Exploratory Research on the Effects of Retailer Power, Price Demands, and Importer Opportunism on Importer-Exporter Relationship Quality

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Abstract

This paper is based on a qualitative research that studied relationships between importers from a developed country and exporters from a developing country. Through hermeneutic analysis of iterative in-depth interviews of importer-exporter dyads, it was observed that large retailers, because of their dominance in the international supply-chain, would induce pressure on importers to reduce prices which caused tension and a state of uncertainty between the importer-exporter dyad. Trust is negatively related to these price pressures because, from the exporter's point of view, the importer must search for cheaper sources and exporter cannot rely on him to continue the commitment. Similarly, from the point of view of importer, credibility of the exporter as having the competence to produce within the price points is lost. Commitment is negatively related to the price pressures since exporters are no longer seen as credible source for lower-priced products and therefore a long-term relationship does not appear feasible.

Importers from developed nations also exhibited opportunistic tendencies in exporter countries where governments were less facilitative and law enforceability was low. The same importers abided by rules of governance and compliance in their own countries where laws were more stringent and a mode of behavior was expected. Opportunism, or 'self-interest seeking with guile' (Williamson, 1993) is the tendency to act in one's own self-interest, at the expense of the other business partner, and considered as 'calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse' (Williamson, 1985, p. 47) the business partner. When partner opportunism occurs it doubles the negative effects of price pressures and the relationship is likely to terminate.

Keywords: Relationship marketing; relationship quality; opportunism; trust; commitment

Introduction

Exchange markets exhibit two distinct kinds of exchange behavior. In one instance, exchange parties engage in spot-transactions where goods, monetary or otherwise, are exchanged with minimal personal interaction. This transaction-based exchange is characterized by weak personal involvement and frequent dissolution of partnerships in order to form new ones that appear financially more lucrative at the time. The other kind of exchange is relationship-based where repeated transactions with the same partners result in relational exchanges and personal involvements. Such relational exchanges are characterized by an understanding of the partners and development of procedures to acquire mutual benefits to the exchange parties (Araujo & Minetti, 2009). A major point of departure in the two types of transactions is the build-up and continuity of relationship which is seen as providing long-term mutual benefits which far out-weigh the short-term financial gains derived from seeking new partners.

Exchange, itself, is a well-established concept, not only in disciplines such as anthropology and economics, but also in the area of marketing (c.f. Kotler & Levy, 1969; Kotler, 1972; Bagozzi, 1975 and 1995). Similarly, the concept of Relationship Marketing (RM from here onwards) has also been developed many decades ago (for example, Bagozzi, 1975; Dwyer *et al.*, 1987) and has established itself firmly in the literature of marketing theory. In fact, RM is the outcome of iterative human interaction over a period of time and can be likened to the natural social process where repeated interactions between human beings result in the development of understanding between the individuals and gives rise to expectation of behavior and code of conduct based on accumulated experiences. These experiences set the norms for future behavior and a trend is set whereby individuals learn what to expect and what is expected of them.

Based on these assumptions and the guidance given by extant literature, a qualitative research was conducted to understand the extent and nature of RM that was carried out between importers from a developed nation and exporters from a developing country. A study of literature showed that much research that existed on importer-exporter RM was done in the West (Leonidou, et al., 2002). Moreover, both parties involved belonged only to developed countries (Kim & Frazier, 1997; Cunningham, 2001; Peng, 2001). There is very little research on the quality of RM on countries in Asia, Africa, and the Middle East. Given that these areas hold a major chunk of the emerging economies, it is imperative that research be conducted to understand the challenges involved in building relationships with organizations that are considered to have a greater psychic distance between them.

This paper is the result of a qualitative enquiry on relational exchanges between importers and exporters to study the kind of relationships that exist when repeated cross-border exchanges are carried on between a developed economy and a newly developing country. The findings presented in this paper form part of a larger research project that thoroughly examines actual importer-exporter dyadic pairs. During the study, a unique case of opportunism was observed which played a significant impact on the quality of importer-exporter relationship and had adverse effects on the RM. The paper outlines the incident where long-term healthy business and interpersonal relationships are threatened by self-seeking behavior of one of the parties. It shows the double-barrel effects of retailer power and the consequent act of opportunism on trust and commitment, two important determinants of relationship quality. A model is set forward to suggest the moderating effects of retailer power and importer opportunism on Relationship Quality (RQ from here onwards). The paper is organized around the following theme: ater a brief review of literature on RM and RQ the methodology of the research is explained and the findings related to RQ are discussed. Next, the effect of retailer power and importer opportunism is examined and a model is proposed. The paper concludes with implications of the research, limitations, and future directions.

Literature Review

Relationship Marketing Theory

Though some debate exists on whether RM is a new concept or simply a new term assigned to a phenomenon that has been around for as long as marketing (Gummesson, 2008), the fact remains that RM theory has come full circle and has slowly emerged as a dominant paradigm in its own right (c.f. Narver & Slater, 1990; Berry, 1995; Nevin, 1995; Weitz & Jap, 1995; Lukas & Ferrel, 2000; Samiee & Walters, 2003; Watkins & Hill, 2009). Grönroos (2007) encapsulates the idea of RM by proposing that the purpose of marketing is *".... to identify and establish, maintain and enhance, and when necessary, terminate relationships with customers (and other parties) so that objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfillment of promises"* (p. 22). In line with this understanding of marketing, Gummesson (2008, p. 5) states that "*relationship marketing is interaction in networks of relationships*". Similarly, Sheth and Parvatiyar (2000) define RM as *"..... the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value at reduced cost"* (p. 9).

Thus mutual benefits are attached to mutual cooperation and an understanding that success is achieved when the trading partner also succeeds in his/her endeavors. Therefore, it is important that exchange parties build a system of mutual collaboration where the exchange parties can perform their respective operations in the comfort and knowledge that the other trading partner will safeguard their interests and not cheat them for their personal gains (Williamson, 1993).

In summary, relational exchanges are characterized by shared norms of conduct where exchange-partners see their relationship as important and work to preserve it through actions of cooperation and benevolence (defined as *relationship preservation* by Kaufmann & Dant, 1992; Brown *et al.*, 2000), build role expectations through *role integrity* for all transaction and non-transaction specific issues (Kaufmann & Dant, 1992; Brown *et al.*, 2000), and achieve mutually satisfying resolution of their conflicts through the norm of *harmonization of relational conflict*.

'Relationship Quality' is the term that is coined to describe the different types of relationships companies have with their various trading partners.

Relationship Quality

Smith (1998a) defines relationship quality (RQ) as comprising of *"a number of positive relationship outcomes that reflect the overall strength of a relationship and the extent to which it meets the needs and expectations of the parties"* (p.4). According to Ford (1980) it is the quality of the relationship that binds together the buyers and sellers so that they are able to reap benefits beyond the mere exchange of goods. In another article, Smith adds that RQ is *"an overall assessment of the strength of a relationship and the extent to which it meets the needs or expectations of the parties based on a history of successful or unsuccessful encounters or events"* (1998b, p. 78). Through constant interactions and resultant accumulation of history, expectations are set and norms are developed, resulting in behaviour that is unique to each individual relationship in the portfolio of a company's trading partners. The quality of a relationship is thus a measure of how strongly the exchange parties are bonded in the relationship and their overall assessment of the mutual business and social benefits gained.

Various determinants of RQ have been discussed in literature, most dominant of which are the building of trust (Dwyer, et al., 1987; Grönroos, 1991; Moorman *et al.*, 1992; Kumar *et al.*, 1995; Doney & Cannon, 1997; Hennig-Thurau & Klee, 1997; Dorsch *et al.*, 1998), a desire for commitment to the partnership (Moorman *et al.*, 1992; Kumar *et al.*, 1995; Hennig-Thurau & Klee, 1997; Dorsch *et al.*, 1998), satisfaction with the state of affairs (Crosby *et al.*, 1990; Geyskens & Steenkamp, 2000; Rodriguez *et al.*, 2006), benevolence or as desire to reach out beyond the exchange requirements, and the atmosphere of cooperation/conflict (Skarmeas, 2006). This is not to say that parties to the exchange will not look for opportunities where personal gains may be achieved at the expense of the trading partners. Such an act of acquiring personal benefits at the cost of endangering the benefits of, or even harming, the trading partner are termed opportunism. Defined as "*self-interest seeking with guile"* (Williamson, 1993) opportunism stands to obfuscate and destroy the benefits that are achieved through cooperative collaboration by creating a state of uncertainty and distrust in the relationship, resulting in a desire by the trading partners to indulge in acts that are meant to safeguard their self-interest.

