Control Mechanisms for Protecting the Benevolent Partner in the Relationship between Marketing Channel Members

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Control Mechanisms for Protecting the Benevolent Partner in the Relationship between Marketing Channel Members

Benevolence, the willingness to rely on an exchange partner whose behavior is not directly under one’s control (Mayer, Davis, and Schoorman 1995; Moorman, Zaltman, and Deshpande 1992), has emerged as a central theme in interfirm literature (Wilson 1995). Benevolence increases the firms’ willingness to take care of each other’s needs (Zaltman and Moorman 1988). Benevolence facilitates effectiveness within the manufacturer-supplier relationship by reducing negotiation costs (Zaheer, McEvily, and Perrone 1998), encouraging proprietary information exchange (Zand 1972), enhancing cooperation (Schurr and Ozanne 1985), ensuring the development of long-term orientation (Doney and Cannon 1997; Geyskens et al. 1996; Ganesan 1994), and increasing performance (Jap 1999).

However, benevolence is associated with risk; thus, establishing safeguards to protect the interest of the benevolent party is vital (Elangovan & Shapiro 1998). An inability to monitor the partner’s actions as well as a lack of evaluation of the partner’s performance often transforms the cooperative relationship into one where the violation of benevolence, which is fostered by self-interest, arises (Elangovan & Shapiro 1998). Therefore, the benevolent party needs to formulate control mechanisms to guard against breach of benevolence.

Regarding interfirm relationships, researchers have discovered several measures that could serve as control mechanisms. These mechanisms include monitoring (Celly and Frazier 1996; Lal 1990; Williamson 1985), vertical control (Bello and Gilliland 1997; Stump and Heide 1996; Coleman 1990; Spekman 1988; Heide and John 1988), relational norms (Heide and John 1992), contracts (Cannon, Achrol, and Gundlach 2000; Lusch and Brown 1996), and pre-qualification (Stump and Heide 1996).

Despite growing knowledge of control mechanisms, researchers have identified a gap that needs to be addressed. Limited research exists identifying control mechanisms that reduce the risk associated with benevolence. Since benevolence is important in interfirm relationships (e.g., Morgan and Hunt 1994), developing mechanisms to protect the benevolent party from unnecessary risk could be a significant factor in managing cooperative relationships. Therefore, the benevolent party needs to identify control mechanisms that reduce the risk in the exchange relationship substantially.

In this study we attempted to understand the impact of control mechanisms used by the manufacturer to reduce the level of risk associated with exercising benevolence toward the supplier. We investigated two control mechanisms, namely vertical control and the norm of flexibility which may reduce the risk associated with trusting the exchange partner. In this study we proposed that the manufacturer that has showed a high level of benevolence to the supplier is likely to rely on individual and plural forms of control mechanisms. In the next section, the theoretical background for benevolence, control mechanisms and research hypotheses are discussed.

Keywords: Benevolence, Vertical Control, Flexibility
Theoretical Background and Hypotheses

Benevolence

Benevolence is a manufacturer’s belief that the supplier will not only execute actions resulting in positive outcomes, but will also avoid actions resulting in negative outcomes (Anderson and Narus 1990). The voluntary dependence of the manufacturer on a supplier is based on the expectation of positive outcomes (Hosmer 1995); thus, repercussions for the manufacturer are possible. Since the supplier is not under the manufacturer’s direct control (benevolent party), benevolence is included in the manufacturer’s vulnerability within the manufacturer-supplier relationship (Coleman 1990). For instance, a manufacturer that trusts the supplier to deliver supplies on time might suffer negative consequences if the supplier fails to fulfill that agreement.

The benevolent party is potentially vulnerable to the opportunistic behavior of the exchange partner (Elangovan & Shapiro 1998; Andaleeb 1992) and a supplier could obtain short-term benefits from that opportunistic behavior. For instance, when there is a volatile supply of parts in the market, a supplier could take advantage of the prevailing uncertainty by selling to alternative buyers once a higher offer is made for the parts to increase the profit margin whereas the manufacturer would believe the parts are still in short supply. The consequences of such opportunistic supplier behavior would make it difficult for the manufacturer to reach optimal outcomes and would result in a reduced level of commitment exhibited by the manufacturer within the relationship.

Since the benevolent party is vulnerable to the exchange partner, the benevolent party needs to implement mechanisms to prevent the other party from violating their benevolence. Exchange parties rely on interfirm control mechanisms to protect themselves from unreliable exchange partners (Stump and Heide 1996; Heide 1994).

