

Channel partner decision-making and effort: does culture matter?

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ABSTRACT

This study paints a picture of the determinants of interorganizational decision-making and partner effort, taking into account cultural aspects; a contribution that clarifies interaction aspects in distribution partnerships and networks. The paper suggests that we need to understand the components of bounded and social rationality in the decision-making process. More specifically, this paper illustrates that culture matters in providing a comprehensive explanation of channel partner decision-making and effort.

INTRODUCTION

The number and intensity of collaborative ventures have increased, as organizations have downsized and are focusing more on core competencies. Many of these collaborative business relationships are across borders posing cultural and legal complications to the interaction of the organizations involved. There are many drivers behind the formation of business partnerships predominantly market access and distribution synergies and offensive and defensive strategic moves. Offensive business relationships focus on accessing or creating markets, defining or setting industry standards, and/or preempting market access from competition. In contrast, defensive partnerships focus on protecting an existing market position, by combining resources, knowledge and/or capabilities. However, in spite of the strategic importance of collaborating and networking, it is a disconcerting fact that many, if not most, business partnerships fail, with some estimates of failure rates as high as 60%. This is particularly the case when there is a lack of joint (financial) equity in the partnership. Distribution relationships and networks such as sales partnerships are a good example for this.

Given that the levels of effort the partners devote to the joint endeavor affect partnership and, ultimately, network performance, it is imperative to be familiar with the drivers of that effort. Therefore, we need to understand what decision-making processes determine the level of effort so that the effectiveness of and satisfaction with distribution

relationships and networks can be enhanced. The focus of our work is to identify and understand the drivers of effort in business relationships and associated decision-making processes so that businesses can maximize their chances of a successful partnership—an area that has received little attention in empirical modeling. Moreover, while the role of cultural influences on partner effort, there appear few studies. Although both conceptual and applied research on such issues has increased, an empirically tested comprehensive theoretical model that explains the drivers of partner effort and underlying decision making processes within a cultural context has yet to be developed. Decision-making aspects have been implicitly addressed in interorganizational research within both the microeconomic and behavioral paradigms guiding the theory building.

The microeconomic perspective includes the neoclassical theory of a firm, agency theory and transaction cost analysis. These theories have in common the fact that each postulates an economic objective for the firm and then derives the consequences for organizational behavior, albeit under different assumptions. The general approach for explaining organizational decision-making is expected utility theory. This normative perspective of decision-making assumes rationality (e.g., agency theory) or bounded rationality (e.g., transaction cost theory). In contrast the behavioral paradigm examines the political and social processes within interorganizational relationships. In the behavioral theory of the firm, organizational decisions, objectives and behavior emerge as sets of constraints formed through bargaining processes among various members within an organization. These constraints are set at aspiration levels rather than maximization levels. In complex organizations characterized by imperfect information and computational limitations [similar to bounded rationality in transaction cost theory], maximization would only occur by chance and organizational behavior directed towards objectives may be described as satisficing rather than maximizing. In summary, in the strategy and management literature, organizational decision-making has been characterized as behavior such as rational, procedural or bounded rational, and political. Implicitly, the interaction approach by Håkansson (1982) assumes social and procedural rationality. Each of these perspectives has profound and, to some extent, dissimilar implications resulting in different concepts that are incorporated to predict behavior. Most importantly, interorganizational decision-making processes have not been investigated explicitly.

THE MODEL

Our conceptualization of channel partner effort and decision-making is embedded in the *Integrated Framework of Partnership Governance and Performance*ⁱ (Gudergan et al. 2002a, Gudergan 2002). Drawing on a ‘mono-cultural’ process of interorganizational decision-making suggested and validated by Gudergan et al. (2002b), we develop our model of channel partner effort and decision-making within a cultural framework. We will first provide a summary about the basic model and the ‘mono-cultural’ process of interorganizational decision-making. Then, we elaborate on the extension to account for cultural influences.

