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THE DISTRIBUTION CHANNEL FOR
FOREIGN BRAND APPAREL IN CHINA'S MARKET:
FROM A POWER PERSPECTIVE

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By
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1999

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The market for high quality apparel made by foreign manufacturers is growing rapidly in China. Foreign brand apparel enters China either through customs as an import or is manufactured within China and retained for domestic sale. Because the Chinese government prohibits wholly foreign-owned companies from engaging in retailing and distribution and forbids most Chinese retailers to conduct foreign trade, imported apparel must be distributed by trade operators functioning as distributors and wholesalers for foreign manufacturers.

The purpose of this study was to a) develop a model detailing the distribution channel for foreign apparel products entering China, b) identify organizations having power and problems in the channel, and c) examine the dyadic relationship between Chinese apparel retailers carrying foreign apparel and their suppliers. Thirteen in-depth interviews with nine apparel retailers, one foreign trade operator, and three governmental officials, and a survey using 150 Chinese apparel retailers carrying imported and/or foreign apparel manufactured within China were conducted in Beijing, China. The information obtained from the interviews and three open-ended questions in the survey was content analyzed, and the data obtained from the close-ended questions in the survey
were quantitatively analyzed using Structural Equation Modeling. Results showed several layers of foreign trade operators between foreign apparel manufacturers outside China and the Chinese apparel retailers. Several Chinese government organizations having control of the distribution channel for foreign apparel and a number of problems associated with the channel were identified.

The quantitative part of the study found that legitimate power source was regarded as the major power base by Chinese apparel retailers when attributing power to their suppliers. Retailers’ attitudes toward their suppliers were positively related to suppliers’ expert power, referent power, and coercive power. Conflict between retailers and suppliers was positively related to attributed power, while negatively related to retailers’ attitudes toward their suppliers. Retailers’ satisfaction with their suppliers was positively related to their attitudes toward suppliers and suppliers’ coercive power perceived by retailers.

Implications for U.S. apparel manufacturers wanting to penetrate the Chinese market, and the contributions of this study to the channel power literature are provided.
Dedicated to my parents and my wife
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CHAPTER 1

INTRODUCTION

Reports from the U.S. Department of Commerce reveal that the trade deficit has been a serious problem for the United States during recent years. The problem is even more serious in the trade with China (U.S. Department of Commerce, 1998). Compared with a $33.8 billion trade deficit with China in 1995, in 1996 the U.S. trade deficit with China had reached $39.5 billion, an increase of 16.9% (The U.S. Department of State, 1997). In 1997, the U.S. trade deficit with China had climbed to $49.7 billion (U.S. Department of Commerce, 1998). Specifically for textiles and apparel, the U.S. exported goods valued at $63 million to China in 1997 while importing $8.25 billion worth of products from China (U.S. Department of Commerce, 1997), for a trade deficit of $8.19 billion.

There are two ways for the U.S. to reduce the textile and apparel trade deficit with China: one is to limit textiles and apparel imports from China, and the other is to increase exports to China. So far through the 1980s and 90s the U.S. has used quota limitations to slow the growth of imports from China (Dickerson, 1988). But when the Multi-Fiber Arrangement (MFA) is phased out by 2005, all quantitative restrictions on textile and apparel trade among countries under the World Trade Organization (WTO) will be
removed (Majmudar, 1996). Although currently China is not a WTO member, it is
generally believed that China will become a WTO member and therefore any textile and
apparel trade quota imposed upon China will be eliminated by that time (Bao, 1994). The
phase-out of import quotas means that limiting imports from China is not a long-term
solution for the U.S.

Besides limiting imports from China, a potential solution to the unbalanced trade
of textiles and apparel is for the U.S. to export more textile and apparel products to China
(Jacobs, 1997). In addition to deficit reduction, trade benefits the domestic welfare of
nations by increasing employment (Schwartz & Volgy, 1985), preserving jobs (Brown,
1986), and encouraging understanding and cooperation between nations (Duffy, 1991).
Former president Carter, in his report to Congress in 1980, stated that exports account
"for one in every eight jobs in America's factories, and one in every four on America's
farms." (Carter, 1980, p.1) Furthermore, trade is a two-way street (Duffy, 1991) where
each party involved needs to give, as well as take in the trade relationship. It cannot be
expected that one nation will only permit the imports from a second nation that in turn
does not accept the products from the first. Overall, the textiles and apparel industry and
trade are important not only for developing countries, but also for the developed countries
(Dickerson, 1988). Therefore, it is reasonable and necessary for the U.S. to increase its
textiles and apparel exports to China in order to reduce the trade deficit and to benefit its
domestic industry.

That U.S. manufacturers may increase exports of apparel products to China is
promising when considered from several perspectives. First of all, the consumption
ability of Chinese people has dramatically increased during recent years along with fast
economic growth (Li, 1996; Xu, 1995). A consumer spending forecast for the world's largest economies through the year 2005 shows that China is the fastest growing nation in aggregate consumer expenditures as well as apparel and footwear expenditures (Whitley, 1995). Moreover, considering the large population of China (1.2 billion), even a very small portion of wealthy people represents an extensive market for high quality and high priced goods.

Furthermore, the Chinese textile and apparel industries are presently having trouble meeting domestic demand (Xinhua News, January 15, 1998). The major problems are out-of-date technology and old machinery that create low quality products (China: Textile Machinery ..., 1995). In addition, China's textile industry is suffering from a raw material shortage, especially cotton, because of the pressure to grow more food grains for her large population. The problem is aggravated by the rising costs of producing cotton, continued problems with bollworm, and restrictive state controls and pricing policies (China Cotton Annual Report, 1997; Emily, 1995; Ramey, 1995). Cotton production fell in 1996 and 1997 (China Cotton Annual Report, 1997). Additionally, in order to resume its position as a trading party in the WTO, efforts have been made by China to bring its trade system into line with international standards. China has reduced tariff rates and partially eliminated other non-tariff barriers on a large variety of products including many types of textile and apparel products (Country Profile: China..., 1995; National Trade Estimate Report, 1997). All these conditions listed above should stimulate the growth of apparel imports into China.

But on the other hand, the Chinese consumer goods market is complicated and dramatically different from those in industrialized countries, and may prevent easy entry
of U.S. apparel goods (Ho & Leigh, 1994; Reinganum & Helsell, 1994). As a semi-planned-market economy, the Chinese government has much power in manufacturing and marketing activities such as product distribution and retailing (Ding, 1996). Marketing channels become even more complex if account is taken of levels of local governmental ministries, and trading companies and agents (trade operators) that belong to different levels of governmental ministries (Stemquist & Zhou, 1995). There are circumstances where many Chinese apparel retailers desire to sell foreign brand apparel products, but they do not have access to them. Eventually they may be able to obtain the desired products, but not before spending a large amount of time and effort dealing with various governmental ministries, trade operators, and other organizations involved as gatekeepers in the distribution channel. The existence of gatekeepers has caused many problems in merchandise flow and efficiency of transactions (Stemquist & Zhou, 1995). Furthermore, these difficulties may negatively affect the foreign apparel manufacturers who want to sell their products in China. This research aims to examine problems in the distribution channel for foreign brand apparel in China. This study is from a channel power perspective, which is the most frequently employed theoretical framework for studying distribution channel issues.

The basic idea of channel power is that all members within a product distribution channel, from manufacturers to wholesalers and further to retailers, are not isolated; rather, they are closely connected. Further, this connection is not a simple business transaction relationship. Every channel member, be it manufacturer or retailer, depends on each other (Emerson, 1969). The dependence results from the power held by certain channel members. Various forms of power stem from power sources possessed by a
power holder, such as scarce resources, advanced technology, or the ability to provide valuable assistance (Dahl, 1957; Gaski, 1984). Therefore, power source and the power generated from power sources are central concepts to the understanding of channel member relationships and the analysis of channel structure issues such as conflict between channel members, channel members' satisfaction, and their performance (Brown, 1995; Brown, Johnson, & Koenig, 1995a; Gaski, 1986; Hunt & Nevin, 1974; Lusch & Brown, 1982; Stern, 1988).

Why Study the Distribution Channel in China?

Lack of Distribution Channel Studies on Developing Countries

Many scholars have called for research on retailing and distribution channels in less developed countries (LDCs) (e.g., Goldman, 1981; Samiee, 1993; Samli & Kaynak, 1984). This type of research helps western scholars and marketers a) understand the promising markets in developing countries, b) promote exports to developing countries, c) reduce the reliance on local marketing intermediaries, and d) support small and medium-sized firms who are willing to cultivate LDC markets but are prohibited by their limited resources (Samiee, 1993). But to date, limited research has been conducted on channels of distribution in LDCs because of several reasons, one of which is that the accuracy of secondary information available from LDCs is questionable. Yet, a large amount of time and money is required to obtain primary data (Samiee, 1993). Therefore, "only a limited effort is expended toward conceptualization and theory development regarding channel structures in LDCs." (Samiee, 1993, p.106) All these considerations make research on distribution channels in LDCs a promising topic.
Because it is increasingly expensive and difficult for new entrants to establish and develop new distribution channels in foreign countries, a feasible way of establishing a smooth market channel is to tap the existing distribution forces and rely on local distribution expertise and relationships in the network (Bartmess, 1994). Particularly, distribution channel studies need to focus on questions such as, a) selecting channels in foreign countries, b) identifying problems within these channels, c) identifying causes of conflict between the channel members, and d) determining where channel power rests (Developing A Channels Strategy ..., 1990).

Samiee (1993) and Olsen and Granzin (1997) proposed two similar frameworks under which future marketing and distribution channel studies concerning developing countries could be conducted. In their frameworks, economic development, governmental influence, and distinctive cultural and social settings in a LDC are all determinants of the marketing channel in that country. It was first proposed that the level of economic development would significantly influence the structure and efficiency of a channel. Secondly, it was suggested that a government could impact retailing and distribution systems through regulations and participation. For example, the impact could be in the form of limiting the right of distribution of certain products to assigned organizations or firms, adding frequent or ongoing price controls over the goods distributed, and rationing imported or crucial products. Thirdly, personal relationships serve an important role in distribution channels in LDCs. To follow Samiee’s and Olsen and Granzin’s propositions, the distinctive characteristics of China’s distribution system, the influence of the Chinese government on retail activities, and Chinese cultural and social context are considered in this study.
Uniqueness of Distribution of Foreign Brand Products in China

The Chinese market is not a free market because the Chinese government has been highly involved in market activities. Although efforts have been made in order to establish a free and efficient market during the last twenty years, strict governmental regulations and policies are still applied to a wide range of economic activities, such as the distribution of foreign brand products. First, foreign-invested retail business in China has been strictly controlled. So far, wholly foreign-invested retail businesses are forbidden, with very few exceptions. Besides, a limited number of Chinese-Foreign joint venture enterprises are allowed to engage in retailing in designated areas. Therefore, for those foreign apparel manufacturers who want to sell their products in the Chinese market, a feasible way to do so is to rely on the local distribution channel.

Generally there are two ways for foreign products to enter the Chinese market. One is through import and the other is to manufacture products directly within China. The Chinese government applies various regulations and laws to foreign trade. One among them is assigning foreign trade rights to a limited number of organizations and enterprises. Only those businesses that have been assigned foreign trade licenses can engage in trade with foreign manufacturers and companies. Consequently there are many apparel retailers who want to sell foreign products but do not have access to imported apparel. In order to obtain imported apparel, these retailers must deal with foreign trade operators that have the rights to import products from overseas. Therefore, the

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1 According to the Xinhua News, July 7, 1999, Beijing, China will gradually open its retailing to foreign enterprises. At the first stage, up to two wholly foreign-invested retail and distribution enterprises will be allowed in major cities.
distribution channel for imported apparel is from the manufacturers to Chinese foreign
trade operators, and then from the operators to retailers.

For the foreign apparel manufacturers who produce their products directly in
China (collaboratively manufactured apparel), a large amount of their products need to be
sold outside the Chinese market, according to the relevant Chinese laws. The rest of their
products to be sold within China need to go through the local distribution channel in
order to have market access. Since foreign investors are not allowed to conduct retail and
distribution business, their products need to be moved to trade operators including trade
companies and agents, and other types of distributors, and then to retailers. Besides, the
products can be distributed directly from manufacturers to retailers because the
collaborative apparel is not regulated as imported products.

To sum up, the distribution channels for foreign brand products are quite
complicated in China because of governmental regulations. In order to improve the
distribution of foreign apparel in China and provide Chinese retailers easier access to
foreign products, an examination of the distribution process and the problems involved is
necessary.

Purpose and Objectives

Purpose

The purpose of this study is to examine the retail distribution channel for foreign
apparel in the Chinese market and to provide useful information regarding the
distribution channel for foreign brand apparel for U.S. apparel manufacturers who intend
to market their products in China. In particular, the study examines a) the issues of and
b) problems with the distribution channels for imported apparel and collaborative apparel.

Objectives

There are several objectives of this study. First, a flowchart of the distribution
channel for foreign brand apparel will be formulated. The relationship between foreign
apparel manufacturers including those within or outside China and Chinese apparel
retailers is not simply a dyadic supply-demand relationship. In contrast, various Chinese
governmental organizations are involved in the distribution and retail of imported
products. Different organizations may have different power in the channel because of the
various roles they play. Therefore, the first step in studying the distribution channel is to
determine how imported apparel or collaborative apparel is distributed to Chinese apparel
retailers.

Second, the roles played by government organizations are examined. Particularly,
revealing the roles of governmental organizations helped the researcher to identify the
factors impeding a smoother business relationship between U.S. apparel manufacturers
and Chinese apparel retailers.

Third, the problems in the distribution channel are identified. That is, the
difficulties encountered by Chinese apparel retailers in selling foreign apparel and the
factors that prevent the channel from functioning efficiently are examined.

Besides the three objectives, the dyadic relationships between Chinese apparel
retailers who sell foreign brand products and their suppliers are examined theoretically,
specifically regarding the impacts of various power sources held by foreign brand apparel
suppliers on the relationships. Based on the results, suggestions for how to improve
supplier-retailer relationships within the channel are provided.

Definitions

Attributed Power
Attributed power is the power wielded by a power holder and attributed by the
power receiver to the holder (El-Ansary & Stern, 1972).

Channel Conflict
Channel conflict is a state of tension between two channel members. The tension
comes from the incompatibility of desired and actual responses (Raven & Kruganski,
1970).

Channel Member Business Performance
Performance is the extent to which a channel member’s relationship with its
channel partner contributes to fulfillment of the member’s business objectives (Gaski &
Nevin, 1985).

Channel Member Satisfaction
Channel member satisfaction is the degree to which the member is satisfied with
the channel arrangement and the exchange relationship (Frazier & Summers, 1986;

Coercive Power
Coercive power is based on one channel member’s perception of its partner’s
ability to impose punishments (Brown, Lusch, & Nicholson, 1995b; Lusch & Brown,
1982).
Expert Power

Expert power refers to the channel member's perception of its partner's knowledge and expertise on certain functions or areas (El-Ansary & Stern, 1972; Lusch & Brown, 1982).

Information Power

This source of power is based on one channel member's ability to provide information that was not available previously, or interpret existing information in ways that are meaningful but not yet known by its partner (Stern & El-Ansary, 1982).

Legitimate Power

Legitimate power is based on one channel member's perception of its partner's legitimate right to influence its operation and the extent to which the member is obliged to accept this influence (Kasulis & Spekman, 1980; Kasulis, Spekman, & Bagozzi, 1978).

Power

Power is one channel member's ability to control the decision variables in the marketing strategy of another member at a different level in the channel of distribution (El-Ansary & Stern, 1972; Gaski, 1984; Hunt & Nevin, 1974).

Power Sources

Power is determined from the magnitude of its sources (Simon, 1953). Basically there are six types of power sources: expert power source, information power source, legitimate power source, referent power source, reward power source, and coercive power source.
Referent Power

This source of power is based on one channel member’s identification with its partner or on this channel member’s desire to be closely associated with its partner (Brown et al., 1995b).

Reward Power

Reward power refers to one channel member’s perception of its partner’s ability to grant rewards (Lusch & Brown, 1982).

Assumptions

1. Informants in the in-depth interviews and respondents to the questionnaire are knowledgeable about the distribution channel for foreign brand apparel.

2. The distribution channel for foreign brand apparel is reasonably the same across different regions in China.

Limitations

1. The dyadic relationship between trade operators supplying foreign brand apparel and Chinese retailers carrying foreign products was studied only from the retailer’s perspective, leaving suppliers’ perceptions of the relationship not addressed.

2. In addition to people from governmental organizations and retail stores, the researcher had planned to recruit several trade operators as informants. But because of the limited information sources, only one foreign trade operator supplying foreign brand apparel was recruited to interview. More valuable information could have been obtained if more trade operators were interviewed.
3. The interview and survey respondents were recruited only from Beijing, which results in a smaller sample. The statistical results would be more trustworthy if a larger sample was used.

4. More valuable information could be obtained if governmental officials from the foreign trade administration organizations such as the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) could have been recruited for in-depth interviews.

Organization of the Dissertation

Chapter 2 introduces the basic structure of the distribution channel for foreign brand apparel in China, a comparison of Chinese with westerners that may explain the distinctive distribution channel structure in China from a cultural perspective, and the distribution channel power theory base on which this study was conducted. Also in Chapter 2, research hypotheses and a theoretical model are developed. Chapter 3 describes the methods used for sampling, data collection, and data analysis. Additionally, issues related to measurement and development of the instrument are detailed. The results are reported in Chapter 4. Conclusions, discussion and the implication of the results, contributions and limitations of the study, and the recommendations for future research are presented in Chapter 5.
CHAPTER 2

LITERATURE REVIEW

This chapter focuses on five major topics. First, China’s retail industry and the relevant governmental regulations and laws restricting foreign investment in retailing are discussed. Second, the reasons why Chinese apparel retailers cannot have free access to imported products are explained by introducing the related trade policies and detailing the unique aspects of the distribution channel. Third, the distinctive culture of the nation, and organizational and individual characteristics in China are addressed, which help to explain the differences between the distribution channels in western countries and in China. Fourth, channel power theory and its associated concepts are reviewed. Finally, based on the theory and relevant empirical studies, a theoretical model for the study is developed and research hypotheses are provided.

China’s Retail Market and Distribution Channel for Products
Manufactured by Foreign Enterprises

Limitations on Foreign Investment in Retailing

China’s retail market differs dramatically from western markets in that the government intervenes in the retail industry and the channel is underdeveloped (Schavey,
Since economic reform was implemented in 1978, China has made great progress in almost every aspect of its economy (Ding, 1996; Wu, 1997), including its retailing and product distribution system (Chow Kong Wing, 1994; Guo & Harris, 1990; Reinganum & Helsell, 1994). Before economic reform, retailing and the distribution channel for all kinds of products had been centrally owned and controlled by the Chinese government (Guo & Harris, 1990). The entire retailing system had been established to support the political and administrative structure rather than to meet economic demands (Mun, 1988). The philosophy behind the centrally-planned channel was that all foreign products should be allocated according to needs and available to those who need them (Vemon-Wortzel & Wortzel, 1987). This is in contrast to a market-based channel. Under a market-based distribution channel, the channel should be free of governmental intervention and dependent on market forces to effectively and efficiently deploy resources (Vemon-Wortzel & Wortzel, 1987). A market-based distribution channel is believed to be more efficient in terms of satisfying consumers' needs (Chow Kong Wing, 1994). Although dramatic changes have been made, the Chinese retail market is still partially controlled by the government, particularly regarding the retailing and distribution of consumer products manufactured by foreign enterprises (Chow Kong Wing, 1994; Sternquist & Zhou, 1995).

to gain a position in the WTO (China Economic Policy and Trade..., 1997), as of 1997 no progress had been reported. The state’s policies toward foreign investment in retailing remained unchanged in 1997 and 1998, and there was no relaxation of restrictions to foreign investment in retailing at the local government level either (China Business World, 1998).

Therefore, foreign retailers have to select some type of partnership with local retailing firms in order to sell their products in the Chinese market (China Business World, 1998; Schavey, 1996). However, the central government and other local authorities only approve a limited number of retail licenses for joint-venture enterprises in each area within the nation (China Economic Policy and Trade..., 1997; Ho & Leigh, 1994). According to business news, a number of foreign-invested retail ventures that had not received the State Council approval were declared illegal and were threatened with closure (China Business Report, 1998).

In addition, most Chinese-Foreign joint ventures are prohibited from engaging in certain distributing activities such as wholesaling, and acting as foreign trade operators (Ho & Leigh, 1994; Reinganum & Helsell, 1994; Sternquist & Zhou, 1995). Even the limited number of joint-venture retail enterprises that have been approved for direct import rights can only import products accounting for 30 percent of retail sales and must purchase the remainder domestically (Schavey, 1996; Sternquist & Zhou, 1995).

To conclude, it is difficult for foreign enterprises to enter into the Chinese retailing industry as either a wholly foreign-owned enterprise or a joint venture. As a result, there are only two feasible ways to bring foreign brand apparel into the Chinese market. One way is to market the apparel manufactured overseas in the Chinese market
via the existing domestic retail distribution system, and the other is to manufacture
products within China and then sell them in the local market.

**Imported Apparel Product Market**

To sell apparel products manufactured outside China to Chinese consumers, the
products have to be imported into China first. In the following sections, the definition of
imported apparel products is provided, and the distribution channel for imported products
is examined.

**Definition of Imported Apparel**

Currently there are three major classifications of apparel products in the Chinese
market in terms of origins of the products’ materials and parts, the characteristics of the
manufacturers, and places of assembly. First, all apparel products using domestic
materials and parts and assembled by domestic laborers within China are classified as
domestic apparel products (Huang, 1996). Apparel products assembled in China but
using imported materials or parts, and/or imported machinery, and/or foreign designs are
not classified as domestic products. But they are not considered as imported products
either. They are defined as collaborative products (Huang, 1996). Apparel products
using materials or parts manufactured by Chinese-Foreign joint ventures, and/or
assembled by joint ventures are also considered as collaborative products (Huang, 1996).
The third type of apparel product is the imported product. Unfortunately, no exact
definition of imported apparel products has been found. In order to define imported
apparel products and understand the difference between imported and Chinese-Foreign
collaborative products, the related laws need to be discussed.
According to the Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures (1990), the Law of the People’s Republic of China on Chinese-Foreign Contractual Joint Ventures (1988), and the Law of the People’s Republic of China on Foreign-Capital Enterprises (1986), all the products manufactured by Chinese-Foreign joint ventures and wholly foreign-owned enterprises should be export-oriented (Article 9, Article 4 and Article 3 respectively). Although the laws imply that all these types of products are mainly for foreign markets rather than for domestic consumption, they do not specify that these types of products should be considered as imported products if they are retained in China. Therefore, the products manufactured by these types of enterprises are not regulated under foreign trade laws and thus should not be considered as imported products. As mentioned earlier, these are called collaborative products.

In contrast, all products traded between China and foreign countries are regulated by a series of foreign-related trade laws in China (McClain & Cheng, 1995). An examination of the Foreign Trade Law of the People’s Republic of China (1994), one of the major foreign trade laws for the country, reveals that foreign trade (imports and exports) was defined as the trade between Chinese entities and the trade dealers in other countries and regions such as Hong Kong and Macao (Articles 4 and 5). Therefore, it can be concluded that only the products traded between China and foreign countries and regions are considered as imported or exported products and thus are regulated by the law.

To sum up, although products manufactured by Chinese-Foreign joint ventures or wholly foreign-owned enterprises are encouraged for export and restricted in domestic
consumption, they are not considered to be imported products. According to the foreign
trade law, only the products traded between China and foreign countries and regions are
defined as imported or exported products. Therefore, only these products that are
regulated by the foreign trade laws are controlled by the related foreign trade
administrative organizations. Consequently, these products classified as imports cannot
be freely accessed by Chinese retailers, as will be discussed in later sections.

Control of Imported Apparel Products

The Chinese government is more involved in the import product market than in
the domestic product market (Sternquist & Zhou, 1995). The limitations on the imported
product market are reflected in the foreign-related trade and investment laws and
regulations, and the various governmental entities involved in foreign trade.
China’s foreign trade laws have developed since 1978 when the “open-door" policy was
established at the Third Plenum of the Eleventh Central Committee of the Communist
Party of China (McClain & Cheng, 1995). The number of laws was increased and their
contents were revised during the 1980s and early 1990s with the intent being to “regulate
in great detail trade in goods between Chinese and foreign business enterprises.”
(McClain & Cheng, 1995, p.3) These laws include the Law of the People’s Republic of
China on Economic Contracts Involving Foreign Interest (1985) and Company Law of
the People’s Republic of China (1993), and others. Among these laws, the most
comprehensive and the latest promulgated one is the Foreign Trade Law of the People’s
Republic of China, which was enacted in 1994 (McClain & Cheng, 1995). There are
eight chapters and forty-four articles in the law. Among them, fourteen articles (Chapter
II and III) specifically deal with foreign trade dealers and import and export of goods and
technologies (Foreign Trade Law of People’s Republic of China, 1994). There are several striking features of these articles. First, all the Chinese organizations and enterprises involved in foreign trade must have official permission of the state. The term “foreign trade operator” used in the law only refers to the entities which have been approved by the department in charge of foreign economic cooperation and trade to engage in foreign trade (Chinese Trade, Import and Export, 1998). These entities could be state-owned enterprises, Chinese-Foreign joint ventures, and private enterprises. ¹ Regulated by the Interim Provision on Guiding Foreign Investment Direction (1995), wholly foreign-invested enterprises are forbidden to engage in foreign trade. Second, those entities that do not have a foreign trade operation permit may entrust a foreign trade operator located in China as their agent to conduct foreign trade. Previously, many of these trade operators belonged directly to various governmental organizations. Now permitted by the Interim Procedures for the Experiment in the Establishment of Chinese-Foreign Joint Venture Foreign Trade Operators (1996), many joint-venture companies can act as foreign trade operators. Third, the state may impose restrictions on imports in a number of circumstances in order to avoid harming the domestic industry and to maintain the state’s international financial status. The restrictions can be imposed via quota and/or licensing control. The listed circumstances in which trade restrictions may be imposed are very ambiguous, and foreign companies have complained that they lacked transparency in the operations (China: Economic Policy and Trade..., 1997; National Trade Estimates Report..., 1998). Only the related governmental organizations in charge

¹ In 1999, the first 61 private enterprises were approved by the State Economic and Trade Commission to engage in foreign trade. Source: News Broadcast (February 11, 1999). The Chinese Central Television Program.
of foreign economic cooperation and trade have the power to rephrase the definitions and
terms. Currently, foreign apparel products are on the list of restrictions. Thus, only a
limited number of state-owned, collectively-owned, privately-owned, and Chinese-
Foreign joint-venture foreign trade operators possessing import quotas and licenses
assigned by various governmental organizations in charge of foreign economic
cooperation and trade have the rights to engage in foreign trade of textiles and apparel.

The Complexity of the Import Administration System

For a long time, foreign trade in China was monopolized by a limited number of
governmental organizations and state-owned economic companies (China Trade, Import
and Export, 1998; China Trade Report, 1998; McClain & Cheng, 1995). The national
level governmental organizations in charge of foreign economic cooperation and trade
include various state commissions such as the State Economic and Trade Commission
and state ministries such as the Ministry of Foreign Trade and Economic Co-operation
(MOFTEC). Only these organizations have the rights to assign licenses to the entities
that want to conduct foreign trade. The entities that were assigned the rights to engage in
foreign trade vary in terms of their ownership. Previously only the foreign trade
operators belonging to governmental organizations could obtain foreign trade licenses.
The operators were established as economic entities and engage in foreign business for
the government, but they also maintain an administrative role and have monopoly power
in supervising their respective industrial areas. Examples of such operators are CHINA
TEX, China National Silk Import & Export Corporation, Shanghai Foreign Trade
Corporation, and Guangdong Light Industrial Product Import and Export Corporation.
The network was even more complex if different levels of local branches and agents were taken into account. China’s entire organizational structure at the state level was mirrored at the provincial, municipal, and township levels (Political & Government in China, 1998). Thus there were numerous foreign economic cooperation and trade commissions, MOFTECs, and trade operators at the different levels in China (Government of China, 1998; Political & Government in China, 1998) (Figure 2.1).

Note: ▶ represents assigning the rights for engaging in foreign economic cooperation and trade. ——————► represents having the access to provide imported products.

Figure 2.1 Administration System for Imported Apparel Products in China Prior to 1998
The foreign trade administrative system has experienced some changes over the past years due to the open-door policy and the decentralization of the central government's power (McClain & Deng, 1995) (Figure 2.2). First, the former ministry-level companies have broken up into numerous independent entities. Most of these entities retain their parent corporation's names, act as legal units, and are responsible for their own profits and losses (McClain & Deng, 1995). Second, a number of governmental organizations have been deprived of administrative functions and have become economic-oriented entities because of a policy encouraging a simplified administration (Politics and Government in China, 1998). A majority of these newly emerged economic entities is allowed to engage in foreign trade.

A further reform of the governmental administration system took place after the Ninth National People's Congress in 1998 (Politics and Government in China, 1998). The former State Economic and Trade Commission, Ministry of Internal Trade, National council of Textile Industry, and the seven other ministries and national companies were combined into a new State Economic and Trade Commission. But the MOFTEC remains. As a result, the state Economic and Trade Commission has more power in foreign trade administration than before.
The former government owned foreign trade operators, and their various branches (state, provincial, municipal, and township levels) retain the rights for doing international business. But other types of companies, such as collectively-owned, Chinese-Foreign joint venture, and privately-owned, have been assigned import rights by the mentioned organizations, which was impossible before. Therefore, many foreign trade operators that are not owned by the government now can engage in the apparel import business.²

² Information was obtained from an interview with an official in the China’s National Clothing Design & Research Center, Beijing, China. It was confirmed by CCTV (Chinese Central Television Program) News on January 4 and February 11, 1999.
Although the government has allowed some manufacturers and retailers to directly engage in foreign trade, controls still exist. Only manufacturers or retailers that have exported through foreign trade operators at least $1 million worth of products annually for more than three consecutive years are allowed to engage in direct importing and exporting (Zhao, Jiang, & Shen, 1998). Consequently, only a very small number of retailers can obtain direct import rights because many of them are not able to meet the requirement of annual sales. The others still need to rely on foreign trade operators to engage in the import business.

