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Relational behaviors in marketing channel relationships: Transaction cost implications ☆

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Abstract

Despite recent progress in research on marketing channel relationships, one important question remains unaddressed: Do distributor relational behaviors lower transaction cost for distributors? If so, *how* do relational behaviors affect transaction cost? This study examines the process through which relational behaviors affect transaction cost. Combining the relational perspective with the transaction cost analysis of exchange, the author develops hypotheses on the links between relational behaviors and transaction cost from a distributor's point of view: a distributor's relational behaviors have different direct and indirect effects on its transaction cost. The proposed hypotheses are tested on distributor–supplier relationships with data collected through a national survey of industrial distributors. The hypotheses on the dual, differential effects of relational behaviors on distributor transaction cost received partial empirical support.

Keywords: Marketing channels; Industrial goods; Relational behavior; Reciprocation; Transaction cost

What drives a distributor's superior exchange performance with its supplier? Various elements of performance metrics, including qualitative measures such as satisfaction (Geyskens et al., 1999) and commitment (Gruen et al., 2000) and quantitative measures such as transaction cost (Buvik and John, 2000), sales, and profit (Bello and Gilliland, 1997), have been examined. Market researchers also have identified firm-specific, dyadic, and extra-dyadic drivers of exchange performance (for studies on those drivers, see Bello and Gilliland, 1997; Cannon and Perreault, 1999).

Among the drivers of superior exchange performance, academic researchers (Jap, 1999) and practitioners (Fites, 1996) concur that engaging in relational behaviors is essential for garnering better exchange performance. Relational behaviors refer to activities that are specifically targeted to benefit a particular exchange relationship. Dyer and Singh (1998) maintain that relational rent as a supernormal profit from an interfirm exchange can only be earned and preserved through relational behaviors such as investing in relationship-specific assets and engaging in substantial knowledge exchange between two exchange parties (see also Jap, 1999).

Generating economic rent is certainly desirable to exchange parties, and the benefits of relational behaviors are well established. However, can the benefits of relational behaviors be reaped without incurring cost? Consider the issue of investing in relationship-specific assets. Although recent studies recognize that relation-specific assets help firms reduce cost and achieve product differentiations (Rindfleisch and Heide, 1997; Stump and Heide, 1996), many previous studies, using transaction cost analysis logic, have highlighted vulnerability to exploitation by the exchange partner (cf. Bensaou and Anderson, 1999). Therefore, relational behaviors, including investment in relationship-specific assets, appear to engender both cost and benefits to a party that engages in such behaviors. Yet extant literature has not been clear about the dual effects of relational behaviors and their net value for exchange performance (Rokkan et al., 2003). Instead, either the costly aspects (Heide and John, 1988) or the

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beneficial aspects (Jap, 1999) of relational behaviors have been highlighted.

This study aims to bridge that gap in the marketing channels literature partially by conducting an empirical study that examines relational behaviors and transaction cost from *a distributor's point of view*. Specifically, the study examines both benefits and cost of relational behaviors within one conceptual framework and submit that a distributor's relational behaviors *per se* increase its transaction cost, but that relational behaviors lower its transaction cost indirectly through the supplier's reciprocal actions. The intended contribution of this study is twofold. First, the study refutes the simple notion that relational behaviors improve or impair exchange performance and identify dual effects of relational behavior by contrasting the relational view (Dyer and Singh, 1998) with the transaction cost analysis (Williamson, 1985) of exchange and considering them within one framework. Second, the study disentangles the direct effects of relational behaviors on transaction cost from their indirect effects, thereby highlighting the dual and differential paths through which relational behaviors affect efficiency in interfirm exchange.

1. Conceptual framework and hypotheses

The conceptual framework consists of three building blocks: The first block is the transaction cost of a distributor, which consists of acquisition cost and coordination cost from a distributor's standpoint. The second block pertains to the supplier's reciprocal actions for the distributor's relational behavior: supplier commitment and supplier responsiveness. The third block consists of a distributor's relational behaviors toward the supplier: distributor specialized investment and bilateral communication. The conceptual framework is described in Fig. 1.

1.1. Contrast between relational view and transaction cost view of exchange

Consider the effects of two relational behaviors – specialized investment and bilateral communication – on transaction cost from two contrasting views: relational view and transaction cost view. Note that general discussions of the relational view (Dyer, 2000; Dyer and Singh, 1998) and the transaction cost view (Geyskens et al., 2006; Rindfleisch and Heide, 1997) are not provided because excellent reviews of those approaches have been reported elsewhere already.

1.1.1. On the effect of specialized investment

The relational view proposes that making specialized investment is an essential source of superior exchange performance. The relational view takes a dyadic perspective and highlights the beneficial effects of specialized investment. This view contrasts with the focus of transaction cost analysis, which highlights the transaction cost of specialized investment to an investing firm due to the idiosyncratic nature of the specialized assets and its subsequent vulnerability to opportunistic behavior by the exchange partner. In reality, both benefits and cost ensue from making specialized investment and a more balanced approach is to consider both costly and beneficial effects of distributor specialized investment on exchange performance.

1.1.2. On the effect of bilateral communication

As with the case of specialized investment, the relational view and the transaction cost view have different interpretations and solutions regarding asymmetry of information between exchange parties. The transaction cost view assumes that transaction cost will increase as information asymmetry increases, because a firm must spend more resources to determine the motives and behaviors of the

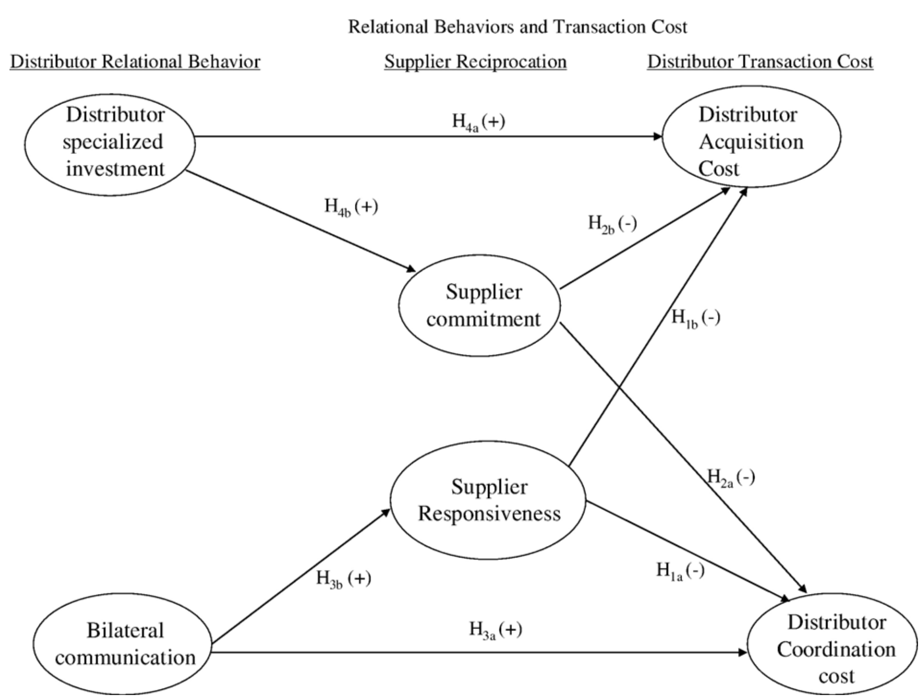

Fig. 1. Relational behaviors and transaction cost.