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Poisoning Relationships: Perceived Unfairness in Channels of Distribution

Understanding how relationships are damaged is a critical component in building and preserving strong distribution channels. Using longitudinal data from a *Fortune* 500 firm and its channel members, this research shows that perceived unfairness truly acts as "relationship poison" by directly damaging relationships, aggravating the negative effects of both conflict and opportunism, and undermining the benefits of using contracts to manage channel relationships. Surprisingly, at low levels of perceived unfairness, conflict and opportunism have small or even insignificant effects on channel member outcomes, which implies that research investigating the negative impact of conflict and opportunism on exchange outcomes may need reevaluation because these effects are contingent and may vary depending on the levels of perceived unfairness. In addition, the findings support the premise that using contracts to manage channel relationships represents a double-edged sword that suppresses the negative effects of conflict and opportunism while aggravating the negative effect of unfairness.

Keywords: relationship marketing, contracts, fairness, channels, equity theory, opportunism, conflict

Understanding how channel relationships are damaged is a critical component in building and preserving strong distribution channels. A recent meta-analysis of relationship marketing research reveals that the negative effect of conflict overshadows the benefits associated with all other positive relationship marketing activities (Palmatier et al. 2006). Similarly, opportunism has a corrosive effect on exchange performance (Gundlach, Achrol, and Mentzer 1995; Morgan and Hunt 1994; Wathne and Heide 2000). Research outside marketing further reveals that a few negative events may overwhelm the cumulative effects of many positive activities, such that the long-term success of a relationship often depends more on preventing or mitigating the "bad" than on accumulating the "good" (Baumeister et al. 2001; Gottman 1994). If a few poorly managed, negative interactions can undermine significant investments in channel relationships, it is important that both academics and managers understand how and when relationship-destroying factors affect business performance. Addressing these questions represents the primary focus of this research.

The two relationship-destroying factors most often studied in business-to-business research are conflict (Frazier and Rody 1991; Gaski 1984) and opportunism (Gundlach, Achrol, and Mentzer 1995; Wathne and Heide 2000). Despite the significance of unfairness for service recovery, it typically does not appear in models of channel relationships (Smith, Bolton, and Wagner 1999), with some notable exceptions (e.g., Brown, Cobb, and Lusch 2006; Kaufmann and Stern 1988; Kumar, Scheer, and Steenkamp 1995b). Kumar, Scheer, and Steenkamp's (1995b) classic article highlights the importance of fairness in interorganizational relationships, demonstrating that perceptions of fairness have a strong influence on the quality of a relationship. We build on this research by investigating the effects of all three relationship-destroying factors (conflict, opportunism, and unfairness) simultaneously. Specifically, we propose that perceived unfairness acts as "relationship poison" by directly damaging channel relationships, aggravating the negative effects of both conflict and opportunism, and undermining the benefits of frequently accessing contracts to manage channels of distribution. Research in fields outside marketing indicates that the role of unfairness is greater than is typically acknowledged because people tend to go out of their way to punish actions they perceive as unfair, even at a cost to themselves (Fehr and Gächter 2000; Offerman 2002). Unfair acts often incite even greater backlash than other negative activities because of the emotional imperative to punish unfair partners (Turillo et al. 2002).

We empirically test the simultaneous effects of the three relationship-destroying factors on relational behaviors and channel member performance using multiyear, longitudinal survey data from 492 channel members (resellers) of a *Fortune* 500 firm. Each stage in our model is based on data captured at one-year intervals, which reduces common method bias concerns and increases support for our causal arguments. Accordingly, our research contributes to existing literature in several ways.

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ISSN: 0022-2429 (print), 1547-7185 (electronic)

Journal of Marketing
Vol. 75 (May 2011), 99–117

First, the results support our premise that the role of perceived unfairness is critical for understanding the overall impact of relationship-destroying factors on channel outcomes. The direct negative effect of perceived unfairness on relational behaviors (channel member cooperation and flexibility) and, subsequently, financial performance is similar to or greater than the effects of conflict and opportunism. In addition, unfairness moderates the negative effects of conflict and opportunism on relational behaviors, such that conflict and opportunism cause much more damage to channel relationships when they are accompanied by perceptions of unfairness. Surprisingly, a post hoc analysis shows that at low levels of perceived unfairness, conflict and opportunism have small or even insignificant effects on relational outcomes. These findings suggest the need for a reevaluation of research studying the negative impact of conflict and opportunism on channel performance because these effects are contingent on levels of unfairness (e.g., Crosno and Dahlstrom 2008; Lee 1998; Skinner, Gassenheimer, and Kelley 1992). Moreover, research should take a multitheoretical, holistic approach because in addition to direct effects, unfairness aggravates the effects of both conflict and opportunism. The findings also suggest that managers should proactively resolve unfairness issues before tackling conflict and opportunism because of their leveraging effects. For example, managers might develop specific education and training programs that stress the importance of fairness, identify the types of situations most likely to trigger unfairness perceptions, and develop "unfairness prevention" strategies.

Second, just as unfairness aggravates the negative effects of conflict and opportunism, the results reveal that using contracts to mitigate the harmful effects of conflict and opportunism may aggravate the negative effects of unfairness on channel performance. Thus, contract utilization, which we define as the frequency with which the channel member and seller employ contracts to manage the exchange, can suppress the negative effects of conflict and opportunism while enhancing the negative effect of unfairness on performance outcomes. Our conceptualization of contract utilization does not measure the simple presence or absence of a contract—all exchanges in our sample used contractual agreements—but rather how often firms enforce their contract to manage the relationship. For example, if firms often resort to using contracts to ensure that the other party is meeting its obligations, the level of contract utilization is high.

With regard to this double-edged-sword phenomenon, our post hoc analysis indicates that contract utilization can have a net positive or net negative effect, depending on the amount of unfairness present, relative to the levels of conflict and opportunism. In general, managers should increase contract utilization when conflict and opportunism are high because in such cases the suppressive effects of contract utilization increase and make the strategy more desirable. From a managerial perspective, firms should not use a contract to manage a single negative behavior at a time but rather should consider the joint implications of contract utilization on many negative behaviors.