Control mechanisms

Research has been conducted on the control mechanisms that exist between organizations (Weitz and Jap 1995; Heide 1994) and within organizations (Ouchi 1979). Two types of control mechanisms have been identified, the unilateral control mechanism and the bilateral control mechanism. The distinction between unilateral and bilateral control mechanisms is based on whether both the manufacturer and the supplier participate in the decision-making process (Weitz and Jap 1995). While the bilateral control mechanism is based on both exchange parties’ active participation in decision-making, the unilateral control mechanism relies solely on a manufacturer’s decision-making ability.

The present study adopted two control mechanisms, vertical control and the norm of flexibility. Vertical control represents the unilateral control mechanism, whereas the norm of flexibility represents the bilateral control mechanism. Since manufacturers can obtain information on their suppliers using these two control mechanisms (Stump and Heide 1996; Macneil 1980), they can serve as appropriate methods for reducing the risk associated with vested benevolence.

The unilateral control mechanism is based on the controlling party’s effort to influence a partner’s action (Bello and Gilliland 1997; Celly and Frazier 1996; Stump and Heide 1996; Coleman 1990; Spekman 1988; Heide and John 1988) and utilizes external measures, such as output or the behavior of the partner (Heide 1994; Celly and Frazier 1996). Vertical control involves the review of a supplier’s performance in terms of delivery or inventory level. Vertically controlling the supplier therefore provides the manufacturer with safety that is vital for the detection of opportunistic behavior from the supplier (Williamson 1985), thereby protecting the interest of the manufacturer.

The absence of any vertical control for the assessment of a supplier’s performance leads to behavioral uncertainty (Williamson 1985). Behavioral uncertainty is the degree of difficulty in the process of assessing the performance of transaction partners (Rindfleisch & Heide 1997). Therefore, behavioral uncertainty creates an undesirable environment in which the exchange partners submit to opportunistic behavior to take advantage of an imperfect evaluation (Anderson 1985). Since vertical control evaluates the supplier’s performance as well as the supplier’s inventory, vertical control discourages the supplier from behaving opportunistically (Stump and Heide 1996). Thus we proposed the following hypothesis:

H1: The higher the level of manufacturer’s benevolence toward the supplier, the greater its reliance on vertical control.

The bilateral control mechanism is based on the collective rather than the individual goals of the two parties (Gundlach and Achrol 1993; Cartwright and Schwartz 1973). The bilateral control mechanism relies on relational norms (Gundlach and Achrol 1993; Weitz and Jap 1995; Lusch and Brown 1996), which stimulate efforts for mutual benefit between the manufacturer and the supplier (Weitz and Jap 1995).

Exchange parties relying on bilateral control mechanisms show high levels of information exchange (Noordewier, John, and Nevin 1990), which is based on shared values such as the norm of flexibility (Weitz and Jap 1995; Heide 1994). The norm of flexibility, which is derived from the expectation that both parties will be flexible to changing environments (Heide and John 1992), provides the manufacturer with a buffer when facing uncertainty in decision-making situations (Noordewier, John, and Nevin 1990).

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1 Although Bradach and Eccles (1989) treat benevolence as a control mechanism, the present study does not. They define control as an exchange facilitator, thus they believe benevolence facilitates exchanges. However, in the present study, control is considered the influencing factor that the exchange partner employs to change the behavior of the other party. Since benevolence is based on a unilateral belief regarding a partner’s credibility and benevolence, it cannot be used to influence the behavior of exchange partners (Das and Teng 1998).
The norm of flexibility implies the relationship will be subject to good faith modification by both parties if a particular practice proves detrimental to either when circumstances change (Heide and John 1992), therefore allowing the manufacturer to be well prepared for the supplier’s actions and materials, such as the level of demand and market price of parts.

In contrast, the manufacturer that does not trust the supplier is less likely to reveal relevant information to the supplier or is more likely to distort it (Dirks & Ferrin 2001; Hedlund and Nonaka 1993). The supplier may retaliate by withholding relevant information from the manufacturer who therefore, may not have sufficient information to reduce the supplier’s opportunistic behavior. Thus, the next hypothesis is:

H2: The higher the level of manufacturer’s benevolence toward the supplier, the greater his reliance on the norm of flexibility.

