Journal of Marketing Thought

Publication details, including instructions for authors and subscription information:
http://www.ejmt.org

“Bureaucratic Structuring, Transaction Specific Investment, and Relationship Quality: Moderating Roles of Information Exchange between Manufacturer and Distributor”
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To link to this Article: 10.15577/jmt.2015.02.01.1
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Bureaucratic Structuring, Transaction Specific Investment, and Relationship Quality: Moderating Roles of Information Exchange between Manufacturer and Distributor

The purpose of this article is two-fold. First, the study tests empirically that three constructs, such as, formalization, centralization, and transaction specific investment, represents asymmetric dependence structure have negative effects on relationship quality, such as, flexibility and commitment. Second, the study examines how information exchange between manufacturer and distributor moderates the effects.

The analysis utilizing structural equation model indicated that formalization and transaction specific investment have contrary effects on commitment. And commitment has positive effect on flexibility. However, centralization has no significant effect on flexibility. In addition, information exchange weakened the negative effects of centralization and transaction specific investment, and strengthened the positive effects of formalization on flexibility.

For a long time, researchers in distribution channels have dealt with the power and dependence relationships between the channel participants since the work of Emerson(1962). The research on the relationship of power and dependence has been carried out from the two separate perspectives: symmetric and asymmetric interdependence. In the asymmetric dependence structure in general there can be an imbalance of relationship where less dependent partner has a power advantage. This situation usually causes the asymmetric agreement that solely benefits the less dependent firm(Rubin and Brown 1975).

Asymmetric dependence as a construct has once been considered as a negative phenomenon in business-to-business relationships. For instance Morgan and Hunt(1994) regards asymmetric interdependence as a dysfunctional transaction relationship and contends that it provokes the partner's opportunistic behaviors. Many firms that have emphasized the importance of the relational marketing are not willing to adopt the asymmetric dependence structure (Gundlach, Arhrol, and Mentzer 1995) because they think it tends to bring about the coercive controls of superior party(Weitz and Jap 1995).

However, asymmetric interdependence between the channel participants can play a pretty efficient role in the distribution channels that require a vertical integration and a tight control for executing marketing strategy (Dwyer and Oh 1988). Under the extremely asymmetric structure the dependent partner is not likely to escape from the relationship due to the lopsided power influence of superior party. In addition, asymmetric relationship is now considered as an efficient tool for both building strategies and executing marketing activities (Kim and Oh 2006). In fact, there are many manufacturers which perform their marketing activities quite efficiently through the asymmetric relationships with the distributors especially in the industrial sectors of car manufacturing, electronics, mobile communications, foods, and cosmetics.

In here we can raise the question of whether there is a way to efficiently control channel members without weakening the quality of manufacturer-distributor relationships. To address the partial answers to this question, this article examines whether a moderator variable affects the relationship between the asymmetric dependence construct and the relationship quality. Specifically, this study investigates the moderating effect of information exchange on the attributes of both the asymmetric dependence construct and the rela-
tionship quality. Information exchange provides the link between the channel participants and promotes the exchange of critical information through the formal and informal channels (Anderson and Narus 1984). Information exchange makes it possible for channel members not only to make joint efforts in setting goals (Anderson et al., 1987) and adjusting marketing planning (Guilin, Rejab and Rogers 1980), but also, if necessary, coercively convince the other transaction partners to do something they otherwise may not do (Fraziere and Summers 1984; Gaski 1984). In addition, it enhances mutual commitment for both manufacturer and distributor as well (Mohr and Nevin 1990). In this regard examining the information exchange’s role will be very helpful to overcome the shortcomings of the asymmetric dependence construct.

This study examines how information exchange alleviates the negative byproducts or changes it into positive influence when the asymmetric dependence construct has a negative impact on relationship commitment between the channel members. In order to do that, the author selected both bureaucratization (Dwyer, Schurr and Oh 1987; Oh 1990) and transactional specific investment (Ganesan 1994; Kumar, Scheer and Steenkamp 1995) as dimensions of the asymmetric dependence construct. Flexibility (Heide and John 1992; Ivens 2005) and commitment (Dwyer, Schurr and Oh 1987) were used as variables of the relationship quality between the channel members.

Both the structure and the process of the asymmetric dependence construct should be taken into account (Stern and Reve 1980) to fully understand the phenomena which take place within the channel settings. Bureaucratization is a procedural characteristic of the asymmetric dependence structure (Dwyer and Oh 1988) while transactional specific investment is a structural attribute of the equivalent (Ganesan 1994). In this sense this paper takes into account not only the procedural aspect but the structural one as well.

In this study the manufacturer-distributor relationship in the automobile industry was chosen as a focal dyad because car manufacturing enterprises have managed their relationships with their distributors in a way of the asymmetric power mechanism for a long time. In fact, a car manufacturer unilaterally controls its distributors to follow its marketing and operational policies. Previous studies also explore that car manufacturing companies rely on the asymmetric transactional relationships (Kumar, Scheer and Steenkamp 1995; Oh and Shim 1990). In addition, the findings from the in-depth interviews which have been conducted with practitioners of auto distribution channels also show that buyer-seller relationships in the car manufacturing industry support the proposed model of this study.

The purpose of this study is to investigate not only whether bureaucratization and transactional specific investment affect the flexibility and the commitment in the relationships between the transactional partners but also how information exchange influences the relationship between the asymmetric dependence structure and the relationship quality.

