Working Paper

Conflict Resolution Strategies in Channels

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Abstract

With the advent of the e-commerce channels, most manufacturers have introduced direct internet channels which could be a source of conflict among channel members. The conflict could be task related or interpersonal and can occur at any stage of the relationship with the manufacturer-honeymoon, routine problem solving or stabilization. Depending upon the type of conflict and relationship stage, the paper advances a conceptual framework for conflict resolution strategies.

Keywords-conflict, conflict resolution, channel lifecycle, internet channel

For any company with a product to sell, how to make that product available to the intended customers can be as crucial a strategic issue as developing the product itself. Choice of channels is a crucial decision for any manufacturer. Today there is a growth in technology and internet channel options making the choice much more strategic for the manufacturer. However, the greatest threat to the addition of direct internet channels is the threat of conflict from other channel members. Conflict is a multidimensional and can be classified into different types based on the source of conflict. Since most channel setups are over an extended period of time, there is a relationship that develops over time between channel members. In this paper, an attempt has been made to understand the two types of conflict that could arise because of the internet channel addition and the various stages of the channel relationship that it could arise in. Based on this, conflict resolution strategies have been developed for each situation. This research looks at how the type of conflict and relationship stage could influence the channel resolution strategy which has not been studied before.

The paper is organized as follows. The first section comprises of a literature review on conflict, conflict due to addition of internet channels, conflict resolution strategies and channel relationships. Based on the literature review, a set of propositions are developed, followed by a discussion on research implications.

Conflict

Conflict in channels is a topic of research in various fields like psychology, organizational behaviour and sociology. Conflict occurs when parties disagree over substantive issues or when emotional antagonism creates friction between parties. Conflict at times can be good for teams as it leads to increased creativity and better performance outputs. However, conflict that is dysfunctional must be reduced or eliminated. There is work in

channels literature on **conflict and power** as key constructs influencing distribution decisions and channel structure (e.g., Mallen, 1963, Rosenberg and Stern, 1970; 1971, Lusch, 1976; Dant and Schul, 1992; Hibbard, Kumar, and Stern, 2001). A channel conflict can be defined as "a situation in which one channel member perceives another channel member to be engaged in behavior that is preventing or impeding him from achieving his goals" (Stern and El Ansary, 1977, p. 283 reported by Gaski, 1984). If a channel member's actions are viewed as impeding another channel member's goals, conflict will increase. On the other hand, if a channel member's actions are seen to facilitate the achievement of another member's goals, conflict will decrease. Conflict not only helps define a relationship, but it helps to stimulate a genuine concern or interest in preserving the relationship.

Addition of Internet Channel

The internet channel is different from other direct and indirect channel of the firms. Internet channels have advantage over the other channels in several aspects. It can (1) increase revenue for the company by increasing reach to a more global market, (2) reduce costs by bypassing traditional distribution channels, and cutting transaction costs and commissions and (3) enhances customer service as it provides more and better information with multimedia (Olsen and Moore, 1998). It is more popular among the younger generation, relatively inexpensive for the manufacturer to set up. Due to its increased popularity, the perception of conflict by other channel members could also be high.

In today's world, with the advent of E-commerce, manufacturers face a dilemma. If they do not sell their products directly over the Internet, people will go to their competitors who do, while if they do sell your products directly, their distributors and dealers will desert

them and only carry products from manufacturers who do not compete with them. We have seen cases such as Wal-Mart and Home Depot warning Black & Decker that they would take its products off their shelves should Black &Decker start selling its products through the Internet. Similarly, Gibson Musical faces strong resistance from its intermediaries when it started selling its products online at 10% discount and had to back away from its disintermediation efforts. In a survey of 50 manufacturers, 66% indicated channel conflict was the biggest issue they faced in their online sales strategy, three times as many as the second most frequent response. Channel conflict is thus a serious concern for companies as they add e-commerce (Webb, 2011).