In *relational exchanges* that take place over a period of time and involve high investments, the costs of switching to new partners are high because spatial and monetary investments made in the relationship are not easily exchangeable. The parties involved would, therefore, have to develop social networks to safeguard their investments and ensure that their mutually compatible goals could be achieved. Trust becomes an essential requirement to ensure that parties do not act for their own benefit and long-lasting relationships require commitment to the relationship and open communication to ensure trust. Thus, trust and commitment circumscribe the relationship by shaping the rules of engagement for the parties' interactions over time. Morgan and Hunt (1994) suggested that trust and commitment delimited the partners' choices since they were linked through personal ties, business ties, and the spirit of the relationship. When positive outcomes – social and economic – are seen over time, there is an increase in the level of trust and commitment which shapes relational norms that govern the nature of future interactions. A breach of trust in such a situation bears a high cost for the parties involved and is detrimental to the quality of relationship. Jap (1999) studied relationships between trading partners and demonstrated that setting of congruent goals between trading partners lessens the threat of opportunism since potential long-term gains from the relationship are found to be more attractive than short-term benefits. In addition, she advocated the role of individuals, especially boundary spanners, in building closer collaboration between firms.

To sum up, literature suggests that long-term business relationships are marked by a build-up of trust between exchange partners that results from an understanding that the partner will not cheat them and will act in a way that results in mutual benefits for the parties. Governance structures are formulated to safeguard that trust and mutual goal-setting ensures fair benefits for both parties to exchange.

Methodology

A qualitative investigation was carried out in Pakistan and the United Kingdom by selecting three industries where the trade was most frequent between the two nations. Country selection was based on the level of economic development and cultural differences between the two countries. Extant literature calls for a need to study development and continuance of marketing relationships in face of diversity in cultural, social, economic, legal, political, and managerial environments. International trade between Pakistan and United Kingdom fits that criterion. UK enjoys the status of a developed welfare economy with well established stable political, legal, and economic structures in place whereas Pakistan has a long history of political instability and bouts of economic upswings and downfalls. Comparing Hofstede's cultural dimensions (Hofstede, 2001), Pakistan is a highly collectivistic (IDV – 14) and moderately masculine (50) society with strong affinity for uncertainty avoidance (70), tolerance for unequal power distribution (55), and virtually no long-term orientation (0) whereas UK is a highly individualistic (89) and moderately masculine (66) society that scores low on uncertainty avoidance (35) and power distance (35) and has significant long-term orientation (25).

A qualitative enquiry through interpretive research was conducted to study trade relationships between the two countries. An interpretive mode of enquiry is suggested "*when we are interested in the worldviews of members of a certain social group*….. [or when] *no or virtually no research has been done* [on the topic] *in the past*" and for topics that are too sensitive to be inquired about openly (Bryman, 2008, p. 26). Scholars have recommended the use of intrpretive research methods in international B-to-B marketing (Johnston, et al., 1999) and international business relationships (Dul & Hak, 2008) to develop understanding of the nature of relationships between trading partners.

The selected industries comprised of home textiles (HT), cotton apparel (CA), and leather garments (LG). The unit of analysis for the study was the dyadic relationship and for this purpose nine dyads were selected by contacting three trading partners per industry. The selection required a purposive sampling plan where dyads were carefully chosen based on continuous trade for no less than five years so that well-established relationships could be studied. The sample resulted in trade durations between five and twenty five years. Separate iterative interviews were conducted in both UK and Pakistan till a point of saturation was reached and no further information was forthcoming. This resulted in a maximum of five waves of interviews in some cases. At each step interviews were hermeneutically analyzed to understand the information received and build a case for further investigation.

Analysis of Interviews – Model of RQ

The interviews were conducted in two waves that were set one year apart. An interesting finding of the analysis of interviews was that a shift in attitudes was observed in the second wave of the study. Analysis of earlier interviews showed that the quality of relationships was shaped around trust between partners and their level of commitment to each other, where trust was the outcome of past positive history of the relationship which resulted in reliable relationships between importers and exporters who had confidence that their partners were competent and honest with them and would act in their interest to achieve mutual benefits, and commitment was the long-term orientation towards the exchange partners' relationship, or a desire for continuance, manifested in their long-term orientation towards the exchange partnership, use of mutual strategic planning, investment of time and effort in the relationship, and perception of their switching costs. The second phase of data collection revealed a state of uncertainty and mistrust in the attitudes of exporters towards the relationship. This was also the time when price pressures from increasing competition in the retail and supplier market had become more pronounced and their effects had begun to put a strain on the relationship structure of the dyads. In the later interviews, price pressures were seen to have double-barrel negative effects on trust and commitment of exporters and compromised RQ by reducing both trust and commitment directly on one hand, and through increased likelihood of exchange partner opportunism on the other hand. A description of the two phases and their findings are given below.

Phase 1: The Nature of Relationship Quality within the Dyads

The first phase of the study showed that strong relational ties existed between the trading partners. Respondents' definitions of the term 'relationship quality' were a reflection of the relationship that existed between the trading partners of the countries under study. According to the experiences that respondents had accumulated during the course of their trade with various partners, and within the dyadic pairs under study, the attributes that were most important to them in order to have a good quality of relationship were: positive past experiences, mutual trust, openness in communication, honesty, transparency, mutual planning, commitment, dependability, long-term orientation, credibility, reliability, nature of offered price, and timely deliveries. These attributes were categorized in Nvivo according to the definitions given by the respondents and compared with literature to establish two attributes that defined RQ in the context of UK-Pakistan trade. These attributes are trust and commitment and they have been vastly accepted in relationship marketing literature as the determinants of RQ (c.f. Morgan & Hunt, 1994; Cullen *et al.*, 2000; Lai *et al.*, 2008). Morgan and Hunt (1994) suggest the presence of both for RQ to gain strength as the absence of one would weaken the effect of the other. In literature trust is often taken as an antecedent to commitment (Anderson & Weitz, 1989; Geyskens *et al.* 1996; Cater & Zabkar, 2009). The explanation given for it is that trust is built on past positive behavior which builds confidence in exchange partners to develop a future outlook to the relationship continuity with greater degree of certainty (Cater & Zabkar, 2009). The analysis of data from the first phase shows the presence of both trust and commitment as essential ingredients of RQ and therefore it follows that high degrees of trust and commitment in the relationship increase the quality of that relationship for the exchange partners.

The following sub-sections give a categorization of these attributes, and the variables used by the respondents to define them, and offer an explanation of how the attributes of RQ are manifested in the relationships under study.

Figure : determinants of relationship quality

Trust

The long-standing relationships spanning over five to twenty-five years are the outcome of trust between the dyads where trust relates to an understanding that the partner will not knowingly harm them. For example, the respondents were confident that their exchange partners will not cheat them where financial matters were concerned. Smith & Barclay (1997) define trust as *"… the critical factor differentiating effective from ineffective selling-partner relationships*". According to Berry (1995) trust is the backbone of relationship marketing and the importance of trust is evident from the vast amount of interest directed towards understanding the nature and elements of trust in distribution channels (Anderson & Weitz, 1989; Anderson & Narus, 1990), industrial buyer-seller relationships (Coote *et al.*, 2003), and cross-border business relationships (Lohita *wt al.*, 2008; Skarmeas *et al.*, 2008). The proposed definition of trust, based on the findings of this research, is that "**trust is the result of satisfactory and positive past experiences that the partners have with each other where they acknowledge their mutual dependency** (Moorman *et al.*, 1992) **on their exchange partner and realize that mutual cooperation and understanding will result in benefits for both the firms**". Thus, the definition of trust in the context of Pakistan-UK exporters and importers can be seen under five dimensions:

1. Trust that is the result of a **history** of **positive** performances on the part of both the parties to trade (Dwyer *et al.*, 1987; Ganesan, 1994; Doney & Cannon, 1997);

2. Trust that the partner will show **honesty** which is made apparent through **open communication** and **transparency** in dealings (Doney & Cannon, 1997; Chow & Holden, 1997; Smith & Barclay, 1997; Coote *et al.*, 2003);

3. Trust in the individual's or management team's **credibility** to perform the tasks entrusted to him/her (Ganesan, 1994; Norman, 2002); and

4. Trust that the partner will work towards **mutual benefits** of both the partners (Young-Ybarra & Wiersema, 1999; Norman, 2002).

