

# Relationship Marketing and Distribution Channels

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*The interest of practitioners and academics in channel relationship management has shifted from corporate channel structures and relationships in conventional channels governed by use of power to relationships between independent firms involving contractual and normative control mechanisms. In this article, we identify several factors leading to this change of interest, propose a scheme for classifying channel relationship research based on control mechanisms, and suggest areas for future research involving the use of contractual and normative control mechanisms in conventional channel relationships.*

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Channel management research and practice has long recognized the importance of managing relationships between the people and firms performing distribution functions—functions that create value by making products and services available to customers in an appropriate form at the right place and time. However, the growing interest in relationship marketing suggests a shift in the nature of general marketplace transactions from discrete to relational exchanges—from exchanges between parties with no past history and no future to exchanges between parties who have an exchange history and plans for future interactions.

As Macneil (1980, p. 60) indicates, pure discrete transactions are rare in business exchanges. Almost all channel transactions have some relational elements that can be used to coordinate channel activities and manage relationships between channel members (see Frazier 1983; Gaski 1984;

Reve and Stern 1979; Hunt, Ray, and Wood 1985 for reviews).<sup>1</sup> Thus relationship marketing is not a new concept in the practice and study of channel management. However, the interests of both practitioners and academics have shifted from approaches used by one firm, typically the manufacturer, to coordinate channel activities to approaches for stimulating cooperative efforts between independent channel members.

The objective of this article is to outline the nature of the shift in channel research attention and review some of the key issues related to this new direction. This article focuses on research associated with relationships between suppliers and intermediaries such as wholesalers and retailers. Direct relationships between suppliers and end users, either consumers or business firms, are discussed in other articles in this issue.

In the next section, a framework for categorizing relationship-oriented channel management research is presented and used to highlight the shift in focus that has occurred. After offering some thoughts on why this shift has occurred, directions for future research in channel relationships are reviewed. The purpose of this article is to identify key unresolved issues in channel relationship management, not to provide a detailed literature review or a comprehensive theory on the development and maintenance of channel relationships.

## FRAMEWORK FOR CHANNEL RELATIONSHIP MANAGEMENT RESEARCH

Table 1 offers an approach for classifying channel relationship management research based on the method or mechanism used to control and coordinate the channel activities performed by people and firms in *ongoing* relationships. The framework is based on control mechanisms because the method used to control and coordinate channel

activities is a fundamental decision variable for managing the distribution channel.

The two columns indicate the context in which the control mechanisms are used—a vertically integrated, corporate channel and a conventional channel composed of independent firms.<sup>2</sup> This ownership distinction is critical because there are inherent conflicts of interest in conventional channels. Each firm in a conventional channel has a fiduciary responsibility to maximize its stockholder value. Although a channel member may consider the interests of other parties in making its decisions, ultimately each channel member's stockholders will require the firm's managers to focus on the firm's long-term financial performance. In corporate channels, employees and departments performing the various activities might have different personal goals, but they have a common set of stockholders and thus a common corporate objective.

### Control Mechanisms

The rows in the matrix identify three control mechanisms used to coordinate activities in corporate and conventional channels—authoritative, contractual, and normative. These control mechanisms parallel the three basic intraorganizational mechanisms suggested by Ouchi (1979)—hierarchical, market, and clan.<sup>3</sup>

*Authoritative control.* The authoritative mechanism involves one party in the relationship using its position or power to control the activities of the other party. In a corporate channel, the nature of the employment contract legitimizes the use of this authoritative control mechanism. The firm and its managers have a right to control the activities of subordinates by initiating policies and using supervision to insure that the policies are implemented. Examples of research examining authoritative control in a corporate (intraorganizational) setting are the use of promotion from within staffing policies (Ganesan and Weitz 1994) and various supervision styles (Teas and Horell 1981) to control salespeople activities.

In a conventional channel setting, one party controls channel functions by controlling the activities of the other party through the use of power. The opportunity to control other channel members arises from an imbalance in resources—the more powerful channel member has greater resources that are highly valued by the less powerful channel member. There is an extensive body of research on the use of authoritative control and power (cf. Gaski 1984) in a conventional (interorganizational) context.

*Contractual control.* The contractual control mechanism involves an agreement by the parties in a relationship on terms that define their responsibilities and rewards for performing channel activities. These contractual terms can be established by one party or through a negotiation process involving both parties. The terms are defined a priori and can be accepted or rejected by the parties involved. They may also be changed during the contract period when circumstances change. Agency theory offers a perspective on how such contractual terms should be developed under

conditions commonly encountered in channel relationships such as uncertainty, differential information, and risk preferences (Bergen, Dutta, and Walker 1992).

Incentives based on performance (cf. John and Weitz 1989; Coughlan and Senn 1989) represent the use of a contractual control mechanism in a corporate setting, whereas research on franchise agreements (cf. LaFountaine 1992; Lal 1990) and vertical market restraints such as territory exclusivity (Desiraju 1994) are examples of research examining this control mechanism in a conventional channel setting. In both of these contexts, the parties agree on the set of activities that each will perform, policies and procedures that they will adhere to, and the rewards that they will receive for performing these activities and following these policies.

*Normative control.* Normative control involves a shared set of implicit principles or norms that coordinate the activities performed by the parties and govern the relationship. In an intraorganizational context, these norms constitute a firm's organization culture. The activities of the employees are coordinated through shared beliefs. Employees learn about these norms and are encouraged to conform with them through informal communications with fellow employees. Deshpande and Webster (1992) outline some research questions and issues concerning normative control in corporate channel context.

A similar control mechanism operates in conventional channel contexts. Norms governing relationships in a conventional channel are learned through past interactions and marketplace reputations. For example, these norms might indicate how the parties will make trade-offs between long- and short-term profit opportunities (long-term orientation norm), the degree to which the other parties' interests are considered in making decisions (fairness norm), the nature and quantity of proprietary information exchanged (openness norm), and the conditions under which prior commitments can be altered (flexibility norm). Although the impact of relationship norms have been examined in an industrial buying context (Heide and John 1992), research of this control mechanism needs to be conducted in channel relationships.

*Unilateral and bilateral control.* Heide (1994) makes a distinction between unilateral and bilateral control or governance mechanisms based on whether both parties participate in making decisions concerning the relationship. Using this distinction, the authoritative control mechanism in Figure 1 involves unilateral control by definition. Power is typically defined as the degree to which one party can influence another party to undertake an action that the other party would not have done.

The exercise of power does not always have negative consequences for the less powerful party. The more powerful party might undertake actions that improve coordination and thus result in benefits for both parties, but the less powerful must rely on the more powerful party to share the increased benefits fairly.