### Theoretical Background

#### Asymmetric Dependence Structure

Previous research on dependence structure of transaction relationships have dealt with three types of dependence mechanisms based on the degree of an exchange party's reliance on the other party: symmetric dependence structure which both transaction parties highly rely on each other (Heide and Hohn 1990), intermediate level of dependence which a buyer is less dependent or more dependent (Ganesan 1994), and asymmetric dependence construct which a buyer shows an unilaterally high reliance on resellers (Kumar, Scheer and Steenkamp 1995). Likewise, transaction relationships between the distribution channel members has evolved not just from symmetric dependence structures but asymmetric dependence constructs as well. In other words, the similar magnitude of the two parties' interdependence brings them into the symmetric construct while one party's unilateral dependence on the other leads to the asymmetry.

The degree of dependence affects the selection of influence strategies for both transaction parties (Anderson and Narus 1990). In symmetric transaction relationships, the partners use mainly noncoercive influence strategies such as Tactics of recommendation and information exchange rather than coercive ones such as threats and legalistic claims. However, in situations of asymmetric dependence, the more dependent party has a difficulty to properly use its deterrence ability against the other party's coercive influence strategies and becomes vulnerable to its opportunistic behaviors (Kumar, Scheer and Steenkamp 1995). In most cases, interdependence asymmetry is likely to cause conflicts and lower cooperation, information exchange and relationship commitment between the exchange parties (Dwyer, Schurr and Oh 1987) unless more powerful partner makes its efforts to sustain a long-term interdependence relationship and build up its reputation (Franzier and Summers 1986). Asymmetric dependence structure involves in the bureaucratization of the distribution channel relationships. In other words, a firm has vertically control over another firm's key decisions by specifying rules and procedures in the contracts. John (1984) contends that bureaucratization within a channel system is likely to decrease the satisfaction level of less powerful partner by discouraging its sense of autonomy which in turn affects intrinsic motivation. Dwyer and Oh (1987) similarly state that it has a negative impact on the credibility on the part of partner demanding a bureaucratic structure.

Another characteristic of asymmetric dependence construct is the fact that transaction specific investment made by the less dependent party is asymmetrically bigger than that made by the counterpart. Transaction specific investments refers to investments which easily cannot be converted to another relationship. Ganesan (1994) states that retailers' specific investments significantly affect their extent of dependence on the vendor. Transaction specific investments can be used as hostage (Williamson 1996), which makes it difficult for dealers to terminate the relationship with manufacturers (Weiss and Jap 1995). These specific assets are
considered as exchange hazards in relation oriented transactions and may undermine relational governance (Sheng, Brown, Nicholson and Poppo 2006). Therefore, power asymmetry reduces satisfaction and trust, discourages willingness to maintain a long-term relationship, and impedes sharing predicted values between the transaction partners in the distribution channel.

Despite these negative aspects of asymmetric structure, the intention of this study to focus on the possible positive impact of power asymmetry on transaction relationships. Transaction cost economics investigates how initial power/interdependence influence the relationship between the transaction parties (Williamson 1981). In contrast, a governance mechanism is determined by pre-existing social contacts and interactions between partners in the social network (Jones, Hesterly and Borgatti 1997; Ring and Van De Ven 1994). In their empirical research, Sheng, Brown, Nicholson and Poppo (2006) found that information exchange played an important role in mitigating the negative effect of exchange hazards, such as environmental uncertainty and investment in specific assets. Information exchange, as interactions between transaction partners, plays a key role in attenuating the adverse effects of asymmetric dependence structure. Specifically, even under power asymmetry, more extensive information exchange in a distribution channel has moderating impact on tendency toward the negative behaviors of channel members and it can rather lead to positive performance.

This study chose both flexibility and commitment as representative variables which can explain a comprehensive relationships between the channel participants not only because commitment is a key performance variable in relational marketing (Dwyer, Schurr and Oh 1987) but also because behavioral patterns that can be anticipated from highly committed channel members emerge from the relational norms like flexibility (Lipset 1975). The reason that flexibility is chosen rather than using collaboration, reciprocity, conflict resolution and constraint of power implementation(McNeil 1980) is because flexibility plays a vital role not only in maintaining a long-term relationships of exchange parties under the distribution channel with the high level of vertical integration(Ivens 2005) but in situations which magnitude of asset specificity is significant, as well(Williamson 1993).

**The Relationship Attributes Of Asymmetric Dependence Structure**

The trade-off relation of distribution channel occurs from both symmetric and asymmetric dependence structure. In case that both exchange parties provide resources with equivalent values, their relationship becomes symmetric. If one party offers more valuable resources than those of the other party, their relationship becomes asymmetric, which less dependent party dominates transaction relationship (Buchanan 1992).

Both bureaucratic structuring(John 1984; Dwyer and Oh 1987) and transaction specific investments of inferior party(Ganesan 1994; Sheng, Brown, Nicholson and Poppo 2006) are likely to occur in the asymmetric dependence channels.

**Bureaucratic Structuring**

Bureaucratic structuring is one of governance structure modes. Previous literature identified formalization, centralization and participation as three key features of bureaucrac-y. Formalization is defined as the degree to which rules, specified policies and procedures govern exchange parties' activities. Centralization is the extent to which decision-making and implementation authority is vertically concentrated in the one party. Participation means the extent to which less power partners participate in a dominant firm’s decision making. Since, in general, bureaucratic structuring causes formalization and centralization and impedes participation in an organization(Dwyer and Oh 1987), this article adopts both formalization and centralization as the features of asymmetric dependence structure.