The basic framework illustrates that partnership performance is driven by the nature of the decision-making or managerial practices as well as implementation processes of the partners. These, in turn, are affected by two external influences, the setting in which the partnership is occurring (exogenous partnership setting); such as the divergent legal conditions and the characteristics of the partnership itself (collaborative alliance agreements and interaction patterns); such as whether an alliance requires specific informal and/or formal arrangements.

Interorganizational decision-making is viewed as being shaped by procedural rationality and politics. Therefore, partner effort is modeled reflecting on behavioral decision-making processes, and political and social interaction processes. A partner’s decision to allocate effort in a business relationship is essentially a decision under uncertainty. In this paper, we focus on individual characteristics which are related to risk perceptions and risk propensity and those factors comprising political and social interaction process characteristics. These last include a sense of obligation and compliance tendency.

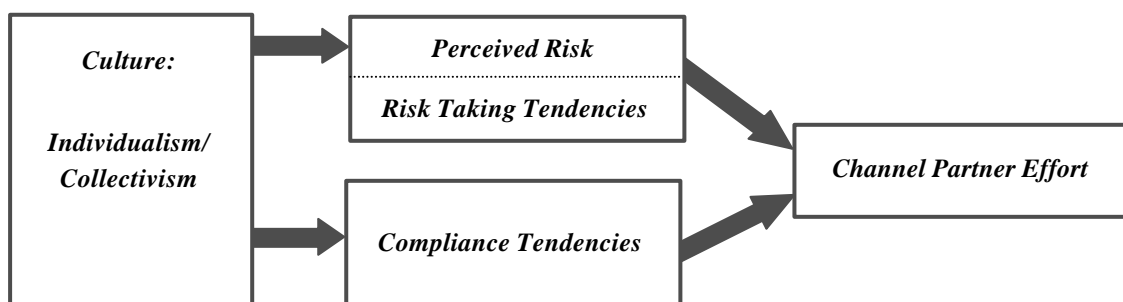
Building upon the ‘mono-cultural’ model of interorganizational decision-making and partner effort and drawing on cultural studies, in this section we expand the ‘mono-cultural’ model to a cross-cultural context and develop a cross-cultural model of decision-making and channel partner effort. This takes into account Lee and Green’s work (1991) about the universality the theory of reasoned action model. Differences in cultural styles can be accounted for by five dimensions of culture (Hofstede 2001). These dimensions consist of; (1) individualism/collectivism, (2) uncertainty avoidance, (3) power distance, (4) masculinity/femininity and (5) long- versus short-term orientation. In this paper, we focus on the first dimension proposing that

individualism/collectivism affects model components.

The dimension of individualism/collectivism describes the relationship between the individual and the collectivity that can be found in a given society (Hofstede 2001). While this relationship is reflected in the way people live together, it is also linked to societal norms and associated value systems. It, therefore, affects the individuals' mental programming and guides their behaviours. Behaviours of those individuals that belong to a society with a more individualistic value system would, hence, be focussed on the individual. Whereas individuals that are part of a culture with a more collectivists value system direct their behaviours towards goals that are oriented towards the collective. In this paper, we suggest that a channel partner who belongs to a culture with a more collectivists value system is perceived to be more trustworthy as such a partner is more likely to direct behaviours towards goals that are oriented towards the collective (i.e., channel relationship). Moreover, we propose that the focal channel partner who belongs to a culture with a more collectivists value system is more likely to have a greater sense of obligation towards the other partner in the channel relationship.

Hence, trust in a channel relationship is greater in collectivists cultures than in individualistic cultures. Greater levels of trust, in turn, decrease the partners' levels of perceived risks. Moreover, the channel partners' sense of obligation to the channel relationship is greater in collectivists cultures than in individualistic cultures. The main components of the model and their relationships are illustrated in Figure 1 and summarized in below.