Theoretical and empirical support for these opposing effects of contract utilization also helps explain some contradictions in previous research on the efficacy of contracts (Brown, Dev, and Lee 2000; Joskow 1987; Wuyts and Geyskens 2005; Young and Wilkinson 1989). For example, Cannon, Achrol, and Gundlach (2000, p. 191) maintain that "contracts [are] effective in enhancing supplier performance individually and in combination," whereas Jap and Ganesan (2000, p. 241) suggest that "contracts, similar to prenuptial agreements in interpersonal relationships, signal distrust and are often complex, which reduces flexibility and may subsequently lower relationship performance."

Third, our research provides a more holistic framework that integrates multiple relationship-destroying factors into one model and elucidates the key role of unfairness and the trade-offs associated with using contracts to manage negative behaviors. Integrating relationship-destroying factors, especially unfairness, into future models of relationship marketing may provide a more balanced view of building and protecting relationships. For example, research into the actual effects of loyalty programs could be reevaluated in the light of our results to determine whether the positive effects of the loyalty program may become overwhelmed by the negative effects of perceived unfairness. For example, do the positive effects of customers who receive VIP privileges outweigh the negative effects induced by the unfairness perceived by peripheral customers, who do not receive such benefits?

Relationship-Destroying Factors

Prior literature has shown that conflict and opportunism are the most widely studied negative factors in business-to-business research; unfairness emerges as critical primarily for understanding service recovery and in a few studies in the channels domain (for a summary of selected literature, see Table 1). Although diverse research has addressed the effects of each negative factor in isolation, to the best of our knowledge, no studies have investigated how these factors work together to undermine channel relationships. The link between relationship-destroying factors and performance receives reinforcement across a plethora of theoretical domains (e.g., reciprocity theory, transaction cost economics, equity theory), in which conflict, opportunism, and unfairness all help explain exchange outcomes (Fehr and Gächter 2000; Hibbard, Kumar, and Stern 2001; Kumar, Scheer, and Steenkamp 1995b; Williamson 1975).

An inescapable component of close interorganizational relationships, conflict pervades business activities (Anderson and Narus 1990; Hibbard, Kumar, and Stern 2001). In general, it occurs when one party perceives another as interfering with its goal attainment. Rahim (2002, p. 207) defines it specifically as an "interactive process manifested in incompatibility, disagreement, or dissonance within or between social entities (i.e., individual, group, organization,

TABLE 1
Selected Literature of Conflict, Opportunism, and Unfairness Effects on Performance

Reference	Context	Theory	Moderators	Key Findings
Conflict				
Skinner, Gassenheimer, and Kelley (1992)	Supplier–dealer relations in the farm and power equipment	Power theory (Gaski 1984)		Conflict has a negative effect on both cooperation and satisfaction.
Hibbard, Kumar, and Stern (2001)	Dealer network of a *Fortune* 500 manufacturer of durable goods	Exit voice and loyalty framework (Hirschman 1970)		Dealer's reaction to destructive acts are influenced by the intensity and attributions of the destructive acts and the pre-act relationship quality and interdependence of the partners.
Lee (2001)	Chinese distributors engaging in an international joint venture with suppliers	Power theory (Gaski 1984)		The level of conflict perceived by distributors is negatively related to their satisfaction with their relationships with their suppliers.
Koza and Dant (2007)	Conflict resolution behaviors of a large North American supplier with its retailing agents	Norms in economic exchange (Heide and John 1992)		Conflict-laden relationships can affect communication and conflict resolution behaviors, which can decrease relational norms, including flexibility.
Opportunism				
Gundlach, Achrol, and Mentzer (1995)	Behavioral simulation depicting manufacturer and distributor exchange relationships in a channel setting	Transaction cost economics (Williamson 1985)		Opportunism erodes the development of relational norms, including flexibility. When opportunism occurs, partners are less likely to behave in a flexible or compromising manner.
Lee (1998)	Investigates exporters' intentions to form strategic alliances with foreign exchange partners	Transaction cost economics (Williamson 1985)		Opportunism has a negative impact on relational exchange.
Wathne and Heide (2000)	Theoretical discussion of conditions that lead to opportunism	Transaction cost economics (Williamson 1985)	Lock-in and information asymmetry	Case-based evidence supports existence of different forms of opportunism and their facilitating conditions.
Crosno and Dahlstrom (2008)	Meta-analytic review of opportunism in exchange relationships	Transaction cost economics (Heide 1994; Williamson 1985)	Organizational context; research strategy; number of industries	Partner-based opportunism is negatively associated with performance, norms, satisfaction, and communication.
Perceived Unfairness				
Kaufmann and Stern (1988)	Lawsuits involving buyer–seller relationships	Relational exchange (Macneil 1980)	Attribution of observed conflict behavior	Buyer–seller negotiations that are perceived as betraying contract norms lead to increases in hostility.
Kumar, Scheer, and Steenkamp (1995b)	Supplier–reseller relationships between regional car dealers and national manufacturers	Distributive fairness (Frazier, Spekman, and O'Neal 1988); procedural fairness (Lind and Tyler 1988)	Level of outcomes; environmental uncertainty	Perceptions of distributive and procedural fairness enhance relationship quality.
Tax, Brown, and Chandrashekaran (1998)	Investigates customer evaluations of service complaint experiences	Distributive (Deutsch 1985) and procedural (Lind and Tyler 1988) justice	Experience	Distributive, procedural, and interactional justice affect satisfaction with complaint handling, which influences trust and commitment.
Brown, Cobb, and Lusch (2006)	Supplier–wholesaler relationships	Distributive and procedural justice		Perceptions of justice negatively affected manifest conflict.
Griffith, Harvey, and Lusch (2006)	Supply chain relationships	Distributive (Deutsch 1985) and procedural (Lind and Tyler 1988) justice		Distributive and procedural justice influence long-term orientation and relational behavior.

etc.)." Although some research extols the benefits of positive or functional conflict, most authors recommend reducing or resolving it (Rahim 2002). We use the term "channel member conflict" to capture the disagreement between a seller and a channel member as each party strives to achieve its business goals.