5. Trust that the partner will continue to act in a consistent manner and be there as a **reliable** partner in time of need (Aulakh *et al.*, 1996; Smith & Barclay, 1997; Young-Ybarra & Wiersema, 1999; Coote *et al.*, 2003).

FIGURE : ATTRIBUTES OF MUTUAL TRUST BETWEEN PAKISTANI EXPORTERS AND UK IMPORTERS

1. *Positive History*

Positive history is defined here as the net effect of past positive performances. With emphasis on mutual dependence (Dwyer *et al.*, 1987) in these relationships it is important that partners entrust each other the duties they are not able to perform themselves (Young-Ybarra & Wiersema, 1999), for example the marketing and distribution of manufacturers' products by the importers, and the manufacturing of quality goods for the importers' customers by the manufacturers. After the start of the relationship and commencement of exchange a testing phase is encountered where the exchange partnership is calculatively and affectively evaluated through repeated exchanges over time (Dwyer, et al., 1987; Gulati, 1995). Close personal and professional relationships are those that are found to be reliable and endure the test of time.

During their extensive dealings with various trade partners, the respondents had experienced many failed relationships with other trade partners but had continued with the dyadic partners chosen for this research because of the positive outcomes of their past dealings and the mutual understandings that developed between them over time. The relationships that were terminated were a result of failure to achieve positive experiences. An exporter of HT recited an incident where an importer (of terminated relationship) insisted on a low quote for a product because he said he could acquire it from another manufacturer at that price, but upon investigation the exporter found out that the product with the low price was of a much inferior quality than the one he was offering. The exporter was confident that his chosen dyadic partner would never try to cheat him into lowering prices through such tactics because they had been with him for a long time and understand his cost structures and quality. On the same note, a LG importer felt that it was because of the experiences with their suppliers and the relationships they built that they had developed a good supply-base in Karachi.

> *'… you know most of what we do or most of our business relationships with Pakistani manufacturers have been fruitful. They are not perfect but I think of all the suppliers that we worked with, there are 6 suppliers we still work with for the past 18-15 years, 4 of them regularly.'*

While an LG manufacturing-exporter frankly stated:

'The relationship is more professional. It has nothing to do with trust or something! It is your past experience…'

where his emphasis was on separating professional performance from personal trust which is the positive affective component related to social relationships. The better one performs in his/her business, the stronger the business relationship would be.

'… they trust us. They will trust because it's the history which will make them trust. If I have not broken their trust in the last 15 years then their trust will continue that if I say then I will deliver' (a CA manufacturing-exporter).

In summary, past positive outcomes result in an expectancy of positive future intentions, and the building of trust.

2. Mutual Benefits/Abstinence from Opportunism

Mutual trust is the outcome of a positive orientation of the partners towards each other's welfare, or at least a desire to not harm the other partner and expect the same from them (Deutsch, 1958), i.e. to stop oneself from practicing opportunism. Ledingham *et al.* (1999) suggested that mutual benefit was the outcome of the rewards (of relationship) being equal to or greater than the time, money, or efforts invested in the relationship. Bruning *et al.* (2006) studied public relation activities of organizations and found that these related positively to public perceptions of mutual benefits by building trust in the organization. Promise of mutual benefits in a relationship curbs opportunism since it acts as an incentive and reduces the payoff from opportunistic behavior (Wathne & Heide, 2000).

For the UK importers, trust involved knowing that their trade partner would not cheat them by supplying anything other than what had been agreed on in the contract:

'The problem we found with Pakistan, and a lot of other countries, is that ……. if somebody quotes you a price for this then they will simply send you something else.' (quoted for exporters other than the chosen dyadic partners).

This is the sort of experience they quoted when they emphasized the trust they had in their dyadic partners. An LG exporter mentioned the importance of building trusting reliable relationships in order to achieve long-term mutual benefits:

'You must deliver the same product that you showed the buyer at the time of sampling...'

The other aspect of trust for importers was the fact that they needed to be reassured that their Pakistani trade partner would not approach their client retailer independently to offer direct business by reducing the cost of importer-middleman. Thus the importer is vulnerable to risk of losing business to the exporter who would gain higher profits by acting opportunistically:

'If we send a design for manufacturing to the factory it would inevitably be the client's own brand. So the factory will know who the end-user is. So there is a case of saying… that we made such and such a design for (the importer), we can sell it to you direct; less cut in our margin, in our service. So it does happen.'

Importers went on to say that although one had to be careful while dealing with Pakistani businesses they were confident that their specific trading partners would not act opportunistically and cheat them purposely in any way. The manufacturing-exporters also trusted their partners to the extent that they would not cheat them or show opportunistic behavior towards them. During the history of the relationship, trading partners worked towards mutual understanding and aimed to achieve mutual benefits, which is a significant quality in the building up of relationships. All the importers mentioned engaging with their partners in mutual strategic planning to acquire more business and improve mutual profitability. Quoting one importer:

> *'We actually sat down and decided between ourselves marketing strategies. We actually came up with dual customer identification and we said, "Look, why aren't we going for this customer while this customer is buying from there. What do we have to do to get that business? How are we gonna do it? What's the marrying off process, whether it's the price advantage or product we have to develop? There was a real culture there of how we can maximize the business and we took it from nothing in early eighties then to round about 10 and a half million dollars and that was quite substantial'.*

In the apparel business too there was mutual planning in order to improve business for both dyadic partners. For example a CA importer said:

> *'I think we probably meet each other five or six times a year and we look at different strategies to get more business here in the UK. So you know we do plan and we do look at different ways and different ideas of how to tackle problems, how to try and open new accounts here and in Europe'.*

This importer had worked with his Pakistani counterpart to develop designs and qualities that the manufacturing-exporter did not produce initially. Although they did not carry out mutual planning together they worked on issues in order to give a better product to the customer. Similarly, in the leather garment industry, a lot of input came from the importers – who were also designers – about leather finish, designs, patterns, and trimmings but mutual planning is not part of their agenda. Yet they had worked to form close ties.

Thus, among the dyadic pairs under study, partners trusted each other to do good by them and not take undue advantage of them. In sum, dyadic partners under study abstained from engaging in opportunistic behavior and worked towards achieving mutual benefits for the dyad.

3. Reliability

Reliability is often used in literature to define the level of trust between exchange partners (Aulakh *et al.*, 1996; Chow & Holden, 1997; Smith & Barclay, 1997; Dyer & Chu, 2000; Coote *et al.*, 2003). Reliability relates to the belief in consistency of behavior and status quo of support structure. A reliable person can be entrusted with investments and proprietary information. Reliability is used as an element of trust by many researchers. Ganesan (1994) defines trust as '…the willingness to rely on an exchange partner in whom one has confidence' (p. 2). Coote *et al.* (2003) define trust as having confidence in the trustee's honesty, reliability, and integrity.

The dyadic relationships under study are marked by interdependence where the importer must rely on the manufacturing-exporter to produce quality products according to the requirements of the retailers and the exporters must rely on the importers to market their products and bring them business. Over the course of the relationships, each respondent had ensured that the trading partner was reliable and could be trusted with his/her assigned role. Quoting a CA importer:

> *".... oh delays are very common in exports from Pakistan. But I know he will do his best to meet the deadlines. I can rely on him to deliver within a reasonable amount of time..."*

While an HT importer commented:

> *".... I have an order, I take it to him, we discuss the details, and then I leave it to him to manufacture and deliver. I trust him to do a good job of it and satisfy the customer...."*

Exporters also needed to be reassured of continued business, timely payments, and a strong marketing network. An HT manufacturing-exporter explained why he terminated business with a particular importer:

> *"It was just not worth the effort. He would come in, place a small order, and then disappear for long durations...."*

In short, exporters needed a reliable importer who they could depend on to market their products and to provide them with a continuous flow of business whereas importers needed trusted suppliers for quality products and timely deliveries at the manufacturing end.