As China restructures itself from a centrally controlled economy to a more market driven one, continuous changes in product importing and distributing control systems will result. It is believed that a greater number of locally-administered, private, joint-venture, and even wholly-owned foreign enterprises will be approved to conduct product importing and distributing in China (China to Open Foreign Trade..., 1997; Market Development Reports, 1997). But whether or not a quick reform will take place is still questionable for several reasons. First, the latest reform has just been settled in 1998. Second, the major problems occupying the attention of the Chinese government are the inefficiency of state-owned enterprises, high unemployment rate, and the confusing financial administration (A Forecast of the Social Development..., 1999). Most importantly, it is believed that a free international trade system like those in western countries will not be able to protect the weak domestic industries from being crushed by foreign investment (Bao, 1994). So it is reasonable to infer that a further reform of the existing foreign trade and retailing administrative system will not take place for a relatively long time.
To sum up, governmental regulations in the distribution channel make it quite difficult for foreign apparel exporters to directly distribute and retail their goods in China’s market. An alternative is to utilize existing domestic marketing channels. But on the other hand, the imported apparel distribution channel in China is extremely complicated due to the layers of different administrative systems involved. The complexity is increasing along with ongoing economic reform. Because of government control on imported products, not all retailers, be they state-owned, collectively-owned, privately-owned, or joint-venture, can obtain imported apparel products (Sternquist & Zhou, 1995). Furthermore, the situation could remain unchanged for a relatively long time due to the protection of the domestic industries and the focus of government on other priorities. All of these situations suggest that studying and understanding the existing imported apparel distribution channel in China is paramount. Doing so will help foreign exporters, such as U.S. apparel manufacturers, uncover who is in power within distribution channels, identify the causes of problems in the channel, and determine what efforts are needed to help China’s apparel retailers obtain imported products.

Market for Collaborative Products of Chinese-Foreign Joint Venture and Wholly Foreign-Owned Enterprises

The other channel by which foreign products enter the Chinese market is through the establishment of joint-venture enterprises and wholly foreign-owned enterprises for the manufacture of products within China (Lyle, 1996). Although, as it was mentioned before, it is impossible for wholly foreign-owned enterprises and difficult for joint venture enterprises to tap China’s retail industry, they are allowed to manufacture products within China by the Chinese government.
Chinese-Foreign Joint Ventures and Wholly Foreign-Owned Enterprises

Soon after China opened its door to the outside world in 1978, the China-Foreign Equity Joint Venture Law was announced in 1979 in order to acquire foreign advanced technology and management, attract foreign capital, and explore new export channels (Adkins, 1980; Foreign Investment in China, 1994; Lan, 1993). Thousands of joint ventures have been established in China with more than thirty nations during the 1980s and 1990s (Antoniou & Whitman, 1998). For foreign investors, joint ventures allow access to a potential market, closer contact with the Chinese consumers, and availability of cheaper labor (Barty, 1988; Grub & Lin, 1989; Kurz, 1994). Besides, the investors can take advantage of the local distribution network and the special tax incentives offered by the central and local governments (Grub & Lin, 1988; Louis, 1979). Since 1986, wholly foreign-owned enterprises have been allowed by the Chinese government (Cohen, 1996).

In order to attract more foreign investment, China has created many special economic zones (SEZ) where tax incentives are offered. In 1980, the first SEZ, Shenzhen, was approved by the State Council. It was followed by another two SEZs, Xiamen and Hainian. In 1983, fourteen coastal cities were designated by the State Council as Coastal Open Cities, with an Economic and Technical Development Zone (ETDZ) in each city. State subsidies and tax incentives were offered in the ETDZs (Lan, 1993). Since then, several Coastal Economic Open Areas (CEOAs) such as Yangzi and Zhujiang, Shanghai Pudong area, and a number of inland cities such as Wuhan and Chongqing have been designated as special economic areas where tax incentives are offered (Lan, 1993). Outside of these areas, there are many other places that have been designated by all levels of local governments as local special economic areas where
financial incentives are provided by the local governments. At present, Chinese-Foreign joint ventures and wholly foreign-owned enterprises are located nation-wide.

There are three types of foreign direct investments, namely equity joint ventures (EJVs), contractual joint ventures (CJVs), and wholly foreign-owned enterprises (WFOEs) (Cohen, 1996; Deamer, 1996; Foreign Investment in China, 1994). Under the Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures (Adopted 1979, Amended 1990), an EJV takes the form of a limited liability company with the proportion of the foreign joint venturer’s investment at no less than 25 percent of its registered capital (Article 4). The capital is defined as the total amount of investment made by the parties in the forms of cash, equipment, industrial property rights, and know-how (Article 5). For the Chinese partners, their rights to the use of a site can be contributed as the joint venture capital (Article 5). For instance, if the ownership of a piece of land or a factory by a Chinese partner is worth one million dollars, then the partner can contribute the use of the land or the factory as one million in joint venture capital.

Under the Rules for the Implementation of the Law of the People’s Republic of China on Chinese-Foreign Contractual Joint Ventures (1995), CJVs include two types: “those having attained the status of Chinese legal persons” and “those not having attained the status of Chinese legal persons in accordance with the law.” (Article 4) CJVs having a legal status of Chinese persons are called limited liability companies. The parties are liable to the venture “within the extent of their investment or within the extent of the conditions for cooperation contributed, with the exception of those cases otherwise agreed in the contract.” (Article 14) The investment or conditions contributed can be
“cash, industrial property rights, special technology, the right to use of land or other property rights.” (Article 18) For a CJV not having a legal status of Chinese persons, the investments shall be owned by the respective parties. The entire business can be co-owned by all parties, or parts of the business owned by respective parties while other parts are co-owned under special agreements (Article 52).

Wholly foreign-owned enterprises refer to “those enterprises established in China by foreign investors, exclusively with their own capital.” (Law of the People’s Republic of China on Foreign-Capital Enterprises, 1986, Article 2) It is required that 50 percent of each WFOE’s products be exported so that its revenue and expenditure in foreign exchange can either be balanced or result in a surplus (Rules for the Implementation of the Law of the People’s Republic of China on Foreign-Capital Enterprises, 1990, Article 3).

Although it has been reported that foreign investors have confronted various problems, such as complicated layers of approval procedures, lack of market access, excessive bureaucracy, and a shortage of trained personnel (Grub & Lin, 1988; Needed: A Good Partner..., 1999; The Long Road to China..., 1982), foreign investors’ enthusiasm for establishment of enterprises in China has increased continuously (Cohen, 1996). Especially since the Asian economic crisis started in late 1997, the share of the direct investments from the United States and European countries has been growing (Helsell, 1999). The foreign investments range from agricultural products to jets, and from fast food restaurants to textiles and apparel (Grub & Lin, 1988).
Governmental Regulations on Chinese-Foreign Joint Ventures and Wholly Foreign-Owned Enterprises

Compared to developed countries, China has very strict regulations on foreign investment (Kurz, 1994). Foreign investment in China must be approved by the central, provincial, or municipal governmental organizations in charge of foreign economic corporation and trade, depending on the dollar amount of investment (Rules for the Implementation of the Law of the People’s Republic of China on Foreign-Capital Enterprises, 1990, Article 8). Under many circumstances, approvals by other authorities such as the organization in charge of the Chinese party of the joint venture, and the relevant ministry of the industry are also necessary (Kurz, 1994). After obtaining the approvals from those organizations, foreign investors need to get a business license from the State or local Administration for Industry and Commerce before their business can be started (Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures, Adopted 1979, Amended 1990; Law of the People’s Republic of China on Chinese-Foreign Contractual Joint Ventures, 1988; Law of the People’s Republic of China on Foreign-Capital Enterprises, 1986).

WFOEs are still not allowed to engage in foreign trade, wholesale product distribution, or a range of industries including retailing (Interim Provisions on Guiding Foreign Investment Directions, 1995, Article 12). The majority of Chinese-Foreign joint venture enterprises are manufacturing oriented because until 1992, China prohibited foreign direct investment in retailing in the form of joint ventures (Ho & Leigh, 1994). Although the restriction has been eased for Chinese-Foreign joint ventures after 1992,
retail investments are limited to several coastal cities and SEZs (Ho & Leigh, 1994; Lyle, 1996).

Distribution Channel for Joint Venture Products in the Chinese Market

There are no special regulations on the distribution of domestic or collaborative products manufactured by joint ventures or WFOEs in China. The only requirement of the government is that joint ventures and WFOEs need to export a certain percentage of their products overseas; the remainder may be sold in the domestic market (Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures, Adopted 1979, Amended 1990; Law of the People’s Republic of China on Chinese-Foreign Contractual Joint Ventures, 1988; Law of the People’s Republic of China on Foreign-Capital Enterprises, 1986). The percentages depend on the products manufactured and the location of manufacturing. Besides, under the laws listed above, joint ventures and WFOEs can sell the remainder of their products through local wholesalers and other local trade operators.

Beside contacting directly with Chinese retailers, some foreign manufacturers have been permitted to set up their own marketing and service organizations in the form of joint ventures (China: Economic Policy..., 1998). Nevertheless, because it is difficult for foreign manufacturers to set up their own distributing forces in the form of joint ventures, most of them are still dependent on local distribution services. There are numerous local agents handling internal product distribution and retailing. A great amount of products are distributed and sold through local channels in the Chinese market each year (Letovsky, Murphy, & Kenny, 1997). To conduct distribution and retailing of
domestic or collaborative products, these agents do not need to have foreign trade licenses. They can represent state-owned, collectively-owned, privately-owned, or even Chinese-Foreign joint venture manufacturers in the distribution of products through various channels. The channels could be regional or national, therefore under the control of different level ministries of internal trade such as the central Ministry of Internal Trade and provincial, municipal and township level ministries (China: Marketing U.S. Products..., 1999).

To sum up, because the Chinese government strictly controls the retail business and product distribution, most of the foreign manufacturers are highly dependent on local business agents and enterprises for these services. For the foreign manufacturers who import their products into China, they need to rely on China’s foreign trade operators to distribute the products to retailers. They cannot deal directly with retailers because the government prevents the local retailers from directly contacting foreign manufacturers. Although the foreigners investing directly in China through establishment of wholly foreign-owned or joint-venture enterprises are allowed to sell their products within China, most of them are not allowed to set up retail businesses. Therefore, a majority of them still turn to local distribution channels for reaching the Chinese retailers.

Distinctive National, Organizational, and Individual Characteristics

Understanding a nation’s distinctive social and cultural context is a prerequisite to the analysis of its distribution channel structure (Olsen & Granzin, 1990; Samiee, 1993). For enterprises seeking to enter a foreign market, a familiarity with the local economic development and social environment will help them to gain insight to the national
distribution channel. Rummel (1972) and Olsen and Granzin (1990) found that a wide range of attributes of a nation would influence its marketing channel structure. Among the attributes, one of the most important factors was level of economic development. It is noteworthy that the definition of economic development was broadened from the traditionally narrowly defined economic variables to a more comprehensive construct including a variable of culture (Olsen & Granzin, 1990; Rummel, 1972). Culture can be partially measured by social factors and values (Olsen & Granzin, 1990). Therefore, an analysis of the distinctive national character and values in China and the difference between Chinese culture and western cultures may be helpful in explaining the Chinese distribution channel. Also a discussion of the differences between the two cultures may further provide insights for explaining distinctive relations existing between the Chinese apparel retailers and their suppliers.

**Differences between U.S. and Chinese Cultures**

When Chinese and U.S. cultures are compared, many differences exist that could hinder working relationships. Traditionally, the Chinese are very self-restrained, dependent, introverted, implicit, and patient (Xing, 1995). In contrast, because the U.S. has reached a much higher level of technology and economy than China, people from the U.S. are generally thought to be more rational, scientific, independent, aggressive, and analytical than Chinese (Xing, 1995). Xing (1995) suggested that the U.S. way of thinking could be likened to "masculinity" and the Chinese mind to "femininity" in many respects. The different ways of thinking could lead to diverse evaluations of knowledge, expertise, reward systems, punishment, and individual rights; factors useful for
understanding the six power sources that will be discussed in an upcoming section of this chapter.

Another example of the difference between these two cultures is the distinct attitudes toward collectivism and individualism. Pan, Kim, and Vanhonacker (1995) stated that Chinese culture is often described as a collective-oriented society, in contrast to an individual-oriented U.S. culture where individual freedom and responsibility are admired. With their collective views, Chinese are more likely to follow group norms and less likely to attempt tasks requiring individual initiative (Xing, 1995). Chinese tend to be less aggressive in pursuing individualistic thoughts and opinions, and find less enjoyment in individual thinking and contributions, as compared to people in the U.S. These cultural differences may result in different power relationships in the Chinese distribution channel compared to those in the U.S.

**National Character, Organizational Culture, and Individual Personality**

In the case of international business, Kale and Barnes (1991) proposed that cross-national business interactions were largely influenced by three distinct, yet highly interrelated constructs: national character, organizational culture, and individual personality. Those three constructs were closely connected with the perceptions of power sources held by businessmen who have different national backgrounds. In the same study, Kale and Barnes (1991) discovered significant influences of these three constructs on cross-national personal selling interactions. In an extension of these three constructs to a study of U.S.-Japanese retail distribution channel, Johnson, Sakano and Onzo (1990) found that the Japanese marketers had very different understandings of distribution channel power.
and attitudes toward channel conflict and inter-organizational dependence than U.S. marketing practitioners due to the different cultures.

National character is defined as the collective mental programming of people in a particular society's environment (Hofstede, 1980). It is not a characteristic of individuals, but of a large number of persons conditioned by similar background, education, and life experiences. As such, national character describes the pattern of enduring personality characteristics found among the populations of nations (Clark, 1990). According to Hofstede (1980), national character includes four dimensions: uncertainty avoidance, individualism, power distance, and masculinity. Uncertainty avoidance addresses the way in which a nation's people react to the uncertainties in daily activities. Individualism is how close an individual is to his/her fellow individuals: collectivistic or individualistic. Power distance describes how a society reacts to inequality, including inequality in power and wealth. Masculinity measures the attitude of a society toward super-achievers, and "acquisition of money and material possessions," a positive attitude is described as masculinity, whereas a negative attitude is called feminine (Hofstede, 1980; Kale & Barnes, 1992, p. 106).

Organizational culture encompasses the pattern of shared values and beliefs which enable people within the organization to understand its functioning, and furnishes them with behavioral norms (Kale & Barnes, 1991). Personality is defined as an individual consistency in behaviors and reactions to events (Kale & Barnes, 1991).

Although Kale and Barnes (1991) suggest there are three dimensions that affect cross-national buyer-seller interactions, the most basic dimension is national character. First, when individual personality is concerned, there is a close relationship between
national character and individual personalities; individual predisposition and traits are shaped by national character. Second, as to organizational culture, even though each organization could have its own organizational culture, the organizational culture cannot be isolated from national character. In other words, national character is the context in which organizational culture exists and organization culture cannot betray national character. Therefore, national character is the most important construct to influence the cross-national buyer-seller interaction; in turn, it is a key factor to affect how buyers and sellers view the channel power between them.

All the cultural characteristics discussed above, plus the influences of the government system of regulation, result in a very different channel structure for LDCs as compared with those in industrialized countries. Channel member relationships and assignment of power may be totally different in China when compared with those countries in a relatively free and market-controlled economy, such as the United States. This is another reason why U.S. apparel manufacturers need to understand the distribution channel in China in order to smoothly retail their products in the Chinese market.

Since a distribution channel is largely influenced by its social and cultural context (Olsen & Granzin, 1990), it is logical to think that channel power structure, as a major reflection of the channel characteristic, is highly related to its social and cultural environment.

In order to have a basic understanding of channel power, in the following sections a general definition of the concept of power is provided first. It is followed by a discussion of the foundation of channel power. Next, a classification of channel power
sources is introduced since the focus of this study is power sources and their influences on China's apparel distribution channel. Then the relationships between power sources, attributed power, channel members' attitudes toward their partners, channel conflict, channel members' satisfaction with their business partners, and channel members' business performance are discussed. Finally, the limitations of previous studies are addressed.

Distribution Channel Power

Power is a concept central to the understanding of inter-organizational relationships in a marketing channel (Stern, 1988). The concept of power emerged first from the political science literature. It was studied further by sociologists who suggested that dependence could be used as an index of power (Emerson, 1962). Dependence in a dyadic relationship is defined as one party's reliance on the other in order to achieve desired goals (Emerson, 1962; Frazier, 1983). In the marketing channel literature, power has generally been defined as one channel member's ability to control the decision variables in the marketing strategy of another member at a different level in the channel of distribution (El-Ansary & Stern, 1972; Gaski, 1984; Hunt & Nevin, 1974). The more successful one channel member is in getting its partner to go along with its wishes, the more power the member has over its partner. A channel member's unsuccessful attempts at influencing its partner will, over time, erode its power over the partner. So, a firm with greater power is one that is more likely to use high pressure or coercive means of influence in its interactions with its partners in its distribution channel.
Power exists among dyads of firms involved in business relationships. Changes to businesses on either side in the dyad may lead to a change of power (El-Ansary & Stern, 1972). There are many levels of channel participants involved in the foreign brand apparel distribution channels in China. For imported apparel distribution, the participants include the governmental organizations that have the authority to assign import quotas, the foreign trade operators that have the rights to import apparel directly from foreign countries, and the apparel retailers that are at the final stage of the distribution channel to consumers. For the foreign brand products manufactured in China, the participants include Chinese-Foreign joint venture or wholly foreign-owned enterprises (WFOEs), trade operators, and retailers.

The foundation of channel power is the interdependence of channel members upon each other for desirable resources (French & Raven, 1959). Desirable resources include scarce raw materials, heavily demanded products, or information (Dahl, 1957; Stern & El-Ansary, 1982; Stern & Reve, 1980). Desirable resources also include performing specialized marketing functions such as the ability to provide assistance and reward, legitimate right (such as an auto manufacturer's right to influence its dealers' business operations under a legitimate contract between the manufacturer and the dealers), and the possibility to impose punishment (El-Ansary & Stern, 1972; Hunt & Neiven, 1972; Stern & Reve, 1980). A firm can achieve power over others in a channel by possessing desirable resources (Dahl, 1957; Gaski, 1984). In the case of apparel distribution in China's market, the scarce resources giving power to one organization over another could be access to easy-to-sell foreign brand apparel, authority to ration imported product quotas, or control of retailers' business operations.
So far studies of channel power have mainly focused on several relationships: power sources and attributed power, power/power sources and channel conflict, power/power sources and channel members' satisfaction, and power/power sources and performance (Hunt, Mentzer, & Danes, 1987). In the following sections, previous studies on the relationships are reviewed.

Power Sources

It has been generally accepted that in order to understand power, the sources of power need to be examined. Lusch and Brown (1982) suggested that “By considering what motivates a channel member to yield power to another as a result of the latter’s power sources, we might gain a deeper understanding of the influence process.” (p. 313)

Power was first determined from the magnitude of its sources (Simon, 1953). Following this notion, El-Ansary and Stern (1972) indicated that power held by any channel member is a function of the power sources (or bases) available to him. The statement has been further supported by a number of channel power researchers (e.g., Etgar, 1976; Hunt & Nevin, 1974; Lusch & Brown, 1982). One advantage of examining power sources is that it helps researchers uncover where the power rests and what factors create the power.

Classification of Power Sources

Power sources have been classified into groups in different ways. From the perspective of social-psychology, French and Raven (1959) suggested there are five sources of power: reward, coercion, referent, legitimate, and expert. These power sources are respectively based on a channel member's ability to mediate rewards, capability of exerting punishment, desirability as a referent for desired outcomes, legitimate right to
influence other members, and perceived expertise. Stern and El-Ansary (1982) provided further definitions for all the power sources. Reward power refers to one channel member's perception of its partner's ability to grant rewards. Typical rewards that suppliers are able to give retailers include inventory rebates, promotional allowances, and incentive programs (Lusch & Brown, 1982). Coercive power is based on one channel member's perception of its partner's ability to impose punishments. Typical punishments include slow payment, withdrawal of rewards previously granted, delaying shipments, and terminating business relationships (Brown, Lusch, & Nicholson, 1995, Lusch & Brown, 1982). Legitimate power is based on one channel member's perception of its partner's legitimate right to influence its operation and the extent to which the member is obliged to accept this influence. An example of legitimate power is the power held by a franchise through franchise agreement between the franchiser and the franchisee (Kasulis & Spekman, 1980; Kasulis, Spekman, & Bagozzi, 1978). Furthermore, legitimate power source has been separated into two components: legal legitimate source and traditional legitimate source (Kasulis & Spekman, 1980). The two components of legitimate power can be perceived differently by power receivers. A power receiver may perceive legal legitimate power originating from contractual agreements, whereas the receiver may accept traditional legitimate power by perceiving the obligation to consent to the power holder's requests (Kasulis & Spekman, 1980). Referent power is based on one channel member's identification with its partner or on this channel member's desire to be closely associated with its partner. For example, the more a retailer admires his/her supplier's business operations, the greater referent power the supplier has over the retailer (Brown et al., 1995b). Expert power refers to a channel member's perception of its partner's
knowledge and expertise on certain functions or areas, which could be sales training programs, store layout advice, and sales promotion aids (El-Ansary & Stern, 1972; Lusch & Brown, 1982).

Since French and Raven (1959) described these five bases of power, another power source has been recognized by researchers and added into the source category, information source (Raven & Kruglanski, 1970). Therefore, French and Raven’s (1959) typology has been extended to six groups. Information power is based on one channel member’s ability to provide information that was not available previously, or to interpret existing information in ways that are meaningful but not yet known by its partner (Stern & El-Ansary, 1982).

These six power sources are not independent from each other. Wrong (1979) suggested that power sources might exert their influences in combination and thus some power sources “are likely to reduce the effectiveness of other sources.” In addition, one form of power source can evolve into another form of power as the context changes (Wrong, 1979). Brown, Lusch, and Muehling (1983) and Frazier and Summers (1984) discovered correlations between the power sources; therefore, they acknowledged that the power sources might not occur in real settings in the way they had been categorized. Gaski (1986) empirically supported the notion that the relationships between various power sources exist by identifying the effects of reward and coercive power sources on the other power sources such as referent, legitimate, and expert. That is, the impact of reward or coercive power sources on channel power is mediated by the effects of referent, legitimate, and expert power sources on channel power. Similarly, Rawwas, Vitell, and Barnes (1997) found that the perceived use of reward power had a positive effect on the
influence of referent power, expert power, and legitimate power; whereas, use of coercive power had a negative effect on the influence of reference power and expert power. Consequently, isolating one power source from the others has been a crucial issue.

**Dichotomies of Power Sources**

Because it is difficult to empirically differentiate various power sources (Beier & Stern, 1969; Hunt & Nevin, 1974), many studies have tried to simplify the six power sources into a dichotomy. Hunt and Nevin (1974) divided power into coercive (potential punishments) and noncoercive sources (assistance), and the dichotomy has been accepted by a number of researchers (e.g., Frazier & Summers, 1986; Lusch & Brown, 1982). Particularly, coercive power sources include punishment, while noncoercive power sources comprise reward, legitimate, expert, and referent. According to Hunt and Nevin (1972), coercive power differs from the other power sources in that it involves potential punishment. But for the noncoercive sources of power, the receiver “willingly (rather than begrudgingly) yields power to another.” (Hunt & Nevin, 1972, p. 187) Although the coercive-noncoercive dichotomy has been widely accepted, significant problems have been experienced in applying the dichotomy because many researchers have been unable to find a significant relationship between noncoercive power sources and attributed power (power attributed to power holder by receiver) (Hunt, Mentzer, & Danes, 1987; Lusch & Brown, 1982). In particular, Hunt et al. (1987) found that, unlike the other noncoercive power sources, reward did not have a significant relationship with the probability that a receiver would comply with a power holder. Therefore, many channel power scholars admitted, as stated by Lusch (1976a), that,
...the dichotomization of sources of power into coercive and noncoercive may result in an oversimplification of the independent variables. Although reward, expert, legitimate and referent sources may have something in common, they also may have unique aspects which should be measured (p.388).

Tedeschi, Schlenker, and Lindskold (1971) recommend that power sources could be dichotomized into mediate and nonmediate. Reward, coercion, and legal legitimate power (power based on contractual agreements) are mediated in that the reinforcements guiding the receiver firm's decision-making and behavior are external to the receiver firm and are provided upon the condition that the receiver firm does what the source firm wishes. On the other hand, because expert, referent, information, and traditional legitimate power (i.e., power based on social norms, and ethical values and beliefs) do not mediate the reinforcements guiding the receiver firm's behavior, they are nonmediated. For instance, a channel member may use delivery terms, credit approval, exclusive distribution, and other reinforcements to force other channel members to accept his influence. Under this situation, the former channel member has mediate power over the other members. In contrast, if that channel member does not control other members' activities instead only providing expertise, information, or reference, the channel member holds nonmediate power.

Etgar (1978) suggested dichotomizing sources of power into economic and noneconomic terms. The economic power sources deal with economic resources of a channel and are composed of reward, coercion, and legitimate. The noneconomic power sources, including expert, referent, and information, aim to develop a channel
environment that allows for effective coordination of channel activities (Etgar, 1978). Lusch and Brown (1982) believed that economic and noneconomic power sources are mutually exclusive because direct incentives are involved in the former and indirect incentives are included in the latter. In other words, channel members use economic power sources as a direct economic incentive to try to influence the receivers, while noneconomic power sources can only help power holders to indirectly control the relationship with the receivers.

A fourth way of dichotomizing power sources was suggested by John (1984) who classified power sources into contingent and noncontingent categories. Contingent categories include reward and coercive sources, while noncontingent categories comprise expert, referent, and legitimate power sources. Reward and coercive sources are contingent in that they are used by power holders to be contingent on external influences, such as rewards and punishments controlled by the holders, to control the power receivers. Expert, referent, and legitimate sources are noncontingent because whether or not power holders can successfully use them depends on the power receivers’ internal mental processes rather than on external influences (John, 1984). So far, compared to the other dichotomizing methods, this dichotomy has been less utilized by channel power researchers.

Other ways of dichotomizing power sources include direct and indirect power sources (Kasulis, Spekman & Bagozzi, 1979), and implicit and explicit power sources (Brown & Frazier, 1978). Because these dichotomizing methods have seldom been employed in channel power studies, they are not reviewed in detail.
There is usually opposition when channel researchers try to simplify power sources by dichotomizing them. For example, Lusch (1976a) commented that much useful information was lost by combining reward, referent, information, expert, and legitimate sources into a single noncoercive power source even though it was easier to study two sources of power rather than six. Therefore, in order to avoid losing important information, this study examines power sources using the six sources rather than combining them into only two groups. Specifically, the six sources of power studied are reward, coercion, legitimate, referent, expert, and information.

**Power Sources-Attributed Power Relationship**

One example of ambiguous and mixed findings in channel power research is that no clear relationship has been found between power sources and attributions of power (Brown et al., 1995a). Simon (1953) first suggested that power was determined from the magnitude of the power sources. Applying this notion to distribution channel study, channel power has been defined as a function of power sources (Beier & Stern, 1969; El-Ansary & Stern, 1972; Etgar, 1976; French & Raven, 1959). Attributed power is the power wielded by a power holder and attributed by the power receiver to the holder (El-Ansary & Stern, 1972). However, at that time the researchers did not specify the effects of various power sources on attributed power.

In a franchiser-franchisee channel power study, Hunt and Nevin (1974) examined the impact of power sources on attributed power using power sources dichotomized into coercive and noncoercive. They found that both coercive and noncoercive power sources held by the franchisers were positively related to power attributed by the franchisees. But in other studies using the coercive-noncoercive power dichotomy, the findings of the
relationship between power sources and channel power have been inconsistent. Although coercive power sources have been found to be positively related to attributed channel power by many researchers (e.g., Etgar, 1978; Hunt & Nevin, 1974; Lusch & Brown, 1982; Wilkinson, 1981), the opposite finding exists too. For example, Gaski and Nevin (1985) reported a negative relationship between coercive power sources and attributed channel power, and Gaski (1986) and Howell (1987) discovered that no significant relationship existed between coercive power sources and attributed power.

For the relationship between noncoercive power sources and attributed power, findings are also ambiguous. Although many studies (e.g., Etgar, 1976; Gaski & Nevin, 1985; Hunt & Vevin, 1974) identified a positive relationship between the two factors, a negative relationship (Lusch & Brown, 1982), as well as a non-significant relationship (Howell, 1987; Wilkinson, 1978) have also been reported.

Findings under the mediated-nonmediated dichotomy are inconsistent too. Wilkinson (1978), Kale (1986), and Keith, Jackson, and Crosby (1990) uncovered positive relationships between mediated power sources and attributed power. Yet Brown and Frazier (1978), Frazier and Summers (1986), and Frazier and Rody (1991) found that mediated power sources had a negative relationship with attributed power. For nonmediated power sources, their relationship with attributed power ranges from positive (Frazier & Rody, 1991; Hunt et al., 1987), to non-significant (Brown & Frazier, 1978), and even negative (Keith et al., 1990).

The ambiguous findings are not surprising considering the different ways of dichotomizing power sources and defining attributed power (ways of defining attributed power will be further discussed in the power measurement section of Chapter 3). In order
to describe the relationships between various power sources and attributed power precisely in this study, each of the six power sources as well as the ways of dichotomizing power sources will be examined.

**Relationship between Power Sources/Power and Attitude**

Raven and Kruglanski (1970) posited that uses of power originating from coercive and reward power sources signaled strong external attributions of causality, and consequently reduced the power receiver's intrinsic motivation for a business relationship with its partner. Therefore, coercive and reward power sources/power, would lead to a power receiver’s unwillingness to cooperate with the power holder, and the former’s attitude toward the latter would be negative.

Empirically, John (1984) found that perceptions of power based on coercive power sources resulted in a less favorable attitude from the power receiver toward the power holder, and power generated by reward power sources had the same effect on a dyadic relationship but to a lesser degree. Frazier and Summers (1986) discovered that dealers had negative attitudes toward their manufacturers when they perceived coercive power. In contrast, manufacturers having power through the use of noncoercive power sources, such as requests and information changes, were positively perceived.

**Relationship between Power Source/Power and Channel Conflict**

Power sources and the use of power generated by power sources are also associated with channel conflict (Frazier & Summers, 1986; Gaski, 1984; Gaski & Nevin, 1985; Hunt, Ray, & Wood, 1985; Lusch, 1976a; Raven & Kruganski, 1970; Wilkinson, 1981). Channel conflict is a state of tension between two channel members, and the tension comes from the incompatibility of desired and actual responses (Raven &
Kruganski, 1970). Empirically, Lusch (1976a) and Wilkinson (1981) both discovered positive relationships between coercive power sources and channel conflict, and an inverse association between noncoercive power sources and channel conflict. Gaski and Nevin (1985) found that mediated power/power sources increased the possibility of channel conflict. Frazier and Summers (1986) found that suppliers' uses of coercion resulted in retaliation from dealers. That is, the possibility that dealers would use coercive strategies as a way of retaliation correlated positively with suppliers' reliance on coercive strategies. In contrast, dealers were less likely to use coercive retaliatory strategies when suppliers increased their uses of noncoercive strategies such as requests and information exchange. These findings are consistent with those of Wilkinson (1981), that coercive power sources/power were positively related to channel conflict while noncoercive power sources/power were negatively related to channel conflict.

