the outcomes of channel governance. On the other hand, we study the moderating role of the channel mode on the relationship between the channel governance instruments and outcomes of channel governance.

More specifically, this research thus investigates the following issues:

1. What are the relationship between governance mechanisms and positive (negative)

exchange outcomes?

2. What are the relationship between the relative dependence and positive (negative) exchange outcomes?

3. What are the relationship between the channel mode and positive (negative) exchange outcomes?

4. Does the relative dependence moderate the relationships between governance mechanisms and positive and negative outcomes of governance?

5. Does the channel mode moderate the relationships between governance mechanisms and positive and negative outcomes of governance?

Chapter 2: Literature Review and hypothesis

This chapter will review the relative literature from three aspects, and then the conceptual framework will be constructed and hypothesis are developed. First of all, we review economic theories on the channel governance, including the principal-agent theory, the theory of transaction cost economics and the relational contract theory. Secondly, we review on channel governance-related mechanisms, where we briefly review the contractual governance mechanisms and normative governance mechanisms as well as the specific manifestations of governance mechanisms. Thirdly, we review the main outcomes of the channel governance, including both positive and negative outcomes of channel governance. Then we construct the theoretical framework of this thesis based on the literature review, and finally, we develop the hypothesis.

2.1 Economic theories on channel governance

Economic theories on channel governance mainly include the principal-agent theory, the theory of transaction cost economics and the relational contract theory. We will give a brief introduction of the three theories respectively, and have a brief review of the application of the three theories in channel governance in the following.

Different economic theory offers different explanation for the nature of governance processes. Principal-agent theory and transaction cost economics have their roots in organizational economics (e.g. Moe, 1984; Perrow, 1986), while relational contract theory includes the behavioral and social aspects of governance (e.g. Dwyer, Schurr and Oh, 1987; Robicheaux and Coleman, 1994). Consideration of both an economic and the social perspective in which relations are embedded can lead to a better understanding of marketing channels (e.g. Dabholkar, Johnston and Cathey, 1994; Robicheaux and Coleman, 1994; Stern and Reve, 1980).

These three economic theories have been applied to the understanding of marketing issues (e.g. Bergen, Dutta and Walker, 1992; Rindfleisch and Heide, 1997; Robicheaux and Coleman, 1994). Williamson (1988) opines that both principal-agent theory and transaction cost economics have and will further help to understand economic organization. Such

frameworks can be put into perspective by understanding that there has been a departure from the classical form of market exchange to more complex forms of relationship and contracting as firms adopt a long-term orientation in their relationships (e.g. Dabholkar, Johnston and Cathey, 1994). In classical market exchange, a uniform product was sold to all without restriction. In departing from classical market exchange, the parties to an exchange look at achieving their goals by entering into relationships through contracts either for achieving efficiency or for achieving a strong market share (Williamson, 1985).

Chinese scholar's research on channel governance are also based on the three abovementioned economic theories, principal-agent theory, transaction cost economics and relational contract theory. However, those researches of Chinese scholars are a little bit fragmented. Some research focus on channel governance theory (Guo, Zhan, Hou, Zhou, and Xiao, 2005; Zhuang, 2004), others try to pay attention to the impact of market channel governance mechanisms on channel performance (Li, Wu, and Yang, 2009).

Each of these frameworks is pertinent in understanding certain stages of contracting. For instance, while agency theory concerns itself with the ex-ante side of the contract (e.g. Hurwicz, 1972; Jensen and Meckling, 1976; Spence and Zackhauser, 1971), the transaction cost approach is more concerned with the contract execution stage. Relational contracting focuses on the entire relationship itself and focuses on adapting relationships to changing circumstances (e.g. Heide, 1994). All of the above mentioned frameworks look at increasing the efficiency of interfirm exchanges and limiting negative outcomes such as opportunism. A more detailed look at each of these frameworks helps to understand the assumptions and intricacies present in them.

2.1.1 Principal-agent theory

Principal-agent theory is one of the main contents of the contract theory in the institutional economics. It has its roots in the risk-sharing economics literature (e.g. Arrow, 1971) where the problem of risk sharing arises when co-operating parties have different attitudes towards risk and therefore different risk preferences. Principal-agent theory also added to the risk-sharing stream of literature by including the agency problem that occurs when cooperating parties have different motives and goals (Eisenhardt, 1989). The principal-agent relationship under the study means one or more agents designate or hire some other agents for services according to a contract, expressed or implied, with certain decision rights granted to the latter, and make corresponding remuneration to the latter according to the

amount and quality of services. The granter is the principal and the grantee is the agent. The principal is dependent on the agent but cannot always monitor the agent's action and information (e.g. Jensen and Meckling, 1976; Pratt and Zackhauser, 1985).

One of the important assumptions of neoclassical economics is the complete information. Under this assumption, the market is regulated by the "invisible hand", and the market participants only need to pursue their maximum interests on rational bases. In fact, however, in the studies in recent decades, economists gradually find there are too few examples in line with the assumption of complete information. More often, the information acquired by the participants is not complete. This incompleteness of information covers connotations of two aspects: the first is that all participants do not have certain information, also known as "incomplete information"; the other is that only a part of the participants have certain information, also known as "information asymmetry".

As a tool to study the information asymmetry, the study of Principal-agent Problem prospered in the 1970s; there has been outpouring of classic literature occurred and various types of principal-agent models were established. Up to this day, the study of the principal-agent problem continues to make development, progress and improvement.

The principal-agent concept of a modern sense was first proposed by Ross (1973), who noted that if the agent of the parties exercises on behalf of the principal some decision-making power, the agency relationship arise accordingly. The principal-agent theory attempts to solve the problem of information asymmetry, which means certain information is acquired by one party, but the other party has no idea at the entering into force or execution of the contract. In the study of information economics or theory of incentives, the parties of participation are generally divided into the Principal and the Agent according to the private information they have, where the party with private information is referred to as the Agent, while the party with information disadvantage is referred to as the Principal. Usually it is assumed that the principal has more other resources than the agent, but for various reasons, the principal has to hire the agent to act on behalf of him. However, the agent will not work for the principal for free, so the principal must pay the agent, and one sensible principle must make certain requirements according to the compensation he pays. One approach is that the parties involved make an agreement (i.e. the contract) on the job content, requirements, final compensation and other issues. The information acquired by the agent often has a vital role in entering into the contract. However, this information is unavailable to the principal. So, when the principal with information disadvantage delegates tasks to the agent with information

advantages, the incentive problem shows up. Study on principal-agent problem is mainly focused on the following question: how should the principal develop a reasonable contract to stimulate the agent to make effort toward the desired direction of the principal and achieve the desired results. If the agent and principal have the same goal, the agent will provide the desired results of the principal even with the presence of information asymmetry. In reality, however, there is deviation in their goals in most cases, which means there is goal conflict between the agent and the principal. The information asymmetry and goal conflict make the principal pay more costs to stimulate the agent to make efforts toward the desired direction of the principal.

For study on the principal-agent problem, there are two different methods. The one is investigated from empirical perspective, also known as “positive Agent Theory”, which is characterized by virtue of intuition and focused on the analysis of entering into the contract and controlling social factors. The theory was proposed by Jensen and Meckling (1976) as well as Pratt and Zuckhauser (1985). The other is the normative research practice, also known as the "Principal- Agent Theory", which is characterized by the use of formal mathematical models, clarifying the accurate information assumptions required for various models to explore incentive and risk allocation mechanisms between the principal and agent. The theory was proposed by Wilson, Spence, Ross and Hart. The two methods complement and promote each other and are committed to developing a theory of contract in essence, aimed at making the self-interest driven agent can take the objective of the principal as the criterion so as to minimize the agent cost.

For normative research, the private information of the agent is divided by the economists into two categories. The first is the information asymmetry as the principal cannot observe the behavior of the agent after entering into the contract, called the Hidden Action or Moral Hazard Problem(Arrow, 1985; Bergen, Dutta and Walker, 1992; Eisenhardt, 1989; Jensen and Meckling, 1976); or before entering into the contract, the principal cannot know the private information acquired by the agent, called the Hidden Information or Adverse Selection Problem(Arrow, 1985; Bergen, Dutta and Walker, 1992; Hart and Holstrom, 1987; Jia, Cai, and Xu, 2014; Shane, 1996). Akerlof (1970) created a precedent of the theory of adverse selection in his used car market model. The model is simply expressed as: in the used car market, the seller knows the true quality of the car, but the buyer does not know this and only knows the average quality of cars sold in the market, so the buyer will only be willing to pay the price based on the average quality; in this way, however, the seller the quality of whose

car is better than the average quality will be out of the deal and only the seller the quality of whose car is lower enters the market; as a result, the quality of the used cars on the market decreases, and the price the buyer is willing to pay will fall further, with more high-quality cars out of the market. Over time, the final result is that only low quality vehicles exist in the market. The second category is about the information that cannot be verified after entering into the contract, which means no third party can know the information except the principal and agent after the contract.

When either conflicts of interest or information asymmetries arise between the principal and the agent, agency theorists assume that agents are opportunistic and favor their own interests over the principals (Abrahamson and Park, 1994; Zeng, Chen, Dong, and Zheng, 2015). The focus of principal-agent theory is on determining whether a behavior-oriented contract (e.g. salaries, hierarchical governance) is more efficient than an outcome oriented contract, (e.g. commissions, stock options, transfer of property rights, market governance) in governing the principal-agent relationship given certain assumptions about people, organizations and information. This is about the other building block of principal-agent theory: incentives. A principal can decide to motivate the agent to engage in some desired course of action. The principal can monitor the agent's behavior by investing in monitoring systems and reward the agent on the basis of information about their behavior from these systems. Here the incentives are tied to the behavior of the agent. The second option available to the principal is to contract based on the outcomes of the agent's behavior (e.g. rewards based on sales volumes). Here the incentives are tied to some measurable output.

Both monitoring systems and outcome-based contracts have their advantages and disadvantages. Monitoring systems are often expensive to set up and maintain and might not overcome the problem of information asymmetry between the principal and the agent. In such a situation, it might seem as if an outcome-based contract is more appropriate. However, one disadvantage of an outcome-based contract is that it transfers risk to the agent. Risk arises because outcomes are partly a function of behaviors and partly a function of other environmental factors such as government policies, economic climate and competitor actions. These environmental factors can have an important role in controlling outcomes. During situations of environmental uncertainty such factors cannot be controlled and so there are costs associated with shifting risks to the agent. In addition, an outcome-based contract also has to meet the conditions of individual rationality and incentive compatibility in order to be effective in inducing agents to pursue goals that are consistent with those of the principal's

(Hurwicz, 1972). Individual rationality implies that the contract is interesting enough to the agent to make him or her want to undertake the project. Incentive compatibility implies that the contract be designed in such a manner so that the actions with the highest payoffs to the agent are also the actions that are most appropriate from the principal's point of view. Thus, the principal needs to design a contract that provides an efficient tradeoff between the costs associated with shifting risks to the risk-averse agent and the agent's potential shirking.

2.1.1.1 Agency Theory Applications in Channel Governance

The agency theory describes the relations between client and agent as well as buyer and seller through a contract, with its main significance of reducing the risk and uncertainty. The potential contribution of the agency theory is to explain the relationship type of the transaction parties or contracting parties. For example, the agency theory can be used to solve the problems of customer service by explaining the information supplied to the customers for the purpose of reducing the uncertainty of the purchaser. Besides, it also can be used for stimulating the buyer and seller to establish a relationship, expanding cooperation level and extent and minimizing the mutual risk of both parties. When the commodities in a fixed market can be purchased at random, with sufficient information and extremely low purchase risk and uncertainty, it is difficult for the seller to count on establishing a close interactive relation with the buyer and it is unnecessary for the seller spending more cost in supplying more sales support exceeding the market requirement to the buyer. In short, it is unnecessary to establish the relationship between seller and buyer if the market is controlled by the market power. However, it is significant to enhance the cooperation by establishing the relationship between seller and buyer rather than intensifying the conflict in case of high uncertainty, daily increased risk and insufficient information.

In marketing, agency theory has been used to examine marketing related issues such as salesforce management (e.g. John and Weitz, 1989) and channel coordination and control (e.g. Frazier and Lassar, 1996; Stump and Heide, 1996). In salesforce management, agency theory has been used to explain and determine salesforce compensations (e.g. John and Weitz, 1989) and control (e.g. Anderson and Oliver 1987). The issue at hand is to determine the most appropriate type of compensation, i.e. salary or commission under different circumstances and control. In general, the more objective the measures and the costlier the behavior measurement process, the more outcome control is recommended (Anderson and Oliver, 1987). In addition, agency theory takes the risk preference of the salesforce into account and is a useful indicator as to when agents will be motivated by salary as opposed to incentives

(John and Weitz, 1989). Accordingly, agency theory has been used to design compensation systems (Bartoi, 1999).

In distribution channels, various kinds of applications of agency theory abound. One example is that of the manufacturer, who in this case is the principal, depends on its various retailers, the agents, for a host of different functions including local advertising, provision of shelf space, point-of purchase promotion and the implementation of an effective pricing strategy. To control the actions of its agents, the manufacturer may use pricing mechanisms that help to overcome various incentive issues (Moorthy, 1987). Incentives, in the above instance, when aligned with manufacturer's objectives were found to help increase channel efficiency. Functional incentives were also found to act as positive inducements. In addition, agency theory also helps to explain hybrid arrangements such as franchising (Brickley and Dark 1987; Fulop and Forward 1997; Lai 1990; Mathewson and Winter 1985; Norton 1988) that are more efficient forms of organization than other alternatives. For example, Brickley and Dark (1987) found that franchising is preferred to vertical integration when the environmental uncertainty is high and it is difficult for the manufacturer to monitor the behavior of the individual outlets. In many ways, franchising as an agency format has garnered attention as an appropriate explanation of the application of agency theory.

Agency theory deals with issues specific to partner and agent selection. This involves the principal making plans and adjustments to overcome agency problems such as moral hazard and adverse selection that are brought about by information asymmetry. Towards this end agency theory advocates the use of monitoring and incentives to motivate agents to indulge in the principal's desired course of action. The use of monitoring and incentive systems by the principal are ways of controlling agent opportunism, manifest in moral hazard and adverse selection.

2.1.2 Transaction cost economics

Transaction cost economics is the only field of the new institutional economics which has been successful in empirical terms. Williamson has made outstanding contributions to the development of transaction cost economics. The transaction cost economics is an innovative interdisciplinary integrating the law, economics and organization science. With Williamson as representative, the transaction cost economics views that the effective operation of the market and allocation of resources depend on two key factors: the first is the degrees of freedom of the transaction, while the second is the level of transaction costs. According to Williamson's

point of view, the core of the Coase Theorem is the transaction cost. Thus, the Coase Theorem can be defined as: as long as the transaction cost is zero, the allocation of initial legitimate rights is irrelevant to the effectiveness of resources allocation. This means as long as the transaction is clearly defined, the resources allocation can be effective. Here, a clear definition of property rights, development and implementation of laws, improvement of systems and implementation of policies are for reducing the cost. In other words, a clear definition of property rights and other measures are the bases to reduce the transaction cost and the lubricant to reduce transaction frictions. Based on this understanding, the transaction cost economics turned to the enterprise organization theory since the 1980s. George Stigler, Stephen Cheung and other property rights theory researchers are consistent with Williamson in the interpretation of the Coase theorem, all interpretation of the transaction cost economics.

2.1.2.1 Transaction and transaction cost

Transaction is defined by Williamson as: a transaction occurs when a goods or service is transferred across a technologically separable interface. One stage of activity terminates and another begins (Williamson, 1985). According to this understanding, the transaction can take place within the enterprise or between different markets. Therefore, we can divide the transaction into the internal and external transactions of the enterprise and market transactions. According to Williamson (1979: 239), the economic transaction has the following three key features: uncertainty, frequency of the transaction and the extent of transaction-specific investments. Neoclassical economists have long recognized the impact of uncertainty on the transaction, but they did not notice the importance of transaction frequency and transaction-specific investments. In the new institutional economics, these three aspects of the transaction are seen as having important impact on economic activities.

The salient feature of the new institutional economics is that it upholds the transaction has a cost. This feature makes the new institutional economics more realistic than any other economics, because as people carry out economic activities, they are always faced with bounded rationality and incomplete information, which makes it impossible for them to make decisions without transaction cost as envisaged in the neoclassical theory.

Generally speaking, the transaction cost can be defined in narrow and broad senses. The narrow transaction cost refers to the time and efforts paid for the performance of the contract, while the broad transaction cost refers to all the resources that required for negotiation, performance of the contract and obtaining the information. Williamson made a clearer definition of the transaction cost and divided it into “Ex ante” and “Ex post” costs in The

Economic Institutions of Capitalism: Firms, Markets, Relational Contracting published in 1985. The “Ex ante” transaction costs means “the cost of drafting, negotiation and ensuring to perform some agreement.” When entering into the contract, the parties of the transaction relationship will be plagued about the future uncertainty, so it is necessary to set forth the rights, obligations and responsibilities of the parties in advance. There is also cost occurred while establishing the rights, obligations and responsibilities. The amount of the cost is related to the advance clarity of the structure of certain property. The “Ex post” transaction cost occurs after the transaction has taken place. It can take many forms: (1) the cost required to be paid by the party desiring to quit a contractual relationship; (2) the expense required to be paid when the trader finds the pre-determined price is wrong and needs to change the original price; (3) the expense paid by the parties to the government for resolving their conflict; (4) the expense required to be paid for continuity and long-term existence of the trading relationship. The transaction cost involves the consumption of actual resources, which means carrying out all the above-mentioned social transactions (including the economic transactions) requires resources.

2.1.2.2 Causes of transaction cost

The transaction cost stems from two human natures (Williamson, 1975, 1985). The first is the bounded rationality, which means that although the individual is expected to act in a rational manner, their knowledge, foresight, skills and time are limited, hampering the completely rational individual actions (Herbert Simon, 1957, 1961). Due to the bounded rationality, the individual cannot instantly solve complex problems, or predict all possible things in the future; for the contingency they can foresee, they cannot always plan well and make effective and appropriate reaction. In addition, because everyone has this limitation, there is no omniscient third party who can provide help for the traders in appeal and accurate and inexpensive dispute settlement agreement. The second aspect is that at least a part of individuals have the opportunism behavior tendency (Williamson, 1975 and 1979), and thus the potential benefits of the transaction may not be achieved. Despite the higher transaction value resulting from cooperation, all transactions contain the hidden potential conflict: each trader wants to grab the largest possible share of the benefits from the transaction. Opportunism refers to the wish of the trader to break faith, perform contractor fraud, evade responsibility, circumvent the law and exploit advantages, or any other various wishes and behaviors to use the weakness of the counterparty for extracting as much as possible a greater share of the rent arising from the transaction. Opportunistic behavior can be divided into two

categories: (1) deviation from the joint residual maximization behavior, which will lead to actual redistribution of the trading income under the existing terms of the contract; (2) expectation to extract more favorable contract terms or force to renegotiate from the outset, so as to modify the previously agreed terms in a legitimate-looking manner. The first kind of opportunism is response to the price signal contained in the contract, which is usually called by the economists the moral hazard. The second opportunism covers various types of holding up behavior, involving a variety of approaches aiming to establish new terms but not to act in accordance with the existing agreement. The cost of opportunistic behavior is high for two reasons. On the one hand, holding up the counterparty - plus efforts of the counterparty to counterattack - will directly consume resources. On the other hand, if the agreement is not reached or the trader fails to take proper actions, the profitable trading opportunity will not be realized. In order to limit the opportunistic behavior of the transaction subject, the counterparty on the one hand may design more careful contractual clauses in advance to protect their own interests and on the other hand provide more additional monitoring and inspection after the transaction. In any case, however, these practices inevitably make extra demanding on the bounded rationality. As a result, when selecting and designing the organizational arrangements, traders are faced with the protracted conflict between the “Bounded Rationality Dilemma” and “Opportunistic Threat” (Williamson, 1985). The bounded rationality and opportunistic behavior together result in increase of the transaction cost.

In addition to the human factors, the transaction cost is related to three other factors. The first is the asset specificity; the second is the extent of uncertainty; the third is the transaction frequency. The asset specificity means that once an asset is formed, it will have only one purpose and cannot be used for other uses. For example, the liquor producer will not only distribute the liquor to the distributors, but also provide training to the staff of distributors on products sale and brand maintenance. Such a precaution will cause the transaction cost. This theory explains the integration of upstream and downstream companies under certain conditions. The extent of uncertainty is linked with the bounded rationality. The range of uncertainty is widespread, including predictable contingencies (but there is a cost for carrying out the expectation and proposing solutions in the contract) and the uncertainty of one party having certain information, while the counterparty lacking of it. The transaction frequency refers to the number of transactions occurred. If both parties make transactions frequently, the parties will try to establish a governance structure to reduce the transaction cost; but if the

transaction is infrequent, it is not easy to establish such a governance structure, and the transaction cost will be significantly higher.

2.1.2.3 Complements for transaction cost economics

Williamson (1988) pointed out that the fundamental differences between transaction cost economics and agency theory consist in the opportunism and bounded rationality which are lost in the agency theory, resulting in the transaction cost in the agency theory becomes “source without water” and thus resulting in the so-called agency cost. More importantly, the absence of bounded rationality in the agency theory results in the lack of logical and empirical support for the complete contract.

In addition, the transaction cost economics suggests that, due to the bounded rationality, it is impossible for both parties of a transaction to sign a complete contract in advance; the incompleteness of contract enables the contracting to have opportunistic behaviors, resulting in the loss of efficiency in market transactions. Williamson's theory uses the “hold-up” to explain the source of Coase's transaction costs, which indicates one contracting party takes advantage of the other party's sunken special relationship investment to hold up no transaction with the former or threat to deal with others, thus resulting in the transaction costs. Therefore, the transaction cost economics says that the solution to this problem is the implementation of "integration", merger of the two parties. The transaction cost theory believes that conflicts and hold-up behaviors will be reduced within a single firm, but the theory has no interpretations on the exact mechanism upon which this case occurs. Hart (1995) holds that the assumption that the agent will voluntarily reduce opportunistic behaviors is difficult to understand, because the opportunism within the firm is not always reduced, and otherwise it must be optimal to carry out all economic activities within a large firm. There is no clear explanation in the transaction cost theory on the mechanism of the reduction of conflicts and hold-up behaviors within the merged firms. Therefore, the transaction cost theory is still unable to clarify the nature and boundaries of the firm, because it cannot answer the question why the incentive problem cannot be resolved through the market contract and does not indicate that the integration also has a cost. Grossman and Hart (1986) clearly stated that “merger” could also bring costs. Starting from the distinction between specific control and residual control rights, Hart and Moore (1990) defined the special control right as the property control right explicitly specified in the contract and defined the rights not specified in the contract as the residual control rights, with the latter further defined as “ownership” over the firm, i.e. the firm property owner's ownership over the firm. Based on this logic,

Grossman and Hart (1986) and Hart and Moore (1990) co-founded the incomplete contract theory. Since this theory was jointly founded by Grossman, Hart and Moore, it is also known as GHM theory or GHM model. The theory takes the incompleteness of contract as the starting point of research and the best allocation of the property rights or residual control rights as the research purposes (Hart and Moore, 1990, 1999, 2007, 2008).

The real economy is full of uncertainty. It is impossible to predict all the future things that will happen and clearly define in the contract the responsibilities, rights and interests of the parties in a variety of possible situations; in addition, the transaction costs of doing so will be relatively high. GHM believes that when the contract is incomplete due to too high cost to clearly define all the specific rights, the ownership will be of great significance.

