

## IMP General Conference

Title: The Impact of Harmful Acts in Marketing Channel Relationships

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**ABSTRACT**

In many channel marketing relationships, one partner in the relationship will engage in an action that another party deems harmful. This has implications for the long term viability and success of the relationship. This paper focuses on the personal and organisational responses to harmful acts, grounding this consideration in the literature and theories of alienation. This usefulness of this approach is then explored through the analysis of qualitative data collected via in-depth interviews with information technology distributors questioning the nature and impact of harmful acts (HAs) perpetrated by information technology vendors on distributors. Preliminary findings indicate that inline with previous theories, the HAs are grounded in the relationship, past, present and future with the perceived intensity of the HA associated the before and after the HA was carried out (Anderson and Weitz 1992; Kumar, Hibbard et al. 1994).

The nature and intensity of the HA will impact the way a distributor will respond. HAs that were found to be damaging to distributors were vendors taking business direct and excluding distribution, bullying tactics, distributor consolidation, over committing a distributor to carry excess inventory to meet vendors sales targets.

The response to the HA applies alienation theory with reference to the Tantalus Ratio (Shoham 1980) which explains the desire for a distributor to participate and resolve the HA issue and a psychological tension to separate from the HA. According to this approach, the relational consequences will impact the relationship quality and contribute to negative performance outcomes by the vendor.

The managerial implications for vendor channel managers is to recognise and manage HAs with distributors or suffer decreasing sales and weak relationship bonds.

Key words: Distribution, Alienation, Tantalus Ratio, Conflict

## Background

There have been five approaches to the study of channels of distribution. First, the *channel management* emphasis has concerned itself with organizing, planning, selecting, controlling and communicating. Second, the *economic approach* has emphasized efficiency, the costs of distribution, the channels various functions, and physical distribution (Marshall 1898; Marshall 1919) Third, *the behavioral approach* has concentrated on the human and social elements of channel functioning (Alderson 1965). Fourth, the interaction approach has stressed the importance of long-term exchange relations between companies (Dwyer, Schurr et al. 1987) Fifth, the *network approach*, has focused on network dimensions, as apposed to just dyadic relations in isolation (Håkansson and Snehota 1995; Wilkinson 2001).

In many channel marketing relationships, one party to the channel relationship will engage in an action that another party deems harmful. How a channel member reacts have implications for the long term viability and success of the relationship. Vendors may add new distributors to sales territories or transact sales direct from the internet, thereby harming existing distributor relationships. Sometimes, vendors without notice will rationalise distributors, drop product lines, and exclude distributors from certain sales opportunities. All these actions are likely to have negative impacts on the relationships in the channel. If internalized by distributors harmful acts can have negative consequences to the relationship and business. This study considers how the differing nature and intensity of harmful acts will impact upon distributors and more importantly how the reaction of the distributors will reshape the future interaction between channel partners. It has been argued that the type of HA and the intensity will have ramifications for the longevity of the relationship. What is to be avoided is exchanging negative behaviours that may lead to dissolution in the relationship (Rusbult, Johnson et al. 1986).

The distribution changes that characterise HAs are particularly likely in highly competitive and rapidly evolving industries. The focus for this study is on the highly competitive and rapidly evolving information technology sector. It has seen the rapid growth of multi-channel distribution systems in reaction to the Dell direct model this has elevated the potential for discord. A quote from CRN magazine highlights how major vendors react to Dell "Hewlett Packard, it seems, is sometimes faced with this dilemma. In order to compete with the direct sales might of Dell Computer, direct sales must be a proportion of the overall business" (Connolly 2005).