Mediated and nonmediated power sources/power may also cause channel conflict by jeopardizing relational norms, accommodation, and cooperation between business partners (Boyle, Dwyer, Robicheaux, & Simpson, 1992; Frazier & Summers, 1986; Skinner, Gassenheimer, & Kelly, 1992). For instance, two separate studies conducted by Brown and Frazier (1978), and Frazier and Rody (1991) both reported a positive relationship between mediated power sources/power and channel conflict, and the latter also identified a negative relationship between nonmediated power sources/power and channel conflict.

**Relationship between Power Sources/Power and Channel Satisfaction**

Power sources/power may influence channel member satisfaction (Gaski, 1986; Gaski & Nevin, 1985; Frazier & Summers, 1986; Howell, 1987; Hunt & Nevin, 1974;
Channel member satisfaction is defined as the degree to which the member is satisfied with the channel arrangement and the exchange relationship (Frazier & Summers, 1986; Gaski, 1986; Hunt & Nevin, 1972). It was also defined as a reflection of a channel member's overall approval of the channel relationship and arrangement (Frazier, Gill, & Kale, 1989; Gaski & Nevin, 1985). The rationale behind the relationship is that help enhances the satisfaction of the weak channel member whereas threats generate anxiety, resistance, and eventually abandonment of the channel relationship (Baldwin, 1971; French & Raven, 1959; Kasulis & Spekman, 1980).

Empirically, researchers found that coercive sources of power negatively influence channel member satisfaction (Frazier & Summers, 1986; Gaski & Nevin, 1985; Hunt & Nevin, 1972), while noncoercive sources of power have a positive impact on satisfaction (Gaski, & Nevin, 1985; Hunt & Nevin, 1974; Wilkinson, 1981). Under the mediate-nonmediate power dichotomy, an inverse relationship between mediated sources of power and channel satisfaction (Frazier & Summers, 1986; Keith et al., 1990), and a positive relationship between nonmediated sources of power and satisfaction have both been reported (Gaski, 1986; Howell, 1987). A noteworthy study of the relationship was conducted by Gaski (1986) who identified that reward has an indirect positive effect on channel member satisfaction, mediated by “qualitative power sources” (expert, referent, and legitimate), but did not have a direct relationship with satisfaction. The qualitative power sources were found to have a strong positive impact on satisfaction, while punishment was found to negatively relate to satisfaction (Gaski, 1986).

But on the other hand, across studies of power sources-power and channel member satisfaction, the findings are not consistent. For example, Wilkinson (1981)
reported that there was no significant relationship existing between coercive sources of power and channel satisfaction. Brown and Frazier (1978) found that nonmediated power sources were not correlated to satisfaction. In addition, Keith et al. (1990) reported a negative relationship between nonmediated power sources and satisfaction, which was in conflict with Gaski's (1986) and Howell's (1987) findings.

To summarize, although many studies have found negative relationships between coercive or mediated power sources and attributed channel power, and positive relationships between noncoercive or nonmediated power sources and attributed channel power, inconsistent findings have been reported. Therefore, concerning the inconsistency existing with relationship between power sources/power and satisfaction, and the possible impact of a different culture on the relationship, the connection between power sources/power and the Chinese apparel retailers' satisfaction will be examined.

Relationships between Power Sources/Attributed Power and Retailer's Performance

Performance was defined as the extent to which a channel member’s relationship with its channel partner contributes to fulfillment of the member’s business objectives (Gaski & Nevin, 1985). It has been believed that assistance type of power sources (noncoercive) would reduce channel conflict, enhance business partner’s satisfaction, and ultimately increase partner’s business performance; in contrast, it has been believed that coercive power sources characterized as punishment would result in channel conflict, reduce business partner’s satisfaction, and finally negatively affect partner’s business performance (e.g., Gaski & Nevin, 1985; Lusch, 1976b, 1977). Few empirical studies on the relationship between performance and power source/attributed power have been reported. One exception is a study conducted by Gaski and Nevin (1985). After studying
the channel relationship between an equipment supplier and its dealers, Gaski and Nevin (1985) reported insignificant relationships between coercive and reward power sources held by dealers, and the supplier's business performance. The researchers contributed the insignificance to a number of intervening variables that could suppress the relationship between power sources and performance.

Other Relationships between the Constructs

Channel members' attitudes toward power holders, channel conflict, channel member satisfaction, and channel member performance are also related to each other. For example, Frazier and Summers (1986) argued that a negative attitude of a channel member toward his/her powerful business partner is likely to result in conflict and then dissolution of the business relationship. Wilkinson (1981), and Frazier, Gill, and Kale (1989) found that existence of channel conflict was likely to result in a dissatisfactory channel relationship. That is, channel conflict between suppliers and dealers was positively related to dealers' dissatisfaction with suppliers. Frazier et al. even argued that channel satisfaction only had a direct relationship with channel conflict, and all the other constructs such as power sources/power and attitude only influenced channel satisfaction indirectly through channel conflict (1989). Specifically, channel conflict has been found to be negatively related to dealer satisfaction (Frazier, et al., 1989). But contradictory findings that satisfaction was directly linked to other constructs than channel conflict have been reported (e.g., Gaski, 1986).

Finally, relationships between channel conflict, satisfaction, and performance are posited in literature (Gaski & Nevin, 1985; Lusch, 1976b, 1977). It is believed that channel conflict, a state of tension between channel members, results in an unsatisfactory
business performance, while higher degrees of satisfaction are associated with better business performance.

**Limitations of the Previous Studies**

There are several major limitations with the studies in this field. The first limitation of previous studies on channel power is that most of them have focused on channel power within western cultures and developed countries, with a few exceptions such as in India (Frazier, Gill & Kale, 1989; Kale, 1986). Therefore, a question arises as to the applicability of such findings to other countries, especially developing countries (Cunningham & Green, 1984). Currently, international trade is taking precedence over domestic trade for many countries, so more emphasis needs to be given to channel relations within the global market. However, research on distribution channels has focused almost exclusively on relationships within the U.S. (e.g., Rawwas et al., 1997) and Europe (e.g., Johanson, Hallen, & Seyed-Mohamed, 1991). Export channels are often mistaken for being simply domestic channels expanded to a foreign destination (Raven, Tansuhaj, & McCullough, 1993). Yet, this simple extension is not appropriate for global distribution because differences in social/cultural factors, channel length, proliferation of middlemen, and business philosophy provide dissimilar situations for channel members, especially in developing countries (Frazier et al., 1989). For example, in a series of studies focusing on the U.S. manufacturer-Japanese importer channel relationship, Johnson and his colleagues (Johnson, Sakano, Cote, & Onzo, 1993; Johnson, Sakano, & Onzo, 1990) identified a significant difference between the U.S. manufacturers and Japanese importers in their attitudes toward and perceptions of several channel power issues. That is, the Japanese importers’ attitudes toward control and
power, dependence and power, and power and conflict, their perceptions of mediated and nonmediated power sources, and their reactions to the exercise of power sources were all different from those of U.S. manufacturers. Moreover, the differences were attributed to cultural distinctiveness. Therefore, it is necessary to conduct studies on channel power not only in the U.S., but also in other countries. Studies should not be limited to developed countries since developing countries, such as China, need to be considered in order to extend and complete the understanding of distribution channel power. Current globalization within the market makes it time to shift emphasis from research on traditional domestic channel management to the management of channel relationships across cultures. By investigating power relationships in apparel distribution and retailing in China, this study begins to fill this gap in the knowledge base.

The second major limitation is that most of the previous studies on channel member relationships have focused on product types other than apparel (ZuHone & Morganosky, 1995). For instance, a number of channel power studies have examined distribution channels for automobiles (e.g., Frazier, 1983; Frazier & Summers, 1986; Lusch & Brown, 1982), farm equipment (e.g., Brown et al., 1995b), fast food (e.g., Hunt & Nevin, 1974), fluid power equipment (e.g., Cronin, Baker, & Hawes 1994), general consumer goods (e.g., Johnson et al., 1990, 1993; Speh & Bonfield, 1978), heating and cooling equipment (e.g., El-Ansary & Stern, 1972; Hunter et al., 1987), heating industrial machinery (e.g., Gaski, 1986), oil (e.g., John, 1984), insurance (e.g., Etgar, 1976), paint, wall coverings and other hardware, and home appliances (e.g., Brown et al., 1995a; Johnson et al., 1985). Since apparel is a major consumer product and category for all types of retailing stores, a study of apparel retailing channel relationships using an
appropriate theoretical framework is of great importance (Ghadar, Davidson, & Feigenoff, 1987; ZuHone & Morganosky, 1995). Although there are a few exceptions, most apparel distribution studies have been based on Williamson's transaction cost theory (e.g., Jolly & Branson, 1991; Rucker, 1991). Transaction cost theory tries to explain the reason why various business structures emerge to coordinate inter-firm exchange. Although it is a useful theoretical framework for studying channel systems, a few shortcomings exist. Under transaction cost theory, channel system issues such as structural variation have been examined as a consequence of human tendency (John, 1984). In other words, transaction cost theory “...simply assumed that unrestrained self-interest maximization (with guile) best characterizes humans....” (John, 1984, p.278) In contrast, in order to examine some channel member behaviors such as opportunistic behavior, certain antecedent factors need to be included (John, 1984) because they are helpful in explaining why certain behaviors are feasible. Consequently, in order to explain the feasible behaviors under specific dyadic situations, the role performed by each participant within the dyadic relationship needs to be recognized. Therefore, channel power theory is an appropriate research framework in that it can help us identify the role of each member in a power relationship.

Another limitation is that most channel distribution studies have been limited to simple and narrow manufacturer-seller dyads. Therefore, the structure of the channel and the role of each channel member remain unclear. Limiting the focus to manufacturer-retailer dyads overlooks the influence of other possible entities, such as various governmental organizations. In addition, the studies have been limited to free markets (U.S. market), leaving channel members that are active in central-economic countries,
such as government organizations, untouched. Thus, whether the knowledge obtained from studies within a free-market arena can be applied to developing, particularly central-economic, countries such as China is questionable.

Theoretical Frameworks for This Study

Two theoretical frameworks that may provide this study with insights on power relationships within China’s apparel distribution channel are introduced in this section. One is Achrol's channel environment framework and the other is one I formulated based on the previous review of related literature.

Achrol's Channel Environment Framework

Theoretically, environmental and situational forces are critical to channel power. Achrol (1983) provided a framework for describing channel environment by these forces. In this framework, an environment is composed of three parts: a) a primary task environment consisting of suppliers, customers, and competitors; b) a secondary task environment, including suppliers of suppliers and customers of customers, and actual and potential competitors; and c) a macro environment, representing social, cultural, economic, political and technological forces. This framework has been widely accepted by a number of scholars (e.g., Anderson, Hakansson, & Johanson, 1994; Rosenbloom & Warshaw, 1989). It is commonly agreed that although business relationships can be analyzed in general, a better understanding of relationships could be obtained if "they are looked at in context and not in isolation." (Holm, Eriksson & Johanson, 1996, p.1036)

Rosenbloom and Warshaw (1989) followed Achrol's framework to examine environmental impact on perceptions of channel power. However the environmental
variables examined in their study did not account for a great deal of the variance in the basic channel phenomena of power sources, power, conflict, satisfaction, and performance. The main reason for their failure in supporting Achrol’s framework for describing channel environment may have resulted from the environmental variables investigated in their study. The variables investigated in the study included a) the total number of suppliers each dealer currently worked with, b) the number of years each dealer had been affiliated with the supplier, c) the amount of each dealer’s purchases from the supplier in the previous year, d) each dealer’s total sales volume during the previous year, and e) each dealer’s total profit earned during the previous year. It is clear that the environment they studied was limited to the primary task environment rather than the three environments suggested by Achrol (1983). Thus, the other two environments’ impact on channel power, secondary task environment and macro environment, is still in question. In the present study, the macro environment is of special interest because it allows researchers to examine the distribution channel in a broader context, rather than only limiting the study to supplier-retailer dyads. Not only the apparel retailers’ major suppliers, but also all other entities that are involved in the distribution channel are investigated using a qualitative approach (will be discussed in Chapter 3). These entities include government organizations and trade operators.

**Theoretical Framework of Structural Relationships**

Based on the review of the channel power studies, a theoretical framework was developed for the purpose of this study. The framework defines structural relationships between channel power sources held by foreign apparel suppliers, suppliers’ power attributed by retailers, retailers’ attitudes toward channel power, channel conflict between
suppliers and retailers, and retailers’ satisfaction with their suppliers. The theoretical framework serves as a guide for the quantitative part as will be discussed in Chapter 3 of this study. The framework is shown in Figure 2.3. First, power sources possessed by suppliers generate channel power, and the power is then perceived by retailers and attributed to the suppliers. Second, power sources/attributed power further influences the retailers’ attitudes toward the suppliers, channel conflict, the retailers’ satisfaction, and the retailers’ performance. Third, the retailers’ attitudes are related to channel conflict, the retailers’ satisfaction, and the retailers’ performance. Fourth, channel conflict influences the retailers’ satisfaction and performance. Finally, the retailers’ satisfaction influences their business performance.

Hypotheses

Consistent with the theoretical framework, the following hypotheses were developed. All the hypotheses are indicated by the arrows in Figure 2.3.

H1a: The six sources of power held by the foreign brand apparel suppliers are positively related to the power attributed by retailers (indicated by the arrow from power sources to attributed power in Figure 2.3).

H1b: Expert, information, legitimate, reward, and referent power held by apparel suppliers are positively related to retailers’ attitudes toward their suppliers, retailers’ satisfaction with their suppliers, and performance, but negatively related to channel conflict (indicated by the arrows from power sources to retailers’ attitudes, channel conflict, retailers’ satisfaction, and retailers’ performance in Figure 2.3).
H1c: Coercive power possessed by apparel suppliers is negatively related to retailers’ attitudes, satisfaction, and performance, but positively related to channel conflict (indicated by the arrows from power sources to retailers’ attitudes, channel conflict, retailers’ satisfaction, and retailers’ performance in Figure 2.3).

H2: Attributed power is negatively related to apparel retailers’ attitudes toward the suppliers, retailers’ satisfaction with suppliers, and retailers’ performance, but positively related to channel conflict (indicated by the arrows from attributed power to retailers’ attitudes, channel conflict, retailers’ satisfaction, and retailers’ performance in Figure 2.3).
H3: Apparel retailers’ attitudes toward their suppliers are negatively related to channel conflict, but positively related to satisfaction, and performance (indicated by the arrows from retailers’ attitudes to channel conflict, retailers’ satisfaction, and retailers’ performance in Figure 2.3).

H4: Channel conflict is negatively related to retailers’ satisfaction and performance (indicated by the arrows from channel conflict to retailers’ satisfaction and retailers’ performance in Figure 2.3).

H5: Retailers’ satisfaction is positively related to their performance (indicated by the arrow from retailers’ satisfaction to retailers’ performance in Figure 2.3).
CHAPTER 3

RESEARCH METHOD

Conducting Research in China

Before research methods are discussed in detail, several issues concerning conducting research in China are addressed. The importance of the issues lies in the fact that several researchers who have conducted research in China have encountered various problems (e.g., Adler, Campbell. & Laurent, 1988; Redding, 1980; Shenkar, 1994). The problems related to sampling, designing research instruments, and interpreting findings. Some researchers have concluded that basic concepts and models guiding studies needed to be modified and adjusted because these concepts and models had been developed and justified in a western context. Therefore, they might not apply to eastern countries due to cultural, political, or communicative reasons (e.g., Adler et al., 1988; Bond, 1986; Maruyama, 1984; Redding, 1980).

Although these findings and explanations of difficulties that might be encountered when conducting research in eastern countries, especially in China, are valuable, most of them were observed and interpreted by western scholars. Therefore, some perceptions and descriptions might be inappropriate or inaccurate. In the following sections, the researcher’s personal communications with some research institutes and with individuals
who conduct research in China, and the literature addressing several issues related to research in China are discussed. The topics addressed include the importance of having a local partner when conducting research in China, problems in obtaining first-hand information, practical methods of sampling, and issues associated with research instruments.

**Having A Partner**

China has been sheltered from the outside world for centuries (The Complete Business Guide..., 1998). Although China has been open to foreigners since the early 1980s, Chinese people seldom have interaction with foreigners. When there are connections, most of them are business oriented. It is uncommon for Chinese people to explore their thoughts and opinions with foreign people (The Complete Business Guide..., 1998). Therefore, it is not surprising that most Chinese people are unwilling to participate in interviews or to answer questionnaires that are organized and distributed by foreign researchers.

Traditionally most Chinese have worked for the government because almost all organizations, institutes, and enterprises were owned by the state. So people feel more comfortable and safe participating in activities organized by the government, including surveys (personal communication, the Beijing Statistics Bureau, September 1998). Currently there are hundreds of government-supported organizations and institutes engaged in statistical studies and investigations of various social and economic issues in order to provide useful information to the government. In contrast, very few projects are conducted by individual researchers or private organizations, let alone foreign researchers or institutes (personal communication, the Beijing Statistics Bureau, September 1998).
Moreover, many Chinese people are very sensitive to answering questions from foreigners (The Complete Business Guide..., 1998). Under many circumstances, answering foreign people’s questions could be considered as tantamount to revealing the nation’s secrets (personal communication, the Beijing Statistics Bureau, September 1998). Although control has been relaxed during recent years and people feel more comfortable talking with foreigners, the situation is still problematic for foreign researchers.

Therefore, it is desirable for foreign researchers to have a partner when doing research because in China the importance of guanxi (personal relationship) is overwhelming (Chan & Rossiter, 1999). Particularly, it is very helpful if they can have a partner such as a local government organization or a research institute. These organizations or institutes sometimes can provide letters of introduction for foreign researchers or even designate people to help conduct the research. Under these circumstances, people may be more likely to participate in the research and feel more comfortable expressing their opinions than if the research projects were organized and carried out only by foreigners.

Obtaining First-hand Information

Research on topics related to consumer or organizational behaviors is not common in China (Rosen & Chu, 1987). Most research conducted by governmental organizations, research institutes, and universities focuses on macro-economic or social issues (Rosen & Chu, 1987). Even though there are some studies concerning patterns of people’s consumption or living standards, normally they are conducted by the government. Individual researchers generally use secondary data provided by the
government in publications such as China's Statistic Yearbook, China's Economic Statistic Yearbook, and China's Commercial Yearbook. The Chinese government collects data through a well-established system that includes national-level, provincial-level, and municipal-level statistics bureaus. People feel they are obligated to provide information to these bureaus for free because they are governmental organizations (personal communication, the Beijing Statistics Bureau, September 1998).

When individual researchers or private research institutes conduct research, under many circumstances they will find that it is difficult to obtain information. Because they are not government-oriented, most people do not feel that they should provide information to private individual researchers. Sometimes people may feel that answering questions for non-government entities is extra work. Thus in order to get more people to participate, monetary incentives may help. This is a little different from doing research in western countries, where people are accustomed to providing information to researchers via completing questionnaires or participating in interviews.

In addition, since the open-door policy and economic reform were adopted in China, the Chinese government felt that funding a large number of research institutes and universities was becoming a huge burden (personal communication, Renmin University of China, Beijing, July 1998). A large number of institutes and universities have been forced to Xiahai (engage in business activities). Many prestigious scholars have expressed their concerns about this phenomenon (Universities Are Losing..., 1998). Because of this, it is not uncommon for research institutes and universities to be more involved in business than academic research. Therefore, monetary expenses should be considered when looking for a partner with whom to conduct research in China.
Sampling

It is more difficult to conduct random sampling for organizational behavior research in China than in the U.S. First, the management system of enterprises is very complicated. For instance, there are several types of retailers in the Chinese market in terms of ownership, which has been discussed in Chapter 2. Not all the types of retailers are administered by the same governmental organizations. Additionally, sometimes one retailer may belong to more than one category. For instance, the same retailer could be a state-owned and a joint-venture enterprise because the state may have a certain percent share and the foreign investor has the remaining share. Therefore, it is very difficult to even define the ownership of a retailer. Under such circumstances, it is difficult to randomly sample the types of retailers of interest.

Second, a complete directory of all enterprises may not be available. Different government organizations take charge of enterprises having different ownership. Therefore, a complete list of all enterprises is hard to obtain. In addition, enterprises are divided into different categories by industrial field, thus finding a directory with a complete list of enterprises will be difficult, or even impossible.

Third, privately conducted interviews and surveys are still new to enterprises (personal communication, the Beijing Statistics Bureau, September 1998). For most enterprises, no matter whether they are currently privately-owned or collectively-owned, all were owned by the state years ago. As such they tend to operate as if they are state-owned. Each state-owned enterprise needs to report statistical information on its business and operation to the government each month, quarter, or year through the governmental statistics bureaus. The meaning of surveys in the minds of business people is reporting
the figures to the state. Therefore, it is very likely that enterprises will refuse to respond to surveys organized by non-governmental entities. So the response rate to a randomly sampled survey could be extremely low. To increase the response rate, a convenience sample of the accessible enterprises obtained through personal relationships or through a local partner is used under many circumstances. Of course, this is at the cost of losing the advantages of a random sample.

Instrument

The most problematic aspect of conducting research in China may be associated with the instrument used for data collection (Adler et al., 1989). One of the principal problems is that a concept may be understood differently by western researchers and Chinese people (Adler et al., 1989; Bond, 1986; Xing, 1995). This may be because of the dramatically different social systems, distinct cultural and historical backgrounds, and dissimilar ways of expressing ideas (Pye, 1982). Sometimes, even an excellent translation cannot solve the problem (Xing, 1995). For instance, the word “retailer” in the U.S. means any entities or individuals that engage in retailing business. Strictly translated, the word “retailer” in Chinese is “Ling Shou Shang”, which only refers to the individuals that engage in retailing business (privately-owned retailers). This is not a problem of translation. Rather, it relates to the different social system. For Chinese people, the suffix Shang (the same as the English words such as retailer, which ends with -er) traditionally represents individual or private organizations, rather than the entities belonging to the state or collectively-owned business. So when doing research in China using interviews or survey methodology, it is necessary to give a careful explanation of important concepts to make them understandable and adaptable to the Chinese business
context. For instance, in this study the word retailer was translated into Chinese words referring not only to privately-owned stores but also state-owned, collectively-owned, and Chinese-Foreign joint venture stores.

Another problem associated with surveys is the questionnaire design (Shenkar, 1994). First, whether or not the traditional Likert-scale measurement may be adapted for Chinese people is questionable. The inclination to select the neutral option is one of the characteristics of Chinese people (Xing, 1995). Historically, Chinese people were taught not to go to extremes by Lao-zi, a prestigious and influential philosopher. Especially in the Cultural Revolution between 1966 and 1978, people seldom expressed their opinions clearly because they were afraid of being accused of being “ultra-Left” or “ultra-Right” (Michael, 1986; Phillips, 1996). Consistent with this Chinese philosophy, it has been found that many Chinese people are inclined to select the neutral item from a five or seven point Likert Scale (Shenkar, 1994).

Another concern is that many Chinese, especially the older generation, are not used to multiple-choice questions. The reason is that the multiple-choice style of questioning has only recently been introduced into China, via examinations such as TOEFL and GRE. These western-style examinations were introduced into China around 1978 and have become popular in recent years. Therefore only the younger generation is familiar with the multiple-choice format. The older generation is more accustomed to filling in blanks. Even if a multiple-choice format is used, it is uncommon for Chinese people to mark the answer to a multiple-choice question with a cross mark because a cross means wrong in Chinese. In most circumstances, Chinese do multiple choices
using a check mark to select their choices. Therefore, it is important to include a detailed explanation of how to mark answers in multiple-choice questionnaires.

Another example of the differences in questionnaire design is related to income items. In the U.S., in many questionnaires, people are asked to indicate their annual incomes. This may not work for Chinese because in China people are used to calculating, talking about, or reporting monthly income instead of annual income.

Research Method for the Present Study

Both a qualitative and a quantitative study were included in this research. The objectives of the qualitative study are a) to detail the structure of the distribution channel for foreign brand apparel in the Chinese market, b) to identify the government organizations that have control in the channel, and c) to reveal the problems existing in the channel. In-depth interviews and open-ended questions via survey are utilized in the qualitative study. The quantitative study is designed to examine the dyadic relationship between suppliers and retailers of foreign apparel in the Chinese market. Specifically, the relationships between suppliers’ power sources, suppliers’ power attributed by retailers, retailers’ attitudes toward their suppliers, channel conflict between suppliers and retailers, retailers’ satisfaction with their suppliers, and retailers’ performance on selling foreign brand apparel are tested based on the channel power theory. Close-ended questions are provided for the participants through a questionnaire to collect data.

Multiple methods of data collection are helpful in assessing convergent validity because “Similarity in direction of qualitative and quantitative findings increases confidence in both types of measures and supports the conclusion that both qualitative
and quantitative indices measure the same constructs.” (Casselman-Dickson & Damhorst, 1993, p. 9). Moreover, a combination of qualitative and quantitative approaches can provide us with a better understanding of the phenomena studied (Ozanne, 1989). The following section outlines the details of the data collection methods. First, the in-depth interview is discussed. Next, although the open-ended questions and the closed-ended questions belong to the qualitative and the quantitative studies respectively, they are discussed together because both of them are included in the questionnaire.

**Part 1: In-depth Interviews**

**Qualitative Research Strategy**

A qualitative approach was utilized in this study to examine the distribution channel for foreign brand apparel, from foreign manufacturers to Chinese apparel retailers carrying foreign brand products. Qualitative approaches (interpretivism paradigm) are different from quantitative approaches (positivism paradigm) on three major aspects (Denzin, 1978; Hudson & Ozanne, 1983; Lincoln & Guba, 1985). The first difference is on ontology. Positivism regards the nature of reality as objective, tangible, single, fragmentable, and divisible. In contrast, interpretivism views the nature of reality as socially constructed, multiple, holistic, indivisible, and contextually and continually evolving. The second difference focuses on epistemology. Positivism views reality as time and context free, while interpretivism views reality as time-bound and context-dependent. In the third methodological difference, positivism advocates the fixed structure of research, and wishes to control confounding variables and to solicit accurate answers to research questions. On the other hand, interpretivism seeks to describe the perceived realities in a natural and changing environment.
The distribution channel for foreign brand apparel in the Chinese market is a time and environment specific social phenomenon. The structure of the channel is difficult to quantify because it is an aggregation of all socially constructed, indivisible, and contextually and continually evolving relationships between the channel participants. The reality of the channel structure is informant-dependent and value-bound because the channel may be viewed differently depending on the informant's standpoint. Thus, a qualitative approach is appropriate for the examination of channel structure and the associated problems according to its ontology and epistemology.

**Unstructured or In-depth Interviews**

In the qualitative study, unstructured interviews were conducted with nine apparel retailers, one trade agent, and three governmental officials. Basically three interview approaches have been used by many qualitative researchers: structured, semi-structured, and unstructured interviews (Fontana & Frey, 1994). Structured refers to interviews in which interviewers ask respondents pre-established questions and force them to respond according to a set of categories (Fontana & Frey, 1994). In contrast, unstructured is a type of interview in which the sequence of questioning and the degree to which each question is addressed are not fixed before the interview. Unstructured interviews are also called in-depth interviews (Heyink & Tymstra, 1993). Semi-structured interviews are in the middle of the two poles of structured and unstructured interviews.

The major objective of unstructured interviews is to "map out the respondent's subjective perception of the environment, ... in his own terminology." (Heyink & Tymstra, 1993, p.295) As one of the qualitative inquiry approaches, in-depth interviews aim for clarification and interpretation, rather than explanation of causes and outcomes of
a phenomenon (Hirschman, 1986). There are several merits of using an in-depth interview approach (Heyink & Tymstra, 1993; Kvale, 1994). One is that respondents have the opportunity to raise topics that are essential to their own opinion; another is that in-depth is "pre-eminently appropriate for research into feelings, attitudes, intentions and motivations of behavior." (Heyink & Tymstra, 1993, p. 295) Therefore, an in-depth interview format was appropriate for the study of the distribution channel.

The reason why the four types of apparel retailers (state-owned, collectively-owned, Chinese-Foreign joint venture, and privately-owned) were chosen was that they represented the majority of types of apparel retailers in the Chinese market (Guo & Harris, 1990). Besides the nine retailers, three officials from the Beijing Industry and Commerce Administration Authority, the Chinese National General Customs Administration, and the Chinese National Clothing Design and Research Center, as well as one trade representative agent of a foreign apparel manufacturer were interviewed. As suggested by Taylor and Bogdan (1984), both descriptive questions and constructed questions were used in all the interviews. Descriptive questions are useful for interviews because they "enable people to talk about what they see as important without structuring their responses." (Taylor & Bogdan, 1984, p.89) By using this type of question, an overall picture of the imported apparel distribution channel in the Chinese market was obtained. Many details about the channel that had not been addressed by the previous literature were thereby uncovered. By also using constructed questions, some key topics were ensured of being explored with informants (Taylor & Bogdan, 1984). An interview guide reminded the researcher to ask the interviewees several specific questions. Questions included in interviews addressed the following topics: a) the structure of the
distribution channel for imported apparel in the Chinese market, b) organizations having
control in the channel, and c) problems in the channel.

In addition, after the interviews, the validity of the initial questionnaire designed
for use in the survey was discussed with the interviewees. At present almost all power-
related concepts have been developed by academic studies targeting western markets, and
it has been reported that marketers in different nations have different understandings of
the concepts such as channel power, channel conflict and dependence (e.g., Frazier et al.,
1989; Johnson, Sakano, & Onzo, 1990). Therefore, the interviews provided expert input
helpful in revising the questionnaire. A revised questionnaire was provided to all the
interviewees two weeks after the interviews, and a further revision was conducted based
on their feedback.

Informants. Initially, fifteen out of forty-three large-scale stores contacted by the
Beijing Statistics Bureau agreed to take part in the interviews. Only large-scale stores
were contacted because they were most likely to carry foreign brand apparel. After
contacts via phone, it was found that only eleven stores among them carried imported
apparel, even though all of them carried apparel manufactured by joint venture
enterprises. Therefore, retailers from three state-owned stores, two collectively-owned
stores, and two joint-venture stores were selected as the informants to ensure that the
informants included all types of retailer stores in terms of ownership. For the state-
owned, collectively-owned, and joint-venture stores, the managers of the apparel
departments were interviewed. The single key informant methodology was used because

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1 The 43 department stores were categorized as the largest department stores in Beijing at the time. They
were at the top of a list of all the department stores in Beijing sequenced on stores' annual sales by the
Beijing Statistics Bureau.
it has been suggested that bias caused by an additional informant not directly exposed to
the distribution channel can be avoided this way (Anderson & Narus, 1984; John & Reve,
1982; Johnson et al., 1985). Although criticism exists regarding lack of valid tests of
dyadic channel relationships using the key informant approach, John and Reve (1982), in
their study of wholesaler-retailer dyadic relationships, found that “careful selection of
informants in conjunction with the use of internally consistent multi-item scales can
provide reliable and valid data in a variety of channel settings.” (p.522) Therefore, only
one respondent in charge of apparel retail buying in each department store was asked to
take part in each interview. Appointments were made in advance with help from the
Beijing Statistics Bureau. Besides the department stores, a private store and an apparel
vendor were randomly selected by the researcher, and the owners, who were also in
charge of buying, were asked to take part in the interviews.