Plural Control Mechanisms: Complementation among Control Mechanisms

Manufacturers use plural control mechanisms to regulate their relationship with a supplier. One necessary requirement for the use of plural control mechanisms is their mutual complementation, which occurs when the deficiencies of one mechanism are compensated by the strengths of another (Bello and Gilliland 1997), otherwise, a conflict may occur. We postulated that the manufacturer’s vertical control ability and the relational norms are complementary for the manufacturer to reduce the risk associated with showing benevolence to the supplier by relying on plural control mechanisms.

The manufacturer’s control ability is the unilateral surveillance of the supplier and thus could be perceived as a threat to the supplier’s sense of autonomy and produce negative reactions (Ouchi 1979). However, since exchange parties who adopt the norm of flexibility pursue collective goals, the negative effect of vertical control could be alleviated by resorting to the institution of the norm and thus, the norm of flexibility complements vertical control.

Whether the manufacturer that institutes the norm of flexibility in its interaction with the supplier needs to apply vertical control mechanism remains unanswered. Since the norm of flexibility is not specified for dealing with unique situations, the supplier’s behavior might not be fully understood by the manufacturer, thereby undermining coordination (Weitz and Jap 1995). However, updated information obtained as a result of vertical control could create an opportunity for the quick resolution of any challenge encountered and thus, improve coordination. The observation that vertical control complements the norm of flexibility is the basis for the following third hypothesis:

H3: The greater the level of the manufacturer’s benevolence toward the supplier, the more the manufacturer relies on plural control mechanisms.

Methodology

Research Setting and Data Collection

This study was conducted in terms of the manufacturer-supplier relationship, where the major supplier was considered the main factor. The major supplier was defined as the one from which the respondent’s company made the largest amount of purchases during the past year. This major supplier served as reference for all questions in our mail survey. This selection was based on the major supplier with whom the manufacturer had the most intense interactions relying on the development of benevolence as well as the opportunity to develop control mechanisms.

The manufacturers in this study were selected randomly from a Dun and Bradstreet mailing list. The sample was randomly drawn from the following SIC codes: 3679 (electronic), 2399 (textile), 3469 (metal) and 3499 (steel) from Dun and Bradstreet mailing list. The rationale for sampling in the four different industries was to eliminate industry-specific factors that may influence governance choices.

As this research was concerned with buyers’ control mechanisms, the purchasing department heads of the manufacturing companies were chosen as key informants. Purchasing managers are responsible for securing materials from suppliers; hence, they can be expected to be knowledgeable regarding resources dealt with and the nature of the relationships that can be cultivated with suppliers (Hutt and Speh 1992).

A total of 680 questionnaires were mailed with 660 delivered and 20 questionnaires undelivered while 138 were completed and returned to produce a response rate of 20.90%. All returned questionnaires were reviewed for completeness and one questionnaire with numerous missing answers was excluded from the sample. The remaining 137 questionnaires were used in the analysis.

Nonresponse Bias

Corporate Affiliations Plus (2000) was used as a secondary data source of a company’s characteristics for both responding and nonresponding firms. Comparisons between the number of employees and total sales also produced no significant differences (p< 0.89 for employees, and p< .55 for sales volume). Response rates were compared across industry groups (electronics, metal, textile, and steel) and were found to be similar.

Measure Development

Measure development was conducted in two stages. In the first stage, existing measures for our constructs were gathered from the literature. In the second stage, in-depth interviews were conducted with three purchasing managers. The purpose of these interviews was to check the relevance of the items developed in the first stage. Based on the inputs from the interviewed purchasing managers, the wordings of several items were revised (Table 1). All items used a 7-point Likert scale where 1 meant “strongly disagree” and 7 meant “strongly agree”.

Two dimensions of benevolence and credibility were
Construct validity

Each variable measured with multiple items was subjected to a scale development and purification procedure and the process can be described in two steps. First, exploratory factor analyses were performed for each set of constructs (i.e., benevolence, vertical control and the norm of flexibility). Second, reliability analyses were performed for each construct to ascertain that all the measures show satisfactory reliability. Several ill-fitting items were eliminated due to low factor loadings (Table 1). The resultant reduced sets of items were subjected to confirmatory factor analysis using LISREL.