The main point of the incomplete theory is that the distinction between the firm and the market is not determined by the distribution of residual income claims, but by the distribution of residual control rights. The market implies the symmetrical distribution of the residual control rights between the parties, while the firm implies the asymmetric distribution of the residual control rights. They believe that when two economic subjects enter into a transaction relationship, the property is used to generate revenue; when the cost of specifying all the property-related special rights in the contract is relatively high, the most appropriate approach is that one party merges the other, which means one party purchases all the residual rights of the other. However, the residual rights are gains for the purchaser, but losses for the other party, which inevitably distort incentives. Thus, in an efficient configuration of residual rights, the gains obtained by the purchaser must be able to fully compensate for the loss of the seller. The most important party in the investment behavior should take ownership of the residual rights. At the same time, Hart (1995) also believe that in the case of incomplete contracts, physical assets ownership is the foundation of rights, and the ownership rights over physical assets will result in control over the owner of the human capital, which is actually a representation of capital power view and capital-oriented concept. In addition, Hart (1995) made equivalence of the residual control rights to the rights of ownership of the firms. The possession of the residual control rights is actually considered as the definition of ownership.

2.1.2.4 Transaction Cost Economics Applications in Channel Governance

Transaction Cost Economics has been applied to the understanding of marketing issues and has been used by researchers to identify different relationship management strategies. Rindfleisch and Heide (1997) have pointed out that marketing scholars have conducted a large amount of the empirical work on Transaction Cost Economics. In addition, the basic

tenets of Transaction Cost Economics have been used to identify theoretical frameworks. Drawing on the extant perspectives of interfirm governance embedded in the Transaction Cost Economics literature, Heide (1994) has identified a typology of approaches to governance structures - market, relational and hierarchical. In addition, with its focus on exchange, Transaction Cost Economics is very widely applicable to marketing and has been applied to a wide variety of marketing phenomena (Rindfleisch and Heide, 1997). In vertical integration decisions, Transaction Cost Economics provides a suitable framework for analyzing the efficiency of compensation plans emphasizing salary with supervision over incentives. The transaction cost model is generally supported. Monitoring problems seem to be a stronger determinant of governance mode than human transaction-specific assets, i.e. salespeople. The greater the difficulty of evaluating a salesperson's performance, the more likely the firm is to substitute surveillance for commission as a control mechanism (Anderson, 1985; John and Weitz, 1989). Transaction Cost Economics has also been used to study conditions of foreign market entry. Anderson and Goughian (1987) found that entrants to foreign markets prefer to use integrated channels for products whose distribution entails asset specificity. In addition, Klein, Frazier and Roth (1990) found that when deciding on a channel structure in a foreign country, an important consideration is the ability of the market to limit the opportunistic tendencies of outside intermediaries. In the area of salesforce control, Anderson (1988) found that a particularly powerful way to fight opportunism is to induce salespeople to perceive high goal congruence, that is, that what benefits the company would benefit them. In industrial purchasing strategy, it has been found that firms that adhere to the normative prescriptions of the Transaction Cost Economics model, will experience enhanced performance (e.g. Noordewier, John and Nevin, 1990). Finally, in the area of distribution channel management (Anderson and Weitz, 1992; Heide and John, 1988), it has been found that Transaction Cost Economics is a promising avenue in understanding phenomena related to marketing channels.

However, Transaction Cost Economics concentrates primarily on the economic aspects of governance (Robicheaux and Coleman, 1994). Transaction Cost Economics has been criticized for failing to acknowledge that economic behavior is embedded in social relations (Granovetter, 1985). Moreover, Transaction Cost Economics has been considered to be bad for practice since it fails to take into account that organizations possess different advantages and are not mere substitutes for governing transactions when markets fail (Ghoshal and Moran, 1996). In addition, the role of people and their importance in the governance of

exchanges has virtually been ignored in Transaction Cost Economics (Weitz and Jap, 1995). The concept of relational exchange complements the applications of Transaction Cost Economics in marketing. This concept of relational exchange draws heavily from Macneil's (1978, 1980) Relational Contracting theory.

2.1.3 Relational contract theory

Contract is the core issue of the new institutional economics concerns. The standard contract theory or principal-agent theory assumes that the contents of the contract are entirely clear and can be demonstrated in any possible condition, and the implementation of the law is effective. This is the ideal type of the complete contract. However, the contract is not the case in reality. Due to the bounded rationality, the related legal system cannot be perfect; it is impossible to estimate all the problems in the contract design. The imperfectness of the legal system makes it difficult for performance of the contract. Therefore, the performance of many contracts is dependent on the cooperative transaction relationships between the parties and safeguard mechanisms outside the law, such as “hostage, mortgage, triggering policy and reputation”. Given the conflict between the standard contract theory and the reality, scholars have proposed a new contract theory - relational contract theory. The relational contract does not make specifically detailed provisions on all terms of the transaction, but merely determines the basic objectives and principles. The personal relationships of the contracting parties in the past, at present and in the expected future play a key role in the long-term contract arrangements. Williamson introduced the relational contract into the transaction cost theory and proposed that the relational contract was applicable to the opportunistic behavior after the signing due to exclusive investments. With the business relationship shifted from competition to cooperation, the more long-term business cooperation also allows companies increasingly depending on the relational contract.

2.1.3.1 Characteristics of relational contract

1. Relational embeddedness

The relational embeddedness is the starting point to understand the relational contract. The contract serves in transactions, and each transaction is embedded in complex relations. Therefore, the contract must be linked with its social background to understand its true nature. The parties of the relational contract are not a stranger to each other; most of their interaction takes place outside the contract; it is not necessary to perform the contract by law as per the written terms, but instead by such a special balancing mechanism as cooperation and threat, or

exchange and strategy. The relational embeddedness determines it is necessary to understand the contract from the relations the transaction is embedded in, and the contract performance depends on the cooperative transaction relationship.

2. Extended duration

Macneil proposed the contract dichotomy, namely relational/discrete contract. The discrete contract is the classical contract theory, of which the transaction is entirely guaranteed by law and the people are separated from society. Different from the discrete transaction, the relational contract lasts for a long time and continues with extension of time; it contains a series of “market transactions” within the next uncertain period. With the extension of time and complexity of the relations, the relational contract may involve other people. Therefore, the relational contract may involve more than two civil subjects, beyond the boundaries of the traditional discrete transactions. The long-term transaction is fair to promote and encourage effective transactions, and the information of cooperation provided in the long term transactions is favorable to build confidence and reduce opportunistic behaviors. The long-term relational contract is such that the contracting parties may seek assurance mechanisms outside the law, avoiding the prisoner's dilemma occurred in a single transaction.

3. Self-enforcing

Different from the transaction in the classical contract which is completely guaranteed by law, the relational contract depends on the self-enforcing mechanism; the relational contract contains strong personified factors; issues of the parties occurred during the long-term cooperation can be dealt with via cooperation and other compensatory techniques. Due to the bounded rationality and transaction costs, hold-up problems is unavoidable in the exclusive investment, and resorting to the Court to resolve such problems may give rise to greater hold-up problems. Therefore, only the self-enforcing mechanism can be relied on to guarantee the smooth transaction.

2.1.3.2 Safeguards for implementing relational contract

The parties of the relational contract allow loopholes in the contract, and such loopholes cannot be made up for by law. Therefore, the performance of the relational contract has to rely on the protection mechanisms outside the law. In short, there are three kinds of performance safeguards of the relational contract as follows.

1. Value of future relationship

The most important performance safeguard of the relational contract comes from the termination of relations with the counterparty, resulting in economic losses to the counterparty. Since the relational contract will be a long-term contract to continue, the contracting parties mutually hold a two-way and self-acting capability to control each other. The value of future relationship is regarded as an important performance safeguard of the relational contract in the literature of economics. Therefore, many scholars identify the relational contract as the self-enforcing contract. For example, Baker (2002) defined the relational contract as an informal agreement between the parties on issues that cannot be confirmed by a third party (e.g. a court). Different from a formal contract which depends on the court for its performance, the relational contract is maintained based on the value of future relationship. The relational contract design shall make the gains from default always less than the long-term gains from performance.

2. Relational norms

The governance of relational contracts depends not only on the prior regulations and rational planning of the transaction structure, but also on relational norms, including the social processes and social norms, which guarantee the performance of the relational contract together with the formal system arrangements. Relational norms can effectively reduce and solve problems faced by enterprises in cooperation, such as the hold-up problems from exclusive investment and difficulties in performance measurement.

Relational norms facilitate the expectations for future transaction and cooperation and encourage exclusive investments. The confidence from long-term cooperation brings more attention of traders to the long-term interests and the short-term performance evaluation is no longer important. The study by Dyer and Chu found that the relational norms can reduce opportunistic behaviors and the parties will not have opportunistic behaviors for short-term interests, because the interests from opportunistic behaviors are insufficient to compensate for the loss from the termination of cooperation. In addition, the willingness of the parties to share information increases with the increased confidence, reducing the information asymmetry. Ferguson (2005) et al. also found that relational norms (exchange, equity, flexibility, etc.) have a positive impact on the overall efficiency and performance of cooperation between one Canadian biotech company and its main investors.

3. Reputation

Reputation plays an important role in the enforcement of a relational contract. The reason is that the contracting parties will consider not only the current situation, but also the future; not only the interests of the contracting parties, but also the attitude of their counterparties which may have an impact on them in future. In a repeated game, one person's actions can affect the choices of others, and others can also determine his performance ability from his actions, learn about his reputation, and thus decide the relationship with him. As the role of reputation, the cooperation results can still be achieved even if the contract is not complete. For example, the performance of one company is seen by other companies or their agents in the same industry, and when they know his acts of non-compliance, many enterprises will keep away from this company. Such a reputation is necessary for a company's sales. If the company have opportunistic behaviors, it is easy for it to lose such a reputation. If one makes transactions with one company with good reputation, the contract concluded will be properly fulfilled, and differences occurred will get resolved quickly.

2.1.3.3 Relational Contracting Theory Applications in Channel Governance

Research involving relational contracting in marketing has led to the development of extensive theoretical frameworks that specify the conditions of exchange. Gundlach and Murphy (1993) have explored the role of ethics and law in relational exchanges and have suggested that these are important foundations of relational exchanges. Robicheaux and Coleman (1994) have used the relational exchange paradigm to propose a conceptualization of channel structure. The empirical studies in the area of relational contracting have led to the operationalization and validation of relational exchange scales to measure and order the extent of contractual integration along Macneil's dimensions (Robicheaux and Coleman 1994). Examples are scale development efforts by Kaufmann and Dant (1992), Simpson (1990) and Spriggs and Nevin (1992). Kaufmann and Stem (1988) have found that certain relational norms are significantly related to levels of perceived unfairness. Lusch and Brown (1996) use relational exchange theory to investigate how unilateral versus bilateral dependency influences the selection of contract form and how this influences relational behavior and performance. They find that two types of contracts, normative and explicit, can coordinate the performance of marketing activities.

Since Chinese economy is not fully market-oriented, it is very important for a company to have and use commercial relationship capital and institutional social capital to maintain and improve business relationships between channel members. With this consideration, Tang, Lu,

Zhang and Liu (2013) involve entrepreneurial social capital into channel governance research by mapping out a conceptual framework of social capital and channel governance, and examine channel governance issues by using data from Chinese financing guarantee companies. They indicate that, channel member behavior highly depends on social capital, and also on macro-environmental trust. Besides, relationship marketing orientation has been paid much more attention by Chinese scholars. Considering the potential role of relationship marketing on the governance efficacy of governance mechanisms, Zhang (2013) constructs a conceptual model of relationship marketing orientation, contractual governance mechanism and opportunism behaviors as a negative channel governance outcome. He finds that firm's relationship marketing orientation can significantly inhibit the channel member's opportunism. In a competitive market, how to maintain the stability of the cooperative relationship, improve business performance between retailers and suppliers is also an urgent problem for business managers. Liu (2012) investigates the impacts of interfirm relationship strength on channel governance. Wang (2006) constructs a comprehensive analytical model based on relational contracts and trust to investigate the effectiveness of relational governance mechanisms. He finds that relational norms are the essential elements of relational contracts, which determine the self-enforcing of relational contracts. Fan and Chen (2007) propose four kinds of governance mechanisms to ensure channel relationship from three dimensions by analyzing the evolving process of three kinds of channel relationship including traditional, integrated, and relational channel relationship. Zhuang, Li and Cui (2008) examine the moderating role of relationship marketing orientation on relationship between governance mechanisms and outcomes.

2.2 Channel governance mechanisms

For categories of channel governance mechanisms, Weitz and Jap (1995) summed up the channel control mechanisms as authoritative, contractual and normative mechanisms. In the non-integrated channel, the authoritative mechanism means the enterprise controls the behavior of channel partners via the application of power; the contractual mechanism means the parties of the channel determine the respective rights and obligations by agreed agreement, and coordinate the behaviors of the channel partners via division of the channel functions; the normative mechanism means coordination and control of the channel relationship by the shared norms of conducts of the parties. Heide (1994) divided the channel control or governance into the unilateral and bilateral mechanisms based on the extent the parties of the

channel are involved in the channel decision-making. For the above three categories, the authoritative mechanism is a unilateral governance mechanism; the normative mechanism is a bilateral mechanism; and the contractual mechanism contains both the unilateral and bilateral mechanisms. This thesis focuses on the impact of contractual and normative mechanisms on the outcomes of the channel governance.

2.2.1 Contractual mechanism

Before the 1980s, the contract theory had been the main theoretical tool of the channel governance research. Under the contractual mechanism, rights and obligations of each of the channel members will be clearly defined in advance. If one party in the transaction has opportunistic behaviors, the counterparty may punish the transaction partner with the assistance of a third party for the speculation against the former (Dyer, 1997), thus protecting their transaction-specific assets. Depending on different theoretical foundations, the contract can be divided into formal and normal contracts (Lusch, 1996; Sachdev and Bello, 2014). The former is based on the transaction cost economics, while the latter is based on the relational contract theory proposed by Macneil (1980).

Under the neoclassical theory of contract, the contract is an effective governance mechanism of transaction relationships; it not only creates a common language to convey information (prices, technical specifications, guarantee, etc.), but also makes clear the rights and obligations and responsibilities of both parties; the parties interact to handle their relations, create common language and expectations, curb wasteful negotiations by legal and normative terms, and create value by reducing risk and uncertainty in the transaction (Lusch and Brown, 1996). According to the assumption of bounded rationality under the transaction cost economics, people can never predict all things that may occur in the future, so the contract can never be complete. Zhou (2010) demonstrated in empirical research that the higher the asset exclusiveness level and the levels of the uncertainty in conditions and behaviors are in the channel relationship, the channel members will use more specific and clear contracts to govern the transaction relationship. However, the formal signing of the contract means a cost. Mooi and Ghosh (2010) believed that if the after transaction cost due to openness of the contract is greater than the prior transaction cost with signing of more complete contract, the channel members should spend time and effort to develop a clear and complete contract in advance; on the contrary, the contract should be kept open-ended and controlled during the performance of the contract. Meanwhile, the legal capacity to protect the

performance of the contract in the institutional environment also needs to be considered (Zhou, 2010). For example, if the institutional environment cannot guarantee the performance, the motives of the channel members to govern the transaction relationship by establishing clear and complete contracts will be weakened.

Currently, the research on the contractual governance mechanism in the marketing circle is also focused on comparison of this mechanism and other governance mechanisms as well as discussion on the role of this mechanism in channel governance. Lusch et al. (1996) explored the relationship among the dependency structure, contract types and transaction behaviors and its effect on the channel performance. Cannon et al. (2000) took the channel governance mechanism and the transaction environment as two dimensions and inspected their mutual matching and the corresponding impact on the transaction performance. Jap et al. (2000) studied the impact of the clear contract, transaction-specific assets and relationship norms on perception of the relation commitment by the retailer and the supplier at different stages of the relation period. Carson et al. (2006) compared the effectiveness of the contract and relational governance in restricting opportunistic behaviors under ambiguous and volatile environment. Kashyap et al. (2009) proved via empirical research that composite governance mechanisms can effectively improve the transaction performance and promote long-term cooperation between the partners.

2.2.2 Normative governance mechanism

Under the normative governance mechanism, the parties coordinate and control the channel relationship by shared norms of conduct. Since the goal of this mechanism is to control the channel relationship, it is sometimes also referred to as the relational governance mechanism.

Noordewier, John and Nevin (1990) studied the impact of the relational governance on the performance of the purchaser in the repeated purchase transactions, especially the impact at different level of environmental uncertainty. The study found that at high level of environment uncertainty, the relational governance can significantly improve the performance of the purchaser, and the purchasing scale is favorable to improve the performance with representation of the cost. Heide and John (1992) studied via empirical research the role of relational norms in protection of exclusive assets for the first time. The relational norm is an effective mechanism other than integration for the effective protection of exclusive assets. Heide and Miner (1992) studied the impact of extendedness of relationship, frequency of

contact and performance ambiguity on the cooperative behavior. The results showed that both the extendedness of relationship and frequency of contact had a significant positive impact on the cooperative behavior, while the performance ambiguity had a significant negative impact on the cooperative behavior. Heide (1994) established a complete theoretical framework for the marketing channel relational governance mechanism and divided the governance mechanisms into market and non-market mechanisms, where the non-market mechanism can be subdivided into unilateral and bilateral governance mechanisms. His empirical studies showed that equal and highly interdependent relationship is conducive to the use of bilateral governance mechanism by the parties, while the unilateral dependence is not conducive to the use of bilateral governance mechanism by the parties. Lusch and Brown (1996) studied the correlation among the dependence structure, the contract type, relationship behavior, relationship length, long-term relationship orientation and performance of wholesalers. The study found the higher the level of relative dependence of the supplier on the wholesaler was, the greater the tendency would be to adopt an express contract to govern the transaction relationship; the higher the level of interdependence of the parties is, the more likely the normative contract will be adopted to govern the transaction relationship; if more normative contracts are used for governing the transaction relationship, the level of the relationship behavior will be higher; while the level of application of the clear contractual governance has no effect on the relationship behavior; the unilateral dependence has no significant effect on the relationship behavior, while the level of the relationship behavior will increase with the increase of the bilateral dependence; the stronger the long-term orientation of the wholesaler on the supplier is, the greater the tendency is to use normative contracts to govern the transaction relationship, but the relationship length of the parties has no significant effect on the use of normative contractual governance. Dahlstrom and Nygaard (1999) studied the correlation of cooperation and formation to speculation and post-transaction costs. The study found that taking cooperation and formation in the control structure was conducive to reduction of speculation, while the speculation would increase the post-transaction costs. Brown, Dev and Lee (2000) took the hotel industry as the background and studied the impact of property, exclusive assets and relational norms as well as their joint application on the speculation. The study found the relational norms can significantly reduce the speculation of the hotel against its headquarters; the separate exclusive assets of the hotel had a significant positive impact on speculation of the hotel. When the level of relational norms was high, the occurrence of property rights would reduce the negative impact of the norms on the speculation, but the impact was not significant. When the level of property rights is high, both

the input of the exclusive assets and increase of the relational norms would increase the speculation of the hotel. Heide (2003) found that higher degree of information asymmetry would lead the purchaser shifting from the simple reliance on the market trading mechanism to the composite governance mechanism with both the market and internalization; when the internal governance mechanism emerged, the internalization would improve the level of formation and centralization in the market trading relationship. Jap and Anderson (2003) studied the impact of the bilateral exclusive assets investment, the goal consistency and trust among border personnel on the transaction performance at different levels of post speculation. The study found that at low level of post speculation, bilateral exclusive assets investment and the interpersonal trust significantly improved the performance and expectations of continued relations; at a high level of post speculation, the goal consistency and bilateral exclusive assets investment had a significant positive impact on the performance and expectations of continued relations, while the impact of interpersonal trust was weakened. Ferguson, Paulin and Bergeron (2005) studied the impact of formal contracts and relational governance mechanisms on performance as well as on closeness of border personnel. The study found that both the relational governance and formal contracts had significant positive effects on the transaction performance; the closeness of border personnel also had a significant positive impact on the transaction performance, but this impact should be exercised through the contract and relational governance mechanism, especially in the case the relational norms are the main governance mechanism; the closeness of border personnel had a significant positive impact on relational governance.

Currently, there are two main views on the relationship between contractual governance and relational governance in the academic circles. One view is that the contractual governance and relational governance are complementary; the application of a single governance mechanism to resolve the plight of the transaction will be limited by the exclusive asset and uncertainty of the transaction, while the outcomes will be significantly improved with the composite governance mechanisms (Cannon, 2000; Capaldo, 2014; Rhee, Kim, and Lee, 2014; Wang, Wang, and Zheng, 2014). The other view believes that the two governance mechanisms are mutually exclusive. Stump and Heide (1996) pointed out that with matching of the governance mechanism and of the exchange plight, the use of composite governance may be unnecessary and would create unnecessary costs. Meanwhile, at the application of the composite mechanism, the contractual and normative governance mechanisms may weaken each other (Chelariu, Bello, and Gilliland, 2014; Wuyts and Geyskens, 2005). In response to

this argument, Heide (2006) proposed a new analytical framework - the role theory, which believes that different governance mechanisms should be applied based on different role position of the channel members.

2.2.3 Some specific channel governance mechanisms

Both the contractual and normative governance mechanisms have specific representations. The goal of these specific channel governance mechanisms is to establish, keep and maintain partnerships among channel members. Essentially, they may cover both contractual and normative governance mechanisms. Specific channel governance mechanisms studied herein include incentives, monitoring, enforcement and transaction-specific investments. Here we will review literature on these specific channel governance mechanisms respectively.

2.2.3.1 Monitoring

Monitoring is a key component of control systems along with an organization's procedures for directing, evaluating and compensating (Anderson and Oliver 1987). Performance monitoring is also important to organizational control systems (Flamholtz 1979). In agency theory monitoring is central to distribution of incentives and assuring that the interests of the principal and the agent are aligned together. Monitoring is also posited as an ex post cost in the Transaction Cost Economics framework (e.g. Rindfleisch and Heide 1997) where such costs are expenditures made to guarantee the fulfillment of contractual obligations (Dahlstorm and Nygaard, 1999). Specifically monitoring involves establishing the extent to which contractual compliance has taken place (Heide, 1994). Compliance can be achieved external[^] by explicitly measuring either outputs or behavior (Eisendhardt, 1985). These control mechanisms are means to inhibit opportunistic behaviors or induce behaviors that promote continuity in the relationships (Jap and Ganesan, 2000).

In the case of unilateral governance formats measurement is based on external measurement procedures and also emphasizes the measurement of behavior and output respectively (Anderson and Oliver, 1987; Bello and Gilliland, 1997). This measurement process is reactive and takes place upon task completion (Heide, 1994). Principals use control processes in the forms of process and output controls in order to monitor agents (e.g Gilliland and Manning, 2002). In addition, prior research has shown that firms simultaneously operate distinct and different control mechanisms for the same function (e.g. Braddach and Eccles 1989; Jap and Ganesan, 2000). Both process and output controls are distinct mechanisms that reflect the monitoring procedures of the principal.

They serve as explicit control mechanisms in the principal's monitoring of the agent and firms can use them in conjunction (Oliver and Anderson, 1995). Firms use monitoring to measure performance and the frequency of monitoring has been used in organizational research to measure organizational control (e.g. Niehoff and Moorman, 1993).

2.2.3.2 Incentives

Channel incentives are behaviors or policies described in the manufacturer's standard operating agreements that are designed to motivate active intermediary support of the manufacturer's agenda (Gilliland, 2003). Incentives are an instrument of control (Joseph and Thevaranjan, 1998) and have inherent governance properties. Factors associated with incentives enable the principal to attain high performance outcomes in addition to controlling the channel (Gilliland and Bello, 2001). Such incentives play an important role in theoretical frameworks such as agency theory where they are central to aligning the interests of the agents to the principals. Incentives are thus an attempt to control agents in interorganizational relationships.

