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Response Strategies to Noncooperative Incidents in
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RESPONSE STRATEGIES TO NONCOOPERATIVE INCIDENTS IN INTERNATIONAL DISTRIBUTION PARTNERSHIPS

By

Chun Zhang

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ABSTRACT

RESPONSE STRATEGIES TO NONCOOPERATIVE INCIDENTS IN INTERNATIONAL DISTRIBUTION PARTNERSHIPS

By

Chun Zhang

The majority of studies on channel relationship management have focused on relationship characteristics and their determinants and outcomes. There is limited work, however, on how companies preserve distribution partnerships when threatened by incidents of noncooperation. Using an individual incident as the unit of analysis, this dissertation attempts to address questions including (1) what are the viable response strategies to noncooperative incidents (NCIs) in international distribution partnerships, (2) how do NCI attributions influence the use of response strategies, (3) how do response strategies affect channel equity, and (4) how are relationships dissolved in international distribution partnerships.

Borrowing from literature in institutional economics, channel governance and attribution theory, this research develops a model of response strategies to NCIs in international distribution partnerships. This model is tested using a cross-industry survey of U.S. manufacturers that export through foreign distributors. Furthermore, a legal case analysis is conducted to gain in-depth understanding of the process of relationship dissolution (exit response). A process model of relationship dissolution in international distribution partnerships is developed using an analysis of 25 legal cases.

The findings of the empirical research suggest that four types of response strategies (exit, adjustments of incentives, adjustments of socialization, and tolerance) are associated with different types of NCI attributions and influence the change in channel equity. Specifically, partner opportunism attribution is positively associated with the exit response strategy and negatively associated with tolerance. In contrast, external factor attribution is positively associated with tolerance and does not lead to the exit response. Furthermore, adjustments of incentives and adjustments of socialization are positively related to external factor attribution. More interestingly, adjustments of socialization and tolerance responses increase channel equity, whereas adjustments of incentives does not affect the change in channel equity.

In addition, the legal case analysis reveals that there are two types of relationship dissolution (exit) in international distribution partnerships: opportunistic and legitimate termination. These two types of termination are triggered by different NCIs and follow distinct paths to relationship termination. The implications of these research findings to channel academics and practitioners are discussed, and directions for future research are provided.

Dedicated to my parents who taught me the importance of education

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CHAPTER 1

MOTIVATION FOR THE STUDY

INTRODUCTION

The ability to form successful international distribution partnerships is a primary source of competitive advantage (Dyer and Singh 1998; Dunning 2002; Prahalad and Lieberthal 2003). In particular, the increasing imperative for U.S. firms to expand into overseas markets necessitates the formation of international distribution partnerships (Aulakh et al. 1996; Prahalad and Lieberthal 2003). In a recent article published by *Harvard Business Review,* Prahalad and Lieberthal (2003) state that to successfully compete in overseas markets, multinational companies (MNCs) have to change their mindset. Rather than viewing international markets simply as new markets for their old products, MNCs need to rethink and reconfigure their business models, including distribution strategies. Prahalad and Lieberthal (2003) assert that access to distribution channels is critical to success in international markets, and it cannot be taken for granted.

Despite the imperative of forming international distribution partnerships, it remains an unfulfilled promise. In fact, failure to form effective distribution partnerships contributes to the most disappointing track record of supply chain management (Sabbath et. al. 2002). A primary contributor to such partnership failure is noncooperative incidents (NCIs) and appropriate response strategies to such incidents (Hibbard et. al. 2001). Noncooperative incidents are defined as events where a distribution channel partner is perceived as failing to meet the implicit or explicit performance expectations of the other party. An example of an NCI is the case where JPMS, a manufacturer of Paul Mitchell hair- and skin-care products, perceived that its Chinese wholesaler and distributor, CDM, violated its restrictive distribution agreement by engaging in gray market activities.

When faced with NCIs that threaten partnership survival and development, distribution channel managers make on-going mistakes. Certain partnerships experience NCIs caused by opportunism. Managers often mistakenly remain in these partnerships without making adjustments to them. Other NCIs, however, are the result of environmental factors rather than opportunistic behaviors. Managers will often cast blame on each other rather than adopt a problem-solving approach. In fact, the decision to terminate a distribution partnership often appears to be made without identifying the cause of the NCI (Mariotti 1999).

Over the past two decades, literature addressing the creation and development of alliances/partnerships has seen substantial growth (e.g. Anderson and Narus 1990; Morgan and Hunt 1994; Dyer and Singh 1998; Srivastavas et. al. 1998). Much of this literature focuses on characteristics of successful partnerships (e.g. trust, commitment, and satisfaction) (Morgan and Hunt 1994; Anderson and Weitz 1992), the determinants of these characteristics (e.g. Donney and Cannon 1997; Ganesan 1994), and the performance implications of relationship marketing (e.g. Zaheer et al. 1998; Srivastava et. al. 1998; Sawhney and Zabin 2002). There is, however, limited work with regard to the preservation of alliances and partnerships when threatened by incidents of noncooperation (Jap and Anderson 2003). Jap and Anderson (2003) state that the occurrence of partner noncooperation is unavoidable in ongoing channel partnerships, despite channel managers' best efforts to erect governance mechanisms and eliminate them ex ante. Given this condition, it is critical to understand the effectiveness of response strategies to partner noncooperation.

PURPOSE OF THE STUDY

This study borrows from literature in institutional economics, channel governance, and attribution theory. A conceptual model of response strategies to noncooperative incidents is developed from the perspective of an NCI-receiving party. In particular, the objectives of this dissertation are three fold. First, a conceptual framework of response strategies to NCIs is developed, which delineates the relationships between response strategies and their primary determinants and outcomes. NCI attributions are considered as the primary determinants of the response strategies (March and Simon 1958). The outcomes of response strategies are operationalized by comparing levels of export channel performance (Bello and Gilliland 1997) and relational equity pre and post an NCI. The comparison levels of outcomes between pre and post incidents, as opposed to the absolute levels, are considered more appropriate to measure the consequences of the NCIs in marketing channels (Hibbard, et. al. 2001; Anderson and Narus 1984). This framework is tested using a large scale survey of U.S. manufacturers that export goods through foreign distributors.

Secondly, this dissertation develops a typology of response strategies to NCIs in marketing channels. Specifically, borrowing from Albert Hirschman's seminal work in "exit-voice-loyalty" and channel opportunism studies, this dissertation places the phenomena of relationship termination and recovery into a unified framework. In this framework, a comprehensive set of response strategies to NCIs are delineated, which include relationship termination, relationship recuperation through adjusting socialization and incentive structures, and tolerance.

Thirdly, this dissertation aims to gain in-depth understanding on the process of exit strategy. A process model of relationship termination is developed using an analysis of 25 legal cases. The process model delineates two types of relationship termination, their unique triggers, and the different processes they follow. This process model of relationship dissolution supplements our lack of understanding on the declining process of collaborative relationships, and addresses an important gap in the literature of channel relationship management (Dwyer, Schur and Oh 1987; Cox and Walker 1997).

CONTRIBUTION OF THE STUDY

This dissertation contributes to the literature of channel relationship management in the following ways: first, an individual incident is used as the unit of analysis, and attributions of such incidents in a focal international distribution partnership are investigated. In contrast, the majority of the existing literature on channel relationship management adopts a focal relationship as the unit of analysis, thus providing limited insights on the individual incidents that trigger relationship shifts. Using critical incidents as the unit of analysis, this study further investigates the dynamic process of partnership dissolution triggered by noncooperative incidents. In addition, the response strategies to such incidents are outlined.

Furthermore, this study introduces the concept of "adjustments of governance mechanisms," namely, the adjustments of socialization and incentive structures. Channel scholars have delineated governance mechanisms and extensively discussed the effectiveness of the individual and simultaneous use of such mechanisms (e.g., Heide

1994; Wathne and Heide 2000). Changes or adjustments of these governance mechanisms, however, are unavoidable despite the best efforts of channel managers at designing contracts and aligning partnership goals and values. This study measures the adjustment of governance mechanisms rather than the simple use of them, and argues that it is the constant adjustment of these governance mechanisms that eventually facilitates the growth of international distribution partnerships. Similarly, this study measures the change of relational equity, as opposed to the stock of this equity in a focal distribution partnership. It thus provides a dynamic view of how relational equity moves from one state to another, triggered by an incident of noncooperation. This understanding of the change of relational equity addresses the call for a better understanding of the relational equity developmental process (Srivastava et. al. 1998).

This dissertation is structured as follows: Chapter 1 illustrates the motivation and importance of the research. In Chapter 2, an overview of existing streams of literature on channel relationship management is provided, and the studies on channel noncooperation are highlighted. A conceptual model of response strategies to noncooperative incidents in international distribution channels is delineated in Chapter 3. In this chapter, literature on attribution theories, opportunism studies, and institutional economics are integrated to support the conceptualization. Chapter 4 presents the research design of the dissertation. In particular, two studies are incorporated in this dissertation, a quantitative survey research and a qualitative legal case analysis. The conceptual model is tested using the survey research method, and the legal case analysis is conducted to understand the process of relationship dissolution once exit has been selected as a response strategy. Chapter 5 contains the qualitative study in which 25 legal cases of international distribution partnerships are analyzed and common themes drawn to support a process model of relationship dissolution. This process model examines the evolving process of relationship deterioration in international distribution partnerships. In the second study (Chapter 6), the conceptual model is empirically tested using a survey of U.S. manufacturers that export goods through foreign distributors. This dissertation (Chapter 7) concludes with a discussion of the theoretical and managerial implications of the study's findings.

CHAPTER 2

THE THEORETICAL FOUNDATION

AN OVERVIEW OF RESEARCH STREAMS ON CHANNEL RELATIONSHIP MANAGEMENT

This section presents a review of three primary research streams concerning relationship management in marketing channels. These streams are: 1) transaction cost analysis, 2) power-dependence studies, and 3) relationship marketing literature. In particular, the phenomena of channel partner noncooperation discussed in each research stream are highlighted. These research streams provide a rich understanding of the phenomena of channel partner noncooperation and the control mechanisms of this noncooperation (Figure 1).

Transaction Cost Analysis and Opportunism

Transaction cost analysis (TCA) has been the dominant research stream in explaining governance mechanisms of marketing channels. Coase (1937) observes that it is not only the total costs, but also the transaction costs that determine transaction structures. He dichotomizes transaction structures into within firm (make) and across market (buy), and defines transaction costs as both actual costs and opportunity costs of transaction under various transaction structures. Williamson (1975, 1985) further advances Coase's arguments and states that certain dimensions of transactions give rise to transaction costs that allow the evaluation of alternative transaction structures or governance mechanisms of transactions. In particular, two types of governance mechanisms are emphasized: market, or transactions based on competitive market prices, and hierarchies, or exchanges relying on agreed-upon rules.

Under the condition of perfect competition, TCA considers that the market mechanism is more efficient than hierarchies given high-powered price incentives. However, the presence of marketing imperfection increases costs of monitoring and contract enforcement, and therefore calls for alternative governance mechanisms. In particular, TCA focuses on one type of market imperfection, the opportunistic behaviors between exchange parties. The hazard of opportunism is significant when transaction-specific investments are made to an exchange relationship (Williamson 1985). Transaction specific investments are physical or human assets dedicated to a particular relationship, and they are at risk of exploitation by opportunism. In order to safeguard these investments from opportunism, transaction parties are better off using hierarchies or vertical integration to govern exchanges. Hierarchies are considered to be efficient at monitoring and aligning goals and values of transaction parties, so as to eliminate the motivation of opportunism ex ante (Williamson 1985).

In addition, behavioral uncertainty and environmental uncertainty also contribute to the use of hierarchies versus market mechanism (Williamson 1985). Behavioral uncertainty refers to the lack of knowledge of whether contractual compliance has taken place, and gives rise to the problem of performance evaluation. Environmental uncertainty is defined as unexpected changes and circumstances surrounding an exchange. It poses the challenge of adaptation for transaction parties. As these factors rise and with the presence of transaction-specific investment, firms opt for hierarchical forms of governance in order to minimize transaction costs. Hierarchical forms of governance are considered to have the following three advantages over market mechanisms. First, hierarchical organizations have more powerful control and monitoring mechanisms than do market mechanisms, because they are able to measure and reward behaviors as well as outputs. As a result, a firm's ability to detect opportunism and facilitate adaptation is enhanced. Second, hierarchical organizations are able to provide rewards that are long-term in nature, such as promotion opportunities. The effect of such rewards is to reduce the payoff from opportunistic behaviors. Third, Williamson (1975) suggests that organizational atmosphere, such as culture and socialization processes, may create convergent goals between parties and reduce opportunism ex ante.

In summary, transaction costs are the primary concern of TCA. The theory's premise is that there are potential transaction costs associated with safeguarding, adaptation and performance evaluation processes, which determine whether to use market or hierarchical forms of governance exchanges. In particular, opportunism is a primary behavioral assumption of TCA, and it poses a safeguarding problem when an exchange relationship is supported by transaction specific investments whose values are limited outside of the focal relationship (Williamson 1985).

Williamson (1985) proposes that the behavioral motivations of economic man range from compliance to simply self-interest seeking and opportunism. Opportunism is considered the most severe form of self-interest seeking, or self-interest seeking with guile. In simple self-interest seeking, the economic man is motivated to maximize his own utility, and in opportunism, he does so by "incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse" (Williamson 1985, p.47). For example, an export manufacturer who has invested in training a foreign distributor may have difficulty replacing the distributor with a new one. The distributor can then exploit the situation opportunistically by demanding for more favorable price concessions.

A deceit or guile intention is central to the conceptual definition of opportunism (John 1984). What constitutes this deceit intention, however, has been a controversial issue among TCA scholars (Wathne and Heide 2000). In the original theory (Williamson 1975), opportunism is often viewed as a violation of an explicit contract. Later TCA scholars have modified the conceptual domain of the conventional view of opportunism to include behaviors that violate relational contracts (Wathne and Heide 2000). Wathne and Heide (2000) state that the precise meaning of opportunism under a relational contracting scenario has not been well developed. In particular, MacNeil (1981) defines the central concept of guile as taking advantage of opportunities despite principles and consequences. However, different disciplines have offered divergent perspectives on what defines the violation of principals and consequences. For example, economists place greater emphasis on consequences or outcomes, and legal scholars focus more on the principles themselves. From an economic perspective, an opportunistic party can violate contractual obligations either passively or actively. In the passive form of opportunism, the opportunistic party takes advantage of loopholes in a contract and withholds information or effort (Wathne and Heide 2000). For example, a foreign distributor can take advantage of the "best effort" or "minimal purchase" clauses in an international distribution agreement and shirk his or her promotion and sales effort (Lexis-Nexis legal). On the other hand, when opportunism is active by nature, the opportunistic party engages in behaviors that benefit themselves at a partner's expense.

For example, a foreign distributor can exercise unfair pricing practice by withholding the consumer discount received from a manufacturer (Lexis-Nexis Legal).

Although opportunism in these cases involves the violation of explicit contracts and results in economic consequences, legal scholars argue that opportunism is not necessarily defined on the basis of efficiency-related outcomes (MacNeil 1981). MacNeil (1981) further suggests that an opportunistic party can violate a set of principles or implicit agreements under a relational contracting scenario. These principles include norms such as the expectation of sharing benefits and burdens, restraints on unilateral use of power, and adaptation to changing circumstances. In essence, opportunism occurs when a transaction party violates either explicit contracts or implicit exchange norms. Furthermore, MacNeil (1981) also mentions that opportunism does not include other forms of self-interest seeking behaviors, such as hard bargaining, and intense and frequent disagreements. The essence of opportunism is the element of deceit involved.

Earlier TCA scholars (e.g., Williamson 1975; 1985) view opportunism as a fundamental assumption of human behavior, and hold that human beings behave opportunistically whenever such behavior is feasible and profitable. In other words, opportunism is not viewed as an endogenous human factor to be explained. Rather, it is simply assumed that unrestrained self-interest seeking with guile best characterizes humans, and that such behaviors will emerge to the fullest extent feasible and profitable (Wathne and Heide 2000). The opportunism assumption of human behavior, however, has been challenged by later studies of opportunism and social behaviors (John 1984; Granovetter 1985; Uzzi 1996; Montgomery 1998). These studies argue that the assumption of opportunism only provides an undersocialized view of exchange parties, but fails to predict behaviors such as cooperation in end games for non-reputation reasons. Hence, rather than being viewed as an assumption, opportunism needs to be treated as a dependent construct and studied explicitly. The phenomenon of opportunism is neither ubiquitous nor very unusual (Maitland et al. 1985).

In keeping with these ideas, an emerging stream of research in marketing channels has indexed opportunism explicitly and investigated the control mechanisms of opportunism (Dahlstrom and Nygaard 1999; Brown, Dev and Lee 2000; Wathne and Heide 2000; Jap and Anderson 2003). Dahlstrom and Nygaard (1999) suggest that in long-term contractual alliances, geographic distance, legal constraints, and local market characteristics often make vertical integration infeasible or undesirable. Under this condition, other forms of control mechanisms should be used to alleviate opportunism. In particular, two types of control mechanism are discussed in their study, interfirm cooperation and formalization. Interfirm cooperation is defined as the degree to which transaction parties coordinate their strategies to achieve marketing success. Formalization refers to the degree to which rules and procedures govern a focal relationship. Brown, Dev and Lee (2000) further investigate the individual and simultaneous effects of control mechanisms of opportunism. They delineate three types of control mechanisms: financial hostages in the form of transaction specific investments, relational contracts expressed through an on-going adaptation and exchanges of valuable information, and hierarchical forms of governance using ownership structures.

In an effort to integrate the existing perspectives on control mechanisms of opportunism, Wathne and Heide (2000) propose four primary types of control mechanisms, and discuss the inherent benefits and prerequisites of each. These four types are: monitoring, incentives, selection, and socialization. The monitoring and incentive mechanisms are the focus of early TCA work. The subsequent TCA literature augments the theory by suggesting that opportunism can be managed by selection and socialization efforts. Monitoring a transaction party's behavior or outcome can overcome the information asymmetry condition that serves as the primary driver of opportunism for two reasons. First, from a behavioral perspective, the monitoring process itself may place pressures on the transaction party and therefore facilitate compliance (Murry and Heide 1998). Second, from an economic perspective, monitoring increases the ability to detect opportunism, and potentially match rewards with the transaction party's behaviors in an appropriate manner. The ability of monitoring, however, is constrained by the facilitator of opportunism and acceptability of monitoring practice in a focal relationship. Monitoring is only effective when opportunism is caused by information asymmetry, and it loses its power under lock-in or the condition of asymmetric transactions of specific investments. Furthermore, monitoring can only mitigate opportunism if it is a permitted behavior by exchange parties, such as in employee relationships and integrated channels. When monitoring is applied to interfirm relationships or exchange relationships between independent channel partners, it may be perceived as a violation of cooperation norms and thus may give rise to opportunism (Wathne and Heide 2000).

Incentives align the individual interests of transaction partners, and reduce the payoff from opportunism. The goal of incentives is to create incentive structures so that the long-term benefits of cooperative behaviors outweigh the short-term gains from opportunism (Wathne and Heide 2000). If such incentive structures are designed properly, they can reduce opportunism in the first place. Incentives can take many forms, such as price premiums, and financial hostages. Incentives also possess inherent limitations. First, extracting incentives such as financial hostages may require a certain degree of bargaining powers (Rubin 1990). Using price premiums, although not requiring ex ante bargaining power, may create financial burdens for a transaction party, especially when it has to be matched across multiple cases. Second, for incentives to be effective, a transaction party must be able to observe outcomes and enforce incentives, and this situation becomes complicated when only indirect observations can be obtained.

The most direct way of mitigating opportunism is to select partners that are not opportunistically inclined, or who are inherently cooperative with regard to a particular task (Orbell and Dawes 1993; Wathne and Heide 2000). Selection can be implemented by either screening or using qualification programs in marketing channels. However, there are two potential limitations of selection. First, although selection ensures that a transaction partner possesses certain skills required to complete a task, it can not guarantee such skills will be used in a particular relationship. Second, selection criteria may change with market demands, and the skills of the incumbent transaction party may be outdated.

Socialization, as a control mechanism of opportunism, internalizes transaction parties' goals and values. Sociologists (e.g., Grannovetter 1985) argue that each transaction is embedded in a network of social relationships, and these relationships can reduce risks of opportunism. When appropriate socialization tactics are deployed, they can facilitate goal convergences and eliminate opportunism ex ante. The effectiveness of socialization at managing opportunism relies on its completeness, or its ability to promote values that apply across different contexts or situations (Montegomory 1998).

Transaction parties may have consistent goals in some aspects of the business but not in others.

In summary, TCA theorists and subsequent scholars have placed significant attention on the phenomenon of opportunism. A comprehensive set of control mechanisms of opportunism has been developed and their properties discussed (Wathne and Heide 2000). In particular, efficiency implications of a firm's choices of control mechanisms are explicitly stated in TCA. Furthermore, TCA views the problem of curbing opportunism and its solutions simultaneously, and focuses on ex ante elimination of opportunism (Rindfleisch and Heide 1997). Ex post response and adjustment of control mechanisms are not well elaborated in TCA literature.

Power-dependence Studies and Conflicts

In contrast to the efficiency and cost focus of transaction cost analysis, power dependence scholars emphasize the role of power and conflicts in integrated marketing channels (e.g. Stern 1969; Hunt and Nevin 1974; Reve and Stern 1979). They focus on the ways in which power dependence and conflict affect channel control and effectiveness, and how power influences intrachannel conflicts. According to power-dependence scholars, governance or channel relationship management is a matter of establishing and employing power and coordinating activities of channel members. The power-dependence literature was developed in the 1970s and 1980s when significant power imbalances characterized marketing channels. Manufacturers were often the dominant or more powerful parties in a marketing channel, and integrated channel structures, or channel structures in which a manufacturer owned its distribution channels, were pervasive. Therefore, the majority of power-dependence studies focused on a manufacturer's use of power and its ability to condition its channel members (Weitz and Jap 1995). Conflicts were viewed as a consequence of the imbalance of power between manufacturers and their channel members (e.g. Gaski 1984).

The near two-decades (1970-1990) of studies of power-dependence and conflicts in marketing channels have conceptualized channel power and conflicts, as well as generated numerous empirical studies concerning the relationships between power and conflict (for a review, see Gaski 1984). Emerson (1962) provides a classical definition of power: "the power of actor A over actor B is the amount of resistance on the part of B which can be potentially overcome by A" (Emerson 1962, page 32). According to Emerson, power is directly associated with dependence, and the dependence of actor A on actor B is: 1) positively related to A's motivational investment in goals mediated by B, and 2) inversely related to the availability of those goals to A outside of the A-B relation. In other words, dependence situations give rise to power, and power can cause the receiver to do something he or she would not have done otherwise (Gaski 1984). In addition, El-Ansary and Stern (1972) offer a definition of power in the context of marketing channels. According to El-Ansary and Stern (1972, page 47), the power of a channel member is "his ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution. For this control to qualify as power, it should be different from the influenced member's original level of control over his own marketing strategy".

