

Understanding distributor opportunism in a horizontal network



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ABSTRACT

Much of the recent literature on distributor opportunism has focused on how to predict and control it from a dyadic perspective. As a distributor is embedded in a horizontal network with many other distributors serving the same supplier, that firm's opportunism may be affected not only by the dyadic relationship with its supplier but also by the network relationships. By moving beyond a dyadic view, this study examines how the relational and structural dimensions of a horizontal network can influence a focal distributor's opportunism toward the supplier. Specifically, regarding the relational aspect, the competition intensity in the network will promote distributor opportunism whereas cooperation intensity should curb it. On the structural level, a distributor's network centrality will be positively related to its opportunism toward the supplier and strengthen the positive effect of competition intensity and the negative effect of cooperation intensity. Our empirical results, which are based on a survey of 219 distributors in the automobile industry, support most of these hypotheses. We discuss the implications for theory and practice based on the findings herein.

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1. Introduction

It is common in today's market that firms, especially the big ones, use a number of distributors to move their products or service to end consumers (Barthélemy, 2008; Ingram & Baum, 1997). These distributors who serve the same supplier, together with this supplier itself, compose a distribution network. For example, a car maker uses thousands of exclusive car dealers in the U.S. to represent its sales. These car dealers, on the one hand, compete with each other to strive for higher sales and more resources from the car maker. On the other hand, they cooperate with each other directly or indirectly by sharing valuable market information with each other and sometimes help each other in achieving a joint goal. The relationships among these peer distributors, no matter competition or cooperation relationships, may affect a focal distributor's decisions in its exchange relationship with the supplier, including its opportunism toward this supplier.

The main idea underlying the network influence on a distributor's opportunism toward its supplier is that most distributors are embedded in the distribution network dominated by the supplier (Clarkin & Rosa, 2005; Cochet & Ehrmann, 2007; Dormann & Ehrmann, 2007; El Akremi, Mignonac, & Perrigot, 2010). Their motivation and capability to engage in opportunistic behaviors are affected not only by the suppliers'

governances, but also by their peer distributors' actions and relationships. For example, even though a supplier strictly monitors the activities of a distributor, the distributor may still engage in opportunistic behaviors if it feels pressure from the intensive peer competition in the distribution network. In contrast, sometimes a supplier invests little effort in monitoring the distributor, but because the distributor is embedded in a highly cooperative network, in which the supply of information is adequate to the supplier, this distributor will be less likely to act opportunistically.

The focus on network influence in distributor opportunism in this research contrasts with much of the extant literature which examines opportunism from a dyadic angle. Owing to the human being's self-interest seeking nature, opportunism is inherent in inter-firm exchanges (Williamson, 1975, 1985a). Having noted the common occurrence of opportunism and its toxic impact on exchange outcomes (Gundlach, Achrol, & Mentzer, 1995; Hawkins, Wittmann, & Beyerlein, 2008; Morgan & Hunt, 1994; Nunlee, 2005; Wathne & Heide, 2000), many studies have discussed the drivers and possible control mechanisms of distributor opportunism. They focus on figuring out the determinants of a party's opportunism within a dyadic relationship (e.g., a distributor–supplier relationship) and in turn the other party's control mechanisms of such opportunism (Carnevale, Pruitt, & Carrington, 1982; Dong, Tse, & Cavusgil, 2008; Heide, 1994; Heide & John, 1992).

However, as distributor–supplier relationships are frequently embedded in the aforementioned distribution networks, we cannot overlook the network influence on a focal distributor's opportunism toward the supplier. A few recent studies have suggested that we should examine if network relationships would reduce or enhance the friction inherent in the interactions taking place between the two self-interested parties (e.g., El

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Akreimi et al., 2010; Morgan, Kaleka, & Gooner, 2007; Rindfleisch & Moorman, 2001; Wang, Gu, & Dong, 2013; Wathne & Heide, 2000). For example, Wathne and Heide (2004) examined how a firm's relationship governance is contingent on the nature of its vertical network. Yet, there is not much research about the influence of a horizontal network, such as a distribution network, on a focal distributor's opportunism.

In light of the above, our goal is to extend beyond the dyadic scope to investigate the network influences on distributor opportunism toward suppliers in three ways. First, we consider the possibility that a distributor's interactions with its peer distributors in the network directly influence its opportunistic behaviors toward the supplier. In a network, a number of distinguishable organizations may have a significant amount of interaction with each other. On the one hand, some researchers viewed such interactions as being competitive, focusing on inter-firm rivalry (Bengtsson, 1998; Noh, 2000; Ramaswamy & Renforth, 1996). On the other hand, others have viewed such interactions as being cooperative, focusing on inter-firm coordination and communication (Antia & Frazier, 2001; El Akreimi et al., 2010). As distributors within a network are often forced to simultaneously compete and cooperate with one another (Bengtsson & Kock, 2014; Chien & Peng, 2005; Levinson & Asahi, 1995), this paper uses two constructs, cooperation intensity and competition intensity, to explore the effect of network relationships on distributor opportunism. Following the theme of previous literature delineating opportunism from motivation and information perspectives (Anderson & Oliver, 1987; Eisenhardt, 1985; Rindfleisch & Heide, 1997; Williamson, 1975), we elaborate on how competition and cooperation intensity can either increase or suppress a distributor's motivation to act opportunistically and how they can affect the information flow within the network to detect opportunism.