The contractual control mechanism involves aspects of both unilateral and bilateral control. It is unilateral in the

sense that one party, typically the manufacturer or franchisor, establishes the contractual terms governing the relationship. However, it is bilateral in the sense that both parties accept the initial terms and negotiate any changes in terms occurring during the relationship.

Normative control is clearly bilateral in that the norms are accepted and adhered to by both parties. Each party in the relationship may not adhere to the same norms, but there are some metanorms outlining the norms to which each party will adhere.

*Use of multiple control mechanisms.* Typically, multiple control mechanisms are used to coordinate the activities in actual channel relationships. Multiple mechanisms are needed because each mechanism has unique positive and negative effects on a relationship. For example, the authoritative control mechanism, the use of power, can be very effective in communicating the specific activities that need to be done and how they should be done. But the unidirectional nature of the communications also can cause conflict because the needs of the party receiving the direction may not be adequately considered. On the other hand, the normative control mechanism typically involves the consideration of both parties' needs and mutual acceptance of norms governing behavior in the relationship. However, because these norms are not codified, there may be ambiguity in the expectations concerning activities to be undertaken by the parties. These ambiguities may result in inefficient coordination due to miscommunications.

Due to the differential impact of these control mechanisms, firms may use multiple mechanisms to more effectively manage relationships. For example, the negative aspects of the use of power may be dampened by the development of relationship norms outlining the appropriate use of power, such as the specific activities over which the party wielding the power will influence the activities of the other party and the degree to which the more powerful party will act unilaterally in matters affecting the financial performance of the weaker party.

Research on channel relationship control mechanisms typically focuses on one of the six cells in Table 1. The research examines either a conventional or corporate channel context and draws on theoretical developments and empirical findings uniquely associated with one of the three control mechanisms. This focusing on a single mechanism is consistent with the need to narrow the range of a research project in order to examine it in sufficient depth. Research is needed to improve our understanding of the trade-offs associated with each of these control mechanisms and how these mechanisms are, and can be, used in tandem to improve short- and long-term relationship performance.

## SHIFTING FOCUS OF CHANNEL RELATIONSHIP RESEARCH

In the mid-1960s, considerable attention was directed toward the concept of vertical marketing systems (Bucklin 1970). A vertical marketing system is a "centrally pro-

**TABLE 1**  
**Channel Relationship Management Research**

<i>Control/ Coordination Mode</i>	<i>Corporate Channel— Vertical Integration</i>	<i>Independent Firms Performing Channel Functions</i>
Authoritative Contractual	Rules, Policies, Supervision Incentive Compensation	Power <b>Terms and Conditions, Franchising Relationship Norms— Trust</b>
Normative	Organization Culture	

NOTE: Bold-faced terms indicate relationships in conventional channels that involve contractual and normative control mechanisms.

grammed network [that is] preengineered to achieve operating economies and maximum market impact" (McCammon 1970, p. 43). Coordination is achieved through a plan developed by the executive responsible for channel management in a vertically integrated firm or a channel leader or captain in a conventional channel. Typically, the channel leader is the most powerful party in the channel and uses its power to insure that its plan is implemented. Thus vertical marketing systems focus on a control mechanism associated with centralized planning and decision making in a corporate channel or by the use of an authoritative control mechanism in a conventional channel (nonsolid terms in Table 1).

The focus of channel relationship management practice and research is shifting away from vertical market systems and authoritative control toward examining relationships in conventional channels that involve contractual and normative control mechanisms—solid terms in Table 1. Three factors have contributed to this shift: (1) the growing disenchantment with vertical integration, (2) the consolidation and increasing power of intermediary channel firms—retailers and wholesalers, and (3) the recognition of opportunities to gain strategic advantage through the management of channel activities.

## Inefficiencies in Vertical Integration

In the 1960s, it was fashionable for businesses to increase sales through unrelated diversification. For example, Sears expanded by acquiring real estate and stock brokerage firms. With increased international competition and stockholder demands for improved returns, firms began to refocus their attentions on their core business and "stick to their knitting" (Peters and Waterman 1983). Greater financial returns could be achieved by exploiting unique sources of competitive advantage rather than managing a portfolio of unrelated businesses.

This focus on core competencies was extended to a reexamination of which channel functions should be performed by a firm and which should be procured from independent firms (Mallen 1973; Anderson and Weitz 1986). The resulting interest in "outsourcing," using conventional channel structures to perform channel functions, has increased as firms recognize the inefficiencies in managing activities for which they lack adequate scale or

distinctive competencies. For example, Kmart uses independent trucking firms to ship merchandise between its suppliers and its warehouses and stores. The trucking firms have unique expertise in managing transportation activities and greater opportunities to reduce costs through back loads. Although Kmart sacrifices some coordination opportunities by using independent trucking firms, the benefits of greater coordination through vertical integration may not be great with respect to the performance of this channel activity.

Thus channel management attention has shifted from corporate to conventional channels. Retailers are less interested in backward integration into manufacturing, and manufacturer interest in forward integration into retailing has also diminished. Rather than relying on vertical integration to coordinate channel activities, firms are exploring approaches for managing channel activities performed by independent firms in conventional channels.

In addition to an increasing interest in examining relationship management in conventional channels, we need to develop a better understanding of the strategic implications of this trend toward outsourcing. Marketing scholars have examined the vertical integration issue in channels, but little attention has been directed toward these outsourcing issues. Researchers need to identify the nature of the value-added activities that are most appropriate for outsourcing and the advantages and disadvantages of outsourcing. For example, are network organizations such as Nike, which are characterized by heavy outsourcing except for a few key activities, likely to be winners due to their flexibility or will they have difficulty developing a strategic advantage due to their inability to have exclusive control over key activities that create value for their customers?

### **Power of Intermediary Channel Firms**

The use of an authoritative control mechanism, power, has been the primary management approach examined in marketing research for achieving coordination in conventional channels. Research has identified different types of power and explored the functional and dysfunctional effects of power. However, the use of power as a coordinating mechanism is limited to asymmetric relationships—relationships in which one channel member is more powerful than another.

Although there are examples of retailers and wholesalers using authoritative control mechanisms, in general, manufacturers, through their size and scale economies, have assumed the leadership role in managing conventional channels. Most channel management research has taken the manufacturer's perspective and examined the impact of manufacturer policies and behaviors on channel operations and performance. However, this manufacturer-dominated perspective needs to change.

Much has been written about the shift in power from the manufacturer to the retailer in the consumer packaged-goods channel. Ten years ago, if a supermarket chain executive wanted to speak to someone from P&G other

than a salesperson, they flew to P&G's corporate headquarters in Cincinnati. Now P&G executives regularly visit Wal-Mart's headquarters in Bentonville, Arkansas where 50 P&G employees are permanently stationed.

