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The dual effects of perceived unfairness on opportunism in channel relationships

Sandip Trada *, Vikas Goyal

Indian Institute of Management Indore, India

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ABSTRACT

Opportunism has long-term negative consequences for channel relationships. The extant research has traditionally focused on economic forces in studying opportunism. However, social exchange theory stresses the role of social forces in shaping opportunistic behavior. In this study, we integrate transaction cost economics and justice theory to theorize and examine the impact of 'perceived unfairness' on distributor opportunism. We uncover the 'dual' effects of perceived unfairness on opportunism, i.e., 1) directly enhancing opportunism and 2) aggravating (positively moderating) the effects of economic forces on opportunism. Matched data on 247 supplier-distributor dyads in India provide empirical support for our theoretical model and research hypotheses. We find differential effects of the three dimensions of perceived unfairness (distributive, procedural, and interactional) on opportunism. We discuss the implications of our findings for theory and practice and present avenues for future research.

1. Introduction

The distribution channel literature has increasingly acknowledged channel partner relationships as an invaluable asset for supplier firms and as an unparalleled source of long-term competitive advantage (Homburg, Vollmayr, & Hahn, 2014; Yang, Sivadas, Kang, & Oh, 2012). Firms often leverage channel partners' resources and capabilities to enhance their results and outputs (Kumar, Sunder, & Sharma, 2014). Therefore, successful channel relationships are extremely critical to a firm's performance. Conversely, the inferior management of channel relationships can lead to several channel problems, such as heightened conflicts, enhanced dysfunctional behaviors, and even relationship dissolution intentions (Kang & Jindal, 2015; Yang et al., 2012). To develop and maintain successful channel relationships, it is not sufficient to focus on relationship building factors alone but to also understand and manage factors that destroy relationships (Kang & Jindal, 2015). Among other factors, exchange partner opportunism has been identified as a key relationship-destroying factor (Samaha, Palmatier, & Dant, 2011). In distribution contexts, channel partner opportunism often occurs at the expense of the supplier's interests, in turn destroying channel relationships over the long term (Wathne & Heide, 2000).

Opportunism, defined as "self-interest seeking with guile" (Williamson, 1985, p. 47), can manifest in several forms, i.e., withholding or disclosing partial information, deception, misrepresentation, spreading confusion, stealing, and failing to uphold promises and obligations (Wathne & Heide, 2000). In recognizing the corrosive impact of opportunism, researchers have made considerable efforts to identify what drives opportunism. According to transaction cost economics (TCE), three exchange hazards, i.e., relationship specific investments (RSIs), environmental uncertainty (EU) and behavioral uncertainty (BU) are the key drivers of exchange partner opportunism (Crosno & Dahlstrom, 2008; Rindfleisch & Heide, 1997). In attempts to curtail opportunistic behaviors and effectively manage inter-firm exchanges, scholars have highlighted individual as well as complementary effects of formal (i.e., bilateral RSIs, contract, and monitoring) and relational (i.e., trust and relational norms) governance mechanisms (Brown, Dev, & Lee, 2000; Liu, Luo, & Liu, 2009; Wathne & Heide, 2000). To govern successful inter-firm relationships, it is important for firms to understand the factors that motivate exchange partners to behave opportunistically.

According to social exchange theory, exchange partners' behaviors are determined by the perceived equity of a relationship (Blau, 1964). In this regard, social forces such as justice/fairness are fundamental for inter-firm relationships (Griffith, Harvey, & Lusch, 2006). In distribution channels, distributors often judge their gains relative to their efforts and perceive manufacturer fairness/unfairness (Kumar, Scheer, & Steenkamp, 1995). Such fairness/unfairness perceptions have profound effects on distributors' attitudes and behaviors. For example, supplier fairness has been found to enhance trust and commitment in relationships (Kashyap & Sivadas, 2012) and to shape distributors' relational behaviors (Griffith et al., 2006). On the other hand, unfairness is known to generate strong feelings of distrust (Kaufmann & Stern, 1988), to increase conflict (Brown, Cobb, & Lusch, 2006), and to spur relationship dissolution intentions (Yang et al., 2012). These responses to fairness/unfairness perceptions

* Corresponding author.
E-mail addresses: f12sandipt@iimidr.ac.in (S. Trada), vikasg@iimidr.ac.in (V. Goyal).

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are stronger in market and business cultures that are highly relationship-oriented and where exchange partners maintain a long-term orientation towards such relationships (Paul, Roy, & Mukhopadhyay, 2006).

Research on intra-firm relationships and service recovery domain suggests that perceptions of unfairness directly influence the opportunistic behaviors of exchange partners (Skarlicki & Folger, 1997; Wirtz & McColl-Kennedy, 2010). While the inter-firm marketing literature recognizes the key role of fairness/unfairness perceptions in exchange relationships, our review of literature show that no study has empirically examined the effects of perceived unfairness on opportunism in distribution channels. Furthermore, recent distribution channel research suggests that in addition to direct effects, perceived unfairness indirectly interacts with other channel variables and shapes distributors' behaviors towards suppliers (Samaha et al., 2011). We believe that 'perceived fairness' as a social force can complement economic forces in distribution channel relationships. It is thus necessary to examine the effects of perceived unfairness on opportunism in distribution channel relationships.

