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A research on the effects of the different scopes of trust toward customer loyalty: An empirical study between Taiwan and China

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Many marketing researchers pointed out that the trust of the customer towards a company and the company's representatives can influence customer loyalty. In addition, the trust of customers towards a big environment market, for example, their trust towards the standard departments who formulate the market and professional supervisors of the market, also affects the trust between the customer and the service provider during transactions. This study constructed an integrated causal relationship model between the different levels of the trust theory model (including broad scope trust and narrow scope trust) of Grayson et al. (2008) and customer loyalty. This study used the direct selling distributors of Taiwan and China as subjects. It used questionnaire survey and Structure Equation Model to compare the difference between the two countries. The results of both countries showed that system trust increases customer loyalty through interpersonal trust. Furthermore, the generalized trust of Taiwan has a greater effect toward firm-specific trust and interpersonal trust than of China but the effect of Taiwan's system trust is lower than the effect of China's system trust.

Key words: system trust, generalized trust, firm-specific trust, interpersonal trust, customer loyalty.

INTRODUCTION

Trust is the key factor for successful transaction (Dwyer et al., 1987). Zucker (1986) defined trust as "the belief of an individual or group that another individual or group will keep their promise". The viewpoints of the scholars in the past towards trust varied. Doney and Cannon (1997) believed that trust is a type of feeling where the opposite party can provide us the feeling of redibility and benevolence. Credibility, the emphasis is on the object of trust of the trading partners. It focused on the expectation where the trading partner can truly execute the verbal commitment or contract agreement. Benevolence emphasis is on the concern of the trading partner towards my blessing and the willingness to aspire for common interests. Zucker (1986) used process-base trust to emphasize the trust established by customers during the transaction process toward people and companies. The

trust of customers toward the service or suggestions provided by a company is not established out of nowhere. Customers will use scope of trust shown by the market as reference for measurement. If the customers of a big environment believed that the law enforcement officer and market surveillance group that protects the safety of the market transaction are not trustworthy, it will affect the scope of trust of customers of a small environment towards a specific company or a representative (Grayson et al., 2008). For example, if the internet commercial market did not have the management and supervision of government decrees, people would not use the service because they do not trust it. Moreover, if the market has a sufficient scope of trust, customers will have confidence towards the product/service providers and will not particularly establish trust towards a specific company

brand. Therefore, when customer's trust towards the whole market decreases, they would tend to value the trust towards a specific company brand more.

In the measurement for the outcome of trust, majority of the management researchers use customer satisfaction, price value and repeat purchase intention as measuring variables. As for trust itself, the researchers mostly give importance on the studies of interpersonal trust and organizational trust (Kennedy et al., 2001). This study believed that the overall trust model have many areas worth investigating especially the involvement of special derived influencing factors of specific industries. The direct selling customers were used as the main subject of this study. It used customer loyalty to measure the effect of the broad scope trust towards the narrow scope trust in the trust model of Grayson et al. (2008) and compare the difference of the trust model between Taiwan and China.

"Direct selling" is an effective marketing method. It actually develops positive functions in the market and society. It provides opportunities for the development of small companies and selling of new products. This type of retail service that has unfixed location can help proprietors save on rental space, personnel salary, advertising fees and other operational costs. In addition, direct selling provides flexible entrepreneurial opportunities to society due to the reasons that it has low cost and flexible working hours. Direct selling usually has independent sales personnel that provide explanations or demonstrations. These sales personnel are usually called distributors. They are not employees of the direct selling companies and they can join and be members of many direct selling companies at the same time. The selling method of direct selling usually uses group (home party) or individual (one-on-one) demonstration (Peterson and Wotruba, 1996).

Because the marketing method and approach is quite different from ordinary businesses, direct selling was often painted with a layer of mysterious color. Because the approach is not transparent enough (it has no store), it easily obtain suspicions from the consumers. Consumers usually draw an equal sign between a legal distribution company and an illegal pyramid scheme which made trust among consumers, direct selling companies and distributors weak. Thus, the direct selling customers were used as the main subject of this study. The effect of different scopes of trust toward customer loyalty is a topic worth exploring.

LITERATURE REVIEW

Different scopes of trust

Very few management researchers studied "trust". Instead, researchers of organizational behavior, sociology, anthropology and psychology have studied trust more than the management researchers. Sociologist, Luhmann (1979), divided trust into two types: personal trust and system trust. Personal trust is the trust formed from the

interaction between individuals, for example, friends, colleagues and family members. The foundation of this type of trust is mostly developed from everyday interactions and whether the personal characteristics of the trustee are trustworthy enough. As for system trust, the foundation of this type of trust is based from the trust toward society's legal systems (for example, judiciary, government and economy) and systematic regulations (for example, currency, laws and authority).

Broad scope trust

Aside from the "trust" between both parties, customers would consider the level of broad scope trust of the market during the transaction process. This type of trust includes trust toward the regulators and transaction dealers of the market. Good market regulations can actually promote the sense of security and trust of the transaction dealers. People with different cultural backgrounds have different scope of trust. People of the same culture can attain broad scope trust in some aspects therefore, when they are facing the same provider, they would have the same standard on trust (Fukuyama, 1995). Similarly, different psychological characteristics (Couch and Jones, 1997), family upbringing, social and economic status (Fukuyama, 1995) and personal experiences also influence the level of the broad scope trust of a person. Grayson et al. (2008) divided the broad scope trust faced by the customers into two categories: system trust and generalized trust.

