# An Assessment of the Impact of Distribution Channel Conflict on Channel Efficiency – Few Improvised Conceptual Models

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## Abstract

*The primary purpose of this study is to enhance the understanding of the impact of distribution channel conflicts on the channel efficiency, which has hitherto received little attention in distribution channel literature. Although 'channel conflict' as a construct is fairly well researched and its relationship with channel efficiency is explored to some extent, yet the moderating effect of the conflict resolution strategies on the channel efficiency is largely absent in the channel literature. From a behavioral science perspective, the article models the channel conflict-efficiency relationship, for three different types of conflict resolution methods-problem solving, bargaining and politics, in the context of asymmetric power relationships. The managerial implications of these conceptual models lie in making organizations (channel captains), dealing with their channel partners, foresee the possible impacts of their adopted conflict resolution strategies, on their channel efficiency and accordingly maximize returns on the channel investments.*

Conflicts are inevitable whether their results are functional or dysfunctional. From the organizational perspective, Katz (1964) has provided 3 bases of conflicts-between different subsystems of the organizations and between units of similar functions –both of these sources deal with horizontal power equations. The third base of conflict is based on the hierarchy and arises between different groups over the sharing of rewards and status. (quoted in Hall, H. Richard, "Organizations Structures, Processes, and Outcomes, 8th Ed.,2002).The nature of conflict and their sources may be varied and may arise from perceived or real divergence of interests (Morgan, 1986).

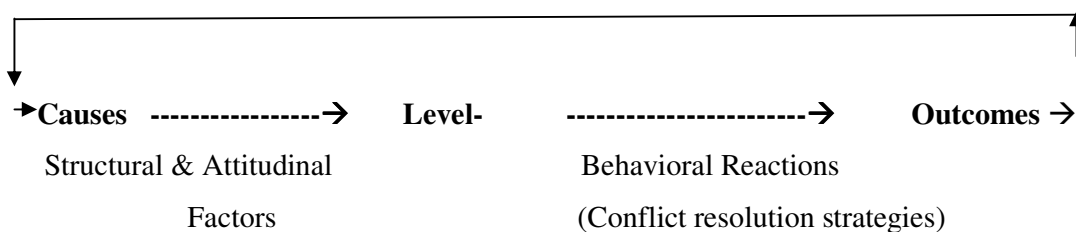## Intra-Channel Conflicts: A Behavioral Perspective

Distribution channel research has been viewed from perspectives such as economic, institutional, functional, managerial and social schools. This paper focuses only on the social school perspective. Marketing channels have been treated as interorganizational systems and the channel has been conceptualized as a "super organization", implying thereby that channels behave like complex social organizations or a social action system (Aldrich, 1976; Van de ven, 1976; Weick, 1965).Hence channel can be treated as a social system which exhibits the same behavioral process characteristics as that of all social systems, with conflict as one such process (Stern and Brown 1969).All the constituents of the distribution channel along with the manufacturing organization may be seen as a behavioral system. The different actors behave as goal seeking, role-defining, power exercising and information exchanging entities (Rosenberg and Stern, 1970).So the conflict in channel is all pervasive and characterized by behavioral interdependence for mutual goal seeking. Literature is replete with conceptualizations of channel as a system which needs to be administered for effecting desired behavior and in order to maintain its operating efficiency. Bucklin's (1966) conceptualization of a 'commercial channel' excludes the customers but includes in the administrative context all actors involved in the movement of products from point of production to point of consumption.

