

# The moderating role of institutional networking in the customer orientation–trust/commitment–performance causal chain in China

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**Abstract** This study uncovers the ignored role of institutional environment for marketing strategy and customer relationship management. Hypothesis tests in a sample of Chinese firms find support that channel networking strengthens the customer orientation–customer trust/commitment–firm performance (CTP) causal chain. In addition, the results show that government networking moderates this chain in a non-linear fashion. The CTP linkages are most salient when the firm develops a moderate level, rather than a high or low level of networking ties with government agencies.

**Keywords** Channel networking · Government networking · Customer orientation · Customer trust · Firm Performance · China

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## Introduction

Despite the general agreement that customer orientation may make a difference in firm performance, scholars tend to disagree on the circumstances and specific mechanisms in which a customer-oriented strategy matters. While some suggest a direct influence of customer orientation on firm performance (Deshpandé and Bowman 2004; Deshpandé and Farley 2000; Slater and Narver 1994), others argue that customer orientation affects performance outcomes differently depending on environmental settings and corridors (Hartline et al. 2000; Luo et al. 2005a, b; Zhou et al. 2005). Indeed, Brady and Cronin (2001) warned that “how a customer-oriented firm benefits from its customer focus, either directly or indirectly, remains unknown” (p. 241). This represents an important gap in the research.

A recent research stream in relationship marketing suggests that customer orientation may lead to competitive advantages for a firm through exploring and exploiting a trusted and committed relationship between the firm and its customers (Walter and Ritter 2003; Saporito et al. 2004). More specifically, Walter and Ritter (2003) suggested that, since customer oriented adaptations represent the supplier’s risky advances and interests to solve the customer’s problems, customer orientation may initiate and sustain a trustful and committed relationship between the buyer and the seller. In turn, committed customers who believe in the seller’s honesty and competence are key drivers for the firm’s value exploration and exploitation. Echoing this, Griffith and Harvey (2004) proposed that customer orientation influences a firm’s social capital development (i.e., customer trust for the firm), which in turn influences the firm’s dynamic capabilities and performance. In addition, Saporito et al. (2004, p. 403) found that customer orientation in the banking industry may “cultivate custom-

er's relational trust, which, in turn, binds customers emotionally to their banks and lessens their propensity to switch." Thus, these authors uncover a customer orientation–customer trust/commitment–firm performance (CTP) causal chain.

We agree, and suggest that institution theory may enrich our understanding of this CTP chain. Particularly, a firm may expand the benefits of a customer orientation strategy by leveraging institutional legitimacy (DiMaggio and Powell 1983). For example, institutional networking (defined as the social ties between a firm and its external institutional actors such as channel members and government agencies) may provide access to valuable market intelligence and supporting authority to reinforce the firm's reputation. Although Grewal and Dharwadkar (2002) pointed out that the influence of the institutional environment is ubiquitous in the marketplace, marketing strategy research, unfortunately, has largely overlooked the importance of the legitimacy-based institutional environment to the implementation of customer orientation strategy.

The objective of the present research is to (1) develop a theoretical model incorporating the contingent role of institutional networking in the CTP chain, and (2) test the complicated moderating influence of two dimensions of institutional networking—channel and government. We address both the positive and negative influences of governmental networking in changing the strength of the CTP linkages since we expect that the returns to government networking may be diminishing. Chinese firms were chosen as the empirical setting in this study because institutional networking (e.g., *guanxi*-based relationships) supports much of the business norms and standards in China (Buttery and Wong 1999; Park and Luo 2001). The Chinese economy is of interest to both academics and practitioners because of its large market size and increasing customer demand (The Wall Street Journal 2004). Further, it has been suggested that the importance of institutional networking in China is similar to that of "*blat*" in Russia, "*pratik*" in Haiti, and "*chaebol*" in South Korea (Grewal and Dharwadkar 2002). As a result, the theoretical and managerial implications from this study might not be solely limited to the business environment in China.

Our research on the moderating role of institutional networking in the CTP chain also helps advance prior marketing research that has examined customer and/or market orientation in China (Deshpandé and Farley 2000, 2002; Luo et al. 2005a, b; Sin et al. 2005; Zhou et al. 2005).<sup>1</sup> For example, Deshpandé and colleagues (Deshpandé et al. 2000, Deshpandé and Farley 2000, 2002) have documented the importance of organizational culture, innovativeness, and market orientation for firm performance in China. Luo

et al. (2005a, b) uncover the role of globalization for market-oriented Chinese firms. More recently, Sin et al. (2005) add the effects of economic ideology and industry type for market orientation in China. However, the implications of institutional legitimacy for customer orientation in Chinese firms have not been investigated by these studies. To the best of our knowledge, there is no published study that has examined the CTP chain and the moderating role of institutional legitimacy in the Chinese (or non-Chinese) economy. In this sense, we extend marketing literature on customer orientation in China from an organizational, non-institutional aspect toward a social, institutional perspective.

### **Institutional legitimacy-channel and government networking**

Institutional theory (i.e., DiMaggio and Powell 1983) holds that the institutional environment is ubiquitous and influences a firm's strategy, customer relationships and organizational performance in an embedded, social context. Particularly, Grewal and Dharwadkar (2002) suggested that social implications (for example, habitual actions) of institutions may generate cognitive institutional legitimacy. They proposed that "habitualizing makes it possible for channel constituents to develop informal psychological contracts that are based on common understandings and decreases the need for channel members to articulate structures and processes explicitly and regularly" (p. 88). Culturally related variables such as institutional networking (i.e., *guanxi* in China or *keiretus* in Japan) are examples of the process of habitualizing the influence of institutional legitimacy (see Grewal and Dharwadkar 2002).