Conflict can occur when resellers have not been considered in e-commerce plans. Disintermediation is a process when intermediaries are cut out of channels (e.g. Jevons and Gabbott, 2000). This often occurs with the introduction of internet channels. According to Frazier (1999) manufacturers using a highly selective distribution channel in which the dependence and investment in intermediaries is high, should avoid the use of the Internet for e-commerce as it would otherwise lead to conflict.

Stages of Conflict And Conflict Resolution Strategies

In a seminal article on conflict, Pondy (1967) identifies five stages of a conflict episode: latent, perceived, felt, manifest, and aftermath. According to Thomas (1992), a channel member's perceptions of another member's actions will be based on normative (fairness), rational/instrumental (benefits), and emotional reasoning (bonding). Sashi (2009) builds on Thomas(1992)'s work and looks at how conflict perceptions based on normative, rational/instrumental, and emotional reasoning affect relational norms, how relational norms affect conflict resolution strategies, and how the conflict resolution strategies affect

marketing channel relationships. A channel member's perceptions of conflict will influence changes in the relational norms that characterize its relationship with other channel members. Depending on how the relational norms change, the conflict resolution strategies of the members will vary. The strategies used by the parties to resolve conflict will either improve or reduce the quality of the relationship among channel members.

Bradford, Stringfellow, and Weitz (2004) consider two dimensions of conflict– inter-personal conflict and task conflict and three approaches for managing conflict— confrontation, accommodation, and collaboration. Inter-personal conflicts are disagreements within networks based on non-task related incompatibilities. For example, some parties might develop negative feeling toward some large retailers in the network because the retailers have reputations of taking advantage of suppliers or they might have negative feeling towards an individual representing a firm in the network because the individual is perceived of as unethical. Inter-personal conflicts typically produce suspicion, distrust, and hostility among network members (Bradford et al, 2004). It reduces the network's ability to reach high-quality decisions and impedes the acceptance of decisions among network members. Inter-personal conflict limits processing of new information, gives rise to hostile attributions concerning each other's intentions and behaviors reduces receptiveness to ideas advocated by other network members who are disliked, and exacerbates effective communication and cooperation within the network (Amason and Schweiger, 1994). Task conflict is defined as disagreements over how to accomplish work together. It often arises from systemic or structural incompatibilities. Network members often have different organizational and societal cultures, resources, and capabilities that create differences in perspectives on how to accomplish work which leads to task conflict (Bradford, et al, 2004). Both types of conflict negatively affect network performance and can be addressed by appropriate conflict

management strategies. Bradford et al (2004) found that the use of collaboration conflict management is effective in reducing both types of conflict. Accommodation conflict management is effective only at reducing inter-personal conflict and confrontation is effective only at reducing task conflict.

The two sources of conflict in the context of an internet channel addition are website adoption and E-commerce adoption. Depending on the level of intermediary involvement, content of website and future e-commerce intentions (as perceived by the intermediary), the conflict due to website adoption could increase or decrease. Conflict due to E-commerce adoption occurs depending upon the level of intermediary involvement, product range and future level of disintermediation (as perceived by the intermediary).Since it has become natural for almost every firm to have adopted an online presence, only conflict arising due to online activity has been considered for the rest of this paper.

March and Simon (1958) have identified four different conflict resolution strategies. They are *(1) Problem Solving, (2) Persuasion, (3) Bargaining, and (4) Politics.* They are briefly explained below:

- Problem Solving occurs when channel members share common goals (which are apparent to both parties) and want a solution that satisfies the decision criteria of both parties. Information exchange, concessionary behaviour, and identification of new alternatives are likely.

- Persuasion occurs when one party attempts to alter the other party's decision criteria so as to move the other party to a common set of goals. In this case, the common goals are not readily apparent to the two parties. Differences between the sub-goals

of the two organizations is reduced by emphasizing on the superordinate goals of the marketing channel.

- Bargaining occurs when common goals are not expected and the two parties have a zero-sum orientation. One party is expected to win at the expense of the other party.

- Politics occurs when there is fixed disagreement over goals and a zero-sum orientation. Unlike bargaining, there is a third party intervention as the two parties are unable to resolve the conflict themselves.

