



## Testing the conflict–performance assumption in business-to-business relationships

Margarida Duarte<sup>a,1</sup>, Gary Davies<sup>b,\*</sup>

<sup>a</sup>Higher Institute of Economics and Business Administration (ISEG), Technical University of Lisbon (UTL), 20, Rua Miguel Lupi, 1200 Lisbon, Portugal

<sup>b</sup>Manchester Business School, Booth Street West, Manchester M15 6PB, UK

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### Abstract

There is little empirical research published testing the interdependency between conflict in business-to-business relationships and commercial performance. The “conflict–performance assumption”—all other factors being equal, relationships where conflict is low will outperform relationships where conflict levels are higher—remains central in the marketing channels’ literature despite insufficient and contradictory empirical evidence. There are several explanations for the lack of a clear relationship between conflict and performance. Rosenbloom [J. Mark. 37 (1973) 26] theorises that the relationship between conflict and channel performance follows an inverted U-shaped curve, where conflict is most productive at moderate levels and least productive at very low or high levels. Others have argued for a simpler, linear relationship between conflict and performance, usually negative in nature. Various theories about the conflict–performance relationship are empirically tested in a large marketing channel, using a number of dyadic and monadic measures of conflict (latent, perceived, and affective) and two objective measures of performance (effectiveness and efficiency). A linear model (performance declining as conflict increases) is adequate to explain the relationship between dyadic measures of both perceived and affective conflict and channel effectiveness. A threshold model is found to be superior to a linear model in explaining the relationship between dyadic measures of perceived and affective conflict and efficiency. Conflict increases slowly as efficiency falls until a threshold is reached when conflict escalates. Practical implications include that companies need to consider whether performance criteria affecting efficiency are as important to their business partners as those affecting effectiveness. If they are not, then business partners should be rewarded for meeting any such criteria that are more important to the one side of a relationship dyad than to the other.

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### 1. Introduction

Conflict is pervasive and virtually inevitable in business-to-business relationships and particularly when there is a functional interdependency between two businesses as in a marketing channel (e.g., Refs. [7,29,32]). Conflict has been claimed to be the dominant form of interaction between members of a dependant dyad [30]. Intuitively, boundary managers should therefore attempt to restrict conflict to a functional level where it provides a constructive tension between the two organizations [41]. Once conflict levels escalate, it is seen as a major cause of falling performance

[4,33], but there have been few empirical attempts to assess the conflict–performance relationship. Our main objectives in this paper are to explore the relationship empirically and to test various models to explain the phenomenon.

### 2. The conflict–performance assumption

The “conflict–performance assumption”—all other factors being equal, relationships where conflict is low will outperform relationships where conflict levels are higher—remains central to the channels’ literature despite insufficient and sometimes contradictory empirical evidence. Kelly and Peters [18] argued that conflict is negatively related to performance, but developed limited evidence to support the claim. Some empirical studies have found the expected inverse relationship between conflict and performance [8,11] (Fig. 1a). However, Assael [3], in a 2-year

\* Corresponding author. Tel.: +44-161-275-6457; fax: +44-161-275-6464.

E-mail addresses: mduarte@iseg.utl.pt (M. Duarte), gdavies@man.mbs.ac.uk (G. Davies).

<sup>1</sup> Tel.: +351-213-925-800; fax: +351-213-925-850.

