Kumara, S., & Bergstromb, T. (2008). An exploratory study of the relations between the U.S. manufacturers and their local distributors in developing markets

Abstract:

We develop and investigate a model of long-term, inter-firm relationships in three developing countries and develop international organizational relationship antecedent factors from the local distributor’s perspective. We sought to test these factors across three developing countries to see if manufacturers treated their local distributors differently in different environments.

A comprehensive survey was conducted in three developing countries; South Africa, India, and Pakistan. A total of 116 interviews were carried out with local distributors in these countries to test a conceptual model of the hypothesized relationships between satisfaction, perceived conflict, and use of coercion by distributor, use of coercion by manufacturer, role performance, and dependency. This study furthers our understanding of the relations between U.S. manufacturers and their local distributors.

Several key findings suggest ways to improve these relationships. From our study it was clear that manufacturers treat their local distributors differently in different settings. We show that the more developed a market was (a buyers’ market) the better a local distributor was treated and stronger the overall relationship. The local distributors in less developed markets were found to be treated worse and there was more antagonism in the relationship. Our sample was limited to 116 interviews with higher level managers who generally spoke English. We also limited our research to a very specific industry. Care should be given in extrapolating these results to other industries.

The paper elucidates the notion that U.S. companies do not always have the best relationship with their local distributors. If they wish to develop these markets more care should be given in developing long-term relationships built on trust.

Keywords: Supply chain, international distribution channels, organizational trust, international market network, factor analysis

This study focuses on a channel context that generally has been ignored in the channels literature to date; namely channel relationships involving the exchange of consumer products within sellers’ markets in developing countries. Based on this setting, this study has two main objectives.

First, we attempt to expand understanding of (1) the determinants of distributor dependence levels and (2) the linkages between dependence and the use of coercive strategies by the manufacturer and the dealer in the channel relationship, inter-channel conflict, and distributor satisfaction. The coercion, conflict, and satisfaction constructs have a prominent role in the operation and functioning of distribution channel relationships

The second objective of this study is to consider the nature of reciprocal actions in channel relationships. To address this issue, we link the use of coercive influence strategies by the manufacturer to the use of coercive strategies by the distributor. The types of coercive strategies employed, should reflect the level of dependency for the distributors and manufacturers.

The focus of the study was the household nondurable product industry. This sector was chosen for several reasons, most importantly;

2. Literature review

Two research questions stand out in the study of distribution channel relationships: “What is the basis for one firm’s ability to gain influence over the behavior of another firm?” and “What are the reactions of the target firm to the source firm’s influence attempts?”

The dependence of the target firm on the source firm (i.e. the target’s need to maintain the channel relationship in order to achieve desired goals) and the reciprocal actions that take place in the channel relationship (i.e. the actions taken by one firm in response to actions taken by the other) are among the more important constructs that must be examined in an attempt to answer these questions.

Since being introduced into the channel’s literature by Stern and his associates, based on pioneering work by Emerson, the dependence construct has had a reasonably prominent role in channels research. However, empirical evidence on the determinants and effects of dependence levels in channel relationships is mixed. Reciprocal actions in channel relationships have received much less attention in a relative sense. Although several channels researchers have developed theoretical arguments about the tendency of firms to reciprocate, only Frazier and Summers have addressed this issue empirically.

Dependence levels in Channel Relationships

Theoretical approaches. Based on Emerson’s work, two main approaches have been used to explain, in a theoretical sense, the basis for a target firm’s dependence in a channel relationship with a source firm. The dependence of a target firm on a source firm refers to the target’s need to maintain the channel relationship in order to achieve desired goals. The “sales and profit” approach was developed by El-Ansary and Stern. Sales and profit are two extremely important goals for all for-profit business organizations. In this approach, the greater the percentage of sales and profit contributed by the source firm to the target firm (i.e., the goal mediation component of dependence identified by Emerson), the greater the target’s dependence on the source. The target’s commitment to the source’s marketing programs and the difficulty of replacing the source were also considered to contribute to dependence levels by El-Ansary and Stern. The latter dimension reflects the availability-of-alternatives component of dependence identified by Emerson, as well as the costs of switching to another alternative.

Etgar; Brown, Lusch, and Muehling; Kale; and Anderson, Lodish, and Weitz also use the general sales and profit approach. Kale makes a contribution to the approach by considering, in addition to sales and profit levels currently contributed by the source firm, the target’s expectations of the sales and profit levels that will be generated by the source firm in the future. Whatever the current contribution of the source firm, what the target expects to occur in the future also should influence current dependence levels.

Developed by Frazier, based on earlier research efforts by El-Ansary and Stern; Hunt and Nevin; and Lusch; the “role performance” approach is the other main approach used in the channels literature to explain the basis for dependence levels. A firm’s role performance refers to how well it carries out its role in a channel relationship with another firm. Frazier provides the following rationale to explain how role performance will drive dealer dependence levels.

When a level of a source firm’s role performance is perceived as being high, the target should be highly motivated to maintain the exchange relationship. Furthermore, the higher the perceived role performance of a source, the fewer the alternatives that should be available to the target to replace it sufficiently.

How well role performance reflects the difficulty of replacing a firm in terms of availability of alternatives and switching costs is a matter for future research, as suggested by Frazier. Frazier and Summers and Skinner and Guiltinan also use the role performance approach. Additionally, the “comparison level” and “comparison level-alternatives” rationale developed by Anderson and Narus, appears to be very similar to the role performance approach, especially in an operational sense.1 Anderson and Narus note the similarity between these concepts and dependence theory.