Institutional networking may have two different dimensions: channel and government networking. While the former refers to a firm's social ties with channel members such as suppliers, distributors, and retailers, the latter refers to the social ties with government agencies such as local/state governments, industrial bureaus, tax bureaus, and so on. Prior studies suggest that channel networking is an important means to continued sales growth opportunities (e.g., Ambler and Styles 2000). Channel networking allows resources and information sharing, a smooth coordination of logistical efforts, reduced distribution costs, and less chance of partners' opportunistic behaviors (Morgan and Hunt 1994). Past research studies have found evidence of the positive influence of channel networking for the firm's market and financial performance (e.g., Morgan and Hunt 1994; Park and Luo 2001).

Governmental networking is critical. Benefits of positive governmental networking may include preferential access to valuable market information, fewer bureaucratic delays, and

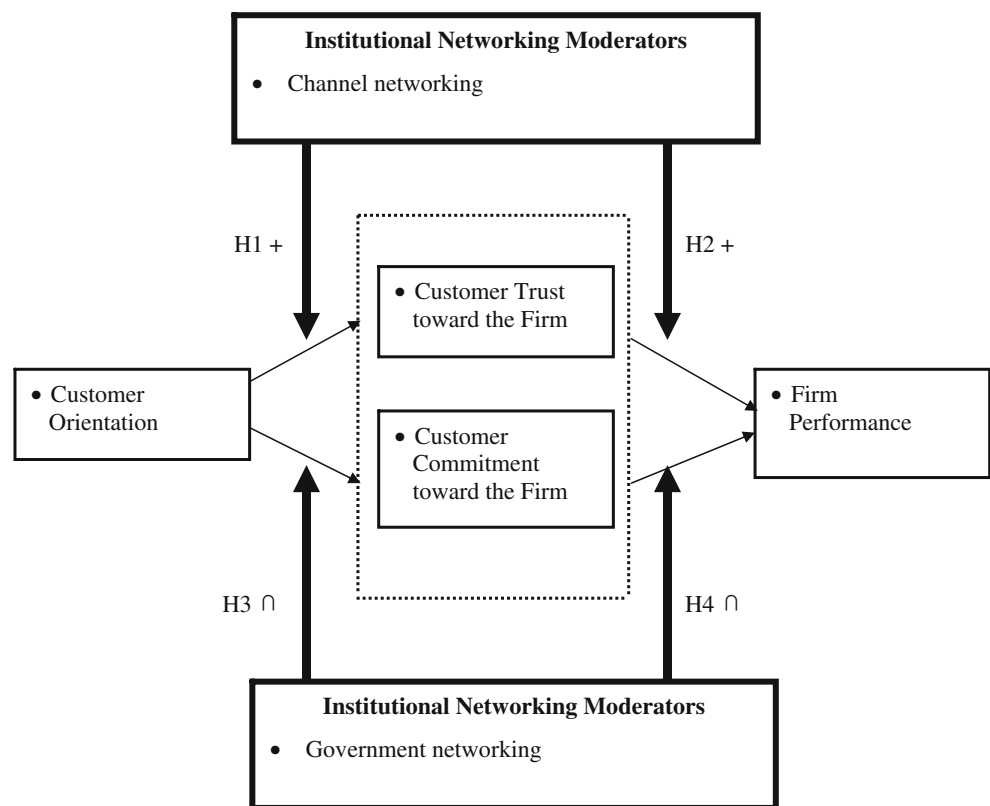
<sup>1</sup> We thank one anonymous reviewer for this point.

both monetary and non-monetary incentives. For example, most firms attempt to “develop and maintain good connections with government for supporting authorities and incentives (i.e., tax reduction), regardless of resource conditions” in China (Park and Luo 2001, p. 471). Charoen Pokphand, a Thai conglomerate, practices governmental networking in China by employing power brokers who have close connections with Chinese governmental officers. As Ang (2000) described, the task of power brokers “is to be among the first to learn of new government regulations, smooth the path for new projects, and iron out differences when disputes arise” (p. 47). Powerful foreign figures may be involved in the *guanxi*-building process as well. In 1995, Mr. Neil Bush, the brother of the current United States President George W. Bush, introduced a US real-estate service company to Charoen Pokphand on a several million dollar project in China (Yatsko 1997). The following example demonstrates the dire consequences of not maintaining close governmental networking; Beijing’s McDonald’s, a member of the world-known fast food franchise, was evicted from a central Beijing building in China despite having an unfilled contract. Analysts said this was because McDonald’s had not maintained its connection with the government, whereas the competing newcomer from Hong Kong had a good connection with governmental authorities (Luo 2000).

Recently, Ambler and Styles (2000) argued that institutional networking is an important facilitating mechanism for customer-focused firms to develop and deploy customer relationships for improved performance in China. In other words, institutional networking may strengthen the performance implications of being customer-oriented and exploiting customer trust and commitment, or likely moderating the strength of the CTP causal chain. We argue that the saliency of this chain may depend on the levels and types of institutional environments. As shown in Fig. 1, our research model holds that customer orientation may lead to a firm’s superior performance through building exchange partners’ trust and commitment; and that the CTP chained relationships exist within the larger social context and are contingent upon the institutional environment. An important theme of this research model is the moderating role of institutional networking in the CTP chain. That is, networking with institutional actors such as channel members and government agencies may change (1) the strength of the influence of customer orientation on customer trust/commitment (2) and the strength of the influence of trust/commitment on firm performance.