Relationships in Channels

Business markets are characterized by long term relationships particularly in the supply chain (Cannon and Perreault, 1999). Trust and Commitment are often used as measures of relationship strength. Trust exists when one party has confidence in an exchange partner's reliability and integrity (Morgan and Hunt, 1994). Commitment may be defined as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it (Morgan and Hunt, 1994). The presence or absence of trust and commitment could influence the type of conflict resolution strategies used.

Koza and Dant(2007) looked at the effects of relationship climate, control mechanism, and communications on conflict resolution behaviour and performance outcomes. If the relationship climate was cooperative orientation then it affected the bi-lateral communication while if the relationship climate was conflictive, then it affected the unilateral communication.

Blut, Backhaus, Heussler, Woisetschläger, Evanschitzky, and Ahlert (2011) develop and test a lifecycle theory of franchise relationships. The stages of a relationship developed in a franchise context are slightly modified and presented here in the context of channels.

i) Honeymoon stage- In this stage, the channel members are euphoric and enthusiastic about entering a new phase in their working lives and since they are inexperienced in running the business and have not yet developed an understanding of their roles and tasks in the system, they depend heavily on the manufacturer's guidance, and welcome their advice. There is a positive evaluation of relationship, dependency and cooperation by the channel member.

ii)Routine- Honeymoon stage is followed by a stage of disillusionment, frustration. Despite their initial training and guidance from the manufacturer, channel members regularly encounter problems after the honeymoon period ends, and some franchisees become so overwhelmed by the challenges that they are barely able to cope with organizing the day-to-day business activities. Moreover, franchisees must accept that their high levels of expectation toward profits is not realistic. Overall evaluation of the manufacturer will reduce and the level of conflict and self-interest will increase.

iii)crossroad- This is an adjustment phase when channel members develop an understanding of how to cope successfully with the surroundings. They develop their own skills and expertise to deal with situations and the need for autonomy and independence will increase. Their power in the relationship will also increase because of the acquired expertise. However, because of the contracts signed with the manufacturer, they will face a high level of dissonance at this stage and there might be a general negative evaluation of the relationship at this stage.

iv) Stabilization-Efforts by the manufacturer and channel member result in a positive evaluation of the relationship at this stage. Channel members are more realistic of their

assessments and expectations and might develop more cooperative strategies if the relationship is mature. This stage is characterized by strong relationship norms.

Blut et all(2011) found that cooperation variables were high in honeymoon and stabilization phases and low in routine and cross road phases and relationship variables such as satisfaction, trust, commitment and loyalty were high in the honeymoon and stabilization phases, and low in the routine and crossroad phases.

Research Propositions

In this paper, I adopt the typology developed by Bradford et all(2004) for classifying conflict as task related conflict and interpersonal conflict. Blut et al(2011)'s framework for classifying the stages of lifecycle and March and Simon(1958)'s conflict resolution strategies will be used for developing the propositions.

When a manufacturer adds an internet channel, there could be two kinds of conflict that could arise. One could be the interpersonal conflict which arises because of miscommunication among channel members, perception of opportunistic behaviour by some members in the manufacturer team, lack of coordination, etc. There could also be task related conflict that arises because of the differences in culture between the channel member firm and the manufacturer. Channel members might want to retain the indirect channels and focus on improving the distribution in indirect channels while the manufacturer firm might want to expand the reach through e-commerce. There could be difference in pricing strategies which could also be a source of task related conflict.

In the honeymoon stage of the relationship between the manufacturer and channel member, the trust, commitment and dependency of channel member towards the manufacturer will be high. When the conflict is interpersonal, then there is a distrust

generated by the behaviour of some individuals in the manufacturer's firm. The channel member would misunderstand the intention of some of the members of the manufacturer when the internet channel is added. There is also a communication gap. This will reduce the trust and commitment that is salient in this stage. But however since, the dependency in this stage is high, channel members will not adopt any zero sum resolution strategies. Problem solving where channel members discuss the issue with the manufacturer is a probable conflict resolution strategy. Another strategy that could be used is persuasion. Since the manufacturer has more power, they could convince and make the channel member to see eye to eye in this stage. Thus persuasion is another probable strategy.