John(1984) contends that bureaucratic structuring impedes one party's sense of autonomy and self-control, and as a result causes negative behaviors such as dissonance, hatred, threat and dissatisfaction. Dwyer and Oh(1987) state that overall authority and conformity to rules and procedures limit desirable adjustment, reciprocity, and relation commitment and has a negative impact on trust. As environmental uncertainty in distribution channels becomes increasingly intensified, a large amount of power and information tends to be concentrated in the partner who can properly respond to the fast changing surroundings (Achrol, Reve and Stern 1983). This can intensify bureaucratic structuring, which can lower both weak partner's sense of autonomy and competence and level of interorganizational commitment(John 1984). In other words, the superior partner has a power advantage by utilizing available resources which can reduce environment uncertainty and as a result, enhances its control over the less powerful partner. The superior partner's unilateral control is more likely to intensify centralization. This may encourage the superior partner make more requests to the less powerful partner that solely benefits the superior partner(Anderson and Narus 1990) and limit the weaker’s sense of autonomy, which consequently leads to the negative effects on the transaction relationships.

Formalization has a positive effect on relationship commitment, while centralization diminishes it(Morris and Steers 1980). This is because formal control strategies increase clearness by articulating specific behaviors. Explicit rules and regulations provide the exchange parties with a clear statement of roles and responsibilities in the relationship. This lets them make more efforts to achieve organizational objectives and enhances sense of trust in a transaction partner.

**Transaction Specific Investments**

Transaction specific investments are assets specifically for building, maintaining and controlling a relationship and they cannot be easily converted to another relationship(Williamson 1980). These relation specific assets increase dependence of the investing partner(Heide and John
1992) and place the dependent partner in a vulnerable position which makes it difficult for him to terminate the relationship. Therefore, the exchange partners are likely to show their commitments and maintain the exchange relationship by making transaction specific investments (Anderson and Narus 1990).

The more a partner invests in transaction specific assets, the greater its dependence on the counterpart is. The cost of walking away from these investment must be significant because it costs the investing partner a significant level to terminate existing relationship and build up a brand new exchange relationship(Heide and John 1990). However, one party’s unilateral investments in transaction specific assets, under power asymmetry, promotes the opportunistic behaviors of less dependent partner (Brown, Dev and Lee 2000). Jap and Ganesan (2000) claim that one party’s unilateral investments in transaction specific assets can adversely influence on the relationship commitment because it provides little incentive for more powerful partner to be committed to the relationship. This makes superior partner adopt alternatives instead of sticking to the less committed counterpart.

**Relationship Quality**

**Commitment**

Commitment refers to "an explicit or implicit pledge of relational continuity between exchange partners" (Dwyer, Schurr and Oh 1987). It is not easily changed and curbs superior partner's opportunistic behaviors(Moorman, Deshpande and Zaltman 1993). Anderson and Weitz(1992) claim that commitment, as a long-term orientation in transaction relationships, has channel members much properly meet customers' satisfactions and cooperate with each other. They found that dedicated investments play a significant role in the development of commitment in an exchange relationship.

Dwyer, Schurr and Oh (1987) pioneered the conceptual framework of buyer-seller relationship stages. Their study explored relationship evolution through five general phases: awareness, exploration, expansion, commitment and dissolution. They view that commitment is the relationship stage which influence satisfaction, trust and minimum level of opportunism rather than just an essential component of relational continuity between exchange partners. However, it has become a dominating trend to view a commitment stage as a standalone dimension in relationship evolution since the work of Morgan and Hunt(1994). This commitment is one of the key factors for the successful long-term relationships because the committed partners are likely to sacrifice a short-term investments to gain long-term benefits. In other words, highly committed partners are willing to invest in transaction specific assets to maintain a valued relationship while less committed partners are likely to be exposed to the hazards of counterpart's opportunism.

**Flexibility**

In channel literature, flexibility has been studied as a relational norms in the relational theory of contract (Macneil 1980). In fact it had long been dealt with in the production management field(Sanchez and Perez 2005). Macneil(1980) has developed a set of norms and classified 28 relational contract norms into five categories: flexibility, solidarity, reciprocity, harmonization of relational conflict and restraint of power. Flexibility means that both parties are willing to accept the fact that ex ante contract between the exchange parties can be adjusted according to market environment, exchange relationship and the partners' unexpected disturbances. Flexibility becomes of greater importance in the long-term relationship than in the short-term relationship, especially in situations which it becomes difficult for the relationship to be converted into another one if it has once been constructed. This is because environment uncertainty makes it difficult for an exchange partner to make accurate predictions before the transaction about the future business situations(Cannon, Achrol and Gundlach 2000). Flexibility plays a more critical role under power asymmetry, which is in a high degree of vertical integration. Even Williamson (1993) who was very cynical about the relational theory of contract stressed the necessity of flexibility in relationships characterized by a high level of asset specificity.

Flexibility can make exchange partners focus on shared values and minimize opportunism and a weak sense of solidarity because it makes exchange partners carry out proper behaviors under unforeseen circumstances(Cannon, Achrol and Gundlach 2000). It also protects relational continuity.