Furthermore, power-dependence scholars have also discussed the sources of power. French and Raven (1959) discuss five sources of power that are considered most common: 1) reward, or the source of power that comes from administering positives and/or removing negatives; 2) coercion, or the ability to enforce punishment if there is a failure to conform to influence attempt; 3) legitimacy, or the power which stems from internalized values in actor A that dictate that actor B has a legitimate right to influence actor A, and that actor A has an obligation to accept that influence; 4) reference, or the identification of actor A with actor B gives actor B its power source; and 5) expert power, or actor A considers actor B to have knowledge and expertise in a given area and thus allows B to influence A. To simplify French and Raven's classification, channel scholars have frequently adopted the convention of dichotomizing power sources as coercive (punishment) and noncoercive (rewards) (Hunt and Nevin 1974; Lusch 1976; Wilkinson and Kipnis 1978; Gaski 1984).

In particular, coercive and noncoercive power sources have differential influence on channel conflict and satisfaction (Hunt and Nevin 1974; Lusch 1976; Gaski 1984). Hunt and Nevin (1974) found that noncoercive sources of power increase satisfaction, while coercive sources of power reduce satisfaction within the marketing channel. Lusch (1976) reported that noncoercive sources of power reduce intrachannel conflict and coercive sources increase conflict. Although there is a consensus among power-dependence researchers that causal effects between power and conflict can proceed in either direction, empirical work in marketing channels has consistently assumed power to be the causative factor of channel conflict (Gaski 1984).

Studies of power in marketing channels is often linked with conflict. Conflict is defined as "tension between two or more social entities (individuals, groups, or larger organizations) which arises from incompatibility of actual or desired responses" (Raven and Kruglanski 1970, page 70). In a marketing channel setting, conflict is "a situation in which one channel member perceives another channel member to be engaged in behavior that is preventing or impeding him from achieving his goals" (Stern and El-Ansary 1977, page 283). In other words, channel conflict is present when a channel member perceives that its goal attainment is impeded by another. A perception of a barrier to goal achievement is central to the definition of channel conflict. Concerned about the lack of consensus on the exact nature of conflict phenomena, (Pondy 1967) integrates diverse views on conflict, and develops a process model of conflict. The process model has been widely adopted in marketing channel conflict studies (Brown and Day 1981; Gaski 1984). Pondy (1967) suggests five conflict stages: latent conflict, perceived conflict, felt conflict, manifest conflict, and conflict aftermaths. Manifest conflict has received dominant attention in marketing channels (Brown and Day 1981). Manifest conflict is defined as a behavior that frustrates the goals of at least some of the other participants (Pondy 1967). This definition acknowledges that an actor engages in manifest conflict when he or she has control over his or her behavior, and this behavior frustrates the goal attainment of others. The actor may deliberately do so to prevent the others from achieving their goals, or he may do so in spite of the fact that he frustrates another (Pondy 1967).

Due to the prevalence and importance of manifest conflict in marketing channels, Brown and Day (1981) critique limitations in existing measures of manifest conflict, and develop a comprehensive scale of measures. Specifically, manifest conflict is operationalized by the frequency and intensity of disagreements between channel members and the importance of issues about which they disagree. After empirically evaluating the reliability and validity of these measures, Brown and Day (1981) conclude that a measure combining frequency, intensity, and importance multiplicatively is superior to the other existing measures of manifest conflict.

Manifest conflict is considered unavoidable as long as the conditions of functional dependence and divergent interests between channel members are present (Gaski 1984). In order to reduce manifest conflict in marketing channels, scholars have addressed conflict resolution mechanisms (March and Simon 1958; Dant and Schul 1992). These researchers address the issue of conflict resolution primarily from the perspective of the dominant or more powerful party in integrated marketing channels. In particular, Dant et al. (1993) summarize the conflict resolution mechanisms into two types: institutionalized mechanisms and behavior mechanisms. Institutionalized mechanisms represent policies implemented by the channel leader to address conflict in a systematic and on-going manner, for example, the use of joint membership in trade organizations or arbitration boards. Behavioral mechanisms are the activities or processes that underlie the institutionalized mechanisms. They include behaviors and actions initiated by channel leaders in their attempt to resolve conflicts within or beyond the scope of existing institutionalized resolution mechanisms. In particular, following March and Simon's (1958) classification, Dant et al. (1993) discuss four types of behavioral mechanisms in integrated marketing channels. These behavioral conflict resolution mechanisms are problems solving, persuasion, bargaining and politics. Problem solving and persuasion are adopted under the conditions that channel members share common objectives and the benefits of cooperation are evident to at least one party. Problem solving aims to identify a solution that satisfies both partners' decision criteria, while persuasion attempts to alter the other party's perspective or move the other party toward a common set of goals. On the other hand, in bargaining and politics, no common goals are expected between channel members and a zero-sum orientation is assumed. Threats, promises, positional commitment and gamesmanship may be used in bargaining, and in politics, third party potential allies are included. In particular, politics frequently involves the failure to solve conflicts by interpersonal means.

In summary, power-dependence literature emerged in a period when marketing channels were characterized by a significant level of power imbalance between manufacturers and other channel members. From the perspective of a more powerful party, usually a manufacturer, power-dependence scholars investigated the sources of power, and their roles of coordinating channel activities and reducing channel conflict. In particular, the majority of power-dependence empirical studies examine channel conflict as an outcome of power, and address the resolution mechanisms of manifest conflict that can be adopted by a dominant channel party. A transaction party's motivation of initiating manifest conflict is not a major concern of power-dependence studies.

Relationship Marketing and Relational Governance Mechanisms

In the past three decades, there has been a fundamental shift in research on marketing channels. The operating environment of marketing channels has changed significantly, which has resulted in a shift in focus from the exercise of power and control over channel members, to the construction of mutually beneficial relationships (e.g. Morgan and Hunt 1994; Weitz and Jap 1995). Several fundamental changes in the operating environment of marketing channels are responsible for this shift in focus. First, an increased rate of technological innovation has raised the risk of innovation, and interfirm collaborations are increasingly utilized to offset this risk (Inkpen 1998). Second, globalization has resulted in more cross-border transactions than ever before, and these transactions are being conducted in a multitude of operating environments. This increased level of complexity, combined with intensified competition has resulted in an exponential increase in the importance of timely and relevant market information. Gaining valuable market information through forming partnerships with international channel members is becoming a major source of competitive advantage (Prahalad and Lieberthal 2003). Third, the consolidation of distribution channels has also marked the changes in the operating environment (Weitz and Jap 1995). Traditional channel relationships were governed through the authoritative control of manufacturers due to their size and the economy of scale. Developments in communication, information technology and transportation, however, have enabled the emergence of national and global distribution channels, and increased the interdependence between manufacturers and distributors. This increased interdependence requires the management of mutually beneficial partnerships over the use of unilateral authoritative control (Weitz and Jap 1995).

In this new context of forging cooperative channel partnerships, relationship marketing researchers have addressed critical issues with regard to achieving channel cooperation success. In contrast to TCA's focus on efficiency and discrete exchanges, MacNeil (1980) introduces his seminal work on relational contracting theory. The theory focuses on relational exchanges and norm-based governance mechanisms. Exchanges are classified into discrete and relational exchanges, and the latter accounts for the historical and social context of exchanges. MacNeil (1980) further proposes 12 types of relational exchange norms that governed channel relational exchanges. Dwyer, Schurr and Oh (1987) introduced these relational norms into marketing literature. In particular, they discuss the process of relational exchanges and develop a five-stage model of relationship development. In this model, Dwyer et. al. (1987) delineate the transitions and distinctions between each relationship phase, and evaluate benefits and costs of relational exchanges.

In the 1990s, relationship marketing literature moved into a mature stage with numerous studies addressing the social and relational elements that facilitate relational exchanges (e.g., Anderson and Narus 1990; Heide and John 1992; Morgan and Hunt 1994; Heide 1994; Weitz and Jap 1995). Among these elements, the constructs of trust, commitment and relational norms have received significant attentions from marketing channel scholars. These scholars have offered several definitions of trust and investigated its underlying components (Anderson and Narus 1990; Gulati 1995; Ganesan 1994; Morgan and Hunt 1994).

Anderson and Narus (1990) define trust as a firm's belief that its transaction party will perform actions that will result in positive outcomes for the firm, and will not take unexpected actions that would result in negative outcomes. Similar to this definition, Gulati (1995) points out that the essence of trust is to alleviate opportunism. In his study, trust is referred to as a type of expectations that alleviates the fear that one's exchange partner will act opportunistically. Furthermore, Ganesan (1994) argues that trust has two distinct dimensions: credibility, the extent to which the partner has the required expertise, and benevolence, the extent to which the partner has motives or intentions beneficial to the focal firm. Consistent with Ganesan's definition, Morgan and Hunt (1994) refer to trust as the confidence in an exchange partner's reliability and integrity. Furthermore, these two components of trust were found to have differential effects on a firm's long-term orientation in partnerships in Ganesan's study. A positive relationship was only found between long-term orientation and credibility trust, not benevolence trust (Ganesan 1994).

Another concept closely related to trust in marketing channels is commitment. Anderson and Weitz (1992) define commitment as the desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship. Similarly, Morgan and Hunt (1994) view commitment as the belief that an on-going relationship with a transaction party is so important as to warrant maximum effort in maintaining it. Relationship marketing literature has further investigated the determinants and consequences of trust and commitment (e.g. Donney and Cannon 1997; Ganesan 1994; Morgan and Hunt 1994; Zaheer et. al. 1998; Sawhney and Zabin 2002). A classic study of trust and commitment by Morgan and Hunt (1994) finds that trust is dependent on the level of communication and the absence of opportunism and that commitment is determined by an evaluation of benefits and costs of a focal relationship. Furthermore, trust and commitment are distinct constructs: trust determines commitment, and they both are cornerstones of channel cooperation.

Relationship marketing scholars have also further investigated the role of relational norms in mitigating opportunism and coordinating marketing channels (Brown, Dev and Lee 2000; Heide and John 1992). Relational exchange is characterized by the norms that promote cooperation and the joint benefits of the relationship (Heide and John 1992). A set of frequently cited norms includes norms of flexibility, information exchange and solidarity (Heide and John 1992; Zhang, Cavusgil and Roath, 2003). Heide and John (1992) define flexibility as a bilateral expectation of willingness to make adaptations as circumstances change. For example, in the exchange between a manufacturer and foreign distributor, the relationship will be subject to modifications if a prescribed practice proves detrimental to one or both parties under changed situations. Information exchange defines a bilateral expectation that parties will proactively provide information useful to the other partner. It provides a safeguard for manufacturers and distributors in the sense that each can expect the other to provide information that may affect their operations. This assurance enables transaction partners to cope better with the vulnerability related to environmental uncertainty and transferred control. Solidarity defines a bilateral expectation that a high value is placed on the relationship. It prescribes behavior directed toward relationship maintenance. Solidarity improves transaction efficiency by deterring transaction partners from behaving in ways that jeopardize the continuity of the relationship (Heide and John 1992; Zhang, Cavusgil and Roath 2003).

These norms function as an effective control mechanism of opportunism in the absence of market and hierarchy governance structures, and also may facilitate the implementation of the more traditional TCA governance mechanisms. In particular, relational norms can align the interests of transaction partners and restrict opportunistic behavior (Heide 1994; Nevin 1995). Consequently, relational norms may provide an effective way to safeguard transaction-specific assets. Furthermore, Heide and John (1992) propose that relational norms can enhance a firm's ability to achieve effective governance as applied in the TCA framework. This is because it is not feasible for independent firms to gain vertical control and safeguard relationship-specific assets against opportunism that are at risk when relational norms are absent.

In summary, a major theme remains the mitigation of channel opportunism in the relationship marketing era. Several scholars have theorized and tested the associations between channel opportunism and the relational governance mechanisms or norms (e.g. Brown, Dev and Lee 2000; Heide and John 1992). Channel opportunism is considered more detrimental to achieving competitive advantage in a time when substantial value is placed in collaborative partnerships. Furthermore, relationship marketing scholars delineate the key relational elements that characterize cooperation success, trust and commitment. They further offer an elaborated discussion on the determinants and performance implications of trust and commitment. Limited emphasis, however, is given to the change of trust and commitment, as opposed to the overall level of these two constructs (Srivastava et. al. 1999).

AN EVALUATION OF LITERATURE STREAMS ON CHANNEL RELATIONSHIP MANAGEMENT

Overall, the three channel research streams address the phenomenon of channel noncooperation, and provide a rich understanding on the rationale behind structuring and managing marketing channels. From the perspective of economics, transaction cost analysis focuses on efficiency and costs of transactions, and delineates transaction attributes that give rise to one governance mechanism versus another (Williamson 1985). In particular, the original theory of transaction cost analysis dichotomizes governance choices into market versus hierarchies, and discusses advantages and disadvantages of each. Opportunism is a central concern of transaction cost analysis. The value of transaction-specific investments needs to be safeguarded against the hazard of opportunism (Williamson 1985).

In contrast to the economic considerations of cost and efficiency in TCA, power-dependence studies build on the sociology literature, and address the behavioral concerns of structuring marketing channels. In particular, channel structure is viewed as a process of exercising power and exerting control over channel members. Multiple sources of power are discussed and their implications for other behavioral variables investigated (Gaski 1984). Specifically, channel conflict is treated as a primary consequence of the use of coercive power (Gaski 1984). Power-dependence further delineates stages of channel conflicts and discusses the resolution mechanisms of manifest conflict.

The relationship marketing literature evolves out of a time when channel cooperation and partnerships are of critical value. This stream of research builds on findings from TCA and power-dependence, together with insights from contract law literature (MacNeil 1980) and psychology and sociology studies on interpersonal and group relationships. Channel structure and governance are discussed in the context of relational exchange. Relational exchange is characterized by a set of social and relational elements that alleviate opportunism and facilitate channel cooperation (Macneil 1980). In particular, transaction norms in a relational exchange, or relational norms, are considered a third way of governance (Peterson et. al. 1999), in addition to market and hierarchies as suggested by the original TCA literature. Trust and commitment are viewed as the cornerstones of cooperation success (Morgan and Hunt 1994).

Each stream of literature contributes to the understanding of channel noncooperation in different ways. In general, channel noncooperation has remained a dominant concern of these streams of research, whether it be opportunism or channel conflict. Transaction cost analysis addresses the motivations behind channel noncooperation or the hazard of opportunism. From a behavioral perspective, power-dependence scholars, on the other hand, focus on describing the consequence of divergent interests among channel members, or the presence of channel conflict. Transaction cost analysis emphasizes the ex ante elimination of opportunism, and power-dependence studies provide ex post conflict resolution in integrated marketing channels. Building on these two streams of literature, relationship marketing studies add a social dimension to the control mechanisms of channel opportunism.

Each research stream, however, also bears its inherent limitations when addressing channel noncooperation. Although power-conflict studies produce models that address conflict management and resolution strategies (e.g. Pondy 1967; Dant and Schul 1992), relationship termination is not considered as a feasible strategy. Furthermore, researchers in sociology and marketing on power-conflict studies are more concerned with the antecedent conditions to conflicts, as opposed to the responses of affected parties to conflicts (Gaski 1984). Few studies make the explicit distinction between conflict initiators and receivers, or address response strategies from the perspective of an aggrieved party. On the other hand, opportunism studies have offered mechanisms of managing opportunism. The focus of these mechanisms, however, is ex ante elimination or suppression of opportunism, be it selection of partners, alignment of incentives, establishment of convergent goals and values, or on-going monitoring (Jap and Anderson 2003). An equally important question for managing opportunism is that when all the prevention mechanisms have failed due to environmental and behavioral uncertainties, what are the potential remedies? Relationship marketing studies address the social or relational control mechanisms in a similar light to TCA. In particular, the change of relational elements, such as norms, trust and commitment, have received limited discussions in the relationship marketing literature. Instead, the majority of studies focus on the depiction of determinants and consequences of these relational elements (e.g. Morgan and Hunt 1994; Zaheer et. al. 1998).

Realizing these limitations, an emerging stream of research in marketing channels has focused on addressing the "darker side" of relationship management issues in ongoing collaborative relationships (e.g. Wathne and Heide 2000; Hibbard et. al. 2001; Jap and Anderson 2003). It is believed that over time, ongoing business exchanges often develop characteristics that serve to destabilize, and ultimately destroy the relationship from within (Jap and Anderson 2003). Specifically, integrating perspectives of TCA and relationship marketing, Wathne and Heide (2000) provided a systematic and detailed delineation of the construct of opportunism and how to match management strategies with opportunism of different forms (Wathne and Heide 2000). In a similar vein, Jap and Anderson (2003) investigated the effectiveness of governance mechanisms in the presence of ex post opportunism. Influenced by the tradition of power-conflict studies, Hibbard et. al. (2001) examined the responses to destructive acts in marketing channels.

The focal questions of this dissertation, however, remain unanswered: what response strategies are available to noncooperative incidents of different attributions? How does channel relational equity change when triggered by an incident of noncooperation? In order to address these questions, this dissertation integrates studies on control mechanisms of opportunism with the theory of organizational decline developed by Albert Hirschman (1970).

A THEROY OF RESPONSES TO ORGANIZATIONAL PERFORMANCE DECLINE: EXIT-VOICE-LOYALTY

Given the limitations of the existing channel literature at addressing the response strategies to noncoopertion incidents, this dissertation adopts Hirschman's (1970) seminal work "exit-voice-loyalty" and investigates the response strategies to NCIs in international distribution partnerships. Hirshman (1970) challenges the dominant belief of using exit to regulate inefficient exchanges, and addresses the following questions:

1) Under what conditions will the exit option be a more effective response than the voice option and vice versa?
2) In what situations do exit and voice options come into play jointly?
3) What institutions could serve to perfect each of the two options as mechanisms for recuperation?

Hirshman's theory on organizational decline (1970) offers a competing explanation to organization theory (e.g. Cyert and March 1963; Leibenstein 1966) for market inefficiencies. Cyert and March (1963) address the issue of organizational decline, or slack in the bargaining process that takes place among the parties who collaborate in order to employ labors and produce and market output. Leibenstein (1966) further argues that the uncertainties surrounding the production function and the nonmarketability of managerial and other skills are to blame for organizational inefficiencies. In contrast, Hirshman (1970) proposes that the existence of obstacles to entrepreneurial and cooperative behavior needed for the making of development decisions is a dominant cause of organizational decline. A primary obstacle is a noncooperative incident such as performance decline. The remedies prescribed by Hirshman (1970) to such obstacles are the exit, voice, and loyalty responses.

Hirshman (1970) suggests that exit, voice and loyalty are three interactive means of alerting management to organizational failings. Exit, or leaving transaction partners and seeking for alternatives, is an effective means for a firm to recuperate from performance lapses only when a firm has a mixture of "alert and inert customers". In the language of channel relationship management, when the majority of partnering firms of a focal organization are sensitive and quickly react to under-performance of a focal firm using exit or relationship termination, the focal firm does not have the time it needs to correct its mistakes and recuperate the partnerships. On the other hand, when partnering firms are slow to react to performance lapses of a focal firm, the loss in partnership efficiencies can not be detected in a timely manner and recuperating actions are not likely to be taken by the management of the focal firm. It is only when there is a mixture of partnering firms that are neither too quick nor too slow to respond, that organizations are able to recuperate (Hirschman 1970). Exit loses its power fully when competition is a collusive behavior. "Under monopoly, consumers would learn to live with inevitable imperfections and would seek happiness elsewhere than in the frantic search for the inexistent 'improved products'" (Hirshman 1970). It is in these situations that voice and loyalty assume particular importance of responding to a partner firm's performance decline.

Voice is considered a complement or substitute for exit when recuperating a relationship. Voice is defined as "any attempt at all to change, rather than to escape from, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in the management or through various types of actions and protests" (Hirshman 1970, page 30).

Voice is more likely to be an effective recuperation mechanism under the following conditions: 1) there is a strong belief that chances of getting the firm back on track through one's own action or through that of others is high; 2) a judgment is made that it is worthwhile for a variety of reasons to trade the uncertainty of trading with the focal firm which is available here and now against other chances; 3) the market environment is less developed in that one cannot choose between as many commodities, as many varieties of the same goods, or as many ways of traveling from one point of the country to another, compared to more developed market environments; and 4) there is a general readiness of a population of partners to complain, and the existence of such institutions and mechanisms that can make communications affordable and effective.

Hirshman (1970) also acknowledges the sequence between exit and voice. Voice is likely to be employed in the early stage of responding to performance lapse, and exit in the later stage. Once a partner has exited the relationship, it loses the opportunity to use voice, but not vice versa. Voice can be exercised before exit is sought as a last resort. In fact, voice only serves as a powerful response when exit is a viable option.

Furthermore, Hirschman (1970) emphasizes the importance of a third response, loyalty. Loyalty is defined as a reasoned calculation. A party, after a careful evaluation of benefits and costs of taking actions in response to a performance decline partner, may decide that taking no actions is the optimal response strategy. By engaging in a loyal response, a party is not taking action per se, as it believes that the situation will improve if time is given to the performance declining partner.

Since its inception in 1970, the "exit-voice-loyalty" framework has been widely applied in the disciplines of political science, economics, law, sociology, psychology, and consumer behavior research. It was further introduced into marketing strategy research in the 1990s (e.g. Ping 1997; Hibbard et. al. 2001). A summary of the applications of the framework is provided in Table 1. These applications extend the original responses of exit, voice and loyalty, and provide diverse operationalizations of the responses. For example, addressing employees' responses to declining job satisfaction, Rusbult et. al. (1988) add a fourth "neglect" response. In the context of marketing channels, Hibbard et. al. (2003) operationalize the exit, voice, and loyalty responses into "threatened withdrawal, venting, constructive discussion and passive acceptance".

These modifications of the original responses to the study contexts are necessary considering that the exit, voice, and loyalty responses are universal by nature. In the current context of international distribution partnerships, this dissertation operationalizes these responses into four response strategies. Integrating the studies of control mechanisms of opportunism, Hirschman's voice response is operationalized as two different responses, adjustments of incentives and adjustment of socialization. His loyalty response is redefined as tolerance, and his exit response is kept intact. Furthermore, this dissertation also delineates the primary drivers of these response strategies, and investigates the sequence between voice and exit in international distribution partnerships.