The growing importance of retailers, and wholesalers in some industries, reflects a consolidation of the distributive trades made possible by new information, communication, and transportation technologies. Traditionally, the retailers and wholesalers have focused on local or regional markets surrounding their outlets or warehouses. In contrast to manufacturing, economies of scale were limited and the industries were highly fragmented. Even large retailers like Sears and Federated adopted a very decentralized management approach. However, the development of mass media, new transportation methods, and sophisticated management information systems have enabled retailers and wholesalers to achieve scale economies through more centralized management. These scale economies have led to the rise of national retail chains and wholesalers that are large enough to challenge the dominance of manufacturers over the distribution channel.

In addition to the increasing power balance in channel relationships, there is some evidence that asymmetrical relationships are inherently unstable (Anderson and Weitz 1989) and less profitable for one party in the relationship (Buchanan 1992). When channel members are not able to realize an adequate financial return due to the unilateral control exercised by the channel leader, they are less committed to the relationship and seek alternative, more rewarding relationships.

Thus manufacturers may no longer be able to rely on the use of an authoritative control mechanism to coordinate channel activities. The increased power of channel intermediaries has shifted attention from unilateral to bilateral control mechanisms for managing symmetrical relationships between powerful, independent channel members (Heide 1994).

### **Strategic Advantage Through Channel Relationship Management**

Manufacturers, distributors, and retailers have recognized that the management of distribution channel activities offers significant opportunities for firms to create strategic advantage and achieve extraordinary financial performance. Channel activities are a major source of valued-added benefits to end users—greater than the value added by other marketing activities. Due to this substantial added value potential, firms can develop competitive advantage by reducing the costs of performing these activities or using distribution activities to differentiate their offering.

Recent reports suggest that inventories in the packaged goods/supermarket value distribution channel can be reduced by \$30 billion by improving the information exchange and coordination in this conventional channel (McAlister 1994). In light of this substantial potential cost reduction, it is surprising that marketing scholars and other academics have devoted so little attention to understanding

the benefits of relationship marketing in this channel context. The primary investigators of the implications of improving coordination in this channel have been consulting companies. Reminiscent of the Total Quality Movement, marketing scholars have been watching the world evolve rather than leading or even participating in the evolution.

In addition to developing relationships to improve channel efficiency, a number of firms traditionally focusing on research and development (R&D) and production to gain strategic advantage are recognizing that channel management offers a basis of advantage. Dell Computer, the fifth largest designer and manufacturer of personal computers, considers its direct-mail distribution skills as its key source of competitive advantage—not its new product development and manufacturing capabilities.

In 1994, three giant pharmaceutical manufacturers—Merck, SmithKline Beecham, and Eli Lilly—spent more than \$12 billion to purchase three mail-order distributors—Medco, Diversified Pharmaceutical Services, and the PCS Division of McKesson, respectively. These channel intermediaries have unique resources, the most important of which are their exceptional information systems, which contain databases linking patients, physicians, managed care organizations, pharmacies, third party payers, and pharmaceuticals prescribed. Merck, SmithKline, and Eli Lilly have historically been R&D-oriented companies. The acquisitions demonstrated each company's conclusion that distribution holds the key to its future. The acquisitions also signaled that each company felt it was unable to meet the challenges of the emerging health care environment on its own—that is, that its existing distribution skills were inadequate.

These two examples of creating strategic advantage through channel management involve vertical integration. Dell and the pharmaceutical companies decided to manage the development, production, and distribution functions under their corporate umbrella. Previously, we suggested that attention is shifting from such corporate channels to conventional channel management. However, these examples raise an important issue—to what extent can firms go beyond increasing efficiency to develop competitive advantage by managing relationships in conventional channels?

The ultimate impact of relationship marketing in a channel context may differ from its impact in supplier-manufacturer, manufacturer-consumer, or strategic alliance contexts. In these other contexts, exclusive relationships commonly occur. Manufacturers have sole-source relationships with key suppliers, and consumers are loyal to one brand in a product category. However, assortment is a key benefit offered by retailers and wholesalers and thus these channel members usually deal with multiple competitive suppliers in a product category to satisfy the needs of their customers.<sup>5</sup> Hence, even though P&G has a “partnering” relationship with Wal-Mart, the relationship will not develop to the point that Wal-Mart only offers laundry detergents made by P&G or that P&G only sells their packaged goods through Wal-Mart.

Problems can arise when channel firms attempt to enter into multiple relationships with competitive suppliers.<sup>6</sup> Suppliers may be concerned about sharing sensitive infor-

mation with other channel firms, even if the information is useful in coordinating activities, fearing that the information will be revealed to competitors. Thus the need to provide assortment might limit the degree to which trusting and committed relationships can develop and strategic advantage can be achieved through relationships in conventional channels.

In the preceding sections of this article, a scheme for categorizing channel relationship management research is presented. This scheme, based on control mechanisms, was used to describe the evolving interests of business and academics and discuss some factors driving this evolution. The following sections of this article examine channel research findings and directions for future research related to the bold-faced terms in Table 1—channel relationships governed predominantly by mutually accepted explicit contractual terms or implicit norms as opposed to relationships governed by the use of authoritative control.

## RESEARCH ON BILATERAL CONTROL IN CHANNEL RELATIONSHIPS

### Theoretical Research

Conceptual research has identified a set of dimensions characterizing business relationships in general (Dwyer, Schurr, and Oh 1987; Macneil 1980) and, more specifically, channel relationships governed by authoritative (unilateral) versus normative (bilateral) control (Heide 1994). In addition, researchers have suggested the stages in the development of business relationships and how the nature of relationships changes during this evolutionary process (Frazier 1983; Dwyer, Schurr, and Oh 1987).

Although this theoretical research provides a broad conceptual framework identifying the relationship characteristics and development stages, we need to build on this base to develop and test theories that provide prescriptive insights concerning the development and maintenance of bilateral relationships and relationship norms. Theoretical research needs to examine the potential unique aspects of channel relationships in contrast to the other types of interorganizational relationships discussed in this special issue. Can theoretical developments related to interorganizational relationships be applied to channel relationships? What, if any, alterations need to be made or additional factors considered in order to adapt these broad theoretical developments to channel relationships? For example, previously we suggested that the need to deal with competing suppliers to provide assortments may differentiate channel relationships from other forms of interorganizational business relationships.

### Limitations of Economic Theories

As discussed by Heide (1994), theoretical perspective developed in economics, transaction cost analysis (TCA), and agency theory may not be useful in providing new insights on these issues. Both TCA and agency theory are narrowly focused, addressing a limited set of control and coordinating actions affecting channel relationships. In

addition, both theories focus on one firm making decisions to maximize its profits (unilateral control) rather than two firms working together to maximize the profit generated by the relationship as well as their individual profits (bilateral control).

