Modelling the Role of Trust and Commitment in Predicting Channel Conflict Effects

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Abstract

Marketing channels are social systems, with continuous interactions between different individuals and organizations. As long as there are such interactions, conflicts are unavoidable. Conflict in channels are said to have two possible effects – positive effects (increased channel efficiency) and negative effects (reduced channel efficiency). In this paper, trust and commitment have been posited as determining whether conflicts would produce positive effects or negative effects. I have proposed that as commitment and trust increase in the channel, the more likely that when such conflicts occur, they would result in increased efficiency and as trust and commitment reduce in the channel, the more likely that when such conflicts occur they would result in reduced efficiency.

Keywords: Channel Conflict, Trust, Commitment

1. Introduction

Kotler and Keller (2009:450) define marketing channels as "sets of interdependent organizations involved in the process of making a product or service available for use or consumption." Channels of distribution are very important aspects of every business's operations. The importance of distribution channels can be easily ascertained in the fact that early marketing ideas tended to revolve around distribution (Lusch, 2007:261). In fact, early marketing was considered to be synonymous with distribution as shown by the American Marketing Association's (1948) and (1960) definitions of marketing which considers marketing to be "the performance of business activities that directs the flow of goods and services from producers to consumers." Distribution helps to create place, time and possession utility (Lusch, 2007:262) by closing the separations of time, space, value, possession and information and also the discrepancies of quantity and assortment.

Channels of distribution are generally regarded as the route the product or service takes from the manufacturer to consumer or producer to user. It is worth noting that channels are made up of several organizations and individuals who relate with one another, hence they are much more than just a collection of "movers" of products, they collectively make up an interorganisational social system (Rosenbloom, 2004:110). In every social institution there is relationship and interaction, and as long as there is interaction and relationship, there is bound to be conflict and marketing channels are no different (Karadagli and Aluftekin, 2012:2212; Gaski, 1984:11). According to Stern and Gorman (1969) in Rosenbloom (2004:111), *"in any social system, when a component perceives the behaviour of another component to be impeding the attainment of its goals or the effective performance of its instrumental behaviour patterns, an atmosphere of frustration prevails. A state of conflict may, therefore, exist when two or more components of any given system of action become objects of each other's frustration."* Since marketing channels are made up of different business organizations, with each of them pursuing its business interests and objectives, it is unthinkable that all their interests would be the same, and as long as there are differences in objectives, they are bound to work at cross purposes sometimes, which would eventually lead to conflict (Mohammed, Robert and Thomas, 2011:35; Kotler and Keller, 2009:470). As stated earlier, the question is not if conflict would take place, rather the question is about what happens after the conflict. Marketing channel conflicts are said to have either positive (constructive) or negative (destructive or dysfunctional) effects (Kotler and Keller, 2009:471). It can be said that no conflict already has preordained outcomes or effects i.e. positive or negative; rather it is a function of the existing relationship dynamics between the channel members. While most studies on the area of conflict have looked at the causes of such conflicts, the effects of conflicts, the power-conflict relationship, even looked at the conflict resolution mechanisms (Lusch and Brown, 1982 amongst others), there is hardly any study to my knowledge that has been done on the variables that can impact on resultant effect of such conflicts. There has been no model that tries to explain how the effects of conflicts i.e. whether it ends up as negative or positive, can be decided by intervening variables. In every relationship between individuals or organizations, the issue of trust and commitment is always bound to arise. Hence, it is clear that trust and commitment have a role to play in the dynamics of every relationship. However, no study or model has tried to explain the role played by the twin forces of trust and commitment in determining

the effects of conflicts in channels. Therefore in this paper, I would try to develop a model that seeks to explain the role played by trust and commitment in deciding the effect or results of conflict whether it would be positive or negative and also, the trust and commitment outcomes of the effects of channel conflict.

2. Channel Conflict

"Channel conflict occurs when one channel member's actions prevent another channel member from achieving its goals" (Mohammed, Robert and Thomas, 2011:36). Gaski (1984:11) defines channel conflict as "the perception on the part of a channel member that its goal attainment is being impeded by another with stress and tension the result." Stern and El-Ansary (1992) in Karadagli and Aluftekin (2012:2212) define channel conflict as "a situation in which one channel member perceives another channel member(s) to be engaged in behaviour that is preventing or impeding it from achieving its goals" Karadagli and Aluftekin (2012:2212) view channel conflicts as the frequency and intensity of disagreements between channel members.