**Information Exchange**

Previous research has investigated channel information exchange in terms of various dimensions such as frequency, direction, modality and influence content(Mohr and Nevin 1996; Mohr and Sohi 1995). However, this study examine the extent to which information exchange within the channel properly carried out, which is coincided with the work of Morgan and Hunt(1994). Information exchange can be defined as a process whereby perceptions, thoughts and emotions of both sender and recipient are properly changed through exchanging information between living organisms(Crino and White 1981). From the distribution channel perspective, information exchange can be defined as "the formal and informal sharing of meaningful and timely information between firms"(Anderson and Narus 1990). Information exchange offers an intermediary link between the distribution channels. It provides an avenue through which the partners exchange information, participate in decision making and power execution, and coordinate various marketing plans. It also enhances the relational values of trust, loyalty and commitment(Mohr and Nevin 1990). In general, a high level of information exchange enhances interorganizational understandings, shared values and goals(Mohr and Nevin 1990). On the other hand, conflict is caused by ineffective information exchange, which leads to "misunderstandings, incorrect strategies, and mutual feelings of frustration"(Etgar 1979). That is, appropriate and ongoing channel information exchange reduces conflict.
and fosters trust and relational commitment between channel members. In addition, information exchange leads to increased interactions between transaction partners, and ultimately intensified flexibility. Since the exchange relationships are influenced by external environment, drafting a contract that includes every detail and predicting the whole possible transaction process that emerges in the uncertain future are usually impossible(Cannon, Achrol and Gundlach 2000). Therefore, without an effective information exchange, the focal partners would not have willingness to accommodate modifications or changes of the existing contract under environment uncertainty. In contrast, intense information exchange could mitigate these limitations, because it promotes mutual understandings and a willingness to make short-term sacrifices and consequently encourages them to adjust the existing contractual terms.

**Conceptual Framework And Hypothesis Development**

**Bureaucratic Structuring and Commitment**

Formalization is defined as the degree to which rules, specified policies and procedures govern exchange parties’ activities. Centralization is the extant to which decision-making and implementation authority is vertically concentrated in the one party(Oh, Kim, and Choi 1994). Even though bureaucratization is thought to have a negative effect on the relationship quality, each impact of formalization and centralization on the performance of the relationship can be either positive or negative.

Centralization hampers one party’s sense of autonomy and self-control, and as a result causes negative behaviors such as dissonance, hatred, threat and dissatisfaction(John 1984). It also develops a mutual distrust because the less powerful partner considers unilateral authority and instructions on the part of the more powerful partner as unfair behaviors(Dwyer and Oh 1987). In addition, the more centralized a relationship is, the more likely the weaker partner is exposed to the counterpart’s opportunism(John 1984; Provven and Skinner 1989). Opportunism by one party can erode the long-term channel relationship because it makes the other partner think that the former involves such behaviors as lying, cheating and more subtle forms of deceit.

In addition, under high level of centralization, the weak partner’s dependence towards superior partner is likely to get intensified and as a result it causes power asymmetry which leads to increased conflicts and reduced relational commitments(Lusch and Brown 1996). This indicates that the more centralized the less dependent partner is, the less committed the more dependent partner is under asymmetric dependence structure. Conversely, formalization has a positive effect on the more dependent partner’s commitment in that it increases credibility and trust and promotes the achievement of shared goals by clarifying roles and responsibilities of both parties through specified procedures and job specifications(Morris and Steers 1980).

Formal procedures and rules under asymmetric dependence construct can be considered as a fait accompli. Violations of articulated clauses in highly formalized relationships have even worse influences on relationship commitment than in low level of formalized relationships(John 1984). However, even in asymmetric situations, if both channel partners are willing to take agreed-upon specified terms and clauses as a regulatory process or a contract, formalization could possibly enhance commitment of less powerful partner. This is because if unexpected disturbances occur during transaction process especially in a situation of lack of formal procedures and rules, the party being controlled not only tends to feel the situation solely benefits to the counterpart but it is also unwilling to maintain long-term relationship with the counterpart. In contrast, formalization can reduce the risk associated with building up commitment with superior partner. The similar results were found in the research using the Korean franchise businesses as the research context(Song and Kim 2006). Thus, the following hypotheses are developed:

H1: In transaction relationships of asymmetric dependence structure, increased levels of a superior’s formalization will have a positive effect on a less powerful partner’s commitment.

H2: In transaction relationships of asymmetric dependence structure, increased levels of a superior’s centralization will have a negative effect on a less powerful partner’s commitment.

However, the impacts of both formalization and centralization on commitment vary according to intensity of information exchange between transaction partners. Information exchange can not only enhance partners’ confidence of relational continuity but also attenuate dysfunctions of conflicts between the channel members through an information sharing (Anderson and Weitz 1989). Intense information exchange between transaction partners increases level of mutual understanding and commitment. The efforts that the more powerful party makes let the less powerful party not only feel the former is interested in the latter’s situation but also reinforce the positive expectation towards the more powerful party’s behaviors(Uzzi 1997).

Thus, under asymmetric dependence structure, the positive impact of formalization on commitment can be enhanced by increased level of information exchange. In addition, increasing level of information exchange in asymmetric dependence structure can either mitigate the negative connection between the centralization and the commitment or convert it into the positive effect. Thus, the following hypotheses are developed:

H3: In asymmetric dependence structure, the positive effect of the superior party’s formalization on inferior party’s commitment will be stronger when level of information exchange is increased than when it is not.
H4: In asymmetric dependence structure, the negative effect of the superior party’s centralization on inferior party’s commitment will be weaker when level of information exchange is increased than when it is not.

**Transaction Specific Investments and Commitment**

Transaction specific investments play a role in inducing transaction partners to form and maintain a stable business relationship (Williamson 1980). In other words, the investing partners may be motivated to maintain their relationships with principals because they realize that transaction-specific investments made by themselves may not be converted with ease into different sets of transactions. In this case, transaction-specific investments functions as a conversion costs associated with termination one relationship and beginning an alternative relationship.

