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# Reducing distributor opportunism in the export market: Effects of monitoring mechanisms, norm-based information exchange, and market orientation

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ABSTRACT

As monitoring mechanisms are critical to exporter–distributor relationships, the effectiveness of different types of monitoring mechanisms remains an important issue. Our study goes beyond the separate effects of monitoring mechanisms on opportunism, and tests the moderating effects of market orientation (MO) and norm-based information exchange on the monitoring mechanism–opportunism relationship. Based on survey data of 160 export ventures in China, we find that process control increases distributor opportunism, while norm-based information exchange and MO decrease it. Moreover, at high levels of norm-based information exchange and MO, the impact of process control on opportunism turns from positive to negative.



Globalization and rapidly changing environments have exerted an enormous pressure on exporters to better manage their relationships with distributors. As a result, the critical role of relationship governance has received considerable attention in the marketing and international business literature (Aulakh, Kotabe, & Sahay, 1996; Leonidou, Katsikeas, & Hadjimarcou, 2002; Luo, 2007; Luo, Liu, & Xue, 2009; Wathne & Heide, 2004). As distributors are prone to behave opportunistically because they only have partially overlapping interests with exporters, exporters resort to employing different types of governance mechanisms to reduce such opportunistic behavior (Luo, 2007; Wathne & Heide, 2000). Conflicting theoretical arguments and empirical results on the effectiveness of monitoring as a formal governance mechanism to reduce opportunism have yet to be resolved (Carson, Madhok, & Wu, 2006; Deci, Koestner, & Ryan, 1999; Heide, Wathne, & Rokkan, 2007; John, 1984; Williamson, 1985). Although the literature has identified information asymmetry as a major cause of opportunistic behavior (e.g., Joshi, 2009; Wu, Sinkovics, Cavusgil, & Roath, 2007), limited research has systematically examined the crucial role of information generation and sharing as informal governance mechanisms and simultaneously their contingent effects on the monitoring mechanism–opportunism relationship.

Our study attempts to uncover the complexity behind governance mechanisms and contribute to the relationship marketing literature in three ways. First, since previous research has suggested that monitoring can both reduce (e.g., Luo, 2007; Stump & Heide, 1996) and increase (Deci et al., 1999) opportunism, it is imperative to examine the differential effects of various forms of monitoring mechanisms, such as process and output control, on opportunism. Process control is used to govern distributors' daily actions. Output control measures visible consequences of accumulated outcomes (Bello & Gilliland, 1997; Heide et al., 2007). These are distinct monitoring mechanisms that exhibit differential effects on opportunism (Anderson & Oliver, 1987; Joshi, 2009). Heide et al. (2007) recently found that micro-level social contracts strengthen the positive effect of output control and offset the negative effect of process control on opportunism. Following this direction, we attempt to explore other possible contingencies in our study. Specifically, we move beyond the separate effects of monitoring mechanisms and test the moderating effects of norm-based information exchange and market orientation on the monitoring mechanism–opportunism relationship.

Second, the governance literature has identified bilateral relational norms as an important informal mechanism besides unilateral monitoring (Aulakh et al., 1996; Bello, Chelariu, & Zhang,

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2003; Gencturk & Aulakh, 2007). Previous studies have found that norm-based information exchange can promote bilateral trust, thus improving the market performance of a partnership (Aulakh et al., 1996). Although theory suggests that formal (i.e., monitoring mechanisms) and informal governance (i.e., relational norms) mechanisms may serve as functional substitutes (Coleman, 1990; Luo, 2007), whether formal and informal governance mechanisms may also serve as functional complements have received limited attention. We examine this possibility by investigating the effect on distributor opportunism when monitoring mechanisms and the norm-based information exchange are both present.

Third, the essence of the monitoring mechanism–opportunism relationship is that distributors tend to have more information about customers and competitors in foreign markets than exporters (Crosno & Dahlstrom, 2008). An exporter that possesses sufficient information and knowledge about the export market would be in a better position in resolving its distributors' opportunism problems because its information superiority may deter opportunism. As a fundamental construct in the marketing discipline, market orientation in the export context provides exporters with knowledge about current and future customers, competitors, and the dynamics in the external environment (Atuahene-Gima, 2005; Cadogan, Diamantopoulos, & Siguaw, 2002; Gebhardt, Carpenter, & Sherry, 2006; Kotler, 2000). To date, the impact of market orientation on distributor opportunism has yet to be examined in the export literature. Furthermore, although it is understood that market orientation and monitoring mechanisms coexist, the exact nature of their interrelationship has not been explored, and little is known about how different monitoring mechanisms work in tandem with market orientation activities to reduce distributor opportunism. In our study, we coalesce these two important research streams and investigate the moderating role of exporters' market orientation on the monitoring mechanism–opportunism relationship in the export markets.