Pondy (1976) in Gaski (1984:11) classifies conflict into five stages: latent conflict - underlying sources of conflict; perceived conflict – perception of conflict only, no yet felt; felt conflict – tension, anxiety, disaffection in addition to the perception; manifest conflict – behaviour which blocks another's goal achievement and conflict aftermath – post-conflict conduct, either resolution or suppression. Theoretically speaking, this is a sequence that moves from the perceptual to the real or manifest, and can be halted at any point before it becomes manifest. This idea is supported by Gaski (1984:11) who suggests that the Pondy (1967) five stage sequence could be approximated into just perceptual/attitudinal – behavioural conflict.

2.1 Types of channel conflict:
Three types of channel conflict have been identified in literature (see Kotler and Keller, 2009:417,). They are :(1) *vertical channel conflict* i.e. conflict between different levels in the channel. Example, conflict between a manufacturer and a retailer, (2) *Horizontal channel conflict* i.e. conflict between two channel members at the same level of the channel, (3) *Multichannel conflict* i.e. conflict between two or more channels established by the same manufacturer to sell to the same market.

2.2 Causes of conflict
Numerous authors and researchers have looked at, and pointed to many causes of channel conflict. However, Rosenbloom (2004:113) identified seven categories of underlying causes of channel conflict. These are:

(i) *Role incongruities*: in every channel, there are roles assigned to members of the channel whether formally or informally. These roles are sets of prescriptions defining what the behaviour of each member of the channel should be. Whenever any member of the channel seems to deviate from the role assigned to them and either encroach on another member's role or worse, not play his role well, conflict is likely to occur.

(ii) *Resource scarcities*: a disagreement between channel members on how channel resources should be allocated can be a cause of conflict in the channel.

(iii) *Perceptual differences*: a significant part of the conflict in marketing channels is a function of differences in perception. Perception refers to the way stimuli is selected and interpreted by an individual. A lot of past experiences and other factors like learning affect how an individual perceives stimuli. What one channel member may consider as being very important may not be very important to another member and their respective actions would reflect such divergence in perception. Example, a channel member may see a need for more advertising to be done while another member may feel more emphasis should be placed on sales promotion. This is bound to lead them in different parts thereby leading to conflict of purpose.

(iv) *Expectational differences*: as in every social setup, expectations of what other members of the social setup would do are always there. In the same way, channel members have expectations of other channel members, these expectations sometimes, are predictions on how the other member would behave. Based on these expectations, sometimes inaccurate, the channel member takes actions which then provoke the very same reaction albeit negative, that the other channel member was expecting. The negative effects of such a reaction can cause conflict.

(v) *Decision domain disagreements*: this is in a way related to the issue of role incongruities and power. Channel members have areas of decision making that are assigned to them or which they assign to themselves. Whenever any channel member is perceived to be encroaching, or trying to make decisions that are supposed to be in the ambit of another channel member, in some ways, trying to exercise undue influence or power over another member's decision domain, conflict is very likely to result. Even in situations where these domains have not been spelt out, there can be conflict over who has the right to make what decisions.

(vi) *Goal incompatibilities*: channels are made of organizations that have their goals and objectives to pursue. Too many times, these goals are incompatible and are likely to cause conflicts. A manufacturer may be interested

in short term profit which would lead him to demand high prices, while the wholesaler is interested in sales volume which means he needs to charge lower prices. This can very well bring them into a state of conflict.

(vii) *Communication difficulties*: communication can be said to be the foundation of every relationship. A break down in communications has the capacity to destroy an otherwise good relationship. Misunderstandings between channel members can easily arise due to breakdown in communication, and this can lead to conflict.