Lewis and Weigert (1985) defined system trust (ST) as "the trust of the citizens toward the abilities of the government authority to grant permission and provide protection". Shapiro (1987) emphasized that, to protect the customers, a third party should supervise the transaction of the two parties and the mechanism that might restrict or destroy trust. These system trust (or third parties) units include government related units, associations and legal organizations (Citrin, 1974). Luhmann (1979) believed that the biggest difference between system trust and interpersonal trust is that the subjects and personal characteristics of system trust are not related but it is related to the operation mechanism of the system and it assumes that all parties will follow a specific standard in the trading relationship. System trust, with systematic guarantees like "contract" and "law" as the main priority, should be applied in the customer's trust towards the system standard units and organizations. At the same time, the customers also believe that these units and organizations would strictly monitor and control honest behaviors and punish dishonest behaviors to protect the rights of the customers. The government unit in charge of direct selling in Taiwan is the Taiwan Fair Trade Commission (TFTC) and the legal direct selling organization in Taiwan is the Taiwan Direct Selling Association (TDSA). The government unit in charge of direct selling in China is China Ministry of Commerce (CMC) and they don't have any direct selling organizations

at present.

Generalized trust (GT) is the trust toward every member in the social system, regardless of his (her) behavior, role or background. Generalized trust includes the trust toward family members, friends, networks and people in general. It is defined as the trust toward people in general or "human nature" (Couch and Jones, 1997). Brenkert (1998) named it as "basic trust". Zucker (1986) believed that "background expectations" is a required element of trust. In another perspective, Hardin (2001) rather term trust as optimistic expectations. This type of trust has been the key point of many researches these recent years; thus, we can see its importance (Hardin, 2001). In measuring the effect of trust, generalized trust is an important construct. The influence of this type of trust in business is small compared to the others. Furthermore, different customer segmentation would have different level of generalized trust. Therefore, different customer segmentation should be selected carefully.

Narrow scope trust

Narrow scope trust is a special type of relationship among exchange partners. This kind of relationship cannot be created overnight. It is accumulated through continuous transaction processes (Dwyer et al., 1987). Zucker (1986) termed it as process-based trust. She emphasized that this type of trust is the information of the exchange partners accumulated from a series of transaction process. Aside from the first-hand information obtained from the interaction between exchange partners, these information also include second-hand information that is related with the exchange partners (for example, the transaction reputations of the partner). This is another type of important information of trust. In marketing researches, scholars believed that the subjects of narrow scope trust include individuals and organizations (Doney and Cannon, 1997). Even though trust is created based from the different information collected from both parties of transaction dealers, people would use the information to create their trust toward individuals and companies. These information, at the same time, create different levels of trust toward each individual and company they encountered in the transactions (Kramer et al., 1996). Grayson et al. (2008) divided narrow scope trust into interpersonal trust toward individuals and firm specific trust.

Interpersonal trust (IPT) is the main foundation of the interaction between individuals. It includes the cognition and emotion of individuals towards a specific incident, process or person. Interpersonal trust is not formed in a short time. It is the outcome of the accumulated trading experiences of both parties and gradually formed into the trust system of both parties (Dwyer et al., 1987; Hardin, 1992). Rotter (1980) believed that the level of interpersonal trust and the socio-economic status have close relations. For example, the children from high socio-economic status families generally have higher level of

interpersonal trust while the children from the lower social class feel that they do not have any reason to trust others because of the existence of dissatisfaction and the benefits of the power holders. Lewis and Wiegert (1985) pointed out that cognitive and emotional trusts are the two most important combinations of interpersonal trust. Cognitive trust is the trust produced from the cognition of evidence (reliable) of the trustor towards the trustee. Emotional trust is the emotional attachment of the trustor towards the trustee and the willingness to trust the other party. Individual with high level of interpersonal trust are liked and respected by others and they most probably will provide opportunities to respect the benefits and value of others. Individual with high level of interpersonal trust seldom or almost never have cognitive dissonance, mental disorder or adaptation difficulties. He/she is willing to get acquainted with friends and be good in dealing with interpersonal relationships.

The trust of customers toward a company or an organization is accumulated from the experiences they encounter with the personnel of the related departments. Because companies are used as subjects and not individual personnel, thus, the feeling of trust will still be similar even if the personnel are not the same. This type of trust toward a company is termed as firm-specific trust (FST). Long-term cooperation relationships have trust as foundation. Firm-specific trust is the key factor that constructs the consumer to depend on the policy and behavior of a company and help the company and the consumer maintain a long relationship (Bradach and Eccles, 1989). Therefore, understanding the effect of trust toward the company and the consumer is an important topic. Especially when there is no relation between the company and the consumer, the uncertainty and risk faced by the consumer when entering a transaction is quite high. Companies should increase the trust of the consumers to maintain the loyalty of the consumers.