4. Honesty/Transparency/Open Communication

All respondents mentioned honesty, transparency, and open communication to be important qualities of a relationship. For example, Chow & Holden (1997) present the definition of trust as *"...the level of expectation or degree of certainty in the reliability and truth/honesty of a person or thing*". The more honest and truthful a person or organization is, the higher will be the level of trust with it. Coote *et al.* (2003) also place honesty as an integral part of trust. Transparency in operations, as opposite to the concealing of facts, opens oneself to audit by the exchange partner and minimizes chances of opportunism and breach of trust. It acts as a control mechanism against dishonesty and cheating. The large HT and CA manufacturers had installed ERP[1] systems which enabled the importers and retailers to track goods-in-process and know exactly when a shipment would be ready and freighted. For the importer the concepts of honesty, openness, and transparency did not mean dishonest or unethical behavior but referred to the communication of the stages of work-in-progress to the trading party. In this sense, trust means being open and honest in your communication and transparent in your dealings. According to an HT manufacturing-exporter:

1 ERP: Enterprise Resource Planning

> *'…the relationship, the customer-base we have got, is so long-term based because the company is very transparent. No matter what happens, the company policy is that we shouldn't hide anything. We just put down on the table and discuss and find out the solution.'*

Similarly, according to all the UK importers in the HT sample, transparency and honesty were key elements of trust while doing business with Pakistan. To quote one:

> *'…I think it's being open; very open, very honest with people. We always say to our factories if you've got a problem on quality or delivery we would rather know about it and we can work with you to get it right rather than waiting till the last minute and saying we got a problem, we can't ship it on time… They wait till the very last minute. Say, you are chasing a delivery and they'll say we've got a problem. (Laughs) So that is still happening with people we dealt with for 20 years. It's just the nature of the mill sometimes'*

In other words, in the context of trade with Pakistan, transparency relates to open communication between the two partners about work-in-progress and delivery timings. Importers who had been dealing with Pakistan understood the problems that are inherent to Pakistan and that cause delays in shipments. They worked around these problems and built at least two extra weeks in their critical path which they did not reveal to the manufacturers so that the manufacturers were given shipment deadlines of two weeks prior to the actual ones. The problems cited for delays were based on the infrastructure of the country and related to water, electricity, and gas shortages or, at times, machine breakdown or even civil unrest that results in strikes or closure of factories. The importers had strong personal relationships with the manufacturers and were sympathetic towards their issues but insisted that their manufacturers should keep them informed about any possible delays so that they might be able to rectify the problem or, in some cases, arrange for shipment elsewhere. This is also the possible reason why manufacturers were not willing to inform the importers about delays. They feared that their business might be taken away from them if they were unable to deliver on time, especially when the importer had sufficient time to make alternate arrangements. However, they were careful not to tarnish their long-standing relationships and did their best to meet deadlines. According to a CA exporter, they met their deadlines 90% of the time. They agreed that importers were supportive and understood the causes of delays. The importers also negotiated with the customers for extra time or other terms when the customers did not receive shipments on time.

Importers called the manufacturers "*eternally optimistic"* in their outlook to life because they willingly promised deadlines the importers knew the manufacturers would be unable to meet. Manufacturers realized that the importer had committed timely supplies to their customers and genuinely believed they would somehow manage to honor that at the end by working harder and longer. They said:

> *'WE try our best till the end, but when we see that it just can't be done then we inform them.'*

Importers did not share this view and some considered it to be a cultural issue which set Pakistani exporters apart from the UK importers. According to an LG importer:

> *'.... I don't think they are generally dishonest. I think they are naïve; I think they try to facilitate instead of accommodating the truth, they facilitate the truth and that's totally different, because if they actually took the truth on board and said look this is not right. They always say it's gonna be 7 'o' clock tonight, or 10 'o' clock tonight. It's gonna be like in... (laugh) well fine, but it was gonna be shipped today, so these sort of things'.*

In CA too, an exporter shares the LG importers' views and felt that culture played a role in setting business ethics of a country, and blamed the society for the inevitable delays in their deliveries. He said that it was in the nature of the nation to leave tasks to the last minute:

> *'This involves the culture of a society. Business ethics are developed from this culture. The intentions of the society will cause its development. If I procure yarn from a spinner and he does not deliver on time, and when he does the goods are of a sub-standard quality, what am I to do?'*

This feeling was shared by most of the importers who saw a lack of professionalism in not meeting delivery dates. For example, an importer mused over the fact that religious and national holidays are known facts and they should be built in the critical paths at the early planning stage but exporters used them as excuses for not making their shipments on time.

In the case of the exporters, they found that the importers were not always honest with them about the retail prices and tend to under-quote but they believed that the importers were not purposely harming them by not revealing the retail prices the final product would sell for. They felt that in this way the importers kept a larger share of the commission than they declared but they also reassured that it did not directly affect their relationship as long as they got the agreed price. For instance, an HT exporter mentioned an incidence when his dyadic importer told him that the retail price for an item would be £2 but he later found out that it was £3. He said that the importers did not cheat them out of their money since they got what they had manufactured for and it was fine if the importer made extra money on the product. In fact, it was the feeling among all manufacturing-exporters that importers told them lower prices than the actual ones in order to get lower quotes from them but they felt that as long as they were paid what they had been promised they were satisfied and they knew that there would not be a financial dishonesty from their partners. Another HT exporter also had a similar line of reasoning:

> *'Well, I trust these two clients of mine in a way that they will not cheat me in the real sense. Of course, they might say that we want this for two dollars as Gul Ahmed is selling it for two; maybe they are selling for three'*

To sum it up, importers treated honesty, transparency, and open communication as synonymous. It was seen that honesty, transparency, and open communication, together with faith in the exchange partner's competence were the most important characteristics for the importers dealing with manufacturing-exporters from Pakistan where importers exhibited lack of trust in the willingness or ability of the exporters to deliver the products on the specified dates. They built in their systems alternate critical paths and methods of chasing after the dates to ensure that customers were not aggrieved into penalizing them and/or the exporters. Exporters understood this to be an important issue in their trade and invariably all had emphasized the three concepts as the most important qualities of their relationship. Interestingly, while importers mentioned the importance of exporters being honest and transparent, exporters also projected that on their own performance, and not on the importers'. This shows that exporters agreed that the qualities of transparency and open communication were important attributes that they should have and upon request for further elaboration of the terms, they mentioned open communication about issues in production and likely delays and the importance of conveying the information to the buyers as a priority so that a mutual solution could be arrived at.

5. Credibility

Credibility of exchange partner is taken here as the belief that the exchange partner is competent and can perform the duties that he is entrusted with. In the words of Norman (2002), trust is competence-based when there is *"…a belief in the other party's ability to perform*" (p.184). In the context of this research, it refers to importer's expectation of the exporter's ability to deliver the quality expected of him and within the specified ethical and moral norms. In the same way the exporter expects the importer to fetch the price equal to the quality demanded by the importer and act morally and ethically in the performance of his/her duties. When two parties are engaged in relational exchange and are dependent on each other for the achievement of their objectives, then they must entrust their exchange partners with activities that they cannot perform themselves even if there are no control mechanisms to ensure quality performance of those activities (Mayer *et al.*, 1995). When importers came to Pakistan in search of manufacturers for textiles and leather garments, they did an audit of all the firms to see their level of competence before placing an order. The fact that they made use of sealed approved samples is indication of a control mechanism to safeguard their interest. This works for both the importers who are protected against receiving goods that were not agreed upon, and the exporters who are protected against rejection of shipments because the retailer did not think they were according to the specifications agreed upon. Control mechanisms are systems of control put in place to check opportunism and enhance channel performance (Brown *et al.*, 2000). Different types of control mechanisms are ownership of resources or systems in the exchange partner's firm (Williamson, 1975; Anderson, 1988), investment in transaction-specific assets (Anderson & Weitz, 1986), and relational exchange norms (Brown *et al.*, 2000)

Analyzing the definition of RQ as given by importers once again, another aspect of transparency is about issues in quality that the importers would like to be informed about on time. Quality of the product is important for the survival of both firms and all importers talked about instances where they had had bad experiences with the quality of products delivered to them from suppliers other than their dyadic partners. All importers claimed that their experience and history with the dyadic manufacturing partners was so strong that they knew that what had been promised would be delivered. This implies strong trust in the manufacturer's ability and competence. Yet, on closer look, it appears that importers played a significant role in the area of QC where most of the big importers of HT and CA had teams of dedicated managers who, although they were employees of the manufacturers, worked on behalf of the importers to ensure QC as specified by the retailers and reported back directly to the importers. Large exporters of both HT and CA had a floor in their factories dedicated to the importers' QC team who supervised and oversaw all matters relating to quality. Importers brought teams of retailers who visited the manufacturing facilities and inspected them to ensure compliance and ethical standards. This close monitoring by retailers and importers of the manufacturers' operations emphasizes the role of dependency and trust, or lack of it, on the part of the importers. Though the importers claimed that they trusted their trading partners to provide the quality expected of them, they took strong steps to ensure that it met the requirements of the retailers. Where the importers did not have dedicated QC teams on the manufacturers' premises independent QC teams were hired to maintain checks for them, as in the case of leather garment manufacturing in some instances. In other instances, for example in HT, once the shipment arrived in UK, importers checked the entire shipment and used sophisticated equipment like metal detectors to ensure quality for their retailer clients.