Goldman (1966) has viewed conflict in channels as,'a social relationship between two parties in which at least one of the parties perceives the other an adversary engaging in behaviors designed to destroy,injure,thwart or gain scarce resources at the expense of the perceiver ". According to Raven and Kruglanski (1970), conflict is a "tension between two or more social entities that arises from the incompatibility of actual and desired responses."Boulding (1965) has given the concept of a threshold level of hostility above which conflict processes are 'malign' and below which they are 'benign'. This we conceptualize as the threshold level of conflict delimiting functional and dysfunctional conflicts. According to Eugene and Lydia (1962) even a complete absence of conflict would be dysfunctional and Stern and Heskett (1969) say that without conflict there would be no innovation. We extend this line of reasoning to state that the mere presence of conflict alone is not the only predictor of outcomes, instead it is the conflict resolution process. The functional-dysfunctional nature of conflict can be conceptualized as being its

outcome on channel effectiveness. The influence of conflict on the channel effectiveness can be treated similar to Organizational effectiveness as, "the extent to which an organization, given certain resources and means, achieves its objectives… without placing undue strain on its members."(Georopoulos and Tannenbaum, 1961)

## The Rosenberg-Stern Model of Conflict Process

Rosenberg and Stern(1970) have hypothesized that *below the threshold conflict* there would be *positive correlation* between 'level of conflict' and the 'outcome'- taken as financial performance(though other outcomes can also be taken) and similarly *above the threshold conflict* there would be a *negative correlation* between 'financial performance' and 'level of conflict'. The descriptive model of conflict provided by them is as shown below:

**Causes** ----------------→ **Level-** -----------------------→ **Outcomes** →

Structural & Attitudinal          Behavioral Reactions

Factors          (Conflict resolution strategies)

Causes-Level, Level-Outcomes and Outcomes-Causes are cause-effect relationship pairs. In the Rosenberg-Stern model, the causes of conflicts are identifiable though may not be deterministic, though it is associated with structural alignment of these firms and these causes of conflict lead to a certain level of conflict; the outcomes of this conflict lead to increase or decrease in the performance of the firms which is determined by the intensity of conflict. The shortcoming of this model is that it offers little insight on conflict's effect on the channel efficiency. Nevertheless this descriptive model is good starting point for the proposed conceptual model in this paper.

## Rosenbloom Model of Conflict and Channel Efficiency

According to Rosenbloom (1973) channel efficiency is, "*degree to which the total investment in the various inputs necessary to effect a given channel decision can be optimized in terms of outputs.*" Hence it implies the efficiency of resource utilization in the channel for a given channel decision. The conceptual model provided by Rosenbloom

categorizes 3 effects of channel conflicts on channel efficiency-Negative effect where efficiency and conflict are negatively correlated; No effect-where channel efficiency nearly remains same in spite of an increase in conflict and the positive effect where efficiency of the channel increases with the increase in conflict due to factors such as increased motivation of one of the channel member to attain atleast one of the common goals. These 3 categories of relationships are clubbed into a Conflict-Efficiency graph, called the general curve, as illustrated below:
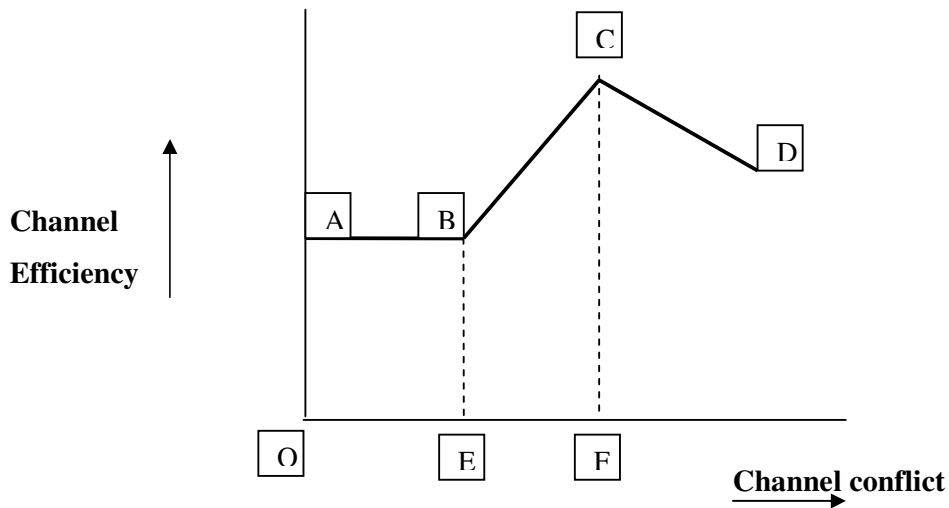