Second, we analyze the direct effect of structural dimension on distributor opportunism. Notably, there are two aspects of a social network, the structural and the relational, and both have implications for the daily work and accomplishments of all types of economic actors (Granovetter, 1985). Rather than the relationship quality's effect on distributor opportunism, we also discuss the structural aspects' effect. In this paper, we use network centrality as an indicator of network structure (Antia & Frazier, 2001; Benson, 1975; Rowley, 1997). Because network centrality leads to information and power asymmetry, we posit that a focal distributor's centrality in a distribution network will increase distributor opportunism toward its supplier.

Third, we investigate how the interplay between the relational and structural dimensions of the distributor network will influence a focal distributor's opportunism toward its supplier. We posit that a focal distributor's centrality will enhance relationship quality's (including

competition intensity and cooperation intensity) effect on opportunism. Again, we delineate these moderating effects by discussing the role of network centrality in manipulating a distributor's motivation to act opportunistically and in guiding the information sharing for detecting opportunism.

We test our hypotheses within the context of distributor networks in the automobile industry in China. From a theoretical standpoint, our findings extend beyond the dyadic view of opportunism to consider the network effect on opportunism in a dyad. Specifically, we explore the effects of network relationships and network structure on opportunism. Referring to the network relationship, we analyze the effects from two dimensions – cooperation intensity and competition intensity. We use network centrality to indicate network structure, and explore its direct influence on distributor opportunism. Besides, we also reveal the interactions between the relation quality and the relation structure of a distributor network (see Fig. 1). From a practical standpoint, our results suggest that a supplier should consider network factors in opportunism governance and should treat distributors differently according to their unique positions within the network.

We organize the rest of this article as follows: first, we present our theoretical framework and research hypotheses; next, we describe the research method used to test the hypotheses and present the empirical results. Finally, we discuss the implications of this study and offer topics for further research.

2. Theory and hypotheses

2.1. Distributor opportunism

Defined as “self-interest seeking with guile” (Williamson, 1975, p. 6), opportunism is neither ubiquitous nor very unusual in marketing channel relationships (Maitland, Bryson, & Van de Ven, 1985). Examples of distributors' opportunistic behaviors toward suppliers include withholding or distorting information, and shirking duties as well as failing to fulfill promises, and to meet obligations. These distributors may also harm their suppliers by releasing proprietary information about them, failing to pay royalties, not complying with quality standards, or free-riding on other outlets (Bradach, 1997; Gassenheimer, Baucus, & Baucus, 1996; Kidwell, Nygaard, & Silkoset, 2007; Michael, 2000).

Williamson's (1985a) previous conceptualization has captured a “blatant” or a “strong form” of opportunism (Masten, 1988), which is the failure to honor a contract. Subsequently, transaction cost theory and the related literature have extended the original notion of opportunism to the domain of relational contracts (Muris, 1981; Williamson,

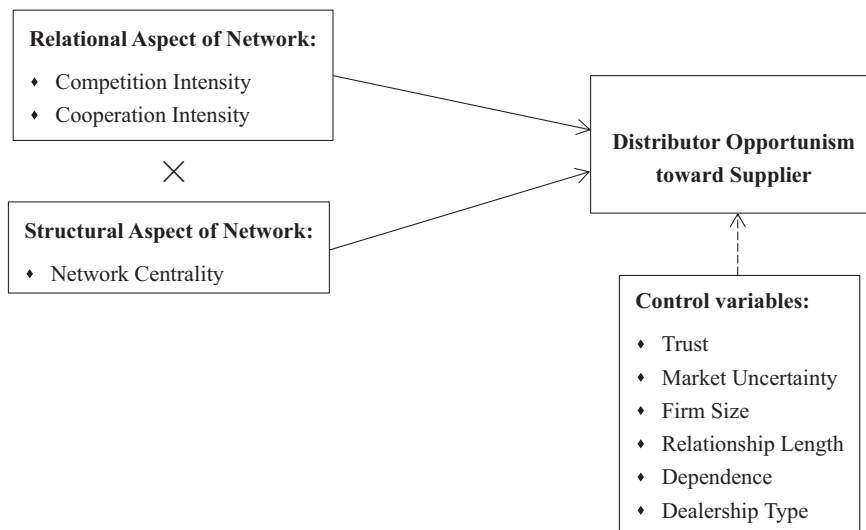


Fig. 1. Theoretical framework.

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