2.3 Channel conflict effects

The effect of channel conflict is usually measured in terms of its effects on channel performance or channel efficiency (Rosenbloom, 2004:116). According to Rosenbloom (2004:116), channel efficiency is *"the degree to which the total investment in the various inputs necessary to achieve a given distribution objective can be optimized in terms of outputs."* In simple terms, channel efficiency is measured as the rate at which, or the degree to which the investments made in achieving set distribution objectives are actually paying off, without need for the investment of more assets than was thought necessary, to achieving that same objective. A manufacturer, who sets aside 80 million naira to achieve a set of distribution objectives, would not like to find himself using up to 100 million to achieve those same set of objectives and for the same set of expected returns. Channel conflicts are said to have three possible effects: negative effect (reduced channel efficiency), positive effects (increased channel efficiency) and no effect (Kotler and Keller, 2009; Rosenbloom, 2004:116).

Negative effect (reduced efficiency): This happens to be the most commonly held belief about channel conflicts. It is generally believed that channel conflict would always lead to reduced efficiency. As the conflict becomes more intense, the efficiency of the channel is reduced. Once a state of conflict exists between two members, say the manufacturer and a wholesaler, the wholesaler is more likely to start reducing the volume of the manufacturer's products carried previously, this would lead the manufacturer to start looking for additional channels or intermediaries to carry the excess in order to meet up with his previous sales volume. This search and involvement of additional intermediaries is likely to incur more costs for the manufacturer. Even the wholesaler now has to start selling less of what he used to sell thereby reducing his own sales volume, or he will even need to start negotiating with another wholesaler which in itself takes time and other resources. Both members of the channel end up spending more to achieve their objectives.

No effect (efficiency is unchanged): In a case like this, the conflict has no effect on each party's ability to meet up their objectives. The investments made in reaching set objectives are not in any way affected by the conflict. Rosenbloom (2004:117) suggests that this can be the case in channels where there is high level of dependency and commitment.

Positive effect (increased efficiency): At the other end of what can be considered a continuum we have positive effects of channel conflict. Conflict in the channel can actually produce channel efficiencies. Channel conflict can force members out of a state of complacency, it can force channel members to begin to review areas of their operations that may need adjustments. Channel conflict can force the members of the channel to reexamine some of their policies and in the interest of the functioning of the channel, make changes. When channel members come to the point where they begin to address some issues which without the conflict, they wouldn't have addressed, efficiency is increased in channel.

This paper would focus on the negative and positive effects because this researcher believes that it is not possible for channel conflict to be without effect, the effect may be only slight, but it would definitely have an effect. A non-effect situation is only theoretically possible but cannot happen in reality

3. Trust and Commitment

The relationships between channel members, like in every business-to-business relationship, require trust and commitment for them to succeed. Unlike, dealings with final consumers, business to business dealings are usually more long term in nature and therefore partners must always endeavour to put structures in place that make for better relationships. In Morgan and Hunt's (1994) key mediating variable (KMV) model of relationship marketing, trust and commitment are considered the two key mediating variables that mediate between the relationship between key antecedents of relationship progress or stability and the outcomes of such antecedents. Trust and commitment are considered two notions that stimulate relational bonds and facilitate productive buyer – supplier collaborations (Wallenberg et al, 2011:83). Commitment and trust are key to successful business – to – business dealings because they encourage marketers to (i) work at preserving investments made in the relationship by cooperating with exchange partners, (ii) to resist temptations to go for alternatives that may bring short term benefits, but rather focus on the long – term benefits that staying and cooperating with existing partners would bring (iii) take high risk decisions based on the knowledge that partners would not act in an opportunistic manner (Morgan and Hunt,1994;22).

3.1 Trust

Morgan and Hunt (1994:23) conceptualize trust "as existing when one party has confidence in an exchange partner's reliability and integrity" Moorman et al (1993:82) define trust as "a willingness to rely on an exchange partner in whom one has confidence." The key word that can be seen in both definitions is confidence. Trust is a feeling or perception of one partner that the other partner will not do anything that would harm or impede his progress, it is a feeling or perception that the other partner's word can be relied upon, the other partner would only do things that would bring profit to both of them. According to Moorman et al (1993:82) a willingness to rely on that partner is a reflection of such confidence; however, Morgan and Hunt (1994) suggest that the confidence in the other partner implicitly covers the willingness to rely on such a partner. Trust is viewed as essential to all inter-organizational relationships and enables companies to focus on the long term benefits of the relationship (Wallenberg et al, 2011:83). For business – to –business relationships like those of channel relationships to succeed, partners must be able to take actions based on the knowledge that the other partners can be relied on to do their own part, that promises made by partners can be relied on.

