Available online at www.sciencedirect.com

SCIENCE DIRECT®

Industrial Marketing Management 34 (2005) 515–525

INDUSTRIAL MARKETING MANAGEMENT

The control of intra-channel opportunism through the use of inter-channel communication

Martin Phenix Nunlee*

Syracuse University, School of Management, Syracuse, NY 13244-2130, United States

Received 28 May 2003; received in revised form 10 October 2003; accepted 22 September 2004
Available online 20 January 2005

Abstract

Within channels of distribution, there has been some degree of cooperation among channel members. In many cases, channel members actively cooperate with one another in competition against other channels. However, competing channels of distribution also have common interests, including controlling intra-channel opportunism. This research focuses on the use of social mechanisms for controlling intra-channel opportunism.

This study investigates whether firms effectively employ inter-channel communication as a method of controlling opportunistic behavior. Under a social control mechanism, firms would pass along information concerning their channel member's reputation. Comparing two different types of firms within a single industry allows for the examination of how firm properties dictate the use of social control mechanisms.
© 2004 Published by Elsevier Inc.

Keywords: Reputation; Opportunism; Transaction cost; Contracting; Communications; Relationship marketing; Channels of distribution

1. Introduction

Increasingly, channel members are placing greater emphasis on flexible long-term relationships. Long-term relationships enhance performance outcomes (Noordewier, John, & Nevin, 1990) and cause channel members to work together to better serve customers and increase mutual profitability (Stern, El-Ansary, & Coughlan, 1996). John Grossman, vice president of Materials Management at Allied Signal claims "Competition is no longer company to company, but supply chain to supply chain." The works and thoughts previously cited, indicate that flexible long-term relationship should increase inter-firm efficiencies and effectiveness; but, what about inter-firm opportunism within flexible relationships? There is no clear understanding on how firms govern flexible relationships.

Relationships that are flexible, by their very nature are less formal. Often firms depend upon each other's goodwill rather than formal contracts (Macaulay, 1963; Macneil, 1978). Opportunism by definition is acting in self-interest with guile (Williamson, 1975). The lack of formality allows either party to an agreement to act in their own self-interest by slyly interpreting the terms of the agreement. Within a flexible channel arrangement, a supplier could deliver profitable but inadequate goods or services, since the agreement is subject to interpretation; vice versa, a purchasing firm could utilize goods and services without adequately compensating its supplier.

Often, an institutional economics framework such as Transaction Cost Economics–focusing primarily on the role of idiosyncratic investments and dependence in developing long-term relationships (Williamson, 1975, 1985)–has guided previous channel research. Under this framework, firms that make idiosyncratic investments will develop long-term relationships to safeguard those investments from parties that might act opportunistically. However, there are many cases where physical idiosyncratic investments do not play much of a role. For example, in making computers, neither purchasing organizations nor supplying organiza-

* Tel.: +1 315 443 3672.
E-mail address: mpnunlee@syr.edu.

0019-8501/$ - see front matter © 2004 Published by Elsevier Inc.
doi:10.1016/j.indmarman.2004.09.010

tions commit to idiosyncratic investments for hard drive or memory chips. In these cases, Transaction Cost Economics suggest that firms employ other methods for controlling opportunism, such as incorporating the function subject to opportunism into the firm. Again, focusing on computer manufacturers, rarely do computer manufacturers internalize the functions of manufacturing memory chips or hard drives.

Another method of controlling opportunism is channel power. What happens in situations lacking formal control mechanisms or when the relationship is bilateral? Jap, Manolis, and Weitz (1999) suggest that the interest of practitioners and academics in channel relationship management has shifted from corporate channel structures governed by the use of power and dependence to relationships between independent firms involving contractual agreements and more relational governance control mechanisms. Indeed, Groves and Valsamakis (1998) assert that being able to identify which parties are more likely to cooperate and comply with rules and the terms of an agreement is important in environments lacking formal control mechanisms.

Traditionally, social control mechanisms–such as reputation–played an important role in informal transactions. Receiving information through social networks allow people and firms to infer how parties will respond based upon past performance (Greif, 1989). Often, actions that are extraneous to the interacting parties will provide an indication to one party concerning the behavior of another party (Heap & Varoufakis, 1995). By using reputation as an indicator of future behavior, individuals and firms can avoid engaging in costly interactions with parties who are merely attempting to gain short-term selfish advantage rather than engage in an ongoing relationship. Therefore, relational mechanisms can be effective in reducing opportunism. Long-term relationships enable firms to jointly obtain competitive advantages by sharing information on upcoming new products, suppliers, and new techniques. In general, relationships are very important in conducting business; however, this is especially true in situations where channel members engage in highly coordinated flexible processes. Further, these problems are not associated with just high technology products, but any process that requires a high degree of flexibility and coordination (Fisher, 1997).

2. Framework

If some businesses are more adept at forming and managing cooperative relationships through relational mechanisms, then it should be possible to measure this increased performance. Specifically, firms that communicate information concerning behaviors of their channel members should be more efficient, and thus more profitable than firms not communicating this information would be.

There are many elements to profits or net revenues. For example, many marketing and economics texts indicate that greater differentiation has a direct link to profits (Berkowitz, Kerin, Hartley, & Rudelius, 1997; Gould & Ferguson, 1980; Scherer & Ross, 1990). Likewise, any method that either increases demand or increases the differential between selling prices and costs will increase profits. Relative levels of pricing and degree of differentiation, just like quantity, are more economic than social. Furthermore, these economic variables provide no significant contribution to the perception of opportunism. In cases where relational elements are important, a general model of profits should include two distinct streams: economic inputs and social inputs.

Some of the social variables may provide a contribution to the profit function other than through the reduction of opportunism. One such variable is the Benefit of Association. Firms may receive other advantages through associating than strict opportunism reduction. By expressing social factors and the contribution of those social factors, a model of profits would be more appropriately specified than a model only consisting of economic inputs. Only considering a general specification of the model, such that economic inputs and social inputs contributing to profits; the above diagram reflects this conceptualization (Fig. 1).

Reducing opportunism is very important especially in cases where it is difficult to verify the degree of effort one party is extending. A supplier that does not provide sufficient effort can prove to be very costly to a firm. The lack of effort can result in poor quality and job delays. Both poor quality and job delays are costly because they affect the job turnover rate. Utilizing a Transaction Cost Economics framework, firms would ideally internalize a function where verifiability of effort is an issue (Coase, 1937). When a firm internalizes a particular function, it has unified governance over the assets associated with the function. Unified governance allows the firm to exert control over a function. However, resource restraints either capital or skill based may preclude the ability of a firm to acquire the assets necessary to internalize a function (Penrose, 1959).

Firms would also like to have suppliers make credible commitments, such as specialized assets. Specialized assets serve as a safeguard in protecting a firm, since a channel member would risk losing the ability to fully utilize a specific asset by acting opportunistically. However, in many industries, asset specificity is not possible, nor is asset specificity desirable. Often, channel members do not deal exclusively with one another. The volume of business may

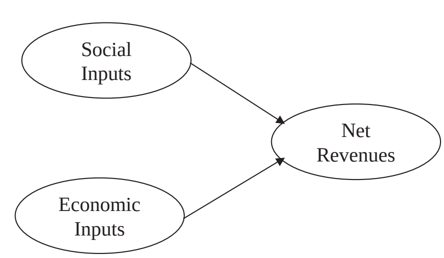

Fig. 1. General model.

Download English Version:

https://daneshyari.com/en/article/10496401

Download Persian Version:

https://daneshyari.com/article/10496401

Daneshyari.com