.Figure 1: Cultural Affects on Channel Partner Effort and Decision-Making



- 1) *Channel partner effort* is influenced by the partner's *compliance tendencies* and interplay of *risk taking tendencies* and *perceived risks*. This view provides a more comprehensive understanding of *channel partner effort* than the standard

microeconomic and behavioral theoretic perspectives by explaining their joint impact. This, in turn, also clarifies the interaction approach model [taking into account the 'mono-cultural' model of interorganizational decision-making (Gudergan et al., 2002b)].

- 2) *Compliance tendencies* is affected by the partner's *sense of obligation* [taking into account *interactional psychology* (e.g., Endler and Magnusson, 1976)].
- 3) *Cultural context* influences the partners' *trust* and *sense of obligation* [*collectivists vs individualistic values* (e.g., Hampden-Turner, C. and F. Trompenaars (2001) and Hofstede, G. (2001)].

THE SETTING OF OUR STUDY

A questionnaire with formative and reflective multi-item scales (Appendix 1) for the model constructs was developed to test the proposed model. Two cross-sectional surveys were conducted. The main one was sent to a random sample of 2,000 large and medium sized businesses in Australia and the second one to 292 member organizations of the Australian-German Chamber of Industry and Commerce. Both surveys were addressed to the marketing executive, as marketing issues are the prime drivers for non-equity partnerships. The responses showed that approximately 25% of the organizations sampled were not involved in any non-equity alliances and resulted in 146 usable responses in the main survey and 46 in the second survey. Given that our study is a test of theory, the proper criterion to establish non-response bias is to judge whether self-selection by respondents interacts with the hypothesized relationships. We compared characteristics of "relatively early" and "relatively late" respondents for both surveys. No significant differences were identified between the two groups in each survey. Based on this comparison, non-response bias appears minimal. The model and associated propositions have been estimated using the combined dataset as well as both datasets separately from the surveys using partial least squares (PLS) analysis.

While we have taken into account control variables when undertaking our analyses, here we concentrate on the proposed relationships only. The results are summarized in Table 1.

Table 1: Structural Model Results

		<i>Sample 1</i>		<i>Sample 2</i>		<i>Combined Samples</i>	
	Proposed effect	Path coefficient	Sig level	Path coefficient	Sig level	Path coefficient	Sig level
Effects on Partner Effort		[R ² =0.434]		[R ² =0.397]		[R ² =0.426]	
Perceived Risk [PR]	-	-0.217	ns	-0.248	Ns	-0.239	ns
Risk-Taking Tendency [RTT]	+	0.185	ns	0.224	Ns	0.190	ns
Interaction PR * RTT	+	0.116	*	0.145	Ns	0.129	*
Compliance Tendency	+	0.361	***	0.254	Ns	0.324	***
Effects of Trust							
Perceived Risk	-	-0.321	***	-0.212	**	-0.259	***
Effects of Sense of Obligation							
Sense on Compliance Tendency	+	0.381	***	0.213	Ns	0.300	***
Effects of Collaborative Norms							
Sense of Obligation	+	0.227	**	0.140	ns	0.151	**
Trust	+	0.260	***	0.182	ns	0.248	***

[Significance level (p-value): **** p < .001, *** p < .01, ** p < .05, * p < .1, ns = non significant]

Further, for the three estimations the directions and magnitudes of our proposed relationships are consistent and as hypothesized. The lack of significant support for several relationships in Sample 2 can be explained by the small sample size. Using these supporting results from the combined and two separate cross-sectional surveys provides more substantial power for validating our proposed model of channel partner effort and decision-making than is typically found in limited empirical studies on business relationships.

Effects on partner effort: The study shows that a channel partner's decision to expand effort in a relationship is shaped by both procedural rationality and politics. Hence, as proposed, the amount of channel partner effort is the result of risk-related behavioral decision-making processes as well as of political and social interaction processes. While the partner's input of effort increases with a greater *risk-taking tendency*, the *perceived risk* associated with that effort moderate that input. Hence, it is the interaction of *perceived risks* and *risk-taking tendency* that influences the amount of effort a partner is willing to contribute to the relationship. The model estimations support this significant influence. Additional variations in the amount of effort are explained by the partner's *compliance tendency*.