More specifically, we expect that a firm’s adaptation to the institutional environment is likely to moderate the CTP chain but predict that these two types of institutional networking may not have the same moderating effect.

**Figure 1** The research model.



### The moderating role of channel networking in the CTP Chain

Customer orientation refers to “the set of beliefs that puts the customer’s interest first, while not excluding those of all other stakeholders ... in order to develop a long-term profitable enterprise” (Deshpandé et al. 1993, p. 27). In support of the customer orientation–customer trust/commitment–firm performance chained relationships, the non-opportunistic and flexible nature of customer orientation has been found, in various industry settings, to help develop customer trust and commitment and, through them, generate a competitive advantage (Farrelly and Quester 2003; Saparito et al. 2004; Williams 1998).

We predict that channel networking may strengthen the CTP linkages. First, the positive influence of customer orientation on customer trust and commitment toward the firm may be stronger with a higher level of channel networking. Compared to those with a lower level of channel networking, firms with a higher level of channel networking tend to have more access to market intelligence from collaborating distributors and suppliers (e.g., Davies et al 1995). This access likely makes it easier for a firm to generate, disseminate, and respond to market intelligence, enhancing the firm’s ability to satisfy customer needs. As such, channel networking may facilitate the customer-oriented strategy to generate more trusted and committed customers. Indeed, market information is precious in a developing country like China which has a long history of commanded economic planning. Through collaboration (i.e., information sharing) with supply chain members, the market-driven firm with higher institutional channel networking may expand the relational benefits of a firm’s customer orientation strategy, gaining more loyal and long-term customers. On the other hand, without intelligence sharing and marketing alliances with supply chain partners, it may be rather difficult for a firm to become truly customer-oriented, let alone to create customer trust. Orchestrated efforts within the entire supply chain and strong interfirm ties are required to achieve higher levels of customer value. Customer orientation strategies, coupled with channel networking, are likely to generate more customer trust and commitment toward the firm than customer orientation alone.

H1. The influence of customer orientation on customer trust/commitment is stronger in a relatively high level of channel networking (than in a lower level).

Further, we expect that institutional channel networking may strengthen the positive relationship between customer trust/commitment and firm performance. Firms with relatively high levels of channel networking tend to have more favorable supply chain arrangements and relationships

when compared to those with lower levels, which may facilitate the influence of customer trust and commitment on firm performance in two ways. First, favorable supply chain arrangements help reduce total distribution costs, thus compensating the costly marketing programs promoting customer relationships, most likely making them more efficient in attracting and retaining committed customers with enhanced return on trust. In addition, coordinated supply chain arrangements help minimize stockouts and support trust-promoting programs, leveraging the trustworthy image in the social networks of customers, suppliers, and retailers for more repeat purchases, leading to improved profitability. Indeed, stronger customer relationships may not always benefit a firm. Committed and loyal customers may be more demanding. Satisfying them may require more orchestrated arrangements from the firm, its suppliers, and distributors. Without the support of channel networking, pursuing high levels of customer trust and commitment may become a financial burden. Therefore, customer trust (commitment), coupled with channel networking may enable a firm to gain competitive advantages and better performance in the marketplace than customer trust (commitment) alone.

H2. The influence of customer trust/commitment on firm performance is stronger in a relatively high level of channel networking (than in a lower level).

### The moderating role of government networking in the CTP chain

Historically, Western scholars seldom discuss governmental networking and its effect on a firm’s strategic choice. Relatively little is known about governmental networking, its influence on a firm’s customer orientation and the resulting outcomes. Although market mechanisms (i.e., customer relational trust and channel networking) have become increasingly important in the modern Chinese economy, networking with governmental agencies is still critical for a firm to succeed there. As noted by Luo (2003, p. 1317), “in China, businesspeople often prefer to rely on their contacts with those in power to get things done rather than depending on the abstract notion of impartial justice.” In China, commercial laws and regulations are weakly observed, and not strictly enforced by officials. Consequently, when an organization is under scrutiny with Chinese government intervention possible, the use of political networking becomes crucial insurance against the threat (Park and Luo 2001).

We predict that governmental networking may moderate the CTP chained relationships in a curvilinear fashion. More specifically, an increase of governmental networking may strengthen the positive customer orientation–trust/commitment associations to, but not beyond, a certain

point; after the intermediate level, the positive associations may be less salient. Building an initial level of networking with governing agencies may enable the firm to gain unpublished market intelligence controlled by government agencies, which may facilitate the implementation of a customer orientation strategy to achieve a higher level of customer satisfaction and trust toward the firm. Governmental networking offers preferential access to controlled information, fewer bureaucratic delays responding to customer needs, and protection from external threats to a firm's creditability in the marketplace. All of these factors may facilitate the generation, dissemination, and response to customer intelligence; therefore establishing the firm's trustworthy image among its customers.