TCA, in a channel management context, is primarily concerned with defining the role of transaction specific investments in determining whether a channel activity will be most efficiently performed in a corporate versus conventional channel structure. The theory ignores interdependencies between the firms and takes the perspective of minimizing transaction costs incurred by a single firm, not the costs incurred by both firms in the transaction (Zajac and Olsen 1993).

The primary contribution of TCA to developing and maintaining relationships in conventional channels is the use of idiosyncratic investments to commit the parties to maintaining the relationship (Williamson 1983). These mutual idiosyncratic investments or exchange of "hostages" provide an economic incentive to maintain the value of these assets through preservation of the relationship. However, channel research has identified additional factors that serve to preserve relationships such as trust and commitment (Anderson and Weitz 1992; Morgan and Hunt 1994), contractual terms, relationship history, and reputation (Heide and John 1990; Anderson and Weitz 1989).

Agency theory focuses on the use of contractual terms to control and coordinate channel relationships. The principal-agent structure implies the use of unilateral control by the principal versus bilateral control in which both parties participate. For example, in some agency theory models, the principal offers a menu of contracts to the agent. The selection made by the agent reveals information not possessed by the principal—information that is used to maximize the profits of the principal, not both parties in the relationship.

Given the narrow, unilateral focus of TCA and agency theory, we need to explore other avenues for theory development concerning channel relationships. The following section suggests the consideration of theories concerning interpersonal relationships and the development of theory based on the observations of channel relationships.

#### Theories of Interpersonal Relationships

Research on the development, maintenance, and dissolution of interpersonal relationships might provide useful insights for developing theories concerning channel relationships. For example, the stages in interorganization relationships discussed in Dwyer, Schurr, and Oh (1987) are based on research investigating the development of interpersonal relationships.

As with all analogies, interpersonal and interorganizational channel relationships are similar in some respects and differ in other respects. For example, the general objective of parties in interpersonal and interorganizational relationships is to derive benefits from the relationship that they would not be able to achieve on their own. However, the specific objective of channel relationships is to maximize long-term financial returns for their stockholders, whereas the parties in interpersonal relationships

seek to maximize their utility, which can include noneconomic rewards and even altruistic rewards derived from increasing their partner's utility. Simply identifying the similarities and dissimilarities might provide insights into the nature of conventional channel relationships and the norms governing these relationships. In the following sections, we suggest some specific research findings on interpersonal relationships that may be useful in developing a better understanding of channel relationships.

The theoretical and empirical research on interpersonal relationships is extensive (cf. Blieszner and Adams 1992; Cate and Lloyd 1992; Duck 1994a, 1994b). Although there are some problems in applying interpersonal relationship research in an interorganizational domain, the interpersonal relationship research certainly is applicable to the relationships between the boundary-spanning employees involved in channel relationships—interpersonal relationships that have an important impact on the nature of interorganizational relationships (Larson 1992).

#### Grounded Theory

Descriptive information about channel relationships in the real world offers an important source of data for theory development that has not been exploited. We need to develop a better understanding of what firms are doing to effectively manage channel relationships. After all, most of the innovative channel coordination mechanisms such as franchising were developed by managers searching for a solution to a problem, not by academics. Competition in the marketplace has sorted out the good and poor solutions to channel coordination issues.

It is disappointing that qualitative research in marketing has focused primarily on consumer behavior and not examined marketing activities within a firm or the relationships between firms (for an exception see Workman 1993). Such research can be very valuable for identifying the norms that support conventional channel relationships (see Larson 1992). Similarly, descriptive information on the situations in which specific contractual terms and vertical market restraints are used in governing channel relationships could be the basis for developing theory concerning the use of these control mechanisms.

#### Empirical Research

The limited empirical research on conventional channel relationships involving bilateral control mechanisms suggests that (1) trust, commitment, and idiosyncratic investments and other pledges play an important role in the governance of conventional, bilateral channel relationships and that (2) communications, negotiations, and the use of influence strategies differs in bilateral (equal power or dependency, goal congruence) versus unilateral (unequal power or dependency) relationships.

##### Trust, Idiosyncratic Investments, and Commitment

Empirical research suggests that channel members who are committed to a relationship perceive the relationship to be characterized by trust, commitment, and idiosyncratic investments as well as perceived benefits, good

communications, satisfactory prior interactions, shared values and goals, functional conflict, balanced power or dependency, and limited opportunistic behavior (Anderson and Weitz 1989, 1992; Anderson and Narus 1990; Ganesan 1994; Heide and John 1988; Morgan and Hunt 1994).<sup>7</sup> Although this research appears to suggest a causal ordering among these constructs, the research results just describe the characteristics of committed relationships between conventional channel members. For example, one could argue that cooperation is an antecedent to, rather than consequence of, trust and commitment (Morgan and Hunt 1994) or that commitment and a long-term orientation lead channel members to make transaction-specific investments rather than investments causing commitment (Anderson and Weitz 1989, 1992; Ganesan 1994).

This uncertainty about causal ordering arises because these empirical studies collect cross-sectional data examining a relationship at one point in time. But, as we will discuss later, relationships probably develop incrementally. For example, a small investment in the relationship by one party might increase the trust of the other party. With greater trust, the other party makes a larger investment that increases the trust of the first party.

Thus the empirical research on channel relationships characterizes the relationships at one point in time but does not provide much insight into the factors leading to the development of the relationship or the effectiveness of the relationships. Only two studies, Heide and John (1988) and Buchannan (1992), have investigated the performance of conventional channel relationships, and both of these studies focused on the impact of dependency balancing as opposed to the impact of relational norms and attitudes on relationship performance.

#### **Communications, Use of Influence Strategies, and Negotiations**

The research on communication processes in channel relationships suggests that the nature of the communication strategies used by a channel member is reciprocated by the other channel member in the relationship. For example, the use of noncoercive strategies by one party creates a supportive atmosphere in the relationship that leads the other party to use noncoercive influence strategies. Even in channels in which one party is more powerful, there is a tendency for the powerful channel member to use collaborative communication strategies characterized by greater frequency, bidirectionality, informality, and noncoersiveness; however, this use of collaborative strategies increases as the relationship becomes more balanced (more equal in terms of dependency) (Frazier and Rhody 1991; Frazier and Summers 1984, 1986; Frazier, Gill, and Kale 1989; Ganesan 1993; Mohr, Fisher, and Nevin 1994).