Compliance tendency: Our estimations provide strong support for the factor that influences the partner's intention to comply to relationship agreements. The partner's *sense of obligation* affects that partner's *compliance tendency*.

Effects of collaborative norms: Our study shows that *collaborative norms* affect the decision-making processes. More specifically, we explain how a partner's *collaborative norms* have a positive impact on his *sense of obligation* and how the associate partner's *collaborative norms* influence the focal partner's *trust*.

In sum, our empirical findings support our proposed relationships explaining the impact of collaborative norms on channel partner effort and decision-making. Thus, culture matters in understanding a channel partner's allocation of effort in a channel relationship.

CONTRIBUTIONS TO THEORY

The investigation of our proposed model of cultural impacts on the decision-making in business relationships and networks supports our thesis that both procedural rationality and political interaction processes matter in interorganizational decision-making. Our findings provide evidence for the influence of risk-based and social interaction aspects: both the interaction of *Risk-Taking Tendency* and *Perceived Risk* as well as *Compliance Tendency* are integral components of the interorganizational decision-making processes that determine the partners' input of effort. These decision-making processes can be referred to as *social rationality*. Our results provide some confirmation for the theories of interactional and social psychology. More specifically, our findings suggest the existence of and some insights about the construct of *Compliance Tendency* and its antecedents. In addition, we show that the cultural setting has an influence on antecedent factors of *Compliance Tendency* and *Perceived Risk*. A culture that is characterized by collectivists value system is likely to strengthen the partner's *Sense of Obligation* and, ultimately, *Compliance Tendency*. Furthermore, such a culture is likely to enhance the level of *Trust* within the relationship and, eventually, to reduce the level of *Perceived Risk*.

In sum, both social and political interaction as well as risk-based decision-making processes are components of interorganizational decision-making. The results provide clear support for the social and interactional psychology theories. As such this study

provide support for and additional clarification about aspects of the interaction approach.

CONCLUSIONS

The key contribution of this study is that it paints a picture of the determinants of interorganizational decision-making and partner effort taking into account cultural aspects; a contribution that clarifies interaction aspects in distribution partnerships and networks. It tells us that we need to understand the components of bounded and social rationality in the decision-making process. This study has given us a small but significant step forward towards understanding the intricacies of decision-making and interactions in relationships and networks. We are now better able to understand the respective roles played by various factors and derive insights that lead to an improved understanding of interorganizational decision-making and interaction within a cultural context. More specifically, this paper illustrates that culture matters in providing a comprehensive explanation of channel partner decision-making and effort.

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APPENDIX 1

For developing the empirical measures that operationalize the theoretical constructs of interest, we followed the procedure suggested by Churchill (1979) and refined by Rossiter (2001). Scales used to operationalize constructs are of two main categories, namely, formative and reflective scales. It is important to distinguish between these two types of operationalizations explicitly, because the procedures used for subsequent scale validation as well as analysis of the measurement and structural models depends on the type of operationalization used.

Formative scales are used when the construct is viewed as an explanatory combination of its indicators (Fornell and Bookstein 1982, Fornell 1987). In this case, the construct is defined as a total score across all the items, where each item represents an independent dimension in its own right. Increase in the value on one indicator translates into a higher score for the overall scale, regardless of the value on the other indicators.

The final score for the construct for any given response is the sum of the scores on all the items. A good formative scale is one that exhausts the entire domain of the construct completely, meaning that the items should collectively represent all the relevant aspects of the construct of interest. Since each indicator/item represents a distinct facet of the construct, there is no theoretical rationale for item analysis or scale purification based on internal consistency considerations.