To initiate the interviews, the informants were asked if their stores carried
imported apparel. For the informants involved in imported apparel business, they were
asked to describe the distribution channel for both imported and collaborative apparel
using a descriptive questioning interview approach. This was followed by some
constructed questions. For the informants who did not carry imported apparel (it was
found during the interviews that both the privately-owned retailers did not carry imported
apparel), they were asked to list reasons why they did not. Basically there was no time
constraint for each interview; they ended only when no more new information was
provided. Typically, the interviews lasted from 45 minutes to one and one-half hours.

Three governmental officials from the National Customs General Administration,
the Beijing Bureau of Industry and Commerce Administration, and the Chinese National
Clothing Design and Research Center were also interviewed. The governmental officials were selected for the interviews because all were knowledgeable regarding foreign trade of apparel.

Finally, a senior manager for a foreign trade operator representing a U.S. apparel manufacturer was interviewed. The foreign trade operator was located in Beijing and served as a distributing company in Northern China for the manufacturer.

The interviewer intended to use a recorder to tape the conversations because it was suggested that taping conversations could help a researcher to capture more information than only relying on memory (Taylor & Bogdan, 1984), but the first three interviewees all refused to allow the conversation to be taped. Therefore, the interviewer recorded all the conversations in Chinese by taking notes.

**Analysis of the Interview Data**

In this section, the method by which the interview data was analyzed is provided. The method of analyzing the data solicited from the open-ended questions on the subsequent survey will be covered in the survey section.

Basically there is no universal way to analyze qualitative data (Taylor & Bogdan, 1984). The record of the interviews was translated from Chinese to English by a bilingual graduate student in Textiles and Clothing. Next, the records obtained from the interviews were content analyzed so that a general understanding of the foreign brand apparel distribution channel could be obtained.

**Reliability and validity of the interview data.** For qualitative research, reliability and validity are difficult to separate (Heyink & Tymstra, 1993). Various types of reliability and validity used in quantitative research cannot be simply applied to a
qualitative inquiry approach (Hudson & Ozanne, 1988; Lincoln & Guba, 1985). As a type of qualitative research approach, an in-depth interview cannot be repeated because the environment under which the interview is conducted and the conversation cannot be duplicated, therefore the test-retest reliability, replication reliability, and other types of reliability used in quantitative studies are not appropriate for this approach (Heyink & Tymstra, 1993). Instead, for a qualitative approach, if the information obtained at different times is mutually compatible, the reliability is thought to have been achieved (Heyink & Tymstra, 1993). The more often a phenomenon is uncovered in an inquiry, the more reliable the results.

Validity is the extent to which a study investigates what it intends to investigate (Denzin, 1970). For in-depth interviews, validity refers to the extent to which interviews reflect the phenomenon of interest (Kvale, 1994). Validity in qualitative research can be increased by using triangulation (Denzin, 1970; Guba, 1981). Triangulation can be achieved by using various qualitative methods and/or multiple data sources (Guba, 1981; Heyink & Tymstra, 1993). In this study, in addition to using both interview and survey methods, multiple data sources including different types of retailers, a foreign trade operator, and governmental officials helped increase external validity of the findings.

To sum up, unlike quantitative research, reliability and validity of qualitative research cannot be evaluated separately from results (Heyink & Tymstra, 1993; Kvale, 1994); they are evaluated when the results are being interpreted. Efforts were made to increase validity by using multiple data sources.

Content analysis. The records obtained from the interviews were first translated, and then were content analyzed. According to Mostyn (1985),
Content analysis is the 'diagnostic tool' of qualitative researchers, which they use when faced with a mass of open-ended materials to make sense of. The overall purpose of the content analysis approach is to identify specific characteristics of communications systematically and objectively in order to convert the raw material into scientific data. The raw material of the qualitative researcher is most typically words... because words are the 'determinants of consciousness' (p. 117-118).

This study followed a portion of the Concept Book Approach proposed by Mostyn (1985). The Concept Book Approach, which was initially applied to motivational research, is appropriate for analysis of open-ended material that is not well organized (Mostyn, 1985).

There is a number of steps for using the Concept Book Approach; the ones used for this study included immersion, categorizing, incubation, synthesis, culling, interpretation, writing, and rethinking. Immersion is the stage at which researchers are deeply involved in data so that the subtlest clues can be picked up. In this step, researchers use content as a reflection of phenomenon hiding behind the words and make efforts to obtain the rich meaning from open-ended material. Following this suggestion, the translated record of the interviews was read carefully several times to ensure that no subtle cue was missed. The critical part of content analysis begins with categorizing. At this stage, the researcher uses selected categories to organize and code data. In other words, the ideas, concepts, and opinions in data are appropriately labeled. The criteria for selecting categories are, first, the capability to reflect the purpose of the study; second, the categories must be exhaustive; and third, they must be mutually exclusive (Hosti,
1969; Mostyn, 1985). Also at this stage, the Concept Book should be developed, and the ideas and themes emerging from the data should be recorded. Applied to this study, the powerful organizations identified in the interviews, problems with the channel reported by the interviewees, and ideas to improve the channel presented by the interviewees were all categorized. Next, for incubation, the researcher reads through the Concept Book in order to develop various ideas. Synthesis is the process through which the researcher discerns the patterns and relationships emerging from the coded data (Mostyn, 1985). To implement incubation and synthesis, the researcher’s memory was refreshed by reading through the concept book again, and identifying emerging patterns, dominant concepts, themes, and statements. Culling is the step through which the researcher produces a clear communication of the facts (Mostyn, 1985). At this stage, support for ideas is confirmed, new ideas not emerging in the previous steps may arise, and confusing and contradictory ideas are clarified. Interpretation is the process of making sense of the relationships, motivations, and meanings behind the categories and themes, instead of a mere reporting the facts (Mostyn, 1985). The final two steps include writing the report and rethinking the extent to which the research objectives have been fulfilled.

**Part 2: Survey**

Survey methods with a questionnaire were used for Part 2 of this study because using more than one method helps to increase validity of the findings. Besides, responses on specific questions from a large number of retailers were needed to test the model of the distribution channel structure. The questionnaire includes two parts. The first part had three open-ended questions used for the qualitative analysis, and the second part was
comprised of the instrument measuring the six power sources, attributed power, retailers’ attitudes toward their suppliers, channel conflict, and retailers’ satisfaction.

**Sample**

All of the retailers were selected from Beijing, the capital of China. Retailers in Beijing were the focus for the study for three reasons. First, help with data collection was available in Beijing. Second, the city represents one of the most developed and open cities in terms of economy and connections to foreign economies. Finally, the sale of foreign brand apparel is concentrated in China’s major cities, including Beijing (Lin & Chen, 1998).

Retailers carrying foreign brand apparel (including apparel from Hong Kong) were selected for the study. The Beijing Statistics Bureau was asked for help in recruiting the sample. The Beijing Statistics Bureau is a governmental organization that is responsible for providing statistical information on Beijing’s economy and commerce for the city administration. Six thousand U.S. dollars were paid to the bureau for recruiting 150 retailers to participate in the survey. The selected retailers needed to be knowledgeable enough to report accurately on the retailing business and relationships in the channel (Brown et al., 1995b). So for state-owned, collectively-owned, and joint venture department or specialty stores, those surveyed were the persons in charge of apparel retail buying for the stores.

A list of all apparel retail stores in Beijing, including department stores and apparel specialty stores, was provided by the bureau. The 536 retail stores listed were contacted by the bureau, and 198 of them confirmed that they carried foreign brand apparel either imported from overseas, or manufactured by Chinese-Foreign joint
ventures or wholly foreign-owned enterprises in China. Questionnaires were distributed to the 198 stores with a cover letter describing the study. After two weeks, reminder calls were made to those who had not responded. After several days, employees of the bureau were sent to pick up the completed questionnaires. Each questionnaire was checked when it was received; if there was any missing information, a call was made encouraging the retailer to provide information. The resulting sample consisted of 150 useable questionnaires, a 75.8% response rate.

**Questionnaire**

There were several phases of questionnaire development. A draft of the questionnaire and the cover letter (Appendix A) were first developed in English by reviewing the related literature. After the questionnaire was reviewed and approved by the Human Participants Review Board (Appendix B), it was translated into Chinese by two bilingual Chinese doctoral students in Textiles and Clothing. After the questionnaire was modified based on the pre-test interviews, a back translation was conducted in Beijing by another Chinese student who was majoring in the same field. The questionnaires were further refined until there were acceptable differences between the modified and the back-translated questionnaires.

The questions used for the interviews are provided in Appendix C. The questionnaire used for the survey included three sections (see Appendix D). In section I, the retailers were asked to provide information about their retail store, including annual sales, store sales area, store ownership (state-owned or other types), years the store had been in business, annual sales of the apparel departments, and number of employees in the departments. These were followed by questions asking the participants if they carried
imported apparel or collaborative apparel. Other questions concerned annual sales of the
two types of apparel, the sources of apparel, and the organizations approving sale of the
merchandise.

**Open-ended questions.** Section II included three open-ended questions developed
in order to elicit perceptions of the channel system. Particularly, the retailers were asked
to specify the sources from which they obtained foreign brand apparel. Second, retailers
were asked to identify the difficulties they encountered in obtaining foreign brand
apparel. Finally the retailers were asked to list the terms of sale that they needed to
negotiate with their business partners in the distribution channel, such as price, order size,
and merchandise shipment schedule. The retailers were asked to answer the questions
based on their imported apparel business if they carried imported products or on their
business for collaborative apparel if they did not carry imported apparel. Because there
was a question in Section I asking the types of apparel carried by the retailers, the type of
apparel the answers refer to can be determined.

**Closed-ended questions.** Section III included 59 six-point Likert-type items
divided into three groups. All the items were drawn from the previous channel power
studies, and this will be discussed in the next section. Minor adjustments, such as
rephrasing some words and changing all the items to six-point scales, were made so that
the items were adapted to the Chinese business context. Six-point rather than seven-point
scales were used because it has been reported that Chinese people tend to be neutral in
expressing their opinions (Shenkar, 1994; Xing, 1995). Therefore, a six-point scale
would act as a forced choice, eliminating the possibility of selection of neutral (4) on a
seven-point scale. In the first group of questions, a subjective measurement of power
comprised of 16 items (1 = our store has almost complete responsibility for this, 6 = associated organizations/business have almost complete responsibility) was used to examine how retailers attribute channel power to power holders. The items focused on a variety of marketing strategies because attributed power related to "the ability to influence decisions made about all aspects of marketing strategy for the product in the given channel setting." (Speh & Bonfield, 1978, p. 19) For example, the participants were asked to rate their responsibility "when deciding number of salespersons" and "when deciding hours of operation." All 16 items were developed from the related literature (e.g., Frazier, 1983; Hunt & Nevin, 1974; Lush & Brown, 1982) and refined after the pre-test interviews discussed earlier in this chapter.

The second group of questions was comprised of 40 six-point Likert-type items (1 = strongly disagree, 6 = strongly agree) utilized to solicit the retailers' perceptions of power sources, their attitudes toward the channel, the channel conflicts, and their degree of satisfaction with channel relationships. All the items were developed based on a review of the power source literature (e.g., Brown et al., 1995a; 1995b; Gaski, 1986) and were refined after the pre-test interviews. The items were used to determine how retailers perceive their suppliers' uses of different power sources. The higher the subject rated the items, the more dependent the retailers were, the more positive attitudes retailers had toward their business partners, the more the retailers were satisfied, and the more serious the retailers evaluated the channel conflict. For example, the participants were asked to rate the statements of "We trust our associated business partners'/representative agents' judgements on apparel retailing," "Most of the disagreements we have had with our business partners/representative agents in the past years were settled to our satisfaction,"
and “Our business partners/representative agents make it difficult to conduct our business.”

The third group of questions included three items that were used to measure the retailers’ business performance. Six-point Likert-type items (1 = very poor, 6 = very well) measured how well the retailers met their sales target, how their stores performed in comparison with other similar stores, and how the two types of apparel performed compared with domestic brands in terms of profitability. An example of the questions was “How well does your store’s business meet the sales target (according to the sales of imported apparel if your store sells imported apparel, and based on the apparel manufactured by Chinese-Foreign joint ventures or wholly foreign-owned enterprises if your store only sells them)?”

Development of Quantitative Measures

All measurements were developed based on a review of the related literature (e.g., Brown et al., 1995a; Brown et al., 1995b; Gaski 1986). In the following sections, issues concerning the measurement of power sources, attributed power, retailers’ attitudes, channel conflict, retailers’ satisfaction, and retailers’ performance are specified.

Measures of power sources. Two groups of measurements are the most frequently used to measure power sources: direct versus indirect measurement, and subjective versus objective measurement. Direct measurement refers to those directly obtained responses on how participants view power sources, such as reward, coercion, legitimate, referent, expert, and information power sources (e.g., Brown et al., 1995a; Frazier & Rody, 1991). An example of direct measurement is a respondent’s evaluation of the statement “I trust my supplier’s judgement” in measuring expert measurement, or evaluation of the
statement “My supplier’s opinions and values are similar to me” in measuring referent power. The indirect measurement does not ask questions about views on power sources, but uses market strategic and operative variables to examine perceptions of dependence of one channel member on the other. Specifically, under this approach, power can be measured by asking the power receivers’ perceptions of the amount and quality of assistance, as well as the amount of threats perceived from power holders. For retailers, market strategy decisions related to power could include order size, retail price, provision of consumer credit, hours of operation, trade area size, product assortment, product display, store layout, customer return policy, wholesale price, local advertising, inventory level, and hours of operation (Brown, et al., 1995a). For example, a retailer’s perception of a supplier’s power sources can be indirectly measured by investigating the amount of assistance or threat he/she perceives in the pricing strategy and assortment plan. The more assistance the retailer receives from the supplier in pricing and assortment planning, and the more punishment the retailer perceives that he/she will receive if he/she betrays the supplier’s wishes in the plan, the more power the supplier has over the retailer. As such, in the indirect power source measurement approach, power sources are classified only into noncoercive (assistance) and coercive (punishment or threat) categories.

Upon comparing a direct approach to indirect measurement, Brown et al. (1995a) found that direct power source measures were significantly related to the channel power attributed by power receivers while the indirect ones were not. Thus, the direct approach demonstrated better construct validity than the indirect approach. Therefore, this study used direct power-source measures to examine the power sources held by the suppliers.
Measures of channel power sources can also be classified into subjective measurement and objective measurement. When subjective measures are used, channel member perceptions are the data. Likert-scaled questions are used to subjectively measure channel members’ perceptions of every power source, which is a form of subjective-direct measure. Likert-scaled questions can also be used to measure perceptions of dependence on partners when making business decisions, which is a subjective-indirect measure. In contrast, objective measurement uses objective ratios to measure power sources. Some examples of the objective ratio include measuring the percent of a dealer’s current sales that comes from a supplier, and the percent of a franchisee’s current profit arising from the legitimate contract with a specific franchiser. In this study, only a subjective measurement of power was used in the questionnaire because some questions used in objective measurement were considered to be too sensitive to attain good response rates.

Measures of channel power. Two major approaches are currently utilized in channel power studies to measure power: a direct approach and an indirect approach (Cronin et al., 1994). The direct approach measures channel power according to the power holders’ or power receivers’ perceptions of how much power is wielded or accepted. This approach is further classified into hypothesized power and attributed power measurement (Cronin et al., 1994). By using hypothesized measurement, channel power is estimated based on the power holders' self-perceptions of how much power they wield over the corresponding power receivers. Utilizing an attributed power approach, channel power is measured based on the other channel members' perceptions, rather than the power holder themselves. Power evaluators are normally power receivers with
attributed power measurement. Although it has been argued that the power value reported in a self-perceived power approach was proportional to the value reported in an attributed power approach (El-Ansary & Stern, 1972), hypothesized power measurement has received considerable criticism (e.g., Etgar, 1976; Hunt & Nevin, 1974; Martin, 1971). Martin (1971) states that the self-perception approach "does not distinguish between the ability to exercise power (power potential) and the actual exercise of power." The reason was that "Ability may or may not be used, depending upon pre-dispositions and opportunities." (p. 25). Another weakness of self-perceived power measurement is that it assumes that power is an object possessed and recognized by all involved units. This assumption is unreasonable because channel power may be recognized only by the actual performers who can objectively perceive the power (Martin, 1971).

The indirect approach to power measurement originated from Emerson’s (1962) dependence theory, which posited that power is negatively related to dependence. In a dyadic relationship (A depends on B), the dependence of A upon B is a) proportional to A’s motivational investment in goals mediated by B and b) negatively proportional to the availability of those goals to A outside the A-B relation (Emerson, 1962). Therefore, an indirect power approach could use sales and profit as measures (Cronin et al., 1994; Frazier, 1983; Frazier, Gill, & Kale, 1989). Sales and profit measurement assumes that the higher the percentage of a receiver firm’s sales and profit that are attributed to a source firm, the more the receiver firm is dependent upon the source firm, thus the more power the source firm has over the receiver firm (El-Ansary & Stern, 1972). Another indirect power measurement is the role performance approach. It posits that the more positive a receiver firm perceives a source firm’s role performance (in terms of how well
the source firm performs its channel responsibilities), the more motivation the receiver firm has to keep the business relationship with the source firm, and thus the more powerful the source firm is within the dyadic relationship (Frazier, 1983).

Between these two indirect measurements, the role performance approach is more promising for inter-firm power studies (Frazier, 1983). But to use this approach, role performance of a firm or an organization needs to be measured in comparison to the performance of other firms or organizations (alternatives). Considering that, in this study, most Chinese retailers might only have one principle supplier to deal with in the channel, measurement of alternatives’ performance was impossible. Therefore, a role performance power measurement was not applicable in this study.

Therefore, an attributed power approach was used in this study. Specifically, following the studies which employed an attributed approach (Brown et al., 1983; Cronin et al., 1994; El-Ansary & Stern 1972; Hunt & Nevin, 1974; Lusch & Brown, 1982), power was defined as suppliers’ influence over the apparel retailers’ strategic marketing decisions. The items representing marketing decisions were identified based on a review of related studies and pre-test interviews.

Measures of retailers’ attitudes, channel conflict, retailers’ satisfaction and retailers’ performance. Unlike measures of channel power and power sources, there is a high degree of agreement on how to measure channel members’ attitudes toward their business partners, channel conflict, channel member satisfaction, and channel member’s business performance. For this study, an attitude measurement was adapted from Frazier and Summers’ (1986) study. On 6-point scales, the Chinese apparel retailers were asked to report their perceptions of their suppliers based on several items used in measuring
attitude that were drawn from the previous studies. Considering that the relationship between Chinese apparel retailers and suppliers might be very different from that in a free market (western countries), the items were revised based on the pre-test interviews.

Similarly, items measuring channel conflict and satisfaction were developed based on a review of related literature (e.g., Frazier & Summers, 1986; Gaski, 1986; Hunt & Nevin, 1974; Johnson et al., 1993; Lusch, 1976a; Raven & Kruglanski, 1970). The items were revised based on the results of pre-test interviews to accommodate the distinctive relationships between Chinese apparel retailers and the suppliers. Finally, retailers' business performance was measured by following Gaski and Nevin's (1985) study. Two items were used in their study. Considering that this study was to find Chinese retailers' performance in terms of sales of foreign brand apparel, a third item was developed, namely how retailers rate their performance on sales of foreign brand apparel, in comparison with sales of domestic brand apparel.

The items were revised based on the pre-test interview to manifest the distinctiveness of the business environment in China.² The items used in measuring attributed power, retailers' attitudes, channel conflict, retailers' satisfaction, and retailers' business performance were also rated on six-point Likert-scales (see Appendix D). After data collection, the reliability and validity of each measurement were examined using scale reliability analysis and confirmatory factor analysis (Bentler, 1992). A Cronbach's alpha test was used to assess the internal consistency, and those items that were not highly correlated in the group were deleted. Additionally, in the validity tests, the

² The items were revised by changing wording or deleting several items that were thought to be repetitive by the retailers.
Goodness-of-fit indices were used as criteria in judging the validity of a measurement (Ganesan, 1995). A t value of 1.96 was used for the purpose of extraction of items in order to increase measurement validity (Byrne, 1994).

**Qualitative Analysis of Open-ended Questions**

The responses to the three open-ended questions were content analyzed. The answers were categorized and the frequencies were calculated. The open-ended questions provided the researcher with information on retailers’ purchasing sources, the barriers/difficulties the retailers confronted when trying to obtain foreign brand apparel, and the aspects that were of most concern to the retailers in purchasing foreign apparel. Data from the three questions contributed to the fulfillment of the first and the third objectives of the present study.

**Quantitative Data Analysis**

The reliability and validity of each measurement (factor) were tested using a First-order Confirmatory Factor Analysis (CFA) (Bentler, 1992; Byrne, 1994). Next a Second-order CFA was conducted to see whether the six types of power sources followed either a noncoercive-coercive dichotomy or a nonmediate-mediate dichotomy. Only these two ways of dichotomizing the six power sources were examined because they were the most accepted dichotomies in channel power literature. Finally the theoretical model presented in Chapter 2 was tested using a Full Latent Variable Model to examine whether the hypothesized relationships among the factors exist.

**Instrument reliability and validity tests.** Cronbach’s alpha and Structural Equation Modeling (SEM) analysis were used to test the reliability and validity of each measurement. SEM is a “statistical methodology that takes a hypothesis-testing (i.e.,
confirmatory) approach to the multivariate analysis of a structural theory bearing on some phenomenon, ... this theory represents ‘causal’ processes that generate observations on multiple variables.” (Byrne, 1994, p. 3) Typically, the soundness of a theory can be examined by testing the significance of the structural equations representing the causal processes in the theory. There are two types of models under SEM, one is the Factor Analytic Model and the other is the Full Latent Variable Model. Generally, using the Factor Analytic Model, researchers can test the validity of measures of factors by examining the covariation among the observed variables and their underlying factors; the Full Latent Variable Model allows researchers to examine the relationships among factors and their corresponding observed variables (Bentler, 1992; Byrne, 1994).

For this study, first, each instrument measuring the six types of power sources, attributed power, retailers’ attitudes toward their supplier, channel conflict, retailers’ satisfaction, and retailers’ performance was tested for scale reliability using Cronbach’s alpha and on factorial validity using a first-order confirmatory factor analytic model (CFA) (Bentler, 1992; Byrne, 1994), respectively. CFA is a model that can be used to test whether the particular linkage between items (observed variables) and the underlying factors (such as the factors of expert power source, attributed power, and attitude in this study) exist as has been proposed in previous studies. This approach is different from an exploratory factor analysis (EFA) in that EFA is designed to examine unknown or uncertain links between the items (observed variables) and underlying factors (latent variables) (Bentler, 1992). CFA has various levels. For instance, in a first-order CFA, observed variables are one level away from factors; while in second-order CFA, observed variables are two levels away from factors.
Next, a second-order CFA model (Bentler, 1992; Byrne, 1994) was employed to see if the six types of power sources could be divided into two groups, either as a dichotomy of non-coercive and coercive power sources or non-mediate and mediate power sources, as was suggested in the literature.

Factor analytic models examine how the items (observed variables) are loaded on their underlying factors (latent variables). Factorial validity is the trustworthiness of a measurement. In other words, factorial validity of a measurement tells us "the extent to which items used to measure a particular factor actually do." (Byrne, 1994, p. 74) For each first-order CFA test, the corresponding goodness of fit indices including Chi-square value $\chi^2$, Normed Fit Index (NFI) and Comparative Fit Index (CFI) are reported and used in determining model fit. NFI is an index of goodness of fit that has been widely used in structural equation model tests. The reason why CFI was reported in addition to NFI was because it is believed that NFI tends to underestimate fit in a small sample, while CFI can take sample size into account (Byrne, 1994). Because the sample size of this study was relatively small (N=150), CFI was used for final decisions on model fit.

**Descriptive analysis of the data.** Before the hypotheses in the theoretical model were tested, the retailers' perceptions of power sources, attributed power, attitudes, conflict, satisfaction, and performance were examined using a descriptive data analysis so that a basic understanding of the retailers' perceptions of their suppliers' power could be obtained. Using a MANOVA, different retailers' (in terms of ownership) perceptions of the factors were compared so that the effect of ownership on retailers' perceptions could be determined. Finally, the 150 retailers were divided into two groups based on annual sales in the apparel departments, and this resulted in a higher sales group and a lower
sales group. A t-test was conducted to examine if a store’s scale in terms of the sales of the apparel department influences the retailers’ perceptions of the factors mentioned above.

Tests of the hypotheses in the theoretical model. In this section, the relationships proposed under the theoretical model presented in Chapter 2 were examined using the EQS Structural Equation Modeling program. A hypothetical full SEM was tested. It was defined as a full structural equation model because unlike a CFA model, this type of model comprises both a measurement model such as a CFA model depicting the linkage between the items (observed variables) and factors (latent variables), and a structural model depicting the relationships between the latent variables (Byrne, 1994). Therefore, a full latent model allows researchers to test the proposed relationships among the latent variables. Researchers can utilize this approach to test the causal relationships among the factors hypothesized from relevant theory and research. The appropriateness of the model tested can be judged based on goodness-of-fit indices discussed previously including Chi-square, NFI, and CFI. In addition, the significance of the relationships among the factors indicated by the coefficients can be evaluated based on corresponding t-values. For this study, it was specified that t-values greater than 1.96 indicated significant relationships at the 0.05 level.

Sample Size Concerns

Sample size is always a concern in studies using the structural equation model (e.g., Bagozzi, 1981; Bone, Sharma, & Shimp, 1989; Boomsma, 1982; 1995; Fomell, 1983; Joreskog, 1981). In channel power literature, studies employing small samples are not uncommon because in many circumstances large sample sizes are not available,
especially for cross-cultural studies. For instance, Frazier et al. (1989) used a sample of 51 dealers in studying the distribution channel for an industrial product in India. Johnson et al. (1985) used a sample of 78 retailers in their study of the dichotomy of the six power sources. A sample comprising 74 retailers was utilized by Johnson et al. in their study of U.S. retailer-Japanese supplier dyadic relationships (1990, 1993). All these studies utilized SEM.

Although it has been generally agreed that trustworthiness of model fit indices increases when sample sizes become larger, there are different opinions on how large a sample size should be in order to be considered appropriate. Joreskog (1981) insisted a sample size no smaller than 400 should be used to avoid inaccurate estimation of standard errors. Boomsma (1982) indicated that sample sizes below 100 should not be used to evaluate model fit. In contrast, Bagozzi (1981) found that it is justifiable to use the maximum likelihood estimate methods in structural equation analysis when the sample size minus the number of parameters estimated is greater than 50. Parameters include all coefficients measuring the relationships between observed variables and factors, the relationships between factors, and the variances and covariances of independent variables (the variables without unidirectional arrow pointed at them in models). Therefore, considering the number of parameters to be estimated in this study (no more than 100 in either the CFA models or full structural models), it is justifiable to use a sample of 150 Chinese apparel retailers.

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3 The concepts of independent and dependent variables in Bentler's (1992) SEM are much broader than those in other statistics methods such as regression. Please refer to the EOS Structural Equations Program Manual (Bentler, 1992) for details.
CHAPTER 4

RESULTS

In this chapter, first the results of the qualitative part of the study including in-depth interviews and open-ended questions are presented. This is followed by the results of the quantitative part of the study, including a statistical description of the responding retailers, the results of the measurement reliability and validity tests, the results of the test of the dichotomy of power sources, and the results of the hypothesis tests.

Part 1: In-depth Interviews and Open-ended Questions in Survey

The results from the in-depth interviews and the open-ended questions in the survey are presented in this section. It begins with a report of data obtained from a content analysis of records obtained from the 13 interviews, then the 150 respondents’ answers to the three open-ended questions are discussed. Although the open-ended questions were part of the survey, the responses are reported here because they support the same research objectives as the interviews.

In-depth Interviews

Thirteen persons took part in the interviews. There were nine retailers representing three state-owned department stores, two collectively-owned department
store, one joint-venture department store, one joint-venture apparel specialty store, one
privately-owned apparel specialty store, and one apparel vendor in a free market; one
trade agent serving as a branch of the Chinese foreign trade operator for a U.S. sporting
goods company; and three Chinese governmental officials from the National Customs
General Administration, the Beijing Bureau of Industry and Commerce Administration,
and the Chinese National Clothing Design and Research Center.

The objectives of the qualitative study were a) to develop a model detailing the
distribution channel for foreign apparel products entering China, b) to identify
organizations that have power in the channel, and c) to determine problems in the channel
that were encountered by channel participants. The results are presented in this order.
First, models of the distribution channel for foreign brand apparel (manufactured outside
and inside China), from manufacturers to Chinese trade operators, and then to Chinese
apparel retailers carrying foreign brand products, are presented. The discussion also
includes an identification of the organizations having power in the channel. Next, the
problems associated with the channel are revealed based on the interviews. This is
followed by the ideas presented by the interviewees for improving the channel.

Channel for Foreign Produced Apparel

In general, foreign manufacturers outside China are not allowed to sell their
products directly to Chinese apparel retailers due to Chinese government regulations.
There is only a limited number of apparel retailers who have the rights to import,
however one such retailer was interviewed. This retailer obtained the right to import
because it belonged to a conglomerate that had an import/export license. All other
retailers interviewed did not have the right to import directly. The imported brands that
the retailers carried were manufactured in either developing and newly industrialized countries or areas in Asia such as Malaysia, Indonesia, Singapore, Korea, and Hong Kong, or developed countries such as European countries. According to one interviewee, several years ago the majority of the apparel produced by foreign manufacturers was imported into China through a free trade port in Hong Kong. Now an increasing portion of foreign products is imported directly into the Chinese market.