## Conceptual Framework of Response Behaviours

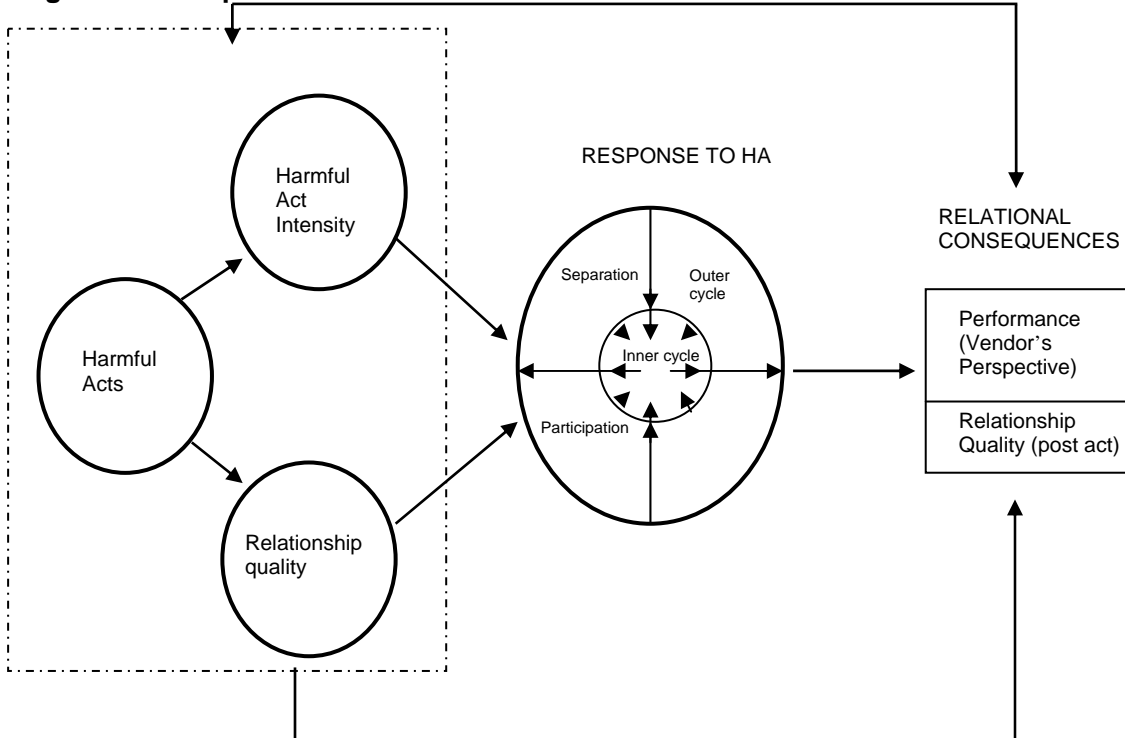
Because all actions between channel members cannot be considered destructive in nature, it is necessary to outline the use of the term HA. A harmful act (HA) is an action that is perceived by an aggrieved partner as having a significant negative impact on the healthy functioning of a vendor distributor relationship over time. In this study the focus on the vendor as the initiator and the distributor as the receiver of the H.A.

The conceptual model presented in Figure 1 draws on marketing, organisation theory, social psychology and alienation theory. The conceptual model explains the type of harmful acts, their perceived intensity, impact on relationship quality before the HA and what the response to the HA will be using alienation and personality theory to explain the degree of separation and participation distributor will experience in interaction with his/her vendor and how HAs will shape the relational consequences for the future (Shoham 1980).

Shohams Tantalus ratio will be applied to understand the channel relationship responses to HAs that occur in complex operating environments. The working definition of channel alienation is a sense of separation or estrangement from the norms and values of distribution channel practices

(Ray 2004). The operational direction is derived from its social science underpinnings (Seeman 1959).

**Figure 1 Conceptual Model Harmful Acts**



In summary, the model developed would be useful for channel practitioners in recognising the intensity of the HA and how relationship quality can suffer depending on the distributors response level to the HA. The distributor's response will impact the vendors operating performance and relationship quality. Feedback loops recognize that vendors need to increase communication with distributors to minimize damage caused by various HAs.