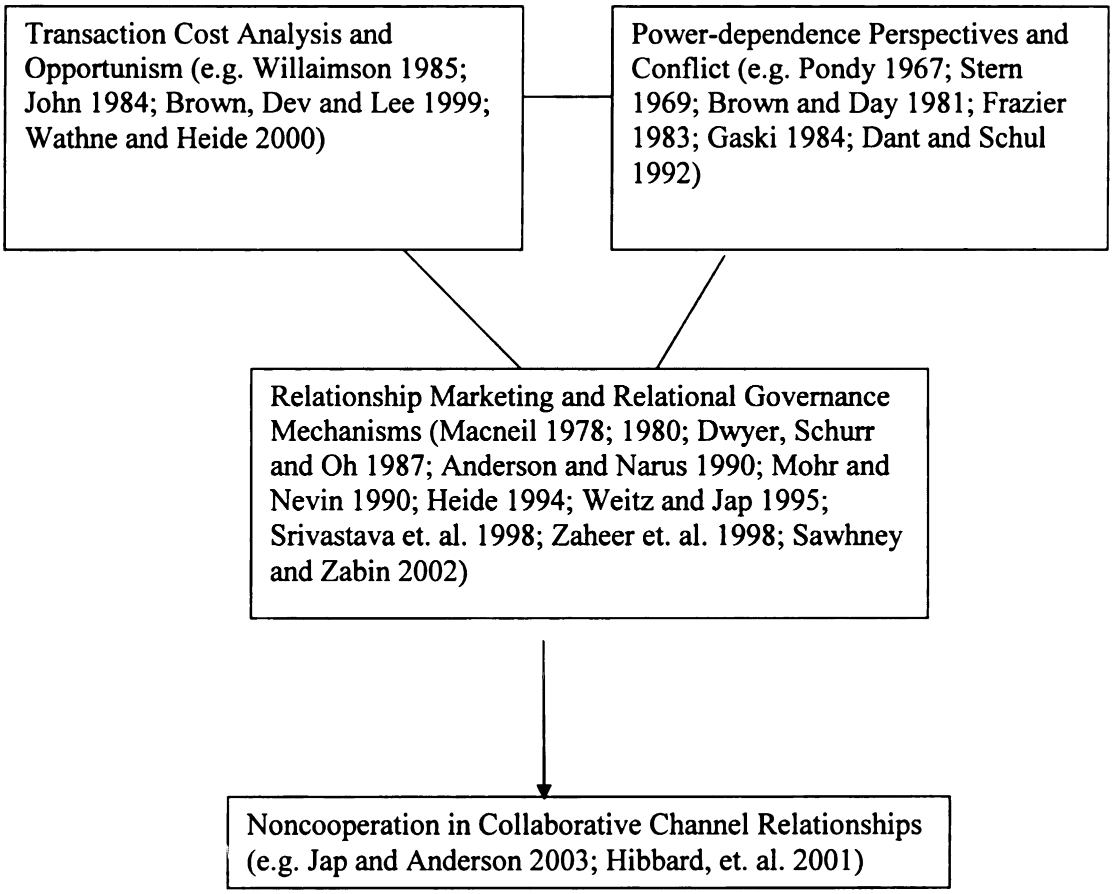
Table 1 Applications of Exit-Voice-loyalty Typology

Author	Publication name	Discipline	Topic
Freeman R.B. (1980)	*Quarterly Journal of Economics*	Economics	The exit-voice tradeoff in the labor-market-unionism, job tenure, quits and separations
Chinloy P.T. (1978)	*Journal of Urban Economics*	Economics	Depreciation, adverse selection and housing markets
Anderson J. H., Korsun G, and Murrell P (1999)	*Economics of Transition*	Economics	Ownership, exit and voice after mass privatization - evidence from Mongolia
Mcneil K, and Miller R.E. (1980)	*Administrative Science Quarterly*	Economics	The profitability of consumer-protection-warranty policy in the auto industry
Mcneil K. (1977)	*Administrative Science Quarterly*	Economics	Theory of organizational-structure-Meyer, MW
McCarthy N., Sadoulet E. and De Janvry A. (2001)	*Journal of Environmental Economics and Management*	Economics	Common pool resource appropriation under costly cooperation
Spagnolo G (1999)	*Journal of Economic Behavior and Organization*	Economics	Social relations and cooperation in organizations
Tirole J. (2001)	*Econometrica*	Economics	Corporate governance
Dolton P. (2003)	*Economic Journal*	Economics	The economics of school choice by Hoxby C.
Stuart M and Lucio M.M. (2002)	*Economic and Industrial Democracy*	Economics	Social partnership and the mutual gains organization: remaking involvement and trust at the British workplace
Weiss E.J. (1979)	*Business Lawyer*	Law	Disclosure and Corporate accountability
Markovits R.S. (1978)	*Texas Law Review*	Law	Predicting competitive impact of horizontal mergers in a monopolistically competitive world-non-market-oriented proposal and critique of market definition market share-market concentration approach
Kelman M (1979)	*Wisconsin Law Review*	Law	Choice and utility
Sunder M (2001)	*Stanford Law Review*	Law	Cultural dissent: challenges by individuals within a culture to modernize, or broaden, the traditional terms of cultural membership. Cultural dissent symbolized a movement away from imposed cultural identities to a new age of autonomy, choice and reason within culture.
Buxbaum R.M. (1985)	*California Law Review*	Law	The internal division of powers in corporate governance
McAdams R.H. (1996)	*University of Pennsylvania Law Review*	Law	Group norms, gossip, and blackmail
Macey J.R. (1988)	*Virginia Law Review*	Law	Transaction costs and the normative elements of the public choice model - an application to constitutional theory
Butler H.N. and Baysinger B. D. (1983)	*Emory Law Journal*	Law	Vertical restraints of trade as contractual integration: a synthesis of relational contracting theory, transaction cost economics and organization theory

Author	Publication name	Discipline	Topic
Schultz M.M (1982)	*California Law Review*	Law	Contractual ordering of marriage: a new model for state policy
Weiss E.J. (1981)	*UCLA Law Review*	Law	Social regulation of business activity: reforming the corporate governance system to resolve an institutional impasse
Hennessey T.M., Peters B.G. (1975)	*Policy Studies Journal*	Political Science	Political paradoxes in post-industrialism-political-economy perspective
Orbell JM, Fougere G (1973)	*Journal of Politics*	Political Science	Intra-party conflict and decay of ideology
Hadenius A, Karvonnen L (2001)	*Journal of Theoretical Politics*	Political Science	The paradox of integration in intra-state conflicts
Taylor MA (2000)	*European Journal of Political Research*	Political Science	Challenging frustrations, institutions, economic fluctuations, and political behavior
Temkin K, and Rohe W.M. (1998)	*Housing Policy Debate*	Political Science	Social capital and neighborhood stability: an empirical investigation
Levy F. (1971)	*American Political Science Review*	Political Science	Toward a rational theory of decentralization-another view
Oksenberg M. (1976)	*China Quarterly*	Political Science	Exit pattern from Chinese politics and its implications
Crescenzi MJC (2003)	*Journal of Politics*	Political Science	Economic exit, interdependence, and conflict
Goldfarb R.S. and Stekler H.O. (2000)	*History of Political Economy*	Political Science	Why do empirical results change? Forecasts as tests of rational expectations
Cole R.E. (1973)	*American Sociological Review*	Sociology	Functional alternatives and economic development- empirical example of permanent employment in Japan
Zey M, Swenson T (2001)	*Sociological Quarterly*	Sociology	The transformation and survival of fortune 500 industrial corporations through mergers and acquisitions (1981-1995)
Plummer K. and Becker H.S. (2003)	*Sociological Perspectives*	Sociology	Continuity and change in Howard S. Becker's work
Boudon R. (1983)	*British Journal of Sociology*	Sociology	Individual action and social change: a no-theory of social change
Baker W.E. Faulkner R.R. and Fisher G.A. (1998)	*American Sociological Review*	Sociology	Hazards of the market: the continuity and dissolution of interorganizational market relationships
Sharp E.B. (1984)	*Western Political Quarterly*	Sociology	Exit, voice, and loyalty in the context of local government problems
Laver M. (1976)	*Political Studies*	Sociology	Cultural aspects of loyalty: on Hirschman and loyalism in ulster
Boone R.T., and Macy M.W. (1999)	*Social Psychology Quarterly*	Psychology	Unlocking the doors of the prisoner's dilemma: Dependence, selectivity, and cooperation
Avery D. R. and Quinones M.A. (2002)	*Journal of Applied Psychology*	Psychology	Disentangling the effects of voice: the incremental roles of opportunity, behavior and instrumentality in predicting procedural fairness

Author	Publication name	Discipline	Topic
Alvesson M (2000)	*Journal of Management Studies*	Business	Social identity and the problem of loyalty in knowledge-intensive companies
Gomez P.Y. and Jones B.C. (2000)	*Organization Science*	Business	Conventions: an interpretation of deep structure in organizations
Randall D.M. (1987)	*Academy of Management Review*	Business	Commitment and the organization - the organization man revisited
Hoffi-Hofstetter H and Mannheim B (1999)	*Journal of Organizational Behavior*	Business	Manager's coping resources, perceived organizational patterns and responses during organizational recovery from decline
Humphrey R.H. and Ashforth B.E. (2000)	*Journal of Organizational Behavior*	Business	Buyer-supplier alliances in the automobile industry: how exit-voice strategies influence interpersonal relationships
Dyer J.H. and Chu W.J. (2000)	*Journal of International Business Studies*	Business	The determinants of trust in supplier-automaker relationships in the US, Japan and Korea
Uzzi B. and Lancaster R. (2003)	*Management Science*	Business	Relational embeddedness and learning: the case of bank loan managers and their clients
Griggeth R.W., Gaertner S. and Sager J.K. (1999)	*Human Resource Management Review*	Business	Taxonomic model of withdrawal behaviors: the adaptive response model
Hibbard, J.D., Nirmalya Kumar, and Louis W. Stern (2003)	*Journal of Marketing Research*	Business	Examining the impact of destructive acts in marketing channel relationships
Rusbult, C.E., Dan Farrell, Glen Rogers and Arch G. Mainous III (1988)	*The Academy of Management Journal*	Business	Impact of exchange variables on exit, voice, loyalty, and neglect: an integrative model of responses to declining job satisfaction

Figure 1 Research Streams on Channel Relationship Management



CHAPTER 3

THE THEORETICAL MODEL AND HYPOTHESES

IDENTIFICATION OF KEY CONSTRUCTS

This section conceptualizes noncooperative incidents and response strategies using attribution theory, channel opportunism studies, and Hirschman's (1970) "exit-voice-loyalty" typology. Noncooperative incidents (NCIs) refer to any event in which one party is perceived as deviating from explicit or implicit agreements and performance expectations of the other. This definition acknowledges the perception-based nature of noncooperative incidents. Perceptions of whether a channel party has fulfilled agreements or met expectations may differ across international distribution partnerships. Furthermore, this dissertation focuses on only the type of discordance in a relationship that has reached overt behavior level. It is likely that at times, NCIs are not detected because of bounded rationality and information asymmetry of decision makers (e.g. Williamson 1985). The current definition of NCIs, however, leaves out undetected or non-manifest NCIs and focuses on the overt NCIs.

Attributions of NCIs

Noncooperative incidents in international distribution partnerships are classified by the attributions an NCI-receiving party makes to the causes of such incidents. Responses to partner noncooperation are determined by a manager's attribution of the causes behind the actions (March and Simon 1958). In order to delineate the primary drivers of the response strategies, this dissertation conceptualizes the attributions of NCIs in international distribution partnerships. Attributions are what people perceive to be the causes behind their own behavior, the behavior of others, or the event they observe.

Research indicates that individuals, groups and organizations possess an inherent need to understand "why" events or situations occur (Heider, 1958; Jones and Davis, 1965; Weiner, 1985). People particularly engage in "spontaneous causal thinking" or attributions in cases of unexpected and negative events such as incidents of noncooperation (Weiner 1985).

Weiner's work (1985) investigates attributions in achievement (or achievement failure) situations, which are closely related to the focus of the current study. Weiner argues that attributions in achievement situations vary along three common dimensions: locus of causality, controllability, and stability (Anderson, 1983; Weiner 1985). Locus of causality refers to whether the responsibility is determined to be internal or external to the individual. Controllability refers to whether the cause of the action can be controlled by the individual. Stability refers to whether the attributed cause is likely to reoccur. The three attribution dimensions, however, are not necessarily distinct from each other (Weiner 1986; Dixon et. al. 2001). For example, Weiner (1986) mentions that the dimension of controllability is likely to be closely associated with that of locus of causality. People tend to view external causes as uncontrollable and internal causes as controllable (Weiner 1986).

Furthermore, following other channel scholars (e.g. Cox and Walker 1997; Hibbard et. al. 2001), the focus of this dissertation is on the locus of causality dimension. This dimension has had predominant influence on classifying attributions of achievement failure in marketing channel relationships (e.g. Cox and Walker 1997; Hibbard et. al. 2001). When a noncooperative incident occurs, the damage receiving party first assigns responsibilities for the loss or achievement failure (Weiner 1985; Cox and Walker 1997;

Hibbard et. al. 2001). He/she may attribute the causes of the damage either to its channel partner or to the external environment. This dissertation primarily concerns these two types of attribution: attribution to partner opportunism and external factor attribution.

Attribution to Partner Opportunism

When attribution of an NCI is made to a distribution partner, the NCI-receiving party assigns the responsibility to something its distribution partner has done or failed to do. The NCI- receiving party may conclude that the initiator of the NCI either lacks the ability or the effort to deliver satisfactory performance (Cox and Walker 1997). Both of the causes are closely linked to the concept of opportunism in marketing channels (John 1984; Brown, Dev and Lee 2000; Wathne and Heide 2000). As mentioned in Chapter 2, opportunism is defined as self-interest seeking with guile (Williamson 1985). It includes behaviors such as shirking or withholding effort, and withholding information on lack of ability (Wathne and Heide 2000). For example, in 1999, a Chinese distributor of Paul Mitchell hair products, CDM, violated the restrictive distribution agreement with JPMS, the U.S. manufacturer of Paul Mitchell products. Rather than developing the Chinese market for Paul Mitchell products and restricting sales to hair salons in China, CDM withheld the promotion and sales effort in the Chinese market, and gray marketed the Paul Michelle products to the U.S. market. This is a case where the cause of the NCI is associated with partner effort. When partner effort is attributed as the primary reason for an NCI, it is often considered a controllable and unstable attribution (Weiner 1985; Cox and Walker 1997). Given appropriate adjustments in motivations or punishments, the lack of partner effort can be corrected, and may not reoccur over time.

The NCI-receiving party may also attribute the NCI to its partner's ability. While partner inability might be due to uncontrollable and stable causes, such as the partner's incapacity or a lack of resource compatibility between the international distribution partners, the primary concern of this dissertation is with ability attributions that are controllable and unstable. For example, in 1994, U.S. manufacturer Kaepa was dissatisfied with the performance of its Japanese distributor, Achilles. Kaepa attributed the poor performance to Achilles' misrepresentation of its ability, which induced Kaepa to enter the exclusive distributorship in 1993. This type of ability attribution to a partner's withholding information and misrepresentation is common in both domestic and international channels (Wathne and Heide 2000). It is considered internal to the partner, controllable, and unstable. The NCI-receiving party can manage this type of attribution by reselecting capable partners. In summary, when the attribution of an NCI is made to a distribution partner, opportunism is often assigned to the partner. The cause of the NCI is believed to be internal to the partner, controllable and unstable.

Attribution to External Factors

An NCI-receiving party may also attribute the occurrence of an NCI to environmental factors over which neither party has control, and which are likely to change. In other word, the attribution to external factors is considered uncontrollable and unstable. This type of attribution is particularly pervasive in international distribution partnerships, where the operating environment of a partnership is characterized by market demand volatility, currency exchange risks and constant changes in regulations (Rosson and Ford 1982; Grewal and Dharwadkar 2002). For example, a foreign distributor might not reach a sales target due to a sudden market demand shift to competing lines of product or as in the following example, due to exchange rate volatility. In 1982, the performance of the international distribution partnership between the U.S. distributor, Jack Rowe International, and the Japanese manufacturer, Fisher Corporation, significantly declined in the Mexican market. The 1982 peso devaluation made Jack Rowe International's large inventory of Fisher's products in Mexico costly and difficult to sell in the local market. Jack Rowe's purchase of Fisher's products slowed and eventually stopped. Fisher Corporation attributed this poor performance to the external factor of currency devaluation in Mexico, which was beyond the control of Jack Rowe International.

The external factor attribution of an NCI is similar to luck or misfortune attributions discussed in Weiner's (1985) work. Factors beyond transaction partners' control are assigned responsibility for an occurrence of an NCI. These external factors are viewed as an unstable source of attribution, and may not recur. The type of attributions an NCI-receiving party makes is a primary determinant of the response strategies. Proactive responses are often taken when partner opportunism attributions are made, while reactive responses, such as tolerance, may be adopted when an external factor is considered the primary cause of the NCI.

Response Strategies

This dissertation conceptualizes response strategies based on Hirschman's work (1970), and its applications in marketing and strategy research (Table 2). In the context of an international distribution partnership, exit is conceptualized as an NCI-receiving party's propensity to terminate or threaten to discontinue the relationship with its distribution partner. It may take the form of 1) terminating the problematic relationship and finding alternative distributors; 2) threatening to terminate focal relationships; or 3) litigation. Exit, as defined in the current context, is similar yet not identical to what is termed as alliance failure in marketing strategy research (Park and Ungson 2001). Building on Hirschman's (1970) exit-voice-loyalty typology, this dissertation views exit as a firm's proactive choice in response to non-cooperative incidents in a focal distribution partnership. When management of an NCI-receiving firm matches the strategy of exit or relationship termination with appropriate attributions of NCIs, exit can enable the focal firm to avoid potential loss in the future. In other words, exit is viewed as a response strategy and not necessarily the equivalent of relationship failure.

Voice refers to any attempt from an NCI-receiving party to change, rather than to escape, from an objectionable state of affairs of its distribution partners (Hirschman 1970). It includes actions such as 1) individual or collective petition to an NCI initiator's management, and 2) various types of actions and protests, for example retaliation or tit-for-tat tactics. By integrating studies on control mechanisms of channel opportunism, this dissertation operationalizes voice as 1) adjustments in incentives, and 2) adjustments in socialization. Adjustment in incentives refers to the modifications of existing explicit agreements on partner responsibilities, and adjustment in socialization is defined as the changes of efforts devoted to aligning partner goals and values.

As discussed in Chapter 2, incentives and socialization are viewed as two primary control mechanisms of opportunism in interfirm relationships. Incentives and socialization differ in their ability to deter opportunism (Wathne and Heide 2000). Incentives are most effective when opportunism is active in nature, or a channel partner engages in actions that violate certain contractual or relational norms. Socialization, on the other hand, aims to align partner value and goals. When socialization is complete and partners have congruent goals and values, it deters opportunism from forming. The constant adjustments of both incentives and socialization are needed, as it is difficult to eliminate opportunism ex ante given the conditions of bounded rationality and environmental uncertainties (Jap and Anderson 2003).

Loyalty is defined as the tolerance an NCI-receiving party demonstrates toward an NCI initiator as a result of a calculation of relational benefits on the part of the NCI receiver (Hirschman 1970). Tolerance is a result of reasoned calculation. The tolerant party does not influence NCIs through its own actions, but "hardly without the expectation that someone will act or something will happen to improve the matters" (Hirshman 1970, page78). Tolerance is different from passive acceptance due to the coercion of power or a firm's inability of taking actions. Tolerance is viewed here as a calculated effort of taking no action to recuperate an international distribution partnership.

In summary, this dissertation integrates Hirshman's (1970) general classification of response strategies to organizational decline with studies of control mechanisms of opportunism, and delineates a set of response strategies to NCIs in international distribution partnerships. Exit and voice (adjustments in incentives and socialization) capture the explicit actions taken by an NCI-receiving party, whereas tolerance represents a no-action response. Meanwhile, voice and tolerance are used to recuperate a distribution partnership, whereas exit aims to terminate an existing partnership and reselect partners.

Table 2 Conceptualization of Response Strategies to Problematic Distribution Partnerships

Response Strategies	Definition	Literature Background
Exit	Exit refers to an export manufacturer's ***proactive*** decision to terminate the relationship with a particular foreign distributor. It may take the form of 1) terminate the problematic relationship and find alternative distributors and 2) threaten to terminate focal relationships.	Exit intention is the intention to physically leave the exchange relationship or the propensity to terminate the primary wholesaler relationship. It includes thinking of exiting the relationship, looking for a replacement primary wholesaler, considering a replacement primary wholesaler, and resolving to end the relationship with the primary wholesaler (Ping 1993, 1995)
		In intra-organizational context, exit refers to leaving an organization by quitting, transferring, searching for a different job, or thinking about quitting (Rusbult et. al. 1988).
		Exit is a propensity to terminate or threats to discontinue the relationship. It includes threatened withdrawal, and neglect (Hibbard, et. al. 2001).
Voice	"Voice" refers to any attempt at all from an export manufacturer to change, rather than to escape from an objectionable state of affairs of a foreign distributor, whether through 1) individual or collective petition to the foreign distributor management directly in charge; or 2) through various types of actions and protests, for example retaliation or tit-for-tat (Hirschman 1970)	In retailer-wholesaler context, voice is defined as constructively discussing problems with the intention to find a mutual solution (Ping 1993, 1997)
		In managing organizational conflict, voice is defined as direct, aggressive criticism by an aggrieved party of an offender's behavior (Morrill and Thomas 1992).
		In marketing channel context, voice is defined as having both positive dimension (constructive discussion), and negative dimension (venting) (Hibbard et. al. 2001)
		In channel opportunism studies, control mechanisms of opportunism are classified as 1) monitoring: reducing information asymmetry and facilitating the deployment of incentives 2) incentives: reducing payoffs from opportunism and aligning interests 3) selection: reducing information asymmetry and allowing for self-selection and 4) socialization: promoting goal convergence. (Wathne and Heide 2000)
Loyalty	Loyalty refers to a strong attachment to an organization that is a result of reasoned calculation.	In intra-organizational context, loyalty refers to passively but optimistically waiting for conditions to improve by giving public and private support to the organization, waiting and hoping for improvement, or practicing good citizenship (Rusbult, et. al. 1988).
		In marketing channel context, loyalty is defined as a dutiful engagement stance toward the relationship (Hibbard et. al. 2001).

A CONCEPTUAL FRAMEWORK OF RESPONSE STRATEGIES TO NONCOOPERATIVE INCIDENTS

A conceptual framework of response strategies to noncooperative incidents is developed in this section (Figure 2). Response strategies to NCIs are proposed to be associated with the attributions an NCI-receiving party makes to the causes of its transaction partner's actions (e.g. March and Simon 1958; Hibbard et. al. 2001). Exit and voice strategies are favored when an NCI-receiving party makes a partner opportunism attribution, while tolerance is likely to be adopted when an external factor attribution is made. Furthermore, the response strategies lead to changes in relational and economic performance of an international distribution partnership.

Responses to NCIs Attributed to Partner Opportunism

An attribution of partner opportunism is positively associated with the exit response in international distribution partnerships. Exit enforces punishment of an opportunistic partner and reduces potential transaction and relational costs (Dalstrom and Naggard 1999; Williamson 1985; Anderson and Narus 1990; Morgan and Hunt 1994). In particular, litigations between international distribution partners, a means of exiting an international distribution partnership, claim financial compensation for the party damaged by the NCI, and enforce punishment for an opportunistic actor. This financial compensation reduces the loss incurred by an opportunistic NCI. Furthermore, exiting partnerships in which a distribution partner is believed to have behaved opportunistically enables an NCI-receiving party to reselect partners with whom there is a better chance to build trust and achieve cooperation. The positive relationship between opportunism attribution and exit is also supported by empirical studies. Hill (1991) proposes that market mechanisms, or the ability to reselect partners, serves as an effective way of removing opportunistic actors in the long run. Hibbart et. al. (2001) found a positive association between threatened withdrawal and partner attribution of destructive acts in marketing channels. The following is hypothesized:

H_{1a}: An attribution of partner opportunism is positively associated with an NCI-receiving party's exit response in international distribution partnerships.