All the apparel retailers interviewed who did not have import licenses purchased imported products from foreign trade operators in China who represent foreign apparel manufacturers (Figure 4.1). Foreign apparel manufacturers outside China first export their products into China to the foreign trade operators that then distribute the products to Chinese apparel retailers. Under most circumstances, products are transported to foreign trade operators and then to retailers. But sometimes products are shipped directly from manufacturing sites to retail stores under the foreign trade operators' arrangement. Which way is adopted depends on different manufacturers and whether agents have their own warehouses. Some foreign trade operators represent only one manufacturer and exclusively distribute the products produced by the manufacturer, while others may conduct business for several foreign manufacturers. The interviewees described four types of foreign trade operators representing foreign manufacturers: state-owned, collectively-owned, Chinese-foreign joint venture, and privately-owned, which is consistent with the literature. Several interviewees mentioned that state-owned foreign trade operators acted as a major force in this business area several years ago because most foreign trade licenses were assigned to this type of company by Chinese governmental organizations. Through the state-owned foreign trade operators, the government
intervened in the foreign trade business and controlled the distribution channel for imported products. After reforms of the governmental administration structure were implemented, the importance of state-owned foreign trade operators in the distribution channel decreased. Consequently, collectively-owned, Chinese-Foreign joint venture, and privately-owned trade operators have taken over a portion of the apparel importing business from State-owned companies, and the number and size of these three types of companies are increasing. In addition, as required by enterprise structural reforms, many collectively-owned, privately-owned, and state-owned trade operators have been reorganized as limited liability companies in order to be more efficient and better organized.
Figure 4.1 The Distribution Channel for Foreign Brand Apparel in the Chinese Market (Imported Products)
A noteworthy point is the increasingly important roles played by Chinese-Foreign joint venture trade operators. Several of the interviewees mentioned that because currently wholly foreign-owned trade operators are not allowed to engage in trade and distribution in China, the foreign apparel manufacturers are trying to establish their own distribution channel through establishment of joint venture trade operators. One retailer interviewed commented that,

"Because at present China's laws prohibit foreign manufacturers from establishing wholly foreign-owned wholesale and retail business in China, foreign manufacturers are building their own distribution channels indirectly through setting up trade agents. These agents serve as the foundation for their future channels."

The retailer anticipated that once distribution and foreign trade business is opened to foreign investors, a distribution channel run by foreign manufacturers will be quickly established. In addition, because most state-owned and collectively-owned trade operators were not efficient and lacked expertise in doing business, as was criticized by another retailer, a large portion of the distribution business could be lost to foreign distributors in the near future if the distribution business opens to foreign companies.

Almost all of the retailers interviewed talked about the layers of representative agents between foreign apparel manufacturers and Chinese apparel retailers (Figure 4.1). The number of layers was dependent upon the location of the manufacturer and the way it operated. Under most circumstances the first layer of foreign trade operators of a foreign manufacturer was at a continental level (Figure 4.1). According to one interviewee, many foreign trade operators of this type are located in Hong Kong and Singapore to take
advantage of the favorable local trade policy. The next layer of the distribution channel was at a national level that is administrated by the continental level operator (Figure 4.1). For example, most European manufacturers that do business with the interviewed retailers have Chinese general foreign trade operators. These general foreign trade operators handle all the orders from Chinese retailers and submit them to the continental level operators. Products are shipped to Chinese retailers from the production site under the arrangement of the manufacturer and the continental level operators. The next layer of operator is at a regional level within China (Figure 4.1). For instance, several interviewed retailers purchase foreign brand apparel from North China operators representing the foreign manufacturers. The final foreign trade operators in the representative system are local trade operators (Figure 4.1). For example, the trade operator interviewed acted as a local trade agency that represented only the manufacturer’s business in Beijing.

Besides governmental regulations, there were other reasons why a multi-level, foreign trade operator-dominated, distribution system exists. Interviewees reported that even if the Chinese government allowed business between foreign apparel manufacturers and Chinese retailers, several factors impede retailers’ direct purchases from foreign manufacturers. First, because of retailers’ limited selling ability and capital, their order sizes are small. As a result, the prices retailers can get when working directly with manufacturers will be much higher than from foreign trade operators functioning as wholesalers. Second, retailers will confront operational problems if they buy directly from foreign manufacturers. One retailer explained that,
“If we can buy products overseas directly by ourselves, there are still problems. For example, the application for a passport and visa is difficult and time consuming. Besides, delays in product customs declaration are not unusual. ..., time is very important for fashion retailers. All of these problems mean trouble for us to bring seasonal products in our stores in time.”

Third, according to several interviewed retailers, because most apparel retailers are unfamiliar with the products, and thus do not have expertise needed to sell foreign brand products, assistance from trade operators is necessary. The official from the Chinese National Clothing Design and Research Center commented that,

“Importing and selling foreign brand apparel involves searching for buying sources, customs declaration, product storage and transportation, developing specific marketing strategy, and salesperson training. Retailers are only good at the last aspect, while they lack experiences and ability in the others.”

Similarly, the interviewee from the foreign trade operator stated that,

“We are specialists in dealing with the products produced by our manufacturer. We have experience and knowledge that retailers do not have.”

Not all the retailers who are willing to carrying foreign brand apparel are certified by trade agents. One retailer mentioned that trade agencies look for retailers having a good reputation, abundant funds, and strong ability to sell the brands they represent. The requirement for retailers wishing to sell imports is stricter than for those who wish to sell
Chinese-Foreign collaborative products. By carefully selecting retailers, foreign trade operators maintain their credibility and successful sales of foreign brands. All the retailers interviewed were successful competitors in Beijing’s apparel retail business.

A variety of types of retail stores is involved in selling foreign brand apparel. Based on information provided by the Beijing Statistics Bureau, most imported apparel was carried by major hotels opened to foreigners a decade ago because at that time only foreigners could afford expensive foreign brand apparel. Now with an increasing number of domestic consumers, more types of retailers including department stores and apparel specialty stores carry foreign brand apparel. Generally speaking, sales in hotels were small because these stores are small. One retailer interviewed worked for an apparel specialty store in a hotel having only four employees. The store was administered by the hotel, but was financially independent. The store purchased products from local foreign trade operators.

Although some privately-owned retail stores may sell foreign brand products manufactured within China, interviews revealed that these businesses are seldom involved in the imported apparel business because most privately-owned retailers are of a small scale in terms of capital and sales. Besides, most foreign trade operators question privately-owned retailers’ service quality, reputation, and credibility. One interviewee from a privately-owned apparel store told the researcher that,

“I sell domestic products because domestic products are much cheaper than foreign brand products, especially imported products, ... The foreign trade operators provide products to the retailers that are of certain size, because only those retailers are capable of buying foreign brand apparel.
And operators only trust them. Operators seldom contact privately-owned retailers, unless those are large scale and famous retailers with abundant capital.”

Under most circumstances, foreign trade operators do not offer credit programs to retailers, so most transactions are in cash. Because of cash transactions, products that have not been sold by the end of the season in retail stores cannot be returned to manufacturers or agents. Several retailers complained that they took high risks with cash transactions because sales of fashion products were hard to predict.

Based on the information obtained from the interviews, the distribution channel for foreign brand apparel manufactured in China is much simpler because the government does not have strict regulations on this type of product. For instance, several interviewees purchase foreign brand apparel that is manufactured in China either directly from the manufacturers or from trade operators (Figure 4.2). These trade operators do not need to have foreign trade licenses because collaborative apparel manufactured within China is not regarded as imported apparel. Unlike imported apparel there are not several layers of trade operators for collaborative apparel. The retailers reported that some manufacturers establish their own distributing network throughout China, and some distribute their products through independent trade operators.
Figure 4.2  The Distribution Channel for Foreign Brand Apparel in the Chinese Market (Collaborative Products)

In summary, foreign brand apparel manufactured outside China is distributed to Chinese apparel retailers through layers of foreign trade operators. The specific channel is dependent upon the location of the manufacturer and the way it operates its business. There are only a limited number of retailers that can directly import apparel. For foreign brand apparel manufactured inside China, the products can either be distributed directly to Chinese retailers or through regional and/or local level trade operators. It is dependent upon the locations of manufacturers and retailers.
Role of the Chinese Government

Several types of Chinese governmental organizations having control of the channel were mentioned by the interviewees, including the organizations administering foreign trade, industry and commerce, customs, taxation, and commodity quality inspection. The first type consists of organizations administering foreign trade business. These organizations have the responsibility of assigning the foreign trade operation licenses to foreign trade operators. The organizations include the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Co-operation (MOFTEC), and its local branches. Only these organizations have the right to assign licenses and import/export quotas to companies and enterprises that want to conduct foreign trade. One interviewee said that most trade licenses and quotas are assigned to state-owned companies such as the Chinese National Textiles and Apparel Trade Company. He explained that these central or local government-owned companies represented the government’s interests. Another portion of licenses and quotas go to Chinese-Foreign joint venture companies, collectively-owned companies, and privately-owned companies.¹

Among the interviewed businesses, only one joint venture retailer and the representative trade company had rights to engage in foreign trade, the other retailers had to rely on foreign trade operators who had the rights to conduct foreign trade to obtain foreign products. The local level Economic and Trade Commission and MOFTEC has the power to assign foreign business privileges to regional and local level foreign trade

¹ Privately-owned companies could not directly conduct foreign trade until January 1999. Now only a small number of privately-owned trade operators/manufacturing enterprises have been assigned foreign trade licenses and import/export quotas. Source: News Broadcast (February 11, 1999). The Chinese Central Television Program.
operators, while the state level Commission and MOFTEC retain the power of assigning authorization to large-scale nation-wide foreign trade operators. To apply for foreign trade licenses and quotas, as explained by the official interviewed, a company needs to submit its registered amounts of investment and capital, records of business operations, and the types of products it wishes to import.

Another type of governmental organization that has power in the apparel distribution channel is the Industry and Commerce Administration. An Industry and Commerce Administration bureau is located in each city. For example, the Beijing Bureau of Industry and Commerce Administration performs its duty only in Beijing. Every business must apply for registration and a business license from the Industry and Commerce Administration. Only after being authorized by the Bureau of Industry and Commerce Administration for the area can business be conducted. For instance, the interviewed trade agent first was authorized to do foreign trade by obtaining a foreign trade license and quota, then the agent applied for registration and a business license from the Beijing Bureau of Industry and Commerce Administration in order to conduct business. Retailers must have the bureau’s authorization to engage in retail activities.

The trade operators engaging in imported apparel or collaborative apparel and retailers who want to engage in foreign brand apparel business need to submit the necessary documents of approval to the Industry and Commerce Administration to obtain registration and a business license. Based on the information provided by the official from the Beijing Bureau of Industry and Commerce Administration, trade operators need to submit the license for conducting foreign trade, the total amount of the investment, the registered amount of capital, the scope of business operations, and other types of
necessary documents. For retailers wanting to sell foreign brand apparel, they need to submit the total amount of investment and the registered amount of capital, certification of foreign trade operators or foreign manufacturers’ allowance to sell the brands, product trade mark registration certificate, and the product quality certificate, to the administration. For the retailers who want to sell foreign brand apparel manufactured within China, the administration also requires the approval by the related government organizations that monitor the percentage of the manufacturers’ products that are sold in the Chinese market.

Customs is another governmental organization that has control in the apparel distribution channel. According to the customs official interviewed, the main responsibility of customs is to collect tariffs and to determine if products match the descriptions on declaration forms. Other documents required to bring foreign products into China are also examined. For the foreign invested enterprises that manufacture apparel in China, tariffs are collected on the raw materials and components imported for assembly, where appropriate.

There are other types of government organizations that are indirectly involved in the apparel distribution channel such as the Taxation Administration and the Commodity Quality Inspection Administration. Each administration has bureaus at the city level. The obligation of the Taxation Administration is to collect taxes on business profits according to the relevant tax laws and regulations. The Commodity Quality Inspection Administration ensures that the required commodity quality standards are met.
Problems in the Foreign Apparel Distribution Channel

The third objective of the qualitative research was to identify problems existing in the distribution channel. Several problems were reported by the interviewees. One problem was the high retail price of imported apparel. Almost all interviewees attributed the high price of foreign brand apparel to the multiple layers of trade agents in the channel. Retail prices for products increase dramatically because each trade operator adds a considerable percent of markup to make more profit. As one retailer explained,

“Agents get a considerable part of the profit by increasing prices, which makes the ultimate product prices too high.”

Extremely high retail prices make foreign brand apparel unaffordable to a number of potential consumers. One retailer complained that high prices make it difficult for his store to conduct foreign apparel business because the products move slowly. Based on the information obtained from the interviews, prices of foreign brand apparel manufactured in China are reasonable in comparison to imported apparel. The cost of the products is lower than imported apparel and the final retail price is also lower because the distribution channel is shorter than that for imported products. One retailer explained that this was why more retailers carry foreign brand apparel manufactured in China rather than imported products.

But on the other hand, interviewees recognized that the distribution channel could not function well without foreign trade operators. First of all, there is a minimum quantity requirement for orders by foreign manufacturers. Therefore, sometimes it would be impossible for Chinese retailers to purchase directly from foreign manufacturers because the orders from individual retailers are small. Second, as was mentioned by
several retailers, most Chinese retailers do not have expertise in importing and retailing foreign brand products, expertise is needed in customs declaration, advertising, and visual merchandising. Retailers need to rely on foreign trade operators’ expertise for promoting products and for completing the complicated and troublesome customs declaration procedure. Most retailers do not have time and knowledgeable personnel to take care of paperwork, inspect products, and arrange product transportation. So retailers bear high product prices in order to obtain assistance from foreign trade operators.

The second problem confronting retailers is the limited selection of products. Several retailers mentioned that because they cannot directly contact foreign manufacturers, they have to purchase whatever their trade operators provide. One retailer stated that,

“We do not know if there are other products that are more attractive to consumers besides those provided by trade agents.”

Retailers are scattered all over China and their customers may vary dramatically in their preferences. Therefore, retailers in different regions may need different product lines for their specific market segments. However, when only a few trade operators are used, there may not be many choices.

Availability of information needed for selling imported apparel is another problem for retailers. Foreign manufacturers do not provide information directly to retailers, instead it is distributed to retailers together with products by foreign trade operators. Generally, information provided by foreign manufacturers, such as product promotion instructions and product quality indicators, are not in Chinese (two retailers showed the researcher the instructions and quality indicators in English and French).
Under many circumstances, apparel retailers can not make full use of promotional information either because the trade agents do not deliver the information accurately or because retailers lacked the ability to fully understand and use the information.

Another problem is that some foreign trade operators conduct illegal business. One of the retailers reported that some foreign trade operators take advantage of their privilege to conduct foreign trade by engaging in illegal activities. An example is to double profit by exporting domestically made apparel and then importing the same product into the Chinese market. Because the Chinese government offers favorable tax policies to export-oriented enterprises, foreign trade operators enjoy a much lower tax rate on exported products than the products for domestic market. Under many circumstances, these counterfeit products were originally purchased from small size domestic manufacturers at a low price in order to maximize the purchasers’ profit. The products are often low in quality. Eventually the interests of apparel retailers and consumers are hurt.

The system by which governmental organizations assign apparel import licenses and quotas to foreign trade operators is also problematic. Some of the interviewees explained that there were not clear regulations for determining what types of trade operators should, or should not, be assigned foreign trade licenses. The regulation on import quota assignment is not clear either. As one official indicated, “Operation of license and quota assignment is not so formal. For example, companies belonging to governmental organizations have more advantages in getting licenses and obtaining quotas of export and import than other types of companies. Many local Economic and Trade
Commissions and MOFTECs are in violation of regulations and laws because they issue licenses and give quotas to the companies that do not meet the requirement.

In addition, under the present policy, trade licenses and quotas are assigned to the companies whose registered capital and previous business performance records (in terms of profit) meet the specific requirement. Generally, trade licenses and quotas are assigned to the companies whose overall business performance meets the requirement. However, many foreign trade operators' business is not limited to apparel, therefore some large-scale companies may obtain licenses and import quotas even though they are not successful in foreign apparel trade business.

Several retailers also reported that trade operators do not offer credit programs. Under most circumstances transactions were in cash. Because of cash transactions, products that had not been sold by the end of the season could not be returned to suppliers. Consequently, the retailers were very concerned about the high risk under cash transactions because sales of fashion products were hard to predict.

Finally, the government's control of foreign currency is a big concern for retailers. Because a certain portion of transactions is in foreign currency, lack of foreign currency makes it difficult for retailers to purchase imported apparel.

Retailers' Ideas for Improving the Foreign Apparel Distribution Channel

The interviewees suggested a number of ways to improve the distribution channel for foreign brand apparel. One retailer suggested that the government should establish a

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2 China has maintained government control of foreign currency during the last fifty years. The control policy makes it very difficult for enterprises to obtain foreign currency. All Chinese enterprises have to exchange foreign currency at government controlled banks. Transactions in foreign currency between enterprises in China is forbidden.
general importing company for apparel retailers. The retailer believed that a centrally administered business could eliminate problems such as high price, counterfeit imported products, and dissatisfying agent service. If centralized administration of the channel is not practical under the current condition, the retailer suggested that the government should at least step up its examination of foreign trade operators and apply stricter administration to the channel.

Another retailer expected that imported apparel prices could be dramatically decreased if products were ordered in larger quantities from manufacturers. Therefore, the retailer suggested that small-scale trade operators should communicate with each other and place orders together on the same products.

In summary, the distribution channel for foreign apparel can be characterized as a multi-level representative agent system. The governmental organizations having control in the channel include the organizations in charge of foreign trade such as the state and local level Economic and Trade Commissions and MOFTECs, the Industry and Commerce Administration, Customs, the Taxation Administration, and the Commodity Quality Inspection Administration. The problems with the channel include high prices, limited selection of products, lack of product promotional information, illegal activities conducted by some foreign trade operators, problematic import license and quota assignment, and the unavailability of credit programs for retailers. Suggestions provided by the retailers on how to improve the channel include a stricter regulation of the channel and communication between foreign trade operators when buying from manufacturers.
Open-ended Questions

The second section of the questionnaire was comprised of three open-ended questions that enabled the researcher to gain information about the channel from a greater number of retailers. The answers from the 150 retailers were categorized and the frequencies were calculated. The 150 retailers included 63 retailers carrying imported apparel and 87 retailers carrying collaborative apparel.

Channel for Foreign Brand Apparel

The first of the three questions asked “What is the channel through which your apparel department obtains imported apparel? If your department does not sell imported apparel, then what is the channel through which your apparel department obtains foreign brand products manufactured in China?” The categories and the frequencies of the answers to this question based on imported apparel are presented in Table 4.1, and the answers based on collaborative apparel manufactured within China are in Table 4.2. The 63 retailers carrying imported apparel answered this question regarding imported apparel, and 112 retailers answered this question regarding collaborative apparel (all retailers carrying imported apparel also carried collaborative apparel). Because most of the retailers reported having more than one buying source, the total percentages based on the number of respondents are greater than 100%.

Regarding imported apparel, 55 out of the 63 (87.3%) respondents obtain imported apparel from representative foreign trade operators. Most of the answers did not specify the ownership and level of operators. Forty-nine of these 55 retailers (77.8%) purchased from foreign operators. Four of the 55 retailers (6.3 %) responded that they obtained apparel for their specialty stores from trade operators that owned their stores.
<table>
<thead>
<tr>
<th>Retailers’ Sources of Imported Apparel a</th>
<th>Frequency of Mentions</th>
<th>Percentage (%) of Retailers (N = 63)</th>
<th>Percentage (%) of Responses (N = 69)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Trade Operators</td>
<td>55</td>
<td>87.3</td>
<td>79.7</td>
</tr>
<tr>
<td> Trade Operators as Suppliers</td>
<td>49</td>
<td>77.8</td>
<td>71.0</td>
</tr>
<tr>
<td> Trade Operators that Own the Stores</td>
<td>4</td>
<td>6.3</td>
<td>5.8</td>
</tr>
<tr>
<td> Trade Operators that Lease Selling Space</td>
<td>2</td>
<td>3.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Overseas Manufacturer</td>
<td>7</td>
<td>11.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Parent Stores</td>
<td>6</td>
<td>9.5</td>
<td>8.7</td>
</tr>
<tr>
<td>Other Stores</td>
<td>1</td>
<td>1.6</td>
<td>1.5</td>
</tr>
</tbody>
</table>

a Note: Retailers could make more than one response.

Table 4.1  Retailers’ Sources of Imported Apparel
<table>
<thead>
<tr>
<th>Retailers' Sources of Collaborative Apparel</th>
<th>Frequency of Mentions</th>
<th>Percentage (%) of Retailers (N = 112)</th>
<th>Percentage (%) of Responses (N = 142)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturers</td>
<td>84</td>
<td>75.0</td>
<td>59.1</td>
</tr>
<tr>
<td><em>Manufacturers as Suppliers</em></td>
<td>66</td>
<td>58.9</td>
<td>46.5</td>
</tr>
<tr>
<td><em>Manufacturers Lease Selling Space</em></td>
<td>10</td>
<td>8.9</td>
<td>7.0</td>
</tr>
<tr>
<td><em>Sell Products Collaboratively with Manufacturers</em></td>
<td>6</td>
<td>5.4</td>
<td>4.2</td>
</tr>
<tr>
<td><em>Stores Owned by Manufacturers</em></td>
<td>2</td>
<td>1.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Trade Operators</td>
<td>56</td>
<td>50.0</td>
<td>39.4</td>
</tr>
<tr>
<td>Parent Stores</td>
<td>2</td>
<td>1.8</td>
<td>1.4</td>
</tr>
</tbody>
</table>

*Note: Retailers could make more than one response.*

Table 4.2  Retailers' Sources of Collaborative Apparel Manufactured in China
They are the retailers representing foreign manufacturers that exclusively sell the brands they represent, so they are different from independent retailers. Although imported apparel was sold by 2 of the 55 retailers (3.2%), these two retailers were only indirectly involved in selling imported apparel because they lease selling space to trade operators and leave the operators themselves in charge of sales. The operators obtained apparel from manufacturers they represented and sold them directly to ultimate consumers.

Seven (11.1%) respondents import products directly from overseas. These retailers directly contact foreign manufacturers outside China and purchase products from them. Six (9.5%) of the retailers operated branches of their parent stores. These retailers obtained imported products from the parent stores that either had direct import rights or purchased from representative foreign trade operators. One (1.6%) retailer bought imported apparel from other stores selling imported apparel.

One hundred and twelve retailers described how they obtained collaborative apparel manufactured within China, 84 (75.0%) retailers mentioned that products were purchased directly from manufacturers. Among them, 66 retailers (58.9%) brought products directly from manufacturers. Ten retailers (8.9%) reported that even though there were collaborative products sold in their stores, they were indirectly involved in selling products by leasing selling space to manufacturers and products were brought by manufacturers into stores and directly sold to customers by manufacturers. Six retailers (5.4%) sold apparel collaboratively with manufacturers. Based on the information provided by an informant in the in-depth interview, under collaborative selling, retailers actually do not own the products being sold. Instead, retailers provide selling space, salespersons, and other services, while manufacturers provide products and expertise on
products. With this type of collaboration, the retailers' risks are reduced. Collaborative
selling is different from leasing selling space to manufacturers. When manufacturers
lease space, they need to take full responsibility for sales including providing
salespersons. The final 2 (1.8%) among the 84 retailers obtained products from
manufacturers because they were specialty stores owned by manufacturers.

Fifty-six (50.0%) retailers bought from trade operators. The remaining 2 (1.8%)
retailers obtained products from parent stores.

**Greatest Barriers/Difficulties to Obtaining Foreign Brand Products**

The 150 retailers were asked to provide answers to the question “What are the
greatest barriers/difficulties to obtaining imported apparel? If your store does not carry
imported products, then what are the greatest barriers/difficulties to obtaining foreign
brand apparel manufactured within China?”

There was a total of 86 difficulties (Table 4.3) in obtaining imported apparel that
were reported by 72 retailers. Some retailers that did not carry imported apparel and
answered this question by reporting the reasons why they did not sell imported apparel.
These responses are pooled with the responses provided by the retailers carrying imported
apparel. Because some retailers reported more than one difficulty, the total percent based
on the number of respondents is greater than 100%. Since only 3 retailers responded to
the question regarding their business on collaborative apparel manufactured within China,
the problems associated with the channel for this type of product are not discussed.
<table>
<thead>
<tr>
<th>Barriers/Difficulties</th>
<th>Frequency of Mentions</th>
<th>Percentage (%) of Retailers (N = 72)</th>
<th>Percentage (%) of Responses (N = 86)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Capital</td>
<td>30</td>
<td>41.7</td>
<td>34.9</td>
</tr>
<tr>
<td>Lack of Import Rights</td>
<td>17</td>
<td>23.6</td>
<td>19.8</td>
</tr>
<tr>
<td>Governmental Control of Foreign Currency</td>
<td>9</td>
<td>12.5</td>
<td>10.0</td>
</tr>
<tr>
<td>High Prices</td>
<td>8</td>
<td>11.1</td>
<td>9.3</td>
</tr>
<tr>
<td>No Returns of Unsold Products</td>
<td>8</td>
<td>11.1</td>
<td>9.3</td>
</tr>
<tr>
<td>Limited Selection of Products</td>
<td>6</td>
<td>8.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Lack of Knowledge Needed in Selling Imported Products</td>
<td>3</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Cash Payment Terms</td>
<td>2</td>
<td>2.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Confusing Agent Representative System</td>
<td>2</td>
<td>2.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Suppliers’ Strict Requirements in Selecting Retailer Partner</td>
<td>1</td>
<td>1.4</td>
<td>1.6</td>
</tr>
</tbody>
</table>

*Note: Retailers could make more than one response.*

Table 4.3    Greatest Barriers/Difficulties in Obtaining Imported Apparel
The most frequently mentioned difficulty is related to capital (41.7%), which is relevant to the difficulty in obtaining credit from suppliers that was reported by the interviewees. As one retailer stated,

"It is difficult for us to have enough capital to invest on imported apparel because first, these products are expensive, and second, we need to pay in advance."

Another retailer mentioned that,

"We need to put more money on imported apparel than on domestic apparel because imported apparel generally moves slowly."

The second most frequent response was associated with import rights, a problem that was also reported by the retailers in interviews. Nearly 24% of retailers stated that lack of import rights was the biggest difficulty in carrying or trying to carry imported apparel. One retailer reported that,

"Our business in imported apparel will be much easier and more profitable if we can import directly."

The third most frequently mentioned difficulty was the government’s control of foreign currency (12.5%), which is consistent with a finding from the in-depth interviews. Two more frequently mentioned difficulties were the high price of imported apparel and the difficulty in returning unsold products (11.1%). The problem of high prices was also reported by the interviewees. The respondents attributed the high prices to either unreasonably high tariff rates or the high markup added by the various levels of trade operators. Difficulty in returning unsold products by retailers is another concern for imported apparel retailers. One interviewee explained that under most circumstances,
return of unsold products was impossible because almost all the transactions involving imported apparel were in cash.

Another difficulty is the limited selection of products (8.3%), which was also reported by the retailers in the interviews. One respondent complained that,

"We have to carry only the products provided by representative companies/agents because we do not have access to foreign manufacturers. We do not even know what else the manufacturers can supply."

Another retailer reported that,

"We really do not know if there are other types of products that are more profitable to carry. We cannot select the products that we want to carry."

Other less frequently mentioned difficulties include lack of knowledge on imported apparel (4.2%), cash payment for products required by suppliers (2.8%), confusing agent representative system (2.8%) (i.e., two retailers reported that they were confused by the ownership of the trade operators and how they were operated), and the strict requirement by suppliers in selecting retail partners (1.4%).

The Aspects of Most Concern in Dealing With Suppliers

The third open-ended question was "What are your concerns when buying imported apparel from the related business? Please list them. Answer the question according to foreign brand apparel manufactured within China if your store does not sell imported apparel products."

Nine categories of concern were mentioned by 63 retailers in response to imported apparel (Table 4.4). Because some retailers reported more than one concern, the total percent based on the number of respondents is greater than 100%. Product quality was
<table>
<thead>
<tr>
<th>Concern</th>
<th>Frequency of Mentions</th>
<th>Percentage (%) of Retailers (N = 63)</th>
<th>Percentage (%) of Responses (N = 182)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>60</td>
<td>95.2</td>
<td>33.0</td>
</tr>
<tr>
<td>Price</td>
<td>59</td>
<td>93.7</td>
<td>32.4</td>
</tr>
<tr>
<td>Style</td>
<td>20</td>
<td>31.7</td>
<td>11.0</td>
</tr>
<tr>
<td>Supply Logistics</td>
<td>20</td>
<td>31.7</td>
<td>11.0</td>
</tr>
<tr>
<td>Appropriateness for Customers</td>
<td>8</td>
<td>12.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Brand</td>
<td>8</td>
<td>12.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Method of Payment</td>
<td>3</td>
<td>4.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Certificate of Country-of-Origin</td>
<td>2</td>
<td>3.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Supplier Reputation</td>
<td>2</td>
<td>3.2</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*a Note: Retailers could make more than one response.

Table 4.4  Retailers' Concerns when Purchasing Imported Apparel
the most frequently listed concern (95.2%). Some retailers were concerned that the
quality of the products they purchase from suppliers should be "the first class" and
"genuine." Product price was the second most frequently listed concern (93.7%). The
third and fourth most frequently listed concerns were product style (31.7%) and product
supply (31.7%). The retailers indicated that they paid a great deal of attention to "in time
product delivery," "product transportation," and "the minimum order required by
suppliers." Another two concerns were appropriateness of the products for customers
(12.7%) and product brand (12.7%). One respondent wrote,

"The appropriateness of the imported products for our customers is the
prerequisite of everything. Only if the products are appropriate for our
customers do we then pay attention to other aspects such as product
quality and price."

Three respondents regarded the method of payment as most concerning (4.8%).
Finally, 2 respondents considered certificate of product country-of-origin as the aspects they paid most attention to (3.2%), and another two respondents listed reputation of supplier as the issue of most concern (3.2%).

Concerns when purchasing collaborative apparel manufactured within China from suppliers reported by 87 retailers are listed in Table 4.5. The total percent based on the number of respondents is greater than 100% because some retailers reported more than one concern. Product quality was a concern for 97.7% of the retailers. The following most frequently listed concerns were price (95.4%) and supply logistics (32.2%) including in-time delivery, transportation cost, and suppliers’ ability to provided products before the season. The next most frequently mentioned concern included product style
<table>
<thead>
<tr>
<th>Concern *</th>
<th>Frequency of Mentions</th>
<th>Percentage (%) of Retailers (N=87)</th>
<th>Percentage (%) of Responses (N = 257)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>85</td>
<td>97.7</td>
<td>33.1</td>
</tr>
<tr>
<td>Price</td>
<td>83</td>
<td>95.4</td>
<td>32.3</td>
</tr>
<tr>
<td>Supply</td>
<td>28</td>
<td>32.2</td>
<td>10.9</td>
</tr>
<tr>
<td>Style</td>
<td>22</td>
<td>25.3</td>
<td>8.6</td>
</tr>
<tr>
<td>Appropriateness for Customers</td>
<td>13</td>
<td>14.9</td>
<td>5.1</td>
</tr>
<tr>
<td>After-sale Service</td>
<td>8</td>
<td>9.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Supplier Reputation</td>
<td>8</td>
<td>9.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Brands</td>
<td>4</td>
<td>4.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Method of Payment</td>
<td>3</td>
<td>3.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Collaboration with Suppliers</td>
<td>3</td>
<td>3.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

* Note: Retailers could make more than one response.