Most of this research does not explicitly examine the impact of control mechanisms or attitudes toward the relationships or the communication patterns in the relationship. However, Ganesan (1993) examined the nature of negotiations as a function of the long-term orientation

of the channel toward the relationship. He found that a long-term orientation reduces the use of active aggressive negotiating strategies; however, the impact of a long-term orientation on the use of problem-solving strategies is moderated by the level of conflict and the importance of the issue being negotiated.

Although the extant research provides insights into the characteristics of committed conventional channel relationships and the nature of communications in channel relationships, it does not provide much information about how or why these relationships develop, how they are maintained, and what the performance consequences of using relational norms as a control mechanism are. Some questions concerning bilateral channel relationships that need to be addressed are: Why and when should a firm attempt to develop long-term channel relationships? What norms can be established to govern continuing relationships in conventional channels? With whom should firms seek to develop relationships? How should a firm initiate long-term channel relationships and develop norms? What behaviors can be undertaken to maintain channel relationships and strengthen the development of relationship norms? What is the role of contractual terms such as territory exclusivity and exclusive dealing in initiating and maintaining channel relationships? Why and when should these contractual terms be used? To what extent can a truly strategic relationship develop in a conventional channel context? Why do channel relationships dissolve? Does the use of norms to control a channel relationship increase the financial performance of the relationship and the performance of the individual parties? In the following sections, some issues related to these research questions are discussed.

### **RESEARCH ISSUES IN THE COORDINATION AND CONTROL OF BILATERAL RELATIONSHIPS**

Some potential areas for future research on bilateral channel relationship research discussed in this section are the motivation for developing relationships, the selection of partners, the role of idiosyncratic assets and strategic relationships, and the development and maintenance of relationships. The section concludes with some methodological issues concerning channel relationship research.

#### **Motivation for Developing Relationships and Selecting Partners**

Channel members make risky investments to develop conventional channel relationships. These investments are the human capital, the time and effort of employees, required to develop the mutually accepted control norms and tangible assets that are discussed in the following section.

##### **Returns for Channel Relationships**

Channel members make these investments with the expectation of realizing a fair, risk-adjusted return. This return may involve increased profits for the channel mem-

bers by providing superior value to end users and/or a reduction of the risks confronted by the parties in the relationship.

Risk reduction is a potential benefit of channel relationships (Achrol and Stern 1988). However, the use of a normative control mechanism to establish long-term channel relationships might increase uncertainty in returns because it reduces flexibility. The norms governing the relationship commit the parties and thus one of the parties might face an opportunity loss by not being able to alter its relationships in response to a change in its environment.

Channel members face two sources of uncertainty or risk in making these relationship investment decisions (e.g., Helper and Levine 1992). First, the parties in the relationship might not realize a fair return on their investment. The relationship might not increase profits by reducing the cost or increasing the benefits to end users or reduce uncertainty in supply or distribution. Second, even if the investments increase channel effectiveness, a specific channel member might not receive its fair share of the increased risk-adjusted returns. The first source of uncertainty is associated with the "size of pie" produced by the relationship, whereas the second source of uncertainty is associated with how "the pie will be divided" between the parties in the relationship.

#### Selecting Channel Partners

When selecting relationship partners, a channel member needs to consider both the potential increase and certainty in the profits realized through the relationship and the certainty of receiving a fair share of the increased profits. Two key factors associated with increasing profits due to the relationship are the degree to which the partners have synergistic capabilities and the potential for exploiting these capabilities.

The rationale for a relationship is earning returns that could not be achieved without engaging in the relationship. Thus we would expect relationships to develop between channel members possessing unique capabilities that enable the channel members to provide a superior value to end users toward which they are both targeting their offering. For example, a manufacturer of high-quality jewelry would be motivated to develop a relationship with a jewelry retail chain with stores that complement the manufacturer's image and employ sales associates that provide the service expected by the manufacturer's target market. The relationship is synergistic in that it combines the supplier's capability in designing merchandise and developing a high-quality brand name with the retailer's capability to offer a high-quality jewelry assortment that attracts customers and provides appropriate services for these customers.

- P1: A channel member will seek to develop relationships with firms offering synergistic capabilities that it does not possess.

In addition to complementary capabilities, channel members need to select partners with whom they can work together effectively. If the parties do not possess similar values, beliefs, and practices, they will be less likely to

exploit the potential synergies in their capabilities. In the previous example, if the jewelry manufacturer had a hierarchical organizational culture and the jewelry retailer had a participative organizational culture, the firms may have difficulty working together and accepting norms to govern their relationship.

- P2: A channel member will seek to develop relationships with firms having similar values, beliefs, and operating practices.

A final consideration in selecting a partner is the confidence the channel member has in receiving a fair share of increased profits generated by the relationship. Confidence is a function of the trust the channel member has in the partner. This trust is based on the partner's reputation and past interactions with the channel member. For an interesting discussion of fairness norms in relationship development see Ring and Van de Ven (1994).

- P3: A channel member will seek to develop relationships with firms that have a reputation and history of fairness and consideration.

#### Idiosyncratic Investments

A major contribution of transaction cost economics is identifying the problems that arise when idiosyncratic, or transaction specific, investments are involved in an exchange relationship. Idiosyncratic assets resulting from these investments are specific to a relationship. The key feature of these assets is that they are not fully fungible. They cannot be redeployed easily to another channel relationship and thus their value decreases if the relationship does not continue. Some examples of these idiosyncratic investments in channel relationships are training personnel to sell and service the unique features of a supplier's product, designing an information and distribution "quick response" system that minimizes the inventory a retailer needs to have in stock and minimizes stock outs, and linking a supplier and retailer in the end user's mind through common advertising and promotion.

Transaction cost economics has focused on the potential costs that can occur in channel relationships involving these idiosyncratic investments. When a distributor makes an idiosyncratic investment in a supplier's product line, the distributor is committed to the relationship. The supplier might take advantage of this situation by raising its price or reducing its service. The distributor will tolerate some increases in its cost because it realizes that discontinuing the relationship will reduce the value of its idiosyncratic assets.

This focus on potential cost increases fails to recognize the potential value created by these idiosyncratic investments (Zajac and Olsen 1993). These idiosyncratic investments have the potential for creating synergies that result in a strategic advantage for the channel members in the relationship over competing channel relationships. For example, by making investments to learn each other's business and link their information systems, JCPenney and

Levi Strauss can offer jeans at lower cost with higher quality and fewer stock outs than Lee selling through Sears.

Although idiosyncratic investments in channel relationships have the opportunity for increasing the size of the pie, problems arise in the allocation of increased profits generated by the investments. If the idiosyncratic investments are asymmetrical, the party making the lowest investment has less stake in the relationship and an opportunity to extract greater profits by threatening to discontinue the relationship. These uncertainties in the division of the increased profits may lead parties in conventional channels to be overly cautious in making these idiosyncratic investments (Helper and Levine 1992). The transaction cost economics solution to this problem is vertical integration in that the division of the pie is not a problem when the parties performing channel functions are owned by the same corporation (Williamson 1985).