Besides forcing the exit of an opportunistic actor, an NCI-receiving party can also use voice when attributing an NCI to partner opportunism (Heide 1994; Brown, Dev and Lee 2000). Voice functions through two primary channels in responding to partner opportunism: adjustments in incentives and adjustments in socialization. Incentives such as price premiums and financial hostages reduce the short-term gains of opportunism and reward cooperative behavior in the long run (Wathne and Heide 2000). Adjustments in incentives can be negative, such as price premiums, or positive, such as price discounts. In either case, an adjustment in incentives reduces the short-term gains of opportunism by the distribution partner (Wathne and Heide 2000), thus minimizing the likelihood of its recurrence and enhancing relational and economic equity. Socialization (e.g. enhancing relational norms with its supply chain members) can also be employed by an NCI-receiving party in response to NCIs. The primary goal of adjustments in socialization is to facilitate goal congruence and compatible values between supply chain members (e.g. Heide and John 1992; Wathne and Heide 2000). Adjustment in socialization facilitates the establishment of relational norms and reduces divergence of interest, a root cause of opportunism, further establishing joint norms and mitigating opportunism in the longer-term. As such, voice is an effective means to reduce current and future economic and relational equity loss. The following hypotheses are thus advanced:

H_{1b}: *An attribution of partner opportunism is positively associated with an NCI-receiving party's adjustments in incentives in international distribution partnerships.*

H_{1c}: *An attribution of partner opportunism is positively associated with an NCI-receiving party's adjustments in socialization in international distribution partnerships.*

Tolerance as a response has received limited attention in marketing channel studies (Wathne and Heide 2000). Considering the significant transaction and relational costs incurred by partner opportunism, it can be argued that tolerance is less likely to be used as a response strategy. Studies on responses to job dissatisfaction (Rusbult et. al. 1988), destructive acts in marketing channels (Hibbard et. al. 2001), and control mechanisms of opportunism (Wathne and Heide 2000) have suggested a negative relationship between partner opportunism and tolerance. Hibbard et. al. (2001) reveal that a dealer's attribution of destructive acts to supplier responsibility is negatively related to the dealer's passive acceptance. Wathne and Heide (2000) suggest that tolerance of opportunism is likely to be considered when the level of opportunism is low in an interfirm relationship. Hence, the following hypothesis is proposed:

H_{1d}: *An attribution of partner opportunism is negatively associated with an NCI-receiving party's tolerance in international distribution partnerships.*

Responses to NCIs Attributed to External Factors

Exit is not an effective means of responding to NCIs when an NCI is attributed to external factors (Hirshman 1970). Hirshman argues that exchange parties are seeking for non-existent better alternatives when exit is used to respond to a performance lapse beyond a partner's control. It is difficult to safeguard firm performance under the conditions of market and demand volatility, and the constant need to react to competitive pressures. Building upon these concepts, empirical studies have found that a dealer that receives destructive acts in marketing channels is unlikely to use the threat of withdrawal or exit when attributing the act to factors other than supplier responsibility (Hibbard et. al. 2001). In addition, Farson and Keyes (2002) propose that tolerance of innovation failures is an effective means of responding to unintended mistakes in an intrafirm setting. The following hypothesis is thus advanced:

H_{2a}: *An external factor attribution is positively associated with an NCI-receiving party's exit response in international distribution partnerships.*

Voice, in the form of adjustments in incentives and adjustments in socialization, is considered an ineffective response to external factor attribution (Hirshman 1970; Farson and Keyes 2002; Hibbard et. al. 2001). When the attribution of an NCI is made to external factors, random or uncontrollable causes are treated as the primary reason of the damage associated with it (Hirshman 1970). The purpose of adjustments in incentives and socialization is to align partner interest, goals, and values in a more effective manner (Wathne and Heide 2000). These partner motivation-oriented response strategies are unlikely to treat the root cause of NCIs in external factor attribution. In this type of attribution, environmental factors, rather than partner motivation, are considered the primary drivers of NCIs (Cox and Walker 1997). Meanwhile, if an NCI-receiving party adjusts incentives (e.g. reduce price discounts) when external factors are perceived as the primary cause, it may instill distrust and damage the cooperative spirit of a distribution partnership (Mariotti 1999). A distribution party may feel discouraged by being punished for performance decline that is beyond his control. External factors (e.g. market volatility and exchange rate changes) are especially likely to affect the performance of international distribution partnerships. An international distribution party is not likely to make significant adjustments in incentives or socialization when the attribution of an NCI is made to external factors. Formally, it is hypothesized:

H_{2b}: An attribution of external factors is negatively associated with an NCI-receiving party's adjustments in incentives in international distribution partnerships.

H_{2c}: An attribution of external factor is negatively associated with an NCI-receiving party's adjustments in socialization in international distribution partnerships.

Tolerance is proposed to positively relate to an external attribution of NCIs. As a response to NCIs, tolerance has received limited attention in the interfirm relationship management literature. Mariotti (1999) argues that the essence of distribution collaboration success is to focus on partner-controllable factors, and stop fighting over losses resulting from unpredictable causes. When external factors are attributed as the primary cause of an NCI, tolerance signals a strong attachment to the performance-declining partner, and enhances trust between partners (e.g. Farson and Keyes 2002; Hirshman 1970). In marketing channel context, Hibbard et. al (2001) found empirical evidence for a positive relationship between environmental uncertainty-related destructive acts and passive acceptance of distribution channel partners. When external factors are perceived as the primary cause of NCIs, relational quality (e.g. trust and commitment) is not likely to be endangered between international distribution partners. An NCI-receiving party's tolerance may increase satisfaction and the morale of partnering firms and thus improve future collaboration performance (Bitner, et. al. 1990). The following hypothesis is thus advanced:

H_{2d}: An attribution of external factors is positively associated with an NCI-receiving party's tolerance in international distribution partnerships.

Performance Outcomes of Response Strategies

The majority of studies on responses to relationship dissatisfaction use responses as the final dependent variables (e.g. Ping 1995, 1997; Rusbult et. al. 1988; Singh and Wilkes 1996). The effectiveness of responses is not discussed and thus post-act performance is not hypothesized (see exceptions, Hibbard et. al. 2001; Hoffman and Kelley 2000). Response strategies discussed in this study are crafted on the basis of benefits and costs analysis of an NCI receiver, and thus have implications for post-NCI partnership performance. The outcome variables of interest are post-NCI partnership performance (relational and economic) in comparison to pre-NCI performance. Hence, exit from the focal partnership is not included in the discussion of focal partnership performance.

Within the context of international distribution channel partnerships, economic performance is conceptualized as the financial, strategic performance, and marketing efforts of an international distribution partnership (Bello and Gilliland 1997). Relational equity is conceptualized as a two-dimensional construct, composed of trust and commitment (e.g. Hibbard et. al. 2001). The current study compares levels of performance pre and post NCIs to evaluate the impact of NCIs on distributor partnerships, that is their recovery performance (Anderson and Narus 1990; Dwyer, Schurr and Oh 1987). It is hypothesized that response strategies that are oriented toward partnership recuperation are positively associated with both comparison level of economic equity and relational equity.

Voice facilitates partnership performance recuperation by adjusting incentives and ensuring that gains from cooperation in the long run outweigh benefits from NCIs. In particular, the original incentives of a partnership may have become insufficient to deter NCIs in the constantly changing global economy. By re-negotiating rewards of forbearing NCIs, an NCI receiver is able to understand the changing need of partnerships and better recuperate partnership performance. Furthermore, additional socialization effort is also a means of realigning goals and values of an international distribution partnership. Highly consistent goals and congruent values between partnerships can increase both economic and relational performance. Numerous studies in relationship marketing have discussed the contributions of relational norms on partnership performance (e.g. Zaheer et al. 1998; Zhang, Cavusgil and Roath 2003). This study thus formulates the following hypotheses on the associations between voice strategies and comparison levels of partnership performance:

H_3: Adjustments of socialization is positively related to a) comparative level of economic equity of an international distribution partnership, and b) comparative level of relational equity of an international distribution partnership.

H_3: Adjustments of incentives is positively related to a) comparative level of economic equity of an international distribution partnership, and b) comparative level of relational equity of an international distribution partnership.

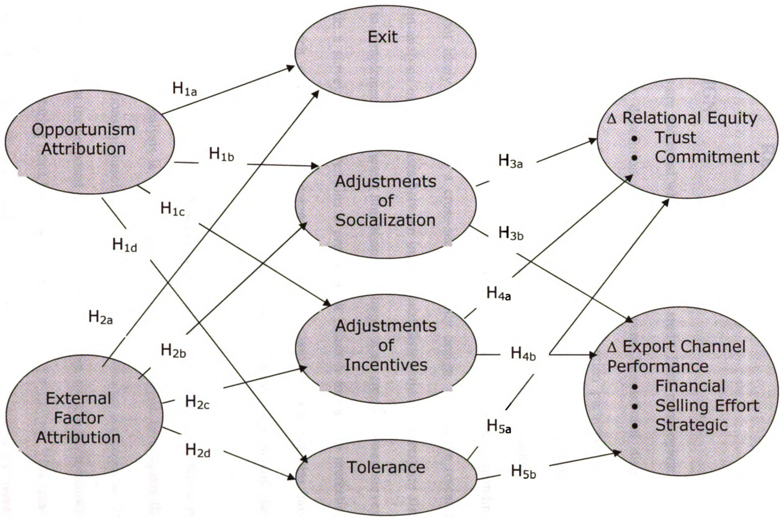
Tolerance, a calculated decision of taking no action in response to NCIs, also can enhance partnership performance. When tolerance is applied, an NCI receiver is demonstrating its commitment to a partnership and its willingness to take the loss due to the NCI (Gulati et al. 1994). Gulati et. al. (1994) provide an example that appropriately illustrates the positive association between tolerance and partnership performance recovery. Market changes (e.g. technology shift) affected alliance partner investment between a U.S. based designer of disk drives and a Japanese disk drive manufacturer. To signal its continued commitment to the relationship, the Japanese firm unilaterally absorbed the costs of adjusting its manufacturing process, which restored the partnership (Wathne and Heide 2000).

In addition, organizational studies have also suggested that a firm's tolerance of mistakes is positively associated with sustainable competitive advantage (Farson and Keyes 2002). Tolerance creates cooperative environments for international distribution channel partners (Hirschman 1970). It promotes value congruence and the forbearance of NCIs between distribution partners. Both economic equity and relational equity are likely to recover after the cooperative spirit is reestablished. Formally, the following hypothesis is formulated:

H_5: Tolerance is positively related to a) comparative level of economic equity of an international distribution partnership, and b) comparative level of relational equity of an international distribution partnership.

In summary, a conceptual model of response strategies to NCIs in international distribution partnerships is developed. Two types of attributions are investigated: opportunism attribution and external factor attribution. It is hypothesized that opportunism attribution is positively associated with the response strategies of exit, adjustments of socialization, and incentives. In contrast, opportunism attribution is negatively associated with the response strategy of tolerance. On the other hand, the effect of external factor attribution is hypothesized to be the opposite of that of opportunism attribution. Furthermore, the recuperative response strategies (adjustments of socialization, adjustments of incentives, and tolerance) are hypothesized to have positive influences on economic and relational outcomes of international distribution partnerships.

Figure 2 **Proposed Conceptualization of Response Strategies to Noncooperative Incidents in International Distribution Partnerships**



CHAPTER 4

RESEARCH DESIGN

OVERALL DESIGN

Several issues are addressed when designing the study. First, noncooperation and potentially partnership dissolution (exit response) between international distribution partners capture relationship failure in international distribution partnerships. It is difficult to solicit such information from international distribution partners, and therefore likely to result in low response rate. Second, multiple responses can occur sequentially in the process of resolving of an incident of noncooperation, and this sequential responding process is not likely revealed in a cross-sectional study design. Qualitative research methods (an analysis of legal cases between international distribution partners) are also employed to complement the inherent limitations of a large- scale cross-sectional survey. Third, while a survey method remains a predominant research method in marketing strategy research, concerns such as common method bias, and non-response bias have been raised. Therefore, steps are taken to ensure quality of survey design and data collection.

This study employs a two-step approach to address the research questions of concern. A legal case analysis is first conducted in Chapter 5, which investigates the process of exit or relationship dissolution in international distribution partnerships. In order to empirically test the proposed model, the second step consists of a multi-industry survey of U.S. manufacturing firms that export through foreign distributors. This cross-industry survey design generates variances in the model constructs, increasing the overall generalizability of the study. The results of the multi-industry survey is reported and discussed in Chapter 6.

QUALITATIVE RESEARCH DESIGN

In order to better understand the dissolution of international distribution partnerships (exit response strategy), an analysis of legal cases was undertaken. The employment of legal case analysis allowed for the longitudinal examination of the process of relationship dissolution as legal cases specify the historical nature of interactions between parties of the international distribution relationship ending in termination. The Lexis-Nexis Legal database, i.e., a comprehensive data source of lawsuits filed in Federal and State courts of the United States, was used to identify relevant cases. Legal cases of international distribution relationships were identified by a search of keywords: "foreign" or "international", and "distribution" in the time period between 1985 and 2005. Forty cases were identified. Next, additional criteria were applied to specify the context: 1) parties in the lawsuit had to be distributors and manufacturers, respectively; and 2) the headquarters of one of the lawsuit parties had to be located outside the United States. Twenty-five cases remained after applying these two criteria.

Following Weiss and White (2004) a statistical analysis as well as a detailed qualitative analysis of the cases was conducted. Seventy-six percent of the cases identified concern disputes between an overseas manufacturer and a U.S. distributor (Table 5). The country of origin of the overseas distribution parties encompasses a broad range of countries, i.e., inclusive of Latin America (Argentina and Venezuela), South East Asia (China, Japan, Thailand), Europe (Italy, France, Germany, U.K., Switzerland, Czech Republic) and North America (Canada, U.S.). Industries covered include automobile manufacturing, mechanical tubing, electronics, beverage, and consumer products (e.g. high-end kitchen products, hair products, and cosmetics products). Sixty-eight percent of the lawsuit-initiating parties were U.S.-based distributors.

The 25 legal cases provide a rich amount of information regarding the background of the lawsuit parties, the transaction history of these parties, and descriptions of negative incidents that triggered relationship dissolution. In the process of analyzing these cases, the functional area(s) stimulating the NCI were identified, the NCI itself and the subsequent sequence of events that resulted in relationship dissolution were also discussed. Background information on the distribution relationship history (e.g., length of relationship, contract enforcement situation, power-dependence situation) was also drawn from the legal cases to more fully understand the relationship dissolution process. This research treats lawsuit initiation as the equivalent of relationship termination, as suggested in the literature of international commercial litigations (Weintraub 2001). Further, it is important to note that exit response strategy or relationship dissolution can take many forms, and resorting to legal regulations is simply a more apparent way. The analysis of the 25 legal cases focuses on this form of relationship dissolution, in which a third-party authority is involved.

QUANTITATIVE RESEARCH DESIGN

Sampling Frame

The unit of analysis of the study is an incident of noncooperation, which occurred in the distribution partnership between a U.S. export manufacturers and an overseas distributor. Target samples of the study are U.S. manufacturers who use foreign distributors/resellers to market its products in an oversea market. This dissertation examines the international distribution partnerships from the perspective of U.S. manufacturing firms. The profile of the individual firms included in the samples are the following: U.S. exporters whose manufacturing operations are located in the U.S., at least 5 year old, with no restrictions on firm size and the number of employees. Key respondents are individual managers that have frequent contact with their foreign distributors. The titles of these individuals are primarily export managers, vice presidents, international directors, and sales managers.

The study setting is U.S. manufacturing industries that reply on independent channel structures. These industries primarily operate in business to business markets. The majority of the firms in these industries are small to medium-sized with few resources, although many large companies also utilize independent distributors as part of their export strategy. In the current context of independent channels, manufacturers often recognize the importance of coordinating relationships with their foreign distributors. In addition, there is a wide variation of the product technology among the industries surveyed. These industries include automotives, machine tools and equipment, industrial machinery, electronic equipment, chemical, and telecommunications, and food products.

The appropriate sample size for testing structural equation models ranges from 50 to 500 (Bollen 1989). Smaller samples are not recommended because they may result in nonconvergent solutions and nonnormality issues. On the other hand, sample sizes greater than 500 may be too sensitive to sampling fluctuations. A relative small variation in the sample may be interpreted as differences between the observed and expected covariance matrices, which further lead to erroneous Type I errors with regard to the χ^2

statistic and associated indices (Anderson and Gerbing 1988). Therefore, the targeted sample was 600 U.S. manufacturers, taken into account the possible low response rate. To increase the response rate, the survey included a personalized cover letter that introduced the study and its importance. The cover letter also emphasized that all responses will be anonymous and confidential. Finally, the participants were offered a small donation to a charity of their choice, and a copy of the survey results in return.

Data Collection

The collection of data involved multiple stages. First, six in-depth interviews were conducted with export managers. The work experience of these managers ranged from small family firms to large multinational corporations. They were all directly involved with their companies' export operations and provided a subjective view on the challenges of relationship management with foreign distributors. In addition, academics of international channel studies and international commercial litigation lawyers were also consulted to better understand the structure of the export channel relationship. Second, secondary data was also obtained from export relationship management studies, news press, and legal literature on disputes in international channels in order to identify a list of noncooperative incidents. Third, a large scale survey was used to collect data necessary to test the hypothesized relationships.

A mailing list of U.S. manufacturers that export was purchased from the American List Counsel. Information included in the mailing list was company names, addresses, phone numbers, contact names, and titles of the contact. Pre-notification phone calls were then made to the mailing list to verify addresses and identify key informants. A package with a survey, a personalized cover letter, and a postage-paid business reply envelope was sent to 600 U.S. based export manufacturers. Two weeks later, a reminder note was sent to these respondents. Follow-up phone calls were made to non-respondents three weeks after the initial mailing. A second mailing was sent after the follow-up phone calls. This mailing included a personalized cover letter, a replacement of the survey and a postage-paid business reply envelope.

Survey Instrument and Measures

Questionnaire development was performed in several stages. First, the relevant literature on channel governance, channel opportunism, relationship marketing, and export strategy-performance was reviewed in order to utilize existing scales appropriate for the study. While the scales for most of the constructs were available, modifications are needed due to the change of unit of analysis from relationships to individual incident in this study.

Second, preliminary interviews were conducted with executives of export firms and academics familiar with issues of noncooperation in international distribution channels, and a director of an export assistance center, a government sponsored agent that assists U.S. manufacturers to export. The purpose of this step was to facilitate construct identification (e.g. incidents of noncooperation), and enhance validity. Interviews revealed a list of issues of primary concerns to U.S. export manufacturers when collaborating with foreign distributors, and verified the presence of theoretically hypothesized responses to incidents of noncooperation. Operationalization of the theoretical constructs was better grounded in export practice through these qualitative interviews. Upon identification of these significant constructs, seven-point Likert scales were developed to measure individual constructs via statements such as “strongly agree”

(1) to "strongly disagree" (7). Some classification questions such as sales figures and number of employees were open-ended. According to Dillman (1978), the use of Likert scale reduced the response costs to managers. The statements were then presented to the executives and experts in order to evaluate whether the statements were appropriately worded to the export context. Modifications were made based on the feedback and then the statements were placed in a questionnaire format.

Third, 100 U.S. export manufacturers were randomly selected and sent a preliminary questionnaire as a pre-test to evaluate questionnaire length, individual item content and length of the survey. A telephone debriefing was made to respondents and suggestions by the respondents were incorporated into the design. In this manner, the quality of scale development was enhanced. Fourth, the final questionnaire was printed in a booklet form, following the suggestion of Dillman (1978). A separate cover page was attached to indicate the importance of this research, the sponsor of the study (Center for International Business Education and Research at Michigan State University MSU-CIBER), and time estimated to complete the survey. As further incentive to increase the response rate, an offer to make a small donation to a charity of the respondent's choice was promised to each respondent, in addition to a copy of the research findings. These charity organizations include American Cancer Society, American Red Cross, United Way, Big Brothers/Big Sisters of America, Humane Society, Salvation Army, Boy Scouts/Girl Scouts of America, and World Wildlife Fund.

The unit of analysis was established as follows. Respondents were asked to consider only one of their foreign distributors who meet the following three criteria: 1) this foreign distributor did not meet the performance expectations of the exporter and the exporter subsequently took action to resolve the issue, 2) this distributor is located in a strategically important export market, and 3) this distributor is one that the exporter is currently working with or was recently terminated. It is hoped that with these parameters, respondents would answer the questions with respect to a single distributorship where an incident of noncooperation had occurred. These criteria further set up the appropriate relationship context of the study and screened out the international distribution partnerships where no memorable incidents of noncooperation were identified.

Table 3 A List of Country of Origins of Lawsuit Parties

<table>
<tr><th></th><th>Relational Cultures</th><th>Transactional Cultures</th></tr>
<tr><td></td><td>Latin America
• Argentina
• Venezuela
• Puerto Rico</td><td>West Europe
• Italy
• France
• Germany
• U.K.
• Switzerland</td></tr>
<tr><td rowspan="3"></td><td rowspan="3">Southeast Asia
• China
• Japan
• Thailand</td><td>East Europe
• Czech Republic</td></tr>
<tr><td>North America
• Canada
• U.S.</td></tr>
<tr><td>New Zealand</td></tr>
<tr><td>Number of Lawsuits</td><td>11</td><td>14</td></tr>
</table>

CHAPTER 5

A QUALITATIVE STUDY OF EXIT RESPONSE STRATEGY

In this chapter, a process-based model is developed on the response strategy of exit to NCIs in international distribution partnerships. Literature on relationship dissolution, combined with 25 legal cases, provide a guideline for the development of the process-based model. This chapter begins with an introduction on the significance of exit response in international distribution partnerships. The triggers and processes of exit strategy are then delineated, drawing from findings of 25 legal case analysis (Table 5). This chapter concludes with a discussion on the implications of study findings.

EXIT RESPONSE STRATEGY: RELATIONSHIP DISSOLUTION IN INTERNATIONAL DISTRIBUTION PARTNERSHIPS

Managing international distribution partnerships has become increasingly challenging (Prahalad and Lieberthal 2003). Despite the effort that channel managers devote to collaborating with distribution partners, these relationships often end in disappointment. For example, in July 2004, one of Volvo Trucks' U.S. distributors, Reeder-Simco, terminated its distributorship of seven years because it believed Volvo was providing price concessions to other distributors that were not offered to Reeder-Simco. Similarly, JPMS, a manufacturer of Paul Mitchell hair products, terminated its three year relationship with Chinese distributor CDM, which it believed engaged in gray market activities. Both of these terminations resulted in significant losses for the exchange partners. In the case of Reeder-Simco vs. Volvo Trucks, Reeder-Simco had suffered a loss of approximately $1.9 million by the time the distributorship was terminated. JPMS, on the other hand, not only spent U.S. $1.8 million in fighting gray market activities but it also failed to open the Chinese markets for its Paul Mitchell line of products.