## Shortcomings of the Rosenbloom Model

Though the Rosenberg-Stern Descriptive Model of conflict process and the Rosenbloom Conceptual conflict-efficiency Model both are essentially in agreement with each other, the latter additionally talks about the conflict-efficiency relationship in the channel. Taking both the models together, we can probably predict that if the cyclicity of cause-level-outcome-cause- is maintained as claimed by Rosenberg-Stern model, the general curve does not stop at point D. But depicting the conflict-efficiency relationship in the above manner requires more precise determination of the threshold levels of conflicts OE and OF.OE is the level of conflict within the particular channel before one or more of the members' action/s makes the channel efficiency goes up. Similarly OF is the level of conflict beyond which the efficiency starts reducing from its peak level. For the

manufacturer firm, it is very important to know the point E and F as these points are critical for most optimal utilization of channel resources. It is also very important for the manager of the manufacturer firm to know as to what kinds of action are bearable for the conflict before it reaches point C, and after reaching that point how to sustain the channel equilibrium there, so that the channel efficiency is maximum.

The points E and F would depend to a large extent on the conflict resolution strategies which would determine the outcomes of these conflict and hence the level of efficiency of the channel. Also, since this model is oversimplified, we know that conflict efficiency relationship between B to C and again from C to D would not be linear, though the constant linear relationship from A to B would hold mostly true in many cases.

Hence we deduce that conflict resolution strategies will play a critical moderating role in the determination of points B, C and D.Also we are not sure if the point D would eventually lie above point A or below it. Suppose D lies above A, then it is always beneficial for the manufacturer organization to attain D, for higher efficiency as compared to A and vice versa if the opposite holds true.

## Conflict Resolution Processes: Moderating Effect on Channel Efficiency

The four main processes of conflict resolution given by March and Simon (1958) are: Problem Solving, Persuasion, Bargaining and Politics and has been widely supported (Sheth 1973; Butaney 1989; Lambert, Boughton, and Banville 1986 –as quoted by Dant and Schul in, "Conflict Resolution Processes in Contractual Channels of Distribution," Journal of Marketing; Jan 1992; 56, 1)

These four conflict resolution strategies can be summed up as:

1. In problem solving approach, there is *a priori common objective* and the solution arrived at generally meets both members' criteria of decision making.
2. In bargaining, the disagreement is acknowledged to be present by all members; the *common goal may or may not be present and may even include threats*, promises, positional commitments and nonconcessionary behaviors. (March and Simon 1958).

3. Politics approach signals the failure of all the above internal processes of conflict resolution and the members now want to resolve their conflict through *mediation or arbitration of a third party*, which may be a potential alley. (Dant and Schul 1992)

4. In Persuasion, *one of the channel member tries to change the perspective of the other member by calling focus on the super ordinate goal*, hence a persuasive element is present here, unlike in problem solving approach.

Dant and Schul (1992) provided a framework for the choice of conflict resolution strategies in symmetric and asymmetric settings (one of the channel members is dominant). Their study broadly concludes that:

1. Politics is the most preferred approach when stakes, non-dominant member dependence and complexity are high and

2. Problem solving approach is most preferred when risk, stakes, complexity and non-dominant member dependence is low.

## An Improvised Conflict- Efficiency Model

Based on the Rosenberg-Stern conflict process model and taking the Rosenbloom conflict-efficiency model as starting point and integrating both with the Dant and Schul framework of the conflict resolution method, a new model for the Channel Conflict-Efficiency is proposed:

Key Features and Assumptions in the Model:

1. Asymmetrical power relationship between the channel members. This is possible especially between the manufacturing firm and any of its channel members.