Effects of the different scopes of trust

Grayson et al. (2008) divided trust into broad scope trust and narrow scope trust and uses the viewpoints from institutional theory and functionalist theory to determine the relationship between the two different levels of trust. The results support the theory that narrow scope trust is the mediator between the relationship between broad scope trust and customer loyalty. Hardin (2001) believed that to increase the trust between exchange partners, the mechanism that made the commitment should be considered. He also pointed out that legal contracts can help increase the trust between exchange partners. Humphrey and Schmitz (1996) said, "Regulations made by the law can make exchanges in the market prosperous." Many scholars agreed with this statement after conducting empirical researches. Brenkert (1998) pointed out that generalized trust is the foundation of broad scope trust. If exchange partners do not have the foundation of mutual trust or are envy of each other, they will not have

trust between them even if they want to. Platteau (1994) believed that in economic development, the main reason why market mechanism cannot effectively function is because of its lack of generalized trust. Platteau pointed out in his game-theoretic analysis that "generalized trust can promote mutual collaboration between exchange partners".

Lane and Bachmann (1996) examined business management relationships between German and English firms. They discovered that developing long-term partnerships is impossible in the context of a low-level trust system. System trust influences organizational trust. Luhmann (1979), who investigated system trust and interpersonal trust from a social perspective, believed that system trust could influence interpersonal trust. Zaheer et al. (1998) divided trust from one level into two namely interpersonal trust and organizational trust. The study also discovered that interpersonal trust and organizational trust has positive relationship thus, the trust that represents business can increase the trust towards the organization as a whole. The above literatures showed that different levels of trust are interrelated. Therefore, hypotheses 1-6 were established (because the Chinese government presently do not allow direct selling organizations to be established, the part of China has no hypotheses H₃ and H₄):

H₁: System trust (TFTC, CMC) positively affects firm-specific trust.

H₂: System trust (TFTC, CMC) positively affects interpersonal trust.

H₃: System trust (TDSA) positively affects firm-specific trust.

H₄: System trust (TDSA) positively affects interpersonal trust.

H₅: Generalized trust positively affects firm-specific trust.

H₆: Generalized trust positively affects interpersonal trust.

Relationship between trust and customer loyalty

Numerous scholars define customer satisfaction as a transaction outcome and customer loyalty as a trust mechanism (Kennedy et al., 2001; Pavlou, 2002). Chow and Holden (1997) determined whether trust is more important than product (quality or service) for customers making purchase decisions. Their model utilized company trust, salesperson trust, and consumer purchasing attitude to measure customer loyalty. Their analytical results indicated that trust toward a company and its salespeople significantly increase customer loyalty (loyalty intention and loyalty behavior). They also believed that trust is very important in any transaction relationships (Zucker, 1986). Trust can effectively reduce trading risk and it can be the antecedent factors of loyalty. High level of trust can increase customer loyalty and at the same time reduce the exchange cost of the customer. Zeithaml

et al. (1996) believed that when the customer's trust towards the management level and first line employees increased, the customer loyalty will also increase.

According to the trust model of the above scholars, customer satisfaction and the customer loyalty are the main constructs used to measure trust outcome. This study adopted the construct customer loyalty to measure the outcome of trust according to the studies of Ganesan (1994) and Morgan and Hunt (1994). The above literatures showed that different levels of trust are interrelated. Therefore, hypotheses 7-8 were established:

H₇: Firm-specific trust positively affects customer loyalty.

H₈: Interpersonal trust positively affects customer loyalty.

RESEARCH METHODOLOGY

This study conducted a further research on the trust model theory of Grayson and his co-authors. It would like to propose two types of trust model. After testing the much supported institutional-theory trust model, this study further test a model with narrow scope trust as mediator.

Research model

This study used China and Taiwan's direct selling industry as the research subject to continue testing the trust model of institutional-theory and further test the mediating effect of narrow scope trust. The research model is shown in Figure 1.

Data analysis

This study used SPSS for the descriptive analysis and Partial Least Squares (PLS) method was used for other analyses. This method by Wold (1966) has been widely used for management studies (Wixom and Watson, 2001). PLS is considered to be a mature estimation method, especially in estimating the path coefficient in causal models (Fornell et al., 1990). PLS can avoid the limit of small samples and overcome the collinearity problems in the Multivariate Data Analysis. It can make the cause-and-effect relationships among potential variables into a model. PLS is a very practical statistical analysis technique. It can analyze the cause-and-effect model and at the same time, it has reflective and formative indicators unlike LISREL which only has the technique to handle analysis of reflective indicators. Furthermore, researchers should conform to requirements such as normality, randomness and large sample when adopting LISREL or multiple regression analysis in the study but the requirements in adopting PLS is more lenient (Wold, 1982). During PLS analysis, a structural model and the hypotheses regarding constructs should be established first. Every indicator or construct comprises a group of measures. Therefore, the forecasting ability of the structural model is examined using composite reliability, discriminate validity, and explanatory capability of the model (R^2).

As PLS does not have a default data distribution, there is no need for data to conform to a normal distribution. Similarly, PLS does not provide an estimation of the path coefficient of trust intervals and statistical significance. To estimate the significance of the path coefficient, Bollen and Stine (1992) recommend using the Boot-Strap method to estimate the significance of the path coefficient and this method was applied to test the significance of the model coefficients.