A third conceptual approach recently has been developed to explain the basis for dependence levels in channel relationships. Drawing on insights from dependence theory and transaction cost analysis, Heide and John hypothesize that a target firm’s dependence on a source firm in a channel relationship is heightened by transaction-specific investments by the target and reduced by bonding behaviors (i.e., offsetting investments) that the target undertakes with its customers.

Hypotheses

To determine if there was a clear difference in the dependency levels and reciprocal actions across distribution channels in countries of differing levels of development, six hypotheses were chosen to be tested: dependence, role performance, manufacturers’ use of coercive strategies, dealer use of coercive strategies, the degree of conflict in the relationship, and satisfaction.

H1. Dependence: is the degree to which a distributor needs to maintain its relationship with a manufacturer.

This reflects the number of competing distributors there are and/or the number of alternative manufacturers available to the distributor. The higher the level of dependency should indicate a lesser developed market.

H2. Role Performance: this is what the manufacturer is willing to do to maintain this relationship.

The more they are willing to do, the fewer distributors are available and the more competition for the manufacturer. We would expect to see greater role performance by the manufacturer in more developed markets.

H3. Manufacturers’ use of coercive strategies: The use of coercion indicates the manufacturer has the upper hand in the relationship. This reflects less competition for the manufacturer and greater competition for the distributor. We expect to see a higher level in less developed markets.

H4. Distributors’ use of coercive strategies: The use of coercion indicates the distributor has the upper hand in the relationship. This reflects less competition for the distributor and

H5. The degree of conflict in the relationship: This reflects just how much tension the distributor is willing to put up with. The greater amount shows the manufacturer has the upper hand and reflects a less developed market.

H6. Satisfaction: Reflects the overall approval of the channel relationship. A higher level would indicate a relationship that benefits both parties. This would indicate a more developed market.

We have developed a-Priori Model of distribution channel relationships in sellers’ markets (see Fig. 2).

This conceptual framework is based on the prevailing view in the literature and specifically the work of Frazier, Gill, and Kale [31] and also these hypotheses.

Measures

Multiple-item rather than single-item indicators were used whenever possible to avoid item response bias and enhance measure development for future channel research. Use of such items was constrained, however, by the time required to complete the personal interviews.

Multidimensional composite indices [35] were created for the distributor dependence, relations, and use of coercive influence strategy constraints. These indicators are best described as “checklist” indices, where each item represents a single dimension and “more” of the construct is defined as higher frequency or intensity across its “dimensions”. To the degree that each relevant dimension of a construct is not included in a composite index, that index would be incomplete and considered a poor measure. Two-item measures (unidimensional), rather than indices, were used to assess perceived conflict and distributor satisfaction in the channel relationship. A single-item indicator of distributor dependence also was included in the survey form (

Dependence. Distributor dependence is the degree to which a distributor needs to maintain its relationship with a manufacturer in order to achieve desired goals. Pre-study interviews with distributors in South Africa suggested that their dependence on a specific manufacturer is based primarily on four elements: 1) a distributor’s current level of sales from the manufacturer’s products as a percentage of its total sales, 2) a distributor’s current level of profit from the manufacturer’s products as a percentage of its total profit, 3) a distributor’s anticipated sales from a manufacturer’s products as a percentage of its total sales in the near future, and 4) a distributor’s anticipated profit from a manufacturer’s products as a percentage of its total profit in the near future.

Distributors were asked what percentage of their current annual sales and profit was accounted for by the manufacturer in question. They were then asked, “Over the next five years, do you expect your average annual sales from (the manufacturer’s) products as a proportion of your overall annual sales to increase, remain about the same, or decrease?” The same type of question was asked for profit. If the dealer indicated either an increase or a decrease, he was asked to indicate by what percentage. Each of these measures was standardized to have a mean of zero and a standard deviation of one.

The dealers were also asked to respond to the following item: “I am largely dependent on this manufacturer for achieving my goals in term of sales and profit.” A 7-point scale ranging from “strongly disagree” (1) to “strongly agree” (7) was used in this measurement.

Role Performance. Pre-study interviews identified five basic elements of the manufacturer’s role in the channel relationship in a buyers’ or sellers’ market: (1) product quality, (2) allocation and delivery of goods, (3) reimbursement for unsold or damaged merchandise [28], (4) inter-firm assistances (e.g., operation manuals, training programs), and (5) cooperativeness of the manufacturer’s representatives [8].

Each distributor indicated how well his manufacturer or its representatives perform in comparison with industry average performance on each role element (-5 = very poor through 0 = average performance to 5 = very good). The performance ratings are to be summed to yield an index of manufacturer on an index of manufacturer role performance in the channel relationship, with higher scores indicating higher role performance.

Manufacturer’s use of coercive strategies. Pre-study interviews and previous research [56] indicated that manufacturers tend to use three types of coercive influence strategies in their interactions with distributors: threats, promises, and legalistic pleas. Previous research suggests a fair degree of agreement among researchers on the conceptual definitions on these strategies:

– Threat strategy: The source suggests or implies to the target that it will apply negative sanctions should the target fail to conform to its desires (e.g. less cooperation in the future) [7,60].

– Promise strategy: The source agrees to provide the target specific rewards contingent on the target’s compliance with its desires.

– Legalistic plea strategy: The source suggests or implies that the dealer dealership agreement and/or other considerations require the target’s compliance on certain issues.

Reference

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