In order to mitigate the damaging effects of relationship dissolution, an emerging stream of research has focused on understanding this issue (Jap and Anderson 2003). Marketing and strategy scholars have investigated dissolution phenomena such as alliance failure (e.g. Park and Ungson 1997; 2001; Inkpen and Beamish 1997; Reuer and Miller 1997), buyer-seller relationship dissolution (e.g. Cox and Walker 1997; Hocutt 1998), and customer-service provider relationship failures (e.g. Coutler and Ligas 2000; Hoffman and Kelley 2000; Grayson and Ambler 1999). Although these studies provide additional insights on dissolution, they primarily delineate the determinants of relationship dissolution (from a cross-section perspective), thus providing limited insights into the longitudinal process of relationship dissolution. The business literature that has focused on the process of relationship dissolution, has only examined this process in the context of customer-service provider relationships (Coutler and Ligas 2000). However, Coutler and Ligas (2000) argue that the triggers and processes of relationship dissolution are context specific, and therefore individual attention needs to be given to the context of each study (e.g., customer-service provider, distributor-supplier) to more fully understand the issue. The overall lack of research on dissolution in the context of international distribution relationships is surprising given the disruptive nature of dissolution to a firm's overall competitiveness and the increased focus on strategies to enhance distribution relationships due to the fact that stronger channel relationships enhance firm performance.

As such, this Chapter aims to develop fine-grained insights into the underdeveloped area of the process of relationship dissolution in the context of international distribution partnerships. Specifically, twenty five legal cases of international distributor partnership terminations were analyzed in order to identify the specific type of noncooperative incidents (NCIs) that trigger relationship termination. Through the legal case analysis, two types of relationship dissolution are identified: opportunistic and legitimate. In opportunistic relationship dissolution, the initiator of relationship dissolution is also the NCI initiator, while in legitimate relationship dissolution, the initiator of relationship dissolution is the receiver of an NCI. Furthermore, the analysis of legal cases suggests that these two types of relationship dissolution derive from different types of NCIs, which are preceded by different triggers, and thus follow different processes. In order to safeguard international distribution partnerships against these NCIs, it is critical to understand the triggers and processes of relationship dissolution.

LITERATURE ON RELATIONSHIP DISSOLUTION

The triggers and processes of relationship dissolution have primarily been investigated in the context of customer-service provider relationships (e.g. Roos and Strandvik 1997; Coutler and Ligas 2000). Borrowing from the psychology literature on interpersonal relationship dissolution (Duck 1982; Levinger 1983), Roos and Strandvik (1997) model the stages a customer may go through when exiting a service relationship. They argue that relationship dissolution is triggered by a negative experience directly related to a partner, and moves through an intermediate interaction phase before termination becomes inevitable. Further, Coutler and Ligas (2000) indicate that the relationship dissolution process is lengthy. While these studies provide insights into relationship dissolution, they address the phenomenon from the perspective of an individual customer, and investigate high involvement relationships, characterized by strong affective attachment. As such, the relationship dissolution process identified in the customer-service provider context may not be directly applicable to an international distribution context.

The relationship dissolution triggers and processes of distribution parties, especially in international distribution transactions, can be significantly different for the following reasons. First, in comparison to customer-service provider relationships, international distribution relationships are characterized by limited social and emotional attachments (as these are business relationships). When a low level of attachment is present, relationship dissolution can be triggered by factors other than a negative experience associated with a focal exchange party; for example, if a manufacturer locates a more advantageous price from a competing distributor it may terminate the existing distributor. As such, relationship dissolution can take a more sudden path in the absence of strong attachments. Second, unlike in a customer-service provider context, in an international distribution context the interaction phase (e.g. discussions with the service provider) in the process of relationship termination may not be activated before its termination. Third, and more importantly, the international distribution context is more complex, inclusive of issues such as exchange rate volatility, potential for gray market activities, differences in cultural perspectives of the distribution partners, regulatory differences, etc. These inherent context differences between the extant literature and an international distribution context highlight the need for research to better understand the process of relationship dissolution within an international distribution context.

CATEGOTIES OF RELATIONSHIP DISSOLUTION

According to the findings of the legal case analysis, relationship dissolution in international distribution relationships can be classified into two categories: opportunistic termination and legitimate termination (Figure 3). In opportunistic termination, a channel partner initiates both the relationship dissolution and the NCI that triggers the dissolution. In a legitimate termination, a channel partner initiates only the relationship dissolution as a response to an NCI it receives. The fundamental difference between these two categories is whether the dissolution initiator is also an NCI initiator.

The case of *Lapinee vs. Boon Rawd* provides an example of what we term opportunistic termination.

> Lapinee (a California corporation) imported and distributed Singha beer. Boon Rawd (a Thai corporation) brewed, bottled and exported Singha beer. From approximately 1982 until 1987, Lapinee worked as Boon Rawd's sole distributor in the U.S. In the early 1980's, Singha beer was not well-established in the U.S. market, and Lapinee assisted in building a market for it. By late 1985, Lapinee had expanded its sales area for Singha beer products into Illinois, Minnesota, and Texas in addition to California, Nevada, Arizona, and Washington. According to the court's finding, in 1987, a Boon Rawd executive's demands for a share of Lapinee's business was declined by Lapinee. On October 8, 1987, Boon Rawd terminated the distributorship with Lapinee.

In this case, Boon Rawd demanded control over a well-performing distributor as the market for its product expanded. In this incident, Boon Rawd was perceived to violate the oral agreement regarding Lapinee's sole distributorship rights. Boon Rawd followed the incident of noncooperation by initiating the relationship dissolution. As noted in the case example, opportunistic termination is characterized by opportunistic behavior on the part of the relationship dissolution initiator, where opportunism is defined as the breach of explicit or relational contracts (Brown, Dev and Lee 2000; Wathne and Heide 2000), both written contracts and oral agreements.

In contrast, the case of *JPMS vs. CDM* provides an example of what is termed legitimate termination.

> JPMS is a California corporation that manufactures Paul Mitchell hair and skin care products. CDM (China Distribution and Marketing Ltd.) is a distributor that distributes and markets beauty products in China. In December, 1996, JPMS entered into a contract with CDM. The contract explicitly restricted sales of Paul Mitchell products to professional hair salons located in China, and required CDM to engage in education and training of the hair salons that were selected to sell Paul Mitchell products. In March 1998, JPMS first suspected CDM of engaging of gray market activities when JPMS discovered that retail outlets in the United States possessed several dozen bottles of Paul Mitchell products that JPMS had sold to CDM. After many investigations, including sending representatives to China, JPMS concluded in August of 1999 that CDM had engaged in gray market activities of Paul Mitchell products. As a result, JPMS initiated the relationship dissolution.

In this case, JPMS initiated the relationship dissolution as a response to the NCI by CDM (i.e., engaging in gray market activity). Relationship dissolution under this circumstance has justifiable causes, and serves as a punishment for partner noncooperation and a protection of the NCI receiver of further opportunistic NCIs.

In both legitimate and opportunistic termination, a certain level of opportunism is attributed to a channel partner. Boon Rawd was perceived to engage in opportunistic behavior in the first case, and CDM was the opportunist in the second case. Relationship dissolution is an act of opportunism itself in opportunistic termination, and serves as a punishment of partner opportunism by legitimate termination. Both categories of relationship dissolutions are pervasive in international distribution relationships. Of the 25 legal cases analyzed, forty-four percent were opportunistic terminations, with fifty-six percent being legitimate terminations.

Opportunistic Termination: Triggers

According to the findings of the legal case analysis, manufacturers initiated all 11 cases of opportunistic termination. Terminations were triggered by three primary reasons: 1) a manufacturer's ownership change, leading to the need for restructuring distribution channels; 2) a manufacturer's need to fully or partially integrate its distribution channel; and 3) a manufacturer's discovery of a better alternative distributor. The case of *Borschow vs. Burchick and Siemens* illuminates the first trigger of opportunistic termination.

> Borschow was a Puerto Rican distributor of medical equipment. Burchick was a subsidiary of Seimens. In 1975, Borschow entered into an exclusive distributorship agreement with Burdick for the distribution of medical equipment in Puerto Rico and the Virgin Islands. The 1975 agreement was modified in 1985 after Burdick was purchased by a Swedish Corporation, Kone Company. In 1989 Siemens acquired Burdick. Being aware of the obligations under the exclusive distributorship agreement with Borschow, Siemens terminated the agreement and switched to another local distributor, Mario Pelegrina, Inc.

Although firm ownership change does not always trigger opportunistic termination, it is likely to trigger it as ownership changes often are a result of a need to restructure the organization and its distribution system to improve performance (or in the case of acquisition to integrate the acquiring firm's distribution network). In some other cases, a partial ownership change was found to also trigger opportunistic termination. The case of *Geneva International Corporation vs. Radegast* demonstrates such a case.

> Geneva International Corporation was an Illinois beer wholesaler. Radegast was a Czech brewer. In 1997 Geneva entered into an agreement with Radegast and became the exclusive distributor of Kozel Beer in the United States. Some time after, Radegast merged with another Czech brewer, Pilsner Urquell, and terminated the 1997 Agreement.

Besides a manufacturer's ownership change, opportunistic termination can also be triggered by a manufacturer's need to vertically integrate its distribution channels. In the case of *Lapinee vs. Boon Rawd*, the distributorship was terminated after Lapinee declined Boon Rawd's request to share ownership of the distributorship. Another similar case *Westbrook International vs. Westbrook Technologies Inc.*

> Westbrook International, L.L.C. was a U.S. distributor. Westbrook Technologies was a Canadian corporation. Westbrook Technologies and Westbrook International entered into a distributorship agreement on December 22, 1995, in which Westbrook Technologies agreed to use Westbrook International as its sole distributor outside Canada. The agreement provided that Westbrook Technologies could not cancel the agreement for five years after the date of the agreement. Later, as a result of a dispute between the two firms over shared ownership, Westbrook Technologies canceled the agreement (December, 1996).

The third trigger of opportunistic termination involves the presence of an alternative distributor, such as in the case of *International Cosmetic Exchange Inc. vs. Continental Laboratories Medica.*

> International Cosmetics Exchange, Inc. (ICE) is a U.S. corporation that distributes ethnic cosmetic products. Continental/ Laboratories Medica SARL (CLM) is a French cosmetic product company that owns the F&W trademark in France and Europe. In June 1999, ICE and CLM entered into an agreement granting ICE the exclusive ownership and distributorship of F&W products in United Sates. In February 2000, CLM sold F&W products to another company, Gapardis Corporation in the U.S., breaching the ICE/CLM agreement. The agreement between Grapardis Corporation and CLM was likely to provide more favorable terms for CLM. In April 2000, CLM terminated the distributorship with ICE.

Opportunistic Termination: the Process

The process of opportunistic relationship dissolution can be sudden. The legal cases noted a limited amount of communication between international distribution partners before the opportunistic partner initiated the relationship dissolution. Communication only occurred after the relationship termination decision was made by the manufacturer. The process of opportunistic termination begins with an incident of manufacturer noncooperation (e.g. contracting alternative distributors, developing a direct sales force), followed by a move to termination the relationship by the NCI initiator. Distributors are often not informed of or involved in manufacturers' plan for relationship termination.

Further, of note from the legal case analysis was that sixty-four percent of the opportunistic termination cases involved power imbalance situations between international distribution parties. In the case of *Lapinee. vs. Boon Rawd*, in order to meet the domestic regulations on beer products and open the local market, Lapinee hand-labeled 1.2 million bottles of beer for Boon Rawd and created dependence on the Thailand beer producer. Later, Boon Rawd terminated the distributorship in an effort to vertically integrate Lapinee. Another case in point is that between *AIM (U.S.) vs. Valcucine (Italy)*.

> Valcucine is an Italian manufacturer of high-end kitchen cabinetry and furniture components. AIM was a U.S. distributor of kitchen products. AIM and Valcucine entered into a distributorship agreement on March 31, 1999, whereby AIM was appointed as the exclusive distributor of Valcucine Products in the United States. AIM's business consists almost exclusively of the distribution of Valcucine Products. This created power imbalance and dependence of AIM on Valcucine. In order to establish the chain of dealerships and to increase sales, AIM's owners devoted all of their professional efforts to the enterprise. In addition, AIM spent considerable amount of money to open the market for Valcucine products in the United States. AIM successfully met the financial goals set out by Valcucine in the distributorship agreement. However, Valcucine terminated its distributorship agreement with AIM in February 2002. AIM filed the lawsuit against Valcucine, alleging misappropriation of the good will and the network of the dealerships.

In other opportunistic termination cases, a significant power imbalance was demonstrated when a multinational company initiated relationship dissolution with its small distributors (e.g. *Borschow vs. Siemens*). The finding of the relationship between dependence and the process of opportunistic termination is also supported by the literature of channel relationship management (e.g. Weitz and Jap 1995; Wathne and Heide 2000; Ganesan 1994). Weitz and Jap (1995) list mutual dependence as one of essential factors that facilitate channel cooperation. When the level of mutual dependence is low, or asymmetric dependence is present in a relationship, the channel partner with less dependence or more power is prone to engage in opportunistic termination. Furthermore, Wathne and Heide (2000) point out that a lock-in condition, or the presence of transaction specific investment, creates dependence situation, which further encourages opportunistic termination as evidenced by the legal cases.

Legitimate Termination: Triggers and Processes

Legitimate termination is triggered by noncooperation from either a manufacturer or a distributor. From the legal case analysis, NCIs in legitimate termination primarily result from the following three factors: 1) a manufacturer's or distributor's focus on short-term gains, 2) a manufacturer's need to reduce the number of distributors, and 3) a distributor's speculation on export market risks.

According to the legal case analysis, seventy-one percent of NCIs in legitimate termination were caused by a partner's need to pursue short-term gains. For example, in the case of *JPMS vs. CDM*, to capitalize on the 20% discount JPMS granted to international distributors, the Chinese distributor CDM violated the restrictive territory agreement and resold JPMS's Paul Mitchell products back to the U.S. market for a higher profit margin. Other NCIs such as a distributor's trademark and patent infringements, and a manufacturer's direct sales to customers were also related to a distribution partner's need to pursue short-term profits.

Furthermore, NCIs in legitimate termination can also be triggered by a manufacturer's need to reduce the number of distributors. The case of *Reeder-Simco vs. Volvo Trucks* provides such an example.

> In December, 1997, Volvo Trucks announced the "Volvo Vision" to all its dealers including Reeder-Simco. In this vision, Volvo stated its goal of using fewer dealers and distributing to larger markets. In particular, Volvo aimed to double the market size of its dealers and reduce the number of dealers by half. Prior and after this announcement, Reeder-Simco noticed an increase in sales objectives requested by Volvo Trucks and a decrease in price concessions it received from Volvo. Specifically, Reeder-Simco discovered that it received few price concessions from Volvo in six important transactions that occurred between 1996 and 1998. Reeder-Simco thus suspected it was one of the dealers Volvo sought to eliminate, and filed a lawsuit in 2000.

In this case, the lack of price concessions Reeder-Simco received from Volvo Trucks was triggered by Volvo's change in distribution strategies, i.e., movement toward a concentrated distribution channel strategy.

The legal case analysis also revealed situations where a NCI in legitimate termination was a result of a distributor's speculation on export market risks. For example, the termination of the international distributorship of Jack Rowe International by Fisher Corporation illustrates such a case in point.

> Jack Rowe Marketing International was a distributor of electronics products. Fisher Corporation is a Japanese electronics manufacturer. In 1976, Jack Rowe International became distributor for Fisher Corporation's products. In 1978, Jack Rowe International and Fisher Corporation orally agreed that Jack Rowe International would distribute Fisher products to Mexico. Fisher advised Jack Rowe International of the possibility of a expected currency devaluation in Mexico in 1981. Instead of taking precautionary measures and reducing inventory levels in the Mexican market, Jack Rowe International ignored the warning and proceeded with business as usual. In February 1982, Mexico began to devalue the peso. The devaluation made Fisher products expensive in Mexico and hard to sell. By August 1982, the fall of the peso exposed Jack Rowe International to significant losses, given its large inventory of unmarketable merchandise. Jack Rowe International's purchases of Fisher merchandise slowed and performance declined in 1982.

The analysis of the legal cases indicates that the triggers of legitimate termination NCIs result in a channel partner's noncooperation in 10 essential functional areas (Table 4). These functional areas include: the use of a direct sales force, adding additional distributors, trademark and patent infringement, price discrimination, failure to fulfill orders, non-payment, counterfeit products, gray market activities, interference with business relationships, and misuse of information or misrepresentation. These functional areas can be further classified into issues that concern a manufacturer and issues that concern a distributor.

Overall, the top three issues of disputes were adding additional distributors, misuse of information, and interference with business relationships, with a frequency of 6, 3, and 3 cases respectively. Several lawsuits included issues related to multiple functional areas (e.g. additional distributors, interference of business relationships and misuse of information). For example, the case of *Siderca Corporation vs. Continental* provides one such example.

> Siderca S.A.I.C. is an Argentina manufacturer of mechanical tubing. Continental is a U.S. distributor of pipe and mechanical tubing. According to Continenal's report, in 1994, Siderca and Continental reached an oral distribution agreement which granted Continental the distributorship of Siderca's products in the U.S. Between October 1994 and July 1996 Continental placed purchase orders with Siderca on behalf of one of Continental's customers, ABB Vetco. According to Continental, Siderca failed to fulfill these orders in an appropriate or timely manner and incurred damage for Continental. In addition, Siderca also accepted and negotiated orders and sold mechanical tubing directly to Continental's customers. In 1998 Continental filed suit against Siderca alleging failure to fulfill orders, using direct sales, interference with prospective business relations, and misappropriation of proprietary and confidential information.

Incidents of noncooperation violate the essential expectations of international distribution agreements, and motivate the NCI-receiving party to initiate legitimate relationship termination. For example, in the case of *JPMS vs. CDM,* CDM violated an explicit and essential requirement of the distributorship: restriction of Paul Mitchell products to salon sales in China only. NCIs at these essential functional levels threaten the core competency of a distribution relationship, and thus indicate that central elements of collaborative among the distribution partners are lacking. Legitimate termination is therefore triggered.

The process of legitimate termination differs from that of opportunistic termination in that an interactive phase is often activated before relationship termination. In this interactive phase, distribution partners communicate their dissatisfaction, attribute the causes of NCIs, and make decisions with regard to relationship termination. The previously discussed case of *JPMS vs. CDM* presents an illustration of this interactive phase.

> In March 1998, JPMS first suspected that CDM had engaged in gray market activities of its products. JPMS discovered that retail outlets in the United States possessed the Paul Mitchell product that JPMS had sold to CDM. JPMS knew that the Paul Mitchell products had been sold to CDM, because it had coded them to identify the distributor (a common company practice). JPMS immediately contacted CDM, and was given the explanation that approximately one thousand bottles of Paul Mitchell products were stolen from the port of Shanghai in 1997, and that these bottles may have appeared in the United States. JPMS was suspicious about this explanation since some of the CDM products appearing in the United States had been sold to CDM in 1998, and therefore could not have been part of the 1997 theft. In addition, CDM did not report any theft to the Chinese police.
>
> On May 21, 1998, JPMS extended the CDM contract until December 31, 1998 because of the lack of definitive proof of gray market activities. The renewal contract, like the initial contract, explicitly prohibited gray market activities by CDM of Paul Mitchell products.
> During this period, JPMS was becoming increasingly suspicious of the CDM operation. As more Paul Mitchell products sold to CDM appeared in the United States, JPMS requested documentation demonstrating CDM's inventory and sales controls. As early as March of 1999, Luke Jacobellis, JPMS's Chief Operating Officer, concluded that CDM had no controls in place. JPMS also began noticing that CDM's orders, inventory and sales reports did not match. As a result, JPMS hired private investigators to look into CDM.
>
> JPMS subsequently refused to renew CDM's contract for 1999 unless the officers of CDM provided a $ 1,000,000 personal guarantee that CDM would not engage in gray market activities. CDM's officers refused to provide the guarantee and CDM's contract was not renewed. Nonetheless, JPMS shipped products to CDM in 1999 on an order-by-order basis.

In August of 1999, a JPMS employee traveled to China to review CDM's distribution network. Based on her report, JPMS concluded that CDM had deceived JPMS. Shortly after, JPMS initiated a lawsuit.

In this case, when JPMS first detected gray market activities it initiated communication with its Chinese distributor. CDM provided unconvincing reasons for the gray market Paul Mitchell products, considering 1) the time gap between the theft and the display of Paul Mitchell products in the U.S. market, and 2) the lack of a report about the theft to the Chinese police. Without definite proof, JPMS continued its transactions with CDM. Meanwhile, it initiated more investigations, which included 1) requesting documentation of CDM's inventory and sales control, 2) hiring private investigators to look into CDM, 3) requesting a personal guaranty of non-gray market activities from CDM, and 4) sending an employee to China and review CDM's distribution network. After all these investigations, JPMS made a definite attribution of opportunism to CDM, and terminated the distributorship. In this case, the interactive phase was activated in order to collect information and made correct attributions of NCIs before a termination decision was made. In other words, a validation effort was made in the interactive phase.

In other cases, distribution partners negotiated potential remedies of NCIs during the interaction phase attempting recovery. The previously discussed case of *Jack Rowe vs. Fisher Corporation* demonstrates this situation.

In an attempt to continue the distributorship relationship, given the intense financial stress Jack Rowe encountered after the peso devaluation in 1982, the owner of Jack Rowe International asked to return the merchandise to Fisher, or receive extra price discounts. Fisher did not approve the request. Fisher also notified Jack Rowe International that it required Fisher's permission before selling inventory outside its territory. On April 26, 1983, the owner of Jack Rowe sent a letter to Fisher, stating that Jack Rowe International had found it necessary to cease business with Fisher. Fisher treated this letter as a notice of self-termination by Jack Rowe International. Jack Rowe International, however, argued that this letter was not intended as a notice of termination, but as an emotional appeal to Fisher to put the distribution back on track. The distributorship was eventually terminated in 1983.

Overall, the interactive process is important in legitimate termination. During this phase, the NCI-receiving party as well as the relationship termination initiator collects information, validates attributions of the NCI, and negotiates potential remedies. However, validation efforts and recovery attempts in the interactive process often lead to legitimate termination.