However, firms in conventional channel relationships do make idiosyncratic investments in the relationship. We need to develop a better understanding of how firms deal with the uncertainties and potential opportunistic behaviors in making these decisions. Heide and John (1988) examine one approach used by channel members to safeguard these idiosyncratic investments, but more research is needed.

## Relationship Development

As noted earlier, much of the empirical channel research to date has focused on identifying important characteristics of bilateral control: trust, commitment, idiosyncratic investments, and characteristics of effective communication. An important direction for future research in advancing our understanding of bilateral control mechanisms is improving our understanding of the processes that lead to relationships characterized by these constructs. To date, there has been little empirical investigation into how intentions, expectations, and information are communicated within a channel dyad, aside from direct influence attempts.

It is only within the last decade that researchers have begun to develop conceptual frameworks of how channel relationships develop. Dwyer, Schurr, and Oh (1987) and Frazier (1983) draw heavily on the channels literature and social exchange theories to posit a process by which channel relationships are formed and dissolved. More recent attempts (e.g., Larson 1992; Shapiro and Byrnes 1991) employ qualitative, inductive approaches to gain insight into the relationship process. Essentially, the conceptualizations and qualitative studies indicate that channel relationships move through a series of phases: awareness, exploration, expansion, commitment, and dissolution. The problem with this sequential stage approach is that there is a tendency to ignore at an individual level the strategies, mechanisms, and behaviors employed in actually bringing about movement from one stage to the next. One researcher notes:

Those who treat close relationships as constituting merely a succession of states, of causal events, have failed to recognize its nature as a formative movement, of which Plato (in *Phaedrus*) was already shrewdly aware—"a cause whereby anything proceeds from that which is not, into that which is," (Plato). It is a creative process involving novelities. . . . It is the imaginative order and its function in producing "images," "paradigms," and "figures" in terms of which to give form to one's feelings, and the use of such forms in guiding the developmental movements involved in personal (and social) transformations that are ignored, derided and ultimately repressed by current empirical approaches aimed at understanding (for the purpose of their management) interpersonal relations. (Shotter 1987)

Given the limited research in marketing on channel relationship processes, one way to begin stimulating thought in this area is to consider research that has already been accomplished on similar processes in other contexts. Because interorganizational relationships are composed of boundary-spanning individuals who interact and communicate on a regular basis, examining interpersonal relationship developmental processes is a logical place to begin thinking about interfirm relationship dynamics.

A number of different conditions can initiate interpersonal and interorganizational relationships. These relationships may start with a chance interaction between boundary-spanning employees, preexisting friendships, or an active search to locate a firm possessing needed resources (Oliver 1990). The potential relationship starting points are associated with different levels of information about the parties—information that is needed to form relationship norms and trust.

- P4: Channel relationships will develop more quickly when the parties have prior economic and social ties.

Relationships between parties that are strangers develop incrementally. The relationship begins with informal communications that may lead to small exchanges of sensitive information or a minor economic transaction. Trust plays a minor role in these early stages because little risk is involved (Van de Ven 1976).

In the early stages of a channel relationship, norms, rules, and other understandings are established that help to build a form of "metacommunication" (Bateson 1972), an understanding of how messages should be received, filtered, and understood within the dyad. Individuals follow implicit rules that allow them to communicate their desire to continue the relationship, allow it to develop further, and allow the partner to respond in kind.

During these early phases, parties in channel relationships concentrate on assessing the potential transaction growth that might occur as a result of working closely together (Larson 1992). By following implicit rules about

dyadic behavior, the parties are capable of distinguishing between and developing different types of relationships at very early stages.

### Communication

Parties communicate interest and assess partner worthiness by means of active (direct) and passive (indirect) strategies, depending on the efficiency of the strategy and its social appropriateness (Berger 1979; Berger and Bradac 1982; Berger and Calabrese 1975; Berger, Gardner, Parks, Schulman, and Miller 1976). Active strategies may take the form of question asking, disclosure, and relaxation of the other party. As the parties sense potential for a more strategic relationship, the topic of discussion typically moves away from superficial matters to discussion of idiosyncratic domains such as attitudes, future goals, and intentions (cf. Baxter and Wilmot 1985). This process allows the parties to develop dyadic norms and interaction styles that will enable them to communicate very efficiently in the future and provides a basis for the development of trust. A number of studies on marketing research users and providers indicates that as trust and involvement between the parties increase, the information shared becomes increasingly comprehensive, accurate, and timely (Bialeszewski and Giallourakis 1985; Dwyer, Schurr, and Oh 1987; Moorman, Zaltman, and Deshpande 1992; Schurr and Ozanne 1985; Zand 1972).

Although a relationship's development may feature selective instances of direct communication between the partners, these instances are embedded in—and rely heavily on—a dominant pattern of indirect, or passive, communication that allows the parties to gather information in an unobtrusive manner. This mode of communication affords efficiency in achieving goals with minimized threat to the face of the user; it allows the parties to play a delaying, holding game that enables them to determine what is acceptable behavior while simultaneously perpetuating the illusion of agreement until the relationship is on firmer ground and able to cope with difference and conflict.

Partners can indirectly communicate their attitudes and feelings with regard to the relationship's development via their actions in addition to their verbal behaviors. For example, channel members who seek to make a relationship increasingly strategic are likely to engage in extensive planning of meetings, attend a higher frequency of meetings, and use more inference, interpretation, and comparison of new information with existing information (cf. Miell and Duck 1986). Additionally, a partner might communicate trust by engaging in confiding behavior, keeping confidences, expressing similarity in agreement, and adapting to the other partner by keeping conversational rules and allowing the other partner to control the conversation as appropriate (Bell and Daly 1984). Alternatively, channel members who seek to restrict the relationship's development would tend to act in a restrained, polite manner, restrict the range of topics appropriate for discussion, and limit the frequency of meetings.

Baxter and Wilmot (1984) have identified "secret tests" in an interpersonal context that allows one party to test the

other's feelings concerning the worth of relationship investment. In a channel relationship, a buyer might use an "endurance" test such as a decrease in purchases to gauge the depth of the distributor's commitment. Alternatively, the buyer might use a "triangle" test, in which a situation is created that involves a real or hypothetical alternative supplier that could replace the present supplier. This test allows the buyer to assess the supplier's loyalty to the relationship. A "separation" test may occur when the buyer discontinues contact for a period of time in order to monitor whether and when the supplier initiates interaction with the buyer. Information about the other party's attitudes toward the relationship might also be obtained by observing the other party in situations involving various contexts, expectations, and pressures (Berger 1979; Berger and Calabrese 1975).