Symmetric investment in specific assets can enhance mutual trust between the transaction partners (Anderson and Weitz 1992) while asymmetric investment in specific assets makes the less powerful party be more dependent on the more powerful party. Especially in asymmetric dependence structure, inferior party generally invests in specific assets more than superior party does, which makes the former be locked into the unfair negotiations with the latter and ultimately encourages opportunistic behavior of the less investing partner (Rubin and Brown 1975). Therefore, asymmetric investment in specific assets reduces positive expectations of one party towards its partner, which undermines the relational commitment between the transactional parties. It also weakens the inferior party’s trust towards the superior part and level of commitment like in situation of centralization. In this manner, inferior party’s investment in specific assets under asymmetric dependence structure is likely to have negative effect on its commitment. Thus, the following hypothesis is developed:

H5: In transaction relationships of asymmetric dependence structure, the greater the inferior’s transaction specific investments are, the less ion commitment is.

However, intense information exchange is likely to mitigate the negative effect of asymmetric transaction-specific investments on inferior party’s commitment as the same as in situation of centralization. This is because the superior party’s intentions and efforts demonstrate that it is concerned about the inferior party’s interest and it also think it boards the same boat with the party (Uzzi 1997). From the inferior’s viewpoint, the transaction-specific investments it has made can be thought to generate not just benefits for the superior party but profits for both parties. Ongoing information exchange between the transaction partners promotes a kind of supportive and reciprocal atmosphere (Mohr and Nevin 1990), which leads to likelihood to induce superior party to invest similar amount of specific assets within the exchange channel (Anderson and Weitz 1992). Therefore, even in asymmetric dependence structure, intense information exchange is likely to attenuate the negative effect of asymmetric transaction-specific investments. Thus, the following hypothesis developed:

H6: In asymmetric dependence structure, the negative effect of inferior party’s transaction-specific investments on its commitment is more attenuated when levels of information exchange increase than when they are not.

**Commitment and Flexibility**

As is mentioned, commitment is not easily changed. Since highly committed partners imbue high values on the current relationship, they are willing to maintain the current relationship rather than participate in an alternative relationship which is considered as less valuable (Moorman, Deshpande and Zaltman 1993). Anderson and Weitz (1992) contend that commitment results in not only mutual gain for both transaction partners but also a willingness to make short-term sacrifices to maintain the relationship. Commitment enhances flexibility. Because one partner strongly committed to the other is rarely motivated to seek alternatives, it is easier for it to simply adjust terms and clauses in the existing contract rather than to seek an alternative relationship (Dwyer, Schurr and Oh 1987; Ivans 2005). That is, a strong relationship commitment enables one partner to willingly accommodate unpredictable requests of the other partner. Therefore, the less powerful partner’s commitment under asymmetric structure is likely to enhance its flexibility. Thus, the following hypothesis is developed:

H7: In transaction relationships of asymmetric dependence structure, the degree of commitment perceived by inferior party is positively associated with the flexibility it perceived.

This positive connection between commitment and flexibility is likely to get more robust if intense information exchange occurs in transactional relationships. This is because information exchange activates information sharing and mutual understanding, and enhances mindset, which helps inspire one party to willingly accept the other party’s requests for adjustment of agreed upon contract (Mcneil 1980). Under the reciprocal atmosphere which results from intense information exchange, it may become natural for one party to flexibly respond to the other party’s unanticipated request for adjustment (Mohr and Nevin 1990). In this manner, information exchange is likely to enhance the positive effects of commitment on flexibility. Thus, the following hypothesis is developed:

H8: In asymmetric dependence structure, the positive effect of inferior party’s commitment on its flexibility becomes stronger when levels of information exchange increase than when they are not.

The conceptual framework used for this study is shown FIGURE 1. The three dimensions of the asymmetric dependence structure (superior party’s formalization, superior party’s centralization, inferior party’s transaction specific investments) are the antecedents of the two dimensions of the relational quality (inferior party’s commitment, inferi-
or party's flexibility). Superior party's information exchange was used as a moderator to measure its moderating effect on the connections between each dimension of asymmetric dependence structure and commitment and between commitment and flexibility. The solid line arrows show major effects of asymmetric dependence while the dotted line arrows indicate moderating effects of information exchange.

**Methodology**

**Measures**

Structural equation model analysis was performed to test the proposed model consisting of both exogenous variables (formalization, centralization, transaction specific investments) and endogenous variables (commitment, flexibility). The moderating effects of information exchange on four pathways were also examined. The six constituents adopted in this study are thought to be well-known in marketing channel literature and highly reliable and valid.

The measures used in this study were either adopted from existing constructs or were revised as necessary. Both formalization and centralization were adapted from Dwyer and Oh (1987). These measures consist of five and four items, respectively. Transaction specific investments were measured by adopting five items from Sheng, Brown, Nicholson and Poppo (2006). Flexibility was adapted from Ivens (2005) and measured by 5 items. Commitment was adapted from Jung and Oh (2007) which had been originated from Kumar, Scheer and Steenkamp (1995). This measure consists of 5 items. Information exchange was adapted from Sheng, Brown, Nicholson and Poppo (2006) and measured by 8 items. All the above items used five point Likert-type scales where 1 meant "strongly disagree" 5 meant "strongly agree".