However, unbounded governmental networking may nullify the positive effects and weaken the association between customer orientation and customer trust/commitment. Unconstrained governmental networking may be linked to unethical connotations and corrupt behaviors such as nepotism and favoritism (Huang 2000; Lee et al. 2001). Once unearthed, these behaviors may make it difficult for a customer-oriented firm to regain its credibility and trustworthiness in the marketplace. The following example describes the extreme delicacy of *guanxi*. A major PRC policy bank chose not to work with a large US financial consulting and auditing company even though the US company had employed the national finance minister's relative as one of its senior representatives in China because "the bank apparently feared that choosing a company affiliated with the finance minister's relative might create political difficulties for the finance minister, in this case the perception of favoritism" (Vanhonacker 2004, p. 48). Furthermore, too much governmental networking is perhaps an indicator of poor strategic choice; firms should allocate more resources on building and maintaining strong customer relationships, rather than knocking on the "back door" of government. Building and maintaining networking ties with all levels of governments and different types of governmental agencies may consume a lot of time and effort. Unbridled use of governmental networking may compromise a firm's efforts to determine customer needs and satisfy those needs with long-term trusted relationships, thus creating diminishing returns.

In short, we expect that an increase in governmental networking may facilitate the positive influence of customer orientation toward trust and commitment. However, the strength of this facilitating moderation impact would attenuate and eventually, customer trust and commitment resulting from customer orientation would be lessened. In other words, the positive linkage between customer orientation and customer trust/commitment may be an inverted U-shape, stronger in the moderate level (than in lower or higher levels) of governmental networking.

H3. The influence of customer orientation on customer trust/commitment is stronger in a moderate level of governmental networking (than in higher or lower levels).

Similarly, we expect that an increase in governmental networking may strengthen the positive trust/commitment-firm performance associations to an intermediate level, after which the positive associations may be less salient. A moderate increase in governmental networking is functional for a trustworthy firm because connections with governmental agencies and their authority represent a valuable asset that can positively reinforce a firm's reputation, likely leading to higher rents through political legitimacy (Su and Littlefield 2001). Firms are better able to weather the challenges posed by the legal and political environments and build their reputations through networking with governmental officials, thus ensuring their chances for survival and success. Indeed, governmental agencies often sit on the boards of firms, permit them to be listed on "China's stock exchanges ahead of other companies and allow them to take over other companies quickly" (Zeng and Williamson 2003, p. 94), and set up the policies and regulations for the industry. Thus, strong customer relationships alone may not be sufficient for higher performance in China; firms may still proactively or reactively seek networking ties with governing agencies for institutional legitimacy to obtain superior return.

It could also be very costly to form and maintain a high level of governmental networking. Previous studies have found that networking with levels of local government in China may reduce a firm's profitability because the costs may outweigh the benefits (Peng and Luo 2000; Park and Luo 2001). Unconstrained use of government networking may drain a firm's financial and psychological resources, which could have been used to build a trusted and committed relationship with profitable customers. In addition, governmental networking that is too intensive may be counterproductive to a market-driven firm. One key principle of the current political reforms in China is that all governmental agencies should not directly interfere with business operations (or avoid "zheng qi bu fen"). Modern Chinese firms are encouraged to be market-oriented (Liu et al. 2003; Luo et al. 2004, 2006; Wu et al. 2007) and to achieve better performance through building long-term trusted relationships with customers in "total autonomy" (Zeng and Williamson 2003). As such, a high level of governmental networking may compete for the resources necessary to building customer trust and loyalty and, consequently, compromise the effectiveness of relationship marketing efforts.

In brief, we predict that the positive link between customer trust/commitment and firm performance may be stronger in the moderate level (than the high or low levels) of governmental networking.

H4. The influence of customer trust/commitment on firm performance is stronger in the moderate level of governmental networking (than a high or low level of governmental networking).

## Materials and methods

### Context, sample, data

The study was conducted in China, the fastest-growing country and the second largest economy in the world (Boisot and Child 1996; Walters and Samiee 2003). Its market is increasingly attractive and offers high managerial relevance (Child and Tse 2001; Fortune 2004). Notably, the Chinese economy is of strategic interest to both academics and practitioners because of its massive market size, high levels of customer demand, relatively low manufacturing costs, and increasingly transparent institutional policies.

The sampling frame is the official directory of *China Basic Statistical Units Yearbook*, from which firms located in three metropolitan areas were randomly selected. This directory provides basic information of Chinese businesses, including contact address, phone number, business type, core products/services, number of employees, firm ownership, in addition to a few other firm characteristics. We selected firms operating nationwide with their headquarters in three key Chinese cities (Beijing, Guangzhou and Shenzhen). Beijing, the capital of China, is located in the northern part of the country. Guangzhou and Shenzhen are major cities in the south. These metropolitan areas were selected in order to provide diverse geographic coverage and to minimize biases due to heterogeneity in the level of market development.

Research assistants called managers of the selected firms to find out whether they were willing to participate in this research project and be interviewed. This one-on-one interview method was used to alleviate the issue of a very low response rate to mail surveys in China. As a result, we had a pre-qualified sample of 332 firms agreeing to take part in the survey. Research assistants were able to confirm the basic information obtained from the directories, such as the size and ownership of the firms, with the key informants.

Data were collected by independent research assistants from universities in each of the selected cities. We conducted a series of pre-test procedures before the formal data collection. For example, we asked a group of US-based global marketing professors and business professionals to examine the draft questionnaire. Iterative pre-testing was conducted with this group to refine and improve the

questionnaire. Then, following Brislin (1970), we translated the questionnaire into Chinese and back-translated into English. Finally, the survey questionnaire was tested with ten managers in Chinese companies in a pilot study. Prior to conducting the interviews with managers, research assistants were trained to ensure commonality in data collection. Each manager completed the survey questionnaire during the interview.