Table 4.5 Retailers' Concerns when Purchasing Collaborative Apparel Manufactured within China
(25.3%) and the appropriateness of the product for customers (14.9%). Both after-sale service and supplier’s reputation were concerns of 9.2% of the retailers.

**Summary of the Results Obtained from In-depth Interviews and Open-ended Questions**

The results obtained from the interviews support the basic structure of the distribution channel for foreign brand apparel in China’s market. However, for imported apparel, the multi-layered distribution channel is more complicated and longer than the channel described in literature. For collaborative apparel manufactured within China, the distribution channel is shorter than that for imported apparel because retailers often buy directly from manufacturers.

The variety of difficulties existing in the channel is broader than those identified in the literature. In addition to access to imported products (China Trade Report, 1998; Zhao at al., 1998), many other difficulties are confronted by Chinese retailers, such as lack of capital, government’s control of foreign currency, high product price, return of unsold products, limited selection of products, and lack of knowledge on imported apparel.

When purchasing foreign apparel, Chinese retailers have concerns about quality, price, style, and supply of products. Besides, retailers pay attention to the appropriateness of product for customers, brand, and method of payment.

Some channel problems that were reported in the survey and the interviews are consistent with each other, while some difficulties that were identified in the survey were not reported by the interviewees. Table 4.6 gives the details of what was reported in the interviews and what was reported in the survey.
Retailers' Difficulties in Conducting Foreign Apparel Business

<table>
<thead>
<tr>
<th>Difficulty</th>
<th>Interviews</th>
<th>Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer Lack of Capital</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Import Rights</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Foreign Currency Control</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>High Priced Foreign Apparel</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Non-returnable Unsold Apparel</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Limited Selection of Products</td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>

Note: Some difficulties reported in the survey, such as lack of knowledge in selling imported apparel, cash payment, confusing agent system, and suppliers’ strict requirement in selecting retailer partner, were not included in this table because only a small percent of the retailers reported these difficulties in the survey.

Table 4.6  Retailers' Difficulties Reported in the Interviews and Survey
Part 2: Survey of Retailers

In this section, first information about the responding retailers is provided. Second, the results of the first-order confirmatory factor analyses are reported. Third, the second-order confirmatory factor analysis is presented. Finally, the results of tests of the hypotheses based on the theoretical model using a full latent variable model analysis, and other information related to retailers’ perceptions of the suppliers are included.

Sample Demographics

Among the 150 responding retailers, 72 of their stores were state-owned, 19 were collectively-owned, 17 were Chinese-Foreign joint ventures, 9 were privately-owned, and 33 were other types of retail stores such as limited liability companies.

Basic statistical information about the stores represented in the study is provided in Table 4.7. The annual sales for each store ranged from .08 million Yuan (US$ 10,000) to 1800 million Yuan (US$217 million), with an average of 165 million Yuan (US$ 20 million). The annual sales for the apparel department were from .02 million Yuan (US$ 2,400) to 470 million Yuan (US$ 57 million), with an average of 35 million Yuan (US$ 4 million). Number of employees ranged from 3 to 4,415, with an average of 579; within the apparel department, employment ranged from 2 to 1500, with an average of 128 employees. The sales area devoted to the apparel department ranged from 15 to 13,600 square meters, with an average of 1,886 square meters. Finally, the number of years the stores had been in business was from .5 to 70, an average of 9.5 years. Among the 150 stores represented in the survey, 63 of them carried both imported and collaborative
<table>
<thead>
<tr>
<th>Item</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Sales of Entire Store (Millions of Chinese Yuan *)</td>
<td>0.08</td>
<td>1800.00</td>
<td>165.01</td>
<td>278.22</td>
</tr>
<tr>
<td>Annual Sales of Apparel Department (Millions of Chinese Yuan)</td>
<td>0.02</td>
<td>470.00</td>
<td>35.04</td>
<td>71.66</td>
</tr>
<tr>
<td># of Employees in Entire Store</td>
<td>3</td>
<td>4415</td>
<td>579</td>
<td>749.87</td>
</tr>
<tr>
<td># of Employees in Apparel Department b</td>
<td>2</td>
<td>1500</td>
<td>128</td>
<td>221.11</td>
</tr>
<tr>
<td>Sales Area of Apparel Department (Square Meters)</td>
<td>15.0</td>
<td>13600.0</td>
<td>1886.82</td>
<td>2761.41</td>
</tr>
<tr>
<td>Years Store in Business</td>
<td>0.5</td>
<td>70.0</td>
<td>9.55</td>
<td>13.36</td>
</tr>
</tbody>
</table>

* 1 U.S. Dollar = 8.3 Chinese Yuan in December, 1998
b Some Stores are apparel specialty stores; total number of employees for these stores equate the number in the apparel departments.

Table 4.7 Basic Information about the Respondent Stores
apparel, and were categorized as selling imported. The other 87 stores carried only collaborative apparel and therefore were categorized as selling collaborative products. For the imported apparel retailers, the annual sales of imported apparel averaged 3.5 million Yuan (US$ 0.4 million). For the other 87 retailers, the annual sales of collaborative apparel averaged at 10 million Yuan (US$ 1.2 million).

The imported foreign brands carried by the 63 retailers were from countries or areas such as France, Italy, Hong Kong, Korea, Japan, Great Britain, the U.S., Singapore, Germany, Thailand, Indonesia, Finland, and Malaysia. Some of the retailers carried only one country’s products and others carried more. French brands were sold in 29 retail stores, Italian brands were sold in 24 retail stores, Hong Kong brands were sold in 11 retail stores, Brands from Korea, Japan, Britain, and other countries were also sold in a number of stores (Table 4.8).

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3 All 63 retailers carrying imported apparel also carried foreign brand apparel manufactured within China. Because these retailers were asked to answer the questions based on their business on imported apparel, the sample comprised 63 imported apparel retailers and 87 retailers carrying domestically manufactured foreign brand apparel.
<table>
<thead>
<tr>
<th>Country of Origin</th>
<th>The Number of Retailers Carrying Products from the Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>29</td>
</tr>
<tr>
<td>Italy</td>
<td>24</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>11</td>
</tr>
<tr>
<td>Korea</td>
<td>10</td>
</tr>
<tr>
<td>Japan</td>
<td>9</td>
</tr>
<tr>
<td>Britain</td>
<td>7</td>
</tr>
<tr>
<td>United States</td>
<td>4</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
</tr>
<tr>
<td>Germany</td>
<td>2</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1</td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 4.8 Sources of the Imported Branded Apparel Carried by the 63 Imported Apparel Retailers
Instrument Reliability and Validity

The results of the instrument scale reliability tests and the results of the first-order confirmatory factor analyses are provided in Tables 4.9 and 4.10. In Table 4.9, the first column contains the original number of items used for each measurement such as expert power source and information power source. The second column shows the final number of items used in each measurement after items were deleted to increase reliability of each measurement. The final column reports the Cronbach's Alphas, obtained after any items were deleted. The reliability for the measures ranged from .71 to .92, showing acceptable reliability for each measure. One item (LEGAGR) used in measuring legitimate power source was deleted to increase the reliability of the measure.

The results of the instrument validity tests are provided in Table 4.10. The first column shows the independence chi-square value reported for the test of the Bentler and Bonett (1980) null model. In the null model, all variables are independent to each other, therefore when the $\chi^2$ value is extremely high it indicates a poor fit. The second column shows the $\chi^2$ value of the hypothesized model. This value is judged using the $\chi^2$ value of the null model as a baseline. Compared with the $\chi^2$ value of the null model, the smaller the $\chi^2$ value for the hypothesized model, the better the fit of the hypothesized model (Bentler, 1992). The third column is the Normed Fit Index, and the fourth column is the Comparative Fit Index. The results showed that CFI for each measurement ranged from 0.91 to 1.00, which suggested excellent levels of model fit (Bentler, 1992; Byrne, 1994). All the observed variables (items) significantly (t values are greater than ± 1.96 at .05 level) loaded on their corresponding factors, with the exception of legitimate power source measurement. For legitimate power source, one of the original four items,
LEGAGR (legal agreements govern our relationship with our suppliers), was deleted in order to improve the model fit. After the item was deleted, the CFI for the legitimate power source measurement increased from less than 0.80 to 0.94, which was a significant improvement in model fit.
<table>
<thead>
<tr>
<th>Items/Factor</th>
<th>Original # of Items</th>
<th>Final # of Items</th>
<th>Final Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expert Power Source</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOODRE</td>
<td>4</td>
<td>4</td>
<td>.74</td>
</tr>
<tr>
<td>(comply with suppliers’ requests because of their good reasoning)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUDGEM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(trust suppliers’ business judgement on apparel retailing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPERT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(suppliers are experts in apparel retailing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPERI</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(suppliers have a lot of experience in apparel retailing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Information Power Source</strong></td>
<td>6</td>
<td>6</td>
<td>.83</td>
</tr>
<tr>
<td>MAKSEN</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(suppliers’ suggestions on apparel retailing make sense)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOGICA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(information provided by suppliers is logical)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INFODM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(suppliers have information we need for decision-making)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INFOAR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(suppliers have a lot of information that we do not have)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.9   Results of Instrument Scale Reliability Tests (Cronbach’s Alpha)
Table 4.8 continued

APPERT  
(suppliers know more than us about apparel retailing)

CONINF  
(complied with suppliers because of their convincing information)

<table>
<thead>
<tr>
<th>Power Source</th>
<th>4</th>
<th>3</th>
<th>.71</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legitimate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEGAGR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(legal agreements govern our relationship with our suppliers)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Power Source</th>
<th>6</th>
<th>6</th>
<th>.80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reward</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GETHEL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(can get help if we agree to our suppliers’ requests)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Power Source</th>
<th>6</th>
<th>6</th>
<th>.80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reward</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAVOR E</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(can be favored by going along with our suppliers’ requests)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Power Source</th>
<th>6</th>
<th>6</th>
<th>.80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reward</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVOPRO</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(can avoid some problems by going along with suppliers’ requests)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Continued
Table 4.8 continued

**WISHES**  
(were rewarded last year by going along with suppliers’ requests)

**REWARD**  
(suppliers have ability to reward us if we do as they suggest)

**PROFIT**  
(will not be profitable if we do not comply with suppliers’ wishes)

<table>
<thead>
<tr>
<th>Referent Power Source</th>
<th>5</th>
<th>5</th>
<th>.76</th>
</tr>
</thead>
</table>

**SIMOPI**  
(suppliers’ opinions and values are similar to ours)

**LIKEOR**  
(like the suppliers we deal with)

**ADMIRE**  
(admire our suppliers)

**SIMIFE**  
(have the same feeling with our suppliers about how to run a business)

**AFFILI**  
(proud to be affiliated with our suppliers)

<table>
<thead>
<tr>
<th>Coercive Power Source</th>
<th>5</th>
<th>5</th>
<th>.74</th>
</tr>
</thead>
</table>

**ABIDER**  
(cannot receive needed service if we do not abide suppliers’ requests)

**CONTRA**  
(our suppliers refuse to renew contracts if we do not comply with their requests)

Continued
Table 4.8 continued

BETSER
(can receive better service by complying with suppliers’ requests)

IMPLIE
(in attempting to influence us, suppliers imply better service if we can comply with their requests)

ACCESS
(in trying to change our behavior, suppliers draw our attention to accessibility to imported apparel of good sales)

Attributed Power 16 16 .91

EXPANS
(suppliers’ influences when we make store expansion decision)

NUSAPE
(suppliers’ influences when we decide the number of salespersons)

HOUROP
(suppliers’ influences when we decide hours of store operation)

INVEPO
(suppliers’ influences when we decide inventory policy)

REPRIC
(suppliers’ influences when we decide retail prices)

DISCPO
(suppliers’ influences when we decide discount policies)

Continued
Table 4.8 continued

SALEAD
(suppliers' influences when we decide sales administration)

MAKTCO
(suppliers' influences when we decide markets covered)

PRODLI
(suppliers' influences when we decide product line)

ORDSIZ
(suppliers' influences when we decide order size)

TIMPUR
(suppliers' influences when we decide timing of product purchase)

BOKKEP
(suppliers' influences when we decide bookkeeping system)

DELMIT
(suppliers' influences when we decide to delete items from product line)

ADVMED
(suppliers' influences when we decide advertisement method)

ADVCON
(suppliers' influences when we decide advertisement content)

MERDIS
(suppliers' influences when we decide merchandise display)

Continued
Table 4.8 continued

<table>
<thead>
<tr>
<th></th>
<th>Helpin</th>
<th>Disagr</th>
<th>Channel Conflict</th>
<th>Retailers' Satisfaction</th>
<th>Confl</th>
<th>Frustr</th>
<th>Difcon</th>
</tr>
</thead>
<tbody>
<tr>
<td>HELPIN (suppliers are interested in helping us to be profitable)</td>
<td>2</td>
<td>2</td>
<td>.73</td>
<td>3</td>
<td>3</td>
<td>.86</td>
<td></td>
</tr>
<tr>
<td>DISAGR (most disagreements between suppliers and us were settled to our satisfaction)</td>
<td>5</td>
<td>5</td>
<td>.92</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONFLI (there is conflict between our suppliers and us)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FRUSTR (disagreement between suppliers and us create a great frustration for us)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIFCON (suppliers make it difficult to conduct our business)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOODEN (our suppliers are good entities to deal with)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SATISF (satisfied with our dealing with suppliers)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CINTIN (will continue our business with our suppliers if we can)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SATSER (satisfied with our suppliers’ service)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SATPRO (satisfied with our suppliers’ products)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Continued
Table 4.8 continued

Retailers' Performance

<table>
<thead>
<tr>
<th></th>
<th>3</th>
<th>3</th>
<th>.88</th>
</tr>
</thead>
</table>

SALTAR
(the extent to which our sales target has been met)

PERFOR
(the performance of our business in comparison with other stores)

COMPAR
(sales of foreign brand apparel compared with domestic apparel)

* Item was deleted in order to increase the scale reliability of the measure.
<table>
<thead>
<tr>
<th>Measurement Items</th>
<th>Independence Model Chi-square</th>
<th>$\chi^2$</th>
<th>df</th>
<th>NFI</th>
<th>CFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expert Power Source</td>
<td>141.73</td>
<td>.10</td>
<td>2</td>
<td>0.99</td>
<td>1.00</td>
</tr>
<tr>
<td>Information Power Source</td>
<td>329.86</td>
<td>23.06</td>
<td>6</td>
<td>0.93</td>
<td>0.95</td>
</tr>
<tr>
<td>Legitimate Power Source</td>
<td>129.54</td>
<td>8.17</td>
<td>1</td>
<td>0.94</td>
<td>0.94</td>
</tr>
<tr>
<td>Reward Power Source</td>
<td>343.20</td>
<td>12.75</td>
<td>7</td>
<td>0.96</td>
<td>0.98</td>
</tr>
<tr>
<td>Referent Power Source</td>
<td>493.65</td>
<td>13.72</td>
<td>5</td>
<td>0.97</td>
<td>0.98</td>
</tr>
<tr>
<td>Coercive Power Source</td>
<td>180.65</td>
<td>4.37</td>
<td>3</td>
<td>0.98</td>
<td>0.99</td>
</tr>
<tr>
<td>Attributed Power</td>
<td>1401.74</td>
<td>224.76</td>
<td>96</td>
<td>0.90</td>
<td>0.91</td>
</tr>
<tr>
<td>Attitudes toward Supplier</td>
<td>60.13</td>
<td>6.09</td>
<td>1</td>
<td>0.99</td>
<td>1.00</td>
</tr>
<tr>
<td>Channel Conflict</td>
<td>204.82</td>
<td>0.32</td>
<td>1</td>
<td>0.99</td>
<td>1.00</td>
</tr>
<tr>
<td>Retailers' Satisfaction</td>
<td>543.70</td>
<td>10.67</td>
<td>5</td>
<td>0.98</td>
<td>0.99</td>
</tr>
<tr>
<td>Retailers' Performance</td>
<td>249.92</td>
<td>18.91</td>
<td>1</td>
<td>0.92</td>
<td>0.93</td>
</tr>
</tbody>
</table>

*a In each measure, one parameter was set to 1.00 for purpose of estimation.

Table 4.10 Results of the Factorial Validity of Each First-Order Measuring Instrument

**Dichotomy of the Six Power Sources**

The six types of power sources were dichotomized in order to test the relationships among power sources proposed by other researchers. Two types of dichotomies are most cited in the literature, coercive-noncoercive dichotomy and mediate-nonmediate dichotomy. Hunt and Nevin (1974) proposed a coercive-noncoercive dichotomy with coercive power source items loaded on coercive and the other five categories of power sources loaded on noncoercive power source. Tedeschi, Schlenker, and Lindskold (1971) suggested that the six power sources could be...
dichotomized as mediate versus nonmediate power sources with reward, coercive, and
legal legitimate power source items loading on mediate power source and expert,
information, referent, and traditional legitimate power items loading on nonmediate
power source. To examine how the six power sources would load on second-order
factors, and whether the relationships follow a non-coercive-coercive or other types of
dichotomies such as a non-mediate-mediate dichotomy, a second-order CFA was
conducted. The initial model was constructed based on a coercive-noncoercive
dichotomy, with coercive power loaded on one second-order factor F8 and the other five
power sources loaded on the other second-order factor F7. If the model has an acceptable
level of fit, and the relationships between the power sources and the two second-order
factors proposed by the initial model are supported, then the six power sources follow a
coercive-noncoercive dichotomy. If the model fit is not acceptable and the initially
proposed relationships between the power sources and second-order factors by the model
are different from those in an adjusted model, then a dichotomy other than coercive-
noncoercive exists. The results are provided in Table 4.11.

All six power source variables F1 (expert power source), F2 (information power
source), F3 (legitimate power source), F4 (reward power source), F5 (referent power
source), and F6 (coercive Power) loaded on the two second-order factors F7 and F8.
Specifically, expert power source (β = .933, t = 9.46), information power source (β =
.926, t = 9.50), and referent power source (β = .729, t = 4.03) loaded on second-order
factor F7, and coercive power source (β = .999, t = 7.33) loaded on the other second-
order factor F8. Legitimate power source loaded on both F7 (β = .230, t = 2.20) and F8
(β = .822, t = 6.49). Reward power source cross-loaded on F7 (β = .429, t = 4.35) and F8
138
Therefore, basically the six power sources did not follow a coercive-noncoercive dichotomy, instead they fell into a mediate and nonmediate dichotomy, which was consistent with Tedeschi, Schlenker, and Lindskold’s finding (1971). A mediate versus nonmediate power source dichotomy suggests that reward and coercion are mediate power sources in that the reinforcements influencing a power receiver’s decision-making and behavior are external to the receiver and are provided upon the condition that the receiver does what the power provider wishes. On the other hand, expert, referent, information power sources are nonmediate because they do not mediate the reinforcements guiding the receiver’s behavior. According to the mediate and nonmediate dichotomy, legitimate power comprises legal legitimate power (power based on legal contractual agreements) and traditional legitimate power (power based on social norms, and ethical values and beliefs, etc). Legal legitimate power is a type of mediate power while traditional legitimate power is a type of nonmediate power. The cross-loading of legitimate power on both factors 7 and 8 is consistent with this notion.

What was not consistent with the mediate-nonmediate power dichotomy is that, based on the second-order CFA results, reward power cross-loaded on mediate and nonmediate power sources. This is contradictory to the notion that reward should solely load on mediate power source. In order to provide an answer to this inconsistency, the items used in the questionnaire to measure reward power source were scrutinized. After reflection, the item “Our store feels that by going along with our associated organizations/businesses, we will be favored on some other occasions” could hardly be grouped into mediate power source because it did not specify whether the supplier (organizations/businesses) actually controlled the reinforcement guiding retailer’s
### First-Order Factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>F7 Loading</th>
<th>F8 Loading</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1 (Expert Power)</td>
<td>.993</td>
<td></td>
<td>9.46</td>
</tr>
<tr>
<td>F2 (Information Power)</td>
<td>.926</td>
<td></td>
<td>9.50</td>
</tr>
<tr>
<td>F3 (Legitimate Power)</td>
<td>.230</td>
<td>.822</td>
<td>6.49</td>
</tr>
<tr>
<td>F4 (Reward Power)</td>
<td>.429</td>
<td>.684</td>
<td>4.35</td>
</tr>
<tr>
<td>F5 (Referent Power)</td>
<td>.729</td>
<td></td>
<td>4.03</td>
</tr>
<tr>
<td>F6 (Coercive Power)</td>
<td>.999</td>
<td></td>
<td>7.33</td>
</tr>
</tbody>
</table>

**Correlation between F7 and F8**

<table>
<thead>
<tr>
<th>Correlation</th>
<th>F7 and F8</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>.459</td>
<td></td>
<td>5.08</td>
</tr>
</tbody>
</table>

**Goodness of Fit**

- Chi-square = 556.53
- df = 341
- NFI = .79
- CFI = .90

---

*a* Standardized solution  
*b* t-value, Unstandardized solution

---

**Table 4.11** Second-order CFA Model Statistics and Factor Loading Estimates
behavior when this type of power source, as indicated by the statement, underpinned supplier influence. This may explain the cross loading of reward power. A final result of the second-CFA test worth noting is that the correlation between F7 and F8 was significant in the model ($\beta = .459$, $t = 5.08$), which was consistent with the previous findings in literature reporting significant correlation between the two power sources. The entire model fit was acceptable based on the goodness of fit statistics (Chi-square = 556.53, df = 341, NFI = .79, CFI = .90). The absolute value of the test statistic (t value) for each parameter was greater than 1.96 ($\alpha = .05$), which meant that each estimated parameter was significantly different than zero (Bentler, 1992).

In summary, the reliability and validity of each measurement, including the six power sources, attributed power, attitude, conflict, satisfaction, and performance, were tested using Cronbach’s alpha and the first-order CFA model. All the measurements had acceptable reliability and validity after one item was dropped from the legitimate power source measurement. A second-order CFA test found that the six power sources loaded on two higher level factors that are non-mediate power and mediate power (Figure 4.3), which was generally consistent with the previous findings in channel power literature.

**Retailers’ Perceptions of Power Sources, Attributed Power, Attitudes, Conflict, Satisfaction, and Performance**

Descriptive Statistics for the Factors

Before the hypothesized model was tested, a descriptive analysis of the data was conducted in order to understand the retailers’ perceptions of power sources, attributed power, attitudes toward suppliers, channel conflict, satisfaction with suppliers, and their business performance. Items used in measuring each factor (such as Expert power
Figure 4.3 Second-Order CFA Model of the Six Power Sources
source) were summed. The mean and the standard deviation of each factor were reported (Table 4.12).

The evaluation of expert power ($M = 17.87$) and information power ($M = 25.04$) falls on the higher side of the possible range of responses, which suggests that the retailers perceived some expert power and information power held by their suppliers. Legitimate power ($M = 10.39$), reward power ($M = 21.61$), referent power ($M = 16.73$), and coercive power ($M = 18.23$) are moderately evaluated in their possible ranges, which suggests that retailers were neutral on whether their suppliers held these types of power. Attributed power ($M = 32.03$) falls in the lower side of its possible range from 16 to 96, which suggests that the retailers did not attribute much power to their suppliers. Retailers’ attitudes toward suppliers ($M = 8.51$) and satisfaction with their suppliers ($M = 23.08$) lie in the higher side in their possible ranges, which suggests that the retailers had positive attitudes toward and satisfaction with their suppliers. The average for channel conflict ($M = 8.77$) is scaled in the lower side of its possible range, which suggests that the retailers did not perceive much channel conflict. Finally, the retailers’ evaluation on their performance on sales of foreign brand apparel ($M = 10.37$) is in the middle of its possible range, which suggests the retailers were neutral in the assessment of their sales.

**Influences of Ownership and Sales on the Perceptions of Suppliers**

Considering that state-owned and joint venture retail stores may have more power in negotiating with their suppliers than the other types of retail stores due to greater amount of capital owned and more advanced levels of sales management (information obtained in interview), a MANOVA was conducted to compare the means of the factors
<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of Items in Measure</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expert Power Source</td>
<td>4</td>
<td>17.87</td>
<td>3.83</td>
</tr>
<tr>
<td>Information Power Source</td>
<td>6</td>
<td>25.04</td>
<td>5.70</td>
</tr>
<tr>
<td>Legitimate Power Source</td>
<td>3</td>
<td>10.39</td>
<td>3.80</td>
</tr>
<tr>
<td>Reward Power Source</td>
<td>6</td>
<td>21.61</td>
<td>6.71</td>
</tr>
<tr>
<td>Referent Power Source</td>
<td>5</td>
<td>16.73</td>
<td>4.78</td>
</tr>
<tr>
<td>Coercive Power Source</td>
<td>5</td>
<td>18.23</td>
<td>5.29</td>
</tr>
<tr>
<td>Attributed Power</td>
<td>16</td>
<td>32.03</td>
<td>14.35</td>
</tr>
<tr>
<td>Attitudes toward Suppliers</td>
<td>2</td>
<td>8.51</td>
<td>2.37</td>
</tr>
<tr>
<td>Channel Conflict</td>
<td>3</td>
<td>8.77</td>
<td>4.44</td>
</tr>
<tr>
<td>Satisfaction with Suppliers</td>
<td>5</td>
<td>23.08</td>
<td>5.59</td>
</tr>
<tr>
<td>Business Performance</td>
<td>3</td>
<td>10.37</td>
<td>3.65</td>
</tr>
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</table>

Table 4.12  Retailers’ Perceptions of Power Sources, Attributed Power, Attitudes toward Suppliers, Channel Conflict, Satisfaction with Suppliers, and Retailers’ Business Performance
across the five types of retailers in terms of ownership. Results ($F(11, 138) = 1.556, p = .119$) show that the means of all the factors across the five groups are not significantly different from each other at the .05 level, which suggests that retailer’s ownership does not influence the retailers’ perceptions of their suppliers.

The retailer’s size may influence their perceptions of their suppliers because the supplier-retailer relationship may be more favorable for larger size retailers. Thus an Independent-Sample t-test was conducted to compare the means of the evaluations on the factors for the smaller retailers with those by the larger retailers. For the test, 149 retailers (one did not report sales) were divided into two groups using a median split technique. Seventy-four retailers whose annual sales were higher than median (7.83) were placed into Group 1 ($M = 1.98, SD = 2.13$), and the remaining 75 retailers whose annual sales were lower than the median were placed into Group 2 ($M = 67.67, SD = 89.97$). These two groups were significantly different in terms of annual sales of apparel department ($F = 70.37, p = .00$).

Independent-Samples t-tests were conducted to compare the means of the factors for the two groups. Results show no differences between the two groups’ perceptions of their suppliers’ power sources, attributed power, attitudes toward suppliers, perceived conflict, satisfaction with suppliers, and perceived performance. Therefore, retailer size does not influence the retailers’ perceptions of their suppliers.

Tests of the Hypothesized Model

Model Fit

The theoretical model to be tested was developed from the relevant literature and presented in Chapter 2. In an initial test, the results suggested a poor fit to the model
indicated by a Chi-square value which was not much smaller than the null model chi-square \( \chi^2 = 4715.25 \), Independence Model Chi-square = 7723.32) and a CFI much smaller than .90 (CFI = .48). In order to obtain an acceptable model fit, adjustments were made. First, according to the information obtained from the interviews, apparel retailers' business performances were influenced by a much broader group of factors, such as location and operational management, than only supplier-retailer relationships. As an interviewed retailer explained, even if there was a good supplier-retailer relationship, the retailer's business performance could still be unsatisfactory. This information was consistent with the output associated with the initial test of the model. That is, no relationships between performance and the six power sources, attributed power, attitudes, conflict, and satisfaction were significant at .05 level (the t-values of the relationships ranged from 1.462 to .098 which were all less than 1.96). Next, a multiple linear regression was conducted to explore the relationships among performance and the six power sources and attributed power. The results showed that no coefficients were significant at the .05 level, which further supports that retailers' business performance was not significantly influenced by the power relationship between suppliers and retailers. Therefore, the factor of performance was dropped from the model.

Second, based on the interview results, it appeared that retailers were allowed much flexibility in making decisions regarding their business operations such as store management and product promotions. Suppliers were only involved in retailers' operations that were directly relevant to merchandise buying. There was a possibility that the sixteen items that were drawn from the literature to measure attributed power were not appropriate for this study. Therefore, the sixteen items used in measuring attributed
power were factor-analyzed using the Principal Components method with Varimax Rotation. An Eigenvalue greater than 1.0 and factor loadings of .40 or greater were used as criteria for retaining factors and items. Items that loaded greater than 0.40 on more than one factor were considered to be cross-loaded and were deleted. The results of the exploratory factor analysis suggested that there were three factors of attributed power (Table 4.13). One factor was comprised of four items including decision on product line (PRODLI), decision on product order size (ORDSIZ), decision on product purchasing (TIMPUR), and decision on deleting certain items from product line (DELITM). All four items were closely related to supplier-retailer relationships and therefore were retained for a second model test. The other two factors included 9 items and the remaining three items were cross-loaded. One factor included the items of decision on store expansion (EXPANS), decision on number of sales persons (NUSAPE), decision on store business hours (HOUROP), decision on sales administration (SALEAD), and decision on bookkeeping (BOKKEP). All of these items are closely related to store management decisions. The items loading on the third factor such as decision on discount policies (DISCPO), decision on advertisement method (ADVMED), decision on advertisement content (ADVCON), and decision on merchandise display (MERDIS) are associated with store product promotion decisions. All the items associated with store management and product promotions were removed from the measurement of Attributed Power for further model tests. Based on the information obtained from the interviews, suppliers of foreign apparel were not very involved in retailers' operations such as store management and product promotion; rather their influence on the retailers was concentrated on the marketing strategies that were close to supplier-retailer relationships, such as purchasing.
products, deciding product lines, and ordering sizes. Thus, the factors related to store management and product promotion may not be critical for determining the relationship between Chinese apparel retailers and their suppliers.