### Research Questions

The conceptual model (see Figure 1) is used as a framework to develop a set of research questions that guided the discussions with distributors in the IT industry and analysis of their responses and included the following

- What HAs were deemed counter productive by distributors?
- Is there a relationship between the intensity of the HA from the vendor and the distributors response?
- What is the relationship characteristics between the channel members before the HA was acted out? The relationship quality before the HA occurred will be an important determinant to how a distributor will respond post HA.
- How does a distributor respond to vendors HA?
- What are the relational consequences for the vendor and what impact will be the health of the relationship post-HA?

## **Research Method**

### *Research Setting*

The Australian Information technology channel was chosen as an empirical setting because it experiences many HAs as perceived by channel members, no doubt in part due to the highly competitive and rapidly evolving industry structure. The Australian IT channel has and is experiencing many changes. Two major issues have been for the vendors to take business direct and cut out distribution. The other issue is consolidation of channel partners. Press and trade reports indicate that vendors consolidating their distribution and embracing direct distribution are considered harmful acts that damage relationships with their distributors. While vendors have hired and fired distributors as long as the IT channel has been in existence, there has been a noticeable trend towards consolidation in recent times as vendors look at more strategic relationships with fewer partners. (Corrigan 2004) Also, a recent quote from Hewlett Packard quoted "Our previous rules of engagement weren't specific over what triggers would cause HP to go direct," he said. "These changes provide partners with the detail they need." (Dare and Lohman 2006)

### *Method*

Key distributors were approached to be interviewed to support our study. The purpose of the study was to explore the distributor's reactions to HAs. By concentrating on a small number of distributors we were able to draw out the concerns and responses to HAs. Of particular interest was the impact of HAs on the relationship quality, and the degree of separation with their existing vendors.

To elicit the perceived HAs from distributors a qualitative approach was employed. The in-depth interviews adopted a semi-structured approach with a number of guiding questions explained to the respondent before the taped interview commenced.

We collected data from five respondents in which in-depth interviews were conducted to reveal the nature and impact of harmful acts (HAs) on channel marketing relationships.

The sample size was five respondents represented by large (3), medium (1) and small distributors (1). All interviews were conducted at distributor's premises and were of 45 – 60 minute duration.

The interviews were taped and notes taken. The interview process involved a semi-structured approach where the respondents were given a series of guiding questions to facilitate open comments and discussion. All interviews were transcribed and the content of the interviews was content analysed. Further analysis is currently underway using Leximancer content analysis software to discover the occurrence and co-occurrence of concepts and entities are related to the study (Smith, Grech et al. 2002).

## **Data Analysis**

The data analysis is represented in two steps: (1) preliminary content analysis of the interviews and associations to theories of relationships (2) validation and fit of the conceptual model to the findings.

The findings were based on responses by distributors to the research questions developed.

What HAs were deemed counter productive by distributors? It was evident that the act of the vendor going direct posed a serious threat and discomfort for distributors. The comment was that "vendors were just reacting to the Dell direct model" and flirting with a direct approach. It became

clear that vendors who take business direct at the expense of distribution were eroding trust in the relationship and creating greater propensity for conflict.

Also, the study highlighted that the act of vendors selling directly over the internet was a concern to distributors. However, providing the vendors pricing did not undercut the distributors this was acceptable. Comments where that vendors were not generating enough sales from the internet and that web sites were out of date and not maintained with correct pricing and product specifications. The more innovative distributors were using the internet to generate sales but still involved the distributor for product fulfillment and cross-selling opportunities for other additional peripheral products. These vendors gained loyalty and support from distribution partners.

This supports channel research on trust that the greater trust is found in relationships that participate in greater communication, presumably because with increased interactions, parties create opportunities to clarify objectives and misunderstandings before they become disruptive (Anderson and Narus 1990; Young 1992; Morgan and Hunt 1994; Doney and Cannon 1997).