- P5: In early stages of the relationship, channel members communicate interest and assess partner worthiness by engaging in direct or indirect strategies.
- P5a: Active strategies such as question asking and disclosure are used to initially assess the other member's interest in and future relationship potential.
- P5b: Indirect strategies such as observation, endurance, triangle, and separation tests are employed to help members gauge the partner's commitment, loyalty, and initiating responses.

### Norms

Norms are expectations about behavior that are at least partially shared by a group of decision makers (Gibbs 1981; Moch and Seashore 1981; Thibaut and Kelley 1959). These norms are critical to establishing dyadic metacommunication because they help foster the enactment of predictable, interaction scripts. In the early stages of the relationship, individuals may follow universal norms of politeness, conflict avoidance, and the exchange of superficial information (Altman and Taylor 1973; Clark and Mills 1979). In discrete exchange, norms contain expectations of individualistic or competitive interaction between members.

Over time, norms of fairness and honesty can help to develop and stabilize interorganizational relationships such that the relationship's exchange norms include expectations of mutual interest and joint welfare (Larson 1992). In this way, the relationship may come to be governed by norms of good faith, implying that members are obligated to accept benefits that are less valuable than those given, keep less accurate counts of returns, and forgive instances in which the other partner has forgotten to repay debts or failed to help. Hence norms help to curtail behaviors that promote individual goal attainment over relationship goals.

However, norms can also lead to false conclusions concerning the other party and less effective outcomes

during early stages of the relationship. For example, Longley and Pruitt (1980) show that agreements reached in early stages of a relationship's development are typically less integrative than agreements reached in later stages or in relations between people who don't know each other. This is because parties in a relationship who are attracted to each other but distrustful of the other's feelings tend to operate under a norm of conflict avoidance, which in turn creates a sense of false cohesiveness. Fry, Firestone, and Williams (1979) also provide evidence for this notion among dating couples.

- P6: Norms are used to provide a context for how verbal messages should be filtered, received, and understood in the developmental stages of the channel relationship, and they serve as a general protective device against opportunistic behavior.

### Relationship Maintenance

Once channel members have established a relationship of frequent, ongoing exchange, the next challenge is to maintain or increase the level of rewards and benefits received from the relationship into the future. Institutionalization is the process that develops norms and values between the parties and permits the relationship to endure beyond the action of specific individuals involved. As relationships become institutionalized, (1) multiple personal relationships become more important than individual role relationships (e.g., purchasing agent and salesperson), (2) psychological contracts replace formal legal contracts, and (3) formal agreements mirror informal understandings and commitments (Ring and Van de Ven 1994). The institutionalization of relationships requires active attention and participation by both parties if the relationship is to endure in the long run. Several communication ethnographers, in their work on individual relationships, have noted the saliency of a "work" metaphor (Katriel and Philipsen 1981; Owen 1984); respondents often make references about "working on" their relationship or "making the relationship work."

#### Conflict Management

Conflict exists when one partner perceives the other partner as impeding the attainment of goals or some other function of concern (Etgar 1979; Stern and El-Ansary 1988; Thomas 1979). Although conflict can have negative effects on relationships (Anderson and Weitz 1992), it does not necessarily have to be destructive or disruptive to the relationship's development (Morgan and Hunt 1994), nor should it be interpreted as an indication that the relationship lacks the interdependence that characterizes close, strategic relationships (Braiker and Kelley 1979). Instead, conflict can often act as a source of novelty for the relationship, forcing it into new terrains that, if handled successfully, can strengthen the interpersonal relationship and cultivate greater trust, communication and relationship satisfaction, stability, and personal growth (Canary and Cupach 1988; Deutsch 1973; Lott and Lott 1965). Al-

though constructive conflict is not always guaranteed to "save" a troubled relationship, it can reveal incompatible values or changes in commitment that might otherwise have gone undetected.

Parties in a relationship are more likely to engage in constructive conflict resolution when they are equal in power; if power is imbalanced in the dyad, then the more powerful party has little incentive to engage in joint problem solving (Bach and Wyden 1968; Thibaut and Faucheux 1965). Even when balanced power exists, confrontation is never comfortable because both parties are usually motivated by the importance of the conflict and sensitivity between the pair is heightened.

Integrative resolutions are facilitated if the parties understand each other's motivational structure. Understanding can be developed by both explicit (direct talk) and implicit (indirect reference) exchange concerning member motives (Kimmel, Pruitt, Magenau, Konar-Goldband, and Carnevale 1980; Pruitt, Kimmel, Britton, Carnevale, Magenau, Peragallo, and Engram (1978). Explicit motivation exchange is more likely to lead to joint profit when both parties are high in cognitive complexity (Pruitt and Lewis 1977), possess an orientation that seeks maximization of joint benefit (Deutsch 1973), and reduce social distance (and hence, greater trust) between the members. Implicit motivation exchange may take on several forms. For example, one channel member (the initiator) might offer directional information, such as statements concerning how the other channel member (the target) might improve his/her position via specific changes on dimensions with regard to a particular matter, or the initiator might make statements of preference that give the target insight into the initiator's priorities.

Successful conflict handling does not necessarily mean that every conflict situation must be dealt with immediately. Postponement or even long-term avoidance of conflict confrontation does not always hold negative consequences (Fitzpatrick 1988); sometimes, by delaying discussion, the dyad is able to be in a better position (i.e., in terms of time and energy) to effectively deal with the conflict (cf. Bach and Wyden 1968). Conflict theorists (e.g., Hawes and Smith 1973; Krauss and Deutsch 1966) have noted that under certain conditions, ill-timed discussions can intensify, rather than reduce, conflict levels in a relationship.

- P7: Constructive conflict resolutions are more likely to occur when (a) power is balanced within the dyad and (b) individual members are oriented toward maximization of mutual benefit, are high in cognitive complexity, and trust each other and understand each other's motivational structure.

#### Communication

Much of the research on relationship maintenance points to two critical aspects that facilitate successful relationships in the long run: extended interaction and active listening. In a study of married couples, Baxter and

Wilmot (1985) reported that the most frequent maintenance strategies employed included increased interaction and time spent together. In mature relationships, couples strive to execute their role obligations more responsibly than in the beginning of the relationship, introduce novelty in order to offset the routine aspects of the relationship, and strategically avoid direct talk about the status of the relationship. A similar process is likely to occur between channel members. Once the dyad has established a meta-communication structure that includes shared norms and expectations, the members are likely to work toward executing aspects of their relationship more efficiently. As the relationship develops over time, interaction is likely to involve a wider range of topics discussed at a deeper level (Miell and Duck 1986). This not only strengthens dyadic trust (Samter and Burleson 1984) but also expands the parties' knowledge of each other's competencies, goals, and future expectations that could potentially lead to joint innovations, novel solutions to problems, and so on.