The incentive issue has been usually the one more used to explain the reasons for creation of unilateral governance formats such as franchise systems (Stanworth and Kaufmann, 1996). In unilateral governance incentives imply that rewards are tied to observed behavior and outcomes (Anderson and Oliver, 1987). Accordingly, information that is gathered about the agent from behavioral and output measures serves as the basis for rewards and incentives (e.g. Eisenhardt 1985; John and Weitz, 1989). In terms of outcomes, incentives aim to influence the agent when the reward is tied directly to the amount of output that an agent produces or sells. Five different classes of incentives have been isolated in the literature. These are credible channel policies, market development support, supplemental contact, high-powered incentives and end-user encouragements (Gilliland, 2003).

Control can be achieved only if incentives fulfill the properties of magnitude, immediacy, compatibility and equity (Gilliland, 2003). Incentive magnitude refers to the financial gain that can be realized by the reseller (Murry and Heide, 1998). Incentive immediacy refers to how closely reseller performance is linked to monetary compensation (Williamson, 1991). Incentive compatibility refers to the extent that the incentive is in alignment with the agent's goals (Bergen, Dutta and Walker, 1992). Incentive equity refers to the extent the reseller perceives the incentive to be fair given the effort required (Ring and Van De Yen, 1994). In terms of behavior, incentives aim to influence the agent when the reward is tied to

participation in certain tasks. Thus incentives are more likely to achieve their purpose when these properties are met.

2.2.3.3 Enforcement

For trading arrangements to be effective, firms must make special arrangements to maintain alignment of the principal and agent's goals for several reasons (Gilliland and Bello, 2002). First, principals often lack self-sufficiency and rely on agents for different reasons (Pfeffer and Salancik, 1978). Secondly, goal incongruence often exists between principals and their agents since the agents often represent many brands, principals often would prefer that agents represent only their brand (Weitz and Jap, 1995). Thirdly, some firms will engage in opportunistic behaviors that can have adverse effects on the relationship performance (Rindfleisch and Heide, 1997; Rubin, 1990).

Governance of relationships requires the presence of enforcement mechanisms beyond the existing incentive system (Heide, 1994). This is because the most well designed contracts can still be violated (Williamson, 1996). Enforcement mechanisms vary across different governance formats and can arise from two different sources - the legitimate authority that flows from the contractual agreement between firms or the social nature of the relationship itself (Gilliland and Bello, 2002). In unilateral governance formats enforcement is often internal in that it takes place through legitimate authority such as an employment relation or a contractual arrangement that provides decision-making authority in certain areas (Stinchcombe, 1985).

Contract enforcement refers to the severity of a principal's disciplinary response to an agent's violation of a contractual obligation (Antia and Frazier, 2001). The contractual enforcement mechanism is a unilaterally applied coordination process by which the principal relies on the contractual agreement to maintain the alignment of the agent's actions with its prior promises (Gilliland and Bello, 2002; Heide, 1994). The range of disciplinary actions can vary from lenient actions such as ignoring the violation entirely or making only mild and informal attempts to gain compliance to tough and punitive actions such as strict cease and desist orders or termination proceedings.

The limited prior research on contract enforcement (e.g. Antia and Frazier, 2001; Gilliland and Bello, 2002) has found that the principal's enforcement is shaped by the need to protect the strength and value of the exchange relationship and its ability to take a severe enforcement approach. The agent appears unlikely to retaliate if its violation of an obligation

necessitated the enforcement in the first place. In such a situation the agent's perception of the channel mode of the enforcement mechanism might have a bearing on the agent response.

This section has dealt with the different control mechanisms existing in the different subprocesses of governance. These control mechanisms in the six subprocesses are a means to control agents in order to keep their goals congruent with those of the principals. The effects of such control on the attitudinal outcomes of agents are an important, area of research since these determine the quality of the relationship between the principals and their agents. The outcomes of channel governance, both positive and negative are elaborated upon in the following section.

2.2.3.4 Transaction-specific investment

Transaction-specific investment refers to the assets input in a particular relationship which cannot be transferred to other relationships without any costs (Williamson, 1996). Transaction-specific investment forms an incentive to maintain a relationship, because if the investor leaves this relationship, he will bear corresponding economic loss. In the perspective of social exchange theory, many scholars put forward the concept of relationship-specific investment, which refers to long-term investment in manpower, materials and procedures in specific inter-enterprise relations (Jap and Anderson, 2003). The relationship-specific investment is widespread in marketing channels and other organizational relationships. For example, Hewlett-Packard and Dell require manufacturers in Taiwan to invest in unique equipment, information & technology hardware and software and electronic information systems (Chang and Gotcher, 2007).

There are three reasons for investments in transaction-specific assets. The first reason is that the exclusive asset is more effective than general asset, and thus the specific investment can improve the productivity more significantly and promote quick communication among the channel members. The second reason is that the enterprise invests in specific assets to show its recognition and respect of the transaction relationship (Mishra, Heide and Cort, 1998). The third reason is that such an investment may be the condition of transaction; the invested party may improve its channel power and restrict the speculation tendencies of the counterparty via the specific investment. Specific investment between organizations can build a "mortgage" or "credible commitment" for long-term development of the partnership (Williamson, 1985). In other words, the invested party can exert more control on the counterparty. Meanwhile, with the specific investment as warranty, the invested party is also more willing to maintain the depth and breadth of partnerships with the investing party.

Jap (1999) believes that as the exclusive asset is dedicated to a particular relationship, it has a greater ability to create value compared with general assets, so it is possible to bring more revenue for the channel members. At the same time, the exclusive assets also increase the risk of opportunistic behavior, because one party of the relationship may be locked by the counterparty due to the exclusive assets invested in the relationship (Williamson, 1996). In a relationship, the party which invests more exclusive assets in the relationship is more likely to be faced with the threat from the opportunistic behavior of the counterparty. Uncertainty can be divided into environment uncertainty and behavioral uncertainty. The environment uncertainty means unexpected and unpredictable environment changes in the relationship. In the case one party cannot effectively monitor and measure the performance of other party, the behavioral uncertainty may occur. When the performance is difficult to measure, the inputs and outcomes cannot be accurately measured, making it difficult to reward the other party based on the outcomes and thus inducing the parties to reduce investment in the relationship (Krishnan et al. 2006). The environment uncertainty will cause problems on adaptability, while the behavioral uncertainty will cause problems on performance evaluation and monitoring (Rindfleisch and Heide, 1997). The two main assumptions (bounded rationality and opportunism) are also closely related to the behavioral uncertainty. When faced with high uncertainty, the business may be relatively negative on the future expectations, which may strengthen the motivation of the subject for opportunistic behavior; under bounded rationality, the subject may carry out opportunistic behavior harmful to the interests of the other party. All governance mechanisms and coordination activities are for reducing the transaction cost as much as possible and improving the transaction performance. Thus, in the face of uncertainty, the channel governance theory has always focused on core issues such as how to protect exclusive assets, suppress opportunistic behavior, reduce transaction costs and improve the transaction performance.

2.3 Outcomes of Channel Governance

Scholars generally measure the outcomes of channel governance from two aspects, namely the positive and negative outcomes. In related literature, measures on positive outcomes of the channel governance generally include satisfaction (e.g. Geyskens, Steenkamp and Kumar, 1999; Jap and Ganesan, 2000), trust (e.g. Dwyer and Oh, 1987; Ganesan, 1994; Morgan and Hunt, 1994), commitment (Amdersoi and Weitz, 1992; Gundiach, Achrol and Mentzer, 1995) and cooperation (Mehta et al, 2001; Morgan and Hunt, 1994); while measures

on the negative outcomes of the channel governance is usually the opportunism of the transaction subject (Wathne and Heide, 2000; Bergen, Dutta and Walker, 1992; Subramani and Venkatraman, 2003; Williamson, 1985). However, these representative variables of outcomes of channel governance, whether positive or negative, are only those often used in the channel governance literature (e.g. Frazier 1983; Mohr and Nevin 1990). Based on the measurement developed by Gilliland, Bello and Gundlach (2010), this thesis will study the positive and negative outcomes of channel governance mainly from the coordination and conflict respectively. In fact, in terms of the positive outcomes of the channel governance, coordination also covers the meanings of satisfaction, trust and cooperation, while the conflict also to some extent reflects the opportunistic behavior of the transaction subject (Chang and Gotcher, 2010; Gilliland, Bello and Gundlach, 2009).

2.3.1 Coordination as positive governance outcome

Coordination among channel members can be expressed as the cooperation and mutual satisfaction among channel members. Frazier and Summer (1986) found that, coercive influence strategies by the manufacturer would cause retaliation from the dealers, who often responded to the same strategies; it would also lead to uncooperative attitude towards the manufacturer by the dealer. Kim (2000) found that one party in the relationship would use the same strategy against the strategy used on it by the other party; in addition, the alternation of coercive strategies would undermine but not enhance the consistency of the relationship between the parties. The study by Dapiran and Hogarth-Scott (2003) showed that the use of expert power will lead to cooperative behavior, which in turn leads to the trust, and the trust will strengthen the expert power further, showing a cycle system. The Chinese scholars Zhuang Guijun and Zhou Xiaolian (2002) studied the channel behaviors of Chinese businesses. The results showed that the use of coercive power would lead to a lower level of cooperation; while the use of non-coercive power would increase the level of cooperation between the parties.

In addition to research on the cooperation among channel members, there are also researches on satisfaction of channel members. Hunt and Nevin (1974) for the first time confirmed the relationship between power application and channel-related satisfaction. The study found a negative correlation between the application of coercive power and satisfaction and a positive correlation between the application of non-coercive power and satisfaction. However, the study by Wilkinson (2001) had different results: there was no significant

correlation between the application of the coercive power and satisfaction, while there was a moderate positive correlation between the application of non-coercive power and channel-related satisfaction.

Gassenheimer and Ramsey (1994) took the one-to-multiple channel relationship as the background of study. It was found that in the case of one dealer against three suppliers, if the most important supplier used the coercive power on the dealer, it would cause severely adverse impact on the satisfaction of the dealer; however, in the second or third supplier used the coercive power on the dealer, the satisfaction of the dealer would basically not be affected. Geyskens, Steenkamp and Kumar (1999) divided satisfaction into two categories: economic and non-economic satisfaction. Studies show that the use of threatening strategy will lead to lower level of both economic and non-economic satisfaction of the counterparty; the use of commitment strategy will increase the economic satisfaction but decrease the non-economic satisfaction of the counterparty; the use of non-coercive strategy will enhance both economic and non-economic satisfaction of the counterparty.

Geyskens and Steenkamp (2000) found that the use of coercive power would reduce the channel-related satisfaction of the affected party, whether the application was conditional or unconditional; no matter what application way of non-coercive power was, it would increase the economic satisfaction of the counterparty; unconditional application of coercive power would reduce the economic satisfaction of the affected party, while conditional application of non-coercive power would reduce the social satisfaction of the affected party.

With the development of online shopping, e-commerce channels show its own advantages of efficiency and effectiveness. The use of information technology may have an impact on channel governance. Several papers also investigate the potential impact of information technology on channel behavior and governance. Zhang, Zhuang, and Ji (2010) investigate the relationship between enterprise's IT capability and speculation through channels. They find that manufacturer's IT technical ability has a noticeable positive impact on the quality of organizational relations. Because the application of information technology in marketing channels provides firms with better conditions for channel governance, Li, Zhuang, Zhang and Ji (2013) test the moderating role of firm's IT capability on the relationship between interfirm relationship quality and relational governance. They find that firm's IT capability positively moderates the relationship between interfirm relationship quality and the firm's use of governance mechanisms. However, e-commercial channel patterns also entail conflicts and risks to enterprises besides its advantages. Qian (2011)

focuses on the potential conflicts and risks between the traditional distribution channels and network distribution channels, and tries to explore a scientific management and controllable approach to ensure the coordination between these two channels.

With the continuous development of China's agricultural industrialization, the phenomena of high level default rate and unstable cooperative relationships are appearing, which has caused widespread concern from Chinese scholars, Yang (2013) tried to analyze the effects between authority based governance mechanisms and relationship stability in agricultural channels. The results show that authority based governance mechanism has an important influence on the stability of agricultural channel relationship (also see Xia, Du, and Zhang, 2015)

2.3.2 Conflict as negative governance outcome

Channel conflict management is one of the main contents of channel governance (Bradford, Stringfellow, and Weitz, 2004; Duarte and Davies, 2003; Rose and Shoham, 2004; Taylor, Perez-Ferrer, Griffiths, and Brunner, 2015). Lusch (1976) for the first time studied the impact of application of the power base on the channel conflict. The study showed that the application of coercive power would increase the level of conflict, while the application of non-coercive power would decrease the level of conflict. Etgar (1978) reviewed the study by Lusch (1976) and pointed out that Lusch (1976) did not make clear the cause-and-effect relationship between the application of power base and channel conflict, and the application of the power base was the result rather than the cause of conflict. As response to the challenge by Etgar (1978) and reflection, Lusch (1978) noted in a subsequent article that the application of power base and channel conflict should be in a mutually reinforcing relationship, and proposed that the time variable should be included in the analysis framework to study the impact relationship between the two. The study by Brown and Lusch (1983) confirmed the view of the above, namely the existence of a mutually reinforcing relationship between the application of power base and channel conflict. They also found a positive correlation between the application of economic power base and conflict and a negative correlation between the application of non-economic power base and conflict.

As stated earlier, the conflict among channel members is mainly represented in their opportunistic behavior. The presence of information asymmetry among channel members provides the possibility for the transaction partner to adopt opportunistic behavior. However, the opportunistic behavior of the transaction partner may occur before or after signing the

contract. Ovchi (1980), Stump and Heide (1996) believed that the opportunistic behavior may be prevented from the source by the selection mechanism, namely the establishment of an effective mechanism for selecting appropriate transaction partners. In a recent study related to the transaction cost theory, the impact of the features of the transaction partner (background, perception and behavior of the trader) on the opportunistic behavior has received widespread concern (Liu, Liu, and Li, 2014; Rindfleisch et al., 2010; Zhou, Zhang, Zhuang, and Zhou, 2015). Luo (2006) found that cultural differences between the enterprise and its transaction partners would be more likely to lead its opportunism. The opportunism in the B2B relationship seems to be affected by the perception of the transaction partner. For example, if the transaction partner has a good reputation on fair trade or is believed to be a trusted transaction partner, it would be thought less opportunistic (Wang, 2002; Cavusgil et al, 2004.). It can be seen that before the transaction, the enterprise should select transaction partners with cooperative approach rather than the opportunistic behavior in accordance with complementary advantages, considerable strength, cooperative compatibility, trustworthiness and background, perception and other criteria (Orbelland Dawes, 1993). The selection mechanism of the transaction partner is conducive to the reduction of possibility of cooperation with potential transaction partners lack of capacity or with mixed motives, namely reducing the condition of information asymmetry, thereby reducing the possibility of opportunistic behavior. So, selecting right transaction partners but not those with opportunistic behavior tendencies can provide protection for the integrity of cooperation between the parties.

With the rapid development of Chinese economy, competition among enterprises and firms is much fiercer than before. Most of enterprises and firms have realized that effective governance of marketing channels has become crucial for them to survive and succeed in competition. Zhang (2007) tries to employ game theory to analyze the marketing channel conflicts in China. He shows that goal incompatibility, domain dissension, undeveloped Chinese market, unsound laws, and unimproved credit system are the main reasons to channel conflicts. Jiang, Chen, and Zheng (2006) discuss how to judge and choose channel governance patterns with the consideration of industrial life cycle, and point out that assets specificity, environment uncertainty and trading frequency are important factors that matter. Relative to choice of channel governance strategy, we refer to other researches (Zhuang, 2012; Li, Liu and Tang, 2014), Considering that all kinds of channel conflicts will lead to frangibility of the closed-loop supply chains, Ji (2009) analyzes channel conflicts in a

closed-loop supply chain, and tries to propose an effective governance mechanism which called three-dimensional integrated governance system. the author employs the case of GOME Electrical Appliances to illustrate the application of his proposed governance system. Some other researches are also relative to supply chain channel governance (Ji and Zhang, 2008). Under the view of relation marketing, transaction cost and corporation governance, Cao (2007) proposed a theoretical framework on how to build competitive advantage by choosing channel governance patterns from the perspective of IT manufacturers. He explained the successful experience of Lenovo in IT market by employing the proposed framework.

2.4 Conceptual framework of this study

Based on the literature review, we now try to build the theoretical framework of this study and develop the hypothesis. In this thesis, Luzhou Laojiao is taken as the case to study the impact of the channel governance mechanism on outcomes of the channel governance. In this process, we also studied the moderating role of the relative dependence between manufacturer and distributor as well as of channel mode on the relationship between the governance mechanism and the corresponding outcomes.

2.4.1 Channel governance mechanisms

Heide (1994) divided the channel control or governance into the unilateral and bilateral mechanisms based on the extent the parties of the channel are involved in the channel decision-making. For the aforementioned three categories, the authoritative mechanism is a unilateral governance mechanism; the normative mechanism is a bilateral mechanism; and the contractual mechanism contains both the unilateral and bilateral mechanisms. Unilateral governance involves a formalized, hierarchical apparatus where one party established a set of controllers' process over its partner to elicit compliance (Holmstrom and Milgrom, 1994). Unilateral governance processes tend to be task-centered, emphasizing the alignment of specific task behaviors to the requirements of the controller. Bilateral governance involves a less formal apparatus, depending instead on endogenously-derived arrangements and shared consensus. These informal Bilateral agreements exist as the social platform on which task decisions are made and the relationship is managed. Because the governing controller is derived from the strength of the partners' bond, Bilateral governance is a highly socialized form of control (Black, 1998; Burkert, Ivens, and Shan, 2012; Macneil, 1980).

Whether for unilateral or bilateral governance mechanisms, we will mainly study the impact of three specific governance processes of incentive, monitoring and enforcement on the outcomes of channel governance.

2.4.1.1 Unilateral governance mechanisms

The unilateral governance mechanisms studied herein include the unilateral incentive, monitoring and enforcement. The unilateral incentive was initially based on the concept of circumstantial or non-circumstantial rewards (Scheer and Stern, 1992; Vesalainen and Kohtamäki, 2015), making the performance of a task related to income so as to motivate the agent to act in line with interests of the principal (Williamson, 1991). However, research tells us that the manufacturer often designs incentive programs favorable to their own interests, and with little regard to the distributor's goal (Prendergast, 1999). In addition, the activities stressed in the unilateral incentive of the manufacturer are not incompatible with the goal of the distributor, thus resulting in the divergence of interests between the manufacturer and distributor (Ittner and Larcker, 2001). The unilateral monitoring means the conduct of one party of the channel members (the manufacturer) to systematically collect information about the target task completion and behaviors of the other party (the distributor) (Celly and Frazier, 1996; Heide et al, 2007.). Therefore, the unilateral monitoring will lead to incompatibility between the interests of the manufacturer and distributor, which may be incompatible with even the interests of the manufacturer (Eisenhardt, 1989). The unilateral enforcement means the manufacturer copes and deals with conflicts and differences between the two parties as per the formal contract signed with the distributor (Antia and Frazier, 2001). Therefore, the unilateral enforcement depends on the contents and application of the contract signed by the manufacturer and distributor (Lusch and Brown, 1996) as well as the cost of the performance of the contract (Crocker and Masten, 1988).

2.4.1.2 Bilateral governance mechanism

Similar with the unilateral governance mechanism, the bilateral governance mechanism studied herein include the bilateral incentive, monitoring and enforcement. The bilateral incentive is achieved with the parties of the channel members expected to establish long-term and stable relations through mutual investment and equal rewards. When there is such reciprocal investment between the parties of the channel members, the short-term imbalances or unfairness would not become the main drag of bilateral cooperation due to expectations of long-term fairness by the parties. The bilateral monitoring means the parties of the channel

members carry out self-evaluation actively and continuously in order to ensure a mutually beneficial relationship (Heide, 1994). Since the self-control is an important aspect of maintaining the bilateral relationship of channel members (Black, 1998), each party of the channel members will strive to ensure that their behavior and investment meet each other's expectations (Ring and Vande Ven, 1994). The bilateral enforcement refers to such a case: the parties of the channel members can understand the common expectations, thus take actions for the desired common goal, and ultimately achieve the desired common interests (Black, 1998; Gilliland and Bello, 2002). The bilateral enforcement is based on Gachter's (2000) concept of "reciprocity is for achieving the performance of contract". Therefore, the bilateral enforcement can promote the mutually beneficial solution, and thus protect the interests and reputation of each party.

The nature of Unilateral and Bilateral governance as operationalized through each of the three fundamental governance processes is summarized in Table 2-1.

Table 2- 1 Governance conceptualization

Governance approach	Governance mechanisms		
	Incentives systems	Monitoring procedures	Means of enforcement
Unilateral governance: form of control based on authority. One party establishes rules that guide the working relationship	Unilateral incentives: monetary inducements that motivate specific and directed action.	Unilateral monitoring: systematic surveillance of measurable results and task behaviors.	Unilateral enforcement: reliance on the source of authority to motivate compliance to agreed-upon tasks and procedures
Bilateral governance: form of control based on shared understandings. Social ties guide the working parameters of the relationship.	Bilateral incentives: expectations of fairness over the long run that motivate cooperation on everyday tasks.	Bilateral monitoring: based on each firm's self-monitoring of investments to ensure they meet partner expectations.	Bilateral enforcement: reliance on the endogenous relationship to direct behaviors to the benefit of both parties

Source: from Gilliland, Bello and Gundlach (2010)

Whether unilateral or bilateral governance mechanisms will directly affect the behaviors of channel members, and thus affect outcomes of the channel governance. Therefore, we will study the impact of the three specific governance instruments of incentive, monitoring and enforcement from both unilateral and bilateral perspectives respectively.

2.4.2 Governance outcomes and other influential factors

Studying channel governance outcomes is to analyze how the corresponding channel governance mechanism guides the behaviors of the channel members so as to achieve their goals. The main goal of the channel members is to alleviate and manage the channel conflict and facilitate coordination and cooperation among channel members. Therefore, the first research aspect of this thesis is to measure whether the above-mentioned unilateral and bilateral governance mechanisms are effective for management of coordination and conflict among channel members. Previous researches only studied some aspect of the issue: only examining unilateral control of the distributor by the manufacturer (Celly and Frazier, 1996; Mohr et al, 1996; Dong, Tse, and Cavusgil, 2008); or just focusing on outcomes from the application of relational norms by the parties (Kaufmann and Stern, 1992; Mariani, 2015); or just examining a single governance mechanism, such as the study of incentive by Caldieraro and Coughlan (2007), study of monitoring by Eisenhardt (1989) and study of enforcement by Antia and Frazier (2001). Therefore, the study of the impact of incentive, monitoring and enforcement from the unidirectional and bidirectional aspects on the outcomes of the channel governance can let us have a better understanding of channel governance and avoid making one-sided conclusions.

In addition, recent research found that the degree of interdependence among channel members will also affect the relationship between governance mechanisms and the governance outcomes (Chang and Huang, 2012; Kohtamäki, Vesalainen, Henneberg, Naudé, and Ventresca, 2012; Ryu, Aydin, and Noh, 2008; Sheervani et al. 2007). In the case that the distributor can get alternative products from multiple manufacturers, the manufacturer may not easily replace this distributor, but the distributor can replace the manufacturer. In this case, the imbalance between the manufacturer and distributor will occur. In addition to the above-mentioned channel governance mechanisms that will have an impact on the outcomes of channel governance, the asymmetry of interdependence will also affect the outcomes of channel governance, and such asymmetry of interdependence will also affect the relationship between the governance mechanisms and corresponding outcomes. Therefore, the second content of this thesis is to study the impact of the degree of interdependence between the channel members on outcomes of channel governance as well as the impact of such asymmetry of interdependence on the relationship between the governance mechanisms and governance outcomes.