Quality is an issue in leather garments because leather is a product of animal hides and it is difficult to achieve consistency in many aspects of the final product, for example dying, texture, and finish. Another aspect of leather garment manufacturing is that it is a labor-intensive industry and as such prone to human error. That is why importers were very involved in the entire process of leather garment manufacture while one importer also participated keenly in the process of leather processing for garments. Two of the importers sent their QC teams for inspection before shipments were made. One of them had Pakistani QC staff in Karachi who oversaw all their shipments in the various factories they bought from whereas the other one used independent QC bodies to carry out the inspection for them. The third importer made use of the services of an agent to conduct the inspection for them.

There was a higher level of trust in the competence and ability of the manufacturer in the textile industry as compared to leather garment industry. This could be due to the nature of the industry where textile industry is automated at various levels whereas the leather garment manufacturing is labor-intensive. Pattern cutters of leather garments did not have specialized training and had mostly learned on the job while mostly semi-skilled labor was employed for other tasks. Thus, the nature of the product and the nature of the production process were both subject to human error. According to an LG importer Pakistan's leather garment industry was established about thirty years before China became a force to reckon with but unfortunately it did not make use of the good head-start it had over its competition. Leather garment importers felt that they had been training the manufacturing-exporters for the past many years and chuckled when they said:

> *'You'd think they'd learn by now!'*

As a summary, though exporters had confidence in the ability of the importers to market and sell their product, there was lack of confidence by importers in the manufacturers' ability to provide, ready-to-retail goods that met their price points.

Summary of Trust between Importers and Exporters

Importers and exporters in the sample defined trust as the outcome of past positive experiences where reliable relationships were formed between trading partners who had confidence that their partners were competent in what they did and honest with their exchange partners and would act in their interest to achieve mutual benefits. In the order of importance to them in the context of this business relationship, the importers rated honesty and competency as the most important while the exporters rated honesty and reliability to be the most important values of trust.

Commitment

Commitment is the desire or motivation to continue the relationship with the trading partner, or to have a long-term orientation towards a business relationship (Ganesan, 1994) and it is manifest in the relationship by putting substantial monetary and non-monetary effort towards building that relationship (Ryu *et al.*, 2007). All importers in the study claimed that they were very committed to the relationship. This commitment is apparent from exchange partners' desire for longevity of relationship with their partners, mutual strategic planning, investment of time and effort in the relationship, and the way they anticipated their switching costs of moving away from their trade partners.

FIGURE : ATTRIBUTES OF COMMITMENT BETWEEN PAKISTANI EXPORTERS AND UK IMPORTERS

1. Long-Term Orientation

Commitment is an outlook towards the longevity of the relationship where mutual benefits are seen as outcomes of remaining in the relationship (Ganesan, 1994; Stanko *et al.*, 2007). Longevity, or long-term orientation towards an exchange relationship, is defined as a firm's desire to remain in the relationship and, in the process, to forgo short-term benefits for long-term gains (Lohita *et al.*, 2008). The propensity to stay in the relationship and to honor it is high in exchange partners who are committed to the relationship. Committed exchange partners will be less inclined to leave the relationship for short-terms gains when an opportunity presents itself (Skarmeas *et al.*, 2002). For example, a CA exporter and their trading partner believed that the strength of a relationship lies in the desire to continue business rather than make short-term deals because they might sound more attractive at the time. Thus, even if profits may appear to be squeezed in the short-run the benefits of a long-term relationship will always outweigh them. This concept of longevity is maintained through an understanding about the trading partner and acknowledgement that both need to make a profit to survive.

> *'But I still believe we are very much a rare animal in actually having that mentality that we are looking for longevity, we are looking for open-trading, we are looking for this, you know, sort of consistency in business to actually have done its cost-benefits.'*

For example, a CA importer explicitly stated that they were…

'…very committed. We've had our ups and downs as every relationship has where things have not gone right and we've not done things right but we stuck by each other and I think we've got a very, very strong relationship.'

They also state that they did not like switching suppliers and had been dealing with the same companies for the past 25 to 30 years. They found that switching suppliers wasted valuable time and resources which could be better utilized building relationship strength.

'We like to work with the company and build with them. We like to be strong with them…'

Similarly, an HT exporter finds that their relationship was marked by commitment where the two firms shared a history of standing by each other in trying times and helping each other out:

'We've been together for seventeen years and we are also………we have been through thick and thin, lots of things such as quota, cotton shortages. We have been through it together and supported each other. So ya definitely, we are very committed to the relationship.'

An LG importer expressed his desire for longevity by stating that they wanted to continue the business with their partners by searching for prospective business and conducting R&D on leather with them:

'I think our future plans are to at least maintain the amount of business we do; look at innovating, look at improving qualities, look at gaining market share here with their support.'

On the same lines, other importers also talked about commitment with their trade partners. Commitment for the Pakistani exporters took on a different tone, where they considered the calculative form of commitment rather than the affective one like the UK importers. For example, one HT exporter considered commitment as calculative, where benefits of being in the relationship were weighed against the costs:

'See the commitment would also have this idea that what kind of relationship you want to develop with that customer. What exactly, if we are talking in terms of business, what exactly do we think we can achieve from this and what exactly does the customer think he can achieve from us.'

Similarly a CA exporter said that they were committed to the relationship and so were their relationship partners as long as they both performed well. If they did not then there was no obligation to stay in the partnership. They knew that their partners were committed to the extent that the partner importer will give them preference over other suppliers as a first choice for retail orders of CA. However, they do not feel that the relationship would last if they were unable to produce at lower price points like their competitors. Quoting a large CA exporter:

'We are important as long as we are competitive. If we are at the same price, they will buy from us, that's the only thing… we can sell as much as we want as long we have the same price as everybody else, so we can sell, they (competitors) can't sell,

if we are ready to sell but for the pricing we have to be super-efficient. In the end they will not give us extra price for being what we are, but they will give us preference.'

In other words, they believed that their long relationships and personal friendships aside, if their quality remained better than the competition but they were able to offer the product at the same price as the competition, then their importing partner would definitely give them preference. An HA exporter also expressed the same sentiments and pointed out that:

'At the end of the day everyone is here to do business. For 3-4% the importers will stick to their suppliers, whom they have good relations with, but if they find a major price difference like 10%, they will definitely move.'

Here, the exporter was referring to the 10% tax advantage that Bangladesh had over textiles because of its status as underdeveloped nation, which made Pakistan's product 10% more expensive.

To sum up, UK importers saw relationships as long-term ventures to which they felt very committed whereas Pakistani exporters exhibited their state of uncertainty and did not believe in importers' commitment. They had the feeling that their partnership would last only as long as they were able to supply at the price points, otherwise the business would be taken from them. The difference in attitude could be attributed to the relative positions of the two trade partners where Pakistani suppliers were in a state of uncertainty while they were working to improve their processes and bring efficiency to their production. They had seen a decline in supply orders from their trading partners and did not know whether the relationship would continue. UK importers, on the other hand, had more sources of supply and did not foresee a sudden drop in their business although they had begun to plan for change if the market structure evolved and they had to meet the same fate as the agent industry. According to one CA importer:

'The agent industry is dead and the importer industry will go the same way. Markets keep evolving and we have to be ready for change'.

2. Mutual Strategic Planning

Strategic planning involves decisions regarding the long-term objectives and goals of an organization to determine what direction needs to be taken for development and growth. When trading partners perform mutual strategic planning it is an indication of their commitment to the relationship and their desire to formulate strategies of growth together. Thus mutual strategic planning could be seen as an element of commitment where high levels of commitment between exchange partners is an outcome of their goal congruency and the desire to pool resources for future mutual benefits. Also, if the nature of the exchange partners' relationship is such that they must plan ahead together in order to perform their activities then they become committed to the relationship at least for the duration of execution of those plans.