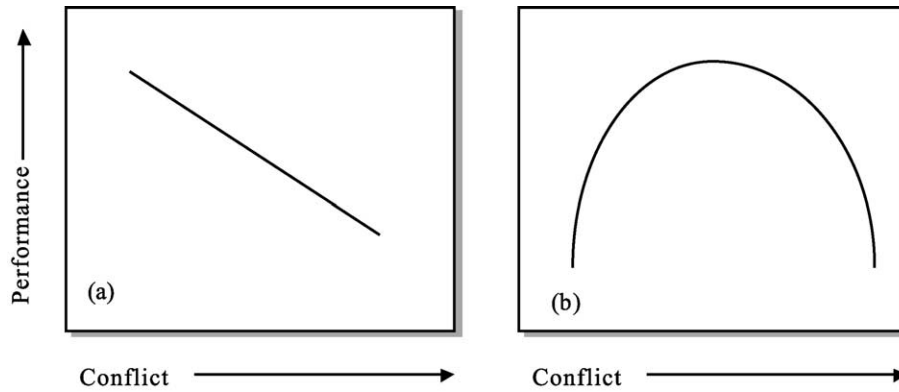


Fig. 1. The controversial conflict–performance link: two alternative views.

exploratory study in franchise channels, found that in the presence of special requirements, conflict can be constructive and may have a positive impact on channel performance. Pearson [27] found no statistically significant difference in performance between channels with relationships characterised by conflict and those with relationships characterised by cooperation, while Rosson and Ford [35] found manifest conflict to correlate positively with performance. Lusch [24], in franchise channels, found that conflict between car manufacturers and their dealers did not always reduce performance.

There are several explanations for the lack of a clear relationship between conflict and performance. The most common is that conflict is not necessarily dysfunctional [29]. Despite the emphasis in the channels' literature on the negative effects of conflict, the notion of mixed consequences of conflict is widely held [2,26,39]. Stern et al. [39] contend that without any conflict, a channel system may even lose its viability, because its channel members tend to become passive and noninnovative. On the other hand, because conflict is an opponent-centred behavior, it can ultimately degenerate into moves that intentionally aim to destroy, injure, or obstruct another party, thus being malignant not only for the parties involved but also for the entire channel system.

Rosenbloom [33] theorises that the relationship between conflict and channel performance follows an inverted-U curve, where conflict is productive at moderate levels and unproductive at very low or high levels (Fig. 1b). Rahim and Bonoma [31], in a nonmarketing context, describe the conflict–productivity relationship as having the same inverted-U shape. Their rationale is that a certain amount of conflict is essential to productivity and change, as “organizations in which there is little or no conflict may stagnate.” On the other hand, organizational conflict left uncontrolled may have dysfunctional effects. Therefore, it is argued, the relationship between the amount of conflict and organizational effectiveness approximates an inverted-U function ([31], p. 1325). Lusch [24] appears to have been alone in empirically testing this proposition. He proposed that the operating performance of a franchisee would

increase as the franchisee's conflict with the franchisor increases but only up to a point, after which the franchisee's operating performance would decrease. No statistically significant support was found for such a threshold effect of channel conflict on the operating performance of the channel members and/or on channel efficiency. While the inverted-U or threshold model could explain the conflicting results from studies that on the one hand find positive correlations between conflict and performance and on the other the equally intuitively attractive negative correlation, the inverted-U model remains without empirical support.

Our aim here is to investigate whether an inverted-U curve or a simpler linear model better explains the relationship between conflict and performance or whether a different conceptualisation of the relationship would be superior. In doing so, we will be helping to fill a gap in channels' research where the interaction of behavioral measures and objective measures of performance is traditionally lacking [37] and to add to a more general understanding of business-to-business relationships. In summary the two main existing models of conflict–performance are shown in Fig. 1.

### 3. Conceptual issues and the measurement of conflict and performance

One of the issues in researching both conflict and performance is that of definition. Another is that of measurement. Both concepts are capable of multiple definition and therefore have been measured in various ways. In fact this reality *could* explain the incompatibility of earlier studies, with different authors measuring different aspects of one or both. It is often unclear, particularly in earlier work, what aspect of conflict is being addressed.

To understand the complexity of conflict, it is better to see it as a dynamic process rather than as a single state [29,44]. In what became a seminal article, Pondy [29] proposed conflict to be composed of a sequence of episodes where each episode builds upon the previous one and provides the background for the subsequent ones. Each episode comprises several states: (1) latent conflict (con-

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