In a widely used definition, Williamson (1975, p. 6) refers to opportunism as "self-interest seeking with guile." Examples of opportunistic behavior include withholding or distorting information and shirking or failing to fulfill promises or obligations. Although in transaction cost economics theory the original formulation of opportunism describes it as a violation of explicit contracts, other researchers indicate that opportunism can also encompass active and passive attempts to violate either written or social contracts that govern an exchange (Wathne and Heide 2000). However, opportunism does not include other forms of self-interest-seeking behavior, such as hard bargaining and intense negotiating. The notion of guile, which Williamson (1975, p. 47) describes as "lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse," sets it apart. Therefore, the fundamental essence of opportunism pertains to this element of deceit. We use the term "seller opportunism" to capture the channel member's perception of the degree to which the seller engages in self-interest-seeking behaviors with guile.

Finally, most fairness research relies on equity theory, which suggests that people should receive benefits or rewards in proportion to their own relative efforts or inputs (Adams 1965; Brown, Cobb, and Lusch 2006; Griffith, Harvey, and Lusch 2006; Kumar, Scheer, and Steenkamp 1995b). According to equity theory, people compare the ratios of their perceived outcomes to their inputs with the corresponding ratios of others. If the ratios seem unequal, the party with the lower ratio feels inequitably rewarded and often experiences anger or tension. Most people respond by adjusting their own inputs or efforts or undertaking punitive behaviors that punish the other party to shift this unpleasant state into a more equitable one (Adams 1965; Kaufmann and Stern 1988; Utne and Kidd 1980). We use the term "perceived unfairness" to capture the channel member's view of the degree to which the distribution of rewards relative to its efforts is inequitable.

Although extant research supports the negative effects of these three relationship-destroying factors, little research investigates how they may interact to undermine channel performance, which is a key objective of this article. Prior research has suggested that people are more likely to seek explanations for a negative than a positive event (Folkes 1988). Thus, when channel members perceive conflict or opportunism, they would seek out a reason for these negative behaviors (Weiner 1995). However, they also may regard a certain amount of conflict and opportunism in their interorganizational relationships as unavoidable (Anderson and Narus 1990; Wathne and Heide 2000), and therefore, the seller may not be held accountable for "expected" negative interactions. However, the presence of unfairness indicates an underlying negative motive or intent (Campbell 1999; Kidd and Utne 1978; Utne and Kidd 1980), so its appearance should cause channel members to shift their perceptions of the causes of the conflict or opportunism from expected, unavoidable, external phenomena to direct seller attributions. In the presence of perceived unfairness, a channel member likely finds the seller more accountable and responsible, with a higher degree of intentionality, for any ensuing conflict and opportunism and therefore may react more punitively (Kaufmann and Stern 1988; Turillo et al. 2002; Weiner 1995).

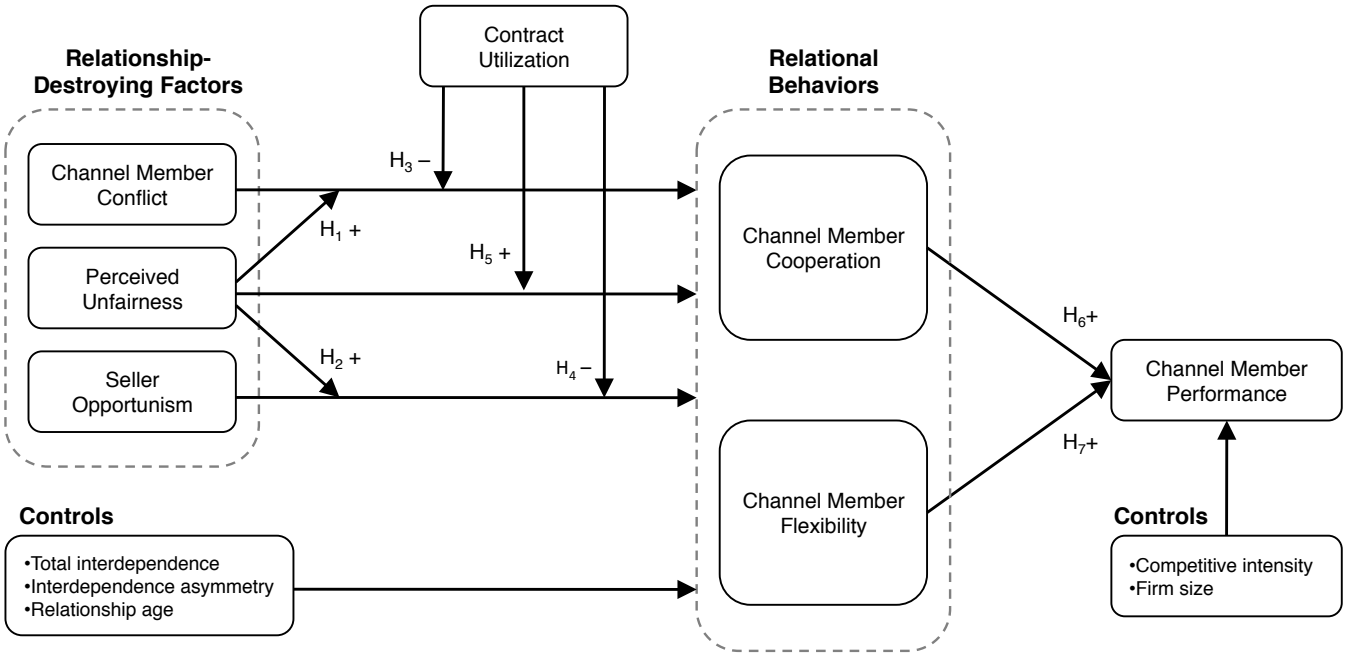
In this sense, perceptions of unfairness provide the channel member with information about the motive and intentions of the seller, which changes the channel member's emotionally powerful attributions for any conflict or opportunism present in the interaction (Weiner 1995). Through this attributional process, perceptions of unfairness should influence the amount of damage that conflict and opportunism cause in the exchange (Hibbard, Kumar, and Stern 2001).