There are two typical channel modes in Luzhou Laojiao: the traditional channel model

and the QIQUAN channel mode. The QIQUAN channel model is significantly different from the traditional channel model in management, administration, operations and profits sharing. QIQUAN channel mode is jointly established by the original channel governance team of Luzhou Laojiao, the franchising clients and their management teams. It is a distribution model further included the salesmen and more dealers as the objects of interests. Luzhou Laojiao standardizes and monitors behaviors of QIQUAN under the contract. From the perspective of business model, distributors under QIQUAN mode will gain dividends and share mechanism of price as well as expanding their sales. Second, from the perspective of management mode, QIQUAN model can be understood as that Luzhou Laojiao “outsourced” terminal retail to QIQUAN under certain systems, agreements and benefits. Third, from the perspective of operation mode, Luzhou Laojiao supplies products in discount price, so that QIQUAN can gain profits from Luzhou Laojiao’s discount price as well as bonus from price increase of the products. Anyway, brands, channels and professional managers benefit alliance established after equity reform of marketing mode of QIQUAN of Luzhou Laojiao reduce conflicts of interest and achieve the maximization of common interests. QIQUAN model is a benefit sharing scheme based on the idea of value co-creation, which is beneficial to coordination between manufacturers and distributors and reduction of conflicts between them. Therefore, the third content of this thesis is to study the impact of the channel model on outcomes of channel governance and on the relationship between channel governance mechanisms and corresponding outcomes.

Based on the above analysis framework, we build a conceptual model shown in Figure 2-1.

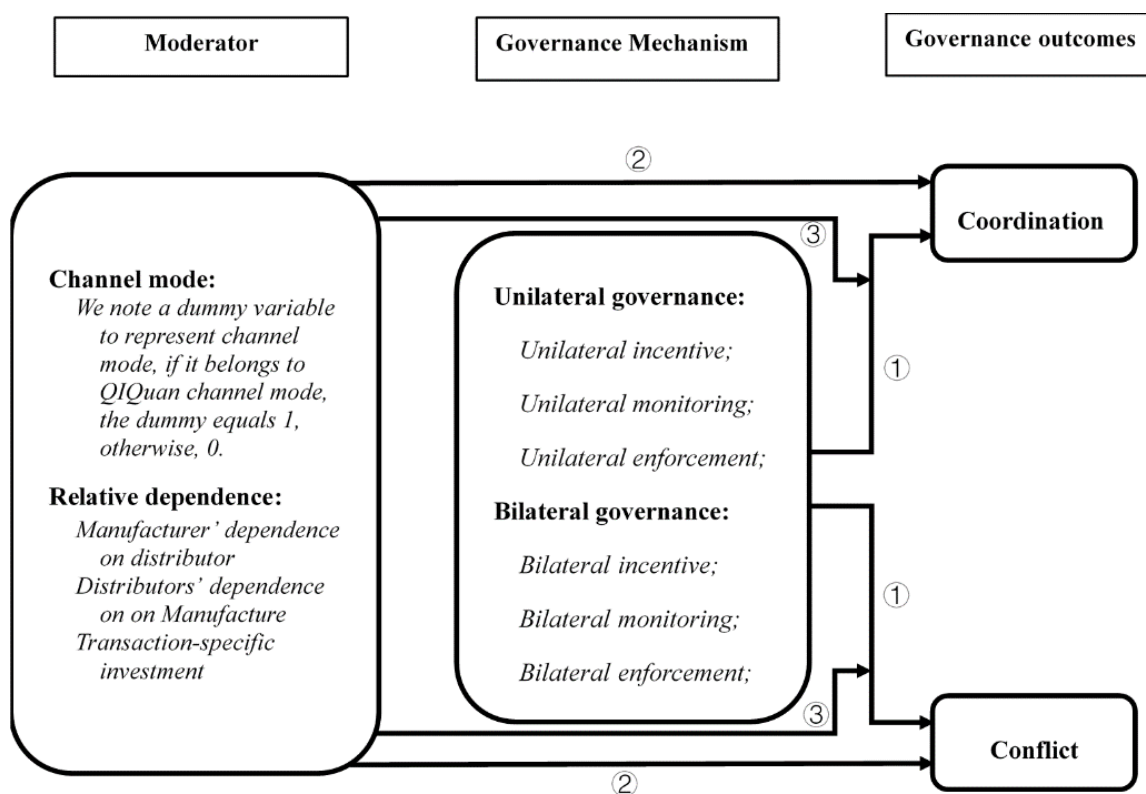


Figure 2-1 A model of governance mechanisms, moderator, and channel outcomes in a channel governance.

Source: by the author

In this figure, ① corresponds to the first research problem in this thesis, namely investigating the impact of the governance mechanisms on outcomes of channel governance; ② corresponds to the second research problem, namely investigating the impact of the channel model and the relative dependence on outcomes of channel governance; ③ corresponds to the third research problem, namely investigating the impact of channel model and the relative dependence on the relationship between the channel governance mechanisms and corresponding outcomes.

2.5 Hypothesis

Based on the research framework in Figure 1, we will present our hypotheses from three aspects to further fully cover the contents of this thesis.

As for the first aspect, the manufacturer often designs incentive programs favorable to their own interests, but with little regard to the distributor's goal. In addition, the activities stressed in the unilateral incentive of the manufacturer are not compatible with the goal of the distributor, thus resulting in the divergence of interests between the manufacturer and distributor. The unilateral

monitoring means the conduct of one party of the channel members (the manufacturer) to systematically collect information about the target task completion and behaviors of the other party (the distributor). Such a behavior of the manufacturer to collect information unilaterally will cause dislike of the distributor, and thus will increase the conflict between channel members and decrease the coordination. The unilateral enforcement means the manufacturer copes and deals with conflicts and differences between the two parties as per the formal contract signed with the distributor. Due to the lack of human interests, such a manner of coping and dealing with conflicts and differences based on the contract will also decrease the coordination and thus increase the conflict between the channel members. Therefore, we propose the following hypotheses:

H1a: the unilateral governance mechanism is not conducive to coordination between channel members (the regression coefficient is negative), but increases the conflict between channel members (the regression coefficient is positive).

H1b: the bilateral governance mechanism is conducive to coordination between channel members (the regression coefficient is positive), and thus decreases the conflict between channel members (the regression coefficient is negative).

As for the contents of the second and third aspects, QIQUAN mode is a benefit-sharing scheme based on the idea to create value together. The benefit-sharing model is of course conducive to enhancing coordination between the manufacturer and distributor, and thus easing their conflict. In addition to the self-enforcing coordination and easing conflict, the QIQUAN model can weaken the relationship between unilateral governance mechanism and conflict and strengthen the relationship between bilateral governance mechanism and coordination. Therefore, we propose the following hypotheses:

H2a: The QIQUAN channel mode is conducive to coordination between channel members (the regression coefficient is positive), and thus decreases the conflict between channel members (the regression coefficient is negative).

H2b: The QIQUAN channel mode weakens the negative relations between unilateral governance mechanism and coordination (the regression coefficient is negative) and strengthens the positive relations between bilateral governance mechanism and coordination (the regression coefficient is positive);

H2c: The QIQUAN channel mode weakens the positive relations between unilateral governance mechanism and conflict (the regression coefficient is negative) and strengthens the negative relations between bilateral governance mechanism and conflict (the regression

coefficient is positive).

As for the relative dependence, it is divided into the dependence of the manufacturer on the distributor and that of the distributor on the manufacturer. Neither dependence of manufacturer on distributor nor that of the distributor on the manufacturer is conducive to coordination among channel members, but will increase the conflict among channel members. Therefore, we propose the following hypotheses:

H3a: both dependence of manufacturer on distributor and that of distributor on the manufacturer increase the conflict between channel members (the regression coefficient is positive), and thus decrease their coordination (the regression coefficient is negative).

H3b: both dependence of manufacturer on distributor and that of distributor on the manufacturer strengthen the negative relations between unilateral governance mechanism and coordination (the regression coefficient is positive), and thus reduce the positive relations between the bilateral governance mechanism and coordination (the regression coefficient is negative).

H3c: both dependence of manufacturer on distributor and that of distributor on the manufacturer strengthen the positive relations between unilateral governance mechanism and conflict (the regression coefficient is positive), and thus reduce the negative relations between the bilateral governance mechanism and conflict (the regression coefficient is negative).

Finally, the transaction-specific investment represents the relative dependence between channel members. Because of its unique nature, the transaction-specific investment is conducive to coordination between channel members, and thus reducing their conflict. Therefore, we propose the following hypotheses:

H4a: the transaction-specific investment reduces conflict between channel members (the regression coefficient is negative), and thus increases their coordination (the regression coefficient is positive).

H4b: the transaction-specific investment weakens the negative relations between unilateral governance mechanism and coordination (the regression coefficient is negative) and strengthens the positive relations between bilateral governance mechanism and coordination (the regression coefficient is positive);

H4c: the transaction-specific investment weakens the positive relations between unilateral governance mechanism and conflict (the regression coefficient is negative) and strengthens the negative relations between bilateral governance mechanism and conflict (the

regression coefficient is positive).

Chapter 3: Methodology

In this chapter the methodology for the study will be outlined. In the first section we develop the measures used for the study. In the second section a review of the sampling and data collection procedures is presented. And finally, a brief description of research steps and specific methodology are outlined.

3.1 Measurements and questionnaire

Wherever possible an attempt was made to use multi-item measurement scales that have been used in previous research. Existing measures in some cases were modified for the context of the study. In the event that preexisting scales were not available, measures were developed on the basis of the conceptual definition presented in the literature, insights from interviews, and discussions with academic researchers. The development of these scales followed the recommendations of Gilliland, Bello and Gundlach (2010). A summary of the scales and measurement items that were used in the research is outlined in Appendix 1.

3.1.1 Measurements for channel governance mechanism

The channel governance mechanism measurements cover incentive, monitoring and enforcement, each of which is studied from unilateral and bilateral dimensions. For the incentive, the thesis herein includes not only unilateral but also bilateral incentives; the unilateral incentive involves four items and the bilateral incentive involves three items. For monitoring, the unilateral monitoring covers six items, while the bilateral monitoring covers three items. For enforcement, the unilateral enforcement and bilateral enforcement include four items respectively.

3.1.2 Measurements for channel governance outcomes

The channel governance outcomes measurements measure the outcomes of channel governance from two dimensions of coordination and conflict. The coordination covers three items and the conflict four items.

3.1.3 Measurements for relative dependence

Gilliland, Bello and Gundlach (2010) found that the manufacturer's relative dependence will affect the outcomes of control-based channel governance mechanisms. Therefore, this thesis also takes into account the manufacturer's relative dependence, and the corresponding measurements is still based on that developed by Gilliland, Bello and Gundlach (2010) to measure the outcomes from the relative dependence and transaction-specific investment. The measurement has nine items in total, of which the relative dependence includes six items, three for the dependence of the manufacturer on the distributor and three for that of the distributor on the manufacturer, and finally, the transaction-specific investment covers 3 items.

3.1.4 Questionnaire

Based on the designed measurements, we have produced a questionnaire. Our questionnaire consists of four parts (see Appendix 1): the first part is the personal information of the informants; the second part is the measurements of channel governance mechanism, including 24 items; the third part is the measurements of outcomes of channel governance, including 7 items; the fourth part is the measurements of relative dependence of manufacturers, including 9 items. Likert seven-point Scale is adopted in the questionnaire.

3.2 Sample and data collection

The context for this study consisted of Luzhou Laojiao manufacturer-distributor relationships and respondents were from branches or distributors of Luzhou Laojiao. To the best of our knowledge, Chinese Liquor manufacturer-distributor relationships has received little attention in the prior research (Li, Liu, and Tang, 2014), but the context was chosen primarily because the author has worked for Luzhou Laojiao for more than ten years, and has been senior marketing manager since 2007. Prior research by Li, Liu, and Tang (2014) have analyzed the necessity of implementing channel governance for Liquor-making enterprises, and discussed possible models of channel governance according to the cooperation degree between manufacturers and their distributors. This study tries to examine the effectiveness of various channel governance mechanisms used by Luzhou Laojiao, and the role of channel mode in moderating the relationship between governance mechanisms and outcomes.

3.2.1 Sampling frame

The sampling frame was based on a commercial mailing list of Luzhou Laojiao. The sampling frame for this study consisted of more than 300 distinguished distributors, addresses, phone numbers and the dollar volume of sales at each distributor. The list was completely randomized using a random number generator to remove any potential bias. Finally, 50 distributors agreed to participate in the research.

3.2.2 Data collection

The study used a self-report survey-based design to collect data. A two-stage procedure was followed in order to enhance respondent involvement and response rates similar to previous work in a channels setting by Sawhney-Celly and Frazier (1996). The telephone pre-qualification method was used to recruit respondents for the study following prior work in channels' settings (Antia and Frazier, 2001; Bello and Gilliland, 1997; Gilliland and Bello, 2002; Mishra, Heide and Cort, 1998; Rindfleisch, 2000).

Specifically, in the first stage telephone calls were made to a subset of distributors of Luzhou Laojiao (including branches of Luzhou Laojiao) from the sampling frame to solicit participation, identify key informants and check mailing addresses. As detailed by Campbell (1955), the key informant approach allows researchers to obtain information about a group (i.e. a distributor) by collecting data from selected individuals within the group who are highly knowledgeable about the phenomena under study. In the second stage, the participating members from distributors or branches of Luzhou Laojiao were sent an electronic questionnaire through corresponding email addresses. Recruits were promised a soft copy of the results in replying letter.

500 questionnaires were issued to the agreed 50 distributors of Luzhou Laojiao (including branches of Luzhou Laojiao) in Shanxi, Hubei, Jiangsu, Sichuan, Xinjiang, Beijing and Chongqing, and 280 of them were taken back, in which valid questionnaires were 267, and the effective sample recovery rate was 53.4%. Delegated survey method is adopted in the questionnaire collection, in which the Researcher delegated the Agent (most of them are top management of distribution channels) to issue and recover the questionnaires.

Samples are typical because they cover different ages, education backgrounds, job position and income levels. The investigated companies and institutions of the initial questionnaire and questionnaire recovery amount are shown in Table 3-1, and basic

characteristics of the samples are shown in Table 3-2.

Table 3- 1 The distribution of survey area and effective questionnaire

Survey area	Survey Method	The number of effective questionnaire	Percentage
Shanxi	Delegated survey	32	11.99%
Sichuan	Delegated survey	42	15.73%
Hubei	Delegated survey	63	23.60%
Jiangsu	Delegated survey	50	18.73%
Xinjiang	Delegated survey	36	13.48%
Beijing	Delegated survey	27	10.11%
Chongqing	Delegated survey	17	6.37%
Total		267	100.00%

Source: by the author.

Table 3- 2 Sample distribution for various characteristics

Sample characteristics	Classification criteria	Number of people	Percentage
Gender	Male	186	69.66%
	Female	81	30.34%
Age	< 25 years	24	8.99%
	25-35 years	122	45.69%
	35-45 years	93	34.83%
	> 45 years	28	10.49%
Education	Lower than junior middle school	3	1.12%
	High school	65	24.34%
	Junior college	117	43.82%
	Undergraduate	78	29.21%
	Graduate	4	1.50%
Working years	Lower than 1 year	22	8.24%
	1-2 years	25	9.36%
	2-5 years	90	33.71%
	More than 5 years	130	48.69%
Knowing about QIQUAN mode	Yes	195	73.03%

	No	72	26.97%
Channel mode	Traditional Channel mode	141	52.81%
	QIQUAN mode	42	15.73%
	LUZHOU LAOJIAO	84	31.46%
Position	General staff member	96	35.96%
	Junior managers	75	28.09%
	Middle managers	62	23.22%
	Senior managers	34	12.73%
Number of occupation change	Never	49	18.35%
	1-2 times	102	38.20%
	3-4 times	70	26.22%
	More than 4 times	46	17.23%
Salary (RMB Yuan)	Less than 30 thousand	13	4.87%
	30-50 thousand	44	16.48%
	50-100 thousand	74	27.72%
	100-150 thousand	76	28.46%
	More than 150 thousand	60	22.47%

Source: by the author.

From Table 3-2, among 267 samples, 186 were male and 81 were female, accounting for 69.66% and 30.34% respectively of the total samples; from the point of age composition, 122 respondents concentrated in age 25 to 35 years old, accounting for 45.69%, followed by the crowd of 35 to 45 years old, with a total of 93 people, accounting for 34.83%; from the perspective of education background, a total of 117 people were college graduates, accounting for 43.82%, followed by 78 people who had bachelor's degrees, accounting for 29.21%; according to work experience, people who worked in the present company for more than 5 years accounted for 48.69%; 73.03% of the respondents know QIQUAN model of Luzhou Laojiao, but there are still many respondents who don't even know about it; 52.81% of the respondents are distributors from the traditional channel models, 15.73% are distributors from the QIQUAN model, and of course, there are part from Luzhou Laojiao; As to the respondents' position level, a majority of them are general staff, accounting for 35.96%, while middle-senior managers account for about 36%; among them, the respondents with annual

income of more than RMB 50,000 account for about 80%, which shows that distributors of Luzhou Laojiao had a better economic income.

3.3 Symbol Definition

Based on the measurement scale designing and collected data according to the aforementioned methodology, we will follow three steps to carry out this research. Firstly, we need to check the data reliability and the validity of various measurements; and then the descriptive analysis is presented, in which the mean, variance, and correlations between any pair of variables are provided. Secondly, because we include demographic characteristics of respondents in our questionnaire, we conducted independent sample T-test for mean value comparison of each variable in order to know whether demographic variables influence channel governance mechanism, outcomes of channel governance and relative dependence or not. Finally, we employ regression analysis to test the hypothesis developed in chapter 2.

For simplicity, we give the following symbols as notations: In terms of governance mechanisms, we use A, B and C represent the unilateral incentive, the unilateral monitoring and the unilateral enforcement respectively, which also applied in later descriptive statistical analysis and regression analysis, and items about those governance mechanisms will be marked with corresponding letter and number. For example, 4 items belonging to the unilateral incentive will be represented as A1, A2, A3 and A4. By that analogy, 6 items about the unilateral monitoring will be presented as B1, ..., B6, and 4 items about the unilateral enforcement C1, ..., C4. AA, BB and CC represent the bilateral incentive, bilateral monitoring and bilateral enforcement, and the expression of items about these mechanisms are similar as the aforementioned method. As to outcomes of channel governance, this thesis describes the positive and negative outcomes presented by G_p and G_n respectively, and this method is applied to similar items. D presents for relative dependence, and TSI presents for transaction-specific investment; this method is applied to similar items.

Chapter 4: Results

In this chapter the main results will be presented. This chapter is divided into eight sections. In the first and second section, I employ reliability and factor analysis to check the data quality and the validity of measures. This is followed by a section on descriptive analysis for various variables. The independent sample t-tests are then conducted to check whether those demographic variables affect the corresponding variable. In the following section, I employ regression analysis to test the hypothesis developed before. The hypothesis testing includes three aspects: first, verify the impact of channel governance mechanisms on outcomes of channel governance; second, verify the impact of channel models and relative dependence on outcomes of channel governance; finally, verify the moderating role of channel models and relative dependence on the relationship between channel governance mechanisms and outcomes of channel governance.

4.1 Reliability analysis for various measurements

In this section, we employ project analysis and Cronbach's Alpha analysis to check the data quality so that we can use those collected data for empirical analysis.

4.1.1 Project analysis

Before conducting regression analysis, project analysis for all items of the measurements, data verification and quality check of the raw data are required. The project analysis is carried out by calculating correlation coefficient between score of each item and total scores of items showing the same latent variable. Specifically, significance of the correlation coefficient reflected the consistence of each item with the corresponding latent variable. The more significant the correlation coefficient, the better the consistence.

We calculated Pearson correlation coefficient between score of each item belonging to measurements of channel governance mechanism, outcomes of channel governance, manufacturer's dependence and transaction-specific investment and total scores of items showing the same latent variable. Based on the previous notations, our results are shown in Table 4-1.

Table 4- 1 The Pearson correlation between item score and total score of all items for the same measure

Panel 1 The measure of unilateral incentive						
Item	A1	A2	A3	A4		
Pearson correlation	.836	.880	.894	.853		
Significance (P-value)	.000	.000	.000	.000		
Panel 2 The measure of unilateral monitoring						
Item	B1	B2	B3	B4	B5	B6
Pearson correlation	.765	.830	.793	.811	.821	.723
Significance (P-value)	.000	.000	.000	.000	.000	.000
Panel 3 The measure of unilateral enforcement						
Item	C1	C2	C3	C4		
Pearson correlation	.797	.763	.814	.818		
Significance (P-value)	.000	.000	.000	.000		
Panel 4 The measure of bilateral incentive						
Item	AA1	AA2	AA3			
Pearson correlation	.887	.899	.871			
Significance (P-value)	.000	.000	.000			
Panel 5 The measure of bilateral monitoring						
Item	BB1	BB2	BB3			
Pearson correlation	.901	.920	.891			
Significance (P-value)	.000	.000	.000			
Panel 6 The measure of bilateral enforcement						
Item	CC1	CC2	CC3	CC4		
Pearson correlation	.882	.829	.844	.806		
Significance (P-value)	.000	.000	.000	.000		
Panel 7 The measure of coordination						
Item	Gp1	Gp2	Gp3			
Pearson correlation	.938	.889	.885			
Significance (P-value)	.000	.000	.000			
Panel 8 The measure of conflict						
Item	Gn1	Gn2	Gn3			
Pearson correlation	.853	.911	.822			
Significance (P-value)	.000	.000	.000			
Panel 9 The measure of relative dependence						
Item	D1	D2	D3	D4	D5	D6
Pearson correlation	.764	.730	.820	.761	.818	.717
Significance (P-value)	.000	.000	.000	.000	.000	.000
Panel 10 The measure of transaction-specific investments						
Item	TSI1	TSI2	TSI3			
Pearson correlation	.876	.910	.889			
Significance (P-value)	.000	.000	.000			

Source: by the author.

From Table 4-1, Pearson Correlation Coefficient between score of each item in various

measurement and total scores of items showing the same latent variable is more than 0.7, and bilateral significance test with P-value <0.01 , presenting a high distinction degree of items in each measurement (Lusch and Brown, 1996).

4.1.2 Cronbach's Alpha Analysis

Project analysis is a kind of rough check for data quality, next we will use Cronbach's Alpha model from SPSS reliability analysis to further analyze the consistence, stability and reliability of collected data. And the results are shown in Table 4-2.

Table 4- 2 Reliability analysis for various measures

Measures	Items	Cronbach's Alpha
Panel 1: Channel governance mechanism		
Unilateral monitoring	B1, B2, B3, B4, B5, B6	0.879
Unilateral incentive	A1, A2, A3, A4	0.888
Bilateral enforcement	CC1, CC2, CC3, CC4	0.860
Unilateral enforcement	C1, C2, C3, C4	0.809
Bilateral incentive	AA1, AA2, AA3	0.861
Bilateral monitoring	BB1, BB2, BB3	0.888
Panel 2: Channel governance outcomes		
Coordination	Gp1, Gp2, Gp3	0.887
Conflict	Gn1, Gn2, Gn3	0.828
Panel 3: Relative dependence		
Manufacturer's dependence on distributor	D1, D2, D3, D4, D5, D6	0.868
Transaction-specific investments	TSI1, TSI2, TSI3	0.871

Source: by the author.

From Table 4-2, we can see that Cronbach's Alpha Coefficient showing reliability of each measurement is greater than 0.7, which indicates a high reliability of collected data (Bagozzi and Phillips, 1982).

4.2 Exploring factor analysis

After the reliability analysis of collected data, we employ exploring factor analysis to check the validity of measurements of various latent variables. In exploring factor analysis, sample size is generally at least 100-200 as required. Sample size in this survey is 267, in line with the requirements of exploring factor analysis. Principal component analysis is used in factor selection, by which factor with eigenvalue greater than 1 is selected as principal factor, factor loading matrix is obtained through orthogonal rotation by using maximum variance rotation method. Factor loadings of items shall not be less than 0.5, and loadings to other factors shall be less than 0.4, otherwise these items shall be deleted.