Dyads that had been working together for over ten years showed a history of closeness of the owners and their desire to work together for mutual benefits which resulted in their ability to make strategic decisions together regarding, for example, decisions on how to cater to 80% of the mainstream commercial market and with it strive to reach the other 10 or 20% of the top end through low-volume high-price products. To this end, the management teams would sit down together and plan how to enter the top range market by deciding on the investments and the marketing necessary to do so. The importers would put forward the requirements of the customers and the manufacturers would plan the processes necessary to cater to those requirements. Such mutual strategic planning was deemed necessary to achieve the objectives of both the dyadic partners:

> *'But they were the first people that we were actually able to develop the common grounds and mentality in marketing where we could push it through'*

An HT importer felt that mutual decision-making was a very important part of their trade since both parties had a vested interest in the business and working for mutual benefits strengthened the bond:

> *'I think we probably meet each other five or six times a year and we look at different strategies to get more business here in the UK. So you know we do plan and we do look at different ways and different ideas of how to tackle problems, how to try and open new accounts here and in Europe.'*

Although the rest of the firms claim that strategic matters were discussed through meetings with the partner, analysis of the interviews revealed that it was mostly to set a price point rather than to make important strategic decisions. The importer was given a price by the retailer. His job, then, was to convince the manufacturer to make it within a price point which would result in profits for both the mill and the importer. An LG importer explained it as working backwards from the price given by the retailer to decide what kind of leather would fall in the price range and with what finish.

To conclude, some mutual strategic planning was carried out by the dyadic pairs where HT manufacturers were more heavily involved in it than the other pairs in the rest of the product categories.

3. Investment of Time and Effort

Commitment is greater in a relationship the higher the idiosyncratic investments in it. Idiosyncratic investments are investments that are unique to a relationship and are not easily transferable anywhere else, and therefore, have little use outside of the relationship (Heide, 1994; Shelanski & Klein, 1995). The dyadic pairs under study did not have any specific monetary or human assets invested in each other's business. However, there was investment of time and effort in order to understand each other's cultures and business practices and to make adjustments accordingly (Zaheer & Venkatraman, 1995) and the respondents viewed these as substantial investment. Idiosyncratic investments, or asset specificity, have a positive effect on the relationship between exchange partners who feel committed to their relationship because of the investment made since the investment is of a nature that it cannot be redeployed to other activities easily. On the flip side, highly specific asset commitments bind the investor to the relationship who then becomes susceptible to opportunism from the receiver of the investment. However, from relational exchange perspective, trust in partners acts as a governance mechanism and curbs the desire for opportunism (Ganesan, 1994).

UK importers said that a lot of teaching and learning was involved in the early days of the trade and this was why they now felt very settled in Pakistan. Pakistani exporters also mention '*mutual understandings'* that evolved out of their long relationships with each other. According to a CA importer:

> *Everybody has educated everybody together but the culture has completely changed'.*

They also ran training programs and developed a hand book for all the suppliers with pictorial and written instructions. They had the book translated in Urdu by one of the mills so that the shop-floor staff could read it. This book was not specific to Pakistan and was later translated into Chinese and Bengali. Their business counterparts, the exporters, also invested in machinery equipped to cater to the European designs. The CA importer felt that his export partner's greatest investment was

> *'... the investment in the mentality and the longevity of it. That's the best investment you can hope for!'*

Relationships spanning twenty to twenty-five years had, as the key to their success, the understandings that had developed and the history that bonded the trade partners together. A large HT exporter constantly invested in their machinery to acquire the latest technology and at the time of the second interview, they were in the process of increasing efficiency by installing some new equipment to their '*Rolls Royce'* mill. These financial investments were not relationship-specific but resulted in a better product, at a reduced cost, for both the partners. Their trade partner said that the exporter's biggest investment in the relationship was:

> *'...supplying quality goods and the long-term relationship and that's a huge investment…'*

Another HT importer talked of learning to interact with the Pakistani business people through their relationship with the dyadic exporter. Learning involved understanding of Pakistani culture, organizational culture of the exporter, and the negotiating skills required to work in Pakistani environment. This learning was transferable to other mills that the importer contacted and started operations with. In the importer's words:

> *'... we've learned the way to negotiate, the way to work with them, the way to work effectively which is basically, you know, it's gonna be good for both of us.'*

An LG importer also considered their learning and teaching to be an investment in their relationship. Although there had been no direct financial investment in the other partner's business, there had been ample transfer of knowledge from the importer to his export partner in the leather-processing unit and the leather-garment unit. The learning that occurred over the years and the understandings that had developed, though unique to the partnership, were transferable with small modifications to other companies in Pakistan.

> *'We spend a lot of time as a company sending staff out: training, machinery, pattern cutter. We've done... we spent time with their pattern cutter to show how we would*

manufacture or what we would like to accept or how to achieve certain things. And it has improved…'

To sum it, company-specific investments did not take place between the dyads under study but over the years there had been a lot of transfer of knowledge through interactions and training. A special case is that of one of the HT dyads where the two working partners had never met each other but had been developing products by mutual collaboration. The importer sent samples of product to be made over to the manufacturing exporter and then through telephonic conversations, emails, and sample posts they discussed the alterations that needed to be made to acquire the correct finish.

4. Switching Costs

Switching costs are the costs incurred in terminating business with a business partner and can be monetary or non-monetary. In literature, perceived switching costs are said to increase with the passage of time because of the time and effort that goes into maintaining and strengthening it (Weiss & Anderson, 1992).

Viewed from a relational perspective, the investment of time and money in the relationship can be viewed as sunk costs incurred in the process of building the relationship. If any of the partners decides to terminate the relationship and establish a new one with another exchange partner, substantial amount of effort and time will be required to bring it up to the level of trust and understanding that the partners enjoy in their present one. A HT importer had calculated this cost in quantitative terms and proposed that the cost of shifting their business to a new manufacturer would be 3% which is substantial when large volumes are involved. In contrast, another HT importer felt that the monetary cost of switching business from BP1 to another factory would probably be a trip to Pakistan and some time spent to come to such terms with the new factory where they could get the price points their dyadic exporter would give them.

For the exporters, switching costs were substantial if the previous buyer was not immediately replaced otherwise they believed they had the production systems set up to start manufacturing for any other company. An LG dyadic pair calculated the switching costs as loss of friends while for another LG exporter the costs involved the search for new buyers:

> *'Then you have to do more marketing. You have to go to more international sales. You have to visit more countries, you know. The marketing expense increases obviously if you are looking for more customers.'*

A CA importer and an LG exporter each mentioned having close personal ties with many people who they no longer did business with and visited them regularly every time they went to Pakistan or the UK and, therefore, they did not think that changing suppliers would result in their losing friends. Thus switching costs were mostly affective in nature rather than monetary but took on a monetary aspect if marketing expenses for new markets was calculated. High switching costs discouraged the annulment of a relationship.

Summary of Commitment between Importers and Exporters

In sum, commitment is the exchange partner's belief that the relationship with the partner is "*… so important as to warrant maximum efforts at maintaining it"* (Morgan & Hunt, 1994). In the context of this research commitment is manifest in the exchange partners' desire for long-term orientation, their motivation to carry out mutual strategic planning with their exchange partners, the investment of time and effort in the relationship, and their estimation of monetary and non-monetary switching costs.

Phase 2: The Effects of Price Competition and Retailer Power

The second round of interviews was conducted a year later in order to fill certain gaps identified in the analysis. Besides providing answers to the quarries, the interviews revealed how the changing buyer and supplier markets had affected the relationships between the dyadic pairs under study.

Product prices in the three categories chosen for research were constantly been driven down due to various reasons. For one, large departmental stores bought big volumes at lower prices as compared to specialist stores that were fast disappearing. According to an HT importer:

> *'…if Tesco ever get their act together and present what they've got well through the marketing side, they would actually be very dangerous to a huge amount of people in the retail environment.'*

Secondly, fashions changed much quickly now than ever before and people believed in buying a garment, leather jacket, or a set of bed sheets for one season only with the intention of replacing it with a more fashionable one in the next season. This was why customers were unwilling to pay high prices for the product as the durability was not worth the utility.