Conceptual Model and Hypotheses

To investigate the mechanisms by which relationship-destroying factors influence channel member performance, we apply dynamic capabilities theory to exchange relationships (Eisenhardt and Martin 2000; Teece, Pisano, and Shuen 1997). As Figure 1 depicts, relationship-destroying factors should negatively affect channel member performance by undermining two key relational behaviors: channel member cooperation and flexibility. Specifically, channel member cooperation exists when parties work together to achieve their mutual, common goals (Anderson and Narus 1990; Koza and Dant 2007), and channel member flexibility refers to a willingness to be adaptive or adjust in response to changing conditions (Kaufmann and Dant 1992). Eisenhardt and Martin (2000) posit that the crucial ability of an entity to create, extend, or modify its own resource base, in addition to its partners' resources, can generate competitive benefits and performance enhancements. For example, business-to-business exchanges often perform poorly because they do not effectively cooperate or adapt, which prevents firms from learning about, combining, using, and adapting their resources in a way that creates value (Buono and Bowditch 1989; Dyer and Singh 1998; Lee, Johnson, and Grewal 2008).

According to extant marketing research, cooperation and flexibility are relational behaviors critical for channel member success because they support sharing and integration of knowledge and resources and help reconfigure resources in response to changing circumstances (Anderson and Narus 1990; Johnson et al. 2003; Morgan and Hunt 1994). We focus on cooperation and flexibility rather than other relational constructs (e.g., commitment, trust) because they arguably are closer to performance benefits and may capture a wider spectrum of the potentially negative effects of relationship-destroying factors. For example, trust and commitment influence performance through cooperation and flexibility (Hewett and Bearden 2001; Johnston et al. 2003; Song, Di Benedetto, and Zhao 2008). Thus, if the effects of relationship-destroying factors on performance occur by both undermining trust over time and directly degrading

FIGURE 1
Effects of Relationship-Destroying Factors on Relational Behaviors and Performance



Notes: We measured channel member performance one year after relational behaviors; we measured relational behaviors one year after relationship-destroying factors and contract utilization.

cooperation or flexibility, our approach should capture both these direct and indirect effects. Because relationship-destroying factors can affect performance through many pathways, we must ensure that our mediating constructs capture these full effects.

Moderating Role of Perceived Unfairness on the Effects of Conflict

The negative consequences of conflict are significant and include anger, frustration, decreased satisfaction, and dysfunctional behaviors (Frazier, Gill, and Kale 1989; Gaski 1984; Hibbard, Kumar, and Stern 2001). These negative emotions and dysfunctional behaviors can result in a refusal to share knowledge and resources, avoidance of the other party, restricted communication, and sabotage (Jaworski and Kohli 1993; Wall and Callister 1995). When conflict arises, channel member cooperation decreases because the parties may become more agitated and hostile toward each other and less willing to work together (Skinner, Gassenheimer, and Kelley 1992). Channel member flexibility also should suffer in the presence of conflict because firms are less willing to adjust or share information that aids the other party (Jaworski and Kohli 1993; Koza and Dant 2007). Consistent with prior literature, we expect conflict to have negative effects on both channel member cooperation and flexibility.

Furthermore, we propose that the negative effects of conflict on channel member cooperation and flexibility become magnified in the presence of perceived unfairness, which suggests an underlying negative motive and intent (Campbell 1999; Kidd and Utne 1978; Weiner 1995). When channel members perceive greater unfairness, they should attribute a greater negative motive to the seller. That is, rather than believing the conflict is due to incompatible goals or attitudes (Rahim 2002) or giving the partner the benefit of the doubt, channel members may attribute the conflict to a seller's deliberate intention to capture a greater share of the exchange benefits. These channel members are likely to respond more severely to the conflict because they attribute greater intentionality of and controllability over its cause (Betancourt and Blair 1992). When an exchange partner attributes a negative motive to conflict, negative emotions emerge, including anger, which increases the severity of any response to the conflict (Griffith, Harvey, and Lusch 2006). Similarly, Hibbard, Kumar, and Stern (2001, p. 48) argue that destructive acts often lead to attributions increasing the "perception of being treated unfairly, [which] causes anger and brings with it a desire for retributive justice."

The presence of perceived unfairness also aggravates existing feelings of anger, rage, and indignation (Mikula 1986), in addition to hate and resentment (Sprecher 1986). The presence of these negative emotions may exacerbate judgments of and negative responses to conflict. In turn, when conflict occurs together with unfairness, the dialogue between parties is likely to become more emotional, and thus the desire to punish the offending party increases as the partner looks for ways to retaliate and restore equity (Fehr and Gächter 2000; Kaufmann and Stern 1988; Offerman 2002).

In summary, channel members' responses to conflict should be more emotionally charged and harsher when perceived unfairness increases, such that conflict has a greater negative impact on channel member cooperation and flexibility. In the presence of conflict and unfairness, channel

members are more likely to withhold information and resources and less likely to accede to requests to adapt, even when they recognize that such actions may be harmful to them.

H_1: Perceived unfairness strengthens the negative effects of channel member conflict on channel member (a) cooperation and (b) flexibility.

Moderating Role of Perceived Unfairness on the Effects of Seller Opportunism

Firms that perceive opportunism have a greater need to screen and monitor their partner's behaviors, which results in increased information costs (Nooteboom, Berger, and Noorderhaven 1997; Wathne and Heide 2000; Williamson 1985). The firm spends increasing time monitoring its relationships and may seem more hesitant to rely on its partners, such that collaboration and coordination become more difficult and channel member cooperation likely suffers. If channel members perceive sellers' opportunism, they also may conclude that they have been too lenient and need to be more restrictive to curb that opportunism. Such restrictiveness and rigidity will likely diminish channel member flexibility. Previous research has suggested that the consequences of opportunism include reduced cooperation and flexibility (Das and Teng 1998; Gundlach, Achrol, and Mentzer 1995; Wathne and Heide 2000).