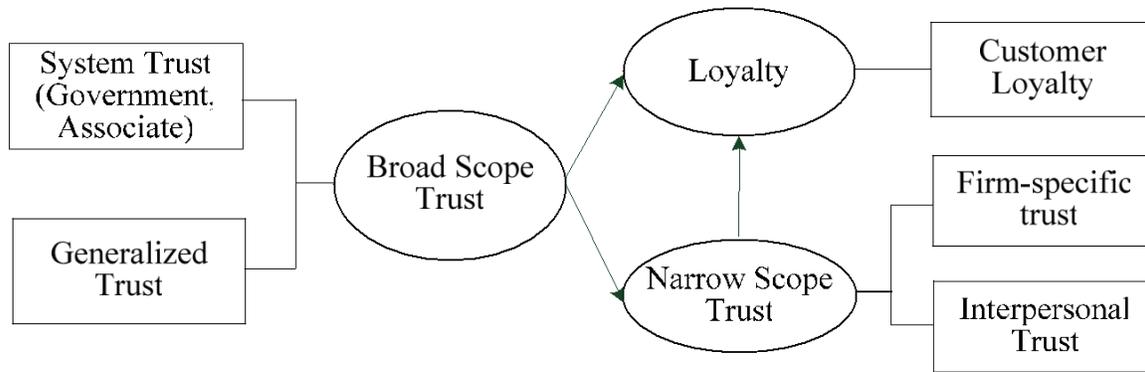


Figure 1. Research model.

Study 1: Direct selling services in Taiwan

Study context

This study used questionnaire survey to collect data. In Taiwan, the reason most of the consumers joined the company as distributors is mainly because distributors can accumulate sales bonuses and get discounts and incentives that only distributors can avail. Therefore, the distributors in Taiwan were used as the subject.

Survey development

This study used questionnaire survey and adopted the questionnaire of Grayson et al. (2008). The questionnaire requested every respondent to designate a specific distribution company and distributor in their mind that they constantly interact with and fill up the questionnaire according to their actual experiences. For the pilot test, this study selected 10 distributors from the top ten direct selling companies each and requests them to evaluate the desirability of the contents of the questionnaire to increase its validity. This study made the necessary corrections on the content of questionnaire and revised unclear questions to increase the reliability of the questionnaire. 800 questionnaires were randomly distributed to the distributors through the help of the direct selling companies.

Respondents

After almost a year of conducting the survey, the final valid number of questionnaires obtained in Taiwan is 156 questionnaires representing a return rate of 19.5%. In the demographic analysis, the ratios in marital status and sex of the distributors (also the consumers) have no significance difference. The educational backgrounds of the distributors include master's degree but since there's only a handful, it shows no significance in the statistics. The distributors age concentrates on 21~50 years old where the highest percentage is in 31- 40 years of age (39.1%) . This shows that the trend of the direct selling business is in young people. The educational level also shows obvious increase. 51.1% of the distributors are college graduates which show that college education in Taiwan is very common (Table 1). In other constructs, the mean of "honesty" is lower than "benevolence". This shows that direct selling customers agree that the direct selling companies are

benevolence but they are doubtful on the honesty of the direct selling companies.

Measurement model analysis

This study adopted structural equation model (SEM) in the data analysis. SEM includes two stages: measurement model analysis and structural model analysis. The measurement model verifies whether the measuring variable can accurately measure other latent variables in the research model. The measurement model includes reliability (individual item reliability and composite reliability of the latent variables) and validity (construct validity) tests.

This study adopted Cronbach coefficient to measure whether the reliability of this study conform to Nunnally's (1978) suggested value of reliability. The value of Cronbach should be at least greater than 0.5 and the most ideal value is more than 0.7. After testing the reliability of Taiwan, it was found that the Cronbach of every constructs is between 0.83~0.92 and the questions that didn't contribute to the increase in the value of the reliability coefficient are deleted. The composite reliability is between 0.86~0.93 which is greater than the suggested value of 0.7 of Hair et al. (1998). This shows that the results measured from the questionnaires has an acceptable stability and consistency (Table 2). In the reliability of the individual items, all the variables are statistically significant. Aside from the factor loading of the variable "distributors will consider the rights of the customers before earning profits" which is 0.47, all other factor loadings were higher than 0.7 (Chin,1998).

Very few studies tackle on the broad scope trust of direct selling customers, therefore, it is quite hard to obtain existing evaluation value to test the validity and construct validity is hard to measure. This study designed and revised the scale of its research framework based on the scale of Grayson et al. (2008). Thus, the content of this measuring tool has an acceptable content validity. The average variance extracted (AVE) measures the variance of the measuring variables of the latent variables. High AVE shows that the latent variable has high convergent validity. Fornell and Larcker (1981) suggested that the value should be greater than 0.5. The AVE of the constructs listed in Table 3 are all between 0.55~0.77. Thus, the model exhibits good convergent validity. The discriminant validity of the constructs is shown in Table 3. The average variance extracted root mean square of all constructs exceeded the correlation coefficients among constructs; therefore, the constructs in the model have sufficient discriminate validity (Chin, 1998). According to the rule of thumb, when absolute value of the correlation co-

Table 1. Respondents' age and educational background (Study 1 and 2).

Age	Percentage of age in study 1(Taiwan)	Percentage of age in study 2 (China)	Educational background	Percentage of educational background in study 1 (Taiwan)	Percentage of educational background in study 2 (China)
21-30	25.6	6.0	Junior High School	2.5	38.8
31-40	39.1	52.2	High School	28.2	36.8
41-50	26.3	24.9	Community College	19.2	10.0
51-60	7.1	10.4	University	45.6	12.4
60 above	1.9	6.5	Graduate School	4.5	2.0

Table 2. Reliability analysis of constructs.