After the scale purification process, a measurement model with acceptable fit indices was identified (2 \(113) = 151.50, p < .01; \text{GFI} = .90, \text{CFI} = .92, \text{IFI} = .92; \text{RMSEA} = .046\). Square multiple correlation of each item was between .30 and .65, which indicated convergent validity. All the factor loadings were highly significant (\(p < .01\)), indicating convergent validity and unidimensionality of the measures (Anderson and Gerbing 1988). Furthermore, the reliability of all constructs was above .70, demonstrating adequate convergent validity and reliability.

Discriminant validity of all 3 latent constructs was subjected to 2 difference tests. All the constructs in pairs (3 tests overall) were tested to ascertain the extent to which the restricted model (in which the correlation was fixed as one) was significantly worse than the freely estimated model. All the 2 differences were highly significant, indicating evidence for discriminant validity (Gerbing and Anderson 1988). The CFA results such as goodness-of-fit index, factor loading and reliability are reported in Table 1.

Control Variables

Two control variables, the length of the manufacturer-supplier relationship and the manufacturer’s power over its supplier, were included in the hypothesis testing. The reliance on control mechanisms can be influenced by the length of the relationship (Gundlach and Achrol 1993) and interorganizational power (Lusch and Brown 1996). The length of relationship was represented by the period of time a purchasing manager has been conducting business with his/her major supplier. The manufacturer’s power over the supplier was obtained by measuring the supplier’s dependence on the manufacturer.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>Measurement Items and Validity Assessment</th>
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<tbody>
<tr>
<td><strong>Benevolence: Reliability = .92</strong></td>
<td></td>
</tr>
<tr>
<td>1. When making important decisions, the supplier is concerned about the manufacturer’s welfare.</td>
<td>.88</td>
</tr>
<tr>
<td>2. Pertaining to important aspects to the manufacturer, supplier’s support can be depended on</td>
<td>.76</td>
</tr>
<tr>
<td>3. The supplier can be counted on to consider how their decisions and actions will affect the manufacturer.</td>
<td>.82</td>
</tr>
<tr>
<td>4. Although circumstances change, the manufacturer believes the supplier will be ready and willing to offer assistance and support.</td>
<td>.77</td>
</tr>
<tr>
<td>5. The supplier is genuinely interested in the success of the manufacturer’s firm.</td>
<td>.85</td>
</tr>
<tr>
<td>6. When making decisions, the supplier considers the manufacturer’s business growth.</td>
<td>.80</td>
</tr>
<tr>
<td><strong>Vertical control: Reliability = .77</strong></td>
<td></td>
</tr>
<tr>
<td>1. The performance review of the major supplier is conducted regularly.</td>
<td>.83</td>
</tr>
<tr>
<td>2. The major supplier’s inventory level is monitored.</td>
<td>.44</td>
</tr>
<tr>
<td>3. The major supplier’s performance is addressed through a formal vendor evaluation program</td>
<td>.77</td>
</tr>
<tr>
<td>4. The relationship established with the major supplier utilizes numerous controls.</td>
<td>.52</td>
</tr>
<tr>
<td><strong>The Norm of Flexibility: Reliability = .71</strong></td>
<td></td>
</tr>
<tr>
<td>1. Both the manufacturer and the major supplier expect each company will be flexible to the other company’s request for changes.</td>
<td>.83</td>
</tr>
<tr>
<td>2. Both the manufacturer and the major supplier expect to make any adjustments necessary to cope with changing circumstances.</td>
<td>.78</td>
</tr>
<tr>
<td>3. When an unexpected situation arises, both the manufacturer and the major supplier would prefer to amend the manufacturer’s agreement rather than hold each other to the original terms.</td>
<td>.45</td>
</tr>
<tr>
<td>4. Both the manufacturer and major supplier are expected to be flexible if they can help the other company.</td>
<td>.61</td>
</tr>
</tbody>
</table>

Note: * Items deleted from further analysis due to low factor loadings or high cross-loadings.  
SFL = Standardized factor loading.
Analysis and Results

Hypotheses Test

As illustrated in Table 3, benevolence was significantly related to vertical control ($\beta = .348, p < .01$) and the norm of flexibility ($\beta = .618, p < .01$), lending support to H1 and H2. Furthermore, benevolence was significantly associated with plural control mechanisms ($\beta = .504, p < .01$), which supports H3. These results indicate that the manufacturer who attempts to reduce the level of risk involved with vesting benevolence in its supplier depends on either the alternative use of vertical control and the norm of flexibility or their simultaneous use.