Furthermore, the analysis of the legal cases indicated that international distribution partners are more likely to initiate the interactive phase when a distribution relationship is of relatively long history (whether formal or informal). For example, in the case of *JPMS vs. CDM*, although the length of distributorship was relatively short, the CEO of JPMS had known the president of CDM for 17 years before they entered into the distribution agreement of Paul Mitchell products in China. In the case of *Jack Rowe vs. Fisher Corporation*, Jack Rowe entities had a 12-year distribution partnership with Fisher Corporation before its eventual termination. This finding is consistent with the discussion on relationship history in channel relationship management studies (e.g. Dwyer, Schurr and Oh 1987; Jap and Ganesan 2000). Dwyer, et. al. (1987) suggest that a primary character of relational exchanges is a relatively long transaction history that promote relationship maintenance. Furthermore, subsequent studies on channel relationship management include relationship history measures in their empirical model testing (e.g. Ganesan 1994; Jap and Ganesan 2000). Jap and Ganesan (2000) empirically test the effect of relationship history on commitment. It is argued that a long history of exchanges increases the familiarity between transaction parties, which made it desirable to recuperate relationships, as opposed to directly seek for relationship termination in the face of NCIs.

Finally, it is important to note that the process model developed is iterative in that under the process of legitimate termination the possibility exists to avoid relationship dissolution via the interaction phase of recovery attempt. If successful the relationship adjusts to the NCI (e.g., through governance change, socialization, etc.) and continues until the next trigger occurs (thus subjecting the relationship to either the process of opportunistic or legitimate termination). As such, the proposed model (i.e., Figure 3) can be viewed as incorporating a feedback loop from relationship continuation to the set of NCI triggers. This path is not specifically modeled here as the focus of this study is on relationship dissolution.

DISCUSSION

This Chapter investigates relationship dissolution in the context of international distribution partnerships. Contrary to the belief that relationship dissolution follows one stage or a reversal process of relationship development (as suggested by Dwyer, Schurr and Oh 1987), this study proposes two distinct dissolution processes of international distribution relationships, namely, legitimate and opportunistic termination. In particular, drawing from an analysis of legal cases, differing triggers and processes of each type of relationship dissolution were identified. Whereas, legitimate termination often experiences an interactive phase before its eventual termination, opportunistic termination directly moves to relationship termination after an incident of noncooperation is initiated. Further, the process model of relationship dissolution also points out that relationship dissolution does not follow similar processes to relationship development:

relationship development is bilateral (Dwyer, Schurr and Oh 1987), yet relationship dissolution is unilateral, i.e., it takes only one partner to engage in NCIs and initiate relationship dissolution. As such, this study increases our understanding of the types of relationship termination processes.

More importantly, through the analysis distinct triggers of the two types of relationship dissolution were identified. Opportunistic termination was triggered by a manufacturer's ownership changes, its need to integrate channels, or its discovery of more competitive distributors. Legitimate termination, on the other hand, was a result of a manufacturer's or distributor's opportunism in ten essential functional areas. These findings suggest that in order to prevent or prepare for unexpected relationship dissolution, an international distribution manger should monitor changes in the triggering areas. For example, if a distributor pays close attention to a manufacturer's ownership change or policy change regarding distribution management, it can more appropriately prepare for the possibilities of relationship termination.

In addition, the role of attribution is emphasized in the process-based model. Incidents of noncooperation are only able to trigger the dissolution process when partner opportunism attributions are made. The process-based model suggests that it is important for distribution managers to engage in information collection when determining the attributions of an NCI. In particular, when evidence is sufficient to support the attribution of partner opportunism, managers may be better off making a timely decision on relationship termination.

The function of the interactive phase in legitimate termination is also highlighted in the process-based model. This phase is often characterized by negative communication between international distribution partners, such as threat of termination, venting, and complaining that eventually leads to relationship termination. In contrast, communication in collaborative relationships tends to be expressed through open information exchange and constructive discussions on the causes of negative outcome events (Hibbard et. al. 2001). This difference in communication styles further reflects the unique communication processes that result in relationship success or failure. Therefore, it is important for international distribution managers to adopt a problem-solving approach and open exchange of information in the process of coping with an incident of noncooperation. By doing so, they may be able to prevent valuable relationships from dissolving and enhance relationship recovery.

In summary, this chapter depicts two types of relationship terminations (exit) in international distribution partnerships. The analysis of the 25 legal cases reveals the different triggers and processes of these two types of termination. Following this detailed investigation of the exit response strategy, the next chapter provides an empirical test for the overall model of response strategies to NCIs in international distribution partnerships. The relationships between NCI attributions, response strategies, and performance outcomes are tested using a large scale survey of U.S. export manufacturers.

Table 4 Noncooperative Incidents in International Distribution Partnerships

Initiators of NCIs	Functional Areas	Number of Occurrence
Manufacturers	Uses direct sales force	2
	Adds another distributor	3
	Misrepresentation/misuse of information	6
	Interferes with contractual relationships	3
	Fails to fulfill orders in an appropriate or timely manner	1
	Engages in price discrimination	3
Distributors	Fails to make payments	1
	Participates in gray market activities	1
	Sells counterfeit products that lead to customer confusion	1
	Engages in trademark/patent infringement	2
	Engages in fraudulent/negligent misrepresentation	1

Figure 3 **A Process Model of Relationship Dissolutions in International Distribution Partnerships**

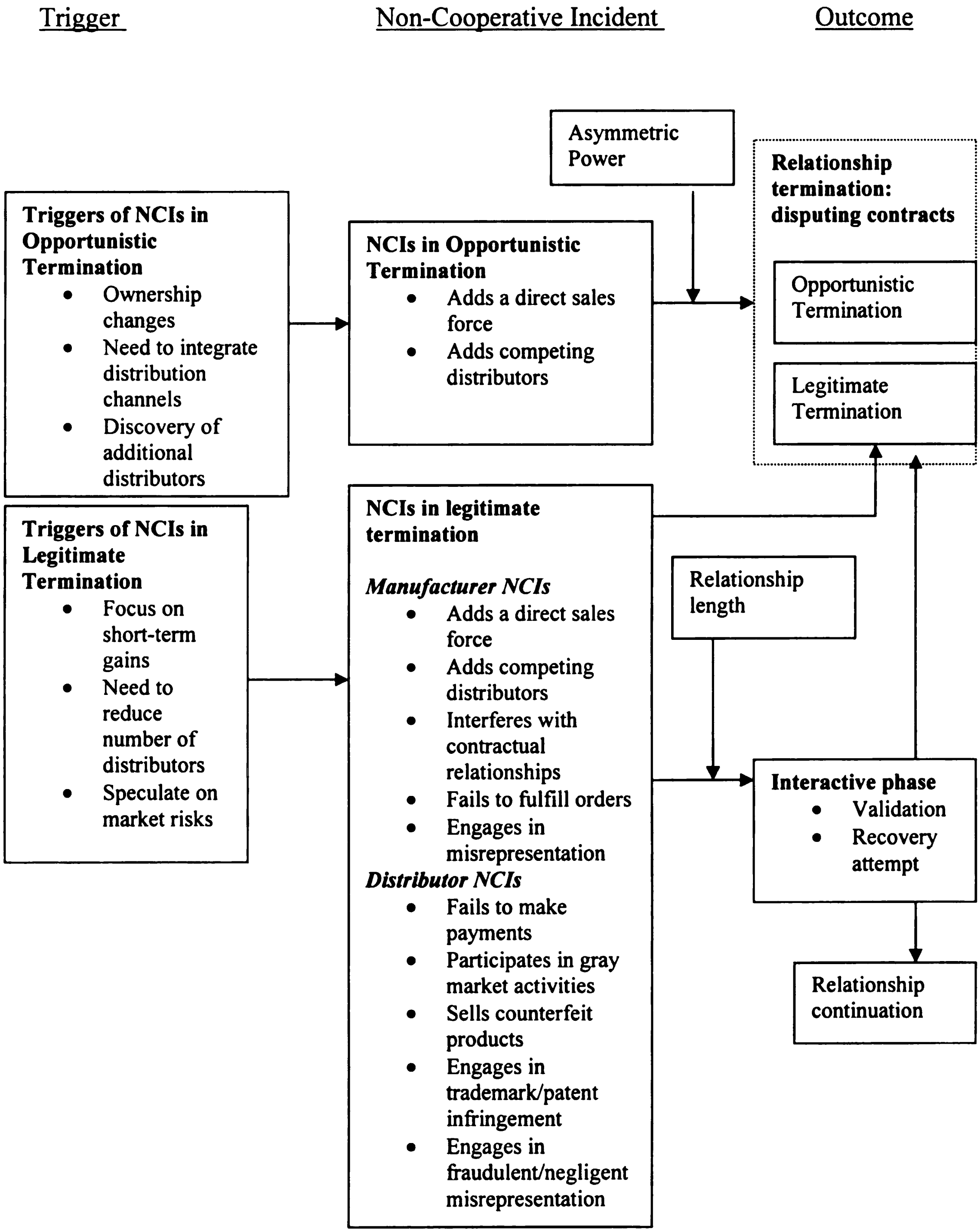


Table 5 A Summary of Legal Cases Analyzed

Legal cases	Distributor/COO	Manufacturer/COO	Functional Areas	Sequence of events that lead to termination
Continental Casing Corporation vs. Siderca Corporation (2001 Texas App. Lexis 675 38 S.W. 3d 782)	Continental/U.S.	Sidera/Argentina, Mechanical Tubing	1. Used direct sales force; 2. Failed to fulfill order in a timely manner; 3. Interfered with contractual relationships; 4. Misused information	1. In 1994, informal discussion of forming distributorship; 2. In Oct. 1994, reached oral agreement 3. From 1994 to 1996, distributorships functioned well 4. In 1996, Siderca used direct sales force
John Paul Michell Systems vs. China Distribution and Marketing, Inc., et. al. (2000 U.S. Dist., southern dist. Of New York, Lexis 7937, 106 F. Supp. 2d 462)	China Distribution and Marketing/China	JPMS/U.S. Hair products	1. Engaged in gray marketing	1. In 1996, communication about building distributorship in China 2. In 1996, entered contract and 1.5 year in duration 3. JPMS invested in Chinese market 4. In 1998, JPMS suspected gray marketing 5. In 1998, JPMS carried out private investigation
Viva Vino Import Corporation vs. Farnese Vini S.r.l. (2000 U.S. Dist., Eastern dist. Of Pennsylvania, Lexis 12347, Civil action no. 99-6384)	Viva Vino Import Corp./U.S.	Farnese Vini S.R.L./Italy Wine producer	1. Interfered with contractual relationships; 2. Engaged in misrepresentation	
Geneva International Corporation vs. Radegast (2000 U.S. Dist., Northern dist. Of Illinois, eastern division, Lexis 18881, No. 00 c 0152)	Geneva International Corp/U.S.	Radegast/Czech Brewer Beer Brewer	1. Opportunistic termination of a beer distributorship	1. In 1997, entered the agreement 2. In 1997, Radegast merged with another Czech brewer 3. Redagast proposed to terminate the distributorship
International Cosmetic Exchange, Inc., vs. Continental Laboratories Media (2001 U.S. Dist., southern dist. Of Florida, Lexis 24543, Case no. 00-2280-CIV-HUCK)	International Cosmetic Exchange/U.S.	Continental Laboratories Media/France Cosmetic products	1. Added another distributor; 2. Distributor sold counterfeit products	1. In Apr. 1999, entered binding agreement 2. In Feb. 2000, added another distributor 3. In Mar. 2000, discovered distributor selling counterfeit products
Regency Wines, Inc., vs. Champagne Montaudon (2002 California app., 2nd appellate dist., division eight, 49 U.C.C. Rep. Serv. 2d 424)	Regency/U.S.	Champagne Montaudon/France	1. Engaged in misrepresentation; 2. Interfered with contractual relationships; 3. Opportunistic termination	1. In 1997, entered oral agreement 2. Regency invested in the relationship 3. In 1998, Regency developed relationship with COSTCO 4. Champagne terminated the contract and switched to another distributor

Legal cases	Distributor/COO	Manufacturer/COO	Functional Areas	Sequence of events that lead to termination
Majestic cars vs. Maserati and Ferrari	Majestic cars/U.S.	Maserati and Ferrari/Italy Sport car	1. trademark infringement	1. In 1986 reach agreements 2. In 1989 renew contracts 3. In 1990 stopped making cars for the U.S. Market; transferred to Ferarri S.P.A. 4. In 2002, establish subsidiary direct sales force 5. Terminate dealers
Finest/H.K. China and Ponica/U.S. vs. Westvaco (2002 U.S. Dist., southern dist. of New York, Lexis 15476, 00 Civ. 9399)	Finest/H.K. China and Ponica/U.S.	Westvaco/U.S. DVDs and Disks	1. Patent Infringement	
AIM vs. Valcucine (2002 U.S. Dist., southern district of New York, Lexis 10373, 02 Civ. 1363)	AIM/U.S.	Valcucine and IBI/Italy High-end kitchen products	1. Opportunistic termination of the distributorship	1. In 1999 form exclusive distributorship 2. AIM invested in building distribution network 3. AIM met financial goals 4. Valcucine terminated the distributorship
Achilles vs. Kaepa (1996 U.S. App. 5th circuit, Lexis 2306, 76 F. 3rd 624)	Achilles/Japan	Kaepa/U.S.	1. misrepresentation	1. In 1993 April, K and A entered exclusive distribution agreement 2. K became unsatisfied with A's performance 3. In 1994 K filed lawsuit of A inducing K enter the agreement.
Lapinee Trade Inc. vs. Boon Rawd brewery (1996 U.S. App. 7th circuit, Lexis 18750, 91 F. 3rd, 909)	Lapinee Trade Inc./U.S.	Boon Rawd Brewery/ Thailand	1. Opportunistic termination of the distributorship	1. In 1982-1987, the distributorship functioned well 2. L invested in the relationship (e.g. hand-label 1.2 million bottles of beer) 3. L expanded markets for B 4. B wants to vertically integrated L 5. B Terminate the contract
Maxon Engineering Services v United Science (1998 U.S. Dist., Puerto Rico, Lexis 20845, 34 F. Supp. 2d 97)	Maxon Enginering Services/ Puerto Rico	United Sciences/U.S.	1. Opportunistic termination of the distributorship	1. 1996, Feb, enter IDA. 2. 1997, Jul, termination of agreement
Westbrook International L.C.C., vs. Westbrook Technologies Inc. (1998 U.S. Dist., eastern dist. of Michigan, southern division, Lexis 13325, 17 F. Supp. 2d 681)	Westbrook International/U.S.	Westbrook Technologies Inc./ Canada	1. Opportunistic termination of the distributorship	1. In 1995, entered exclusive distributorship with 5 years in duration 2. disputes arose over ownership 3. In 1996, Technologies canceled agreements on occasions 4. International L.C.C. filed lawsuit in 1997
Biosynth AG vs. U.S. importer	Importer/U.S.	Biosynth AG/Switzerland	1. Used a direct sales force; 2. Engaged in misrepresentation	
SOS vs. Dockside	SOS/New Zealand	Dockside/U.S.	1. Violated pricing terms; 2. Engaged in misrepresentation	

Legal cases	Distributor/COO	Manufacturer/COO	Functional Areas	Sequence of events that lead to termination
J. Atkins Holdings Limited vs. Equity Investment and English Discounts, Inc., et. al. (1990 U.S. Dist., southern dist. of New York, Lexis 434, 729 F. Supp. 945)	J. Atkins Holding/Pureto Rico	Equity Investment/Canada	1. Opportunistic termination of the distributorship	1. In 1989, entered exclusive distributorship 2. In Dec. 1989, Equity terminated the distributorship and switched to another distributor
The Coleman Company, Inc. vs. Cargil International Corp. (1998 Florida App. 3rd dist. Lexis 15513, 731 So. 2d 2)	Cargil International/ Vanezuela	Coleman/U.S.	1. Breach of oral distributorship agreement	
Twi Lite International, Inc. vs. ANAM Pacific Corp., et. al. (1996 U.S. Dist. northern dist. of California, Lexis 16060, No. C-96-2323 and No. C-96-2664 S.I.)	Twi Lite/U.S.	ANAM Industrial Co./Korea	1. Engaged in trademark infringement	1. In Dec. 1995, entered non-exclusive distributorship agreement 2. In Mar. 1996, recalled ANAM products 3. In Mar. 1996, Twi Lite discovered another distributor
Reeder-Simco GMC, Inc. vs. Volvo Truck North America, Inc. (2004 U.S. dist. 8th circuit, Lexis 14231, 374 F. 3d 701)	Reeder-Simco GMC/U.S.	Volvo Trucks North America/German	1. Price discrimination	1. In 1995, Reeder signed a franchise agreement with Volvo for a 5 year term. One year extension if sales target met 2. Reeder claimed that Volvo gave other dealers more favorable price concessions 3. In Feb. 2000, Reeder filed the lawsuit
Joseph Victori Wine vs. Vinos	Joseph Victori Wine/U.S.	Vinos/Spain	1. Failed to make payments	1. In Nov. 1986, Vinos sold wine to Victori and Victori refused to pay 2. In Dec. 1986, Vinos filed lawsuit
Jack Rowe Associates, Inc., Marketing International, Inc. vs. Fisher Corporation (1987 U.S. App. 9th circuit, Lexis 15566, 833 F. 2d 177)	Jack Rowe Marketing International/U.S.	Fisher Corporation/Japan	1. Opportunistic termination	1. In 1978, Jack Rowe started the distribution of Fisher's products in Mexico 2. In 1981, Fisher warned Rowe of peso devaluation and Rowe ignored the warning 3. In 1982, Rowe's performance declined 4. In 1983, Rowe threatened to ended business with Fisher 5. Fisher terminated the distributorship
High Tech Communications, Inc., vs. Panasonic Company (1995 U.S. Dist., eastern dist. of Louisiana, Lexis 1903, Civil action no. 94-1477, section "R")	High Tech/U.S.	Panasonic Corporation/Japan	1. Engaged in price discrimination	1. In 1991, entered distributorship agreement 2. In 1994, Panasonic used false invoice to support price discrimination

Legal cases	Distributor/COO	Manufacturer/COO	Functional Areas	Sequence of events that lead to termination
A-Hionis LTD vs. The Tandy Corporation (1994 U.S. Dist. Delaware, Lexis 16089, 867 F. Supp. 268)	A-Hionis Ltd./Greek	Tandy/U.S.	1. Added another distributor	1. In Dec. 1991, entered distributorship agreement and license agreement 2. In May 1991, A-Hionis opened up stores 3. In Dec. 1992, A-Hionis discovered competing distributors 4. 1994 A-Hionis filed lawsuit
Borschow Hospital & Medical Supplies, Inc. vs. Burchick/Simens Corp. (1992 U.S. Dist. Puerto Rico, Lexis 15669, 143 F.R.D. 472)	Borschow/Pureto Rico	Burchick/U.S. and Siemens	1. Opportunistic termination of the distributorship	1. In 1975 formed exclusive distributorship 2. In 1984, Burchick was purchased by a Swedish Corp and modified the agreement 3. In 1989, Siemens acquired Burchick 4. In Jun. 1989, Siemens terminated the agreement and contracted another distributor
Daihatsu Motor Co., Inc., vs. Terrain Vehicles, Inc. (1992 U.S. Dist. northern dist. of Illinois, Eastern Division, No. 92 C 1589)	Terrain Vehicles/U.S.	Daihatsu Motor Co. ltd/Japanese	1. Violation of various state motor vehicle franchise acts	1. In 1983, entered 3 year in duration distributorship agreement 2. In 1986, Terrain filed suit

CHAPTER 6

QUANTATATIVE ANALYSIS AND FINDINGS

ANALYTICAL APPROACH

A multi-step approach to data analysis was adopted in this study. First, potential non-response bias was evaluated by comparing early and late respondents in terms of annual sales, number of full-time employees, and the dependent constructs under study. Second, descriptive statistics were calculated and potential non-normality problems were assessed. Third, the reliability of the individual constructs was computed using Cronbach alpha coefficients. Following Nunnally (1967), a minimum acceptance level of 0.6 is adopted. Items with low item-factor loading (<.6) were removed in order to improve internal consistency of the scale.

After purification of the measurement model, Confirmatory Factor Analysis (CFA) was used to evaluate construct validity. A second-order confirmatory factor analysis was conducted for the relational equity and export channel performance dimensions. Due to the small sample size to parameter ratio, a CFA was run for the antecedent variables (NCI attribution), mediating variables (response strategies) and outcome performance variables (relational equity and export channel performance) separately. Following this, Anderson and Gerbing's (1988) two-stage procedure of structural models was employed. Items of the individual constructs were averaged and the mean score was used in the path analysis. Furthermore, bootstrapping was also adopted to test for potential non-sampling errors introduced by small sample to parameter ratio.

RESPONSE RATE AND NONRESPONSE BIAS

The initial mailing consisted of 600 surveys. Of these surveys, 15 were returned due to incorrect addresses or individuals who no longer worked for the contacted firm. 91 responded by stating that they were either unwilling to participate in the study or no longer use foreign distributors. There were 7 surveys that were returned with limited responses. This resulted in the return of 55 usable responses, for an effective response rate of 11%. Missing data were handled by first sort data by the most important dependent variables, in this case, the measures of relational equity. Then linear interpolation was performed using SPSS 10.0. No significant mean differences of variables were found between the original dataset and the dataset after replacing missing values.

A common method of evaluating nonresponse bias is to compare early versus late respondents based on the profiles of their annual sales and number of employees (Armstrong and Overton 1977). This method is used to test nonresponse as research has shown that the characteristics of late respondents are similar to those of nonrespondents (Armstrong and Overton 1977). To assess nonresponse bias, the responses were divided into two groups based on the date they were received. A t-test was used to evaluate the mean difference of annual sales and the number of employees between the two groups. The results are displayed in Table 6. The tests show that no significant difference exists between the early and late respondents. With these comparisons, it can be concluded that the responding sample is representative of the sampling frame of exporters.

SAMPLE CHARACTERISTICS

A profile of the survey's respondents is presented in Table 4 (means are reported). The respondents represent export managers, vice presidents, international directors, and sales managers that work extensively with foreign distributors. The years of export experience range from 4 to 75, with a mean of 26.75 years. The wide range in experience indicates that the respondents are likely to be in various stages of international experience and would provide good variance regarding their insights into international distribution partnerships.

As illustrated in Table 7, a large percentage of respondents are small to medium-sized firms that have moderate international experience. Most firms in the sample have annual sales of less than $100 million (76%), and less than 500 employees (88%). Export sales are not a major part of their business, the export sales of 91% of the respondents being less than 50% of their total sales. Interestingly, the responding firms seem to have relatively rich experience with international business, and 88.5% of the firms export to at least 5 international markets. These statistics suggest that the profiles of responding firms are small to medium size companies that have relative rich export experience, yet insignificant sales from the export market.