After performance was excluded and the measure of attributed power was narrowed down, the model was adjusted many times by including the significant relationships between the factors, variances of the independent variables, and covariances between the independent variables indicated by the Lagrange Multiple Test (Byrne, 1994). An acceptable model was finally identified (Figure 4.4). This model was considered to be final because no more significant relationships between the factors, the variances of the independent variables, and the covariances among the independent variables could be identified. The indices of Goodness of Fit (Chi-square =1138.74, NFI = .78, CFI = .89) suggested a minimally acceptable level of model fit (Table 4.14). Some relationships among the six power sources, attributed power, retailers’ attitudes toward supplier, channel conflict, and retailers’ satisfaction were significant at the .05 level (Table 4.14). The other hypothesized relationships were rejected and thus not listed in the table. The relationships between all observed variables (items) and their corresponding factors were significant at the .05 level as was discussed in the first-order CFA test, even though the values of the coefficients changed slightly due to the difference between the full structural model and the first-order CFA model. Since these relationships have already been discussed and confirmed, the coefficients are not listed here.
<table>
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<tr>
<th>Factors</th>
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<th>Factor Loading</th>
<th>Eigenvalue</th>
<th>% Variance Explained</th>
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<tr>
<td></td>
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<td>ORDSIZ</td>
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<td></td>
<td>MERDIS</td>
<td>.646</td>
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</tbody>
</table>

**Total Variance Explained** 61.8

* Suppliers ' influences on retailers' decisions on
  PRODLI: product line
  ORDSIZ: order size
  TIMPUR: timing of purchase
  DELITM: decisions on item delete
  EXPANS: store expansion plan
  NUSAPE: number of salesperson
  HOUROP: operation hours
  SALEAD: sales administration
  BOKKEP: bookkeeping
  DISCPO: discount policy
  ADVMED: advertisement method
  ADVCON: advertisement content
  MERDIS: merchandise display

Table 4.13 Principal Components Factor Analysis of Attributed Power
Figure 4.4 Full Structural Model
1. F7 (Attributed Power) = 0.822F3a (2.35)b

2. F8 (Retailers' Attitudes) = 0.477F1 + 0.806F5 + 0.277F6 (5.17) (7.83) (3.75)

3. F9 (Conflict) = 0.973F7 - 0.162F8 (3.69) (-2.63)

4. F10 (Retailers' Satisfaction) = 0.889F8 + 0.241F6 (9.59) (2.91)

Goodness-of-Fit: Chi-square = 1138.47 df = 699 NFI = .78 CFI = .89

a Standardized solution. b t-values

F1: Expert Power Source
F3: Legitimate Power Source
F5: Referent Power Source
F6: Coercive Power Source
F7: Attributed Power
F8: Retailers' Attitudes toward their Suppliers
F9: Conflict
F10: Retailers' Satisfaction with Their Suppliers

Table 4.14 Significant Relationships and the Goodness-of-Fit of the Full Structural Model
Hypothesis Tests

After confirming acceptable fit of the full structural model, the corresponding hypotheses outlined in Chapter 2 were tested. Since performance was found not significantly related to the other variables and was thus removed from the model, all the hypotheses on the relationships between performance and other variables could not be examined.

The first group of hypotheses tested included H1a, H1b, and H1c that were all focused on power sources. The hypothesis H1a: The six power sources held by the foreign brand apparel suppliers are positively related to the power attributed by retailers, was only partially supported based on the results. That is, attributed power was positively related only to legitimate power source ($\beta = .822, t = 2.35$) (Line 1 in Table 4.14). The relationships between the other five power sources and attributed power were not significant, which is opposite to what was expected.

Hypothesis H1b: Expert, information, legitimate, reward, and referent power sources held by apparel suppliers are positively related to retailers' attitudes toward their suppliers, retailers' satisfaction with their suppliers, and performance, but negatively related to channel conflict, was partially supported. Retailers’ attitudes toward their suppliers were positively related to expert power ($\beta = .477, t = 5.17$) and referent power ($\beta = .806, t = 7.83$) (Line 2 in Table 4.14), as was hypothesized; but no significant relationships between retailers’ attitudes and information, legitimate, and reward power sources were found. The positive relationships between retailers' satisfaction and expert, information, legitimate, reward, and referent power were not supported.
Hypothesis H1c: Coercive power possessed by apparel suppliers is negatively related to attitudes, satisfaction, and performance, but positively related to channel conflict, was not supported. Surprisingly, coercive power source was found to be positively related to both retailers' attitudes (β = .277, t = 3.75) (Line 2 in Table 4.14) and retailers' satisfaction (β = .241, t = 2.91) (Line 4 in Table 4.14), which is inconsistent with most findings in the channel power literature. In addition, coercive power source was not significantly related to channel conflict, which is not consistent with the previous literature.

Attributed power was the focus of hypothesis H2: Attributed power is negatively related to apparel retailers' attitudes toward the suppliers, retailers' satisfaction with suppliers, and retailers' performance, but positively related to channel conflict. This hypothesis was partially supported. Attributed power was found positively related to channel conflict (β = .973, t = 3.69) (Line 3 in Table 4.14). The proposed relationships between attitudes, satisfaction, and retailers' performance, and attributed power were not supported.

Hypothesis H3 focused on attitude: Apparel retailers' attitudes toward their suppliers are negatively related to the channel conflict, but positively related to satisfaction, and performance, and was partially supported. Retailers' attitudes were found positively related to satisfaction (β = .889, t = 9.59) (Line 4 in Table 4.14), as had been hypothesized. Conflict was found negatively related to attitude (β = -.162, t = -2.63) (Line 3 in Table 4.14).

Conflict was the focus of the hypothesis H4: Channel conflict is negatively related to retailers' satisfaction and retailers' performance. This hypothesis was not
supported. No direct relationships between conflict, and satisfaction and performance were found with the data.

Finally, the hypothesis **H5**: *Retailers' satisfaction is positively related to their performance*, was not supported. No relationship between satisfaction and performance was found since the final model did not include performance. Earlier regression analysis also showed no significant relationship between satisfaction and performance.
CHAPTER 5

DISCUSSION AND CONCLUSIONS

In this chapter, the theoretical perspective and procedure for the present study are briefly reviewed. Next, the results obtained from both the qualitative and the quantitative parts are summarized. This is followed by a discussion of the results both practically and theoretically. Conclusions based on the results are then made. Implications for U.S. apparel manufacturers are provided, and the theoretical contributions of the present study to channel power literature are addressed. Finally, the limitations of the study and recommendations for future research are provided.

Summary of the Research

The attractiveness of the Chinese market is increasing for foreign apparel manufacturers including U.S. manufacturers. An increase in the sales of foreign brand apparel in the Chinese market benefits both foreign manufacturers and Chinese consumers. However, the Chinese government still controls foreign trade, product distribution, and the retail business. Consequently, foreign apparel manufacturers, including those who export their products to China and those who produce apparel
collaboratively with Chinese inside China, are not allowed to sell their products directly to the Chinese consumers.

This study was designed to help U.S. manufacturers who want to sell their products in the Chinese market completely understand the distribution channel for foreign apparel in China. There were several objectives. The first was to detail the distribution channel for foreign brand apparel by finding out how imported apparel and the collaborative apparel manufactured inside China are distributed to Chinese apparel retailers from manufacturing sites. The second objective was to reveal the roles played by government organizations in the channel. The third objective was to identify the problems associated with the channel. Besides the three objectives, another objective of the quantitative part of this study was to theoretically examine the dyadic relationship between the Chinese apparel retailers selling foreign brand apparel and their suppliers using power theory. The ultimate goals of this study were to provide suggestions on how an effective and efficient distributing channel can be established for foreign apparel manufacturers and to make theoretical contributions to the distribution channel literature.

Power is a concept central to the understanding of participants' relationships in a distribution channel (Stern, 1988). Power exists among dyads of firms involved in business relationships, and it is one channel member's ability to control the decision variables in the marketing strategy of another at a different level in the channel of distribution (El-Ansary & Stern, 1972; Hunt & Nevin, 1974). The more successful one channel member is in getting its partner to go along with its wishes, the more power the member has over its partner.
The foundation of power is the interdependence of channel members upon each other for desirable resources (French & Reven, 1959), including scarce raw materials, heavily demanded products, or information (Dahl, 1957; Stern & El-Ansary, 1982; Stern & Reve, 1980). Desirable resources also include performing specialized marketing functions such as the ability to provide assistance and reward, legitimate right (right to influence others’ business operations under a legitimate contract), and to impose punishment (El-Ansary & Stern, 1972; Hunt & Neiven, 1972; Stern & Reve, 1980).

There are six types of power sources: expert power, information power, legitimate power, reward power, referent power, and coercive power (French & Raven, 1959; Raven & Kruglanski, 1970; Stern & El-Ansary, 1982). Many studies have tried to simplify the six power sources into a dichotomy. Two ways of dichotomizing the power sources are most accepted by channel power researchers. One divides power into coercive (potential punishments) and noncoercive (assistance) (Hunt & Nevin, 1974), with noncoercive power including expert power, information power, legitimate power, reward power, and referent power. The other dichotomizes power sources into mediate and nonmediate (Tedeschi, Schlenker, & Lindskold, 1971), with mediate power source including reward, coercive, and legal legitimate power and nonmediate power source including expert, information, traditional legitimate power, and referent power.

Channel power studies generally focus on several relationships: power sources and attributed power, power/power sources and channel conflict, power/power sources and channel members’ satisfaction, and power/power sources and performance (Hunt, Mentzer, & Danes, 1987). Although not all the findings in previous studies are consistent with each other, it is generally accepted that power source, attributed power, attitude,
conflict, satisfaction, and performance are closely related. First of all, the more a power source is possessed by a channel member, the more power attributed by the member’s partner. Besides, coercive/mediate power sources and the power they generate are likely to result in a negative attitude toward the power holders, a high possibility of conflict between channel members, a low degree of satisfaction with the power holders, and an unsatisfactory power receiver’s performance on business. In contrast, noncoercive/nonmediate power sources are likely to result in a positive attitude toward power holders, a low possibility of channel conflict, a high degree of satisfaction with power holders, and satisfactory power receiver’s business performance.

In order to fulfill the objectives, both qualitative and quantitative research methods were employed. Thirteen people were interviewed in order to clarify the structure of the distribution channel, identify the organizations having power in the channel, and find problems existing in the channel. Nine were from department stores (retailers), one was a foreign trade operator (senior manager), and three were from governmental organizations (officials). An unstructured interview (in-depth interview) approach was used and both descriptive and constructive questions were asked. The interviews lasted from 45 minutes to one and one-half hours, and the conversations were recorded by hand. Transcripts from the interviews were content analyzed following the Concept Book Approach (Mostyn, 1985).

One hundred ninety-eight questionnaires were distributed to Beijing’s retailers carrying foreign brand apparel. Each questionnaire included items asking for respondents’ basic business information, 3 open-ended questions, and 59 six-point Likert-type items. The three questions were included in the questionnaire to clarify the retailers’
purchase sources and to identify the problems with the channel perceived by the retailers in the interviews. The 59 closed-ended items were used to solicit the retailers’ perceptions of the power sources and power attributed to their suppliers, their attitudes toward the suppliers, their perceptions of channel conflict, the degree of their satisfaction with their suppliers, and their perceived performance in terms of the sales of foreign apparel. One hundred fifty of the 198 questionnaires distributed (response rate = 75.8%) were returned; all were usable.

The answers to the three open-ended questions on the survey were categorized and the frequencies were calculated. For the data obtained from the closed-ended questions, the reliability and validity of each measurement were checked first. Second, the relationships between the six power sources were examined to determine the kind of dichotomy the six power sources would follow. After that, the retailers’ perceptions of the six power sources/attributed power, their attitudes toward suppliers, their evaluations of channel conflict and the degree of satisfaction with their suppliers, and the assessment of their performance on selling foreign apparel were descriptively analyzed. Finally, the relationships between the power sources, attributed power, retailers’ attitudes toward their suppliers, channel conflict, retailers’ satisfaction with their suppliers, and the retailers’ performance were tested. Factors not appropriate to be included in the model were removed to increase the model fit.
Results and Discussion

Qualitative Results

Structure of the Distribution Channel for Foreign Brand Apparel

The first objective of the interviews and open-ended-questions was to detail the distribution channel for foreign brand apparel including both imported apparel and that collaboratively manufactured in China. Results from both interview and open-ended questions show that almost all Chinese apparel retailers cannot import directly from foreign manufacturers because of governmental regulations. Most of the respondents to the questions obtained imported apparel from foreign trade operators. A small percent of the respondents imported products directly from overseas or obtained imported products from their parent stores that either had direct import rights or purchased from foreign trade operators. The few retailers having the rights to import belong to conglomerates having importing/exporting licenses. Most imported apparel sold by the retailers in Beijing was manufactured in France, Italy, Hong Kong, Korea, and Japan.

Four types of trade operators representing foreign manufacturers including state-owned, collectively-owned, Chinese-Foreign joint venture, and privately-owned functioned as distributors in the channel for foreign apparel. At present, state-owned foreign trade operators hold the largest share of the business because they are given preferential treatment by the government when foreign trade licenses are assigned. Chinese-Foreign joint venture foreign trade operators are playing an increasingly important role in the channel because they have an efficient administrative system and expertise required by the business. Because currently wholly foreign-owned trade operators are not allowed in China, the foreign apparel manufacturers are trying to
develop their own distribution channel through the establishment of joint venture trade operators.

Several layers of representative trade operators exist between foreign apparel manufacturers and the Chinese apparel retailers, including continental level, national level, regional level, and local level. The number of layers in the distribution channel varies correspondent with the manufacturing site and the way the manufacturer operates its business. The result is a complex multi-layered channel.

The distribution channel for foreign brand apparel collaboratively manufactured in China is much simpler than imported apparel because of proximity and because the government allows direct sales from manufacturers to retailers. Retailers of collaborative products can also purchase from trade operators that do not necessarily need to have foreign trade licenses. Manufacturers of collaborative apparel rely on one or more trade operator across the country to distribute their products.

**Governmental Organizations Having Control in the Channel**

The second objective of the interviews and open-ended questions was to identify the governmental organizations having control of the channel. Results show that several governmental organizations have control in the distribution channel for foreign brand apparel, including the State Economic and Trade Commission, the Ministry of Foreign Trade and Economic Co-operation (MOFTEC), the Industry and Commerce Administration, the National Customs, the Taxation Administration, the Commodity Quality Inspection Administration, and their local branches. These governmental organizations approve the conduct of foreign brand apparel business, determine which
businesses can import, and assure that the business requirements for import quotas, product quality, and taxes are followed.

Problems in the Channel

The third objective of the interviews and open-ended questions was to reveal the problems existing in the distribution channel. The most frequently reported problem by the survey respondents is lack of capital in conducting foreign brand apparel business. The system by which governmental organizations assign apparel import licenses and quotas is another problem perceived by the interviewees and the survey respondents. In particular, they were concerned about the regulations for determining which foreign trade operators should be assigned foreign trade licenses and how import quotas should be allotted. The government’s control of foreign currency is another problem reported by many survey respondents because currency control makes it difficult for retailers to obtain foreign currency they need to make purchases from foreign manufacturers. The retailers were also bothered by high prices of imported apparel. Almost all interviewees attributed the high prices of foreign brand apparel to the multiple layers of foreign trade operators in the channel because every trade operator adds a markup. The last problem confronted by the retailers is non-returnable unsold products, which forces the retailers to take a high degree of risk in selling foreign brand apparel.

Retailers’ Concerns When Purchasing from Suppliers

The retailers responding to the survey were also asked about their concerns when buying imported apparel or collaborative apparel from their suppliers. Price, quality, style, and supply were concerns of many of the retailers. Retailers of imported apparel specifically were concerned about the certificate of product country-of-origin, while
retailers carrying collaborative products were concerned about after-sale service, and pay much attention to the format of collaboration between retailers and suppliers.

**Discussion of the Results Obtained from Interviews and Open-ended Questions**

The results show that the distribution channel for imported apparel is more complicated than what was reported in the literature because several layers of foreign trade operators exist between foreign manufacturers and Chinese apparel retailers. Additionally, the sources for foreign brand apparel are more diverse than what was reported in the literature (e.g., China Trade Report, 1998; Market Development Reports, 1997; Sternquist & Zhou, 1995; Zhao et al., 1998), even though most retailers obtain foreign apparel from trade operators. For instance, some retailers can buy imported apparel from parent stores and other retailers can buy directly from overseas manufacturers. They can also bring foreign brand apparel into their stores by conducting collaborative selling with manufacturers or trade operators, or leasing selling space to manufacturers or trade operators.

The interviews and open-ended questions identified more types of governmental organizations having control in the distribution channel for foreign brand apparel in China compared with previous literature (e.g., China Trade Report, 1998; McClain & Cheng, 1995). Besides the State Economic and Trade Commission, the MOFTEC, and their local branches, the results identified other governmental organizations having power in the channel, such as the national and local level Industry and Commerce Administration Bureaus, Customs, the Taxation Administration Bureaus, and the Commodity Quality Inspection Administration Bureaus. These types of governmental
organizations, plus the multi-layered trade operating system, make the distribution channel for foreign brand apparel in China very complicated.

Although a few difficulties confronted by Chinese retailers when selling foreign apparel were addressed in the literature, such as the inability to import directly, the interviews and open-ended questions revealed a greater number of difficulties perceived by the Chinese retailers when conducting foreign apparel business. These difficulties include lack of capital to make purchases, the government’s control of foreign currency, high prices of foreign apparel, and non-returnable unsold products.

Finally, the qualitative part of the study found a number of concerns when Chinese retailers are purchasing from their suppliers, such as product quality, price, style, supply, and appropriateness for customers. This finding will help people have a better understanding of what Chinese retailers are looking for when considering possible purchases from their suppliers.

Quantitative Results

Cronbach’s alpha and a first-order Confirmatory Factor Analysis identified measurements having satisfactory reliability and validity. To examine if the six power sources follow a noncoercive-coercive (Hunt & Nevin, 1974) or a nonmediate-mediate dichotomy (Tedeschi et al., 1971), a second-order CFA was conducted. The results showed that expert power source, information power source, and referent power source all significantly loaded on one second-order factor, and coercive power source significantly loaded on the other second-order factor. Legitimate power and reward power sources cross-loaded on the two second-order factors. Therefore, the six power sources fell into a dichotomy similar to mediate-nonmediate dichotomy. However, one
thing not consistent with the mediate-nonmediate power dichotomy (reward should solely load on mediate power source) is that, based on the second-order CFA results, reward power cross-loaded on mediate and nonmediate power sources.

The notion that the six power sources follow either a coercive-noncoercive or mediate-nonmediate dichotomy has been widely accepted in channel power literature. This study found that Chinese apparel retailers' perceptions of suppliers’ power sources follow a pattern similar to mediate-nonmediate dichotomy. What is different from the mediate-nonmediate dichotomy reported in previous literature is that the reward power source was found to be cross-loaded on both mediate and nonmediate power in the present study. Conceptually, reward power refers to one channel member’s perception of its partner’s ability to grant rewards (Lusch & Brown, 1982). In this study, the items used in measuring reward power convey a neutral rather than a clear mediate or nonmediate message because they did not specify whether the supplier (organizations/businesses) actually controlled the retailer’s behavior. Since the items used in the present study were borrowed from the previous studies, it is possible that the dichotomies proposed in the literature cannot be applied to the Chinese culture and business environment. There is another possibility that the traditional way of categorizing reward power source exclusively as mediate power is unreasonable.

Retailers’ Perceptions of Power Sources, Attributed Power, Attitudes, Conflict, Satisfaction, and Performance

Before the hypothesized model was tested, a descriptive analysis of the data was conducted in order to understand the retailers’ perceptions of the power sources, attributed power, attitudes toward suppliers, channel conflict, satisfaction with suppliers,
and their business performance. Expert power and information power held by suppliers were perceived by the retailers. The retailers were neutral on their perceptions of legitimate power, reward power, referent power, and coercive power. The retailers did not attribute much power to their suppliers. Besides, the retailers had positive attitudes toward and satisfaction with their suppliers. The retailers did not perceive much conflict in their supplier and retailer relationships. One possible reason for the positive attitudes toward and satisfaction with the suppliers was social desirability. It was possible that the retailers were giving socially desirable answers concerning attitude and satisfaction since the survey was arranged by the Beijing Statistics Bureau, a governmental organization. Finally, the retailers were neutral in assessment of their sales. Neither type of ownership nor size of business made a difference on the retailers’ perceptions of their suppliers.

Tests of the Hypotheses

The hypotheses originated from a theoretical model formulated from the literature. The results of an initial model test suggested a poor fit. Performance was removed from the model and the 16 items used in measuring attributed power were factor-analyzed. The dimension closely related to supplier-retailer relationship was retained for a second model test and the other two dimensions associated with store management and product promotion were removed from further model tests. As a result of these changes, a minimally acceptable model was identified.

Since performance was removed from the model, all the hypothesized relationships between performance and other factors could not be tested. Hypothesis H1a: The six sources of power held by the foreign brand apparel suppliers are positively related to the power attributed by retailers, was partially supported by the data. That is,
attributed power was only positively related to legitimate power source. The relationships between the other five power sources and attributed power were not significant. Hypothesis **H1b**: Expert, information, legitimate, reward, and referent power held by apparel suppliers are positively related to retailers’ attitudes toward their suppliers, retailers’ satisfaction with their suppliers, and performance, but negatively related to channel conflict, was partially supported. Retailers’ attitudes toward their suppliers were positively related to expert power and referent power. No significant relationships between retailers’ attitudes and information, legitimate, and reward power sources were found. The relationships between conflict and satisfaction, and expert, information, legitimate, reward, and referent power were not supported. Hypothesis **H1c**: Coercive power possessed by apparel suppliers is negatively related to attitudes, satisfaction, and performance, but positively related to channel conflict, was rejected. Surprisingly, coercive power was positively related to both retailers’ attitudes and retailers’ satisfaction, which is opposite to the findings in channel power literature. In addition, the data did not support the hypothesized relationship between coercive power, and channel conflict, which is not consistent with previous findings.

Hypothesis **H2**: Attributed power is negatively related to apparel retailers’ attitudes toward the suppliers, retailers’ satisfaction with suppliers, and retailers’ performance, but positively related to channel conflict, was partially supported. Attributed power was found positively related to channel conflict. The proposed relationships between attributed power, and attitudes and satisfaction were not supported.

Hypothesis **H3**: Apparel retailers’ attitudes toward their suppliers are negatively related to the channel conflict, but positively related to satisfaction, and performance,
was partially supported. Attitude was found to be positively related to satisfaction and negatively related to conflict.

**Hypothesis H4:** Channel conflict is negatively related to retailers' satisfaction and retailers' performance. This hypothesis was rejected. No direct relationship between conflict and satisfaction was found with the data.

Finally, Hypothesis H5: Retailers' satisfaction is positively related to their performance, was rejected. No relationship between satisfaction and performance was found.

**Discussion from A Theoretical Perspective**

**Dichotomy of the power sources.** The six power sources were found to follow a dichotomy somewhat like the mediate-nonmediate dichotomy, with reward power cross-loaded on mediate and nonmediate power sources. This finding questions the previous findings in the literature proposing that reward power could only convey a mediate message to power receivers from the power holders. It is also possible that reward power is perceived differently by the power receivers in a different culture and business environment compared with those in western cultures and business settings.

**Relationships between the power sources and attributed power.** Channel power has been defined as a function of power sources because the power sources are the bases from which power originates (Beier & Stern, 1969; El-Ansary & Stern, 1972). This study followed an indirect approach to measuring attributed power. In this approach, power was empirically defined as one channel member’s influence over its business partners’ strategic marketing decisions. A variety of marketing decisions were used to measure attributed power in both this and
previous studies. The results of the present study show that careful selection of the items is critical when applying channel power studies to a different business environment. Not all the marketing decisions are appropriate for use in measuring power. Instead, only the marketing decisions closely related to the dyadic relationship under study are appropriate for use. In this study, only the marketing decisions most closely related to foreign apparel supplier-Chinese apparel retailer relationship were finally used in measuring attributed power. Other items only relevant to store operational management and product promotion were removed because the information obtained from the interviews showed that foreign apparel suppliers did not have much influence on the retailers they supplied regarding these marketing decisions. Using irrelevant items concealed the real relationships between power sources and attributed power.

The data only supported a significant relationship between legitimate power sources and attributed power, while the relationships between the other power sources and attributed power were not significant. The result is not surprising given the conflicting findings on the relationships between attributed power and the power sources in previous literature. For instance, Hunt and Nevin (1974) found a positive relationship between noncoercive power source and attributed power; while a negative relationship was reported by Lusch and Brown (1982). Etgar (1976) identified a positive relationship between coercive power source and attributed power, but Gaski and Nevin (1985) reported a negative relationship between coercive power source and attributed power. Moreover, an
insignificant relationship between coercive power source and attributed power has also been reported (Gaski, 1986; Howell, 1987).

The finding that only legitimate power source (power based on one channel member's perception of its partner's legitimate right) is significantly related to attributed power might be related to the importance Chinese retailers place on of having a legitimate relationship with their suppliers. In order to carry foreign brand apparel, Chinese apparel retailers must be approved by suppliers. Not every retailer who wants to sell foreign apparel is approved because the suppliers are very selective. Only those retailers having strong selling abilities and good reputations tend to be selected. But on the other hand, many Chinese retailers wish to sell foreign apparel because it is more profitable than selling domestic products. These reasons may explain why Chinese retailers regard the legitimate power possessed by suppliers as an exceptionally important base of power.

The finding also suggests that channel members do not always attribute power to a variety of power sources. Instead, they may perceive power as originating from the power source that is most critical to the success of their business. The notion of differently important power sources for originating power was acknowledged by Wrong (1979), who indicated that some power sources are likely to reduce the effectiveness of other sources. This may also explain the inconsistent findings on the relationships between the power sources and attributed power in previous literature.
**Relationships between the power sources and attitudes toward suppliers.**

The previous findings that coercive power sources result in a negative attitude, and noncoercive power sources result in a positive attitude are based on studies conducted in western countries such as the U.S. The results of the present study show that not only expert power and referent power, but also coercive power is positively related to attitudes, which is inconsistent with the previous findings. In order to provide an explanation for the inconsistency, the effects of culture on business conduct need to be considered. The structure of a distribution channel is largely influenced by its social and cultural context (Olsen & Granzin, 1990). Johnson et al. (1993) commented that business conduct varies in different cultures. In their study of the U.S. supplier-Japanese retailer relationship, Johnson et al. stated that,

... the Japanese and Westerners relate differently to social power. The whole of Japanese society is structured in vertical relationships, that is, relationships commonly thought of as superior-subordinate. This vertical alignment results in paternalistic business relationships. In terms of social power, participants' relationships emulate a family context such as father and son. Such a paternalistic climate not only makes the Japanese more accustomed and attuned to social power in relationships in general, but also may affect how they classify and use power (p. 3).

Based on this same reasoning, coercive power may not be perceived the same way by Chinese as by westerners because of the distinctive Chinese business context.
Similar to the Japanese, what is considered coercive in western culture may not be perceived as negative by Chinese as by westerners. Therefore, Chinese retailers may not think negatively of their suppliers even if the suppliers exert coercive power over them.

Second, the items used in measuring coercive power convey not only the message that retailers should comply with suppliers’ requirements, but also a message that the retailers can obtain better service, easier access to good selling products, renewed contracts, and cooperation if they comply with the suppliers. Besides, three out the five items used in measuring coercive power seem to convey a message of the regulations associated with the business relationship. For instance, one item stated “Our store receives better service and/or cooperation from associated organizations/business if we comply with their requests.” Another item stated “When attempting to influence our store, our associated organizations/business implies that we would receive better service and/or cooperation if we comply with their requests.” The third item states that “In attempting to change our store’s behavior, associated organizations/business have drawn our attention to accessibility to imported products or Chinese-Foreign collaboratively manufactured products that are under good sales.”

In the Chinese business environment where regulations are not always followed, clearly defined responsibility and rights are very important in business activities. The data obtained from the interview showed that their suppliers’ reputation and trustworthiness was a concern for the retailers. Therefore, the
retailers may think positively of the suppliers when the responsibilities and rights are specified.

Third, all five items used in measuring coercive power specified the consequence to retailers that comply with their suppliers’ requests, but the nature of these requests were not specified. However, because suppliers were attributed as having legitimate power over retailers, it is possible that suppliers’ requests are regarded as legal requirements instead of coercive threats.

Another possible reason for the positive relationship between retailers’ attitudes toward their suppliers and the coercive power perceived by the retailers is social desirability. It is possible that the retailers were giving socially desirable answers concerning attitudes and satisfaction since the survey was arranged by the Beijing Statistics Bureau, a governmental organization.

To sum up, all the items used in measuring coercive power were drawn from previous literature. The findings suggest that coercive power previously regarded as threats by westerners may convey a different message for Chinese. Brown et al. (1983) and Frazier and Summers (1984) cautioned that power sources might not occur in real settings in the same way they have been categorized. Wrong (1979) acknowledged that different types of power sources can change as the context changes. This study supports these notions by proposing that a different culture and a different business setting can change a negative message conveyed by power to a neutral or even positive message. Besides, the finding on the positive relationship between coercive power and
attitude cautions that the items used in previous studies to measure coercive power may convey a less coercive message than is intended.

**Relationships between the power sources and conflict.** The relationships between conflict and the expert, information, legitimate, reward, referent, and coercive power sources found in previous studies were not found in this study. Only negative relationships between conflict and attributed power and retailers' attitudes toward suppliers were identified in this study. The findings are inconsistent with previous studies reporting a positive relationship between conflict and coercive or mediate power and a negative relationship between conflict and noncoercive or nonmediate power (e.g., Brown & Frazier, 1978; Frazier & Rody, 1991; Lusch, 1976A; Wilkinson, 1981). A possible explanation for the finding can be provided by Gaski and Nevin's (1985) notion of exercised versus unexercised power sources. The researchers suggested a distinction between exercised and unexercised power sources because they found that presented but withheld power sources (unexercised) have different effects on satisfaction and conflict from the power that is actually exercised. They argued that the implemented coercive power source has a negative relationship with satisfaction and a positive relationship with channel conflict, and the exercised noncoercive power source has a positive relationship with satisfaction and a negative relationship with channel conflict. However, if the power sources are only presented by power holders and perceived by the power receivers without being exercised by the holders, the relationships between power sources, and
satisfaction and conflict may be much weaker or even of the opposite direction. Gaski and Nevin (1985) stated,

...the imposition of harsh sanctions on channel members (exercised coercive sources of power) seems certain to cause dissatisfaction and conflict, but the dormant presence of the potential to invoke such sanctions (unexercised coercive sources) could conceivably be regarded by franchisees or dealers as benevolent restraint (p. 132).

The finding from the present study, that conflict has no relationship with power sources, indirectly supports the exercised-unexercised distinction. The other evidence is that conflict is only related to attributed power, which implies that conflict is only associated with the amount of power exercised. Overall, this study reveals that no matter how strong the suppliers present their power sources, channel conflict may not be significantly perceived by the retailers. The conflict between the suppliers and retailers will increase only when the amount of power exercised by the suppliers increases.