In turn, greater trust reduces conflict (Anderson and Narus 1990; Dant and Schul 1992; Morgan and Hunt 1994), increases cooperation (Morgan and Hunt 1994; Andaleeb 1996) and commitment (Anderson and Weitz 1989; Morgan and Hunt 1994). Trust also enhances performance outcomes (Anderson and Narus 1990; Doney and Cannon 1997), which in turn contributes to still greater trust.

Other HAs that concerned distributors were unrealistic sales targets, distribution consolidation, channel stuffing by vendors, financial instability of vendor and bullying tactics.

How does intensity of the HA impact the distributors response? It is interesting that the perceived intensity of the negative action by the vendor creates a greater sense of withdrawal by the distributor (Singh, Wilkes et al. 1996). Our study highlighted that distributors respond in a number of escalating ways. These may include: Firstly, complaining directly to the vendor and this may entail displaying angry behaviour in the form of venting. Secondly, distributors may remain passive to the distributor's HA. This passive acceptance is more insidious in that the distributor internalises deep bedded dissatisfaction with the vendors HA and this leads to lack of motivation and trust to push the vendor's brand. This has important ramifications for the vendor in that his mindshare of the distributor account has been diminished and so has future sales potential. Thirdly, the distributor may disengage with his vendor altogether and look for a new partner.

Theories of disengagement are often considered in terms of power and dependence. This act of disengaging can be difficult when distributors are dependent on large powerful vendors with exclusive full product lines. The power balance between vendor and distributor impacts how they conduct their relationship when conflict arises in the relationship. The more power the vendor or distributor has over the other and degree of dependency can suppress any discontent either party may be feeling over a particular HA. A large distributor in the study quoted "A large based broad based distributor has very strong influence over vendors as apposed to smaller based distributors". Vendors tend to consult more with large distributors on pending channel change compared to smaller distributors. Lastly, distributors can respond with constructive dialogue to try and understand the vendor's behaviour and work by educating them on the benefit that distribution brings to the relationship. This supports research where the influencer are indeed the focus of much research concerned with power (Wilkinson and Kipnis 1978; Scheer 1992; Boyle and Dwyer 1995). These attempts at influence are of interest because balanced, symmetric power structures are thought to be more conducive to mutual, long-lasting relationships (Buchanan 1992). In our study the distributor size impacts their ability to influence vendors to redress the power imbalance in their relationship and discuss HAs that impact their relationship.

The responses to HAs also occupied the mind of distributors during the interviews. Distributors expressed concern over vendors that over distributed their product and this impacted the degree of sales opportunity and margin opportunity for the vendor's product. Vendors who use pressure

tactics such as channel stuffing where distributors are pressured to place excessive stock orders to meet the vendor's monthly sales targets. It was noted by one medium size distributor that "Vendors sometimes can be heavy handed and adopt bullying tactics to get their own way". We will remain pensive, wait for things to blow over and look at expanding our product with a competitor's product. What this says is that distributors may feel a high degree of separation in a vendor relationship and may withdrawal in terms of participation with a vendor but they will make alternative plans to overcome their alienation. It appears alienation motivates the distributor to find an alternative vendor or spread his business with other vendors to mitigate risk. Distributors are quite capable of protecting themselves from HAs inflicted by a vendor or external environment.

Long term response to HAs also emerged in the dialogues with distributors. The memory of distributors is long. They indicated they never forget a vendor's HA and in conjunction with the state of the external environment this guides their future calculations of their action. What distributor consciousness can do is create new patterns of behaviour out of HAs from vendors and the environment. The more intense or hostile the HA is perceived by the distributor it can be neutralized through special behaviour pattern changes, this leads to more balance and sanity for the distributor. Distributors don't just "shut" out HAs outside the self. We find distributors have a "defence mechanism" and this can be explained by a peculiar kind of alienation.