4.2.1 Factor analysis on channel governance mechanism

Factor analysis on measurements of channel governance mechanisms was carried out in the first place. According to the results, KMO value reaches 0.826, value of Bartlett's test for sphericity is 3933.237, with Degree of freedom (Df) 276, and sig. 0.000, so they are suitable for factor analysis. 6 factors were extracted based on the above results, and the explained variance of accumulated variance is 72.45%, in which the explained variances of factor 1, factor 2, factor 3, factor 4, factor 5 and factor 6 are 16.33%, 13.012%, 12.548%, 10.652%, 10.375%, and 9.532% respectively. Factor loading matrix through orthogonal rotation by using maximum variance rotation method is as shown in Table 4-3.

Table 4- 3 Factor loadings for governance mechanisms after rotation

	Components					
	1	2	3	4	5	6
B2	.865	.005	.088	.053	.001	-.021
B1	.792	.047	.086	-.009	-.056	.133
B3	.791	.027	.058	.072	.030	.141
B4	.765	-.047	.191	.208	.145	.058
B5	.731	.111	.038	.308	.125	.039
B6	.642	.072	-.004	.216	.066	.039
A3	.051	.883	-.005	.015	.167	.088
A2	.073	.874	.005	.050	.119	-.059
A4	.017	.836	.061	.056	-.055	.210
A1	.025	.826	-.039	-.055	-.002	.034
CC1	.169	.016	.844	.080	.155	.101
CC3	.165	-.034	.843	.020	.161	.046
CC4	.019	-.012	.776	.070	.138	.171
CC2	.028	.039	.770	.012	.019	.314
C1	.072	.118	.097	.827	.133	.054
C2	.099	.187	-.067	.810	.084	.076
C3	.341	-.227	.155	.691	-.019	.081
C4	.346	-.135	.051	.685	.089	.046
AA2	.091	.046	.202	.118	.861	.143
AA1	.074	.121	.099	.083	.820	.249
AA3	.035	.053	.165	.087	.804	.244
BB3	.125	.140	.208	.125	.195	.833
BB1	.132	.071	.193	.051	.322	.792
BB2	.142	.092	.366	.098	.311	.753

Source: by the author.

As can be seen in Table 4-3, only one of the factors in each item has a loading more than 0.5, while the other factors have loadings not more than 0.4, so there is no item to be deleted. Therefore, we can gain results of exploring factor analysis, as shown in Table 4-4.

Table 4- 4 Exploring factor analysis for channel governance mechanisms

	N=267					
	Unilateral monitoring	Unilateral incentive	Bilateral enforcement	Unilateral enforcement	Bilateral incentive	Bilateral monitoring
B2	.865					
B1	.792					
B3	.791					
B4	.765					
B5	.731					
B6	.642					
A3		.883				
A2		.874				
A4		.836				
A1		.826				
CC1			.844			
CC3			.843			
CC4			.776			
CC2			.770			
C1				.827		
C2				.810		
C3				.691		
C4				.685		
AA2					.861	
AA1					.820	
AA3					.804	
BB3						.833
BB1						.792
BB2						.753
KMO statistics and Barlett Test of Sphericity	KMO=0.826, $\chi^2 = 3393.237$, p=0.000					
Variance Explained	16.33%	13.012%	12.548%	10.652%	10.375%	9.532%

Source: by the author.

From Table 4-4, we can see that items B1, B2, B3, B4, B5 and B6 belong to factor 1. According to measurement designing, these items represent unilateral monitoring governance

mechanism, so the factor is called unilateral monitoring, mainly referring to monitoring of volume of sales, brand maintenance and other performance indicators by manufacturers. The maximum factor load is 0.865, the minimum factor load is 0.642, and the variability of the explained variance is 16.33%. Items A3, A2, A4 and A1 belong to factor 2. According to measurement designing, these items represent unilateral incentive governance mechanism, so the factor is called unilateral incentive, mainly referring to additional incentives received by distributors other than standard incentives to increase product sales, and funds and financial aid to help promote products. The maximum factor load is 0.883, the minimum factor load is 0.826, and the variability of the explained variance is 13.012%. Items CC1, CC3, CC4 and CC2 belong to factor 3. According to measurement designing, these items represent bilateral enforcement governance mechanism, so the factor is called bilateral enforcement, mainly referring to the common desire of manufacturers and distributors to enforce a business agreement, cherish cooperative partnership and keep the commitment to each other. The maximum factor load is 0.844, the minimum factor load is 0.770, and the variability of the explained variance is 12.548%. Items C1, C2, C3 and C4 belong to factor 4. According to measurement designing, these items represent unilateral enforcement governance mechanism, so the factor is called unilateral enforcement, mainly referring to that manufacturers rely on contracts to deal with and resolve conflicts and differences between distributors. The maximum factor loading is 0.827, the minimum factor loading is 0.685, and the variability of the explained variance is 10.652%. Items AA2, AA1 and AA3 belong to factor 5. According to measurement designing, these items represent bilateral incentive governance mechanism, so the factor is called bilateral incentive, mainly referring to that two companies believe that “any short-term financial inequality incidents will be resolved as time goes on”, that “long-term economic interests will do justice”, and that “in the long run, investment in relation maintenance today will return” will be powerful incentives to the cooperation between the two companies. The maximum factor load is 0.861, the minimum factor load is 0.804, and the variability of the explained variance is 9.532%.

4.2.2 Factor analysis on channel governance outcomes

Factor analysis on measures of outcomes of channel governance (2 sub-scales) shows that KMO value reaches 0.716, value of Bartlett’s test for sphericity is 844.103, with Df 15, and sig. 0.000, so they are suitable for factor analysis. 2 factors were extracted based on the above results, and the explained variance of accumulated variance is 78.442%, in which the

explained variances of factor 1 and factor 2 are 41.142% and 31.300% respectively. Factor loading matrix through orthogonal rotation by using maximum variance rotation method is as shown in Table 4-5.

Table 4- 5 Factor loadings for channel governance outcomes after rotation

	Component	
	1	2
Gp1	.931	-.137
Gp2	.892	-.101
Gp3	.863	-.115
Gn2	-.087	.915
Gn1	-.037	.869
Gn3	-.230	.776

Source: by the author.

As can be seen in Table 4-5, only one of the factors in each item has a loading more than 0.5, while the other factors have loadings not more than 0.4, so there is no item to be deleted. Therefore, we can gain exploring factor analysis results of outcomes of channel governance, as shown in Table 4-6.

Table 4- 6 Exploring factor analysis for channel governance outcomes

	N=267	
	Coordination	Conflict
Gp1	.931	
Gp2	.892	
Gp3	.863	
Gn2		.915
Gn1		.869
Gn3		.776
KMO statistics and Barlett Test of Sphericity	KMO=0.716, $\chi^2 = 844.103, p=0.000$	
Variance Explained	41.142%	37.300%

Source: by the author.

From Table 4-6, we can see that items Gp1, Gp2 and Gp3 belong to factor 1. According to measurement designing, these items represent coordination between manufacturers and distributors, so the factor is called coordination, mainly referring to effective organization of

marketing activities of the two companies. The maximum factor loading is 0.931, the minimum factor loading is 0.863, and the variability of the explained variance is 41.142%. Gn2, Gn1 and Gn3 belong to factor 2. According to measurement designing, these items represent conflicts between manufacturers and distributors, so the factor is called conflict, mainly referring to tensions or differences between the two companies in the process of dealing with the details of the business, achieving their goals, as well as resources allocation. The maximum factor loading is 0.915, the minimum factor loading is 0.776, and the variability of the explained variance is 37.300%.

4.2.3 Factor analysis on relative dependence

Factor analysis on scales of relative dependence (2 sub-scales) shows that KMO value reaches 0.776, value of Bartlett's test for sphericity is 1279.074, with Df 36, and sig. 0.000, so they are suitable for factor analysis. 3 factors were extracted based on the above results, and the accumulated explained variance is 77.891%, in which the explained variances of factor 1, factor 2 and factor 3 are 26.963%, 26.611% and 24.317% respectively. Factor loading matrix through orthogonal rotation by using maximum variance rotation method is as shown in Table 4-7.

Table 4- 7 Factor loadings for relative dependence after rotation

	Components		
	1	2	3
D5	.891	.049	.245
D3	.853	.043	.295
D1	.848	.005	.206
TSI2	.024	.897	.162
TSI1	-.015	.888	.014
TSI3	.085	.870	.140
D6	.212	.085	.817
D2	.239	.090	.805
D4	.278	.160	.798

Source: by the author.

As can be seen in Table 4-7, only one of the factors in items representing relative dependence has a loading more than 0.5, while the other factors have loadings not more than 0.4, so there is no item to be deleted. Therefore, we can gain exploring factor analysis results of relative dependence, as shown in Table 4-8.

Table 4- 8 Exploring factor analysis for relative dependence

	N=267		
	Manufacturer's dependence on distributor	Transaction-specific investments	Distributor's dependence on manufacturer
D5	.891		
D3	.853		
D1	.848		
TSI2		.897	
TSI1		.888	
TSI3		.870	
D6			.817
D2			.805
D4			.798
KMO statistics and Barlett Test of Sphericity	KMO=0.776, $\chi^2 = 1279.074$, p=0.000		
Variance Explained	26.963%	26.611%	24.317%

Source: by the author.

From Table 4-8, we can see that items D5, D3 and D1 belong to factor 1. According to measurement designing, these items represent dependence of manufacturers on distributors, so the factor is called manufacturers' dependence on distributors, mainly referring to that if the relationship between manufacturers and distributors terminated, it is difficult for manufacturers to find other distributors to make up for the sales and profits from the distributors. The maximum factor loading is 0.891, the minimum factor loading is 0.848, and the variability of the explained variance is 26.963%. D135 will be used to represent manufacturers' dependence on distributors in later descriptive statistical analysis and regression analysis. Items TSI2, TSI1 and TSI3 belong to factor 2. According to measurement designing, these items represent manufacturers' special investments in personnel training, products display and so on, so the factor is called transaction-specific investments. The

maximum factor loading is 0.897, the minimum factor loading is 0.870, and the variability of the explained variance is 26.611%. Items D6, D2 and D4 belong to factor 3. According to measurement designing, these items represent dependence of distributors on manufacturers, so the factor is called dependence of distributors on manufacturers, mainly referring to that if the relationship between manufacturers and distributors terminated, it is difficult for distributors to gain alternative income provided by manufacturers. The maximum factor loading is 0.817, the minimum factor loading is 0.798, and the variability of the explained variance is 24.317%. D246 will be used to present dependence of distributors on manufacturers in later descriptive statistical analysis and regression analysis.

4.3 Descriptive and correlative statistical analysis

4.3.1 Descriptive statistics analysis on each variable

Based on previous reliability and validity analysis on each measurement scale, we take average score of items presenting corresponding variable as value of the corresponding variable (Kumar, Scheer and Steenkamp, 1995). Table 4-8 shows mean value, median value, standard deviation, minimum value and maximum value of each variable. As can be seen from Table 4-9, mean values of the variables representing channel governance mechanisms are greater than 4, suggesting that distribution channels of Luzhou Laojiao have a higher score in channel governance mechanisms; second, in terms of outcomes of channel governance, mean values of coordination and conflict are 5.66 and 3.67 respectively, indicating more coordination and less conflicts for outcomes of channel governance of Luzhou Laojiao; finally, from the perspective of relative dependence, manufacturers have a higher dependence on distributors than they do, this in fact also reflects that in Chinese liquor market, manufacturers have a higher dependence on distributors. That is because there are other strong competitive liquor brands in addition to Luzhou Laojiao, such as Wuliangye and Maotai.

Table 4- 9 Descriptive statistics

Variables	Mean	Medium	Stdev	Min	Max
Panel 1: Channel governance mechanisms					
Unilateral incentive	4.49	4.50	1.45	1.00	7.00
Unilateral monitoring	4.79	4.67	1.08	1.50	7.00
Unilateral enforcement	4.41	4.50	1.25	1.00	7.00
Bilateral incentive	5.39	5.33	1.26	1.00	7.00
Bilateral monitoring	5.36	5.33	1.16	2.33	7.00
Bilateral enforcement	5.96	6.00	0.95	3.25	7.00
Panel 2: Channel governance outcomes					
Coordination	5.66	6.00	1.22	2.00	7.00
Conflict	3.67	4.00	1.20	1.00	7.00
Panel 3: Relative dependence					
Manufacturer's dependence on distributor	3.58	3.67	1.23	1.00	7.00
Transaction-specific investments	2.29	2.33	0.68	0.50	3.50
Distributor's dependence on manufacturer	3.27	3.33	1.33	1.00	7.0

Source: by the author.

4.3.2 Correlations among various variables

Table 4-10 shows the Pearson correlation coefficient of each variable. As can be seen from Table 4-10, (1) In terms of various channel governance mechanisms, there is significant positive correlation between two channel governance mechanisms except that between unilateral incentive and unilateral monitoring, and unilateral enforcement and bilateral enforcement. Most correlation coefficients are significant at 1%, suggesting that each channel governance mechanism has certain similar or same properties, especially for correlation coefficients between two mechanisms among bilateral incentive, bilateral monitoring and bilateral enforcement, which are 0.35 or more, further implying that common components based on bilateral control mechanism between Luzhou Laojiao and its distributors are higher than that based on unilateral control mechanism (Heide, 1994; Black, 1998; Ring and Vande Ven, 1994; Gilliland and Bello, 2002). (2) In terms of two variables referring to outcomes of channel governance, correlation between coordination and conflict is negative, showing that more coordination will contribute to less conflict between Luzhou Laojiao and its distributors,

and vice versa, which is consistent with our actual situation (Bradford, Stringfellow, and Weitz, 2004; Duarte and Davies, 2003; Rose and Shoham, 2004). (3) In terms of relative dependence, there is significant positive correlation between the dependence of manufacturers on the distributors and that of distributors on manufacturers, with the correlation coefficient reaching 0.547. Transaction-specific investments mean that manufacturers will invest extra time, money and other resources on maintaining relations with distributors, so correlation between transaction-specific investments and dependence of manufacturers on distributors is positive. Similarly, transaction-specific investments also mean distributors, to a certain extent, rely on manufacturers' continuous resources investment to maintain their relationships, so there is also positive correlation between transaction-specific investments and dependence of distributors on manufacturers (Chang and Gotcher, 2007; Jap, 1999; Jap and Anderson, 2003; Krishnan et al. 2006; Mishra, Heide and Cort, 1998; Rindfleisch and Heide, 1997). And the correlation coefficients are significant at 1% and 5% respectively. (4) As to correlation between channel governance mechanism and outcome, each governance mechanism and coordination are significantly related (Wathne and Heide, 2000; Bergen, Dutta and Walker, 1992; Chang and Gotcher, 2010; Gilliland, Bello and Gundlach, 2010; Subramani and Venkatraman, 2003; Williamson, 1985). Except that unilateral incentive and coordination are negatively related, other channel governance mechanisms and coordination are positive related, and most correlation coefficients are significant at 1%, suggesting that each channel governance mechanism of Luzhou Laojiao can promote the coordinated cooperative relations with distributors; on the contrary, except that bilateral enforcement and conflict are significantly negatively related, correlation coefficients of other channel governance mechanisms and conflicts approach 0 and are not significant, indicating that only bilateral enforcement among channel governance mechanisms of Luzhou Laojiao can significantly reduce conflicts between the two parties. (5) As to relative dependence and outcomes of channel governance, manufacturers' dependence on distributors and their conflict is significantly positive related, while that and coordination is not significantly related, which means that the higher the degree of dependence of manufacturers on distributors, the more conflict, therefore, reduction of dependence on distributors shall be considered by Luzhou Laojiao to reduce the conflicts with its distributors; correlation coefficient between transaction-specific investments and coordination and conflict is small and insignificant, indicating that transaction-specific investments play a plain role in reducing the conflicts and increasing coordination between Luzhou Laojiao and its distributors; Finally, dependence of distributors on manufacturers and their coordination are significantly negatively related, and

that with the conflict is significantly positive related, which shows that excessive dependence of distributors on manufacturers will lead to the increase of conflict between the two parties and reduction of coordination. Fortunately, most of the distributors have relatively low dependence on manufacturers, which is more conducive to the coordination and cooperation between manufacturers and distributors (Dapiran and Hogarth-Scott, 2003; Kim, 2000; Geyskens and Steenkamp, 2000; Geyskens, Steenkamp and Kumar, 1999; Wilkinson, 2001; Zhang, Zhuang, and Ji, 2010).

Table 4- 10 The Pearson correlations and its significance

	1	2	3	4	5	6	7	8	9	10
Panel 1: Channel governance mechanisms										
1. Unilateral incentive	1									
2. Unilateral monitoring	.098	1								
3. Unilateral enforcement	.032	.441***	1							
4. Bilateral incentive	.175***	.191***	.245***	1						
5. Bilateral monitoring	.213***	.283***	.248***	.566***	1					
6. Bilateral enforcement	.038	.241***	.176***	.357***	.501***	1				
Panel 2: Channel governance outcomes										
7. Coordination	-.195***	.295***	.296***	.246***	.222***	.535***	1			
8. Conflict	.102*	.078	-.019	-.038	.054	-.194***	-.263***	1		
Panel 3: Relative dependence										
9. Manufacturer's dependence on distributor	.109*	.207***	.085	.142**	-.030	-.189***	-.042	.320***	1	
10. Transaction-specific investments	.237***	.264***	.075	.175***	.310***	.200***	.106*	.095	.255***	1
11. Distributor's dependence on manufacturer	.040	-.063	-.112*	-.068	-.118*	-.247***	-.252***	.362***	.547***	.121**

Note: *, **, *** represent statistically significant at 10%, 5%, and 1%.

Source: by the author

4.4 Independent sample t-test for mean value comparison

In order to know whether demographic variables influence channel governance mechanism, outcomes of channel governance and relative dependence or not, we conducted independent sample T-test for mean value comparison of each variable. Specifically, we first group samples based on each demographic variable, and use Levene' s Test for Equality of Variances, and then, we check for equality of mean values of each sub-group according to the results on Levene' s Test for Equality of Variances; if there is a significant difference on mean value between sub-samples, then we can declare that the demographic variable affects the corresponding variable. Next we group the samples and carry out independent sample t-test respectively based on gender, age, education background, working experience in the company, channel mode, position level and annual income to check whether those demographic variables have an impact on channel governance mechanism, outcomes of channel governance and relative dependence.

4.4.1 Gender-based independent sample t-test

Among the respondents, 190 were male and 77 were female. Considering that gender of respondents may influence their feelings to channel governance mechanism, outcomes of channel governance and relative dependence, and lead to difference of variable value from gender difference, we conducted a T test of independent samples based on gender, and the results are shown in Table 4-11.

Table 4-11 shows that gender generally has no impact on channel governance mechanism, outcomes of channel governance and relative dependence except unilateral enforcement. Even though we will still incorporate the gender variable in later regression analysis.

Table 4- 11 Gender-based independent sample t-test

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	.048	.828	.170	265	.865
	Assuming inequality of variances			.176	151.911	.861
GN	Assuming equality of variances	1.457	.229	-.663	265	.508
	Assuming inequality of variances			-.634	128.739	.527
A	Assuming equality of variances	.315	.575	.327	265	.744
	Assuming inequality of variances			.332	145.184	.740
B	Assuming equality of variances	1.520	.219	-.049	265	.961
	Assuming inequality of variances			-.052	159.425	.959
C	Assuming equality of variances	.042	.838	1.963	265	.051
	Assuming inequality of variances			1.923	134.784	.057
AA	Assuming equality of variances	.765	.383	-1.471	265	.143
	Assuming inequality of variances			-1.427	132.167	.156
BB	Assuming equality of variances	.002	.965	-.927	265	.355
	Assuming inequality of variances			-.920	138.573	.359
CC	Assuming equality of variances	.789	.375	-1.340	265	.181
	Assuming inequality of variances			-1.313	135.033	.191
TSI	Assuming equality of variances	.975	.324	-.183	265	.855
	Assuming inequality of variances			-.190	151.599	.850
D135	Assuming equality of variances	.601	.439	1.451	265	.148
	Assuming inequality of variances			1.476	146.141	.142
D246	Assuming equality of variances	1.646	.201	.590	265	.556
	Assuming inequality of variances			.628	162.150	.531

Source: by the author.

4.4.2 Age-based independent sample t-test

We now divide all samples for each latent variable into two groups by using 35 years as dividing line. 116 of the respondents are over 35 years old, and 151 below. Then we carry out independent sample T-test to obtain difference of variable value from age difference, and the results are shown in Table 4-12. Table 4-12 shows that age difference has little impact on each

variable value. We will also incorporate the age variable in later regression analysis.

Table 4- 12 Age-based independent sample t-test

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	.847	.358	.166	265	.869
	Assuming inequality of variances			.163	234.132	.870
GN	Assuming equality of variances	.620	.432	.048	265	.962
	Assuming inequality of variances			.048	257.880	.962
A	Assuming equality of variances	2.586	.109	.471	265	.638
	Assuming inequality of variances			.463	230.486	.644
B	Assuming equality of variances	3.626	.058	1.461	265	.145
	Assuming inequality of variances			1.451	240.634	.148
C	Assuming equality of variances	.166	.684	1.260	265	.209
	Assuming inequality of variances			1.261	248.600	.208
AA	Assuming equality of variances	.038	.846	1.694	265	.091
	Assuming inequality of variances			1.687	243.168	.093
BB	Assuming equality of variances	3.099	.080	.622	265	.535
	Assuming inequality of variances			.612	231.568	.541
CC	Assuming equality of variances	2.735	.099	1.157	265	.248
	Assuming inequality of variances			1.178	260.811	.240
TSI	Assuming equality of variances	.161	.689	1.457	265	.146
	Assuming inequality of variances			1.455	246.489	.147
D135	Assuming equality of variances	.021	.885	-.490	265	.624
	Assuming inequality of variances			-.490	247.103	.625
D246	Assuming equality of variances	.017	.897	.646	265	.519
	Assuming inequality of variances			.649	251.502	.517

Source: by the author.

4.4.3 Education-based independent sample t-test

From the perspective of education background, 78 respondents have bachelor' degrees and above, and 189 respondents have lower degrees. To obtain difference of variable value from education background difference, we still made a T test of independent samples based on education background, and the results are shown in Table 4-13. Table 4-13 shows that education background has no impact on channel governance mechanism, outcomes of channel governance and relative dependence except bilateral monitoring. We will incorporate the education background variable in later regression analysis.

Table 4- 13 Education-based independent sample t-test

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	.000	.998	-.418	265	.676
	Assuming inequality of variances			-.413	139.832	.680
GN	Assuming equality of variances	3.356	.068	-.810	265	.418
	Assuming inequality of variances			-.763	126.821	.447
A	Assuming equality of variances	.128	.720	.420	265	.675
	Assuming inequality of variances			.427	148.423	.670
B	Assuming equality of variances	.320	.572	.392	265	.696
	Assuming inequality of variances			.397	148.274	.692
C	Assuming equality of variances	.729	.394	-.499	265	.618
	Assuming inequality of variances			-.490	137.722	.625
AA	Assuming equality of variances	.459	.499	.097	265	.923
	Assuming inequality of variances			.096	140.332	.924
BB	Assuming equality of variances	.814	.368	-1.980	265	.049
	Assuming inequality of variances			-1.910	133.144	.058
CC	Assuming equality of variances	.161	.689	-1.652	265	.100
	Assuming inequality of variances			-1.600	134.175	.112

TSI	Assuming equality of variances	5.915	.016	-1.336	265	.183
	Assuming inequality of variances			-1.425	166.667	.156
D135	Assuming equality of variances	.219	.640	-.949	265	.344
	Assuming inequality of variances			-.950	144.122	.344
D246	Assuming equality of variances	.728	.394	.488	265	.626
	Assuming inequality of variances			.472	133.945	.638

Source: by the author.