2. It comes out from the Dant and Schul framework that **Problem solving (PS), Bargaining (B) and Politics (PO)** are the most dominant conflict resolution strategies. Hence the channel conflict-efficiency models for each of these strategies are proposed, assuming that only one strategy is adopted by manufacturer firm. Hence it is a pure and single strategy model. In reality though firms may employ several strategies at the same time.

3. For each of these 3 strategies a conflict-efficiency model is proposed as it is argued that the channel efficiency would certainly depend on the conflict resolution strategy adopted by the dominant firm and that its aftermath would be different in each case.

4. It is also argued that until a certain level of conflict, the channel efficiency does not change (Similar to the Rosenbloom model) and after that the nature of the curvilinear relationship between the channel conflict and channel efficiency would depend on the method of the conflict resolution strategy adopted by the dominant firm.

5. Though it is categorically difficult to classify any disagreement between the two channel members as functional or dysfunctional conflict, the proposed model presupposes that disagreements may arise after usual communications have led to some level of tacit or explicit agreement upto a point (or on certain issues) and also disagreement on other issues. Though agreements and disagreements are independent of each other and are issue specific, it is also a function of the type of conflict resolution strategy to a great extent. The model assumes that disagreements leading to dysfunctional conflicts arise after a certain level of agreement has been reached (functional conflict) on some of the issues of mutual interest (as both the actors also have vested interests in maintaining the relationship).Hence dysfunctional conflict is always preceded by functional conflict, though the intensities of both might be different. In the proposed models, conflict is mostly functional (though it might have some elements of dysfunctionality) till point C and becomes more dysfunctional after point C till point D.

As predicted by Rosenbloom Model, initially there would be a stable functional level of conflict and the channel would be operating at a certain level of efficiency. Suppose Sales managers from manufacturing organization insists on higher sales from the channel members (dealers) without further investments like trade incentives, sales promotion programs etc., the dealers would initially be motivated to increase their sales as they themselves would benefit from higher sales. Hence the efficiency of the channel increases from level at point A to a higher level of efficiency -point C.After a certain level of functional conflict has been built into the system, if the sales managers further pressurize the channel members (dealers) to increase their sales and off take from the manufacturer, the dealers will start resisting this move and may even refuse in some cases. Hence a certain level of dysfunctional conflict will arise in the channel. It may lead to a reduced

trust in the relationship and a point may be reached, though rare, where the channel members would refuse to budge and may disagree to meet the goals of the manufacturer as they would find it contrary to some of their own goals.

At this point of time, if third party intervention results for managing the conflict between the manufacturer and the dealers (after the failure of the communication between these two actors), suppose through a court settlement or an arbitrator, then that would result in immediate fall in channel efficiency as the relationship between the two actors gets adversely affected as an aftermath of this conflict resolution strategy.

That efficiency increases with increase in conflict till point C, and reduces with increase in conflict after point C till point D is in consonance with the concept of functional and dysfunctional conflict. Rosenberg and Stern (1970) had in their descriptive model, predicted that below the conflict threshold, higher the level of conflict, higher would be the financial performance and above the conflict threshold, the higher the conflict, the lower would be the financial performance outcomes. Channel efficiency can also be viewed as one form of financial performance outcome from the manufacturer firm's perspective. Hence, the rising nature of relationship between B and C and falling nature between C and D is justified. This explains the nature of relationships in all the 3 models proposed, but the differences among them arise as a result of the different outcomes of the conflict resolution strategies on channel efficiency and this is where the proposed models depart from the Rosenbloom model.