Of the 332 pre-qualified firms, 238 interviews were usable for the purpose of this study (61 in Beijing, 103 in Guangzhou and 74 in Shenzhen). Thus we have an overall response rate of 71.7%. Among the firms sampled, 12.6% employed fewer than 50 employees, 35.3% employed more than 500 staff with 52.1% employing between 50 and 500. A majority (53.6%) of the firms sampled were in the manufacturing sector, with 12.1% from wholesale and retail sectors and 34.3% in sectors such as hi-tech, transportation, advertising, and others. Respondents who work in state-owned firms accounted for 55.0% of the sample. Most of the key informants were top managers (53.2%) from the selected firms. The remaining respondents were marketing managers (37.8%).

### Measurement

The [Appendix](#) reports the measures used in this study. All measures are constructed with seven-point, multiple-item Likert-type scales.

*Customer orientation* was measured on a 10-item scale from Deshpande and Farley's (1998) study. This scale is correlated with two other popular market orientation scales (Narver and Slater 1990; Kohli and Jaworski 1990), but is considered to be more stable and applicable in a variety of economic settings (i.e., Vietnam, India, Japan, and China, see Deshpande et al. 2000). Sample questions include "our business objectives are driven primarily by customer satisfaction," "our strategy for competitive advantage is based on our understanding of customers' needs," and "we are more customer-focused than our competitors."

*Customer trust* toward the firm was measured with a 4-item scale. It assesses the degree to which the firm is trusted by the customers at all times, can be counted on to do what is right, and has high integrity, as perceived by the managers. This scale is based upon previous studies in relationship marketing (Doney and Cannon 1997; Morgan and Hunt 1994).

*Customer commitment* toward the firm has three separate items, including "our firm is very committed to the relationship our firm has with the customers," "our firm intends to maintain indefinitely our relationship with the customers," and "our relationship with the customers deserves maximum attention" as perceived by the manag-

**Table 1** Reliability and validity of measures

Variables*	# of items	Factor loadings	t-values	Reliability	Variance extracted
Performance	4	0.65–0.89	7.99–9.61	0.85	0.73
Customer Orientation	10	0.47–0.75	6.27–9.78	0.91	0.84
Customer Trust	4	0.64–0.83	7.98–10.06	0.84	0.73
Customer Commitment	3	0.79–0.87	12.19–13.74	0.90	0.82
Channel Networking	2	0.39–0.61	3.70–4.75	0.71	0.60
Government Networking	3	0.42–0.73	4.11–4.92	0.73	0.63

\*Measurement model goodness-of-fit:  $\chi^2=508.27$ ,  $df=311$ ,  $p=0.00$ , CFI=0.95, GFI=0.92, AGFI=0.90, RMSEA=0.06.

ers. This scale was also adopted from previous studies (Doney and Cannon 1997; Morgan and Hunt 1994).

*Channel networking* was measured on a 2-item, seven-point scale from Peng and Luo's (2000) study. It captures the extent to which managers have utilized personal guanxi, networks, and connections with other managers at either distributor (i.e., retailer, wholesaler) firms or supplier firms.

*Governmental networking* was measured on a 3-item scale, derived from Peng and Luo (2000). These items assess the extent to which managers at the firm have utilized personal guanxi, networks, and connections with political leaders in various levels of the government, with officials in industrial bureaus, and with officials in regulatory and supporting organizations, such as the tax bureau, state banks, commercial administration bureaus, etc.

*Firm performance* was measured on a 4-item scale. It reflects a firm's performance in terms of both market expansion and financial return (Lin and Germain 2003; Moonman and Rust 1999). For instance, it assesses the rating, compared with its major competitors, of a firm's performance in sales growth, market share, and return on investment (ROI).

## Analysis and results

### Measure results

Confirmatory factor analysis (CFA) was used to test measure validity with the two-step approach (Anderson

and Gerbing 1988). CFA results of the overall model statistics indicate that the  $\chi^2$  for the measurement model is 508.27 ( $p<0.01$ ) with 311 degree of freedom. The fit indexes are comparative fit index (CFI)=0.95, goodness-of-fit (GFI)=0.92, adjusted goodness-of-fit (AGFI)=0.90 and root-mean-square error of approximation (RMSEA)=0.06. As reported in Table 1, all construct reliabilities are 0.70 or higher, suggesting internal consistency reliability.

Results support convergent validity for the measures, as the t values of all items' estimated loadings on their related constructs are significant (ranging from 4.26 to 23.72). To assess the discriminant validity, we compared the average variance extracted (AVE) of latent constructs in CFA results with the squared correlation between all construct pairs, following Fornell and Larcker (1981). For example, as reported in Table 2, the correlation between customer orientation and firm performance is 0.27 ( $r=0.27$ ), which when squared ( $r^2=0.07$ ) is less than the AVE for either customer orientation or performance (AVE=0.84, 0.73 respectively). The results indicated that all AVEs are greater in magnitude than the squared correlations, showing discriminant validity of the measures. We also examined a series of chi-square difference tests by examining measurement model fit for each pair of latent constructs, following Anderson and Gerbing (1988). Again, the results showed that all unconstrained measurement models fit the data better than the constrained measurement models, further indicating discriminant validity. Since modification indices or estimated residuals in the CFA results were not statistically significant, we conclude that unidimensionality

**Table 2** Correlation results

Variables	Performance	Customer orientation	Customer trust	Customer commitment	Channel networking	Government networking
Performance	1.00					
Customer orientation	0.27**	1.00				
Customer trust	0.24**	0.42**	1.00			
Customer commitment	0.19**	0.49**	0.58**	1.00		
Channel networking	0.17*	0.15*	0.16*	0.09	1.00	
Government networking	0.04	0.11	0.08	0.12	0.21**	1.00