4.4.4 Working experience -based independent sample t-test

From the perspective of working experience, 221 respondents have worked for 2 years and more in the company, and 46 respondents have worked for less than 2 years. To obtain difference of variable value from working experience difference, we made a T test of independent samples based on working experience, and the results are shown in Table 4-14. It can be seen from Table 4-14 that working experience difference has a significant impact on conflict value of outcomes of channel governance, that is to say, working experience of the respondents will influence the conflict. In addition, working experience differences also affect relative dependence. In order to eliminate the effects of working experience on outcomes of channel governance, we will incorporate working experience in later regression analysis.

Table 4- 14 Working experience-based independent sample t-test

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	.141	.708	-.246	265	.806
	Assuming inequality of variances			-.266	70.973	.791
GN	Assuming equality of variances	1.078	.300	-2.077	265	.039
	Assuming inequality of variances			-1.858	59.064	.068
A	Assuming equality of variances	7.824	.006	.632	265	.528
	Assuming inequality of variances			.810	90.985	.420
B	Assuming equality of variances	.032	.859	.951	265	.342
	Assuming inequality of variances			.939	64.259	.351
C	Assuming equality of variances	1.399	.238	-.948	265	.344
	Assuming inequality of variances			-.981	67.435	.330
AA	Assuming equality of variances	.007	.934	.609	265	.543
	Assuming inequality of variances			.637	68.245	.526
BB	Assuming equality of variances	.229	.633	-.133	265	.894
	Assuming inequality of variances			-.129	63.404	.897
CC	Assuming equality of variances	2.592	.109	.853	265	.395
	Assuming inequality of variances			.782	60.238	.437
TSI	Assuming equality of variances	.387	.534	.548	265	.584
	Assuming inequality of variances			.564	67.012	.575
D135	Assuming equality of variances	1.755	.186	-2.622	265	.009
	Assuming inequality of variances			-2.401	60.151	.019
D246	Assuming equality of variances	.041	.839	-2.342	265	.020
	Assuming inequality of variances			-2.188	61.158	.033

Source: by the author.

4.4.5 Channel mode-based independent sample t-test

According to the aforementioned analysis, different channel modes will not only bring differences to outcomes of channel governance, but also regulate the relations between channel governance mechanisms and outcomes of channel governance. To show differences in governance mechanisms and outcomes of channel governance brought by different channel mode, we carried out T test of independent samples based on channel model. Due to that our respondents are from traditional distribution channel, QIQUAN model channel and Luzhou Laojiao, so we made two T tests of independent samples based on channel model. In one of the tests, we put samples from traditional distribution channel and Luzhou Laojiao in the same class, and that from QIQUAN model channel in another class, from which the grouping results show that 41 samples are from QIQUAN model channel and 226 other channels (case 1); In the other test, we excluded samples from Luzhou Laojiao, and samples from traditional distribution channel and QIQUAN model channel are 143 and 41 respectively (case 2). The results are shown in Table 4-15 and 4.16.

From Table 4-15 and 4.16, we can see that different channel models bring significant differences to bilateral channel governance mechanisms and unilateral enforcement, as well as three dimensions of the relative dependence. Most importantly, different channel models bring significant differences to the coordination of outcomes of channel governance. Therefore, we will incorporate the channel models in later regression analysis.

Table 4- 15 Channel mode-based independent sample t-test (case 1)

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	20.775	.000	3.829	265	.000
	Assuming inequality of variances			5.425	88.095	.000
GN	Assuming equality of variances	3.019	.083	-.842	265	.400
	Assuming inequality of variances			-.955	62.859	.343
A	Assuming equality of variances	.992	.320	-.084	265	.933
	Assuming inequality of variances			-.092	60.522	.927
B	Assuming equality of variances	5.826	.016	.720	265	.472
	Assuming inequality of variances			.866	67.574	.390
C	Assuming equality of variances	12.753	.000	2.419	265	.016
	Assuming inequality of variances			3.264	80.478	.002
AA	Assuming equality of variances	.635	.426	2.937	265	.004
	Assuming inequality of variances			3.394	64.254	.001
BB	Assuming equality of variances	.097	.756	3.134	265	.002
	Assuming inequality of variances			3.361	59.200	.001
CC	Assuming equality of variances	3.384	.067	2.690	265	.008
	Assuming inequality of variances			3.497	75.647	.001
TSI	Assuming equality of variances	3.342	.069	-3.192	265	.002
	Assuming inequality of variances			-3.477	60.155	.001
D135	Assuming equality of variances	4.634	.032	-4.746	265	.000
	Assuming inequality of variances			-5.371	62.707	.000
D246	Assuming equality of variances	1.850	.175	-2.941	265	.004
	Assuming inequality of variances			-2.633	51.081	.011

Note: The samples from LUZHOU LAOJIAO are classified as traditional channel mode

Source: by the author

Table 4- 16 Channel mode-based independent sample t-test (case 2)

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	19.959	.000	-3.711	182	.000
	Assuming inequality of variances			-4.554	94.130	.000
GN	Assuming equality of variances	1.687	.196	.860	182	.391
	Assuming inequality of variances			.931	73.325	.355
A	Assuming equality of variances	.133	.716	-.121	182	.904
	Assuming inequality of variances			-.125	68.008	.901
B	Assuming equality of variances	5.723	.018	-1.229	182	.220
	Assuming inequality of variances			-1.401	80.592	.165
C	Assuming equality of variances	12.252	.001	-2.341	182	.020
	Assuming inequality of variances			-2.973	101.942	.004
AA	Assuming equality of variances	1.326	.251	-3.051	182	.003
	Assuming inequality of variances			-3.499	81.618	.001
BB	Assuming equality of variances	.002	.965	-3.793	182	.000
	Assuming inequality of variances			-3.955	68.947	.000
CC	Assuming equality of variances	4.052	.046	-3.178	182	.002
	Assuming inequality of variances			-3.912	94.817	.000
TSI	Assuming equality of variances	1.936	.166	2.797	182	.006
	Assuming inequality of variances			2.924	69.196	.005
D135	Assuming equality of variances	6.744	.010	4.640	182	.000
	Assuming inequality of variances			5.294	80.741	.000
D246	Assuming equality of variances	1.607	.207	3.303	182	.001
	Assuming inequality of variances			3.044	58.176	.003

Note: The samples from LUZHOU LAOJIAO are excluded.

Source: by the author

4.4.6 Position-based independent sample t-test

From the perspective of position level, 93 respondents are middle-senior managers, and 174 are general staff and junior managers. To obtain difference of variable value from position level difference, we made a T test of independent samples based on working experience, and the results are shown in Table 4-17. As can be seen from Table 4-17, different position levels will bring significant differences to unilateral incentive value of channel governance mechanisms, as well as to value of distributors dependence on manufacturers. However, it has little impact on outcomes of channel governance. Therefore, we will incorporate the variable in later regression analysis.

Table 4- 17 Position-based independent sample t-test

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	.450	.503	-.417	265	.677
	Assuming inequality of variances			-.397	164.866	.692
GN	Assuming equality of variances	.684	.409	.708	265	.480
	Assuming inequality of variances			.710	189.329	.479
A	Assuming equality of variances	6.778	.010	4.433	265	.000
	Assuming inequality of variances			4.247	166.611	.000
B	Assuming equality of variances	.113	.737	.735	265	.463
	Assuming inequality of variances			.741	192.491	.460
C	Assuming equality of variances	.089	.766	.353	265	.724
	Assuming inequality of variances			.348	180.295	.728
AA	Assuming equality of variances	4.900	.028	-.496	265	.620
	Assuming inequality of variances			-.510	203.443	.611
BB	Assuming equality of variances	1.414	.235	1.278	265	.202
	Assuming inequality of variances			1.317	204.787	.189
CC	Assuming equality of variances	3.603	.059	.386	265	.700
	Assuming inequality of variances			.401	210.126	.689
TSI	Assuming equality of variances	.960	.328	-.482	265	.630
	Assuming inequality of variances			-.474	179.261	.636
D135	Assuming equality of variances	.249	.618	-1.657	265	.099
	Assuming inequality of variances			-1.623	177.451	.106
D246	Assuming equality of variances	4.879	.028	-2.259	265	.025
	Assuming inequality of variances			-2.147	163.133	.033

Source: by the author.

4.4.7 Annual income-based independent sample t-test

140 of the respondents have an annual income of RMB 100,000 and above, and that of 127 respondents is below RMB 100,000. To obtain difference of variable value from annual income difference, we made a T test of independent samples based on annual income, and the results are shown in Table 4-18. Table 4-18 shows that annual income difference will affect the outcomes of channel governance, channel governance mechanisms and relative

dependence. Therefore, we will incorporate the annual income variable in later regression analysis.

Table 4- 18 Annual income-based independent sample t-test

		Levene's Test for Equality of Variances		T Test for Equality of Mean		
		F statistics	Sig.	T statistics	df	Sig.
GP	Assuming equality of variances	1.698	.194	.158	265	.875
	Assuming inequality of variances			.160	262.449	.873
GN	Assuming equality of variances	1.302	.255	1.664	265	.097
	Assuming inequality of variances			1.655	254.483	.099
A	Assuming equality of variances	9.800	.002	1.752	265	.081
	Assuming inequality of variances			1.772	259.936	.078
B	Assuming equality of variances	7.841	.005	2.350	265	.020
	Assuming inequality of variances			2.376	260.774	.018
C	Assuming equality of variances	.506	.478	.768	265	.443
	Assuming inequality of variances			.765	255.661	.445
AA	Assuming equality of variances	.054	.817	2.618	265	.009
	Assuming inequality of variances			2.621	263.594	.009
BB	Assuming equality of variances	.267	.606	2.828	265	.005
	Assuming inequality of variances			2.831	263.474	.005
CC	Assuming equality of variances	13.271	.000	3.565	265	.000
	Assuming inequality of variances			3.519	235.062	.001
TSI	Assuming equality of variances	2.107	.148	1.063	265	.289
	Assuming inequality of variances			1.067	264.864	.287
D135	Assuming equality of variances	2.956	.087	-2.843	265	.005
	Assuming inequality of variances			-2.823	250.297	.005
D246	Assuming equality of variances	2.410	.122	-2.074	265	.039
	Assuming inequality of variances			-2.086	264.920	.038

Source: by the author

4.5 Regression analysis

4.5.1 The impact of channel governance mechanisms on governance outcomes

From now on, we employ regression analysis to test the hypothesis developed before. In the following regression analysis, we treat coordination and conflict to present outcomes of channel governance as the explained variable, respectively. First, variables representing

channel governance mechanisms and demographic characteristics will be respectively used as the explanatory variable in the regression analysis to verify their impacts on outcomes of channel governance. Second, variables representing channel models and relative dependence will be respectively incorporated in the regression analysis to verify their impacts on outcomes of channel governance. See Table 4-19 and 4-20 for the results.

Table 4-19 presents result when coordination is used as the dependent variable. It indicates that channel governance mechanisms have significant impacts on coordination, with significance level of 5%. Among them, the unilateral monitoring and enforcement governance mechanisms and bilateral incentive and enforcement governance mechanisms have significant positive impacts on coordination, which is inconsistent with one previous assumption that unilateral governance mechanisms go against coordination (H1a), but consistent with another previous assumption that bilateral governance mechanisms are conducive to coordination (H1b). This means that, 1) in terms of unilateral monitoring, monitoring of manufacturers to sales of distributors, monitoring of distributors on product brand maintenance, and monitoring on the sustainable performance are advantageous to the coordination between the channel members (Celly and Frazier, 1996; Eisenhardt, 1989; Heide et al, 2007); 2) in terms of unilateral enforcement, dependence of manufacturers on contracts to resolve differences and contradictions between distributors and remind the distributor to perform the obligations stipulated in the contracts is also conducive to the coordination between the channel members (Antia and Frazier, 2001; Crocker and Masten, 1988; Lusch and Brown, 1996); 3) in terms of bilateral incentive, channel members' consideration of the long-term rather than short-term interests, and belief of that "any short-term financial inequality incidents will be resolved as time goes on", that "long-term economic interests will do justice", and that "in the long run, investment in relation maintenance today will return "are advantageous to the coordination between the channel members (Black, 1998; Heide, 1994; Ring and Vande Ven, 1994); 4) in terms of bilateral enforcement, belief of manufacturers and distributors that "the parties perform the corresponding business agreements, are honest when dealing with affairs, and solve any differences with the joint efforts" is advantageous to the coordination between the parties. The above results are consistent with that in the existing literature (Gilliland, Bello and Gundlach, 2010). However, unilateral incentive governance mechanism and bilateral monitoring governance mechanism are significantly negative related to coordination. This is consistent with H1a but inconsistent with H1b. So the two governance mechanisms go against the coordination between Luzhou Laojiao and its distributors. That is because 1) in addition to

standard incentive from Luzhou Laojiao, distributors haven't obtained additional efforts from Luzhou Laojiao to increase sales or additional financial support to carry out promotional activities, or efforts to maintain the reputation of the products (Scheer and Stern, 1992; Vesalainen and Kohtamäki, 2015). 2) in terms of bilateral monitoring, Luzhou Laojiao and its distributors haven't paid attention to financial and human resources investment on “maintaining good relationship with each other”, and failed to meet the expectations of each other on the “relationship” (Ring and Vande Ven, 1994).

Second, in terms of the demographic characteristic variables, there is little impact on coordination except that income level of respondents has a significant impact on coordination. We think, the reason is that respondents with higher income level usually know more information about actual situation of channel governance, including negative information.

Table 4-20 presents result when conflict is used as the explained variable. It indicates that: first, bilateral channel governance mechanism has significant impact on conflicts between channel members, while unilateral channel governance mechanism has little impact on conflicts between channel members. Among them, bilateral incentive and bilateral enforcement have negative impacts on the conflict between channel members, while bilateral monitoring has a positive impact, so part of H1b is verified. These conclusions are consistent with the previous analysis about the impact on coordination between channel members (Black, 1998; Gilliland, Bello and Gundlach, 2010; Heide, 1994; Ring and Vande Ven, 1994). Results in Table 4-19 show that the bilateral incentive and bilateral enforcement are not conducive to coordination between channel members, and results in Table 4-20 show that these two mechanisms are not only conducive to the coordination between the channel members, but also will intensify the conflicts between them. In addition, results in Table 4-19 indicate that bilateral monitoring is advantageous to the coordination between channel members, and Table 4-20 indicate that the bilateral monitoring is not only beneficial to the coordination between the channel members, but also can alleviate the conflicts between them. Reasons for this are the same as what mentioned above, 1) in terms of bilateral incentive, channel members' consideration of the long-term rather than short-term interests, and belief of that “any short-term financial inequality incidents will be resolved as time goes on”, that “long-term economic interests will do justice”, and that “in the long run, investment in relation maintenance today will return” are advantageous to alleviate the conflicts between the channel members (Black, 1998; Heide, 1994; Ring and Vande Ven, 1994); 2) in terms of bilateral enforcement, belief of manufacturers and distributors that “both sides perform the

corresponding business agreements, are honest when dealing with affairs, and solve any differences with the joint efforts” is advantageous to alleviate the conflicts between the two sides (Gilliland, Bello and Gundlach, 2010). 3) in terms of bilateral monitoring, Luzhou Laojiao and its distributors haven't paid attention to financial and human resources investment on “maintaining good relationship with each other”, and failed to meet the expectations of each other on the “relationship”, which led to conflicts between channel members (Ring and Vande Ven, 1994).

Second, in terms of the demographic characteristic variables, income level of respondents has a significant positive impact on conflicts between channel members, while working experience has a significant negative impact. We think, the reason is that respondents with higher income level usually know more information about actual situation of channel governance, including negative information. In addition, respondents with longer working experience, though know more information about actual situation of channel governance, including negative information, their personal working experiences will persuade themselves that problems may be solved slowly.

4.5.2 The impact of channel mode and relative dependence on governance outcomes

As can be seen from Table 4-19, in terms of channel model, we found that the channel model variable has significant positive influence on the coordination, suggesting that part of H2a is verified. This indicates that the distribution channels of QIQUAN model of Luzhou Laojiao, compared with the traditional distribution channel, are more conducive to coordination between manufacturers and distributors, which is consistent with our analysis; on the other hand, QIQUAN model, compared with the traditional distribution channels, will make channel members be more focused on long-term interests; channel members are common interests body, they agree to the value co-creation idea, so QIQUAN model is more beneficial to coordination between them (e.g. Anderson and Weitz, 1992; Ghoshal and Moran, 1996; Granovetter, 1985; Heide and John, 1988; Noordewier, John and Nevin, 1990; Robicheaux and Coleman, 1994).

The variable dependence of manufacturers on distributors has significant negative impact on coordination between channel members, on the contrary, dependence of distributors on manufacturers and transaction-specific investments of channel members have no significant impact, suggesting that part of H3a is verified. This indicates that the higher dependence of manufacturers on distributors, the worse the coordination between channel members

(Gilliland, Bello and Gundlach, 2010). This is obviously because for liquor companies, the sales are mainly achieved by distributors. If liquor companies depend excessively on distributors' sales to make profits, distributors may bargain for requirements more beneficial to them, which won't be conducive to the coordination between the channel members. For the very reason, Luzhou Laojiao launched a new distribution channel model, namely the QIQUAN model. This on the one hand can reduce dependence on distributors, on the other hand can promote the competition between distribution channels, so as to reduce dependence of manufacturers on distributors.

As can be seen from Table 4-20, in terms of channel model, the channel model variable has little negative influence on the conflicts, but symbol of the regression coefficient is in line with expectation, suggesting that part of H2a is verified. Fourth, in terms of relative dependence, dependence of manufacturers on distributors and dependence of distributors on manufacturers have significant positive influence on conflict between channel members, which indicates that part of H3a is verified. This suggests that high dependence of manufacturers on distributors and high dependence of distributors on manufacturers are conducive to conflicts among channel members. This is consistent with actual situations. If liquor companies depend excessively on distributors' sales to make profits, distributors may bargain for requirements more beneficial to them, which will increase conflicts between the channel members (Gilliland, Bello and Gundlach, 2010). Similarly, if distributors depend excessively on manufacturers, manufacturers may bargain for requirements more beneficial to them, which will increase conflicts between the channel members.

Table 4- 19 The impact of various channel governance mechanisms on governance efficacy: coordination is the dependent variable

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val
Panel 1 : Governance mechanisms												
A	-.167	.000	-.159	.000	-.160	.000	-.168	.000	-.176	.000	-.177	.000
B	.179	.004	.187	.002	.183	.003	.176	.006	.165	.009	.140	.027
C	.129	.018	.115	.033	.114	.035	.129	.018	.134	.014	.108	.043
AA	.135	.021	.120	.038	.140	.015	.133	.026	.137	.018	.107	.068
BB	-.144	.037	-.148	.030	-.144	.035	-.143	.039	-.159	.024	-.161	.020
CC	.702	.000	.686	.000	.665	.000	.705	.000	.699	.000	.668	.000
Panel 2 : Demographic Variables												
Gender	-.008	.955	.004	.976	-.034	.798	-.007	.957	-.002	.988	-.015	.909
Age	.001	.990	.011	.893	.013	.882	.001	.994	-.010	.909	.003	.973
Edu	-.085	.252	-.055	.460	-.093	.207	-.085	.254	-.081	.273	-.054	.461
Wk	.019	.805	.015	.845	-.001	.986	.021	.790	.026	.742	.023	.763
Know	.009	.943	-.055	.672	-.003	.979	.008	.950	.008	.949	-.087	.493
Position	.121	.114	.088	.249	.115	.129	.122	.114	.138	.077	.120	.117
Income	-.255	.002	-.251	.002	-.256	.002	-.255	.002	-.267	.001	-.276	.001
Panel 3 : Channel mode and Relative dependence												
QQ			.468	.007							.478	.008
D135					-.114	.012					-.146	.007
D246							.007	.886			.098	.113
TSI									.106	.268	.182	.066
F statistics	14.918	.000	14.748	.000	14.604	.000	13.801	.000	13.954	.000	13.191	.000
Adj R square	.405		.420		.417		.403		.405		.438	
Delta Adj R square			0.015		0.012		-0.002		0.001		0.033	

Note: In addition to those variables defined in previous sections, Gender, Age, Edu, Wk, Know, Position, and Income represent the respondents' Gender, Age, Education, working years, Knowing QIQUAN mode or not, Position, and Income, in which Know is defined as dummy variable, which equals 1 if corresponding respondent knows, and 0 otherwise. QQ is also a dummy variable, which equals 1 if the corresponding respondent comes from QIQUAN company, and 0 otherwise.

Table 4- 20 The impact of various channel governance mechanisms on governance efficacy: conflict is the dependent variable

Variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val
Panel 1 : Governance mechanisms												
A	.029	.570	.028	.588	.012	.803	.001	.982	.022	.675	.008	.879
B	.114	.127	.112	.133	.103	.142	.026	.726	.103	.173	.067	.357
C	-.054	.409	-.052	.432	-.015	.812	-.042	.498	-.050	.446	-.024	.693
AA	-.069	.321	-.067	.341	-.083	.207	-.139	.043	-.067	.338	-.125	.065
BB	.205	.014	.206	.014	.205	.009	.242	.003	.194	.023	.229	.005
CC	-.421	.000	-.418	.000	-.324	.000	-.323	.000	-.423	.000	-.296	.001
Panel 2 : Demographic Variables												
Gender	.018	.914	.016	.923	.088	.570	.032	.841	.022	.892	.085	.581
Age	-.093	.374	-.094	.366	-.123	.210	-.107	.284	-.101	.335	-.116	.238
Edu	-.027	.760	-.032	.722	-.007	.932	-.017	.842	-.024	.785	.007	.937
Wk	-.322	.001	-.322	.001	-.268	.003	-.254	.006	-.317	.001	-.246	.006
Know	-.125	.419	-.115	.466	-.092	.527	-.166	.264	-.126	.416	-.149	.316
Position	-.041	.659	-.035	.705	-.025	.774	-.008	.925	-.027	.771	-.032	.716
Income	.363	.000	.363	.000	.365	.000	.357	.000	.353	.000	.368	.000
Panel 3 : Channel mode and Relative dependence												
QQ			-.076	.717							.211	.307
D135					.300	.000					.243	.000
D246							.287	.000			.152	.034
TSI									.083	.473	-.042	.716
F sstatistics	3.646	.000	3.384	.000	6.202	.000	5.300	.000	3.416	.000	5.491	.000
Adj R square	.115		.111		.215		.185		.113		.223	
Delta Adj R square			-.0003		0.100		0.070		-.0002		0.108	

Note: In addition to those variables defined in previous sections, Gender, Age, Edu, Wk, Know, Position, and Income represent the respondents' Gender, Age, Education, working years, Knowing QIQUAN mode or not, Position, and Income, in which Know is defined as dummy variable, which equals 1 if corresponding respondent knows, and 0 otherwise. QQ is also a dummy variable, which equals 1 if the corresponding respondent comes from QIQUAN company, and 0 otherwise.

Source: by the author.

4.5.3 The moderating role of channel mode and relative dependence

To further explore the moderating role of channel model and the relative dependence on the relationships between channel governance mechanisms and outcomes of channel governance, we carried out the regression analysis of $Y=aX+bM+c[X-E(X)][M-E(M)]+e$ in which X represents the variable of channel governance mechanisms, M represents the variable of channel model or relative dependence; if regression coefficient c is statistically significant, then the moderating role is existent (Gilliland, Bello and Gundlach, 2010). Y represents the variable of outcomes of channel governance, namely coordination or conflict. Before testing the moderating role of channel model and the relative dependence, we first removed mean value of variables of channel governance mechanism, channel model and relative dependence, and then incorporated the product term to the basic regression model to test the significance of regression coefficient of the product term.