In contrast, in a reflective scale all observed indicators are viewed as being caused by some underlying common dimension or construct (Bagozzi 1982, Fornell and Bookstein 1982, Bagozzi and Fornell 1982). Unlike items used in a formative scale, each item in a reflective scale is assumed to share a common core, which is the underlying construct of interest. An increase in the value of the construct then translates into an increase in the value for all the items representing the construct. The measure of the construct is represented by the co-variation amongst these items.

COLLABORATIVE NORMS refers to the extent to which a partner holds collaborative assumptions, values and beliefs. We have developed a three-item, seven-point reflective scale ranging from “completely inaccurate” to “completely accurate”.

Please rate the following aspects of your organization by circling the most appropriate number on the scale.

	<i>Completely inaccurate</i>						<i>completely accurate</i>
	↓						↓
1. We believe very strongly in resolving problems jointly.	1	2	3	4	5	6	7
2. We believe very strongly in working towards improvements that benefit the relationship as a whole rather than only our organization.	1	2	3	4	5	6	7
3. We believe very strongly in undertaking extensive joint effort in activities such as adapting processes.	1	2	3	4	5	6	7

COLLABORATIVE NORMS: REFLECTIVE SCALE RELIABILITY

Reflective	Loadings	Communalities
Collaborative Norms of Partner (Alpha = .9054)		
Collaborative Norms of Partner 1	0.905	0.820
Collaborative Norms of Partner 2	0.938	0.880
Collaborative Norms of Partner 3	0.908	0.824

EFFORT refers to a partner's striving to execute relevant elements of the marketing mix making appropriate use of the unique competencies of the marketing partnership. More specifically, effort is reflected in behavior encompassing the dimensions of completeness, accuracy, quantity, utilization of available competencies, and coordination. The abstract and complex nature of this construct is measured by a five-item, seven-point formative scale ranging from "completely inaccurate" to "completely accurate".

<i>Ongoing effort: please indicate your best estimates.</i>		<i>Completely inaccurate</i>						<i>completely accurate</i>
		▼						▼
1.	We always perform all our functional roles.	1	2	3	4	5	6	7
2.	We are always extremely accurate in performing our functional roles.	1	2	3	4	5	6	7
3.	We do not coordinate our functional roles with those of our partner at all.	1	2	3	4	5	6	7
4.	Our contribution is always very substantial.	1	2	3	4	5	6	7
5.	We make significant use of this partnership's competencies in performing our functional roles.	1	2	3	4	5	6	7

COMPLIANCE TENDENCY refers to a partner's inclination to adhere to obligations. This abstract construct is measured by a four-item, seven-point formative scale ranging from "extremely weak" to "extremely strong". The items include adapted ones used in Hunt, Mentzer and Danes (1987).

Taking into account your organization's overall objectives and your relationship with this particular partner, how strong in this partnership is your tendency to always adjust your effort ...

		<i>extremely weak</i>						<i>extremely strong</i>
		▼						▼
1.	to accomplish all the objectives in the contract.	1	2	3	4	5	6	7
2.	to perform all the activities that are expected but not in the contract.	1	2	3	4	5	6	7
3.	to accomplish all the objectives that are expected but not in the contract.	1	2	3	4	5	6	7
4.	to perform all the activities in the contract.	1	2	3	4	5	6	7

TRUST refers to one partner’s faith that the other partner devotes appropriate effort towards achieving specified objectives. This abstract and complex construct is measured by a four-item, seven-point formative scale ranging from “not confident at all” to “extremely confident”.

Given the environment in which this partnership operates, how confident are you that your partner is always strongly committed ...