Construct	Item	Mean	Std. Dev.	Composite reliability	Cronbach
System Trust (TFTC)	6	5.01	1.13	0.856	0.881
System Trust (TDSA)	6	5.02	1.09	0.891	0.921
Generalized Trust (GT)	3	6.23	0.88	0.874	0.831
Firm-specific Trust (FST)	6	5.86	1.06	0.932	0.915
Interpersonal Trust (IPT)	6	5.89	1.07	0.929	0.917
Customer Loyalty (CL)	4	6.18	1.07	0.931	0.899

Table 3. Correlations between constructs.

	X1	X2	X3	Y1	Y2	Y3
X1 System Trust (TFTC)	0.74					
X2 System Trust (TDSA)	0.47	0.79				
X3 Generalized Trust (GT)	0.14	0.14	0.84			
Y1 Firm-specific Trust (FST)	0.36	0.38	0.60	0.84		
Y2 Interpersonal Trust (IPT)	0.32	0.33	0.63	0.72	0.83	
Y3 Customer Loyalty (CL)	0.27	0.35	0.59	0.71	0.74	0.88
average variance extracted (AVE)	0.55	0.62	0.70	0.70	0.69	0.77

Note: Diagonal elements are square roots of the average variance extracted.

of the correlation coefficients of two constructs are greater than 0.6, it is suspected that using regression model in data analysis will cause collinearity. The PLS adopted by this study can overcome the collinearity problems cause by the high levels among forecasting variables. Similarly, the correlated forecasting and explanation variables were integrated into the model to avoid errors associated with deleting the wrong principal component that cannot be induced by traditional principal component analysis. By combining principle component analysis and path analysis, errors in identifying the most appropriate regression coefficient assemble of the forecasting and explanation variables are avoided.

Study result

The structural model mainly tests the consistency of the research model result and the proposed model. Then, it verifies whether the

causal relationship proposed by the theory obtain the support of the results. The structural model of this study includes three latent independent variables namely system trust (TFTC), system trust (TDSA) and generalized trust and three latent dependent variables namely firm-specific trust, interpersonal trust and customer loyalty.

As shown in Figure 2, the explanatory capability (R^2) of latent dependent variables towards the overall model was divided among firm-specific trust (0.475), interpersonal trust (0.473), and customer loyalty (0.586). The R^2 of the latent dependent variables were greater than 0.46 which means that it has the ability to explain the results.

As shown in Figure 2, system trust (TFTC and TDSA) and generalized trust has a significant positive direct effect on firm-specific trust and interpersonal trust. The trust of customers toward macro-environment's trading market and the norm of TFTC and TDSA toward direct selling companies and distributors can positively affect

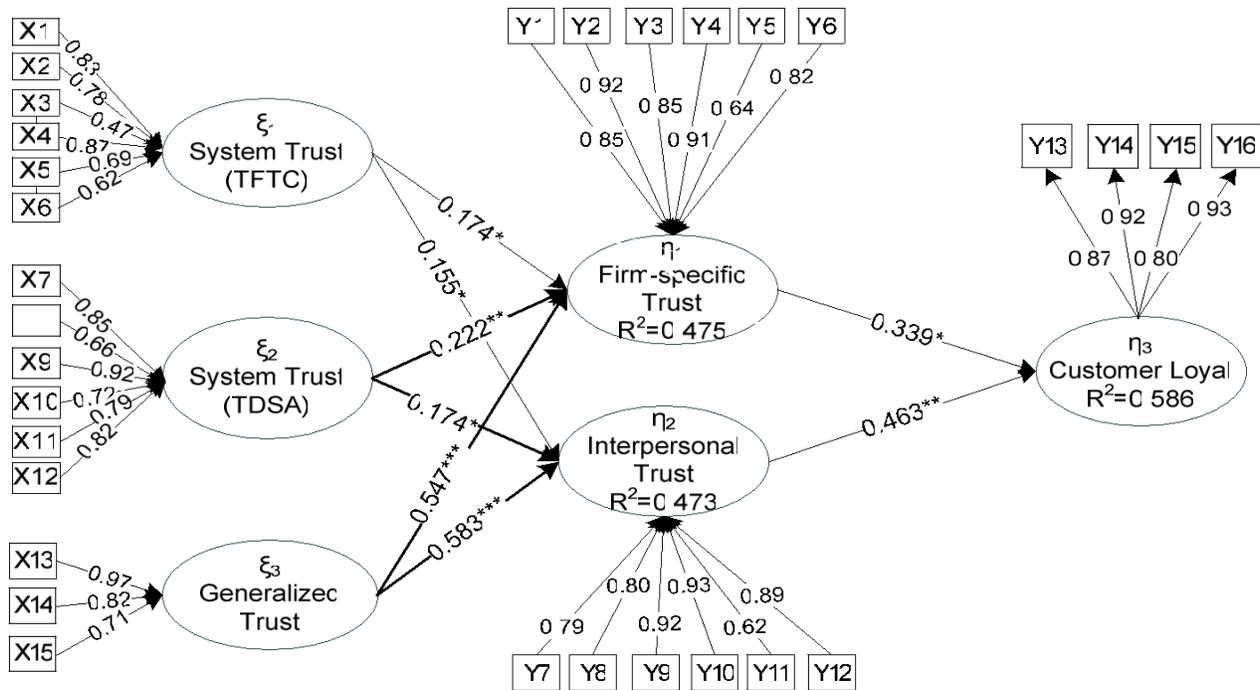


Figure 2. Path diagram of the trust of Taiwanese direct selling customers.