**Conflict-Efficiency Models:**

**A. Politics (PO) as conflict resolution strategy**
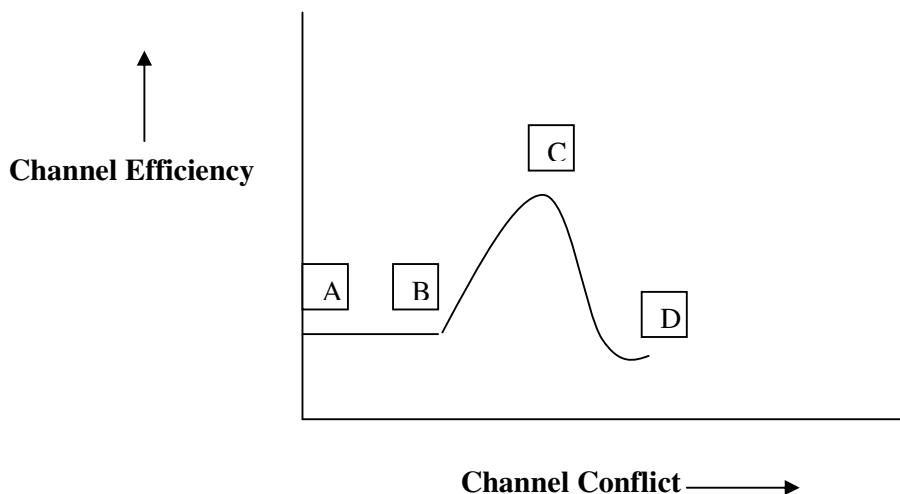
**B. Problem Solving (PS) as conflict resolution strategy**