> *'25 – 30 years ago you wore a leather jacket you lived with it, it lived with you. It grew on you, you moulded it… it lasted 20 years. They don't do that, not anymore, unless the older middle-age; the young people... it's a throwaway society.'*

Thirdly, choice of suppliers for customers, both retailers and ultimate consumers, had increased manyfold. There were more and cheaper sources of supply for all three categories of products globally and locally. Added to that was an increase in online shopping and information gathering. In the words of an HT exporter:

> *'The whole world has got access now to what is available and from wherever it is; whether you want to have a look from China or Alibaba.com or whether you wanna have a look through Pakistan on the EPB's network. The information is so globally available; the whole business is transparent now. Our customers now know exactly within five or ten seconds what price we are buying at.'*

The same applied to retail outlets who would know the exact prices that importers were buying at and would demand lower price points, thus squeezing profit margins for importers who would further request manufacturing-exporters to reduce prices. Through the internet, the retailers had access to the importers' supply-chain and added to that was the competition from buying houses that were set up by large retailers such as *Ikea* and *Asda*. Some of these buying houses were very large and posed a threat to the survival of importers. As one HT importer put it:

> *'....atrocious. Some of the international buying offices for these large retail groups are atrocious. They are specialist in everything!!'*

In order to survive, the importers' USP boils down to the service they offered which the retailers could not get by going directly to the factories because they did not have the infrastructure in terms of quality of service, quality of price, or quality of product, or a mix of all of those elements. The importers had to convince their customers of their dependability on importers because of the in-depth knowledge they had acquired over years of dealing with the exporters and because of the extra services they offered. They designed packages where retailers could choose the services they wanted and eliminate those that they could handle themselves. To remain cost-effective, the importers reduced their costs by, for example, eliminating the logistics side of supply and training exporters to deliver ready-to-hang products directly to the retailers. An LG importer commented:

> *'...it's a very expensive hobby moving goods around the world.'*

With changes in the global markets and increased price pressures on retail goods, exporters faced a weakening of their support structure resulting in lessening of trust of the exporters on their importers. They felt that whereas in the past the dyads enjoyed complete trust and confidence in each other, now the importers were more driven by price and had lost their credibility. According to an HT exporter:

> *'... The UK market for the last 12 – 18 months has less reliability now. Let us say that they did work, gave us a plan, placed business, gave projections, but if they find the same (product) 2% cheaper anywhere else then they will leave.'*

This feeling of mistrust was reciprocated by all but one of the exporters in contrast to the history of the dyads where the trading partners worked together, developed synergies, and grew on the support of each other. A CA exporter grudgingly said:

> *'You have to trust them whether you like it or not! What can you do?'*

The manufacturing-exporters felt that they were still there to support the importers but the business of export had become very fickle and the importer went where price advantages took him. All exporters resonated the feeling that though their import-partners still sourced from them, the volumes of their purchases had steadily gone down, leaving them with the feeling that business was being taken away from them.

The larger textile manufacturers of Pakistan are well-developed and geared towards the qualities required by Europe and the UK but Pakistan also has a sizeable cottage industry that is unstructured and able to produce textiles at lower prices than the larger mills because its costs are lower due to cheaper quality, lack of compliance, and tax benefits which it enjoys because it is not registered and therefore does not pay taxes. The registered mills pay a VAT. The unstructured cottage industry also lacks facilities such as affluence plants and other compliance requirements and this reduces its costs of production much further than the structured compliant sector. Exporters felt that importers and buyers would buy from the unstructured cottage industry and then complained about quality but where price was concerned they looked the other way and enjoyed the benefit:

> *'….they don't want to go to the right people, we can grow more, if they support us, but they don't want that, they want to cut prices and they go there. And as long as they go there those people don't need to change. I think they are at a loss because they are going to lose their base of suppliers, they are going to get bad quality as time goes on, because they are not supporting the right people'.*

Interdependence of the importers and exporters had made them rely on each other for support but exporters now felt the support was being taken away from them. A CA exporter said:

> *'Sometimes we don't like this thing… there is no question of loyalties… because they take one sample and they give it to everybody and whoever gives the cheapest price they give them the order, so personally we don't like this system but they are open, we are open, so if the price will suit us we will accept the order otherwise we will not.'*

Importers too, were affected by the changing UK market and a drive towards bargain pricing, and found a lot of their retail customers turning towards direct buying from the mills. Contrary to exporters' beliefs HT importers felt that developing strong relationships with the exporting mills was more important now than ever before. They argued that they would explain to their suppliers that if the customer wanted to buy directly from the mills then they would direct the customers towards the mills by marketing for them and vouching for their quality, pricing, and ethics, thus acting as marketing agents for the supplying firms in Pakistan for those customers who wanted to buy directly from mills. This is also a changing role for the importers in that they proposed the provision of a crucial link between the customer and the supplier by acting as agents to both and offering both serviced and direct importing to the retail customers. Thus some restructuring in the industry was anticipated by the importers who felt that the quality of importer-exporter relationships would continue to play a significant role for the survival of their businesses.

Reliability is often used in literature to define the level of trust between exchange partners (Aulakh *et al.*, 1996; Chow & Holden, 1997; Smith & Barclay, 1997; Dyer & Chu, 2000; Coote *et al.*, 2003). In the study, reliability was found to be an issue for both the exporters and the importers where exporters found a lack of trust in the continuity intentions of the importers and a diminishing of reliability whereas importers foresaw a change in roles if the mills started supplying directly to the retailers. Nevertheless, strong trust relationships were being challenged by the recent price pressures which had changed the structure of relationships with exporters sensing a feeling of neglect from their importers and importers anticipating a change in their roles and business structures.

Trust and Opportunism

Exporters' view of honesty regarding the importers had been altered with the changing market scenario and the price pressures that all traders were under.

The issue of price pressures from the retailers had a negative effect on trust between the trading partners. Exporters felt that importers were under such price pressures from the retailers that they were willing to be dishonest regarding issues such as compliance. The UK retailers have become very strict about compliance in firms that they are sourcing from. But compliance comes at a cost. Firms that follow the rules and are fully compliant have water treatment plants and high labor and maintenance costs. Exporters who were fully compliant found that they were being cheated out of their business and were used by importers who brought buyers from retail outlets to show them their plants and once they were approved, importers bought very little volumes from them and placed the majority of the orders at the smaller and cheaper mills within the cottage industry to benefit from cost advantages and be able to offer retailers the price points they demanded. An HT exporter expressed very strong feelings about the compliance issue:

> *'No they are totally lying…on compliance…They don't do anything… it's just price. This is just a show or façade to show to the British public or to show to the government that they are doing all this. And it's just a public relations exercise. Here when it suits them they do whatever they want… They say that the source from compliant firms, but then they show them one or two compliant factories and then they ship their goods from somewhere else.'*

A CA exporter shared the same views and projected them to the retailers as well. They said:

> *'And then even the shops like X and all. They've also broken all the rules; they're buying through importers when it suits them. And break rules through the importers then nobody can sort of catch them on compliance because then they are not responsible.'*

To validate their point the exporter gave an explanation of how they were aware that large compliant retailers were buying from non-compliant firms:

> *'Because I know all the factories in Karachi and there are only about three who have an effluent treatment plant. They are buying from everybody. Because we know from the packaging people from all the… where the goods are going because from the packaging we find out where X is going, where Y, where Z,…. is selling. So all the packaging is going to which factory'.*

Thus, a strong feeling about dishonesty of importers was developing among the exporters for their trading partners and this was the consequence of changing market structure. Their long-standing trust was compromised because of change in the market structure and this had a negative effect on the quality of relationship between importers from UK and exporters from Pakistan.

Importer dishonesty had become apparent as the current issue then and exporters felt that the importers were untruthfully by-passing them to source from non-compliant firms and were projecting them as ethical sourcing.

Of interest is the fact that importers did not feel a strain on the relationship, showing deep keenness in teaching and learning and expressing that they were *'terribly committed to the relationship'* while their partners-in-trade were very disillusioned by the perceived change in the attitude of the importers and by their actions to get cheaper sources of supply through using exporters as a platform.

In the next section a model is proposed of the effects of price and importer opportunism on RQ between UK importers and those Pakistani exporters whose mills were structured and thus formed part of the organized sector of the industries. This qualification is based on the fact that mills in the organized sector have very fixed cost structures which are higher due to their being fully compliant and also because they pay the full VAT which makes them costlier than the mills in the unorganized sector where the manufacturing units are non-compliant and unregistered for tax-evasion purposes.

Proposed Model for Relationship quality between UK Importers and Pakistani Exporters

RQ measures the strength of a relationship and is the essence of that relationship. According to a CA importer, RQ is *'…the soul of the relationship'*. A brief explanation of the proposed model is given in this section.