4.5.3.1 The moderating role of channel mode

First, we examine the moderating role of channel model on channel governance mechanism and outcomes of channel governance, and the regression results are shown in Table 4-21, from which we can know that: first, the impact of channel governance mechanism on outcomes of channel governance still exists after incorporating the product term of channel model and channel governance mechanism, and regression coefficient of part of variables become insignificant. However, the symbol of regression coefficient remains the same, which shows that our results are steady (Antia and Frazier, 2001; Celly and Frazier, 1996; Crocker and Masten, 1988; Eisenhardt, 1989; Heide et al, 2007; Lusch and Brown, 1996). Second, in terms of the demographic characteristic variables, income level of respondents still has a significant negative impact on coordination between channel members and positive impact on conflicts between them. Besides, working experience has a significant negative impact on conflicts. These findings remain the same as the previous results, showing steadiness of our results. Third, channel model still has positive impacts on coordination, and negative impacts on conflicts between channel members. Last but not least, channel model has significant moderating role on the relationship between unilateral monitoring and coordination (e.g. Anderson and Weitz, 1992; Ghoshal and Moran, 1996; Granovetter, 1985; Heide and John, 1988; Noordewier, John and Nevin, 1990; Robicheaux and Coleman, 1994). With the consideration that regression coefficient of B on coordination has a positive value of 0.126 with a P-value 0.054, that the regression coefficient of B*QQ on coordination is -0.508, and

P-value is 0.038, indicates that distribution channels of QIQUAN model weaken the positive relationship between unilateral monitoring and coordination among channel members, suggesting that part of H2b is verified. For the same reason, channel mode has significant moderating role on the negative relationship between bilateral enforcement and conflicts among channel members because 1) the regression coefficient of $CC*QQ$ on conflict is -0.816, and P-value is 0.039, and 2) the regression coefficient of CC on conflict is -0.520, and P-value is 0.000, which is consistent with H2c.

In addition, we still find that, regression coefficient of $AA*QQ$ on coordination is -0.777, and P-value is 0.014, but the regression coefficient of AA on coordination is not significant, indicating that, under QIQUAN distribution mode, bilateral incentive has a significant negative impact on coordination. For the same way, bilateral monitoring can impose a positive effect on coordination under QIQUAN distribution mode (the regression coefficient of $BB*QQ$ on coordination is 0.986, and the P-value is 0.018). On the other hand, under QIQUAN distribution mode, unilateral enforcement imposes a negative effect on conflict, while bilateral incentive imposes a positive effect on conflict (the regression coefficient of $C*QQ$ on conflict is -0.598, and the P-value is 0.019; the regression coefficient of $AA*QQ$ on conflict is 0.759, and the P-value is 0.047).

Table 4- 21 The moderating role of Channel mode

	Coordination		Conflict		Coordination		Conflict	
	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val
Panel 1 : Governance mechanisms								
A	-.159	.000	-.162	.000	.028	.588	.039	.464
B	.187	.002	.126	.054	.112	.133	.116	.141
C	.115	.033	.071	.213	-.052	.432	-.078	.263
AA	.120	.038	.024	.727	-.067	.341	.013	.877
BB	-.148	.030	-.014	.868	.206	.014	.143	.170
CC	.686	.000	.684	.000	-.418	.000	-.520	.000
Panel 2 : Demographic Variables								
Gender	.004	.976	-.005	.969	.016	.923	.048	.768
Age	.011	.893	.010	.907	-.094	.366	-.098	.347
Edu	-.055	.460	-.052	.496	-.032	.722	-.018	.848
Wk	.015	.845	.026	.731	-.322	.001	-.348	.000
Know	-.055	.672	-.050	.695	-.115	.466	-.122	.431
Position	.088	.249	.101	.194	-.035	.705	-.072	.445
Income	-.251	.002	-.276	.001	.363	.000	.408	.000
Panel 3 : Interaction effects								
QQ	.468	.007	.548	.011	-.076	.717	.280	.278
A*QQ			.113	.442			.178	.314
B*QQ			-.508	.038			.385	.192
C*QQ			-.298	.157			-.598	.019
AA*QQ			-.777	.014			.759	.047
BB*QQ			.986	.018			-.484	.333
CC*QQ			.004	.991			-.816	.039
F	14.748	.000	11.110	.000	3.384	.000	3.318	.000
statistics1								
Adj R square	.420		.432		.111		.148	
Delta Adj R square			.012				.037	

Note: In addition to those variables defined in previous sections, Gender, Age, Edu, Wk, Know, Position, and Income represent the respondents' Gender, Age, Education, working years, Knowing QIQUAN mode or not, Position, and Income, in which Know is defined as dummy variable, which equals 1 if corresponding respondent knows, and 0 otherwise. QQ is also a dummy variable, which equals 1 if the corresponding respondent comes from QIQUAN company, and 0 otherwise.

Source: by the author

Based on the above results, we know that, 1) QIQUAN model can weaken the positive relationship between unilateral monitoring and coordination and the negative relationship between bilateral enforcement and conflict, 2) even under QIQUAN model, bilateral incentive

and monitoring can impose a significant effect on coordination, while unilateral enforcement and bilateral incentive can impose a significant effect on conflict. There are several possible reasons to the above results. First of all, QIQUAN model is set up by the original management team of Luzhou Laojiao, distributors and their management teams. It is a distribution model to further make profits from sales staff and more distributors. Luzhou Laojiao standardizes and monitors behaviors of QIQUAN under the contract. From the perspective of business model, distributors under QIQUAN model will gain dividends and share mechanism of price as well as expanding their sales. Second, from the perspective of management mode, QIQUAN model can be understood as that Luzhou Laojiao “outsourced” terminal retail to QIQUAN under certain systems, agreements and benefits. Third, from the perspective of operation mode, Luzhou Laojiao supplies products in discount price, so that QIQUAN can gain profits from Luzhou Laojiao’s discount price as well as bonus from price increase of the products. Anyway, brands, channels and professional managers benefit alliance established after equity reform of marketing mode of QIQUAN of Luzhou Laojiao reduce conflicts of interest and achieve the maximization of common interests. QIQUAN model is a benefit sharing scheme based on the idea of value co-creation, which is beneficial to coordination between manufacturers and distributors and reduction of conflicts between them (e.g. Anderson and Weitz, 1992; Ghoshal and Moran, 1996; Granovetter, 1985; Heide and John, 1988; Noordewier, John and Nevin, 1990; Robicheaux and Coleman, 1994).

Viewed from transaction cost, if QIQUAN channel model of Luzhou Laojiao will achieve success or not, it largely depends on if the model can execute the related channel functions at lower cost. Firstly, the market is really not in perfect competition. As the increasing of the transaction cost, the channel member is more likely to take the manner of vertical integration, for enhancing the control force on the channel. Between vertical integration and diversified channel organizational forms based on “outsourcing”, many important channel models emerge at the right moment, and QIQUAN channel model of Luzhou Laojiao is also generated under such a background. QIQUAN channel model solves the laissez-faire and loosening problems in perfect market transaction, which has an adverse effect on opportunistic behavior and reduces the transaction cost between channel members; on the other hand, it is also a remedy for the problems such as low efficiency and flexibility shortage possibly existing in the channel model of vertical integration. As a result, this model becomes more and more popular in Luzhou Laojiao.

Secondly, the marketing channel network of enterprise is a system and the channels at

various levels are connected with each other and mutually influenced, so that the channel management of enterprise is a kind of systemic, complete and multilevel management. Viewed from the coordination between the channel members, the QIQUAN channel model is similar to direct selling model, relative to the traditional channel model. As the direct selling model is a basic strategy for manufacturers, so the development of direct selling is not contradictory to the exertion of distributor function. The market is variable and the channel itself is also in dynamic change. The problem is to select direct selling or distributor and how to confirm the proportion between direct selling and distributor to make it reasonable, with the highest economic benefit. In principle, the proportional relation should make the channel cost be the lower and the efficiency be higher. In reality, the above objectives can be achieved by irregularly dynamical adjustment through checking and analyzing the channel. The enterprise mainly considers their proportion coordination and normative development. On the other hand, viewed from the coordination of new and old users, the customer loss means the market shrinkage and the market loss means idle production capacity of enterprise, so that it is difficult to achieve reasonable production level and realize the profit maximization. Besides, it will cost a series of additional energy and financial resources for developing a new user. According to the related data, the cost in developing one new user is generally several times of the cost in maintaining an old customer. Therefore, scientific treatment of relationship of new and old users and keeping reasonable dynamic proportion of new and old users are not only the contents for enterprise channel coordination but also the main contents for marketing work keeping active. Lastly, viewed from the coordination of domestic and foreign markets, the market coordination ability of enterprises is facing a new challenge from discordance and abnormal fluctuation of both markets, with their relationship becoming closer and closer and correlation becoming higher and higher. Therefore, the enterprise must consider the domestic and foreign markets as an integrated market, properly deal with the interaction between the two markets, exert their functions, and further create an excellent market environment for the enterprise.

Furthermore, the cost of the enterprise in establishing trade channel facilities by investing and holding stocks is possibly higher than the original investment cost in the manner of entrusting agency and leasing, but relatively lower than the circulation cost; on the contrary, the original investment cost in the manner of entrusting agency and leasing is lower, but relatively higher than the circulation cost. On the basis of this analysis, QIQUAN channel model of Luzhou Laojiao is favorable to the reduction of the relative cost of the channels.

Lastly, although the generation and adoption of QIQUAN channel model have widened the marketing channels of Luzhou Laojiao products, the conflict between different channels will emerge at the right moment as well. The most direct expression of the channel conflicts is the price competition and cross-district customer fight between the channel members. On one hand, the channel conflicts are beneficial to restrict the in-exertion behavior of the distributor, on the other hand, the phenomenon of fighting for a same target customer by different channels may cause the disordered competition and further cause the channel members to revenge the enterprise or sell the products of the competitors. Facing the difficult selection of the channel conflicts and channel activity, adoption of such a model by combining regional operation with professional guidance shall be an effective selection for enterprises.

4.5.3.2 The moderating role of relative dependence

Relative dependence is mainly reflected in three aspects, dependence of manufacturers on distributors, dependence of distributors on manufacturers, and transaction-specific investments. Next we will analyze the regulation of relative dependence in three aspects on channel governance mechanisms and outcomes of channel governance.

(1) Moderating role of dependence of manufacturers on distributors

Table 4-22 shows the moderating role of dependence of manufacturers on distributors on the relationship between channel governance mechanism and outcomes of channel governance. We can know that: first, the impact of channel governance mechanism on outcomes of channel governance still exists after incorporating the product term of dependence of manufacturers on distributors and channel governance mechanism, and the symbol of regression coefficient remains the same, which shows that our results are steady.

Second, in terms of the demographic characteristic variables, income level of respondents still has a significant negative impact on coordination between channel members and positive impact on conflicts between them. Besides, working experience has a significant negative impact on conflicts. These findings remain the same as the previous results, showing steadiness of our results.

Table 4- 22 The moderating role of manufacturer's dependence on its distributor

	Coordination				Conflict			
	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val
Panel 1: Governance mechanisms								
A	-.160	.000	-.175	.000	.012	.803	-.020	.691
B	.183	.003	.154	.012	.103	.142	.130	.061
C	.114	.035	.126	.019	-.015	.812	-.026	.671
AA	.140	.015	.166	.005	-.083	.207	-.095	.157
BB	-.144	.035	-.124	.072	.205	.009	.237	.003
CC	.665	.000	.662	.000	-.324	.000	-.287	.001
Panel 2: Demographic Variables								
Gender	-.034	.798	-.074	.579	.088	.570	.103	.499
Age	.013	.882	.035	.677	-.123	.210	-.135	.163
Edu	-.093	.207	-.102	.164	-.007	.932	.011	.898
Wk	-.001	.986	-.038	.632	-.268	.003	-.191	.035
Know	-.003	.979	.014	.909	-.092	.527	-.121	.397
Position	.115	.129	.096	.216	-.025	.774	.057	.522
Income	-.256	.002	-.232	.005	.365	.000	.284	.003
Panel 3: Interaction effects								
D135	-.114	.012	-.107	.024	.300	.000	.333	.000
A*D135			.086	.006			.051	.158
B*D135			.120	.008			-.143	.006
C*D135			-.078	.031			.068	.101
AA*D135			.025	.632			-.082	.172
BB*D135			-.095	.073			-.006	.919
CC*D135			.047	.411			.008	.904
F statistics	14.604	.000	11.492	.000	6.202	.000	5.434	.000
Adj R square	.417		.441		.215		.250	
Delta Adj R square			.024				.035	

Note: In addition to those variables defined in previous sections, Gender, Age, Edu, Wk, Know, Position, and Income represent the respondents' Gender, Age, Education, working years, Knowing QIQUAN mode or not, Position, and Income, in which Know is defined as dummy variable, which equals 1 if corresponding respondent knows, and 0 otherwise. D135 represents manufacturer's relative dependence on its distributor

Source: by the author

Third, dependence of manufacturers on distributors still has negative impact on coordination, and positive impact on conflicts between channel members, showing steadiness

of our results again. Last but not least, dependence of manufacturers on distributors has significant moderating role on the relationship between coordination and unilateral incentive, unilateral monitoring, and bilateral monitoring respectively (Gilliland, Bello and Gundlach, 2010). Regression coefficient of AD135 is 0.086, and P-value is 0.006, indicating that dependence of manufacturers on distributors strengthens the relationship between unilateral incentive and coordination among channel members; regression coefficient of BD135 is 0.120, and P-value is 0.008, indicating that dependence of manufacturers on distributors strengthens the relationship between unilateral monitoring and coordination among channel members, which is consistent with part of H3b; regression coefficient of CD135 is -0.078, and P-value is 0.031, indicating that dependence of manufacturers on distributors strengthens the relationship between unilateral enforcement and coordination, which is inconsistent with H3b; regression coefficient of BBD135 is -0.095, and P-value is 0.073, indicating that dependence of manufacturers on distributors weakens the relationship between bilateral monitoring and coordination among channel members, which is consistent with H3b.

Dependence of manufacturers on distributors not only moderate the relationship between governance mechanisms and coordination, but also moderate the relationship between governance mechanisms and conflicts significantly (Gilliland, Bello and Gundlach, 2010). Regression coefficient of BD135 is -0.143, and P-value is 0.006, indicating that dependence of manufacturers on distributors weakens positive correlation between unilateral monitoring and conflicts among channel members, which is consistent with H3c.

(2) Moderating role of dependence of distributors on manufacturers

Table 4-23 shows the moderating role of dependence of distributors on manufacturers on channel governance mechanism and outcomes of channel governance. We can know that: first, the impact of channel governance mechanism on outcomes of channel governance still exists after incorporating the product term of dependence of distributors on manufacturers and channel governance mechanism, and the symbol of regression coefficient remains the same, which shows that our results are steady.

Second, in terms of the demographic characteristic variables, income level of respondents still has a significant negative impact on coordination between channel members and positive impact on conflicts between them. Besides, working experience has a significant negative impact on conflicts. These findings remain the same as the previous results, showing steadiness of our results.

Third, dependence of distributors on manufacturers still has positive impacts on conflicts

between channel members, showing steadiness of our results again. Although this variable has little impact on the coordination between the channel members, but it significantly regulates relations between channel governance mechanism and outcomes of channel governance. Specifically, dependence of distributors on manufacturers significantly moderate the relationship between coordination and unilateral incentive, bilateral incentive and bilateral enforcement respectively (Gilliland, Bello and Gundlach, 2010). Regression coefficient of AD246 is 0.074, and P-value is 0.057, indicating that dependence of distributors on manufacturers strengthens the negative correlation of coordination between unilateral incentive and channel members, which is inconsistent with H3b; regression coefficient of AAD246 is 0.102, and P-value is 0.039, indicating that dependence of distributors on manufacturers strengthens the relationship between bilateral incentive and coordination between channel members, which is inconsistent with H3b; regression coefficient of CCD246 is 0.131, and P-value is 0.053, indicating that dependence of distributors on manufacturers strengthens positive correlation of between coordination and bilateral enforcement, which is inconsistent with the hypothesis; dependence of distributors on manufacturers also moderates the relationship between conflict and channel governance mechanism. Regression coefficient of BBD246 is -0.177, and P-value is 0.004, indicating that dependence of distributors on manufacturers weakens the relationship between bilateral monitoring and conflicts between channel members, which is consistent with H3c. Regression coefficient of CCD246 is 0.139, and P-value is 0.078, indicating that dependence of distributors on manufacturers strengthens the relationship between bilateral enforcement and conflicts between channel members, which is inconsistent with H3c.

Table 4- 23 The moderating role of distributor's dependence on its manufacturer

	Coordination				Conflict			
	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val
Panel 1: Governance mechanisms								
A	-.168	.000	-.107	.019	.001	.982	.032	.544
B	.176	.006	.130	.049	.026	.726	.028	.716
C	.129	.018	.140	.010	-.042	.498	-.030	.633
AA	.133	.026	.184	.008	-.139	.043	-.114	.159
BB	-.143	.039	-.184	.009	.242	.003	.198	.016
CC	.705	.000	.643	.000	-.323	.000	-.311	.001
Panel 2: Demographic Variables								
Gender	-.007	.957	.055	.683	.032	.841	.076	.629
Age	.001	.994	-.025	.771	-.107	.284	-.128	.197
Edu	-.085	.254	-.059	.429	-.017	.842	-.033	.705
Wk	.021	.790	.067	.396	-.254	.006	-.246	.008
Know	.008	.950	.012	.923	-.166	.264	-.121	.414
Position	.122	.114	.069	.372	-.008	.925	.018	.840
Income	-.255	.002	-.291	.000	.357	.000	.312	.001
Panel 3: Interaction effects								
D246	.007	.886	-.008	.890	.287	.000	.260	.000
A*D246			.074	.057			.065	.149
B*D246			.072	.168			.002	.979
C*D246			-.064	.150			.063	.218
AA*D246			.102	.039			.033	.564
BB*D246			-.052	.331			-.177	.004
CC*D246			.131	.053			.139	.078
F statistics	13.801	.000	10.985	.000	5.300	.000	4.411	.000
Adj R square	.403		.429		.185		.204	
Delta Adj R square			.026				.020	

Note: In addition to those variables defined in previous sections, Gender, Age, Edu, Wk, Know, Position, and Income represent the respondents' Gender, Age, Education, working years, Knowing QIQUAN mode or not, Position, and Income, in which Know is defined as dummy variable, which equals 1 if corresponding respondent knows, and 0 otherwise. D246 represents distributor's relative dependence on manufacturer.

Source: by the author

Five basic powers of manufacturers in the distributor market, namely coercive power, reward power, legitimate power, expert power and referent power, determine the moderating role of either dependence of manufacturers on distributors or dependence of distributors on

manufacturers, on the relationship between each channel governance mechanism and coordination or conflicts among channel members. Coercive power means power of manufacturers to withdraw resources or terminate relations when cooperation with distributors is not successful. Reward power means power of manufacturers to give rewards to distributors when specific task is completed. Legitimate power means power of manufacturers to require distributors to perform certain tasks by virtue of hierarchy or contracts. Expert power means power of manufacturers based on certain professional knowledge. Referent power is granted for manufacturers highly respected by distributors. To obtain a better result, manufacturers shall use reward power, legitimate power, expert power and referent power and avoid using coercive power.

If distributors have higher degree of dependence on manufacturers, the use of coercive power will bring considerable impact, but also may lead to dissatisfaction and claim for compensation of distributors, thus the conflict between channel members will increase and coordination will decrease. The use of reward power to distributors who have higher degree of dependence on manufacturers, though will achieve the goal, may lead to dissatisfaction of distributors, thus the conflict between channel members will increase and coordination will decrease. Expert power is generated for manufacturers when they are considered professional by distributors. For example, manufacturers provide professional training for salesmen of distributors. So, if main determinant of dependence of distributors on manufacturers is expert power, the best strategy for distributors is cooperation, and manufacturers, knowing the attitude of distributors, will be cooperative, thus the coordination between channel members will increase. In conclusion, moderating role of either dependence of manufacturers on distributors or dependence of distributors on manufacturers, on coordination and conflicts between each channel governance mechanism and channel members, is mainly determined by the main power of manufacturers depended by distributors (Gundlach and Murphy, 1993; Kaufmann and Dant, 1992; Kaufmann and Stem, 1988; Robicheaux and Coleman, 1994; Simpson, 1990; Spriggs and Nevin, 1992).

4.5.3.3 The moderating role of transaction-specific investments

Table 4-24 shows the moderating role of transaction-specific investments on channel governance mechanism and outcomes of channel governance. we can know that: first, the impact of channel governance mechanism on outcomes of channel governance still exists after incorporating the product term of transaction-specific investments and channel governance mechanism, and the symbol of regression coefficient remains the same, which

shows that our results are steady.

Second, in terms of the demographic characteristic variables, income level of respondents still has a significant negative impact on coordination between channel members and positive impact on conflicts between them. Besides, working experience has a significant negative impact on conflicts. These findings remain the same as the previous results, showing steadiness of our results.

Third, although this variable has little impact on the outcomes of channel governance itself, but it significantly moderates the relationship between channel governance mechanism and outcomes of channel governance (Chang and Gotcher, 2007; Jap, 1999; Jap and Anderson, 2003; Krishnan et al. 2006; Mishra, Heide and Cort, 1998; Rindfleisch and Heide, 1997). Specifically, transaction-specific investments significantly moderate the relationship between unilateral incentive, unilateral enforcement and coordination between channel members, respectively. Regression coefficient of ATSI is -0.262, and P-value is 0.000, indicating that transaction-specific investments weaken the relationship between unilateral incentive and the coordination between channel members; regression coefficient of C*TSI is 0.124, and P-value is 0.097, indicating that transaction-specific investments strengthen the relationship between unilateral enforcement and coordination between channel members; besides, transaction-specific investments significantly moderate the relationship between unilateral incentive, bilateral incentive, unilateral enforcement respectively and conflicts between channel members. Regression coefficient of A*TSI is 0.117, and P-value is 0.088, indicating that transaction-specific investments strengthen the relationship between unilateral incentive and the conflicts between channel members; regression coefficient of AA*TSI is -0.281, and P-value is 0.002, indicating that transaction-specific investments strengthen the relationship between bilateral enforcement and conflicts between channel members;

Under the transaction cost theory, transaction-specific investments are defined as investments to specific trading partners, namely the asset is used for the trading object only; when you terminate relations with the trading object, the value of the asset is greatly reduced (Williamson, 1985). Transaction-specific investment forms an incentive to maintain a relationship, because if the investor leaves this relationship, he will bear corresponding economic loss. In the perspective of social exchange theory, many scholars put forward the concept of relationship-specific investment, which refers to long-term investment in manpower, materials and procedures in specific inter-enterprise relations (Jap and Anderson, 2003). The relationship-specific investment is widespread in marketing channels and other

organizational relationships. For example, Hewlett-Packard and Dell require manufacturers in Taiwan to invest in unique equipment, information & technology hardware and software and electronic information systems (Chang and Gotcher, 2007).

There are three reasons for investments in transaction-specific assets. The first reason is that the exclusive asset is more effective than general asset, and thus the specific investment can improve the productivity more significantly and promote quick communication among the channel members. The second reason is that the enterprise invests in specific assets to show its recognition and respect of the transaction relationship (Mishra, Heide and Cort, 1998). The third reason is that such an investment may be the condition of transaction; the invested party may improve its channel power and restrict the speculation tendencies of the counterparty via the specific investment. Specific investment between organizations can build a “mortgage” or “credible commitment” for long-term development of the partnership (Williamson, 1985). In other words, the invested party can exert more control on the counterparty. Meanwhile, with the specific investment as warranty, the invested party is also more willing to maintain the depth and breadth of partnerships with the investing party.