DATA QUALITY AND CONSTRUCT VALIDITY

The quality of the data is assessed by computing the means, standard deviations, kurtosis and skewness of each item. Kurtosis values of all items are below 2, and the skewness of all items is acceptable and below 5.00. All items fall within the specified range of univariate normality. In order to increase measurement quality and purify the measures, an Exploratory Factor Analysis (EFA) was conducted for all the items in the hypothesized model. Items with high cross-loadings and/or low factor loadings were dropped if they did not contribute to the construct's explanation or provide added insight into the domain of interest. Cronbach's alpha was then computed for each construct to assess reliability of existing construct measurements. Alpha values for all the constructs in the hypothesized model were above the acceptable minimum standard of .60 (Nunnally 1967). Opportunism attribution of NCIs shows the lowest alpha with .814 while the financial performance measures show the highest value of .985. External factor attribution, response strategy measures, and other measures of changes in relational equity and export channel performance all demonstrated high internal consistency of measurements, with alpha values of .98 for all constructs. This can be credited to the study design of adopting/modifying well-established scales whenever possible, and combining with input from in-depth interviews with experts in managing international distribution relationships. The high reliability coefficients for model constructs indicate that each construct in the hypothesized model has achieved adequate measurement reliability.

Table 6 Nonresponse Bias – Early vs. Late

Variable	Early response mean (in $M) (n)	Late response mean (in $M) (n)	2-tail significance
Sales	603.98 (25)	788.65 (10)	.776
Employees	390.38 (34)	696.06 (16)	.427

Table 7 Sample Characteristics

Dimension	Mean	Median	Range	% of Firms
Firm Size (# of employees	488	57	Less than 50	36
			50 - 499	52
			500 – 5000	12
Annual Sales (Millions)	676	18.5	Less than 10M	35.3
			10 – 99M	41.2
			50 – 99M	26.4
			100 – 999M	5.9
			1000 or more	17.6
Export Sales (% of total sales)	21.6	20	Less than 10%	27.7
			10 – 29%	51
			30 – 49%	12.8
			50 – 100%	8.5
Years of International Experience	26.8	20	Less than 5 years	1.9
			5 – 10	9.6
			11 – 24	44.3
			25 - 49	25
			40 -75	19.2
Number of Distributors	32.9	10	Less than 10	46.9
			10 – 49	38.8
			50 – 99	6.1
			100 – 530	8.2
Number of Markets	28.7	20	Less than 5	12
			6 - 24	44
			25 - 49	24
			50 - 120	20

After an initial exploratory factor analysis (EFA) approach, confirmatory factor analysis (CFA) was used to assess the unidimensionality of measurement scales. The majority of the constructs were developed from existing measurements at relationship level, and were modified to suit the unit of analysis of the study. The validity of these hypothesized constructs were evaluated through a series of CFA procedures. Due to the small sample size to parameter ratio, separate CFAs were run for antecedent variables (NCI attributions), mediating variables (response strategies), and outcome variables (comparison level of relational equity and export channel performance).

CFA for NCI Attribution Variables

The multivariate normality of the data with Mardia's normalized estimate of 4.09 (Mardia 1970) is above the minimum cutoff point of multivariate normality of 1.96 (Byrne 1994). Therefore, bootstrap method estimation was used to replace maximum likelihood estimation as an appropriate method for model fit. Bootstrapping is a way of estimating standard error and significance based on empirical resampling with replacement of the data, as opposed to assumptions of multivariate normality in SEM. Taking a large number of random samples from the dataset generates information on the variability of parameter estimates or of fit indices based on the empirical samples, not on assumptions about probability theory of normal distributions. Under the condition of nonnormality, bootstrapping is likely to provide less biased parameter estimates, as compared to maximum likelihood estimation.

The bootstrap results are reported in Table 9. The model provides an acceptable fit (χ^2 (34) = 42.31, GFI = .88, CFI = 0.97, RMSEA = 0.06). All factor loadings were statistically significant at the 5 percent level, exceeding the arbitrary 0.5 standard. Thus, these measures demonstrate adequate convergent validity. All of the cross-construct correlations were significantly different from 1.0, which suggests that discriminant validity was present. Multivariate LM test indicates no cross-loadings were present among the items. In general, these results provide support for construct validity for the measures employed in the study.

CFA for Response Strategy Variables

Similarly, multivariate non-normality of the data was also detected for the response strategy variables, with Mardia's normalized estimate of 2.33, exceeding the minimum cutoff point of 1.96 (Byrne 1994). Bootstrapping estimation therefore was also considered appropriate for the CFA analysis of the response variables.

The Bootstrap results for the confirmatory factor analysis of response strategy variables are displayed in Table 9. The model provides an acceptable fit (χ^2 (59) = 68.91, CFI = 0.97, GFI = .86, RMSEA = 0.05). All the standardized factor loadings are high and significant, ranging from .617 to .985. Correlations between constructs are significantly different from 1, which indicates that discriminant validity is established. Multivariate LM test detect cross-loadings of three items. Due to the theoretical relevance of these measurements and high factor loadings with the construct they are proposed to measure, these items were kept in the CFA model. In summary, the confirmatory factor analysis indicates that construct validity was established for response strategy measurement.

CFA for Performance Outcomes

Mardia's normalized estimate of outcome variables is 12.4, exceeding the minimum cutoff point of 1.96 (Byrne 1994). Bootstrapping estimation therefore is used for parameter estimates. The constructs comparison level of relational equity was proposed to be a second order constructs with trust and commitment as its first order constructs (c.f. Hibbard et. al. 2001). Comparison level of export channel performance was also proposed to constitute three first order constructs, financial performance, strategic performance and selling effort (Bello and Gilliland 1997). The overall fit statistics of a second-order CFA model were compared with the model where all constructs were treated as first order constructs, to demonstrate the existence of a second-order relational equity and export channel performance construct.

The second-order models of relational equity and export channel performance as a whole have a satisfactory fit to the data (χ^2 (33) = 62.38, GFI = .84, CFI =0.97; standardized RMR = .02, RMSEA =0.12 for relational equity, and χ^2 (32) = 77.80, GFI = .82; CFI =0.96, standardized RMR = .02, RMSEA =0.15 for export channel performance). Given the parsimonious nature of the second-order factor model, and the insignificant difference in fit between the two measurement models ($\Delta\chi^2$ = .01 for relational equity and 1.8 for export channel performance, $p<.05$), the second-order factor structure for relational equity and export channel performance are preferred (Hull et. al 1991). This is consistent with empirical findings of previous research (Hibbard et. al. 2001; Bello and Gilliland 1997).

For further empirical analysis, the first-order factors for the comparison levels of relational equity and export channel performance were aggregated and combined into an equally weighted composite score for the hypotheses tests. Summated scales reduce the degree of influence from measures that have low loadings (given this study's relatively small sample size) and helps to portray constructs in a single measure while reducing measurement errors (Hair et al., 1998). It is considered to have better generalizability compared to factor scores, and therefore adopted in this study.

The Effect of NCI Attributions on Response Strategies

Opportunism attribution

The first four hypotheses test the relationships between opportunism attribution of NCI and response strategies to NCIs (e.g. exit and tolerance). It is hypothesized that opportunism attribution is positively associated with exit, adjustments of socialization, and adjustments of incentives, and negatively associated with tolerance. Specifically, a NCI receiving firm would be more likely to pursue exit and activate voice (adjustments of socialization and adjustments of incentives), and less likely to be tolerant when a NCI is perceived as partner opportunism.

Path analysis using EQS 6.0 was used to test these hypotheses. Coefficients, standard errors and level of significance for original sample and bootstrap samples are presented in Table 9 and Figure 4. Bootstrap t test indicates that significant nonsampling errors are present in the original sample. Bootstrapping t tests (BST) of overall fit indices show that there is a significant difference between the overall fit indices of the original sample and those of bootstrap samples where only sample errors are present (Table 10). Therefore the results of bootstrap samples are used in the study. The overall fit indices of bootstrap samples are χ^2 (13) = 13.05, GFI = .95, CFI =0.98, RMSEA =0.03.

The hypothesized relationship between opportunism and exit is positive and significant (β= 0.600, t = 2.956, p$\leq$0. 05), which supports H_{1a}. This indicates that when a NCI receiving export manufacturer attributes an incident of noncooperation to partner opportunism, it is likely to terminate the current distributorship and seek for better alternatives.

Hypotheses H_{1b} and H_{1c} address the relationships between opportunism attribution and two types of voice responses, adjustments of socialization and adjustments of incentives. Path analysis indicates that opportunism attribution is positively associated with the adjustments of socialization and incentives, but not to a significant degree ($t = .514$ for adjustments of socialization, and $t = .755$ for adjustments of incentives). The coefficients β equal to 0.076 and 0.114, respectively. The results were surprising, as socialization and incentive structures are shown to be two primary means of curbing opportunism in distribution channels. Hypotheses H_{1b} and H_{1c} are therefore not supported.

Tolerance was hypothesized to have a negative association with opportunism attribution. The results of the path analysis confirmed this hypothesis (H_{1d}). The coefficient between opportunism attribution and tolerance is negative and significant ($\beta = -.420$, $t = 3$, $p \leq 0.05$). This finding confirms that an export manufacturer is less likely to tolerate a NCI when partner opportunism attribution is made.

External factor attribution

External factor attribution was predicted to have a negative effect on exit (H_{2a}), adjustments of socialization (H_{2b}), and adjustments of incentives (H_{2c}), and a positive effect on tolerance (H_{2d}). In particular, when a NCI receiving party considers the incident of noncooperation as a result of external environmental factors, it is more likely to be tolerant, and less likely to respond by relationship termination or adjusting social and incentive structures.

The hypothesized relationship between external factor attribution and exit is negative yet insignificant (β= -.154, t = .832, p>0. 1), which fails to support H_{2a}. Surprisingly, external factor attribution is positively and significantly associated with adjustments of socialization and incentives, contrary to the hypothesized negative relationships between them. The coefficient β is 0.362 ($t = 2.68$, $p<0.05$) for external factor attribution and adjustments of socialization, and .260 ($t = 1.90$, $p<0.1$) for external factor attribution and adjustments of incentives. Therefore, Hypotheses H_{2b} and H_{2c} are not supported. Furthermore, the hypothesized positive relationship between external factor attribution and tolerance (H_{2d}) was confirmed. External factor attribution is positively and significantly associated with tolerance (β= 0.323, t= 2.52, p<0. 05). The result indicates that an export manufacturer is likely to be more tolerant when an incident of noncooperation is attributed to external factors.

Outcomes of response strategies

Response strategies to NCIs are hypothesized to have differential effects on the comparison levels of performance of an international distribution partnership. Performance is conceptualized and measured in this study as the comparison levels (CL) of relational equity and export channel performance. It is hypothesized that recuperative responses, including adjustments of socialization, adjustments of incentives and tolerance, have positive relationships with CL relational equity and CL export channel performance.

The hypothesized positive relationships H_{3a} and H_{3b} between adjustments of socialization and the comparison levels of outcomes are supported in this study. A positive and significant relationship was found for adjustments of socialization and CL relational equity (β= 0.535, t = 3.640, p<0. 05). This indicates that when adjustments of socialization is activated in response to an incident of noncooperation, CL relational equity level (trust and commitment) significantly increases. The hypothesized positive relationship between adjustments of socialization and CL export channel performance was also supported (β= 0.321, t = 2.23, p<0. 05). The finding suggests that the export channel performance of a focal international distribution partnership is likely to improve after resolving an NCI if adjustments of socialization were used as the response.

Contrary to the hypotheses H_{4a} and H_{4b}, adjustments of incentives does not seem to have a significant relationship with either CL relational equity or export channel performance, although the relationships are positive. The coefficient β is -0.121 (t = .080, p>0. 1) for the comparison level of relational equity and adjustments of incentives, and .175 (t = 1.19, p>0.1) for the comparison level of export channel performance and adjustments of incentives. The adjustments of incentives, as a response strategy to NCIs, have insignificant effects on the comparison levels of relational and economic performance of a focal international distribution partnership.

Tolerance is predicted to have positive relationships with both the comparison level of relational equity and export channel performance (H_{5a} and H_{5b}). Specifically, the tolerance demonstrated by a NCI receiving export manufacturer is hypothesized to be able to improve post act relational equity and economic performance of a focal international distribution partnership. The path analysis found partial support for these hypotheses. There is a positive but not significant relationship between tolerance and the CL of relational equity (β= 0.481, t = 3.511, p<0.05). The hypothesized positive relationship between tolerance and CL export channel performance was confirmed (β=

0.531, $t = 3.963$, $p<0.05$). The result shows that tolerance does seem to have a significant influence on the comparison level of export channel performance.

Potential control variables

Bivariate correlations were also computed for the focal constructs and potential control variables. The control variables used in this dissertation include intensity of an NCI and a responding party's dependence on an NCI initiator, following Hibbard et. al. (2002). Intensity of an NCI is defined as the damage caused to an NCI receiving party. Dependence refers to the degree that a responding manufacturer relies on the NCI initiator distributor for distributing products in the export market.

The results for correlation analysis are presented in Table 11. Both intensity and dependence do not have significant correlations with NCI attribution variables. Except for exit response strategy, no significant relationships were found between intensity, dependence and response strategy variables. Exit response strategy is positively correlated with intensity, and negatively correlated with dependence. Finally, dependence is positively correlated with the change in relational equity and export channel performance. The correlation results indicate that intensity and dependence are not likely to bias coefficient estimates of the path analysis. In other words, omitting variable bias is not likely present in the path model estimates.

Table 8 Construct Measures and Validity Assessment

Measures	Standardized Factor Loadings
Opportunism Attribution (α = .81)	
By engaging in this incident, this distributor:	
… neglected its obligations.	0.678
… did not provide truthful information to us.	0.732
… made empty promises.	0.680
… did not provide proper notification.	0.604
… concealed important information.	0.743
External Factor Attribution (α = .92)	
The incident was understandable given the local market conditions.	0.910
The current environment in the local market was responsible for the incident.	0.733
Competitive conditions forced this distributor to engage in the incident.	0.817
The incident was due to factors beyond this distributor's control.	0.834
Factors in the local market were responsible for the incident.	0.862
Exit (α = .84)	
We looked for replacement distributors.	0.794
We are not likely to continue the business relationship with this distributor.	0.906
Adjustments of Socialization (α = 0.90)	
We increased our effort to better align our goals and values with this distributor.	0.731
We improved our cooperation with this distributor in order to develop compatible goals	0.912
We worked with this distributor to increase our support for each other's objectives.	0.934
Adjustments of Incentives (α = 0.87)	
We made changes to this distributor's contractual responsibilities.	0.703
We adjusted our formal agreement with this distributor.	0.898
We altered the formally specified responsibilities for this distributor.	0.831
We adjusted our formal policies and routines for working with this distributor.	0.702
Tolerance (α = 0.88)	
We gave this distributor the benefit of the doubt and did not complain to them about the incident.	0.873
We said little about the incident and remained loyal to this distributor.	0.985
We waited for the problem to work itself out without complaining to this distributor.	0.738
We tolerated the incident and continued our relationship with this distributor.	0.617

Measures	Standardized Factor Loadings
Commitment (α = .98)	
We are more committed to selling our products through this distributor.	0.895
We have significantly increased our commitment level to this distributor.	0.939
We enjoy working with this distributor more than before.	0.938
We believe this distributor is more like a "part of our organization".	0.935
We are more attracted to the things the distributor stands for as a company.	0.962
TRUST (α = .98)	
We trust this distributor more.	0.943
We are more likely to count on this distributor to be sincere in dealing with us.	0.958
We rely more on the distributor to keep promises they make to us.	0.973
We believe this distributor is now more concerned with our needs.	0.895
We believe this distributor is now more open in dealing with us.	0.922
FINANCIAL PERFORMANCE (α = .98)	
Our financial goals for the export market have been better achieved.	0.914
Our sales goals for the export market have been better achieved.	0.967
Our growth goals for the export market have been better achieved.	0.979
Our economic goals for the export market have been better achieved.	0.959
SELLING EFFORT (α = 0.98)	
This distributor has been more effective at:	
… maintaining contact with our customers.	0.951
… calling on our customers in person.	0.964
… providing after-sales service to our customers.	0.957
STRATEGIC PERFORMANCE (α = 0.98)	
This distributor has been more effective at:	
… implementing our marketing strategy.	0.944
… implementing our distribution strategy.	0.941
… implementing our promotion strategy.	0.961

Overall fit statistics for two attribution constructs:
Chi-square = 42.310 based on 34 degrees of freedom. χ^2 / df = 1.24; CFI = 0.968; GFI = .88; standardized RMR = .07; RMSEA = 0.056.
Overall fit statistics for response strategies:
Chi-square = 68.906 based on 59 degrees of freedom. χ^2 / df = 1.17; CFI = 0.973; GFI = .858; standardized RMR = .07; RMSEA = 0.047.
Overall fit statistics for performance outcomes:
Chi-square = 328.85 based on 160 degrees of freedom. χ^2 / df = 2.06; CFI = 0.931; GFI= .728, standardized RMR = .02; RMSEA = 0.131.

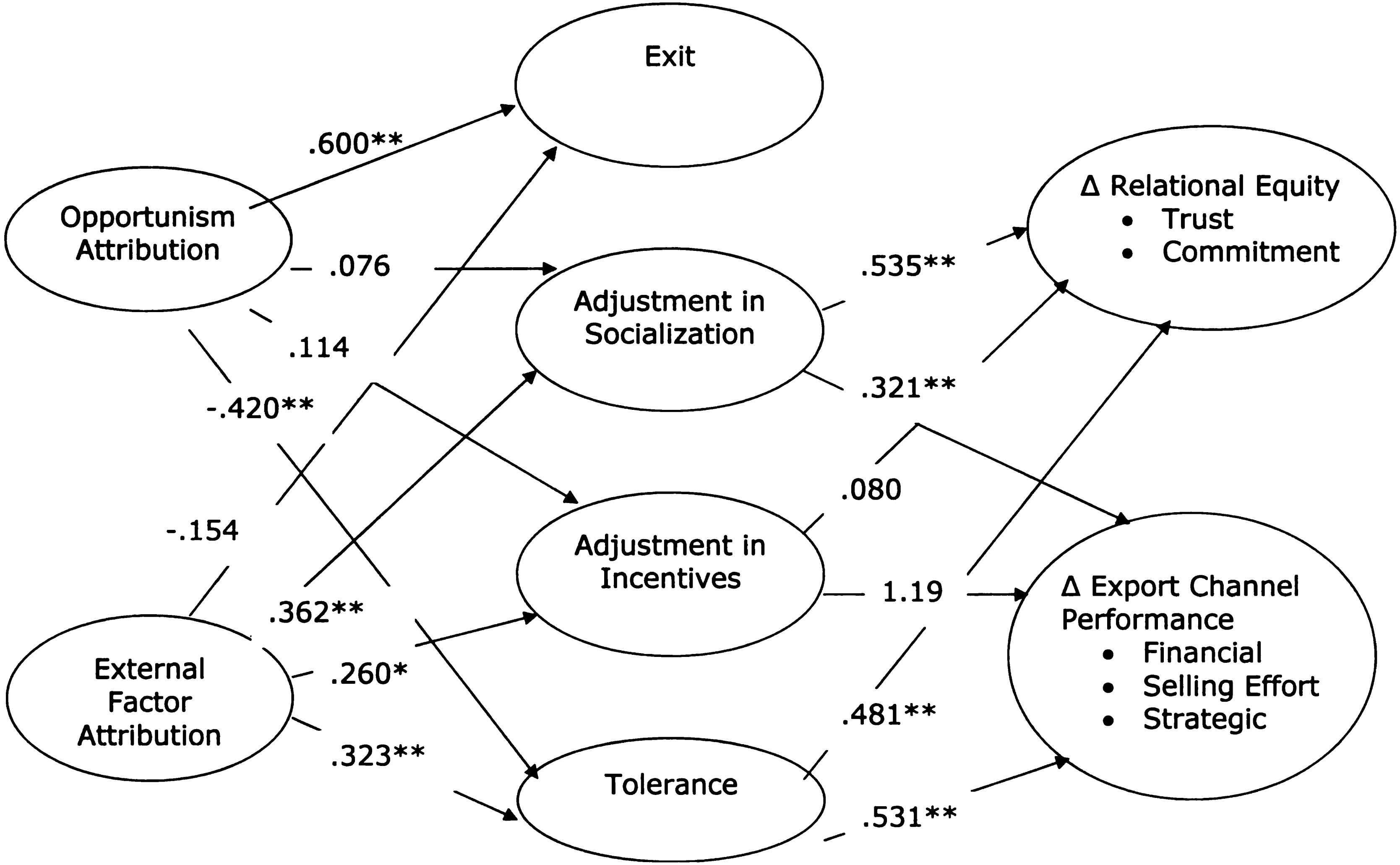
Table 9: Summary of Results: Relationships of NCI Attributions, Response Strategies, and Outcomes of Response Strategies

NCI Attributions	Exit		Adjustments of Socialization		Adjustments of Incentives		Tolerance	
Opportunism Attribution	.591** (.204)	.600**B (.203)	.103 (.151)	.076B (.148)	.110 (.154)	.114B (.151)	-.432** (.140)	-.420**B (.140)
External Factor Attribution	-.187 (.182)	-.154B (.185)	.379** (.135)	.362**B (.135)	.239* (.138)	.260*B (.137)	.317** (.125)	.323**B (.128)

Response Strategies	Comparison Level of Relational Equity		Comparison Level of Export Channel Performance	
Adjustments of Socialization	.530** (.147)	.535** B (.147)	.321** (.150)	.321** B (.144)
Adjustments of Incentives	-.112 (.149)	-.121B (.151)	-.161 (.153)	-.175 B (.147)
Tolerance	.487 (.139)	.481**B (.137)	.531** (.142)	.531** B (.134)

Note: * : Parameters significant at 5% significance level
**: Parameters significant at 10% significance level
B : Bootstrap sample estimates

Figure 4 Hypothesized Model with Composite Measures



γ^2 = 13.05 df = 13; CFI = 0.982; GFI = .947; RMSEA = .096

*: Parameter estimates are significant at .1.
**: Parameter estimates are significant at .05.

Table 10: Comparison of Overall Fit Statistics between EQS Model and Bootstrap Sample Estimates

CHI-SQUARE		GFI		AGFI		CFI		RMSEA	
EQS MODEL	BOOTSRAP SAMPLES	EQS MODEL	BOOTSRAP SAMPLES	EQS MODEL	BOOTSRAP SAMPLES	EQS MODEL	BOOTSRAP SAMPLES	EQS MODEL	BOOTSRAP SAMPLES
122.75 d.f. = 13	13.05 (5.285) d.f. = 13	.695	.947 (.0186)	.156	.852 (.052)	.429	.982 (.032)	.395	.032 (.044)
		BST = 13.548		BST = 13.385		BST = 17.281		BST = -8.252	

Table 11 Correlation Matrix of Key Constructs and Potential Control Variables

	OPP	EXTE	EXIT	SOCI	INCEN	TOLER	RELA	PERF	DAMAGE	DEP
OPP	1									
EXTE	-0.407*	1								
EXIT	0.439*	-0.292*	1							
SOCI	-0.064	0.351*	-0.135	1						
INCEN	0.001	0.209	0.122	0.041	1					
TOLER	-0.502*	0.462*	-0.4*	0.221	0.176	1				
RELA	-0.435*	0.516*	-0.732*	0.477*	0.002	0.457*	1			
PERF	-0.353*	0.47*	-0.753*	0.338*	-0.035	0.466*	0.872*	1		
DAMAGE	0.075	0.046	0.281*	0.038	0.142	0.122	-0.079	-0.09	1	
DEP	-0.08	0.187	-0.326*	0.099	0.209	0.173	0.344*	0.445*	0.239	1
Mean	3.7557	3.0685	3.2429	4.4918	2.5242	2.9474	3.2433	3.2555	2.8559	3.7406
Std Deviation	1.3495	1.5084	2.0755	1.4664	1.4342	1.5476	1.9645	1.8998	1.6151	1.4449

Note: * correlations are significant at a 5% significance level.