P1: When the conflict is interpersonal in the honeymoon stage, the conflict resolution strategies adopted are problem solving and persuasion.

Even when the conflict is task related, due to the high dependency, the channel members would try to resolve the issue amicably to both parties.

P2: When the conflict is task related in the honeymoon stage, the conflict resolution strategies adopted are problem solving and persuasion.

The next stage of the relationship is the routine stage. The channel members would be facing disillusionment in this stage and the level of self-interest and conflict would be high. In this stage the addition of internet channels by the manufacturer could create further disillusionment among the channel member and their level of distrust would on channel members would be high. There might be a high level of miscommunication and animosity among channel members at this stage. Channel members might resort to bargaining to get what they want. They might threaten to quit if their needs are not addressed. Thus

P3: When the conflict is interpersonal in the routine stage, the conflict resolution strategies adopted is bargaining.

When internet channels are added at the routine stage, and there is task related conflict, channel members might perceive it as another obstacle in their business but might not attribute the problem to individuals but might see it more as a class of goals between the two organizations. Thus they would resort to problem solving to settle the problem. Strategies such as having an equal pricing across channels; or online channels not catering to regions where the channel member is present could be developed. Thus

P4: When the conflict is task related in the routine stage, the conflict resolution strategy adopted is problem solving.

In the cross road stage, there is a high level of dissonance that exists with the channel members. They feel locked in because of the specific investments. The level of relationship norms would be low. At this stage, when the addition of internet channels creates interpersonal conflict, the relationship would get further worsened. Due to a high level of miscommunication, either party would not be willing to talk to each other to resolve the issue. Hence a third party intervention might be required. Thus

P5: When the conflict is task related in the crossroad stage, the conflict resolution strategy adopted is politics.

When the conflict is task related, the parties would not resort to problem solving as the level of trust would be low. Since by now they are used to the system, they would have developed a significant amount of power and the dependency would have reduced. Persuasion might not also work. Since the conflict is at the task level only, both channels might decide to settle it with each other as a zero-sum game. Thus

P6: When the conflict is task related in the crossroad stage, the conflict resolution strategy adopted is bargaining.

In the stabilization stage, the relationship reaches a maturity. If a channel member has come up to this stage, then the relationship norms would have improved and there would be a relatively higher level of satisfaction, trust and commitment in this stage.

At this stage, if the manufacturer introduces internet channels resulting in interpersonal conflict, then it is likely that either party might try to oversee the behaviour in light of the long relationship they have maintained and the trust that developed. It could result in either the channel member getting persuaded to not take the issue seriously or to confront the manufacturer and persuade them to act in the channel member's interest. Thus persuasion would be a possible strategy at this stage.

P7: When the conflict is interpersonal in the stabilization stage, the conflict resolution strategy adopted is persuasion.

When the conflict is task related at stabilization, the manufacturer and channel member would work together to resolve the issue. Thus

P8: When the conflict is interpersonal in the stabilization stage, the conflict resolution strategy adopted is problem solving.

The propositions are summarized in table 1.

Lifecycle stage	Interpersonal Conflict	Task Related Conflict
Honeymoon	P1- Problem solving and Persuasion	P2-Problem solving and Persuasion
Routine	P3- Bargaining	P4-Routine-Problem solving

Cross road	P5-Politics	P6-Crossroad-bargaining
Stabilization	P7- Persuasion	P8-Stabilization-problem solving

Table 1: Conflict resolution strategies

Conclusion-

With the growth of technologies and channels, managers will find it critical to manage conflicts effectively. Given that most channels evolve over time, the relationship stages between channel partners would differ and can influence the conflict resolution strategies. This paper addresses the research gap in this area by exploring the role of relationship stages and its effect on channel resolution strategies and puts forward conceptual propositions. Future work can empirically test the model through qualitative or scenario-based between-sample experimental research designs.

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