**Channel Efficiency**

**Channel Conflict**
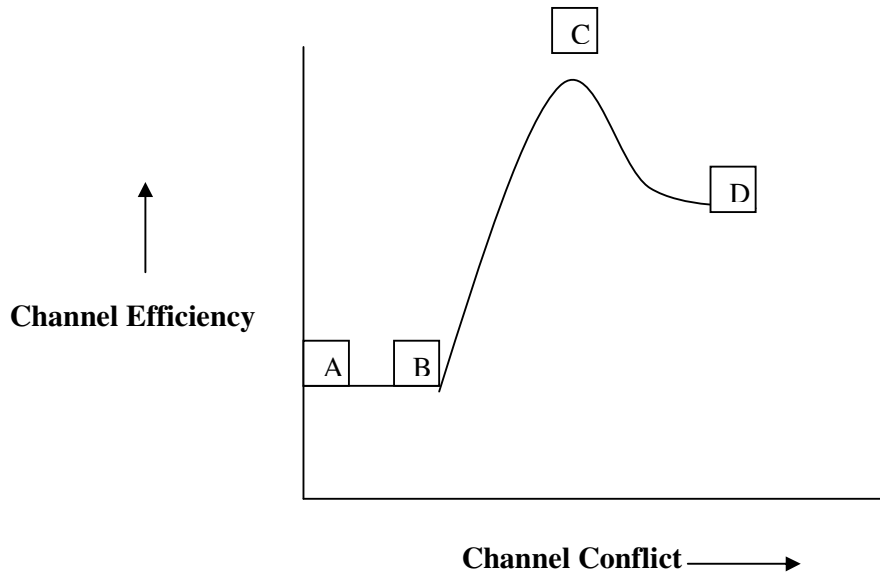
**C. Bargaining (B) as a Conflict resolution strategy**



**Channel Efficiency**

**Channel Conflict**
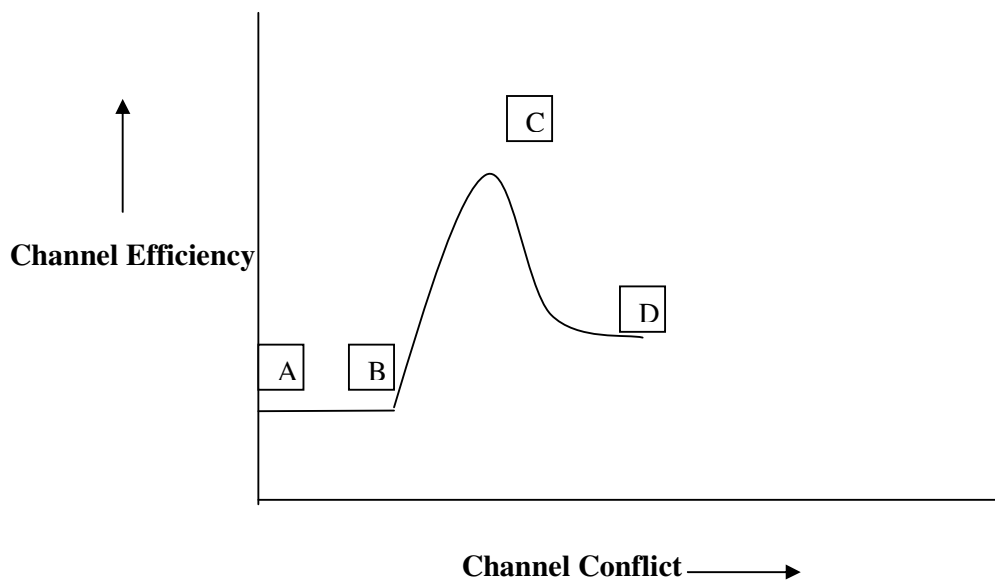
**The difference among the 3 proposed models: A General Explanation**

The essential difference among the 3 proposed models is the nature of relationship between points B-C and C-D.We explain as below:

1.  <u>The Conflict Aftermath (Point D)</u> :In case of PO form of conflict resolution, the level of mutual trust reduces to the least, as compared to B or PS.Hence at the conflict aftermath ,after point C,efficiency falls very sharply till point D, which lie below point A, which means that the final level of channel efficiency would be lower than that of initial level as Politics as conflict resolution strategy connotes, that communication between the two channel members have weakened or even broken down and for resolution of the conflict as third part mediation was necessitated. Hence the trust in the relationship is also reduced. In case of PS, since the conflict was resolved amiably between the two channel members, hence the trust is still maintained for future working relationship. This would result in higher level of channel efficiency (point D) compared to the initial point A. Hence the efficiency falls more gradually. In case of bargaining, its hypothesized that point D would still lie higher than point A (supposing threats are not solely used as part of the resolution process), but it would be lower compared to PS, because in case of bargaining the level of trust as the aftermath of conflict is lower than PS, due to the nature of the conflict resolution strategy (Bargaining may even involve threats and non-amicable communications.).The efficiency falls gradually till point D.

2.  <u>The Peak Channel Efficiency (Point C)</u>: At what level of conflict will the channel efficiency peak cannot be generalized. It would depend on situation faced by the two channel members. The model predicts- how the relationship between channel conflict and channel efficiency is likely to change with the 3 different conflict resolution strategies for the same dyad in similar context or situation.
    The model also suggests that efficiency is likely to be maximized when the functional level of conflict just gives way to dysfunctional conflict. Hence point C is the conflict threshold point and also the threshold efficiency point.

From the interpersonal, intra-organizational perspective also, the above results seems to have support. Meyer, Gemmell and Irving (1997) concluded from their study of interpersonal conflict within organizations that, perceived fairness was achieved at the expense of efficiency. Hence it can be argued that since PO resolution strategy involves third party involvement in meting out the justice between the manufacturer and the dealer/s, it is perceived to be fairer than other strategies like PS and B, and hence would result in a lower level of efficiency than the two. These authors also found in their analysis of six intervention strategies that Arbitration was more likely to lead to subordinate satisfaction than an efficient resolution. Here it is argued that since arbitration is involved in PO strategy, it is deemed to be fair and the outcomes more likely to satisfy the dealer, but the result is not always efficient. This conclusion supports the Model proposed. Hence in PO model, we should expect a sharp drop in the channel efficiency immediately upon arbitration, which would be lower than of the initial efficiency.