3.2 Commitment

Commitment is considered one of the essential parts of successful long term relationships (Wallenberg et al, 2011:83). Morgan and Hunt (1994:23) define commitment as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum effort at maintaining it." Grundlach et al (1995:78) in Wallenberg et al (2011:83) define commitment as "an implicit or explicit pledge of relational continuity between exchange partners." Finally, Moorman et al (1992:316) define it as "an enduring desire to maintain a desired relationship." Grundlach et al's (1995) definition, while highlighting the fact that commitment is a conscious thing and not something that happens subconsciously, fails to give reason why such a "pledge" is necessary or beneficial. The definitions of Morgan and Hunt (1994) and Moorman et al (1992) is closer in the sense that they both not only point to the fact that commitment is a conscious thing and stems from a clear desire, but also point to the fact that such desire is based on the importance attached to the relationship. That is, a desire to continue in such a relationship is based on the fact that such a relationship is very important, and further more conscious effort on the parts of both partners is required in order to maintain such a relationship. Commitment implicit in these definitions, is a two way, reciprocative thing.
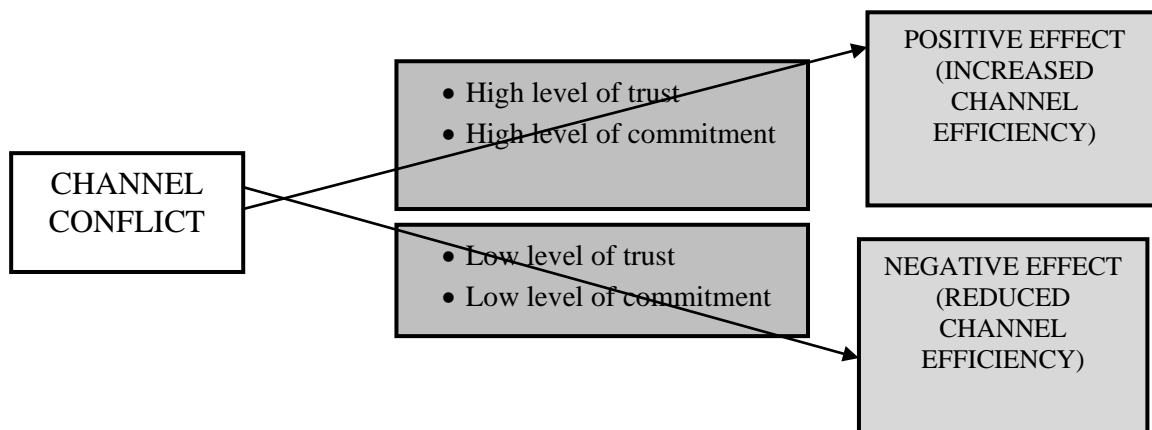
Figure 1: Conceptual model of the role of trust and commitment in predicting the effects of channel conflicts.

4. Research framework

4.1 Trust and commitment

Trust is a necessity in long-term relationships. Partnerships that must last are partnerships that are based on trust. Based on the definitions of Morgan and Hunt (1994) and Moorman et al (1992) it is obvious that partners desire to maintain certain types of relationships and therefore, put in a lot of effort to sustain such relationships because of what benefits they get from such relationships. According to Morgan and Hunt (1994:24) relationships that would engender such desire and effort to maintain them are relationships built on trust, they are relationships were both partners can take actions based on the knowledge that the other partner can be trusted, they can actions based on the fact that they believe the other partner would not engage in opportunistic behaviour. Since there is always an element of risk involved in every business dealing with another person or partner, trust helps to reduce the risks associated with such exchanges hence organizations would be more committed to relationships that are

based on trust. Trust is noted as a critical factor in fostering commitment among supply chain partners according to Kwon and Suh (2004:1). Hence, trust is proposed as a determinant of relationship commitment.
P1: Trust is positively and significantly related to commitment.