We expand on that research by proposing that the negative effects of opportunism on channel member cooperation and flexibility increase when perceived unfairness is present. When opportunism exists without unfairness, firms may be willing to overlook its occurrence, particularly because a certain degree of opportunism seems inevitable (Williamson 1985). Therefore, channel members may view both passive and active forms of opportunism as normal, day-to-day business activities and not retaliate harshly for opportunism up to some implicit "*tolerance limit*" (Wathne and Heide 2000, p. 48, italics in original).

However, when unfairness occurs, the channel member is likely to attribute negative motives to the observed opportunistic behaviors (Campbell 1999; Weiner 1995) and infer that much of the opportunism reflects its seller's negative motive and intent rather than a normal consequence of business activities. Then, the channel member would retaliate more severely in response to opportunistic behaviors, particularly because it now seems to be a willful violation of equity norms rather than an inescapable component of doing business (Gundlach, Achrol, and Mentzer 1995; Wathne and Heide 2000; Williamson 1985).

Moreover, unfairness and opportunism in combination are likely to make the victimized party feel like the target of dual expropriation: The presence of unfairness indicates that the party's outcomes and rewards are lower than they should be, given its efforts or contributions (Adams 1965); the presence of opportunism implies that the partner is expropriating additional quasi rents and resources from the victim through guile (Hill 1990). The combined expropriation of value through both unfair and opportunistic actions likely angers the victimized partner and causes a much stronger emotional backlash than if the victim had experienced opportunism or unfairness in isolation. Although both opportunism and unfairness cause the channel member to infer negative motives, the underlying inferences are different. For example, opportunism, because of its "guile" association, could cause the channel member to infer that the seller is trying to sneak or hide its action, but guile has no relation to inferences about equity or fairness. A seller could be acting in self-interest but still provide a fair balance of benefits to costs; that is, it could be simply trying to get its fair share by using guile. Perceptions of unfairness do not require guile but still are judged by the channel member as inequitable from a benefit-to-cost ratio standpoint. Thus, both constructs lead to negatively valenced inferences that differ qualitatively in their characteristics (i.e., sneaky vs. unfair).

Dual expropriation through both unfairness and opportunism also should motivate channel members to seek redress to restore its equity (Adams 1965; Kidd and Utne 1978). As they seek ways to restore equity, these channel members may focus more intensely on existing opportunism, particularly if they believe that doing so will help recapture the lost benefits they believes they rightfully deserve. Thus, extant opportunism that otherwise may have been overlooked begins to receive greater scrutiny and attention and likely results in greater punishment and retaliation. Because the channel member spends more time scrutinizing and punishing its opportunistic seller, it likely expends less time or effort cooperating or behaving flexibly. Therefore, we hypothesize that channel member cooperation and flexibility should suffer more from opportunism when it is accompanied by perceptions of unfairness.

H_2: Perceived unfairness strengthens the negative effects of seller opportunism on channel member (a) cooperation and (b) flexibility.

Moderating Role of Contract Utilization on the Effects of Relationship-Destroying Factors

Contracts can play important roles in governing interorganizational relationships: They help clarify roles and responsibilities, guide interorganizational behaviors and outcomes, and specify adaptive processes to resolve unforeseeable issues (Lusch and Brown 1996). However, unlike prior research in contractual governance and transaction cost economics, we do not investigate whether a firm should adopt a contract or what the optimal contract structure is (Brown, Cobb, and Lusch 2006; Ghosh and John 2005; Heide 1994; Lusch and Brown 1996). Rather, we focus on the moderating role of contract utilization, or how frequently the channel member and seller employ a contract to manage their exchange relationship.

We emphasize contract utilization rather than contractual structure, design, or deployment for several reasons. First, a rich body of preexisting literature has already addressed these issues (Brown, Cobb, and Lusch 2006; Heide 1994; Lusch and Brown 1996). However, much less research has investigated how using a contract (given that one exists) influences marketing relationships, particularly in the presence of multiple relationship-destroying factors. Second, in our sample, a contract existed for all exchanges before the

commencement of each seller–channel member relationship. Third, our goal is not to investigate the antecedents of conflict, opportunism, or unfairness or how a firm can prevent these relationship-destroying factors. Rather, we expect that some level of conflict, opportunism, and unfairness exists in all interorganizational exchanges, and we want to understand how the use of contracts to manage the interaction might moderate their effects on outcomes.

When conflict and opportunism escalate to the point that they begin to influence the relationship noticeably, exchange partners often rely on existing contracts to mitigate the potential negative effects (Heide 1994; Joskow 1987). For example, business partners may use contracts to resolve disputes or to ensure that a partner is meeting its obligations. Although contract utilization may not resolve the conflict or opportunism, it can help suppress the related negative influences by reducing behavioral uncertainty and motivating compliance (Celly and Frazier 1996). Exchange partners can be required to uphold their agreements, even if they prefer not to do so, because the contract provides a framework or process to maintain cooperation and flexibility, even under duress. Contracts also might include clauses that require parties to work together to achieve mutual goals or outline how interorganizational exchanges should be conducted in various circumstances. By incorporating such guidelines for dealing with contingencies, contracts can help partners maintain their cooperation and flexibility, even when they face the potential negative effects of conflict and opportunism.

H_3: Contract utilization suppresses the negative effects of channel member conflict on channel member (a) cooperation and (b) flexibility.

H_4: Contract utilization suppresses the negative effects of seller opportunism on channel member (a) cooperation and (b) flexibility.