3.  The Relationship A-B-C-D: The main difference between these 3 models is the nature of relationship shown in the models by points B-C-D.

    This can be illustrated through a simple example of an automobile manufacturer and its dealer/s.Suppose the auto firm want to increase its auto sales through its dealers from currently 100 cars per month to 150 cars per month. The dealers do not find a huge stretch in selling 100 cars and they are able to maintain the same level of efficiency, though they feel the firm's pressure to achieve the sales targets. (Illustrated as relationship A-B).  Suppose the auto firm announce a trade incentive of Rs 1000 per additional car sold beyond 100 cars. This motivates the dealers to sell more than 100 cars, even though they need to stretch now. They may need to employ an additional salesman to fetch orders from new potential customers and this may entail additional expenditure. Although the dealers may perceive a conflict that the goal of selling more than 100 cars may not be necessarily achieved (though the expenditure would be incurred), they still would try for it. Hence the perceived level of conflict rises, but the efficiency also rises as many of the dealers would achieve the goal of selling more than 100 cars to untapped potential customers. This motivation, with perceived or even manifest conflict may work to increase the efficiency of the channel, as giving incentives

by the auto firm spurs the dealers to sell more and more cars. Suppose at point C (say, 125 cars) the dealers start feeling the pressure of not being able to sell more, even with incentives. If the auto firm still wants to motivate them to sell more than 125 cars, the firm may increase the incentive to say, Rs 2000 per car. The firm may also expect the dealers to increase their inventories to meet unexpected demands from customers. This would mean more investment from the dealers and they may not be willing to invest more, without seeing tangible benefits from it. At this point they may refuse to increase their inventories and may even reduce their sales to below 125 cars, hence reducing the channel efficiency. Even more incentives from auto firm may not be able to motivate them and if pressure is put on them the communications may become unamicable leading to reduced trust.
Here the role of conflict resolution strategies will affect the relationship B-C-D:

If the auto firm, in order to increase its sales from 100 cars to 150 cars wants its dealers to increase inventories (which the dealers are skeptical of and resist) and the firm chooses PS strategy, then it would sit down with the dealers and listen to their concerns and try to work them out and find a mutually acceptable solution which may work till point C (say 125 cars sales with higher inventory) at a lower level of conflict than other strategies like PO and B; but still the dealers may refuse to increase sales/inventories beyond 125 cars. This leads to drop in efficiency (fall from point C to D).At point D, the firm may choose another way of incentivising the dealers which they might find motivating. In the PS strategy, the efficiency would increase gradually, from 100 cars to 125 cars with some incentives for dealers till point C, beyond which the efficiency may fall down to say, 110 cars (point D)

On the contrary, if the auto firm would have applied bargaining strategy instead of PS, and in order to increase sales from 100 cars to 150 cars, would not have given any incentives to dealers, but only pressurized them to sell more( and even threatening them for adverse consequences for failing to meet their targets), the dealer would have yielded upto a point (point C) by increasing their sales till say 110 cars, beyond which they would have refused and infact may even reduce sales to say 105 cars. Point C would be probably reached at higher level of conflict due to the nature of the conflict resolution strategy.

In case of Politics (PO), the auto firm would probably not give enough incentives to dealers and yet expect (or pressurize) them to increase off take from 100 cars to 150 cars. The dealers under extreme pressure may refuse to increase their offtake.This might lead to loss of communication between the two channel members and the entry of third party in form of a common ally may be necessitated to make the two members establish relations again. Suppose an arbitrator is appointed to settle the issues between auto firm and its dealers and the arbitrator reaches a mutually acceptable agreement with the two members to increase the sales, there is a likelihood that the sales would increase only minimally(less than that expected by auto firm) say from 100 to 110 cars and that too if the firm gives its dealers, incentives for selling additional cars beyond 100.Thus channel efficiency is increased, but little for the same level of conflict. After point C is reached, the dealers may loose the motivation to increase sales beyond 110 cars and may resist again. They may even reduce the sales to 100 or less cars. This would result as the trust between the auto firm and the dealers is reduced and the presence of third party arbitrator further reduced their motivation as the direct channel of communication between dealers and manufacturer is not working completely. Hence the relationship as shown by B-C-D is expected.