\* $p<0.05$ ; \*\* $p<0.01$

**Table 3** The moderating effects of channel networking

Structural path	Full sample <sup>a</sup>		Lower channel networking		Higher channel networking	
	Estimate	t-value	Estimate	t-value	Estimate	t-value
Customer orientation ⇒ Customer trust	0.75**	7.55	0.52**	5.78	0.76**	7.73
Customer orientation ⇒ Customer commitment	0.83**	9.15	0.60**	6.84	0.88**	11.28
Customer trust ⇒ Firm performance	0.22**	2.72	0.08	n.s.	0.43**	4.67
Customer commitment ⇒ Firm performance	0.10	n.s.	0.03	n.s.	0.22**	3.68
Moderated path in the chi-square difference test	Moderating hypotheses		The chi-square difference test between lower and higher channel networking for the moderated path			
Customer orientation ⇒ Customer trust	H1		$\Delta\chi^2=4.86, df=1, p<0.05$		H1 is supported	
Customer orientation ⇒ Customer commitment	H1		$\Delta\chi^2=5.03, df=1, p<0.05$		H1 is supported	
Customer trust ⇒ Firm performance	H2		$\Delta\chi^2=9.67, df=1, p<0.05$		H2 is supported	
Customer commitment ⇒ Firm performance	H2		$\Delta\chi^2=4.10, df=1, p<0.05$		H2 is supported	

\* $p<0.05$ ; \*\* $p<0.01$

<sup>a</sup>Structural model Goodness-of-fit:  $\chi^2=378.69, df=185, p=0.00, CFI=0.96; GFI=0.93; AGFI=0.91; RMSEA=0.06$ .

is established (Heide 2003). Table 2 reports the correlation matrix of the measures used in this study.

**Hypotheses testing results**

H1 predicts that the association between customer orientation and customer trust/commitment may be stronger with a relatively higher level of channel networking (than a lower level). To examine H1, we split the sample into two (higher vs. lower) channel networking groups by the median (Aiken and West 1996). Then structural equation modeling (SEM) was run with the full sample and the two reduced groups. As shown in Table 3, SEM structural path results indicated that in the full sample customer orientation is significantly associated with customer trust ( $b=0.75, p<0.01$ ) and customer commitment toward the firm ( $b=0.83, p<0.01$ ). The path loading from customer orientation to customer trust was 0.52 in the lower level channel networking group, which is significantly smaller in magnitude ( $\Delta\chi^2=4.86, df=1, p<0.05$  in Chi-square difference test between the two groups) than its path loading of 0.76 in the higher level channel networking group. Similarly, the path loading from customer orientation to customer commitment was 0.60 in the lower level channel networking group, which is significantly smaller in size ( $\Delta\chi^2=5.03, df=1, p<0.05$ ) than its path loading of .88 in the higher level channel networking group. As such, H1 is supported; channel networking indeed strengthens the association between customer orientation and customer trust/commitment.<sup>2</sup>

<sup>2</sup>Our results are robust to a number of covariates. We control the influence of firm size, firm ownership type, management position, market growth, Chinese cities, to industry sectors, consistent with controls in the literature (Deshpandé and Farley 2000, 2002; Luo et al. 2005a, b; Sin et al. 2005; Zhou et al. 2005).

H2 predicts that the association between customer trust/commitment and firm performance may be stronger with a relatively higher level of channel networking (than a lower level). The results showed that, in the full sample, customer trust was significantly associated with firm performance ( $b=0.22, p<0.01$ ), but customer commitment was not related to firm performance ( $p>0.05$ ). Further, for the lower level channel networking group, neither customer trust nor commitment is significantly related to firm performance ( $b=0.08$  and  $0.03$ , respectively). In contrast, for the high level of channel networking group, both customer trust ( $b=0.43, p<0.01$ ) and commitment ( $b=0.22, p<0.01$ ) are significantly related to firm performance. In addition, when comparing the two groups, there was a significant change of Chi-square for both the path of customer trust ⇒ firm performance ( $\Delta\chi^2=9.67, df=1, p<0.05$ ) and for the path of customer commitment ⇒ firm performance ( $\Delta\chi^2=4.10, df=1, p<0.05$ ). Thus, H2 was supported by the data. It appears that channel networking makes the association between customer trust/commitment and firm performance more salient.

In H3, we expect the association between customer orientation and customer trust/commitment to be stronger with a moderate level of governmental networking (than high or low channel networking). To test this curvilinear moderating role, we divided the sample into three groups, using one standard deviation above (high group) and below (low group) the mean of governmental networking and the remainder as the moderate group (Aiken and West 1996). As shown in Table 4, structural path results indicated that the loading from customer orientation to customer trust was significantly larger ( $\Delta\chi^2=26.23, df=2, p<0.05$ ) in moderate governmental networking ( $b=0.77$ ) than in high or low governmental networking ( $b=0.10$  and  $0.33$  respectively). Similarly, the loading from customer orientation to custom-