Relationship between the power sources and satisfaction. The relationships between expert, information, legitimate, referent, and reward power sources and satisfaction were not found in this study. This is not surprising given the contradictory findings on power sources and satisfaction relationships. For instance, Brown and Frazier (1978) reported an insignificant relationship between nonmediate power sources and satisfaction, while Keith et al. (1990) found that nonmediate power sources are negatively related to satisfaction.
The positive relationship between coercive power and satisfaction can be attributed to the same reasons that coercive power source was positively related to attitude. That is, coercive power conveys a message of clearly defined responsibility, not just threats. Chinese people think positively of authority and the power behind authority. Because the retailers are more positive toward legitimate power and well defined business structures, they may be more satisfied with the suppliers who have defined clear responsibilities and rights for them.

In addition, coercive power was found indirectly related to satisfaction. The indirect relationship can be identified by the path from coercive power to attitude and then to satisfaction. That is, a greater amount of coercive power perceived by retailers results in a more positive attitude toward suppliers, and a more positive attitude leads to a higher degree of satisfaction with the suppliers. A similar finding has been reported by Gaski (1986) who found that reward power has an indirect influence on satisfaction, mediated by expert, referent, and legitimate power. In addition, Frazier at al. (1989) argued that the factors such as power sources/power and attitude only influenced channel satisfaction indirectly through channel conflict. The finding of the present study extends the literature by identifying an indirect relationship between a power source and satisfaction through attitudes toward suppliers.

Relationships between attributed power and attitudes toward suppliers, conflict, and satisfaction. Attributed power was found to be unrelated to attitude, which is inconsistent with the previous findings that attributed power is negatively related to attitude toward power holders. To explain the inconsistency,
the distinctive Chinese culture and business environment needs to be considered. As it was mentioned before in interpreting the positive relationship between coercive power source and retailers’ attitudes toward their suppliers. In addition, suppliers’ power may be perceived by Chinese retailers as necessary in the business environment that is not well regulated. Besides, channel members’ attitudes toward their partners’ power may vary in different situations. In situations where suppliers’ dominating position is taken for granted, then the retailers may not feel as negative about the power attributed by suppliers as was reported in previous literature. In the case of the supplier-retailer relationship in the Chinese foreign apparel market, suppliers’ power may be taken for granted by the retailers. Consequently, the retailers’ attitudes toward their suppliers may not be significantly related to the amount of power attributed to suppliers.

A positive relationship between attributed power and conflict has been identified in this study. The finding is consistent with the findings in the literature (e.g., Brown et al., 1983; Wilkinson, 1981). This finding implies that even though a larger amount of power attributed to suppliers by retailers may not result in a negative attitude toward the suppliers, it will increase the possibility of conflict between retailers and their suppliers. This may suggest that conflict is more likely to occur in a more unbalanced power relationship, while attitude toward the more powerful channel member may not be as sensitive to the amount of power attributed to the member.

Finally, the present study failed to find a relationship between attributed power and satisfaction. An insignificant relationship between attributed power
and satisfaction has been reported in several studies (e.g., Gaski, 1986; Howell, 1987; Wilkinson, 1981). This study supports the notion that less power possessed by one channel member does not necessarily result in a more satisfied partner.

**Relationship between conflict and satisfaction.** The present study failed to find a significant relationship between conflict and satisfaction. Although conflict is a state of tension between channel members, conflict itself is not necessarily bad (Thomas, 1976). An increasing number of channel researchers have agreed that conflict cannot be considered to be only destructive (Rawwas et al., 1997). Conflict can have both constructive and destructive outcomes depending on the management of conflict (Pondy, 1967; Rawwas et al., 1997). Constructive conflict is an active evaluation of the outcomes of the efforts to alleviate the tension between the channel members (Anderson & Narus, 1990; Rawwas et al., 1997; Robicheaux & El-Ansary, 1976; Rosenberg & Stern, 1971). Destructive conflict is the result of the tensional relationship between the members that increase hostile behavior (Thomas, 1976). Therefore, conflict does not necessarily result in an unfavorable relationship because constructive outcomes of conflict are possible if channel members handle it properly. Empirically, Rawwas et al. (1997) found that constructive conflict is positively related to satisfaction, while destructive conflict is negatively related to satisfaction. The insignificant conflict and satisfaction relationship found in the present study also suggests that the relationship may not simply be negative, rather that factors such as conflict management may intervene. If conflict is properly handled by channel members, the satisfaction of the members with each other could be increased, thus a less
strong negative or even insignificant relationship between conflict and satisfaction is not impossible.

**Relationships between performance and the other factors.** Performance was excluded from the model in the process of specifying an acceptable model. In the process, the relationships between power sources, attributed power, attitudes toward suppliers, conflict, and satisfaction were not found when a multiple regression was conducted. In the channel power literature, performance is defined as the extent to which a channel member's relationship with its channel partner contributes to fulfillment of the member's business objectives (Gaski & Nevin, 1985). The finding of the present study suggests that an empirical measurement of a channel relationship's contribution to the channel member's business performance may be problematic. The reason is that there are many intervening factors affecting business performance. Gaski and Nevin (1985) reported the same problem when they failed to find significant relationships between coercive power and reward power, and performance. They attributed the insignificant relationships to a number of intervening variables. For the present study, possible intervening factors may be retailers' management of the business operation and store location. Based on the above reasons, it is reasonable to question the relationships between performance and other variables such as power sources, attributed power, attitude, conflict, and satisfaction. Questions such as how to define performance and how to measure it empirically so that the relationship between performance and channel relationship can be accurately identified need to be answered in the future.
Conclusions

Several layers of foreign trade operators function as distributors for foreign apparel manufacturers selling products in the Chinese market. The distribution channel benefits both foreign manufacturers and Chinese retailers because it bridges the two sides and makes sales possible. However, the channel is not free of problems. Retailers of foreign apparel are bothered by lack of capital, restrictive and unequally applied governmental regulations, high prices, government’s control of foreign currency, non-returnable unsold products, limited selection of products, and insufficient information about products. Retailers pay much attention to product quality and price, product delivery, method of payment, and the appropriateness of foreign products to Chinese consumers. Suppliers’ power over retailers is significantly related to the legitimate power source. Retailers’ attitudes toward their suppliers is positively related to expert power, referent power, and coercive power. The more suppliers’ power that is perceived by retailers, the higher the level of conflict between the retailers and the suppliers, but the conflict may be alleviated if the retailers have a positive attitude toward suppliers. Finally, retailers’ satisfaction with their suppliers is positively related to their attitudes toward the suppliers and coercive power.

Implications for U.S. Apparel Manufacturers

This study provides useful information for apparel manufacturers from the U.S. and other countries if they want to sell products to China. Ideas about what the U.S. manufacturers need to do for smooth entry into the Chinese market are addressed below.
Exploring the Chinese Market

The Chinese market has not been fully explored by U.S. apparel manufacturers. The foreign apparel market in China is dominated by European brands and the brands from Asian countries such as Japan and Korea. Most foreign products carried by Chinese retailers are French and Italian brands. Few well-known U.S. brands are carried by many large-scale department stores in Beijing as compared with what is carried from other countries. Thus, further exploring the Chinese apparel market is an important task for U.S. manufacturers who have not yet tapped this large and growing market.

Entry Strategy

The existence of the present complex distribution channel for imported apparel is due to China’s policy on foreign trade, distribution, and retailing that prevents foreigners from engaging in apparel distribution and retailing. Currently, relying on the channel is the only choice for foreign manufacturers that are located outside China but want to penetrate the Chinese market. If these foreign manufacturers can change the entry strategy by manufacturing collaboratively with Chinese within China, it will be much easier for them to sell their products in the Chinese market because of the less strict policy applied to collaborative products by the Chinese government and the shorter distribution channel. If foreign manufacturers cannot manufacture directly within China, carefully selecting distributors will benefit the manufacturers’ business. Wholly Chinese-owned foreign trade operators include those that are state-owned, collectively-owned, and privately-owned. Besides the wholly Chinese-owned trade operators, there are joint venture trade operators that are owned by both Chinese and foreigners. Each type of distributor has both advantages and disadvantages for manufacturers. One major
advantage for foreign manufacturers to fully rely on the wholly Chinese-owned distributors is that they do not need to put any efforts in establishing trade agents in China. But there are also disadvantages to relying on those distributors. Entirely relying on wholly Chinese-owned distributors makes it more difficult for foreign manufacturers to establish a self-controlled distribution channel in the future. It has been reported that China will open its retailing and distribution to foreign investors in a number of major cities in the near future. Therefore, it will benefit foreign manufacturers if they start to establish their own distribution channel by setting up joint venture trade operators. Once China opens its foreign trade business for foreign companies nationwide, a distribution channel entirely controlled by foreign manufacturers can be quickly established.

**Providing Assistance to Chinese Retailers**

Since initially only a limited number of foreign investors will be allowed to engage in retailing, Chinese retailers will remain the major force in foreign apparel retailing. Therefore, helping Chinese retailers solve the problems they are confronting would be valuable.

The first suggestion on this matter is to help Chinese retailers obtain foreign trade licenses. Because of the Chinese government’s regulations, only a limited number of foreign trade operators can obtain foreign trade licenses, which results in less competition among the trade operators and higher markups added by the trade operators. If a greater number of companies can obtain foreign trade privileges and engage in apparel

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1 According to the most up-dated information (Xinhua News, July 7, 1999, Beijing), China will gradually open its retailing and distribution to foreign enterprises. Up to two wholly foreign-invested retail and distribution enterprises will be allowed in major cities. The extension of foreign retail and distribution business to other cities will be possible in the future. A detailed timetable of the openness has not been provided.
distribution, the retail price of foreign apparel may be dramatically decreased due to stronger competition. Products that are less expensive for Chinese consumers will make it easier for retailers to conduct foreign apparel business; products should move more quickly and be less risky. Therefore, U.S. apparel manufacturers may want to seek help from the U.S. government to put pressure on the Chinese government to increase the number of foreign trade operators. This may be possible because China has agreed to eliminate non-tariff trade barriers such as legal and administrative impediments (National Trade Estimate Report, 1997).

A second suggestion for foreign manufacturers is to provide sales assistance to Chinese retailers. Lack of expertise and necessary information for selling foreign apparel is another problem confronted by Chinese apparel retailers. In addition, the fact that the retailers’ attitudes toward suppliers is positively related to expert and information power suggests that foreign manufacturers can improve the supplier-retailer relationship by helping the retailers learn more about the products and how best to promote them. Only relying on the distributors to pass on the information and expertise on product and product promotion has proven insufficient. Foreign manufacturers can help Chinese retailers by providing promotion skill training programs in such things as advertising and visual merchandising. The manufacturers can also create opportunities for Chinese retailers to be directly involved in product selection, such as regularly mailing product catalogs to Chinese retailers and inviting them to attend product shows.

The third suggestion for foreign manufacturers is to have more flexibility in conducting business. Foreign apparel manufacturers should be aware of the difficulties confronted by Chinese apparel retailers in conducting foreign apparel business such as
lack of capital, non-returnable unsold products, and suppliers’ strict payment policy. These problems are especially serious for the retailers carrying imported apparel versus the retailers carrying collaborative products. Therefore, manufacturers may want to consider collaborating with distributors on a flexible policy for return of unsold products. Manufacturers can also work collaboratively with foreign trade operators to provide favorable methods of payment such as offering credit to Chinese retailers. A flexible policy will help the retailers currently involved in foreign apparel business and attract more retailers to conduct foreign apparel business.

For collaboratively produced products, manufacturers should seek a more diverse distribution channel. Results showed that manufacturers and distributors are the two major sources of collaborative products. Efforts can be made by manufacturers to increase sales by leasing selling space from department stores and collaborative selling with stores. These new sales formats may attract more retailers to the collaborative product business because retailers do not need to take title of the products and therefore pressure on capital can be alleviated. On the other hand, manufacturers can directly sell their products without investing in outlets.

Contributions

This study makes contributions to both U.S. apparel manufacturers who want to sell their products in the Chinese market and the distribution channel literature.
Practical Contributions

This study provides assistance to U.S. manufacturers by detailing a distinctive distribution channel in China, identifying the problems associated with the channel, and making valuable suggestions. For instance, the study detailed the multi-layered agent system structure of the channel and identified the problems such as high product prices and the inefficient delivery of product promotion information. Based on the findings, suggestions were made on how to improve the channel so that product prices can be reduced and the information and expertise needed by Chinese retailers can be effectively delivered from manufacturers. In addition, this study suggested that U.S. apparel manufacturers provide assistance to Chinese apparel retailers, such as creating opportunities for retailers so that they can be involved in product selection, and offering credit to Chinese retailers so that the pressure of lack of capital in selling foreign apparel can be alleviated.

This study also benefits foreign apparel manufacturers by examining the relationship between suppliers and retailers. A good relationship between suppliers and Chinese retailers is critical for manufacturers because it will help increase the sales of foreign apparel and eventually increase manufacturers’ profit. However, having a willingness to improve the relationship without knowing how to do so is not sufficient. This study provides details on what factors positively affect retailers’ attitudes toward and satisfaction with their suppliers, and what factors may decrease the possibility of conflict between the suppliers and retailers. For instance, providing more assistance on information and expertise needed by
Chinese retailers in selling foreign products should improve the retailers’ attitudes toward their suppliers. The possibility of conflict between Chinese retailers and their suppliers can be decreased by improving the retailers’ attitudes toward their suppliers. The results provide the manufacturers with ideas for how to work with their distributors so that good connections throughout the distribution channel can be established, as was discussed in the implication section.

This study also provides useful information for U.S. and Chinese policy makers. Knowing the difficulties U.S. manufacturers may confront in penetrating the Chinese apparel market, U.S. policy makers can make efforts together with manufacturers to cooperate with the Chinese government in creating a friendly business environment for the manufacturers. For instance, U.S. policy makers might assist U.S. apparel manufacturers in broadening the distribution channel by negotiating with the Chinese government and asking the government to give more foreign trade operators import rights. U.S. policy makers can also defend manufacturers’ interests by collaborating with the Chinese government to prevent illegal activities. This study also provides Chinese policy makers with information about how to maintain a healthy and efficient environment for foreign apparel business that will benefit both Chinese retailers and apparel consumers. For instance, the Chinese government should consider loosening the control of foreign currency because lack of foreign currency is one of the major barriers for Chinese retailers in conducting foreign apparel business.
**Methodological Contributions**

This study shows the values of methodological triangulation in enhancing the creditability of results. The richness and trustworthiness of the information obtained in the study was increased by using multiple data collection methods and multiple information sources. For instance, information about Chinese retailers’ difficulties in conducting foreign brand apparel business became richer and more reliable when combining the interview approach with open-ended questions in the survey. The interview data provided a better understanding and explanation of the difficulties Chinese retailers confronted in conducting foreign apparel business, while the data obtained from the open-ended questions revealed the seriousness of the difficulties as was indicated by the percent of the retailers reporting the difficulties. In addition, the questions on the structure of the distribution channel for foreign brand apparel including the retailer and supplier relationship, the organizations having power in the channel, and the difficulties confronted by retailers in carrying foreign brand apparel were more fully understood using multiple informants including Chinese apparel retailers, governmental officials, and a foreign trade operator.

**Theoretical Contributions**

This study contributes to distribution channel literature by extending it to a government-controlled economy. The theory had been developed from studies conducted in a free market environment and western cultures. Whether it could be applied to an eastern culture with a centrally planned economy had not been studied. The present study introduced channel power theory to the study of the
Chinese distribution channel and makes a pioneering effort to explore the channel supplier-retailer relationship theoretically. The results of this study show a satisfactory degree of applicability of the theory in that a number of relationships advocated under the theory have been found in this study.

However, the cross-cultural application of the theory is not free of questions. This study extends the channel power theory by proposing that first, the relationships between power sources and attributed power, attitude and satisfaction are culture-dependent. For instance, the role played by coercive power in affecting attitudes toward suppliers and retailers’ satisfaction with suppliers changes in a different culture with a different business environment. In this study, it is proposed that a different cultural context may change the meaning conveyed by coercive power source. That is, coercive power source conveys not only threats, by also clearly defined responsibility of retailers, with the result being a positive attitude toward suppliers. Another example regards the relationship between attributed power and attitude. In a business environment where paternalistic relationships are acceptable, attributed power may not necessarily result in a negative attitude toward power holders.

In addition, this study contributes to the literature by clarifying some confusing notions in channel power theory. For instance, based on the results of this study, it was proposed that attributed power is not simply a function of all the power sources, instead, the contribution of different types of power sources to attributed power varies depending on the significance of each power source to the channel members. For example, the power attributed by Chinese retailers to their
suppliers was only significantly related to legitimate power source perceived by
the retailers. Another example shows the insight provided by the study regards
the insignificant relationship between conflict and satisfaction. This finding
suggests that whether conflict will result in a lower degree of satisfaction is
dependent on how the conflict is managed by the channel members. Simply
associating conflict negatively with satisfaction overlooks the dynamic role of
conflict management.

Limitations of the Present Study

The major limitation of the study is that the supplier-retailer relationship
has only been examined from the retailer’s perspective. If the opinions of the
suppliers had been solicited, the richness of the information and the value of the
study could increase because the suppliers are important channel participants too.

A sample drawn exclusively from one city (Beijing) influences the
generalizability of the results obtained from the study. For instance, the retail
stores interviewed and surveyed in Beijing may be of larger size than those in
other cities because of the larger population and more developed retail business in
Beijing. Therefore, it may be more difficult for the retail stores in other cities to
develop relationships with foreign trade operators.

The small sample size made it impossible to statistically analyze the
supplier-retailer relationship for two types of retailers (retailers carrying imported
apparel and the retailers carrying collaborative products manufactured in China)
separately. A separate analysis may provide more information about the channel relationships for retailers in terms of the different types of products they carry.

Recommendations for Future Research

Based on the present study, several recommendations are made for future research. First, in future studies of the Chinese distribution channel, data could also be collected from foreign manufacturers and trade operators. The present study only used Chinese retailers as participants in the quantitative study and one foreign trade operator as the informant in the in-depth interviews. Manufacturers and distributors’ opinions were not solicited. Information obtained from manufacturers and trade operators would reveal the difficulties they confront when doing business in the Chinese market and identify their suggestions on how the distribution channel can be improved.

Second, since the Chinese government is opening the retail and distribution business to foreigners, what the channel will look like, and how the foreign manufacturers can take advantage of the changes should be studied now in order to provide foreign manufacturers with useful suggestions in advance. The future roles played by the Chinese governmental organizations in the distribution channel, how to quickly establish a distribution channel entirely controlled by foreign manufacturers, and the problems and concerns of foreign manufacturers and Chinese retailers in foreign apparel business could all be interesting topics.

In addition, the changing role of the different types of distributors in the Chinese foreign apparel market in the near future should be studied. It is
reasonable to believe that the functions performed by the distributors will change along with the adjustments of China’s policies for foreigners’ involvement in retail and distribution. China plans to gradually open its retail and distribution market to foreigners by first allowing foreign companies to engage in retail and distribution in major cities. However, the timetable for further opening of retail and distribution business in other cities has not been released. Therefore, during the next several years, how much retail and distributing business will be taken over by wholly foreign-owned companies, and how much will still be assumed by state-owned, collectively-owned, Chinese-Foreign joint venture, and privately owned companies should be considered. In addition, how wholly foreign-owned companies compete with the other types of companies to gain more market share is another topic that should be studied.

Third, the appropriateness of applying some concepts and notions from power theory for the Chinese business context should be further tested because several findings in the study differ dramatically from the previous findings in the literature. For example, adaptability of the concept of coercive power source to Chinese business setting still needs to be examined because the relationship between coercive power source and attitudes and satisfaction found in this study should be taken with caution. Also, how to adjust the measures of attributed power and performance so that the relationships between power and the other variables, and performance and the other variables can be identified should be addressed by future studies.
Fourth, the dyadic relationship between foreign manufacturers and foreign trade operators should also be studied because this relationship is critical to the distribution channel. Knowing how manufacturers and trade operators evaluate each other will help both sides improve their business.
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APPENDIX A

COVER LETTER

Dear Apparel Retailers,

We are doing a survey to help apparel retailers, such as you, have easier access to imported apparel. As you may know, an effective and efficient apparel distribution channel has been established in our market, but on the other hand, there is still room to improve our channel. Upon finishing this survey, we will be able to provide useful information and suggestions to associated organizations/businesses about how to improve the channel.

There is not correct or incorrect answer. It is very important to provide your own opinion on each question. Please answer every question. If you have any question, please contact our bureau in time. Thank you very much for your cooperation.

The Beijing Statistics Bureau
January, 1999
APPENDIX B
HUMAN SUBJECT PROPOSAL

THE OHIO STATE UNIVERSITY

APPLICATION FOR EXEMPTION FROM THE HUMAN SUBJECTS INSTITUTIONAL REVIEW BOARD

All research activities that will involve human beings as research subjects must be reviewed and approved by the appropriate human subjects IRB, or receive exemption status, prior to implementation of the research.

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PROTOCOL TITLE: The Distribution Channel of Imported Apparel in China's Market

CATEGORY: 1

SOURCE OF FUNDING FOR PROPOSED RESEARCH: (Check A or B)
A. CSLRF: Sponsor USDA RP Proposal/Project No. 735131
B. Other (Identify) QARC

Office Use: EXEMPTION STATUS 1 APPROVED 1 DISAPPROVED

JAN 5 1999

** IMPORTANT NOTICE TO INVESTIGATOR: Exempting an activity from review DOES NOT absolve the investigator of the activity from ensuring that the welfare of human subjects in the activity is protected and that methods used, and information disclosed, to human subjects involved are appropriate to the activity.**

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APPENDIX C

INTERVIEW QUESTIONS

1) Please describe the imported apparel distribution in the Chinese market, or the joint venture apparel distribution if your store does not carry imported apparel.

2) Please tell me something about your business and how it is related with the channel.

3) Is there any other thing you want to talk about regarding the channel?

4) If your business has not had experience with imported apparel, what were the reasons?

5) Would you like to carry imported products in your store? What kinds of difficulties are you expecting?

6) What organizations/businesses have the abilities to influence your business?

7) Why do they have the abilities to influence your business? And where do these influences come from?

8) Which of your business operations are affected by associate organizations/businesses?

9) If your store has already had experience in selling imported apparel or joint venture apparel, please tell me who are your major associated organizations/businesses?

10) Can you identify some things that have negative impacts on the imported apparel distribution channel?

11) What are the good things that you like in the channel?

12) What are your suggestions for improving the effectiveness and efficiency of the channel?
APPENDIX D

QUESTIONNAIRE FOR RETAILERS

I) Please fill out the following regarding your business.

1) Your store is state-owned __, collectively-owned __, joint-venture __, private owned __, others __.
2) Annual sales of your store is ____ (Yuan).
3) Annual sales of the apparel department is (including men and women’s apparel) ____ (Yuan).
4) The sales area of your apparel department is about ______ (square meter).
5) Number of employees of your store _____.
6) Number of employees in the apparel department is ____.
7) Years your store has been in business is ____.
8) Is your store allowed to sell imported apparel? Yes __, no __. (If no, please explain why)
   Reasons______________________________
   ________________________________
   ________________________________

9) Does your store sell apparel products manufactured by joint-ventures? Yes __, no __.
10) The years your store has been involved in imported apparel business is ___, and the imported apparel in your store comes from _____ (country).
11) Annual sales of imported apparel in your store is ___ (Yuan). Annual sales of joint-venture apparel in your store is ______ (Yuan).
12) If your store sells imported apparel, which organization approved your store to do so? ___

II) Please answer the following questions.

1) What is the channel through which your apparel department obtains imported apparel? If your department does not sell imported apparel, then what is the channel through which your apparel department obtains joint-venture apparel?
2) What are the greatest barriers/difficulties to obtaining imported apparel. If your store does not carry imported products, then what are the greatest barriers/difficulties to obtaining joint-venture products?

2) What are your concerns when buying imported apparel from the related business? Please list them. Answer the question according to joint venture products carried if your store does not sell imported apparel products.

III) Please answer the following questions (1= Our store has almost complete responsibility for this, 6= business partners/representative agents have almost complete responsibility).

According to imported products if your store carries, otherwise based on joint-venture products.
1) When deciding expansion (1, 2, 3, 4, 5, 6)
2) When deciding the number of salespersons (1, 2, 3, 4, 5, 6)
3) When deciding hours of operation (1, 2, 3, 4, 5, 6)
4) When deciding inventory policy. (1, 2, 3, 4, 5, 6)
5) When deciding retail pricing (1, 2, 3, 4, 5, 6)
6) When deciding trade discount policies. (1, 2, 3, 4, 5, 6)
7) When deciding sales administration. (1, 2, 3, 4, 5, 6)
8) When deciding markets covered. (1, 2, 3, 4, 5, 6)
9) When deciding product line. (1, 2, 3, 4, 5, 6)
10) When deciding order size. (1, 2, 3, 4, 5, 6)
11) When deciding timing of product purchase. (1, 2, 3, 4, 5, 6)
12) When deciding specifying the bookkeeping system. (1, 2, 3, 4, 5, 6)
13) When deciding deleting items from the product line. (1, 2, 3, 4, 5, 6)
14) When deciding advertisement method. (1, 2, 3, 4, 5, 6)
15) When deciding advertisement content (1, 2, 3, 4, 5, 6)
16) When deciding merchandise display in store (1, 2, 3, 4, 5, 6)

IV) Please answer the following questions (1 = strongly disagree, 6 = strongly agree). Please answer the questions according to the imported products if your store does carry them, according to joint-venture products if your store does not carry imported apparel products.

1) We trust our business partners' /representative agents' judgements on apparel retailing. (1, 2, 3, 4, 5, 6)
2) Our business partners/representative agents are experts in apparel retailing. (1, 2, 3, 4, 5, 6)
3) Our business partners/representative agents have a lot of experience in apparel retailing. (1, 2, 3, 4, 5, 6)
4) We usually comply with our business partners' requests because they are based on good reasoning. (1, 2, 3, 4, 5, 6)
5) The information our business partners provide us about how to better run our business makes sense. (1, 2, 3, 4, 5, 6)
6) The information provided by our business partners is logical. (1, 2, 3, 4, 5, 6)
7) Our business partners have information we need for decision-making. (1, 2, 3, 4, 5, 6)
8) Our business partners have a lot of information on apparel retailing that our store does not have. (1, 2, 3, 4, 5, 6)
9) Our business partners knew more than we do about apparel retailing. (1, 2, 3, 4, 5, 6)
10) We went along with what our business partners wanted last year because the information they provided was very convincing. (1, 2, 3, 4, 5, 6)
11) Because of their positions, our business partners have the right to influence our business. (1, 2, 3, 4, 5, 6)
12) Legal agreements govern our relationship with our business partners.
13) We are obligated to follow our business partners' suggestions. (1, 2, 3, 4, 5, 6)
14) It is our duty to comply with business partners' requests. (1, 2, 3, 4, 5, 6)
15) We believe that we could get some needed help from our business partners by agreeing to their requests. (1, 2, 3, 4, 5, 6)
16) Our store feels that by going along with our business partners, we will be favored on some other occasions. (1, 2, 3, 4, 5, 6)
17) By going along with business partners' requests, we avoid some of the problems other retailers face. (1, 2, 3, 4, 5, 6)
18) Our business partners rewarded us last year to for going along with their wishes. (1, 2, 3, 4, 5, 6)
19) Our business partners have the ability to reward us in some way if we do as they suggest. (1, 2, 3, 4, 5, 6)
20) If our store does not comply with business partners' wishes, we will not be as profitable. (1, 2, 3, 4, 5, 6)
21) In general, our business partners' opinions and values are similar to ours. (1, 2, 3, 4, 5, 6)
22) We like the organizations/businesses we deal with. (1, 2, 3, 4, 5, 6)
23) We admire our business partners. (1, 2, 3, 4, 5, 6)
24) Our store has similar feelings with our business partners about the way a business should be run. (1, 2, 3, 4, 5, 6)
25) Our store is proud to be affiliated with our business partners. (1, 2, 3, 4, 5, 6)
26) Our store would not receive needed services from our business partners if we failed to abide by their requests. (1, 2, 3, 4, 5, 6)
27) Our business partners/representative agents are good entities to deal with. (1, 2, 3, 4, 5, 6)
28) Our business partners/representative agents are very interested in helping us make our business profitable. (1, 2, 3, 4, 5, 6)
29) Our business partners/representative agents may refuse to renew our contracts with them if we do not comply with their requests. (1, 2, 3, 4, 5, 6)
30) In general, we are satisfied with our dealing with our business partners/representative agents. (1, 2, 3, 4, 5, 6)
31) Our store receives better service and/or cooperation from business partners/representative agents if we comply with their requests. (1, 2, 3, 4, 5, 6)
32) We will continue having a relationship with our business partners/representative agents if we can. (1, 2, 3, 4, 5, 6)
33) We are satisfied with the service we get from our business partners/representative agents. (1, 2, 3, 4, 5, 6)
34) We are satisfied with the products we get from our business partners/representative agents. (1, 2, 3, 4, 5, 6)
35) Most of the disagreements we have had with our business partners/representative agents in the past years were settled to our satisfaction. (1, 2, 3, 4, 5, 6)
36) When attempting to influence our store, our business partners/representative agents imply that we would receive better service and/or cooperation if we comply with their requests. (1, 2, 3, 4, 5, 6)
37) In attempting to change our store’s behavior, business partners/representative agents have drawn our attention to accessibility to imported products or joint-venture products that are under good sales. (1, 2, 3, 4, 5, 6)
38) There is conflict between our business partners/representative agents and our store. (1, 2, 3, 4, 5, 6)
39) Disagreements between our business partners/representative agents and our store often create a great frustration for us. (1, 2, 3, 4, 5, 6)
40) Our business partners/representative agents make it difficult to conduct our business. (1, 2, 3, 4, 5, 6)

V) Please answer the following questions (1 = very poor, 6 = very well).

1) How well does your store’s business meet sales target (according to the sales of imported apparel if your store sells imported apparel, and based on joint-venture apparel if your store only sells joint-venture or wholly-foreign-owned enterprise apparel)? (1, 2, 3, 4, 5, 6)

2) How would you rate the performance of your department’s business relative to others that sell the similar apparel products? (1, 2, 3, 4, 5, 6)

3) Compared with selling domestic apparel products, the profit of selling imported/joint venture apparel is (according to the sales of imported apparel if your store sells imported apparel, and based on joint-venture apparel if your store only sells joint-venture or wholly-foreign-owned enterprise apparel) (1, 2, 3, 4, 5, 6)