However, the use of contracts in the presence of perceived unfairness may aggravate the negative effects of unfairness on exchange outcomes. Perceptions of unfairness are relative, and channel members make these evaluations according to their innate sense of what is fair or equitable between relational partners, independent of contractual agreements (Austin, Walster, and Utne 1976; Fehr and Gächter 2000). For example, if a channel member complains about an unfair distribution of costs and benefits and the seller uses the contract to support its actions, the channel member may become angry and retaliate, in accordance with its sense that the seller is taking advantage by using the "letter" of the contract (Brown, Cobb, and Lusch 2006). The use of a contract to maintain or extract an unfair portion of the relative benefits violates universal equity norms, which operate independent of existing contracts, and likely generates extreme responses or punitive behaviors (Kidd and Utne 1978; Utne and Kidd 1980). Such retaliatory behaviors might include failing to cooperate the next time the seller requests help or purposely not adapting to changing conditions to reduce the benefits the seller receives, even if these behaviors have costs for the channel member (Turillo et al. 2002). Our argument mirrors Kaufmann and Stern's (1988) finding that buyer–seller negotiations that seem to betray existing norms lead to greater hostility. Thus, when unfairness is accompanied by frequent contract usage, a channel member should respond to the unfairness more severely than if the seller did not use the contract to manage the relationship. Therefore, we hypothesize that perceived unfairness should have a greater negative effect on channel member cooperation and flexibility when it is associated with frequent contract usage:

H_5: Contract utilization aggravates the negative effects of perceived unfairness on channel member (a) cooperation and (b) flexibility.

Effect of Relational Behaviors on Channel Member Performance

Cooperation helps firms access and leverage the complementary resources and competencies of their exchange partners. A partnership without cooperation may limit knowledge transfers between firms, as well as the joint efforts and synergies needed to undertake successful projects and achieve their mutual interest goals. Cooperation also facilitates the flow of information and communication across firms, which can help overcome incompatibilities in organizational structures. Moreover, it should facilitate the exchange of skills and processes that enhance performance, and it can help integrate and combine resources across organizational boundaries to achieve shared goals. In short, cooperation is necessary for partners to access the full benefits, capabilities, and resources of their interorganizational relationships. It is difficult to overstate the central role of cooperation for relationship marketing and, more specifically, superior success and performance. As Morgan and Hunt (1994, p. 25) recognize, "the crucial factor of cooperation promote[s] relationship marketing success." Jap (1999) finds support for the notion that coordination efforts in a dyadic relationship can lead to enhanced performance. In addition, prior research has shown that cooperation is a necessary component for success in channel relationships (Frazier and Rody 1991).

H_6: Channel member cooperation positively affects channel member performance.

Whereas cooperation indicates a willingness to work with partners, channel member flexibility refers to a willingness to be adaptive or adjust in response to changing conditions. Flexibility enables firms to adapt policies and procedures that they then can use to leverage interorganizational resources more efficiently, which enhances their synergies and performance. Flexibility also represents a willingness to respond to changes and accommodate partners as those needs arise or unforeseen events develop (Heide and John 1992; Wathne and Heide 2000).

Johnson et al. (2003) propose flexibility as a performance enhancer because it enables the firm to take advantage of opportunities as they arrive. In situations without opportunities, it helps the firm generate its own opportunities by being proactive. They also suggest that market-focused flexibility results in improved performance, and Grewal and Tansuhaj (2001) demonstrate that flexibility

exerts a positive influence on a firm's performance after a crisis.

H_7: Channel member flexibility positively affects channel member performance.

Research Method and Results

Sample and Data Collection Procedure

The data for this research came from a multiyear survey of channel relationships between a large *Fortune* 500 firm (seller) and its resellers (channel members). The seller offers a large array of diversified products, including appliances, automotive items, clothing, electronics and computers, fitness and sports products, home products, and more. The vast diversity associated with this sample should help minimize any product-specific category effects. In addition, it offers greater generalizability than samples that contain only a few product lines.

The key informants were the owner or senior manager of each channel member firm. The seller solicited the research team to conduct a channel member survey and provided the addresses of all channel members (resellers). We gathered the data in three successive annual surveys of senior managers of channel members. Each survey wave included all constructs, and all the measures and items associated with each construct remained the same for the duration of the study. The sampling frames for the three years were 1651, 1837, and 1965 and represented the census of channel members in those years. The questionnaires were sent by mail, together with a cover appeal letter from the relevant vice president and a postage-affixed reply envelope addressed to the research team. As incentives, the channel members were entered into a random draw for four $500 gift certificates that were awarded each year. We received 984 completed and usable questionnaires in Year 1 (response rate = 59.6%), 1004 in Year 2 (response rate = 54.7%), and 1089 in Year 3 (response rate = 55.4%). The questionnaires were mailed out once each year, and identical survey procedures were followed in all three years. Because we lagged the variables in each stage of our model by one year to control for common method bias and establish causality in our analysis, we lost some data. In addition, missing values and noncontiguous responses (e.g., a channel member responded in Year 1 and Year 3 but not in Year 2) forced us to exclude additional survey responses when we matched the surveys across years. Therefore, we obtained a total of 1060 usable survey responses from 492 unique channel members for our final analysis.

We assessed possible nonresponse bias with three approaches. First, we conducted tests to compare early and late respondents for all three periods, according to their demographic information and study constructs. The results indicated that these respondents constituted the same population ($p > .05$). Second, we compared the respondents retained for the analysis with those we excluded because they had failed to complete all the questions for all three periods. According to univariate and multivariate analyses of variance, the results did not differ across these two samples ($p > .05$). Third, we compared the demographic variables for the total sample of channel members who received the questionnaires with the variables for only those channel members who responded; again, we found no significant differences ($p > .05$). The relatively high response rates, coupled with these test results, suggested that nonresponse bias was not a concern.

Measurement

We based our multi-item measures on extant literature, drawing from scales that had undergone prior psychometric testing. We report the scales, item loadings for each year, and literature sources in Appendix A. All items used a five-point, Likert-type scale anchored by 1 = "strongly disagree" and 5 = "strongly agree," except the conflict items, which were anchored by 1 = "very infrequently" and 5 = "very frequently."