**Sample Selection and Data Collection**

This study used Korean car industry as a research context, which was well-known for having asymmetric dependence structure between manufacturers and dealers. The context chosen for this study is the relationship between car manufacturers and their dealers. To collect the data, we conducted random sampling of 357 dealers that was obtained from the available lists of Korean representative car manufacturing firms. In each dealer, a senior manager or an administrative manager, involved in overall management serves as the key informant for the data collection.

Informants were initially contacted by telephone to encourage their cooperation. Among the 357 dealers selected as the target sample, 200 dealers agreed to participate and were successfully interviewed onsite by the experts of the investigative firm that administered the questionnaire. We obtained 200 completed responses, representing an effective rate of 56%. Using survey professionals led to increased completion rate and the 200 questionnaires we had collected were effective for the analysis.

**Research Analysis**

**Statistical Characteristics of The Target Sample**

The numbers of employees of each dealer were varied. The majority of the participating dealers fell into the range of 11-20 employees (64%). With regard to average monthly revenue, 82% of the participating dealers earned more than ninety million Korean won. 25.5% and 21% of the respondents reported that the size of the store fell into the ranges of 21-40 pyung and 41-60 pyung, respectively. The fact that these features of the target sample are similar to those of the rest of the dealers in Korea was confirmed by the practitioners, which indicated that the car dealers chosen in this study were proper sample.

**Measure Reliability and Validity**

Reliability analyses were run to see if all the measures show satisfactory reliability by using Cronbach's alpha. Each of item constructs shows a coefficient alpha exceeding the generally accepted level of .70. Confirmatory factor analyses were run to assess the convergent and discriminant validity. All items loaded significantly on their respective constructs (see TABLE 2), with fits statistics indicating a good fit to the data: χ²=1103.35; df=449; ρ=.00; CFI=.94; NFI=.89; GFI=.94. These results indicate both

<table>
<thead>
<tr>
<th>Characteristics of dealerships</th>
<th>respondents</th>
<th>%</th>
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<tr>
<td><strong>Employee Numbers</strong></td>
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<tr>
<td>less than 10</td>
<td>23</td>
<td>11.5</td>
<td>200(100.0%)</td>
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<tr>
<td>10 - 20</td>
<td>134</td>
<td>67.0</td>
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<tr>
<td>21 - 30</td>
<td>37</td>
<td>18.5</td>
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<td>more than 31</td>
<td>6</td>
<td>3.0</td>
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<td><strong>Interior space of the dealer-</strong></td>
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<td>ship store (square feet)</td>
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<td>less than 712</td>
<td>5</td>
<td>2.5</td>
<td>200(100.0%)</td>
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<tr>
<td>713 - 1423</td>
<td>51</td>
<td>25.5</td>
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<td>1424 - 2135</td>
<td>42</td>
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<td>2136 - 2846</td>
<td>31</td>
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<td>2847 - 3558</td>
<td>33</td>
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<td>more than 3559</td>
<td>38</td>
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<td><strong>Average monthly revenue</strong></td>
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<td>less than 43,478</td>
<td>4</td>
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<td>43,479-78,252</td>
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<tr>
<td>more than 78,253</td>
<td>162</td>
<td>82.0</td>
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convergent and discriminant validity.

Though average variance extract for centralization was little bit lower than the generally accepted level, conversion validity was still adequately confirmed in that average variance extract for centralization was close to the generally accepted level, 0.5 and its composit reliability met the usual 0.7 standard, respectively.

Discriminant validity was established through two stages. First, the exploratory factor analyses were run to see if the item-to-total correlations for each set of items reveal that every item belonged to a particular construct. Second, the confirmatory factor analyses were run by ensuring that all the constructs in pairs were tested if the restricted model was significantly worse than the freely estimated model. The exploratory factor analyses produced the high factor loadings of each variable on one construct and the large Eigen values, which indicates unidimensionality for each construct. Confirmatory factor analyses revealed that $\chi^2$ in the restricted model was significantly different than $\chi^2$ in the freely estimated model. The data pass the discriminant validity test. For example, formalization and centralization have $\Delta\chi^2 = 193.18(> 3.84)$, which is significantly different at $p < .05$.

Test of The Hypotheses
The structural model that incorporates the hypothesized relationships was tested with LISREL 8.5. The test was performed in two separate steps: major effects of asymmetric dependence structure on relational performance and moderating effects of information exchange both on asymmetric dependence structure and on flexibility.

The structural results of the major effects are shown in TABLE 3. The fit indices indicate a good fit for the overall model.

In Hypothesis 1, we argue that increased levels of a superior's formalization will have a positive effect on a less powerful partner's commitment under power asymmetry. The result in TABLE 3 shows that the superior party's formalization positively influences the inferior party's commitment ($Y = .37, t = 4.18$). Thus, support was found for H1. In Hypothesis 2, we argue that increased levels of a superior's centralization will have a negative effect on a less powerful partner's commitment. However, we did not find that the superior party's centralization negatively influences the inferior party's commitment ($Y = .03, t = .28$), as was hypothesized in H2. Thus, we found rejection for H2. In Hypothesis 5, we argue that inferior party's investment in specific assets under asymmetric dependence structure is likely to have negative effect on its commitment. The result shows that inferior party's transaction specific investments negatively influences its commitment ($Y = -.35, t = -3.26$). In Hypothesis 7, we argue that the less powerful partner's commitment under asymmetric structure is likely to enhance its flexibility. The result shows that commitment has a positive effect on flexibility. Thus, we found support for H7.