4.2 Trust and channel efficiency

Channel conflict is based on the perception by one partner or channel member, that another channel member's actions and decisions are impeding the achievement of its own goals. The possibility of such conflict resulting in negative results in the form of reduced channel efficiency or resulting in positive results in the form of increased channel efficiency depends on the way the "offended" channel member views the other partner or "offending" member. In a situation where the "offended" channel member views the other member with a high level of trust, i.e. he believes that the other channel member would only take decisions that would be beneficial to all parties and not just himself, the "offended" member may be willing to appraise the basis for such decisions and find that it can easily work in his own favour. According to Rosenbloom (2004:118) the "offended" member may even check and find that his own actions or inactions may have forced the hand of the other member and he would therefore be willing to reappraise some of his own actions. On the basis of such reappraisal, positive changes can be made which would lead to enhanced operations in the channel. As stated earlier, this can only happen, if the "offended" member trusts the other member and is very confident that he would not engage in opportunistic behaviour. Morgan and Hunt (1994:26) also suggest that when there is trust, partners would tend to treat "offenses" as being functional i.e. they would see such disagreements as necessary to the normal functioning of their relationship rather than something that should cause "bad blood" between them. They referred to such things as "functional conflict." This can also go the other way. In a channel relationship in which there is no trust, basically every action taken by any partner would be looked at with suspicion by the other partner, which would lead to a situation where even potentially beneficial actions, would be treated with suspicion and the "offended" member would end up taking actions that hinder the accomplishment of channel goals. Kwon and Suh (2004) also argue that lack of trust among supply chain partners often results in inefficient and ineffective performance. Hence:

P2a: The higher the level of trust among channel members, the more likely that channel members would treat "offences" with more levity thereby leading to increased channel efficiency i.e. the higher the level of trust among channel members, the higher the level of channel efficiency that would result from channel conflict.

P2b: The lower the level of trust among channel members, the more likely that channel members would treat "offences" with more seriousness thereby leading to reduced channel efficiency i.e. the lower the level of trust among channel members, the lower the level of channel efficiency that would result from channel conflict.

4.3 Commitment and channel efficiency

The relationship between trust and commitment has already been established, and also trust and commitment – not just one – but both of them must be present, to produce outcomes that promote efficiency, productivity and effectiveness (Morgan and Hunt, 1994:22). Channel members would treat "offences" from channel partners to whom they are committed with less aggressiveness than they would treat "offences" from channel partners to whom they less committed. Because of a desire to maintain such a relationship which is so vital, channel members are more likely to look for "soft landings" when such incidents occur so as to ensure the continued existence of the relationship. However, where such commitment is not present, even minor issues can easily be blown out of proportion by the partners. Hence based on the arguments presented above,

P3a: The higher the level of commitment among channel members, the more likely that channel "offences" would be treated with more levity thereby leading to increased channel efficiency i.e. the higher the level of commitment among channel members, the higher the level of channel efficiency that would result from channel conflict.

P3b: The lower the level of commitment among channel members, the more likely that channel "offences" would be treated with more seriousness thereby leading to reduced channel efficiency i.e. the lower the level of commitment among channel members, the lower the level of channel efficiency that would result from channel conflict.

5. Conclusion

The existence of conflicts in distribution channels is one of the key issues that points to the fact that channels are not just economic systems or units that are designed to push products to consumers, but are also systems with

behavioural issues that must be contended with by managers. Conflict in channels has been one of the key areas of study in the field of distribution channel management and its effects on the performance of the channel as a system cannot be ignored. The basic thrust of this paper is that the effect of channel conflict, be it negative or positive, depends on the way in which such conflicts are handled. It is worth noting that this paper did not set out to discuss channel conflict resolution techniques but rather the means by which individual channel members react to and handle such incidents of conflicts. The basic idea is that if conflict is handled or managed properly, it can actually lead to positive results but if it is handled or managed improperly, it can most likely lead to negative results. However, what this paper really set out to show was that how well such conflicts are handled or managed is mediated or is affected by the level of trust and commitment existing between the channel members. In this paper therefore I have tried to show that trust and commitment can either mark the difference between increased channel efficiency i.e. positive conflict effect or reduced channel efficiency i.e. negative effect. The paper has tried to show that as trust and commitment increases between channel members, the more likely that they would handle conflicts better and thereby result in increased channel efficiency. In this paper I have only tried to model the role of trust and commitment but apart from the relationship between trust and commitment which has been tested in previous studies (Morgan and Hunt, 1994; Kwon and Suh, 2004), no empirical testing of the model has been attempted. An empirical testing of this model would therefore be necessary to validate the claims or propositions made.

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