**Table 4** The curvilinear moderating effects of government networking

Structural path	Low government networking		Moderate government networking		High government networking	
	Estimate	<i>t</i> -value	Estimate	<i>t</i> -value	Estimate	<i>t</i> -value
Customer orientation ⇒ Customer trust	0.33**	3.61	0.77**	7.82	0.10	n.s.
Customer orientation ⇒ Customer commitment	0.47**	4.93	0.49**	5.15	0.28*	3.10
Customer trust ⇒ Firm performance	0.19*	2.08	0.48**	5.08	−0.08	n.s.
Customer commitment ⇒ Firm performance	0.07	n.s.	0.19*	2.11	−0.11	n.s.
Moderated path in the chi-square difference test	Moderating hypotheses		The chi-square difference test between low, moderate, and high government networking for the moderated path			
Customer orientation ⇒ Customer trust	H3		$\Delta\chi^2=26.23$ , $df=2$ , $p<0.05$		H3 is supported	
Customer orientation ⇒ Customer commitment	H3		$\Delta\chi^2=8.87$ , $df=2$ , $p<0.05$		H3 is supported	
Customer trust ⇒ Firm performance	H4		$\Delta\chi^2=19.82$ , $df=2$ , $p<0.05$		H4 is supported	
Customer commitment ⇒ Firm performance	H4		$\Delta\chi^2=6.18$ , $df=2$ , $p<0.05$		H4 is supported	

\* $p<0.05$ ; \*\* $p<0.01$

er commitment was significantly larger ( $\Delta\chi^2=8.87$ ,  $df=2$ ,  $p<0.05$ ) in moderate governmental networking than in high governmental networking (but not for low governmental networking level). Therefore, H3 is partially supported. Overall, these findings suggest that governmental networking indeed strengthens the association between customer orientation and customer trust/commitment until a moderate level is reached, after which point, the association decreases.

We found some support for H4, which suggested that the association between customer trust/commitment and firm performance may be stronger in moderate level of government networking (than high or low channel networking), or in a curvilinear fashion. Empirical findings showed that the loading from customer trust to firm performance was significant larger in size ( $\Delta\chi^2=19.82$ ,  $df=2$ ,  $p<0.05$ ) in a moderate level of governmental networking ( $b=0.48$ ) than with higher or lower levels ( $b=-0.08$  and  $0.19$  respectively). Further, the loading from customer commitment to firm performance was only significant ( $b=0.19$ ,  $p<0.05$ ) with a moderate level of governmental networking, and greater in size ( $\Delta\chi^2=6.18$ ,  $df=2$ ,  $p<0.05$ ) than in higher or lower levels ( $b=-0.11$  and  $0.07$  respectively). Therefore, H4 is supported. That is, governmental networking also strengthens the association between customer trust/commitment and firm performance until a moderate level has been reached, after which point the association decreases and becomes negative.

## Discussion and implications

The purpose of this study is to investigate the role of institutional networking in the customer orientation–customer trust/commitment–firm performance causal chain in

China. Our study provides evidence that (1) channel networking strengthens the CTP chained relationships and (2) governmental networking moderates these relationships in a non-linear fashion. Interestingly, CTP linkages are most salient when the firm develops a moderate level of networking ties with governmental agencies, but less salient and even negative with a high level of governmental networking.

Our study contributes to previous research in several ways. First, it enriches our understanding of the boundary conditions of the performance implications of customer orientation and customer relationships. It configures customer orientation, relationship marketing, and institutional networking from a contingency perspective. The findings uncover a relatively overlooked role of institutional environment for marketing strategy and customer relationship management. More specifically, extant studies have suggested a CTP chain, in which customer orientation may lead to performance advantages for a firm through exploring and exploiting customer trust and commitment toward the firm (e.g., Farrelly and Quester 2003; Saporito et al. 2004; Walter and Ritter 2003). We extend this literature by proposing that this causal chain may be more or less salient depending on (1) different forces of institutional environments and (2) varying levels of these forces. It should be noted that since our study is among the first to show that customer orientation *indirectly* boosts firm performance in China through the mediator of trust/commitment, it is not inconsistent with prior studies (Deshpandé and Farley 2000, 2002; Liu et al. 2002; Luo et al. 2004, 2005a, b; Sin et al. 2005) on the *direct* influence of customer orientation on firm performance. Rather, our study calibrated their findings and explained the underlying mechanism why their findings are valid (via the underlying mediator of trust/commitment). For this reason, our study also extends the

literature on market orientation in China by revealing the trust/commitment-based mechanism why firms are rewarded by boosting market orientation in China.<sup>3</sup>

Further, we address two separate dimensions of institutional networking (channel networking and governmental networking) and find that they have different implications for customer orientation and its outcomes. Regarding channel networking, since it is an important means to share resources and information, to coordinate logistics efforts, to reduce total distribution costs, and to increase efficiency (Ambler and Styles 2000; Park and Luo 2001), building channel networking may improve a firm's sales growth and financial performance.<sup>4</sup> Our results indicate that customer orientation when coupled with a higher level of channel networking may be even more effective in generating customer trust than customer orientation alone. In addition, our data supports that customer trust, when coupled with a higher level of channel networking, may be even more effective in generating superior firm performance than customer trust alone. These facilitating effects of institutional channel networking on customer orientation and relationship marketing are new and exciting for future theory development.

More importantly, we introduce the notion that governmental networking may have both positive and negative impacts on the CTP chain. Governmental networking takes time and effort to develop and maintain. Unbounded governmental networking may generate diminishing returns and even become counterproductive if the costs outweigh the benefits. Our findings suggest that a high level of governmental networking may work against the firm in that it reduces the relational benefits of customer orientation and lessens the performance advantages of customer trust/commitment. Perhaps, this is because unconstrained governmental networking (1) may be easily linked to unethical connotations and corrupt behaviors, (2) may be an indicator of poor strategic choice and compromise a firm's relationship marketing efforts, and (3) may be too costly to form and maintain (Park and Luo 2001). In addition, our results indicate that only a moderate increase in governmental networking facilitates the influence of customer orientation

<sup>3</sup> This study does not disagree with prior findings on the importance of culture, innovativeness, and other performance drivers in China (Deshpandé and Farley 2000, 2002; Luo et al. 2005a, b; Sin et al. 2005). Rather, we here are concerned with adding new insights beyond these drivers (i.e., the moderating role of institutional networking and CTP chain with the mediator of trust/commitment explaining why market orientation matters in China).