We focus on the separate and joint effects of monitoring mechanisms, the norm-based information exchange, and market orientation on reducing distributor opportunism and empirically test these relationships in an emerging economy context, China. Using a cross-industry sample of 160 export ventures, we aim to extend the understanding of governance mechanisms in inter-firm relationships by investigating the moderating effects of norm-based information exchange and market orientation on the monitoring mechanism–opportunism relationship.

## 1. Theory and hypothesis development

In an exchange relationship, two parties make commitments to each other about their actions to achieve specific goals. If certain circumstances arise, exchange parties have incentives to act opportunistically due to their independent self-interest (Heide et al., 2007; Luo et al., 2009; Stump & Heide, 1996). Consequently, the difficulty in safeguarding, adaptation, and performance evaluation subjects the parties to opportunistic exploitations (Williamson, 1985). Control is a key construct in an exchange relationship to ensure that the promised actions are undertaken to reduce opportunism and to foster continuous distributor improvement (Joshi, 2009). Reinforcement and information are two central dimensions of control. The reinforcement dimension refers to activities such as rewards and punishment, and the information dimension refers to activities such as goal setting and feedback (Challagalla & Shervani, 1996; Joshi, 2009).

The reinforcement dimension of control can be exerted through unilateral monitoring mechanisms (Joshi, 2009). According to transaction cost economics (TCE), unilateral monitoring mechanisms are effective in reducing partner opportunism (Anderson & Weitz, 1992; Heide & John, 1988; Heide et al., 2007; Stump & Heide, 1996; Williamson, 1985). Monitoring is defined as "an effort made by one party to measure or meter the performance of another," and to ensure that "the value created through a firm's marketing decisions can be claimed by the focal firm" (Heide et al., 2007, pp. 425–426).

Solely relying on monitoring mechanisms however has been criticized for their exclusive focus on efficiency and their failure to consider the social and relational aspects of exchange (Carson et al., 2006; Hawkins, Wittmann, & Beyerlein, 2008). Therefore, researchers have argued that relational contracting theory is complementary in examining how to inhibit opportunistic actions (Bello & Gilliland, 1997; Heide & John, 1992). Relational contracting theory has been used as a foundation in the relationship management literature (Kingshott, 2006; Morgan & Hunt, 1994). The central idea is that the context of a relationship can influence the manner in which transactions occur (Crosno & Dahlstrom, 2008). As non-market governance forms, relational norms are expected to exert a significant impact on opportunistic behavior because "they provide guidelines for the initial probes that potential exchange partners may make towards each other" (Scanzoni, 1979, p. 68). Thus, they can align the interests between an exporter and its distributor as exchange parties, thus consequently reducing opportunistic activities (Heide & John, 1992). In our study, we focus on the relational norm-based information exchange by which the information dimension of control is exerted within exchange relationships.

Market orientation is another mechanism through which the information dimension of control is exerted. Market orientation is one of the most important concepts of modern marketing thought. It characterizes an organization's disposition to deliver superior customer value continuously (Slater & Narver, 1994). The creation of superior customer value entails an organization-wide commitment to continuous information gathering with respect to customers' needs, competitors' capabilities, and other significant market agents and authorities (Slater & Narver, 1994). The result is an integrated effort among employees and across departments, which, in turn, gives rise to organizational knowledge about foreign market (Kohli & Jaworski, 1990). Therefore, the benefits and importance of being market-oriented are purported to be the creation of superior customer value and the provision of market-sensing that lead to organizational knowledge (Noble, Sinha, & Kumar, 2002). In the specific context of manufacturer–distributor relationships, market orientation provides manufacturers with information in the export market in order to exert the information dimension of control.

We present our conceptual model in Fig. 1. We examine the effects of process and output control, norm-based information exchange, and MO on distributor opportunism. Moreover, we investigate the moderating effects of norm-based information exchange and MO on the monitoring–opportunism relationship.

### *1.1. Monitoring mechanisms*

The reinforcement dimension of control is exerted through different types of monitoring mechanisms. We focus on two major types: process control and output control. Process control involves the evaluation of a partner's behavior, or the means used to achieve the desired ends (Anderson & Oliver, 1987; Aulakh et al., 1996; Bello & Gilliland, 1997; Heide et al., 2007; Munro & Beamish, 1987). This governance form involves the focal firm's active participation in its distributors' activities through on-site inspections. Specifically, the focal firm imposes strict guidelines on its distributors' daily marketing actions (e.g., selling, promotional, and new product introduction procedures) (Atuahene-Gima & Li, 2002; Bello & Gilliland, 1997; Fram, 1992). In our study, we posit that process control could lead to higher distributor opportunism for