Relationship Quality

RQ represents the overall affective evaluation by the exchange partners of their business relationships. Literature presents RQ as a higher-order construct comprising of trust, commitment, and satisfaction in most of the studies (Dorsch *et al.*, 1998; Ulaga & Eggert, 2006) and as higher-order construct comprising of trust and commitment (Morgan & Hunt, 1994; Hewett *et al.*, 2002). According to Ulaga and Eggert (2006) the constructs of trust, commitment, and satisfaction are 'soft' factors, or 'atmosphere dimensions' (IMP group) of buyer-seller relationships that observe the behavioral aspects of the exchange relationship.

Commitment and Trust

Figure 4 gives the model of RQ and the effects of retailer's power and price pressure on importer behavior. It is shown that both trust and commitment have a direct effect on the quality of relationship between UK importers and Pakistani exporters. This is in accordance with the commitment-trust theory proposed by Morgan and Hunt (1994) which has been adopted by many researchers. There is strong evidence in literature to support this relationship (Solberg & Nes, 2002; Leonidou *et al.*, 2006; Nes *et al.*, 2007; Skarmeas *et al.*, 2008). For example trust in the exchange partner increases commitment to the relationship by investing in it because the elements of uncertainty and risk are minimized through the forces of trust (Dwyer *et al.*, 1987). From another perspective, committed resources in the relationship increase commitment to the relationship and the parties are forced to trust their partners to not act opportunistically and use the invested resources for unilateral gains (Wathne & Heide, 2000). Thus, both trust and commitment work together to increase the quality of the relationship and bind the partners in-trade to each other for long-term future benefits.

Figure : A model of the effects of retailer power and importer opportunism on relationship quality in a foreign country with non-facilitative government

Retailer Power

Power is simply defined as asymmetric behavior patterns among channel members (Wilemon, 1972). It can be conceptualized as a relationship when considering it as a perception of power that one channel member holds over another (Thibaut & Kelley, 1959). According to El-Ansary and Stern (1972, p. 10) the perception itself may be regarded as 'the source of power'. For the importers and exporters of the study, perception of power in the supply-chain rests with the retailer who owns large retail houses that are the end destination for the chain. Retailer power can be thought of as coercive when the retailer is in a position to reward behavior that is pleasing and punish when the behavior is against the retailer's wishes, or it can be thought of as being non-coercive when the retailer has legitimate power based on contractual agreements or other formal structures. Coercive power tends to weaken the forces of trust and commitment while non-coercive power has the opposite effect (Leonidou *et al.*, 2007).

In an asymmetrical relationship between two persons, power is the ability of one person to alter the behavior of another, especially when that person would not have done so otherwise (Gaski, 1984). Large retailers hold power over supply-chains because of the sheer bulk of products they buy. This power may be both perceptual and non-coercive through contracts. The importers in the supply-chain are dependent on these large retailers to buy their supplies (Emerson, 1962). This power-dependence goes further down the supply-chain to the manufacturer because as market supply increases the supplier tends to lose his power due to loss of negotiating edge which comes with holding of crucial resources (Cool & Henderson, 1998). In the context of the research, the importer is threatened by the buying houses whereas the manufacturer is threatened by the cheaper sources of supply and both must make a decision to safeguard their businesses. A state of uncertainty is created for both the importer and the manufacturer because the comfortable zone of trust in the exchange-partner and commitment to the relationship is threatened by incongruency of mutual goals (commitment) and lessening of reliability on each other (trust).

It is proposed that retailer's insistence on reduction of price causes a rift in the exchange partners' relationship due to the pressure on importer to achieve price points. The importer transfers this pressure onto the manufacturing-exporter to achieve production within the price points. Due to the availability of alternative choices for sources of production, the importer has power over his manufacturing-exporter who is bound by his cost structure to manufacture within a limited range of price points. The manufacturing-exporter competes in the global supplier market with China, which has cheaper and more cost-effective production, and in the domestic supplier market, which has an abundance of small-scale unregistered and non-compliant units producing at lower costs than the manufacturing-exporter. The inability of the manufacturing-exporter to meet importer's price points would result in the possibility of the importer breaking the relationship and moving production elsewhere. A price-evoked uncertainty state is created which reduces **reliability** in the exchange partner for both the importer and the manufacturing-exporter, while at the same time the exchange-partner is seen by both as not honoring the **commitment** to the relationship. Additionally, the importer does not see the exporter as a **credible** source of supply for the given price points. Thus price pressures by the retailer have a negative effect on the relationship quality of the exchange partners by reducing the amount of trust in, and commitment to, the relationship.

Importer Opportunism

A double-barrel effect of price pressures is proposed when, in a state of price-evoked uncertainty, either of the exchange partners engages in opportunistic behavior. Opportunistic behavior by an exchange partner reduces trust in the partner because he has acted **dishonestly** and with intention of unilateral benefits as against the **mutual benefits** that relational exchange partners strive for. By acting in his own interest the exchange partner also signals to the partner his intention of not maintaining a **long-term relationship**. Therefore, opportunism has a negative effect on commitment to the relationship as well.

It is proposed that the likelihood of importer opportunism is higher than exporter opportunism. This is because importer has the opportunity to look for other suppliers due to a large supply-base whereas the exporter is limited in his choice because of his cost structures and the demand for lower prices. The importer also has the opportunity to get even lower price points by using unstructured mills as supply-bases since government checks on, and implementation of, compliance are weak in Pakistan and the Government of Pakistan has allowed the unstructured cottage industry to thrive in order to increase exports from the country. Exporter opportunism could be a compromise on quality but the strict QC procedures deter him from engaging in bastardizing the product. Therefore, opportunities for exporter opportunism are limited. However, the effect of opportunism by either the importer or the exporter would be negative on RQ by adversely affecting trust and commitment.

Some Propositions for Future Research

It is a well established fact in literature that high levels of trust and commitment in a relationship result in better quality of relationship (Morgan & Hunt, 1994; Ulaga & Eggert, 2006). Thus the first set of positive relationships between trust and RQ and commitment and RQ are given and well-acknowledged. The set of suitable propositions that may be drawn from this exploratory work is as follows:

Proposition 1: Exercise of power by the retailer has a moderatoring effect on both trust and commitment in importer-exporter relationship.

Proposition 2: There is a tendency to show opportunistic behaviour by an importer from a country with strict law-enforcement policy when he is subjected to a country with lax law implementation.

Proposition 3: Retailer power increases likelihood of opportunism by an importer when in a country with lax law implementation.

Proposition 4: Importer opportunism has a negative effect on importer-exporter trust.

Proposition 5: Importer opportunism has a negative effet on importer-exporter commitment.

Proposition 6: Importer opportunism adversly affects importer-exporter RQ.

Conclusion

Increased global and local competition and the resultant price pressures on both importers and exporters have profound effects on both trading parties. Companies that acknowledge this and prepare themselves for change will be the ones that survive the onslaught. The importers in the study expect a change in their role as service providers. On the other hand, the exporters have started considering export business as fickle and subject to various external factors such as foreign exchange fluctuations, weather, and global competition. While they continue to protest with the Government of Pakistan for stricter enforcement of compliance laws, they have started to study local as possible venues of business. An optimistic feeling is that prices of goods made in China would rise eventually as the labor force becomes more skilled and educated and starts to demand higher salaries. Meanwhile, the exporters are looking for ways to *".... ride the wave…"*.

Given the research scenario, export-firm management should look for more efficient production methods that would reduce costs and make them competitive in their markets. Owner-run organizations should introduce professional management structures in order to induct new ideas and should search for x-inefficiencies in their production operations. An important key to success lies in developing competitive advantage that is so far not seen in most Pakistani export firms who simply produce according to specifications and designs provided by the retailers through importers. All raw materials required for the three industries are equally available to every competitor in the global markets and production processes are standardized. It is important to search for competitive advantages that are not available elsewhere. These could be in the areas of material, processes, human resource, or designs to name a few. Importers feel that Pakistani designs are *"…totally wrong for the UK market…"* Given this understanding, designers could be trained in the UK and Europe to understand the demands of the consumers and value-added products could thus be produced. Regional markets are another option since they are closer to home and more similar in taste.

Importers need to work closely with exporters and may collaborate to form design departments where the importers could bring their knowledge and create value-added products with the expertise of the exporters. In short, a proactive approach is necessary in order to meet the industry demands and it is essential that closer ties be formed instead of indulging in opportunistic behavior that is detrimental to the relationship.

This research is limited due to its qualitative nature and a very small sample size and as such cannot be generalized to the general population. However, it offers insights that need to be tested through a large scale survey. Research of a similar kind should be conducted with different dyads in the same industry to check for reliability of findings. Other industries that have trade between the two countries should also be examined to study relationships in different context.

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