Drawing from justice theory (Adams, 1965), we examine the dual impacts of 'perceived unfairness' on channel partner opportunism. Specifically, we examine direct effects of perceived unfairness (i.e., distributive, procedural, and interactional) on distributor opportunism and indirect (moderating) effects of perceived unfairness on relationships between TCE exchange hazards (i.e., supplier's RSIs, BU, and EU) and distributor opportunism. To empirically test the hypotheses, we analyze 247 matched samples from supplier-distributor dyads in the Indian pharmaceutical industry. Indian distribution channels serve as an ideal context for testing effects of perceived unfairness on distributor opportunism due to the recognized dominance of social forces in inter-firm relationships in India (Sharma, Young, & Wilkinson, 2006; Sheth, 2011). We contribute to the literature in several ways. First, we contribute to the TCE and relationship marketing literature by revealing new social drivers of opportunism such as distributive, procedural and interactional unfairness in channel relationships. Second, we contribute to the literature on fairness/unfairness by examining the relative importance of three dimensions of unfairness on opportunism. Third, we contribute to the growing literature on inter-firm governance in emerging markets by presenting new and customized social ways to control opportunism under different channel conditions. Finally, we contribute by developing an integrated framework from two theoretical perspectives, i.e., justice theory and TCE perspectives for analyzing inter-firm relationships (Fig. A.1).

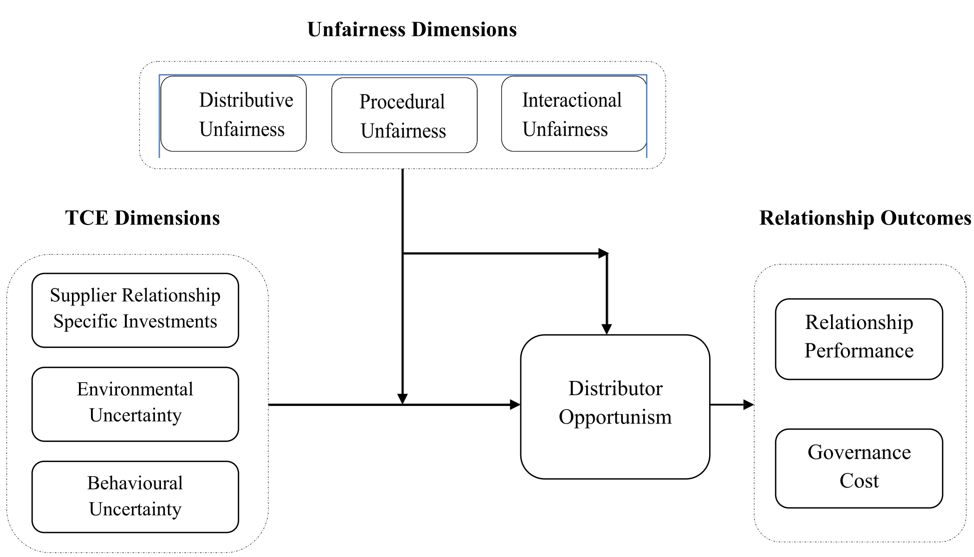
2. Theory and hypotheses

2.1. Channel management in emerging markets

Channel management in emerging markets is a complex and challenging task due to the presence of unorganized and fragmented distribution structures, inadequate information systems, under-developed infrastructure and high opacity in channel activities (Sheth, 2011; Srivastava, Handa, & Vohra, 2014). These characteristics amplify several problems by spurring channel disputes, exacerbated information asymmetries, higher costs of physical distribution and opportunism. In contrast to developed markets, emerging markets are characterized by higher levels of informality and collectivism and by cultures of uncertainty avoidance (Paul et al., 2006). In such market, informal inter-personal relationships play a significant role in channel relationships and may directly and indirectly influence distributor behaviors. Therefore, these factors make channel management practices more complex and challenging in emerging markets.

Specifically, the opportunistic behaviors of distributors constitute the main cost of doing business in emerging markets such as India owing to the country's evolving legal and formal institutions (Nagavarapu & Sekhri, 2016; Trebbin, 2014). The absence of effective legal and regulatory systems needed to enforce formal supplier governance practices (i.e., contracts) puts undue strain on relationships between suppliers and their distributors (Yang, Zhou, & Jiang, 2011). It is thus essential for suppliers to use effective governance practices when managing distribution channel relationships.

A supplier's ability to preserve strong relationships with distributors can enhance channel outcomes and afford a firm a competitive advantage (Liu et al., 2009). Researchers have suggested that suppliers in emerging markets such as India should focus on issues of social governance, i.e., trust and commitment to developing strong relationships with distributors (Sharma et al., 2006; Sheth, 2011). For example, Trebbin (2014) suggested that informal institutions such as social bonds may act as substitutes for formal contracts in India and limit distribution system leakage (Nagavarapu & Sekhri, 2016). Further, Luo (2006) suggested that a social force (especially fairness) is a critical



Note: → denotes the hypothesized main effects; and ↓ denotes the hypothesized interaction effects.

Fig. A.1. Conceptual framework.

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