the trust of customers toward the direct selling companies and their distributors. Therefore, the hypotheses H₁, H₂, H₃, H₄, H₅ and H₆ in the part of Taiwan are supported and these results proved the thoughts of Lumann (1979) and Lane and Bachmann (1996). System trust (TFTC) and generalized trust has a significant positive effect on firm-specific trust and interpersonal trust. The transactions of TFTC and TDSA toward direct selling products and the control of TFTC and TDSA toward the quality can increase the trust of customers toward direct selling companies and their products. At the same time, it can effectively limit the exaggerations of distributors. Because of the frauds of direct selling, many consumers lose their trust toward direct selling products. After TFTC was established, it effectively solved the illegal direct selling behaviors and the consumers gradually gain their trust toward direct selling products.

The firm-specific trust significantly, directly and positively affects customer loyalty, with a path coefficients of 0.339. The trust of customers toward a direct selling company (e.g., image, system, and scale) can increase customer loyalty. Therefore, hypotheses H₇ is supported (Chow and Holden, 1997). Interpersonal trust significantly, directly, and positively affects customer loyalty; the path coefficient was 0.462. Trust toward up-line distributors can increase customer loyalty, and thus hypothesis H₈ is supported (Pavlou, 2002).

Study 2: Direct selling service in China

Study context

Since 1990, the direct selling market in China experience many

legal reorganizations but the whole industry still did not get back on track which lead to a big turn in China's government policy. In 1998, the Chinese government announced the prohibition of direct selling industry in China. The development of direct selling industry in China faced a huge transformation. In 2007, due to the demand of the World Trade Organization, China reopened the direct selling market to the public but they adopted a uni-level marketing method "shop+salesperson". People joining the direct selling industry should first obtain a license and should only apply uni-level marketing.

Survey development

Due to the law restrictions in China, the direct seller sells the direct selling products to the consumers and thus, the users of the direct selling products are selected to be the subject of this study. At present, China has 24 legal direct selling companies. This study chose the customers of these companies to be the subject. 1500 questionnaires were distributed to Beijing, Shanghai and Guangzhou.

Respondents

As shown in Table 1, the final valid number of questionnaires obtained in China is 201 questionnaires representing a return rate of 16.8%. In the demographic analysis, the majority of the direct selling consumers are female and single (70% and above). Majority of the respondents are only senior high school graduates or below (75.6%) which is quite low. The age is concentrated between 31

Table 4. Correlations between constructs.

Construct	Item	Mean	Std. Dev.	Composite Reliability	Cronbach
System Trust (ST(CMC))	6	4.95	1.03	0.861	0.879
Generalized Trust(GT)	3	5.93	0.89	0.855	0.924
Firm-specific Trust(FST)	6	4.98	1.11	0.945	0.936
Interpersonal Trust(IPT)	6	4.7	1.17	0.926	0.908
Customer Loyalty(CL)	4	5.3	1.14	0.942	0.909

and 40 years old. The biggest difference between Taiwan and China's distributors are on educational background and age. It is because direct selling in Taiwan has already reached its maturity stage. Direct selling in China was reintroduced with conditions to the public in 2007 and the business operations of direct selling still needs time to get back to normal.

Measurement model analysis

After testing the reliability of China, it was found that the Cronbach of every constructs is between 0.87–0.93 and the questions that didn't contribute to the increase in the value of the reliability coefficient are deleted. The composite reliability is between 0.85–0.94 which is greater than the suggested value of 0.7 of Hair et al. (1998). This shows that the results measured from the questionnaires has an acceptable stability and consistency (Table 4). In the reliability of the individual items, all the variables are statistically significant. Aside from the factor loading of the variable "CMC officials are cautious in handling direct selling affairs" which is 0.46, all other factor loadings were higher than 0.7 (Chin, 1998).

This study designed and revised the scale of its research framework based on the scale of Grayson et al. (2008). Thus, the content of this measuring tool is tested whether it can represent the whole study and it has an acceptable content validity. The AVE of the constructs listed in Table 5 are all between 0.50–0.88. Thus, the model exhibits good convergent validity. In addition, the average variance extracted root mean square of all constructs exceeded the correlation coefficients among constructs; therefore, the constructs in the model have sufficient discriminate validity (Chin, 1998).

Common method variance

To avoid the occurrence of common method variance (CMV), post-hoc test was applied. This study adopted Harman's single-factor test based from the suggestion of Anderson and Bateman (1997). Through exploratory factor analysis, the Taiwan and China's data undergo un-rotated factor analysis. The results did not discover any single factor and the explanation ratio of the factors is not concentrated. Therefore, the possibility of CMV assumed by this study in the first place is not very high.

Study result

The structural model of this study includes two latent independent variables namely system trust (CMC) and generalized trust and three latent dependent variables namely firm-specific trust, interpersonal trust and customer loyalty. As shown in Figure 3, the explanatory capability (R^2) of latent dependent variables towards the overall model was divided among firm-specific trust (0.668), in-

terpersonal trust (0.549), and customer loyalty (0.651). The R^2 of the latent dependent variables were greater than 0.54 which means that it has good explanatory ability.

