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The impact of value congruence on marketing channel relationship

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ABSTRACT

Organizational values guide acceptable behavior and provide motivational dynamism. Marketing channel literature has yet to address the impact of values on interfirm exchanges. We propose that value congruence between cooperating firms can be an effective governance method. This research examines the impact of value congruence between manufacturers and their primary distributors. Survey data from 278 manufacturing firms demonstrate that perceived value congruence has a positive effect on distributors' performance. Moreover, information sharing and joint problem solving serve as mechanisms that partially mediate the main effect. This research calls for integration of organizational values into partner selection and marketing channel governance.

1. Introduction

In marketing channel, interfirm exchanges have long been an intriguing topic for both academics and practitioners. Effective governance of interfirm exchanges is key to channel performance and competitive advantage (Heide, 1994). In the past three decades, governance theories have been developed or adopted to explain interfirm transactions and relationships (for review, see Cao & Lumineau, 2015). Contractual governance (formal governance) theories tackle transaction cost and agency related issues (Li, Poppo, & Zhou, 2010). Relational governance (informal governance) theories focus on how to coordinate business exchanges via social relations and shared norms (Heide & John, 1992; Poppo & Zenger, 2002). Different from contractual governance that relies on formal structure and third party enforcement, relational governance relies on informal structure and self-enforcement to guide behavior of exchange partners (Dyer & Singh, 1998). Relational governance effectively affects exchange performance (Cannon, Achrol, & Gundlach, 2000; Lusch & Brown, 1996a, 1996b) and reduces conflict (Jap & Ganesan, 2000).

In existing literature, trust and norms are the most frequently discussed relational governance types (Griffith & Myers, 2005). Trust refers to the confidence in the partner's integrity, ability and benevolence in an exchange relationship (Das & Teng, 1998) whereas relational norms refer to shared expectations about the behaviors of each party (Cannon et al., 2000). Trust is considered a trait that becomes embedded in a particular exchange relation. A trustworthy partner is expected to behave in a trustworthy fashion (Poppo & Zenger, 2002). Relational norms are based on the expectation of mutuality of interest, essentially prescribing stewardship behavior, and are designed to enhance the wellbeing of the relationship as a whole (Heide & John, 1992). Norms describe appropriate behavioral guidelines that enforce social obligation in the exchange (Heide, 1994; Heide & John, 1992). Both trust and norms demonstrate to be effective governance methods in marketing channel literature (Cannon et al., 2000).

This research proposes that values can be another method of relational governance. If governance emerges from the values and agreed-upon processes found in social relationships (Heide & John, 1992; Noordewier, John, & Nevin, 1990), underlying values and principles of exchanging firms should enforce their obligations, promises, and expectations. Organizational values have long been considered critical to understanding actions in and across organizations (Gehman, Trevino, & Garud, 2012). Values are a fundamental element of organizational culture and leadership, impacting both individual and organizational performances (Schein, 2010). Virtually all high performing firms have well-defined sets of guiding beliefs, principles or values (Peter & Waterman, 1982). Given the importance of values to organizations, a rich literature has emerged around the meanings, dimensions and functions of values. However, the governance potential of values in interfirm exchanges has yet to be explored.

Take the example of Ben & Jerry's, a company that has progressive values and principles to create linked prosperity for everyone connected to the business (http://www.benjerry.com/values). When it entered the Russian market, however, Ben & Jerry's encountered great difficulty finding an appropriate partner (Kotler, Kartajaya, & Setiawan, 2010). Potential partners were ambitious and benefit-oriented and sought only to achieve high profits and quick growth. They rarely understood or cared about Ben & Jerry's core values and basic principles. The conflicted values led to disagreements relating to business activities

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(e.g., use of bribery), product manufacturing (e.g., environmentally friendly ingredients) and product quality. These issues caused Ben & Jerry's to stumble and eventually withdraw from Russia after five years (Kotler et al., 2010).

The case of Ben & Jerry's points qualitatively to the importance of value congruence. But does value congruence matter generally in inter-firm exchanges? Our research is an empirical study that examines the impact of values on supplier-distributor exchanges. We aim to address the following questions: 1) In the context of marketing channels, does value congruence between channel members affect their cooperation performance? 2) Does value congruence motivate channel members to engage in positive behaviors? Note that value congruence alone may not translate into desirable outcomes unless it leads to useful actions. 3) How is the impact of value congruence on channel performance affected by exchange partners' relationship duration?

This research aims to make three contributions to relational governance literature. First, it examines value as a key component in inter-firm governance. The concepts of value and value congruence are distinct from other relational governance types that have been extensively studied. This research highlights the significance of value congruence in channel relationships and their impact on channel performance. Second, we investigate the behavioral mechanisms that mediate the impact of value congruence on channel performance. Compatible values are not simply ideologies; they are useful tools that enable firms to work together. This study shows that value congruence makes desirable behaviors possible and subsequently leads to better performance. Third, this research examines whether relationship duration strengthens or weakens the impact of values on firm performance. It addresses the lasting effect of values on firms' cooperation.