		<i>not at all confident</i>						<i>extremely confident</i>
		↓						↓
1.	To accomplishing all the objectives that are stated in your formal contract, if relevant.	1	2	3	4	5	6	7
2.	To fulfilling all the functional roles that are implicit but not formalized in your arrangement.	1	2	3	4	5	6	7
3.	To accomplishing all the objectives that are implicit but not formalized in your arrangement.	1	2	3	4	5	6	7
4.	To fulfilling all the functional roles that are stated in your formal contract, if relevant.	1	2	3	4	5	6	7

SENSE OF OUTCOME OBLIGATION refers to a partner’s feeling of being obliged to achieve partnership-specific objectives. This abstract construct is a reflection of an understanding of *de facto* and *de jure* outcome obligations and is measured by a two-item, seven-point formative scale ranging from “not at all obligated” to “extremely strongly obligated”.

Please rate the extent to which your organization feels strongly obligated about this partnership...

		<i>not at all obligated</i>						<i>extremely strongly obligated</i>
		↓						↓
1.	to accomplish objectives that are stated in your formal contract, if relevant.	1	2	3	4	5	6	7
2.	to accomplish objectives that are implicit but not formally stated in your contract.	1	2	3	4	5	6	7

SENSE OF EFFORT OBLIGATION refers to a partner’s feeling of being obliged to fulfil functional roles. This abstract construct is a reflection of an understanding of *de facto*

and *de jure* effort obligations and is measured by a two-item, seven-point formative scale ranging from “very small” to “very great”.

Please rate the extent to which your organization feels strongly obligated about this partnership...

		<i>not at all obligated</i>						<i>extremely strongly obligated</i>
		▼						▼
1.	to fulfil functional roles that are implicit but not formally stated in your contract.	1	2	3	4	5	6	7
2.	to fulfil functional roles that are stated in your formal contract, if relevant.	1	2	3	4	5	6	7

PERCEIVED RISK refers to a partner’s assessment as to how risky particular consequences of effort are in terms of probabilistic estimates of the degree of consequence uncertainty, how controllable that uncertainty is, and confidence in these estimates. This complex construct is measured by a four-item, seven-point semantic differential formative scale.

For this particular marketing partnership, please indicate your response by circling the most appropriate number on the scale.

1.	We cannot anticipate any of the consequences of our effort.	1	2	3	4	5	6	7	We can anticipate all the consequences of our effort.
2.	We cannot at all anticipate to what extent our effort will contribute to the achievement of objectives.	1	2	3	4	5	6	7	We can fully anticipate to what extent our effort will contribute to the achievement of objectives.
3.	We cannot at all anticipate whether our effort will contribute to the achievement of all or only selected objectives.	1	2	3	4	5	6	7	We can fully anticipate whether our effort will contribute to the achievement of all or only selected objectives.
4.	We cannot at all anticipate the extent to which our effort will enhance the overall value of our business.	1	2	3	4	5	6	7	We can fully anticipate the extent to which our effort will enhance the overall value of our business.

RISK-TAKING PROPENSITY refers to a partner’s current tendency to take risks. This abstract and complex construct is measured by a four-item, seven-point formative scale ranging from “no effort” to “full effort”.

Please indicate how much effort your organization is willing to devote to this particular partnership...

		<i>no effort</i>							<i>full effort</i>
		↓							↓
1.	given that you cannot fully anticipate all the consequences of this effort.	1	2	3	4	5	6	7	
2.	given that you cannot fully anticipate to what extent this effort will contribute to the achievement of objectives in this partnership.	1	2	3	4	5	6	7	
3.	given that you cannot fully anticipate whether this effort will contribute to the achievement of all or only selected objectives in this partnership.	1	2	3	4	5	6	7	
4.	given that you cannot fully anticipate the extent to which this effort will enhance the overall value of your business.	1	2	3	4	5	6	7	

ⁱ This *Framework* is supported by (i) empirical analyses that are based on data from two extensive cross-sectional surveys that resulted in 146 usable responses in the first survey and 46 in the second one; and (ii) in-depth case research on 25 business partnerships of a global financial services company (see S. Gudergan, T. Devinney and S. Ellis (2002), *An Integrated Framework of Alliance Governance and Performance*, *CBI Conference Volume of the Fifth Carnegie Bosch Institute for Applied Studies in International Management International Conference*).