In order to measure the moderating effects of information exchange both on asymmetric dependence structure and on flexibility, we divided the target sample into two groups: the group with low level of information exchange whose an average mean score is less than 3.37 and the group with high level of information exchange whose an average mean score is more than 3.37. The fits of both full model (without the constraints) and restricted model (with the constraints applied in the estimation process) were calculated, then the difference between the chi-squared statistics for the two models was compared by using a chi-squared statistic, with degrees of freedom equal to the

### TABLE 2

**Construct Reliability and Validity**

<table>
<thead>
<tr>
<th>constructs</th>
<th>Numbers of items</th>
<th>$\alpha$</th>
<th>CR</th>
<th>AVE</th>
<th>t-value</th>
<th>Goodness-of-fit indices</th>
</tr>
</thead>
<tbody>
<tr>
<td>formalization</td>
<td>5</td>
<td>.866</td>
<td>.879</td>
<td>.601</td>
<td>7.79$&lt;t&lt;16.83$</td>
<td>$\chi^2=1103.35$ df=449((p=.00)) CFI=.94 NFI=.89 GFI=.94</td>
</tr>
<tr>
<td>centralization</td>
<td>4</td>
<td>.740</td>
<td>.765</td>
<td>.462</td>
<td>7.79$&lt;t&lt;16.83$</td>
<td></td>
</tr>
<tr>
<td>transaction specific investments</td>
<td>5</td>
<td>.901</td>
<td>.901</td>
<td>.648</td>
<td>7.79$&lt;t&lt;16.83$</td>
<td></td>
</tr>
<tr>
<td>flexibility</td>
<td>5</td>
<td>.898</td>
<td>.900</td>
<td>.645</td>
<td>7.79$&lt;t&lt;16.83$</td>
<td></td>
</tr>
<tr>
<td>commitment</td>
<td>5</td>
<td>.950</td>
<td>.950</td>
<td>.793</td>
<td>7.79$&lt;t&lt;16.83$</td>
<td></td>
</tr>
<tr>
<td>information exchange</td>
<td>8</td>
<td>.923</td>
<td>.921</td>
<td>.596</td>
<td>7.79$&lt;t&lt;16.83$</td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 3

**Structural Equation Model Results for Major Effects**

<table>
<thead>
<tr>
<th>hypotheses</th>
<th>path</th>
<th>path coefficient</th>
<th>t-value</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>formalization to commitment</td>
<td>.37</td>
<td>4.18**</td>
<td>Support</td>
</tr>
<tr>
<td>H2</td>
<td>centralization to commitment</td>
<td>.03</td>
<td>.28</td>
<td>Reject</td>
</tr>
<tr>
<td>H5</td>
<td>TSI to commitment</td>
<td>-.35</td>
<td>-3.26**</td>
<td>Support</td>
</tr>
<tr>
<td>H7</td>
<td>commitment to flexibility</td>
<td>.56</td>
<td>8.79**</td>
<td>Support</td>
</tr>
</tbody>
</table>

$\chi^2=711.08, \text{df} = 254(\text{p}=.00), \text{GFI}=0.95, \text{NFI}=0.94, \text{CFI}=0.97$

**Note:** $**p < .01$
number of constraints applied. The results of the chi-squared test were shown in TABLE 4.

In Hypothesis 3, we argue that the positive impact of formalization on commitment can be enhanced by increased level of information exchange. The results in TABLE 4 show that the positive impact of formalization on commitment was significantly enhanced in the group with high level of information exchange(\( \chi^2 = .36, t=3.11 \)) while it was not significantly enhanced in the group with low level of information exchange(\( \chi^2 = .25, t=1.17 \)). The difference(2.82) between the chi-squared statistics for the two groups was significant at the level of \( p<0.05 \). Thus, support was found for H3.

With regard to Hypothesis 4, we found that the negative effects of the superior party's centralization on inferior party's commitment was mitigated and even switched to the positive effects in the group with high level of information exchange(\( \chi^2 = .15, t=1.16 \)), if not significant level, though, while the negative effects were significant in the group with low level of information exchange(\( \chi^2 = -.32, t=-1.81 \)). The difference(2.82) between the chi-squared statistics for the two groups was significant at the level of \( p<0.1 \). Thus, support was found for H4.

In Hypothesis 6, we argue that intense information exchange is likely to attenuate the negative effect of inferior party's asymmetric transaction-specific investments on its commitment. The result shows that the negative effect of inferior party's transaction-specific investments on its commitment has been reduced to the insignificant level(\( \chi^2 = -.08, t=-.53 \)) in the group of high level of information exchange compared to those in group of low level of information exchange(\( \chi^2 = -.54, t=-3.61 \)). The difference(3.89) between the chi-squared statistics for the two groups was significant at the level of \( p<0.05 \). Thus, we found support for H6.

In Hypothesis 8, we argue that information exchange is likely to enhance the positive effects of commitment on flexibility. The result show that inferior party's commitment has a significantly positive impact on its flexibility in the group of both high and low level of information exchange(\( \chi^2 = .55, t=6.37 \); \( \chi^2 = .40, t=4.20 \), respectively). However, support was not found for Hypothesis 8 because the difference(3.33) between the chi-squared statistics for the two groups was insignificant.

In testing hypothesized relationships for moderating effects, all the hypotheses were supported except the relationship between commitment and flexibility.

## Conclusion

### Discussion

Of 8 hypotheses, 6 hypotheses were supported and 2 hypotheses were rejected. In short, a superior's formalization had a positive effect on a less powerful partner's commitment while an inferior party's transaction-specific investments negatively influenced its commitment. In addition, information exchange proved to not only enhance the positive effects of superior party's formalization on inferior's commitment but also attenuate the negative effects of both superior party's formalization and inferior party's transaction-specific investments on inferior party's commitment.