CHAPTER 7

DISCUSSION AND CONCLUSION

This dissertation conceptualizes the response strategies of noncooperative incidents in international distribution partnerships, and investigates the primary drivers and consequences of these strategies. In particular, four types of response strategies are delineated from the perspective of an NCI-receiving party: exit, adjustments of socialization, adjustments of incentives, and tolerance. These four response strategies are triggered by two types of NCI attributions of an NCI-receiving party: partner opportunism attribution and external factor attribution. The empirical findings of the dissertation suggest that partner opportunism attribution and external factor attribution have opposite effects on the exit and tolerance response strategies in international distribution partnerships. The exit strategy is positively related to partner opportunism attribution, and negatively related to external factor attribution, whereas the tolerance strategy is negatively associated with partner opportunism attribution and positively associated with external factor attribution. In addition, opportunism attribution has no significant effects on the strategies of adjustments of socialization and incentives, and external factor attribution has positive effects on both strategies.

Furthermore, this dissertation paid special attention to the linkage between opportunism attribution of NCIs and the response strategy of exit. The exit strategy, or relationship termination, has the most damaging effect on international distribution partnerships, and represents an under-researched area in channel relationship management literature. In order to better understand the nature and process of the exit strategy in international distribution partnerships, this dissertation analyzed twenty-five legal cases that were reported to the Federal and State courts between 1985 and 2005. The findings of these legal cases support a process model of the exit strategy, which begins with NCI triggers, continues with NCIs of opportunism attribution, goes through an interactive phase under certain conditions, and ends with a relationship termination phase where contracts are disputed. The results of the legal case analysis confirm the empirical findings of the positive association between opportunism attribution and exit strategy, and provide in-depth understanding of the triggers and processes of the exit strategy.

This dissertation also investigates the outcomes of response strategies. Specifically, the comparison levels of export channel performance and relational equity pre- and post-NCIs are measured and their relationships with the response strategies are empirically tested. The findings suggest that the strategies of tolerance and adjustments of socialization both lead to positive changes in export channel performance and relational equity, whereas adjustments of incentives have no significant effect on the changes of export channel performance and relational equity.

The findings of this dissertation are meaningful to both academics and practitioners of channel relationship management. A primary theoretical contribution of the dissertation is the use of critical incidents as the unit of analysis, which decomposes the task of channel relationship management at the critical incident level. In contrast, the majority of existing studies on channel relationship management use a focal relationship as the unit of analysis, and extensively discuss the relationship-specific characteristics that facilitate or hinder channel collaboration success (e.g. Morgan and Hunt 1994; Dant and Schul 1992; Zaheer et. al. 1998). Relationship development or deterioration is composed of a series of exchange episodes and critical incidents (Cox and Walker 1998). By reducing the unit of analysis to the critical incident level, this dissertation is able to address the primary drivers and response strategies to incidents of noncooperation, which are critical to our understanding of the changing process of relational equity and export channel performance.

Furthermore, this dissertation enriches attribution theory and Hirshman's seminal work on exit-voice-loyalty by integrating them with channel opportunism studies. Attribution theories provide generic frameworks for the rationale behind attributions and how they may affect subsequent actions (Weiner 1985). The exit-voice-loyalty framework presents a set of comprehensive and universal responses to performance decline. Integrating these two streams of research, this dissertation argues that it is the attributions of performance decline, not the performance decline itself, that lead to the use of the differential response strategies proposed by Hirschman (1970). Moreover, in the context of marketing channels, a primary concern is the attribution of partner opportunism and the response strategies to incidents resulting from such behavior. To address this concern, this dissertation delineates four types of response strategies to NCIs in marketing channels, integrating insights from channel opportunism studies.

Furthermore, the four types of response strategies present an attempt to unify the existing studies on relationship development and dissolution in a single framework. In particular, exit strategy directly leads to relationship dissolution, and adjustments of incentives, adjustments of socialization and tolerance may recuperate a focal relationship and promote relationship continuation. The findings of this dissertation suggest that both relationship continuation and dissolution can be outcomes of noncooperative incidents. It is the different attributions of such incidents that lead to the employment of response strategies that are associated with either relationship dissolution or relationship continuation.

The response strategies that lead to relationship continuation also have implications on the changes in economic and relational outcomes of a focal partnership. The change in relational outcome pre- and post-NCI is conceptualized as the change in relational equity, including trust and commitment. Relational equity research, the studies of value embedded in collaborative partnerships, has received significant attention in recent years (e.g. Swyhney and Zabin 2002; Dunning 2002; Srivastava et. al. 1998). These relational equity scholars have offered extensive discussion of the concept of relational equity and the determinants of the level of relational equity. In order to gain a better understanding on the developmental process of relational equity, more research is needed to address the change of such equity, as opposed to the level of stock of such equity (Srivastava et. al. 1998). By investigating how response strategies of NCIs trigger the changes in relational equity, this dissertation addresses the call for a better understanding of the developmental process of relational equity.

The managerial value of this dissertation is also evident. This dissertation investigates the performance implications of response strategies to NCIs, which provide a guideline for understanding the effectiveness of the viable response strategies. According to the study findings, the strategies of adjustments of socialization and tolerance increase export channel performance and relational equity after resolving an NCI, whereas adjustments of incentives have no significant effect on the change of export channel performance and relational equity. This implies that in order to preserve and enhance economic and relational equity in the face of NCIs, international channel managers need to adjust their socialization mechanisms and practice tolerance. These informal response strategies signal commitment and a willingness to collaborate in the future, thus serving as effective facilitators for performance recovery (Morgan and Hunt 1994; Hibbard et. al. 2001).

A general tendency of channel managers is to focus on the loss resulting from NCIs, and pursue proactive and formal resolutions (Mariotti 1999). The findings of this dissertation, indicate that passive and informal means may be more effective than formal means in responding to NCIs in international distribution partnerships. Adjustments of incentives rely on formal agreements, and the study finds no significant relationships between such adjustments and the changes in both export channel performance and relational equity. Meanwhile, adjustments of incentives can incur significant costs to transaction parties. Whether in the form of price premiums or modifications of formal contracts and agreements, the strategy of adjustments of incentives is associated with significant financial costs and negotiation on the part of channel partners. Considering the limited effect of this response strategy on recovery performance, channel managers may want to be more cautious of activating adjustments of incentives in responding to NCIs.

Furthermore, this dissertation also reveals insights into the exit response strategy in international distribution partnerships. Through the analysis of 25 legal cases in international distribution partnerships, distinct triggers of exit strategy or relationship dissolution were identified, and a process model was delineated. These findings show that relationship dissolution does not follow similar processes to relationship development: relationship development is bilateral (Dwyer, Schurr and Oh 1987), yet relationship dissolution is unilateral, i.e., it takes only one partner to engage in NCIs and initiate relationship dissolution. As such, this study can potentially increase the international channel managers' understanding of the types and nature of relationship dissolution processes.

In addition, channel managers need to be aware of the role of attribution when making decisions on response strategies. Incidents of noncooperation are only able to trigger exit or relationship dissolution when partner opportunism attributions are made. It is important for channel managers to engage in information collection when determining the attributions of an NCI. In particular, when evidence is sufficient to support the attribution of partner opportunism, managers may be better off making a timely decision to exit. On the other hand, when information supports an external factor attribution, tolerance and adjustments of socialization are more effective response strategies. Making appropriate attributions is a critical factor for the on-going management and maintenance of international distribution partnerships.

The rest of this chapter further discusses the empirical findings of this research, and compares the findings with those of previous research whenever appropriate. In particular, research on response strategies of NCIs is first presented. This is followed by a discussion of empirical findings into the conceptual model of response strategies to NCIs in international distribution partnerships. This chapter concludes with a delineation of limitations of the current research and directions for future research.

RESPONSE STRATEGIES TO NCIs

The empirical findings of the dissertation show that the four response strategies are valid measures of responses to NCIs in international distribution partnerships. Unidimensionality of the response strategies was established using reliability α, and the measurement of convergent and discriminant validity. All four response strategy constructs exhibit good internal consistency, with α value ranging from .84 (exit strategy) to .90 (adjustments of socialization). Factor loadings of the items measuring each construct are significant, and all exceed the cutoff value of .5 suggested by the literature. These factor loadings range from .617 to .985, which establish the convergent validity of the response strategy constructs. Furthermore, the correlations among response strategy constructs are significantly different from 1, and LM tests show few significant cross-loadings. Discriminant validity is thus established. The four response strategies have differential relationships with attributions of NCIs and exhibit different effects on comparison levels of performance outcomes pre- and post-NCIs. This further supports the argument that response strategies to NCIs can be conceptualized as adjustments of different governance strategies of a focal relationship.

THE EFFECTS OF NCI ATTRIBUTIONS ON RESPONSE STRATEGIES

Support for the relationships between NCI attributions and response strategies can be found in both attribution theories (e.g. Weiner 1985) and channel governance literature (e.g. Hirschman 1970; Cox and Walker 1997; Wathne and Heide 2000). Attribution theories suggest that people are naïve psychologists and have intrinsic needs to engage in causal reasoning (Heider 1958). Attributions are in particular likely to be made in the face of unexpected and negative outcome events, such as an incident of noncooperation.

These attributions further affect the subsequent actions of an attribution perceiver in marketing channels (Cox and Walker 1997). In the case of responding to NCIs in international distribution partnerships, when an NCI-receiving party attributes the causes of NCIs to internal and controllable factors of a partner (partner opportunism), it is likely to respond with partner-oriented approaches (exit, adjustments of socialization and adjustments of incentives). On the other hand, when an NCI-receiving party attributes the causes of NCIs to external and uncontrollable factors of a partner (external factor attribution), it is likely to tolerate the damage resulting from NCIs.

The hypothesized positive relationship between opportunism attribution and exit was confirmed by the data. The findings of legal case analysis conducted in Chapter 6 also support the positive association between opportunism attribution and exit strategy. Partner opportunism attribution is a salient factor in all 25 relationship-termination (exit) cases between international distribution parties. This implies that opportunism indeed has disastrous effects on the maintenance of channel relationships. Channel managers spend a significant amount of energy in designing mechanisms to prevent opportunism from occurring. Once partner opportunism is present and attributed to an NCI, it often leads a channel manager to believe that the foundation of collaboration or the cooperative spirit has been broken. Opportunism attributed NCIs incur not only financial damage, but also relational loss such as distrust in the focal partnership_(Morgan and Hunt 1994). Exit strategy (relationship termination) is thus used to allow an NCI-receiving party to seek compensation and select alternative partners.

The hypothesized relationships between opportunism attribution and adjustments of socialization and adjustments of incentives were disconfirmed in this research. No significant relationships were found between opportunism attribution and the two response strategies. This suggests that when opportunism attribution is made to an NCI in international distribution partnerships, an NCI-receiving party is not likely to make adjustments to align existing goals and values of the partnership, and change the responsibilities specified in formal agreements of the distributorship. The damage resulting from NCIs is attributed to partner deceitful intentions in opportunism attribution. A channel manager may believe that this deceit intention is difficult to correct by making adjustments to existing goals, values, and incentives, which establish the fundamental expectations of a partnership.

Furthermore, the hypothesized negative relationship between opportunism attribution and tolerance was supported by the data. Tolerance, as a response strategy, has not received significant attention in channel relationship management literature (Wathne and Heide 2000). Wathne and Heide (2000) mention that tolerance is likely to be used when the level of opportunism is low in a relationship. This is consistent with the findings presented here. Tolerance, a silent response after evaluating benefits and costs of taking any actions, is more likely to be used when opportunism attribution of NCIs is low in a focal partnership. Channel managers are more likely to tolerate the damage resulting from NCIs when they perceive partner deceit intention is low or absent.

On the other hand, no significant relationship was found between external factor attribution and exit, which fails to confirm the hypothesis. Attribution theories suggest that when causes of a negative event are attributed to external and uncontrollable factors in the environment, the damage-receiving party tends to take more lenient means of resolving the incident (Cox and Walker 1997). The insignificant association found between exit and external factor attribution supports these arguments to some degree. The exit decision is independent of the external factor attribution of NCIs. Furthermore, it also implies that response strategies are not necessarily contingent on the damage resulting from NCIs, but the perceived causes behind such damage. When external factors are attributed as the primary causes, exit is not necessarily used to punish a distribution partner.

Interestingly, positive relationships were also found between external factor attribution and adjustments of socialization and adjustments of incentives, contrary to the hypotheses. This may imply that a channel manager is more willing to make amendments to existing goals, values and incentives when the environment is exerting pressures for changes. Rather than adjusting socialization and incentives to curb partner opportunism, a channel manager is likely to make adjustments to the fundamental expectations of relationships when the demand of the operating environment signals the need for adaptation. When an NCI-receiving party attributes NCIs to environment uncertainties, it is more willing to incorporate the additional information on environmental changes to design new goals and objectives, and modify responsibilities of a distribution partnership. These findings suggest that adjustments of governance strategies tend to be made when environmental factors are redefining goals, values and incentives of a focal partnership. These adjustments are unlikely to be made in order to accommodate the attributed opportunistic behavior of transaction partners.

Finally, the hypothesized negative relationship between external factor attribution and exit was also supported. This implies that external factor attribution of NCIs is not considered detrimental to the functioning of a partnership. In particular, the damage resulting from NCIs is attributed to misfortune, which is considered a necessary risk to assume in channel relationships. When external factor attribution is made, a channel manager is unlikely to terminate a partnership and enforce punishment on a partner.

THE EFFECTS OF RESPONSE STRATEGIES ON PERFORMANCE OUTCOMES

This dissertation initially hypothesized positive relationships between response strategies that aim to recuperate a partnership and comparison levels of performance. In particular, adjustments of incentives, adjustments of socialization, and tolerance were proposed to result in increases in relational equity and export channel performance of an international distribution partnership. The empirical findings confirmed the hypotheses of the relationships between adjustments of socialization, tolerance and performance outcomes, yet disconfirmed the hypothesized positive relationships between adjustments of incentives and performance outcomes.

Adjustments of socialization have positive relationships with both comparison comparative levels of relational equity and export channel performance. This implies that in the face of NCIs, a major driver of changes in relational equity, is the adjustments of socialization. In particular, adjustments of socialization focus on better aligning the goals and values of a distribution partnership, and congruent goals further enhance relational equity after resolving NCIs (Jap and Anderson 2003). In order to increase relational equity, channel managers need to devote significant effort to cultivating compatible goals and values, and they especially need to adjust socialization when confronted by NCIs that may signal changes in goals.

Furthermore, adjustments of socialization have positive effects on CL export channel performance. A higher level of goal congruence through adjustments provides a stronger motivation for an international distribution partner to increase selling effort, better implement distribution strategies, and achieve financial goals of the export market. In other words, in order to increase or recover the overall export channel performance after the occurrence of NCIs, it is critical for channel managers to adjust socialization and emphasize goal congruence of the distribution partnership.

Positive relationships between tolerance and performance outcomes were also found, as hypothesized. In the marketing strategy literature, tolerance is given limited attention and the majority of studies focus on taking proactive actions in response to NCIs (Farson and Keyes 2002; Wathne and Heide 2000). The study finding on the effectiveness of tolerance are meaningful in that it contradicts conventional management thinking and emphasize the importance of accepting loss. In particular, a channel manager's willingness to accept loss under the situation of external factor attribution sends out strong signals of commitment and facilitates the recovery of relational equity after resolving NCIs.

In addition, tolerance also avoids the additional costs incurred by taking actions to respond to NCIs. Exit, adjustments of incentives, and adjustments of socialization are all associated with significant costs on the part of an NCI-receiving party. In contrast, tolerance enables an NCI-receiving party to avoid further loss, and concentrate resources on key functional areas. This further facilitates the increase and recovery of export channel performance. These arguments on the importance of tolerance are supported by the positive relationship found between tolerance and export channel performance.

Interestingly, no significant relationships were found between adjustments of incentives and performance outcomes. This implies that formally adjusting

responsibilities of a distribution partner may not be able to increase or recover the relational equity and export channel performance after resolving NCIs. The adjustments of incentives or formally specified responsibilities can instill distrust in the focal relationship, especially when attribution is made to external factors (Dahlstrom and Nayyard 1999). It is difficult to recover relational equity when a level of distrust results from adjustments of incentives. Furthermore, adjustments of incentives may result in more stringent specifications of responsibilities, which can reduce the motivations of distribution partners, and further lead to insignificant improvements of export channel performance.

Overall, the majority of the hypotheses were supported by the empirical findings. Opportunism attribution is likely to lead to exit response, whereas external factor attribution tends to result in tolerance response. Furthermore, adjustments of socialization and tolerance were found to have positive effects on CL performance outcomes. Interesting insights were also revealed by analyzing the unexpected relationships between NCI attributions, response strategies, and CL performance outcomes. Adjustments of incentives and adjustments of socialization were found to be positively associated with external factor attribution, as opposed to the hypothesized opportunism attribution. In addition, no significant relationships were reported for the associations between adjustments of incentives and CL performance outcomes.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The findings of the dissertation should be considered within the context of the limitations of the study. First, this research investigates two primary attributions of NCIs, opportunism attribution and external factor attribution, and how they affect response strategies of NCIs. Other attributions, however, may also be present in the process. For example, an NCI-receiver may attribute the causes of NCIs to its or a partner's unintentional mistakes. Although the likelihood of self-attribution is considered to be low in the face of negative consequence events (Fiske and Taylor 1984; Bitner et. al. 1990), it would be interesting to examine whether an NCI-receiving party would engage in cooperative actions (e.g. constructive discussion) to respond to NCIs when self-attribution is made. In a pioneering study, Hibbard et. al. (2001) examined the effect of self-attribution on responses to destructive acts in marketing channels. More studies, however, are needed to investigate the existence of the attribution bias or the avoidance of self-attribution in negative outcome events, and how this attribution bias may affect decision making in marketing channels.

Furthermore, this dissertation only examines one primary cause of partner attribution, or partner opportunism attribution. In this type of attribution, the causes of NCIs are perceived to be internal to a partner, controllable and unstable. A certain degree of deceit intention on the part of partners is perceived in partner opportunism attribution. There are, however, other types of partner attribution that are not related to the deceit intention. For example, Hirschman (1970) discusses the attribution of random performance lapses, or performance decline that is not a result of calculated effort on the part of exchange partners. This attribution can be fairly common in marketing channels, especially between international distribution partners, where a constant need for learning, innovation, and adaptation may result in a frequent occurrence of learning and innovation mistakes. Designing effective responses to this type of attribution is critical to competitive advantage in the currency economy (Farson and Keyes 2002). Thus, future research is needed to investigate the types, determinants and facilitating conditions of random lapse attribution, and the effective response strategies to this attribution.

Second, this dissertation focuses on a primary driver of response strategies, NCI attributions. Other characteristics of relationships (e.g. dependence and relationship-specific investment), incidents (e.g. intensity, frequency, and types of NCIs), and institutional environments (e.g. the hostility of legal and institutional environment) may also affect the response strategies of NCIs. In particular, it is interesting to investigate the role of the institutional environment in affecting the use of a particular response strategy. For example, exit strategy can be particularly difficult to adopt in the export market where the legal institution forbids the termination of local distributors. Future studies need to control characteristics of relationships, incidents, and environments in order to gain a complete understanding into the determinants of response strategies of NCIs.

The third study limitation is related to the conceptualization of response strategies. Integrating the studies on control mechanisms of opportunism with Hirschman's exit-voice-loyalty framework, this dissertation delineates four types of response strategies: exit, adjustments of incentives, adjustments of socialization, and tolerance. A more detailed classification of response strategies is needed in light of the disconfirmed hypotheses. For example, adjustments of socialization may consist of two dimensions, the adjustments targeted at partner motivation and those targeted at environmental changes. The first type is likely to be effective at responding to opportunism attribution, and the second type is designed to cope with external factor attribution. This may explain the insignificant results of the association between opportunism attribution and the general measures of adjustments of socialization. Therefore, it is desirable for future researchers to further outline the viable response strategies to different types of NCI attributions.

A fourth avenue for future research is the cross-cultural validation of the study findings. The current research tests the hypotheses in the context of relationships between U.S. manufacturers and their overseas distributors. Response strategies are measured as a U.S. manufacturer's response to an overseas distributor's NCIs. International distribution partners from relational cultures, such as Japan and China, may adopt the response strategies to a different degree, or use different response strategies to NCIs in distribution partnerships. For example, a Japanese manufacturer may be more likely to use tolerance strategy in the face of NCIs than a U.S. manufacturer. These cross-culture differences need to be accounted for in order to gain a better understanding of the effect of culture on attributions and response strategies of NCIs.

Lastly, the implications of the study findings are limited by a set of methodology concerns. First, the small sample size of the dissertation limits the generalizablity of the findings. Due to the difficulty of data collection and the reported rare occurrence of NCIs in sampled firms, fifty-five data points were collected after two mailings and a series of phone calls. Bootstrapping method was used to correct the nonnormal distribution associated with the small sample size. In order to increase the external validity of the study findings, a larger and more representative dataset should be used in future research.

Second, the qualitative legal case analysis conducted is also associated a set of limitations. These legal cases only explain a portion of the dissolution situations of international distribution partnerships. These situations tend to be among the more severe cases of termination. In particular, the discussions of other types of relationship termination, such as relationship dissolution as a result of transaction partners' mutual agreements, are not included in this study. As such, the generalizability of the study findings would increase if the legal case study were combined with in-depth interviews of international distribution partnerships that have recently experienced relationship dissolution. The employment of a triangulation data collection approach needs to be considered in future research in order to assess the study findings of the dissertation, and provide for extensions.

CONCLUSION

The majority of studies on channel relationship management have focused on relationship characteristics, and designed governance strategies that safeguard value-generating partnerships against noncooperation. While knowledge has been accumulated in the area of relationship governance in marketing channels, there remains a need for a detailed examination of the critical incidents that may build or break a channel partnership. In other words, the task of relationship management in marketing channels can be reduced to the incident level. It is important to understand the effective response strategies to the incidents and how they shape the changes in channel relational and economic equity. Using critical incidents as the unit of analysis, this dissertation developed a conceptual framework of the response strategies to non-cooperative incidents in international distribution partnerships. Furthermore, the empirical findings of the dissertation suggest that governance strategies need to be adjusted in order to respond to incidents of noncooperation, and the adjustments of governance strategies further lead to changes in relational and economic equity after the resolution of an NCI.

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