From the perspective of value creation, transaction-specific investments, either of manufacturers or distributors, can improve the capacity and promote the channel members to carry out cooperation. On the one hand, specific investments of distributors provide resources reserves for cooperation between channel members, and enhance their cooperative abilities; on the other hand, in the same circumstances, with the increase of specific investments of distributors, profits from cooperation between channel members will increase accordingly, which will also promote their willing to cooperation. From the perspective of relationship management, specific investments of distributors can reduce cooperation risks perceived by manufacturers, so as to improve their enthusiasm in cooperation. Conversion cost of distributors will increase by their transaction-specific investments. A large amount of specific investments will become “pledge” (Williamson, 1983) of relations of distributors means of “commitment” (Anderson and Weitz, 1992), and “credible commitment” for cooperation between distributors and manufacturers. In this case, manufacturers will not worry too much about the knowledge spillover problem, because they can reasonably expect that distributors will not easily destroy the transaction relations, and, when necessary, they can clamp down on distributors due to their dependence on specific investments. Researches show that joint action (Heide and John, 1990), joint decision-making (Subramani and Venkatraman, 2003) and coordinating collaborative joint efforts (Claro, Claro and Hagelaar, 2006) are common

defense mechanisms used by investors of specific investments.

Because of the above reasons, transaction-specific investments will significantly regulate the channel governance mechanism and outcomes of channel governance.

Table 4- 24 The moderating role of transaction-specific investments

	Coordination				Conflict			
	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val	Coefficient	P-Val
Panel 1: Governance mechanisms								
A	-.176	.000	-.176	.000	.022	.675	.068	.209
B	.165	.009	.126	.062	.103	.173	.106	.195
C	.134	.014	.134	.014	-.050	.446	-.081	.219
AA	.137	.018	.161	.009	-.067	.338	-.018	.808
BB	-.159	.024	-.150	.034	.194	.023	.112	.189
CC	.699	.000	.670	.000	-.423	.000	-.366	.000
Panel 2: Demographic Variables								
Gender	-.002	.988	-.009	.945	.022	.892	.069	.666
Age	-.010	.909	-.074	.392	-.101	.335	-.042	.685
Edu	-.081	.273	-.090	.213	-.024	.785	-.002	.979
Wk	.026	.742	.068	.380	-.317	.001	-.306	.001
Know	.008	.949	-.057	.650	-.126	.416	-.136	.367
Position	.138	.077	.091	.258	-.027	.771	.017	.858
Income	-.267	.001	-.165	.050	.353	.000	.287	.005
Panel 3: Interaction effects								
TSI	.106	.268	.049	.615	.083	.473	-.007	.955
A*TSI			-.262	.000			.117	.088
B*TSI			-.001	.990			.150	.166
C*TSI			.124	.097			.116	.194
AA*TSI			-.018	.805			-.281	.002
BB*TSI			-.035	.731			-.162	.191
CC*TSI			-.077	.487			.412	.002
F statistics	13.954	.000	11.710	.000	3.416	.000	3.888	.000
Adj R square	.405		.446		.113		.178	
Delta Adj R square			.041				.066	

Note: In addition to those variables defined in previous sections, Gender, Age, Edu, Wk, Know, Position, and Income represent the respondents' Gender, Age, Education, working years, Knowing QIQUAN mode or not, Position, and Income, in which Know is defined as dummy variable, which equals 1 if corresponding respondent knows, and 0 otherwise. TSI represents Transaction-specific investments.

Source: by the author

4.5.4 Summary

Regression analysis is used in this chapter to verify 1) impact of unilateral and bilateral channel governance mechanisms on outcomes of channel governance; 2) impact of channel model, dependence of manufacturers on distributors, dependence of distributors on manufacturers as well as transaction-specific investments on outcomes of channel governance; 3) moderating role of channel model, dependence of manufacturers on distributors, dependence of distributors on manufacturers as well as transaction-specific investments on relations between channel governance mechanisms and outcomes of channel governance. The results show that: 1) either the unilateral or bilateral governance mechanisms will have significant impact on the coordination between channel members. Bilateral enforcement governance mechanism will also have significant impact on channel members. 2) Dependence of manufacturers on distributors will have a significant impact on coordination between channel members; either high dependence of manufacturers on distributors or high dependence of distributors on manufacturers is conducive to conflicts between channel members. 3) Channel model, dependence of manufacturers on distributors, dependence of distributors on manufacturers as well as transaction-specific investments will more or less regulate relations between channel governance mechanisms and outcomes of channel governance.

The reasons for having conflicts between Luzhou Laojiao and its distributors can be shown as follows: (1) Different targets of the manufacturer and the distributors: as a liquor manufacturer, Luzhou Laojiao hopes to occupy more markets and acquires more increases in sales and profits; however, majority distributors, especially small-size dealers, hope to maintain a comfortable status in the local markets, namely, that is they are satisfied with the comfortable life when getting satisfied sales and profits; Luzhou Laojiao hopes the distributors to only sell its own products, but the distributors only care about the sales rather than the brand; Luzhou Laojiao hopes the distributors to provide the buyer with discount, but the distributors would rather to leave the discount to themselves; Luzhou Laojiao hopes the distributors to advertise for its own brand, but the distributors ask the manufacturer to burden the advertising costs. Meanwhile, each channel member wants to hold few stocks and hopes the other members keeping more. All of above mentioned are the objective reasons for arising channel conflicts. (2) Undefined tasks and rights of the manufacturer and the distributors: for example, Luzhou Laojiao has its own marketing team to supply commodities to big customers, and meanwhile, its authorized distributors also strive for promoting the commodities to big

customers; the dim and disordered tasks and rights at the aspects of region boundary and marketing credit also can result in many conflicts; the conflicts also may be resulted from market consciousness difference of channel members. For example, after forecasting an excellent economic prospect in the near future, Luzhou Laojiao will ask the distributors to achieve higher stock level, but the distributors may be unwilling to keep more stocks as they think the economic prospect is not optimistic. (3) Higher dependence of the distributors on the manufacturer: for example, the benefit and prospect of sole distributors of Luzhou Laojiao are directly influenced by the product design and pricing decision of the manufacturer, which is also the hidden danger in arising conflicts. In addition, there are many other reasons possible to cause the conflicts between Luzhou Laojiao and its distributors.

In addition, we still can provide other factors that can lead to conflicts between Luzhou Laojiao and its distributors. (4) Price factor: generally, the difference in price between the trade prices at all levels is an inducement of channel conflicts. The manufacturer always complains that the sale prices fixed by distributors are much higher or much lower, which may have an effect on the product image and orientation; While the distributors also complain that there is no profit due to extremely low discount. (5) Stock level: both manufacturers and the distributors want to control the stock at the lowest level, for the purpose of their own economic benefits; however, ultralow stock level may result in that the distributors cannot timely supply products to the customers, which will lead to a loss on sale, even makes the users turn to competitors. At the same time, the low stock level of the distributors always results in higher stock level of the manufacturer, thus influencing the economic benefit of the manufacturer. Besides, more stocks also may result in the product with a risk of being out of style. (6) Jostling for the capital of the other party: the manufacturer hopes to deliver after the distributors pay in advance, but the distributors hope to pay after the delivery; especially under the condition of uncertain market requirement, the distributors hope to adopt the manner of sale by proxy, namely, paying after selling the commodities; Such a manner greatly increases the fund occupation of the manufacturer and its financial cost expense. (7) Operation of the products of the competitors by distributors: obviously, the manufacturer hopes its distributors not to sell the similar products of the competitive enterprises. Especially in current liquor market, the loyalty index of the customers on the brand is not high, and the operation for the second product line will bring greater competitive pressure to the manufacturer. Furthermore, the distributors always want to operate the second and even third product lines so as to expand the scale of operation and also do not want to be controlled by

the manufacturer.

In order to solve the conflict problem between Luzhou Laojiao and its distributors, we put forward the following suggestions: firstly, on the basis of selection and design of channel model, proper distribution system and management principles shall be recognized according to the market environment and conditions of their own resources. Secondly, suppliers shall be selected according to a standard strictly, to reduce unnecessary conflicts to the most extent. Thirdly, it is necessary to strengthen the communication between channel members, provide regular training for the related personnel and enhance the acknowledgement of channels on the products and culture of the company. Lastly, the channel shall be abandoned and the whole distribution system shall be redesigned after rethinking, if channel conflicts cannot be prevented and reconciled through above-mentioned methods.

Chapter 5: Conclusions and Recommendations

5.1 Main Findings and contributions

This thesis takes Luzhou Laojiao and its distributors system for the study. Three aspects are examined. First, we studied the impact of unilateral and bilateral channel governance mechanisms (unilateral and bilateral incentive, monitoring and enforcement) on the outcomes of channel governance of Luzhou Laojiao at the same time. Second, based on the findings of existing literature (Gilliland, Bello and Gundlach, 2010), the relative dependence between manufacturers and distributors will also affect the outcomes of channel governance and will also moderate the relationship between specific channel governance mechanisms and the corresponding governance outcomes. Therefore, this thesis also examines the impact of such dependence between manufacturers and distributors on the outcomes of channel governance in Luzhou Laojiao and the moderating role of the extent of such interdependence on the channel governance mechanisms and outcomes investigated. Third, there are two typical channel models in Luzhou Laojiao. One is traditional channel model and the other is innovative model - QIQUAN model. According to previous study, the QIQUAN channel model is significantly different from the traditional channel model in management, administration, operations and profits sharing, and in turn will have an impact on the outcomes of channel governance. Therefore, this thesis also examines the impact of channel model on the outcomes of channel governance in Luzhou Laojiao and the moderating role of the channel model on the channel governance mechanism and effects investigated.

The results show that: 1) When there is no interaction effect considered in the regression model, whether the unilateral or bilateral governance mechanisms, they all have a significant impact on the coordination between channel members. Among them, the unilateral incentive and bilateral monitoring have significant negative correlation with the coordination between channel members, namely, these two governance mechanisms go against coordination between channel members; while the unilateral monitoring, unilateral enforcement, bilateral incentive and bilateral enforcement have a significant positive correlation with the coordination between channel members, namely, they are conducive to coordination between channel members. In addition, unilateral governance mechanisms have little correlation with

conflicts between channel members, while bilateral mechanisms have significant correlations with conflicts between channel members. Specifically, bilateral incentive and bilateral enforcement have significant negative relationships with conflict, while bilateral monitoring can impose a positive effect on conflict. When the interaction effects between channel mode and governance mechanisms are considered in regression model, we still find that some significant relationships between governance mechanisms and outcomes. For example, unilateral incentive continues to impose a significant negative effect on coordination, unilateral monitoring and bilateral enforcement also continue to impose a significant positive effect on coordination. While only bilateral enforcement impose a significant negative effect on conflict with the consideration of interaction effects of channel mode and governance mechanisms. 2) The channel model has a significant positive correlation with the coordination between channel members, which shows that the QIQUAN channel model facilitates coordination between channel members. However, the relationship between the channel model and the conflict between channel members is not significant. Moreover, the QIQUAN channel model also weakens positive correlation between the unilateral monitoring mechanism and the coordination between channel members, and it also weakens, the negative relationship between the bilateral enforcement and the conflict between channel members. 3) Neither dependence of manufacturers on distributors nor the dependence of distributors on the manufacturer is conducive to coordination between channel members, which will also increase the conflict between channel members. Besides, the relative dependence also regulates the relations between channel governance mechanism and outcomes of channel governance, in particular, dependence of manufacturers on distributors strengthens the negative correlation between unilateral incentive mechanism and coordination of channel members, and weakens the positive correlation between bilateral monitoring and coordination of channel members. Dependence of distributors on manufacturers also shows a similar result.

The contribution of this thesis is mainly manifested in the following two aspects: First, in terms of impact of channel governance mechanisms on outcomes of channel governance, most existing literature only studied a specific kind of channel governance mechanism, or just studied from unilateral, or bilateral channel governance mechanisms (eg. Antia and Frazier, 2001; Celly and Frazier, 1996; Mohr et al., 1996; Caldierao and Coughlan, 2007; Eisenhardt, 1989; Kaufmann and Stern, 1992). This thesis not only involves impact on outcomes of channel governance in two aspects (unilateral and bilateral channel governance mechanisms), but also studies the impact of multiple channel governance mechanisms, which on the one

hand can make up the shortcoming of a single or one-way channel governance mechanism, on the other hand can study the impact on outcomes of channel governance in a deeper and broader way. Second, while examining the impact of the channel governance mechanism on the channel governance outcomes, we also study the impact of the channel model and relative dependence between manufacturers and distributors on the channel governance outcomes, and explore the moderating role of the channel model and dependence on the relation between the governance mechanism and governance outcomes, which makes our results more realistic and our findings have more application value.

5.2 Policy suggestions

Conclusions of this thesis show that, previous mechanisms and means for unilateral governance bring more negative than positive effects on channel governance as material living standard improved and people's concept and ideology changed, and bilateral governance mechanisms previously neglected have more and more important effect, which shall be further emphasized. So, for Luzhou Laojiao, and even for the whole liquor-making industry in China, the more comprehensive bilateral governance mechanisms suitable for the current situation shall be adopted, and unilateral governance mechanisms shall be gradually eliminated. This thesis also indicates that the channel model has positive impact on outcomes of channel governance, suggesting that the more humanized bilateral governance mechanism can be accomplished by the innovation of the channel mode. Speaking of innovation of channel model, QIQUAN model of Luzhou Laojiao is a bold and more successful attempt.

Viewed from transaction cost, if QIQUAN channel model of Luzhou Laojiao will achieve success or not, it largely depends on if the model can execute the related channel functions at lower cost. Firstly, the market is really not in perfect competition. As the increasing of the transaction cost, the channel member is more likely to take the manner of vertical integration, for enhancing the control force on the channel. Between vertical integration and diversified channel organizational forms based on “outsourcing”, many important channel models emerge at the right moment, and QIQUAN channel model of Luzhou Laojiao is also generated under such a background. QIQUAN channel model solves the laissez-faire and loosening problems in perfect market transaction, which has an adverse effect on opportunistic behavior and reduces the transaction cost between channel members; on the other hand, it is also a remedy for the problems such as low efficiency and flexibility shortage possibly existing in the channel model of vertical integration. As a result, this model

becomes more and more popular in Luzhou Laojiao.

Secondly, the marketing channel network of enterprise is a system and the channels at various levels are connected with each other and mutually influenced, so that the channel management of enterprise is a kind of systemic, complete and multilevel management. Viewed from the coordination between the channel members, the QIQUAN channel model is similar to direct selling model, relative to the traditional channel model. As the direct selling model is a basic strategy for manufacturers, so the development of direct selling is not contradictory to the exertion of distributor function. The market is variable and the channel itself is also in dynamic change. The problem is to select direct selling or distributor and how to confirm the proportion between direct selling and distributor to make it reasonable, with the highest economic benefit. In principle, the proportional relation should make the channel cost be the lower and the efficiency be higher. In reality, the above objectives can be achieved by irregularly dynamical adjustment through checking and analyzing the channel. The enterprise mainly considers their proportion coordination and normative development. On the other hand, viewed from the coordination of new and old users, the customer loss means the market shrinkage and the market loss means idle production capacity of enterprise, so that it is difficult to achieve reasonable production level and realize the profit maximization. Besides, it will cost a series of additional energy and financial resources for developing a new user. According to the related data, the cost in developing one new user is generally several times of the cost in maintaining an old customer. Therefore, scientific treatment of relationship of new and old users and keeping reasonable dynamic proportion of new and old users are not only the contents for enterprise channel coordination but also the main contents for marketing work keeping active. Lastly, viewed from the coordination of domestic and foreign markets, the market coordination ability of enterprises is facing a new challenge from discordance and abnormal fluctuation of both markets, with their relationship becoming closer and closer and correlation becoming higher and higher. Therefore, the enterprise must consider the domestic and foreign markets as an integrated market, properly deal with the interaction between the two markets, exert their functions, and further create an excellent market environment for the enterprise.

Furthermore, the cost of the enterprise in establishing trade channel facilities by investing and holding stocks is possibly higher than the original investment cost in the manner of entrusting agency and leasing, but relatively lower than the circulation cost; on the contrary, the original investment cost in the manner of entrusting agency and leasing is lower, but

relatively higher than the circulation cost. On the basis of this analysis, QIQUAN channel model of Luzhou Laojiao is favorable to the reduction of the relative cost of the channels.

Lastly, although the generation and adoption of QIQUAN channel model have widened the marketing channels of Luzhou Laojiao products, the conflict between different channels will emerge at the right moment as well. The most direct expression of the channel conflicts is the price competition and cross-district customer fight between the channel members. On one hand, the channel conflicts are beneficial to restrict the in-exertion behavior of the distributor, on the other hand, the phenomenon of fighting for a same target customer by different channels may cause the disordered competition and further cause the channel members to revenge the enterprise or sell the products of the competitors. Facing the difficult selection of the channel conflicts and channel activity, adoption of such a model by combining regional operation with professional guidance shall be an effective selection for enterprises.

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Appendix 1: Questionnaire survey

Dear Sir or Madam:

Thank you for your interest in this questionnaire. This questionnaire aims to investigate the relations between marketing channel governance mechanisms of Luzhou Laojiao Group and outcomes of channel governance. We appreciate for your support!

This questionnaire does not involve any commercial purposes, and there is no right or wrong about the answers. We will abide by the professional norms, and the data obtained is used only for academic research. What you fill in will be confidential and will have no impact on you or your company. Please fill in this questionnaire objectively after reading it carefully. Choose one answer for each question, and tack on the option or number you think is right. Your answer will have a direct effect on objectivity and scientificity of our statistical analysis, so please make sure you complete all questions.

You don't need to sign for the questionnaire, so please rest assured and fill in true information! Thank you for your precious time! Wish you have a smooth work and healthy body!

School of Management and Economics of UESTC

Part I Basic Information

1. Gender:

Male

Female

2. Age:

Below 25

25-35

35-45

Over 45

3. Education background

Middle school or below

High school (secondary technical school)

Junior college

Bachelor

Master or above

4. Working experience in the company (or institution):
- within 1 year
 - 1-2 years
 - 2-5 years
 - More than 5 years
5. Do you know QIQUAN model applied in Luzhou Laojiao:
- Yes No
6. Which marketing channel mode of Luzhou Laojiao below is one for the company (or institution) you work in (if you are from Luzhou Laojiao, please skip this question):
- Traditional distribution channel model QIQUAN model
7. Current position:
- General staff Junior Manager Middle Manager Senior Manager
8. How many companies have you worked in:
- Never 1-2 times 3-4 times More than 4 times
9. Total annual income:
- Less than RMB 30,000
 - Between RMB 30,000 to RMB 50,000
 - Between RMB 50,000 to RMB 100,000
 - Between RMB 100,000 to RMB 150,000
 - More than RMB 150,000

Part 2 Channel Governance Mechanisms

The following questions are about how you evaluate channel governance mechanisms adopted by your company, please choose the most appropriate number according to your experience and feeling.

I Unilateral Incentive

Beyond our standard incentives, this distributor receives	Very Little	←	→	A great deal of			
1. Extra incentive to increase their selling effort for our product.	1	2	3	4	5	6	7
2. Extra dollars for their use in local promotional activities that help promote our product.	1	2	3	4	5	6	7
3. Extra monetary assistance for targeted events that help promote our product.	1	2	3	4	5	6	7
4. Extra incentives to work harder in support of our products.	1	2	3	4	5	6	7

II Unilateral monitoring

	Strongly disagree ← → Strongly agree						
5. Besides sales volume, we monitor this distributor on a number of specific performance standards.	1	2	3	4	5	6	7
6. We monitor this distributor's specific achievements for our brand on a regular basis.	1	2	3	4	5	6	7
7. To judge this distributor's accomplishments, we periodically monitor the outcomes of its selling efforts.	1	2	3	4	5	6	7
8. We monitor this distributor's attainment of specific performance standards on an ongoing basis.	1	2	3	4	5	6	7
9. We monitor how this distributor sells our existing products.	1	2	3	4	5	6	7
10. We monitor the way this distributor responds to its customer's needs.	1	2	3	4	5	6	7

III Unilateral enforcement

In dealing with this distributor,	Never ← → Frequently						
11. We rely on our agreement, where it applies, to resolve disagreements with this distributor.	1	2	3	4	5	6	7
12. We refer to any agreements we have when attempting to influence their actions.	1	2	3	4	5	6	7
13. We remind them of any obligations stipulated in our agreement.	1	2	3	4	5	6	7
14. We make it clear that they are to conform to our agreement should differences arise between us.	1	2	3	4	5	6	7

IV Bilateral incentives

For both firms in this relationship,	Strongly disagree ← → Strongly agree						
15. The confidence that any short term financial inequities will be made up over time serves as a strong incentive for both firms to cooperate.	1	2	3	4	5	6	7
16. The confidence that the financial benefits will be fair over the long run serves as a strong incentive for both firms to cooperate.	1	2	3	4	5	6	7
17. The confidence that the investments made in the	1	2	3	4	5	6	7

relationship today will pay off over the long run serves as a strong incentive for both firms to cooperate.

V Bilateral monitoring

In this relationship	Strongly disagree←→Strongly agree						
18. Each firm monitors its own investment of financial resources into the relationship, to ensure it meets the expectations of its partner.	1	2	3	4	5	6	7
19. Each firm monitors the level of personnel resources it invests in the relationship, to ensure it meets the expectations of its partner.	1	2	3	4	5	6	7
20. Each firm monitors its own intentions to make future investments in the relationship, to ensure it meets the expectations of its partner.	1	2	3	4	5	6	7

VI Bilateral enforcement

In this relationship, it is expected that,	Strongly disagree←→Strongly agree						
21. Our shared expectation serve to enforce our business agreements.	1	2	3	4	5	6	7
22. The strength of our relationship will keep the parties honest in dealing with each other.	1	2	3	4	5	6	7
23. We will work together to resolve any discrepancies that may arise.	1	2	3	4	5	6	7
24. We will keep our promise to each other because we value our partnership.	1	2	3	4	5	6	7

Part 3 Channel governance efficacy

The following questions are about how you evaluate channel governance efficacy on your company, please choose the most appropriate number according to your experience and feeling.

I Coordination

Regarding our day-to-day activities,	Strongly disagree ← → Strongly agree						
1. The marketing activities of our two firms are organized effectively.	1	2	3	4	5	6	7
2. Efforts to market our product are consistent with one another.	1	2	3	4	5	6	7
3. The marketing activities between our firms are well timed.	1	2	3	4	5	6	7

II Conflict

	Never ← → Frequently						
4. Personnel from our two firms express differences over how to handle the details of our business.	1	2	3	4	5	6	7
5. The amount and type of resources that this distributor allocates to our brand causes tension between us.	1	2	3	4	5	6	7
6. We have disputes with this distributor over how our product is represented.	1	2	3	4	5	6	7

Part 4 Relative Dependence

The following questions are about how you evaluate relative dependence on your partners, please choose the most appropriate number according to your experience and feeling.

I Relative Dependence

	Strongly disagree ← → Strongly agree						
1. If our relationship ended, we would have difficulty replacing the income this distributor	1	2	3	4	5	6	7

provides.

- | | | | | | | | |
|--|---|---|---|---|---|---|---|
| 2. If our relationship ended, this distributor would have difficulty replacing the income they generate from our product line. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. We are very dependent on this distributor. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4. This distributor is very dependent on us. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5. It would be difficult for our firm to replace the sales and profits this distributor generates. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6. It would be difficult for this distributor to replace the sales and profits generated by selling our product line. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

II Transaction specific investments.

- | | | | | | | | |
|---|--------------------------------------|---|---|---|---|---|---|
| | Strongly disagree ← → Strongly agree | | | | | | |
| 7. Our firm has made substantial investments of personnel resources in support of this distributor. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8. We have dedicated a great deal of time and effort to training this distributor on how to represent our product line. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 9. We have dedicated substantial investments to helping this distributor develop its territory. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

This is the end of this questionnaire, please check it once more to ensure it is completely finished. Thank you for your support for this survey, Thanks again!