Differences in the communication patterns of distributors. The study highlighted that vendors tended to communicate more openly to large influential distributors on channel changes compared to small to medium size distributors. The majority of vendors thought it was the prerogative of vendors to set distribution channel strategy. However, distributors expressed that vendors who communicated to them early about channel changes instead of finding out second hand through the trade press had a better chance of retaining a degree of loyalty and commitment from channel partners. This supports current research that good effective communication requires the informal sharing of meaningful and timely information between firms" (Anderson & Narus, 1990, p. 44; Anderson & Weitz, 1989; Morgan & Hunt, 1994). It has been operationalised as the frequency of vendor distributor contact (Bucklin & Sengupata, 1993; Doney & Cannon, 1997) and the exchange of information (Lusch & Brown, 1996).

### ***Validation and Fit of the Conceptual model***

The study conducted on HAs validates to a high degree the conceptual model developed. It clearly identified the HAs are counter productive to effective channel marketing relationships. The perceived intensity of the HA will impact the degree of withdrawal (Singh, Wilkes et al. 1996) by the distributor. It could be argued that a HA that is perceived as high intensity by one distributor may be perceived as low intensity by another. The study indicated that the high intensity HA occurred when a vendor adopts direct channels of distribution without communicating to channel partners clearly the rationale for adopting such a strategy.

The relationship characteristics and quality before the HA was acted out will impact the post HA relationship environment between vendor and distributor. The study highlighted the greater the degree of trust and cooperation by vendor and distributor has before the HA was acted out will decrease the HA intensity and dissatisfaction levels. However, the relationship quality may suffer long term.

The response to the HA can be explained by the application of the Tantalus Ratio (Shoham 1980), which is the psychic interplay between participatory and separating vectors a distributor experiences in responding to a vendors HA. It involves a strain, a tension between the longing for the distributor to participate into (constructive dialogue and venting anger) with his vendor and the opposing tension where the distributor may choose to separate (passive acceptance and disengagement) from the vendor. This can be explained as alienation that a distributor

experiences is a sense of separation or estrangement from the norms and values of distribution channel practices (Ray 2004).

The relational consequences of HAs will impact the vendor's relationship quality with distributors and impact financial performance. This will impact the level of trust, commitment and communication.

### **Managerial Implications**

The study highlights that HAs are a common phenomena in channel marketing relationships. The study applied to the information technology sector but similar HAs could be prevalent in many other industry sectors.

The act of vendors adopting multi-channel distribution strategy needs to be clearly communicated to channel partners. If vendors communicate early about pending channel changes and develop an inclusive approach with distribution partners conflict can be averted.

The study explored the impact of HAs in channel marketing relationships. HAs are trigger points for further conflict with distributors. Vendors need to recognise the nature of HAs and relative intensity of HA and how it impacts on relationship quality and sales within distributor account. What becomes a vexing question is how to handle distributors who internalise their concerns regarding HAs instead of venting any concern they have with a vendor's HA. The study revealed that the size of the distributor and the power balance in the relationship with the vendor is important in minimising or resolving HA issues. Large influential vendors often intimidate the small size distributors who are reluctant to express any dissatisfaction with the HA. Instead distributors respond through passive acceptance of the HA and a deep psychological sense of dissatisfaction and separation with their vendor relationship. Also, distributors are quite capable of "shutting out" the HA and moving on and make alternative plans to overcome any alienation with current vendors.

Lastly, it is important that although distributors may appear to be the victims of HAs. Distributors are capable of inflicting HAs on vendors.

### ***Future Research***

Future research will explore and highlight the negative or pathological side of channel relationships an area that has not been researched in great depth in the academic channels literature.

A conceptual model will be tested in the near future to explain how an individual channel partners manifests deep feelings of sociological and psychological forms of alienation that are subjective in nature and how they interplay with objective or structural conditions of alienation to produce negative outcomes.

The research will also contribute to marketing practice by positioning alienation as a worthy concept to explain the many negative behaviours and acts that can manifest themselves in distribution channel relationships.

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