As shown in Figure 3, systems trust (CMC) and generalized trust has a significant positive direct effect on firm-specific trust and interpersonal trust. The trust of customers toward macro-environment's trading market (trust of direct selling customers toward CMC) and toward direct selling companies and distributors can positively affect the trust of customers toward the direct selling companies and their distributors. Therefore, the hypotheses H_1 (CMC), H_2 (CMC), H_5 and H_6 in the part of China are supported. Because of the frauds of direct selling in China, many consumers lose their trust toward direct selling products. After direct selling in China was reintroduced to the public in 2007, it effectively solved the illegal direct selling behaviors and the consumers gradually gain their trust toward direct selling products.

The firm-specific trust significantly, directly and positively affects customer loyalty, with path coefficients of 0.576. The trust of customers toward a direct selling company (e.g., image, system, and scale) can increase customer loyalty. Therefore, hypotheses H_7 is supported (Chow and Holden, 1997). Interpersonal trust significantly, directly, and positively affects customer loyalty; the path coefficient was 0.462. Trust toward up-line distributors can increase customer loyalty, and thus hypothesis H_8 is supported (Pavlou, 2002).

DISCUSSION OF STUDIES 1 AND 2

In economic activities, the roles played by trust are to reduce transaction costs, coordinate with mechanisms, improve organization performance and create competitive advantages. In a society with a high level of trust, it is easy to create large-scale enterprises through interpersonal cooperation. It is also easy for businesses to have strategic alliances or cooperation among themselves and promote a flourishing development in the society (Fukuyama, 1995; Jones and George, 1998). In our modern society, system trust gradually starts to play a very important role. In the recent years, because of the flourishing economy, increase in population, complexity in social structures, declining of big families and freedom in migrations of citizen, the efficiency of the close interpersonal network that used to exist in families and traditional communities gradually disappears. Official laws and regulations and just intermediary agencies replaced family and social networks and they became the main source of interpersonal trust (Zucker, 1986; Shapiro, 1987).

Table 5. Correlations between constructs.

	X1	X2	Y1	Y2	Y3
X1 System Trust(CMC))	0.71				
X2 Generalized Trust(GT)	0.34	0.83			
Y1 Firm- specific Trust(FST)	0.71	0.43	0.87		
Y2 Interpersonal Trust(IPT)	0.71	0.43	0.73	0.83	
Y3 Customer Loyalty(CL)	0.67	0.37	0.74	0.74	0.89
average variance extracted (AVE)	0.50	0.69	0.75	0.68	0.80

Note: Diagonal elements are square roots of the average variance extracted.

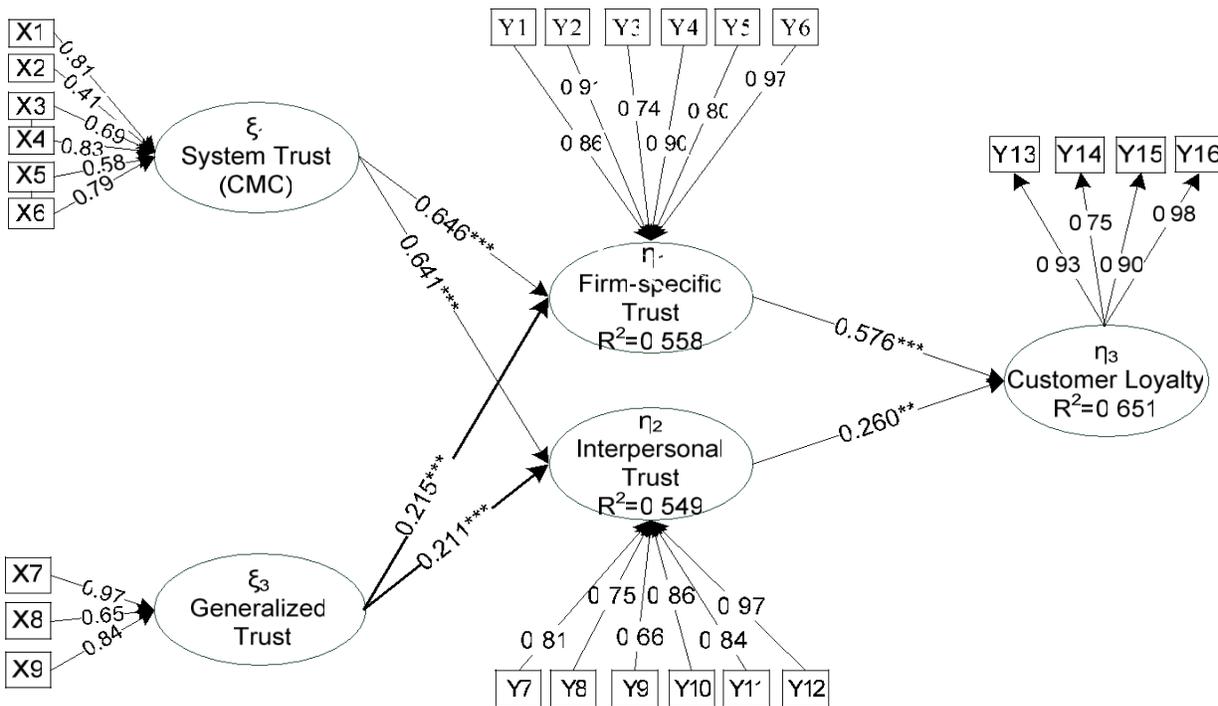


Figure 3. Path diagram of the trust of Taiwanese direct selling customers.