## Issues of Measurement for Empirical validation of the Model

### Conflict Measurement in Distribution Channels

Several methods can be taken for conflict measurement. One such measure as provided by Stern-Heskett typology is the distance between reciprocal members' perception of issues, which are predictors of conflict. (Several other measures can also be employed.) Hence level of conflict varies directly with disparity in channel member's goals, dissensus about the domain conceptions among members and differences in their relative perceptions of reality among the two actors. Broadly, conflict has been studied in one of the following 3 states (Assael,1968; Pruden,1969; Rosenberg and Stern,1971; Pearson,1973, Hunger and Stern,1976 and others as cited in Brown and Day, 1981):

1. **Manifest Conflict**: Frequency and Intensity of conflict is the main conflict dimension measured

2. **Affective Conflict**: Intensity of conflict is measured.

3. **Perceived Conflict**: Intensity of conflict is measured.

For the purpose of this study, manifest conflict can be chosen. In manifest conflict, there are 6 measures given by Brown and Day (1981), namely based on: frequency of disagreements (F), Intensity of disagreement (N) and Importance of the disagreement for the channel member (I):

Measure 1: F

Measure 2: N

Measure 3: FxN

Measure 4: F+N

Measure 5: FxNxI

Measure 6: F+N+I

Though each of these 6 measures are considered to be unidirectional measures of manifest channel conflict, the last four composite measures are considered better as they contain more information about the interaction process between the manufacturer and the dealer.

For each of these measures, certain important issues are chosen which are then individually measured and finally a composite sum is arrived at. The study done by Brown and Day (1981) relates to automobile dealers where they considered the 15 issues to important, some of which are:

Vehicle Inventory, Number of salesmen, Number of Mechanics, Manufacturer provided management assistance, physical facility, vehicle allocation, vehicle delivery, parts inventory, dealer advertising and other issues.

**Measure of Channel Efficiency**

Measurement of channel efficiency though is not thoroughly researched, but such measures as % reduction in channel investment in achieving the given outcome, as suggested by Rosenbloom can be taken as a reliable measure.

Efficiency can be directly measured and one of the most common measures can be taken as the investment made by the manufacturer firm in getting one unit of sales from its

channel member, say dealer. It may in form of total trade incentives and sales promotion budget spent on achieving a particular level of sales. For example, as in the above case, if the auto firm in order to sell 100 cars per month needs to spend Rs 50,000 on dealer promotions and Rs 20,000 on co-advertising, then its total investment would be Rs 70,000 for getting 100 cars sold or Rs 700 per car. If suppose now the auto firm is able to sell 100 cars by spending less, say Rs 40,000 on dealer promotions and Rs 10,000 on co-advertising, then it's reduced investment for selling 100 cars is Rs 50,000 or Rs 500 per car. Hence it has saved Rs 200 per car as investment. Hence the channel efficiency would increase by (200/700) * 100% or 28.5%.

**Conceptual Models: Implications and direction for future research**

Though the nature of the relationship is approximate, empirical studies need to be conducted in order to validate these models. The important point that these models illustrate are the differences that conflict resolution strategies can bring to the nature of the conflict-efficiency relationship and the final outcome. More research is needed to further refine the models and robustness can be built into it by validating the models empirically. The significance of these conceptual models lies for both the channel members, specially the manufacturer, which can then accordingly maximize the returns from their channel investments, based on the appropriate conflict resolution strategy chosen.

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