We tested three confirmatory measurement models by including all latent constructs in one model for each year of data. We restricted each item's loading to its a priori construct and correlated each construct with all other constructs in the model. The measurement fit indexes for the confirmatory measurement models achieved the following ranges: comparative fit index = .95–.96, root mean square error of approximation = .04–.05, and Tucker–Lewis index = .94–.95. All factor loadings were significant ($p < .01$), in support of convergent validity. The composite reliabilities for the latent constructs over all three years ranged from .83 to .94, indicating internal reliability. Table 2 reports the descriptive statistics and correlations.

Next, we assessed discriminant validity with two approaches. First, we determined the average variance extracted for each construct and verified that it was greater than the corresponding shared variances (intercorrelation^2) for all possible pairs of constructs. Second, we analyzed all possible pairs of constructs in a series of two-factor confirmatory measurement models. We ran each model twice—once constraining the correlation between the two constructs to unity and once with a free estimation of the correlations—and then performed a chi-square difference test. In each case, the tests supported discriminant validity ($p < .01$).

We measured constructs with hypothesized relationships with one year of temporal separation to reduce common method bias as a potential confound for our results; as an additional check for common method variance, we performed the Harman one-factor test for each year. In each case, we identified nine factors with eigenvalues greater than 1.0. These nine factors accounted for 75% to 77% of the total variance, and the largest factor accounted for 26% to 28% of the total variance. Thus, more than one factor emerged from the factor analysis, and the largest factor did not account for a majority of the total variance, so common method bias does not seem to be a significant concern.

Analysis and Model Development

We tested our conceptual model using hierarchical linear modeling (HLM) to account for the nesting of repeated survey responses within channel members over time. Multi-

TABLE 2
Descriptive Statistics and Correlations

Constructs	M	SD	Extracted Variance	Correlations											
				1	2	3	4	5	6	7	8	9	10	11	12
1. Channel member cooperation	4.14	.60	.77	.93											
2. Channel member flexibility	3.78	.73	.64	.51**	.84										
3. Seller opportunism	2.23	.75	.70	−.45**	−.42**	.90									
4. Perceived unfairness	2.90	.88	.72	−.47**	−.42**	.26**	.89								
5. Channel member conflict	2.10	.77	.50	−.37**	−.35**	.31**	.35**	.83							
6. Contract utilization	1.97	.80	.67	−.28**	−.25**	.49**	.08*	.22**	.89						
7. Channel member performance	3.99	.69	.84	.33**	.32**	−.16**	−.24**	−.16**	−.06*	.94					
8. Total interdependence	6.65	1.33	N.A.	.17**	.13**	−.04	−.09**	−.06	.02	.16**	N.A.				
9. Interdependence asymmetry	.97	.82	N.A.	−.02	.00	.02	.03	.01	−.01	.05	−.18**	N.A.			
10. Relationship age	6.46	6.19	N.A.	.00	−.01	.00	−.01	.05	−.04	−.05	−.04	−.03	N.A.		
11. Competitive intensity	29.65	42.30	N.A.	.01	.03	−.03	.03	−.07*	−.05	−.01	.02	.03	−.04	N.A.	
12. Firm size	1.94	2.50	N.A.	.00	.00	.00	.03	.03	−.02	−.03	−.08**	.02	.00	.04	N.A.

*$p < .05$.
**$p < .01$.
Notes: Composite reliabilities are presented along main diagonal; N.A. = not applicable. The results reported in this table are pooled results across Years 1, 2, and 3.

level data arise when the data reflect a hierarchical structure (Raudenbush and Bryk 2002). Statistical models for multilevel data must account for the intracluster correlation at each level; failure to do so may result in misleading inferences. Longitudinal or repeated measures data may be considered as a special case of multilevel data, such that repeated measurements over time cluster within persons. Fitzmaurice, Laird, and Ware (2004, p. 441) associate multilevel and longitudinal data by stating that "longitudinal data are a special case of multilevel data, with only a single level of clustering and a natural ordering of the measurements within a cluster." In addition, using a dummy variable approach to account for 492 unique firms would require a large number of parameters to be estimated and thus reduce statistical power, which we avoid by using HLM.

In our data set, the repeated survey responses over time (Level 1 data) were clustered within each channel member (Level 2 data), such that we had multiple survey responses over time for each channel member. Previous studies have similarly used HLM to account for repeated responses/longitudinal data (Gruca and Rego 2005; Liu 2007; Mitra and Golder 2008). Using full maximum likelihood as our estimation method facilitated our comparison of model fits across nested models. We mean-centered all variables to increase the interpretability of our model results, and all variance inflation factors were less than 2.0.

We began our analysis by modeling channel member cooperation (Model 1) and channel member flexibility (Model 2) as functions of channel member conflict, seller opportunism, perceived unfairness, contract utilization, and their hypothesized interactions (Table 3). We allowed the intercepts to vary randomly across channel members and included three control variables in the model: total interdependence, interdependence asymmetry, and relationship age. Prior research has shown that these exchange characteristics influence exchange behaviors (Hibbard, Kumar, and Stern 2001; Palmatier, Dant, and Grewal 2007). Consistent with Kumar, Scheer, and Steenkamp (1995a, 1998), we operationalized total interdependence as the sum of the seller's and channel member's dependence scores, and we operationalized interdependence asymmetry as the absolute value of the difference between their dependence scores. Finally, relationship age was the number of years that each channel member firm had been doing business with the seller.

Similarly, we tested our hypotheses about the effects of channel member cooperation and flexibility on channel member performance (Model 3). Channel member performance captures the channel member's (reseller's) sales and profit performance pertaining only to the seller's products. We allowed the intercepts to vary randomly across channel members and modeled the varying intercepts as a function of two channel member–level control variables that affect exchange performance: competitive intensity and firm size. We operationalized competitive intensity by including the distance between each authorized channel member and the nearest other authorized channel member (competitor). All else being equal, low competitive intensity likely aids firm performance because "customers are stuck with the organization's products and services" (Jaworski and Kohli 1993, p. 57). For firm size, we used the total number of employees who worked for each channel member firm. Larger organizations may experience increased complexity and bureaucracy, as well as a greater rigidity, as they attempt to deal with more layers and more employees. As a result, we might expect larger firms to realize lower performance for a given level of channel member cooperation and flexibility. In Appendix B, we present detailed information about the different multilevel models. Table 3 summarizes the results.