However, both H2 and H8 were not supported, which indicated not only that superior party's centralization had little to do with inferior party's commitment but also that information exchange did not help strengthen the positive connection between inferior party's commitment and its flexibility.

This gives us a reasonable conjecture about causes for both H2 and H8 being rejected. First, it is evident that there is an extremely unbalanced power between manufacturers and dealers in Korean automobile industry. Even though centralized control in general has negative impacts on relationship commitment and inhibits the kind of reciprocity, the opposite result has been produced in this study. Considering that a car manufacturer in Korea evidently has an incomparable power and almost monopolizes key information about overall operation including marketing relations, the dealers, as weaker organizations, are more likely to have a certain degree of tolerance to asymmetric relationships with manufacturers rather than to ignore manufacturers' requests despite this asymmetry. As environmental dynamics gets more intense these days, the dealers are more likely dependent on the manufacturer leading its distribution channel, which eventually leads to the enhancement of the deal's commitment to the manufacturer. In this case of Korean automobile industry, it is almost impossible for a dealer to terminate the relationship with the current manufacturer and begin another relationship mainly due to the significant amount of conversion costs. In other words, the dealers can lose the non-salvageable portion of their investments in specific assets if the relationship is terminated prematurely.
The inferior party's fear of making sacrifices then plays a buffering role of the negative influence of centralization on commitment.

The lack of moderating effects of information exchange on the connection between commitment and flexibility can be interpreted as follows: The intense and consistent information exchange enables the inferior party to foster its commitment. Commitment in turn gives both sides greater flexibility to surpass their specified roles in adapting to changing circumstance. Given the fact that intensive information exchange fosters flexibility by providing repetitive interactions with inferior partners, the existence of commitment may indicate that information exchange has already been galvanized between the transaction partners. Therefore, in this study, information exchange did not work in adding an enhancing role in the positive connection between commitment and flexibility.

Managerial Implications
This study has several managerial implications. First, in asymmetric dependence structure, high level of formalization enhances inferior party's commitment while inferior party's transaction specific investments weaken it. Considering that there is a positive relationship between commitment and flexibility, both more intense formalization and less investment of specific assets of inferior party can lead to an enhancement of the flexibility in exchange relationship.

Information exchange, as a focus issue of this study, proved to not just increase the positive effects of formalization on commitment but attenuate the negative effects of formalization on transaction specific investments as well. Given the fact that there is a positive connection between commitment and flexibility, it is safe to say that increased levels of information exchange proved to mitigate the negative effects of asymmetric dependence structure despite increased centralization and inferior party's unilateral investments of specific assets. Increasing frequency and influence content of information exchange would help improve relationship quality under power asymmetry in that information exchange also strengthens the positive effects of formal control.

A channel leader needs to build an effective information exchange policy even in situation which requires vertical integration in an attempt to pursue efficiency of marketing strategy execution. Information exchange is more likely to enhance the ties and bonds between exchange partners when it occurs at a proper frequency, in bidirectional way, informal mode, and non-coercive manner than when it does not (Mohr and Nevin, 1990). Therefore, the channel managers under asymmetric dependence construct are recommended to increase information exchange frequency to the proper level and promote bidirectional and informal information exchange including information exchanges and recommendations.

Collectively, this study made both theoretical and practical contribution. First, we highlight the positive effect of asymmetric dependence structure on relationship quality as opposed to the findings of previous researches. Considering that asymmetric dependence structure, in reality, has been used as a dominating relational governance despite its negative impacts, this finding possibly helps better understand the flexible role of power asymmetry. Second, our study uncovers the moderating effects of information exchange on the connections between asymmetric dependence structure and relationship quality, which can enrich and enhance our understanding of the relationship oriented effects of information exchange.

Third, this study has set three structural variables of asymmetric dependence structure in a marketing channel, such as formalization, centralization and transaction specific investments, which can be used for similar future researches. Finally, from the practical perspective, this study places a foundation to stimulate our curiosities about unknown positive effects of asymmetric relationships, with which have rarely been dealt despite its importance for the channel managers. In addition it helps promote our understanding of asymmetric marketing channel overall and establish effective information exchange strategies.

Limitations And Directions For Future Research
This study contains some limitations that suggest some directions for further research. First, this research uses dealer side informant reports only instead of bilateral party's viewpoints of the distribution channel. This added limits to uncovering the effects of information exchange. Specifically, same mode, frequency and direction of information exchange can provide both channel partners with different perceptions because information exchange cannot be completed without having commonality between the receiver and the sender. In addition, other variables, such as formalization, centralization, commitment and transaction specific investments have been measured, tested and analyzed from the unilateral viewpoint instead of bidirectional perspective that reflects for both the dealer and the manufacturer. Therefore, paying severer attentions are needed to safely reach the conclusion. Further study may benefits from collecting from both dealer and manufacturer side reports. Second, data for this research come only from the dealers of the Korean leading car manufacture. Target sample is limited to the resellers of one automobile manufacturer. It would be beneficial to extend its target sample.

Third, this study assumes that all dealerships have asymmetrically weaker power than a manufacturer. However, leading car selling dealers generally have some of negotiation power even if they lack equivalent one when they have outstanding sales achievement and customer service. With this in mind, further study will benefit from dividing car dealers into two categories according to sales performance.
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