2. Theory and hypotheses

2.1. Organizational value

Values are enduring beliefs about what is preferred or desirable and standards by which existing structures or behaviors can be measured and assessed (Scott, 2014). Values are the bedrock of organizational cultures; they guide acceptable behavior (Edwards & Cable, 2009) and provide motivational power and dynamism in an organization (Frederick, 1995). In a business context, values are tenets regarding means and ends leaders and managers should apply in leading, managing and making decisions about the running of the enterprise, in choosing what business actions or objectives are preferable to alternate actions, or in establishing firm objectives (Enz, 1988a, 1988b). Core values are usually embedded in firms' operating principles, organizational mission and leadership (Bhattacharya & Sen, 2003). Value system determines which types of behaviors, events, situations, or people are desirable or undesirable (Jones & George, 1998). Values are seen as integral to business success; they help stakeholders make sense of past performance and provide a foundation for businesses to continue to grow and prosper in the future (Schein, 2010).

For values to be useful for an organization, they need to be accepted and shared within the organization (Malbašić, Rey, & Potočan, 2015). Organizational values indicate how things ought to be and how employees are expected to act in the organization. Values provide the foundation for the purpose and goals of an enterprise. They silently give direction to the hundreds of decisions made at all levels of the organization every day (Posner, 2010). Within an organization, values provide common direction for employees and guidelines for their day-to-day behavior (Deal & Kennedy, 2000). Employees draw from organizational values to guide their decisions and actions; organizational values provide norms that specify how employees should behave and how organizational resources should be allocated (Edwards & Cable, 2009). Values encompass desirable goals that direct behavior and "imbue it with meaning, defining what is good to attain and the ideal manner in which one should attain it" (Longest, Hitlin, & Vaisey, 2013, p. 1500). Values are distinct from other relational governance methods (i.e., norms and trust) and we provide a comparison of these constructs in Table 1.

2.2. Intra-organization value congruence

Intra-firm values manifest in subordinate-supervisor and employee-organization circumstances (e.g., Badovick & Beatty, 1987; O'Reilly, Chatman, & Caldwell, 1991). Intra-firm value congruence refers to the similarity between values held by individuals and organizations (Chatman, 1989; Kristof, 1996). In leadership literature, value congruence between employees and leaders explains why employees relate to leaders and pledge their loyalty and support (Hayibor, Agle, Sears, Sonnenfeld, & Ward, 2011; Hoffman, Bynum, Piccolo, & Sutton, 2011). Empirical research has found that perceptions of subordinate-supervisor value congruence account for the effectiveness of transformational leaders. When values are aligned at all levels and in all areas of a firm, they influence how people work, how customers experience the firm's products and services, and the effectiveness and efficiency of the firm's operation (Chatman & Barsade, 1995). Employee-firm fit explains how the patterning and content of an employee's values, when juxtaposed with the value system of the firm, affect that individual's behaviors and attitudes (O'Reilly et al., 1991) (Fig. 1).

Intra-organization value congruence has demonstrated positive effects on employees' trust, satisfaction, commitment and work performance (e.g., Edwards & Cable, 2009; Enz, 1988a, 1988b; Meglino, Ravlin, & Adkins, 1989; Posner, 2010; Ren, 2010). People with high levels of person-organization congruence perceive that they are a part of something bigger than themselves and are more likely to engage in behaviors that facilitate group productivity (Podsakoff & MacKenzie, 1997). Value congruence between employees and their organization complements delegation of decision-making, substitutes for monitoring (Ren, 2010); it is also associated with behavioral support for organizational change (Lamm, Gordon, & Purser, 2010). Edwards and Cable (2009) develop and test a theoretical model that integrates four key explanations of intra-organization value congruence effects, which are framed in terms of communication, predictability, interpersonal attraction, and trust. In sum, the literature has underscored the importance and demonstrated the effect of congruence between the values of employees and organizations (Chatman, 1989; Meglino & Ravlin, 1998).

2.3. Inter-organization value congruence

Due to values' relative stability and scriptedness, values can make organizations homogenous internally but externally heterogeneous or distinct from other organizations (Giorgi, Lockwood, & Glynn, 2015). In inter-firm relationships, firms may identify their partners' values and compare them with their own values (Moorman, Zaltman, & Deshpande, 1992). These values are manifest in a firm's goals, norms, and interests. In the intra-firm context, value congruence has two conditions: 1) the firm's values must be regarded as important or desirable; 2) the set of values must be shared by firm members (Enz, 1988a, 1988b). In the inter-firm context, value congruence refers to "the extent to which partners have beliefs in common about what behaviors, goals and policies are important or unimportant, appropriate or inappropriate, and right or wrong" (Morgan & Hunt, 1994, p. 25).

Our research is focused on manufacturers' perceived value congruence with their distributors. That is, a manufacturer evaluates its distributor's key values and principles and compares them with its own. We conceptualize and measure value congruence in terms of subjective fit, which involves the match between a manufacturer's own values and its perceptions of the distributor's values (Edwards & Cable, 2009). Consistent with this stream of value literature, value congruence is treated as "a perceptual construct that captures the espoused, recognized, explicitly stated, and socially defined levels of consensus" (Enz, 1988a, 1988b, p. 287). In a summary of value congruence research,

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