Control variables showed no effects. Both the length of relationship and manufacturer’s power were not related to control mechanisms (Table 3) indicating that the length of relationship does not necessarily provide the manufacturer with sufficient confidence to rely on the norm of flexibility. Moreover, where the power for vertical control favored the manufacturer, it is not necessarily made manifest.

Discussion

This study adopted representative control mechanisms for both unilateral and bilateral mechanisms and investigated their function for protecting the benevolent party from an exchange partner’s betrayal. The data demonstrated that a manufacturer who showed benevolence toward their supplier is likely to institute the control mechanisms of vertical control and the norm of flexibility to reduce the risk associated with benevolence. The results of the study also showed that the manufacturer relies on a strategy instituting both these control mechanisms.

Managerial Implications

In practical terms, a manufacturer should consider vertical control and the norm of flexibility as safeguards against breach of benevolence. The data showed that in the absence of the norm of flexibility, manufacturers use vertical control as a control mechanism and, similarly, the norm of flexibil-

<table>
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<th>TABLE 2</th>
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<tr>
<td>Means, Standard Deviations and Correlations</td>
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<tr>
<td>1</td>
</tr>
<tr>
<td>1. Benevolence</td>
</tr>
<tr>
<td>2. Vertical control</td>
</tr>
<tr>
<td>3. The norm of flexibility</td>
</tr>
<tr>
<td>4. Vertical control × Norm of Information Sharing</td>
</tr>
<tr>
<td>5. Relationship Length</td>
</tr>
<tr>
<td>6. Power</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Standard Deviation</td>
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Note: sample size = 137

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<th>TABLE 3</th>
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<tr>
<td>Hypothesis Testing of H1, H2 and H3</td>
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</table>

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Vertical control</th>
<th>Information sharing</th>
<th>Vertical control × Information Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>(.994)</td>
<td>(3.471)**</td>
<td>(-1.585)</td>
</tr>
<tr>
<td>Benevolence</td>
<td>.348**</td>
<td>.618**</td>
<td>.504**</td>
</tr>
<tr>
<td>Relationship Length</td>
<td>-.057</td>
<td>.015</td>
<td>-.057</td>
</tr>
<tr>
<td>Power</td>
<td>.084</td>
<td>.036</td>
<td>.066</td>
</tr>
<tr>
<td>Adj. R2</td>
<td>.098</td>
<td>.361</td>
<td>.229</td>
</tr>
</tbody>
</table>

Note: t-tests are one-tailed for hypothesized effects and two-tailed for controls.
** $p < .01$   * $p < .05$
ity functions as a control mechanism on its own. However, when a manufacturer uses vertical control as a control mechanism, caution should be exercised, since it could be construed as an act of aggression by the supplier, which could further hinder the progress of the exchange relationship.

By relying on the norm of flexibility used by exchange parties seeking mutual goals, the manufacturer can placate the supplier, whereas the vertical control generates negative feelings. For this reason, the complementary use of both mechanisms is highly recommended for the mutual benefit of the manufacturer and the supplier.

**Limitations and Future Research**

One limitation of the present study is that this research explored only a subset of unilateral and bilateral control mechanisms. Some manufacturers exposed to the risk associated with benevolence toward their suppliers may use other types of control mechanisms. Although vertical control and the norm of flexibility are mutually complementary, whether other control mechanisms representing unilateral and bilateral control mechanisms produce the same effects remains to be determined. For instance, a manufacturer may have unilateral selection procedures to identify qualified suppliers.

Although the prequalification mechanism could serve as an important foundation upon which the manufacturer can build the bilateral control mechanism with a well-qualified supplier, whether the bilateral control mechanism complements the pre-selection mechanism used for selecting new partners remains to be determined. Therefore, other types of control mechanisms need to be further researched to measure their effects on the reduction of risks associated with benevolence toward supply chains.

Interfirm relationships between buyers and their most important suppliers typically develop and rely on bilateral control mechanisms (Heide 1994). Our results may not be applicable for other contexts such as relationships between buyers and less important suppliers. Further research is necessary to test the consistency of our findings and the boundary conditions of our model.

Although this study focused on improving the effectiveness of interfirm performance, no empirical measure of performance was conducted. Since the hypotheses are based on the assumption that the benevolent party adopts the most effective control mechanisms, measuring how each control mechanism contributes to the party’s performance may be more informative. Further research needs to be conducted on the effect of the manufacturer’s control mechanisms on buying performance when benevolence is shown toward the supplier.

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