- P8: Communication that helps to maintain the relationship over time involves increased interaction and time spent together relative to early stages of the relationship. Topics of discussion are of a wider variety and deeper level than earlier in the relationship.
- P9: Members in mature relationships are skilled active listeners, able to communicate correct understanding of the message and emotions underlying posed questions.

### Role of People

Along with the growing interest in relational norms as a governance form, there has been an interest in the role of personal relationships between boundary-spanning members in the conventional channel. Personal relationships have been found to shape economic outcomes in interorganizational exchange in a number of contexts: the publishing industry (Coser, Kadushin, and Powell 1982), international joint ventures (Doz 1988; Håkansson and Johanson 1988; Walker 1988), and small to midsized textile firms in Italy (Lorenzoni and Ornati 1988).

In an inductive field study of dyadic relationships in high-growth entrepreneurial firms, Larson (1992) found that personal relationships shaped the context for new exchanges between firms by reducing risks and uncertainty about the motives and intentions of the other member. She also found that individual and firm reputations were important considerations in deciding whether to develop the interorganizational exchange relationship. Companies and individuals saw themselves as members of an inner circle or network within a broader industry circle. As a result, credibility and a positive reputation—for business and performance—were important attributes for coordinating exchange between firms. Hence social factors such as personal relationships and reputations (personal trust), coupled with a knowledge of the firm's skills and capabilities

(economic trust), were prime considerations in interorganizational exchange.

- P10: Personal relationships and reputations between boundary-spanning members play an important role in facilitating and enhancing interorganizational exchange.

The role of people and their importance in the governance of interorganizational exchange is virtually ignored by economic theories of exchange, such as TCA (Bradach and Eccles 1989; Granovetter 1985; Maitland, Bryson, and Van de Ven 1985; Perrow 1981). More work is needed that expands our understanding of how individual boundary-spanning members enhance or impede interorganizational outcomes. For example, one issue that has not been addressed is the effect of turnover among boundary-spanning members on interorganizational exchange. In industries such as insurance or financial services, individual relationships between representatives and customers may supplant customer ties to the firm. If representatives are fired or switch firms, sales may be lost permanently or transferred to competitors. To date, there is little work that addresses how firms can balance the need for personal relationship development between reps and customers as a means to attract and keep new business and the need to keep from becoming too dependent on the individual sales rep. Heide and John (1988) have discussed how the reps balance their dependency on the principal firm, but the converse has not been examined.

### Methodological Issues

With the increasing interest in channel relationships, interorganizational characteristics of the relationship, such as channel member commitment to the relationship rather than to the actions and beliefs of individual parties, play a central role in theory development and testing. This interest in relationship constructs at the interorganizational level presents some difficult methodological issues.

Numerous academics have called for collecting data from multiple informants to assess organizational constructs and for collecting dyadic data from both participants in a channel relationship. Some daunting practical problems arise in collecting this type of data and using it to develop measures of constructs.

First, collecting such extensive data is very difficult. The failure of some respondents to provide data can dramatically reduce the sample size of relationships that can be examined. Second, real problems arise when the responses by key informants in one firm do not agree with each other. These problems are amplified when the responses from two channel members differ about the nature of the relationship. For example, consider a study examining the relationship between mutual commitment and performance of the channel relationship. What should a researcher do when there is a difference of opinion between the respondents from parties about the degree of

mutual commitment in the relationship? Should the degree of mutual commitment be assessed by averaging the two sets of respondents, assuming one set of respondents is more accurate than another set, or by discarding all observations for which there is disagreement on the assessment of mutual commitment? Sound arguments can be made for rejecting all of these approaches when developing a good measure of mutual commitment. Using covariance structure analysis does not provide a solution to this problem. It simply offers a method for identifying when the problem arises.

In light of these problems, empirical research on channel relationships involving dyadic data typically has developed construct measures using data collected from only one party. Then relationships between these measures are estimated for each type of partner (suppliers and distributors) in the relationship using separate (cf. Anderson and Narus 1990) or combined (Anderson and Weitz 1992) analyses. We suspect that these methodological problems will impede empirical research on channel relationships.

## SUMMARY

Although relationships have always played an important role in channel management, the nature of the control mechanisms used to coordinate activities in these relationships is changing. Practitioners are placing more emphasis on using relational norms and attitudes such as trust and commitment to maintain continuity rather than the use of authoritative control mechanisms or vertical integration.

Although conceptual and theoretical research on channel relationships has provided insights into the nature of effective relationships, we need to develop a better understanding of how these relationships develop, how they are maintained, and how members in conventional relationships deal with the uncertainties in making idiosyncratic investments. In addition, we need to consider the unique nature of channel relationships and the needs of intermediaries in working with competing suppliers to offer assortments. This factor may limit the degree to which truly strategic relationships can develop in channel relationships.

Finally, research on channel relationships requires a refocusing of attention from the individual channel member to both parties in the relationship and the nature of the relationship. The use of dyadic data and relationship constructs raises some challenging issues in terms of research methodology.

## NOTES

1. In terms of channel activities, discrete transaction may occur in providing transportation and warehousing services. However, as discussed in the article, even these services are moving toward relational exchanges.

2. The traditional taxonomy used to describe channel structures is corporate, administered, and conventional. However, these categories are not precisely defined so that each relationship can be uniquely classified.

For example, relational exchanges that do not have a contractual basis are difficult to classify. The examples of administered channels usually involve well-defined programs or contractual (franchising) relationships. On the other hand, some authors equate conventional channels with discrete transactions. We are using the term conventional channels to simply indicate that the firms in the channel are independent businesses. The relationship between the firms in conventional channels may be governed by the use of power, contractual terms, and/or relational norms.

3. This parallelism between intra- and interorganizational control mechanisms is discussed in Heide (1994).

4. This perspective on contractual relationships involving predetermined, explicit terms and conditions reflects a classical view of contracts. The relational contracting perspective developed by Macneil (1980) can be viewed as an approach for codifying the relational norms associated with a normative control mechanism discussed in the next section.

5. In some channel relationships, the channel members agree to contractual terms like exclusive dealing or adapt relational norms to minimize these problems.

6. See Vilas-Boas (1994) for a discussion of this issue in the context of advertising agencies representing competing firms.

7. In this abbreviated literature review, we have only considered research involving relationships with channel intermediaries and ignored research on direct buyer-seller relationships in business-to-business marketing relationships.

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