This study viewed the role of trust through marketing. Based from the different levels of the trust theory model of Grayson et al. (2008), this study created system trust, which is a market environment oriented construct and firm-specific trust and interpersonal trust, which are customer as transaction subject oriented construct. This study employed customer loyalty as the dependent variable and direct selling customers in Taiwan and China as research subjects to examine the relationship between different trust types and customer loyalty. The results showed that the direct selling customers from the two countries have similar viewpoints. System trust and generalized trust positively affects the trust of direct selling customers toward direct selling products and

companies (H₁, H₂, H₃, H₄, H₅ and H₆). Thus, it shows that laws is an effective method to increase people's trust especially in countries with a low level of trust such as Taiwan, China and South Korea (Fukuyama, 1995). Furthermore, in Taiwan, TFTC is also an organization that promotes the trust of direct selling customers toward direct selling products and companies. Payan (2006) pointed out that the interpersonal trust and company profit of B2B markets has an important relationship. It can reduce obligatory strategy and increase customer loyalty. The results from the study of Chow and Holden (1997) indicate that a customer's trust toward a company and its salespersons has a significant effect on customer loyalty and behavior. The results of the study showed that firm-

specific trust and interpersonal trust has a significant positive effect on customer loyalty (H₇ and H₈).

Although the results of Taiwan and China is similar with the results of Grayson et al. (2008), the path coefficient of ST(TFTC) FST(0.58) and ST(TFTC) IPT(0.46) of Taiwan is greater than the path coefficient of ST(CMC) FST(0.21) and ST(CMC) (IPT)(0.26) of China. It was found that societies with low level of trust will lead to low interpersonal trust among people. In 1992, after Taiwan establish the fair trade law to standardize direct selling industry, the direct selling industry in Taiwan start to have normal development in the past few years. China reopened the direct selling market to the public in 2007 and they adopted a uni-level marketing method "shop+salesperson" mainly to prevent illegal behaviors of direct selling. In addition, the path coefficient of ST(CMC) FST(0.64) and ST(CMC) (IPT)(0.57) of China is far greater than the path coefficient of ST(TFTC) FST(0.17) and ST(TFTC) IPT(0.15) of Taiwan. It can be seen that when China reopened the direct selling market to the public in 2007, the trust of the people toward direct selling companies and their direct sellers are much lower than the trust of Taiwanese toward direct selling companies and their direct sellers. Chinese direct selling customers trust the selling behaviors of direct selling companies and direct sellers that are under the control of the government law. In Taiwan, the direct selling market is already very stable and very few disputes take place. Therefore, Taiwanese direct selling customers tend to overlook the function of the government.

In a market environment where system trust is decreasing, businesses have difficulties in establishing the firm-specific trust and interpersonal trust of customers. Fukuyama (1995) asserted that national level of trust directly influences business scope and global competitiveness. Similarly, he noted that group success depends on mutual trust and culture determined trust. Therefore, using religion-based trust, Confucian orthodoxy, history, habits and other cultural mechanisms to promote a culture of trust also increases system trust.

Through the investigation, it was found that firm-specific trust and interpersonal trust significantly affect customer loyalty. In the past, the selling methods used by the direct selling industry are unique and highly influential and may cause people to misunderstand the direct selling industry. The most important direct selling product characteristics not favored by consumers were quality, effectiveness and price. Since the beginning, few direct selling companies used the illegal "head hunting" marketing method to obtain profits rather than simply rely on their products or services. Therefore, this study suggests that direct selling companies work hard to prove their credibility, generate a good reputation, promote the norms of the government and TDSA (system trust), and train honest and trustworthy distributors (interpersonal trust) in order to gain customer

trust and loyalty.

The study demonstrated that trust (system trust) of direct selling customers toward government agencies (TFTC) significantly affects their trust towards direct selling companies (firm -specific trust) and up-line distributors (interpersonal trust). Besides improving the promotion of government regulation of the direct selling industry, TFTC can request the cooperation of direct selling companies in educating their distributors to publicize the norms of the government toward TDSA so to increase the trust of direct selling customers toward government agencies (TFTC). Furthermore, the Taiwan Direct Selling Association (TDSA) can advocate beneficial direct selling concepts to the consumers such as organizing cooperative public welfare and academic activities with academic units.

Limitation and future research

Because this study used cross section data, there are surely some limitations in the actual scenario. At present, the studies regarding "trust" all used cross section data. If it is possible to add vertical section data and aimed at a specific market to measure the relationship among the different levels of trust, the result will be more accurate (Dwyer et al., 1987).

In the measurement of variables, this study used Likert Scales to measure the perception of direct selling customers (distributors) towards related variables. The respondents used a subjective judgment and perception. Therefore some of the collected data might have a level of deviation or contort. For example, a portion of the Taiwanese distributors is not very familiar with TDSA. In addition, distributors and direct selling product users are categorized as recessive group and are not easy to find in a society. To get to the distributors (direct selling customers), this study still have to request the distribution company to get in touch with the distributor. Therefore, this study used a convenient sampling method to distribute the questionnaires. This, more or less, will cause limitations toward this study's measurement but this study still has a specific internal validity.

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