<sup>4</sup> For readers who want to know more about the antecedents and consequences of institutional networking, they are encouraged to consult the strategy literature (e.g., Peng and Luo 2000; Wu et al. 2007). Nevertheless, the strategy literature has not related institutional networking with customer orientation or trust/commitment. In this sense, we may also contribute to the institutional networking literature for strategy researchers with some marketing flavor (i.e., via customer orientation).

on customer relationships and the influence of customer trust/commitment on firm performance to the largest extent. Together, the findings of the non-linear moderating role of governmental networking suggest that extant theories (e.g., Grewal and Dharwadkar 2002, Peng 2003) on institutional legitimacy have been too limited and failed to account for its complicated influences on marketing strategies (i.e., customer orientation and relationship marketing).

#### Implications for executives

Executives in customer-oriented firms should understand that strong ties within the firm's whole supply chain are critical to explore and exploit increased customer value. Companies with orchestrated channel efforts, shared customer intelligence and operating costs may find it much easier to implement a customer-oriented strategy and, thus, benefit more from customer-focused trust-promoting tactics. Further, global managers may notice that institutional networking is still crucial in modern China (The Wall street Journal 2004; McKinsey 2004). For example, our findings suggest that by building strong networking ties with supply chain members, such as distributors and suppliers, customer-focused enterprises may receive higher levels of customer trust and commitment and, ultimately, improved firm performance.

Another important managerial implication of this study is that governmental networking may not always be functional and advantageous for a firm. Market-driven companies should carefully manage their institutional networking activities with the Chinese government. Although governmental networking may offer supporting authorities, preferred access to market information, and tax incentives (Park and Luo 2001), too much of a good thing may incur more costs than benefits. Our results show that a high level of governmental networking appears to be less functional than a medium level in a customer-oriented firm. Indeed, as China is moving away from a commanded economy toward a market one, governmental agencies are changing their functions and practices. Managers should be aware that the Chinese government now tends not to *directly* interfere with business operations (i.e., through avoiding “*zheng qi bu fen*”). Modern Chinese firms are encouraged to be truly market-oriented and compete with each other through forming long-term trusted relationships with customers. Firms may notice that too much governmental networking can drain their limited financial and labor resources.

Notably, we are not suggesting that firms should ignore institutional networking with political regulators. We believe that it still plays a key role for a firm's operations, especially in China (e.g., Fortune 2004). With its recent admission to the World Trade Organization, economic and structural conditions in China are rapidly changing as is the

landscape of governmental networking. We consider a high level of governmental networking may not necessarily be an optimal choice in such an environment.

Success in today's business world derives from a combination of customer-focused strategies, supporting institutional networking with supply chain members, and an optimal level of networking ties with governmental agencies. We recommend future studies to investigate other dimensions of institutional environments further and to track over time their influences on institution-based marketing organizations.

## Appendix A

### Measures used in the study

*Customer orientation* (1="strongly disagree" and 7="strongly agree")

Our business objectives are driven primarily by customer satisfaction.

We constantly monitor our level of commitment and orientation to serving customer needs.

We freely communicate information about our successful and unsuccessful customer experiences across all business functions.

Our strategy for competitive advantage is based on our understanding of customer needs.

We measure customer satisfaction systematically and frequently.

We have routine or regular measures of customer needs.

We are more customer-focused than our competitors.

I believe that our business exists primarily to serve customers.

We poll end users at least once a year to assess the quality of our products and services.

Data on customer satisfaction are disseminated at all levels in our business unit on a regular basis.

*Customer trust toward the firm* (1="strongly disagree" and 7="strongly agree")

Our firm can be trusted by our customers at all times.

Our firm can be counted on by our customers to do what is right.

Our firm has high integrity.

Our customers are satisfied with our firm.

*Customer commitment toward the firm* (1="strongly disagree" and 7="strongly agree")

Our firm is very committed to the relationship our firm has with the customers.

Our firm intends to maintain indefinitely our relationship with the customers.

Our relationship with the customers deserves maximum attention.

*Business partner social capital* (1="very little" and 7="very extensively")

Managers at our firm have utilized personal guanxi, networks, and connections with managers at distributor (retailer, wholesaler) firms.

Managers at our firm have utilized personal guanxi, networks, and connections with managers at supplier firms.

*Governing agency social capital* (1="very little" and 7="very extensively")

Managers at our firm have utilized personal guanxi, networks, and connections with political leader in various levels of the government.

Managers at our firm have utilized personal guanxi, networks, and connections with officials in industrial bureaus.

Managers at our firm have utilized personal guanxi, networks, and connections with officials in regulatory and supporting organizations, such as tax bureaus, state banks, commercial administration bureaus and etc.

*Firm performance* (1="very inferior" and 7="very superior")

Comparing with our major competitors, our firm's performance in market share growth in our primary market last year.

our firm's performance in sales growth last year.

our firm's performance in percentage of sales generated by new products last year.

our firm's performance in ROI last year.

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