Results

As Models 1 and 2 in Table 3 illustrate, we found support for our assertion that perceived unfairness aggravates the negative effects of both channel member conflict and seller opportunism. With regard to channel member conflict, unfairness enhances the negative influences of conflict on channel member cooperation ($\beta = -.08$, $p = .01$) and on channel member flexibility ($\beta = -.05$, $p = .08$), in support of H_{1a} and H_{1b}, though the interaction of unfairness and conflict on channel member flexibility is only marginally significant. Perceived unfairness also aggravates the negative effects of seller opportunism on both channel member cooperation ($\beta = -.07$, $p = .03$) and channel member flexibility ($\beta = -.07$, $p = .02$), thus providing support for both H_{2a} and H_{2b}.

To improve our understanding of the role of perceived unfairness with regard to the effects of conflict and opportunism on channel member cooperation and flexibility, we conducted post hoc graphical analyses. In Figure 2, we illustrate the impact of high and low levels of conflict and opportunism on cooperation (Panel A) and flexibility (Panel B) for high and low levels of perceived unfairness. The negative effects for high levels of unfairness on outcomes were greater at higher levels of conflict and opportunism (i.e., greater negative slopes). However, when perceived unfairness was low, the effect of conflict and opportunism on outcomes varied only slightly between the high and low levels of conflict or opportunism (i.e., near overlap of points on the far left sides of Figure 2, Panels A and B, with low unfairness).

As an additional test of these surprising findings, we median-split our sample into high- and low-unfairness groups and evaluated the correlations between conflict/opportunism and cooperation/flexibility. For the low-unfairness group, the correlations of flexibility with conflict and opportunism were not significant ($p > .05$); at low levels of unfairness, conflict and opportunism had little effect on the flexibility of the relationship. In contrast, for the high-unfairness group, the correlations of flexibility and conflict/opportunism were significant ($p < .01$) and negative ($r_{conflict} = -.32$, $r_{opportunism} = -.44$).

The correlations involving cooperation were significant for the low-unfairness group ($r_{conflict} = -.17$, $r_{opportunism} = -.13$) but substantially lower in magnitude than those for the high-unfairness group ($r_{conflict} = -.39$, $r_{opportunism} = -.36$). Taken together, our results suggest that the negative effects of conflict and opportunism on channel relationships represent a significant concern mainly in the presence of substantial perceived unfairness, which reinforces the key role of unfairness with regard to understanding the effects of other negative behaviors.

We also found that contract utilization suppressed the negative effects of conflict on flexibility ($\beta = .07$, $p = .03$)

TABLE 3
Regression Results for Channel Members' Performance

Constructs	Hypotheses	Model 1: Channel Member Cooperation		Model 2: Channel Member Flexibility		Model 3: Channel Member Performance	
		Estimate	*p*-Value	Estimate	*p*-Value	Estimate	*p*-Value
Intercept		.03	.38	.00	.96	.01	.87
Interactions							
Perceived unfairness × channel member conflict	H_{1a}, H_{1b}	–.08***	.01	–.05*	.08		
Perceived unfairness × seller opportunism	H_{2a}, H_{2b}	–.07**	.03	–.07**	.02		
Contract utilization × channel member conflict	H_{3a}, H_{3b}	.04	.13	.07**	.03		
Contract utilization × seller opportunism	H_{4a}, H_{4b}	.03	.11	.07***	.00		
Contract utilization × perceived unfairness	H_{5a}, H_{5b}	–.06**	.04	–.13***	.00		
Main Effects							
Channel member conflict		–.17***	.00	–.09***	.01		
Seller opportunism		–.10**	.01	–.21***	.00		
Perceived unfairness		–.27***	.00	–.20***	.00		
Contract utilization		–.11***	.01	–.03	.41		
Channel member cooperation	H_6					.14***	.00
Channel member flexibility	H_7					.13***	.00
Control Variables							
Total interdependence		.11***	.00	.07*	.07		
Interdependence asymmetry		.03	.43	.04	.21		
Relationship age		–.01	.69	.00	.90		
Competitive intensity						–.02	.63
Firm size						.00	.94
Deviance (–2 log-likelihood)		1673.8		1696.9		1832.6	

*$p < .10$.
**$p < .05$.
***$p < .01$.
Notes: Standardized estimates and accompanying *p*-values are reported.

but not on cooperation ($\beta = .04$, $p = .13$), providing support for H_{3b} but not H_{3a}. Contract utilization also suppressed the negative effects of seller opportunism on flexibility ($\beta = .07$, $p < .01$) but not on cooperation ($\beta = .03$, $p = .11$). Thus, we also found support for H_{4b} but not for H_{4a}.

Finally, and in strong support of H_5, contract utilization aggravated the negative effects of perceived unfairness, in that their interactions were negative and significant for both cooperation ($\beta = –.06$, $p = .04$) and flexibility ($\beta = –.13$, $p < .01$). Using contracts to manage a channel relationship aggravated the negative effect of perceived unfairness on relational outcomes. Of the three control variables included in the models, only total interdependence had a significant effect on channel member cooperation ($\beta = .11$, $p < .01$) and flexibility ($\beta = .07$, $p = .07$), though its effect on channel member flexibility is only marginally significant.

With regard to Model 3 (Table 3), we found that both channel member cooperation and flexibility significantly enhanced channel member performance, in strong support of both H_6 ($\beta = .14$, $p < .01$) and H_7 ($\beta = .13$, $p < .01$). Neither of the control variables (i.e., competitive intensity or firm size) had a significant effect on channel member performance.

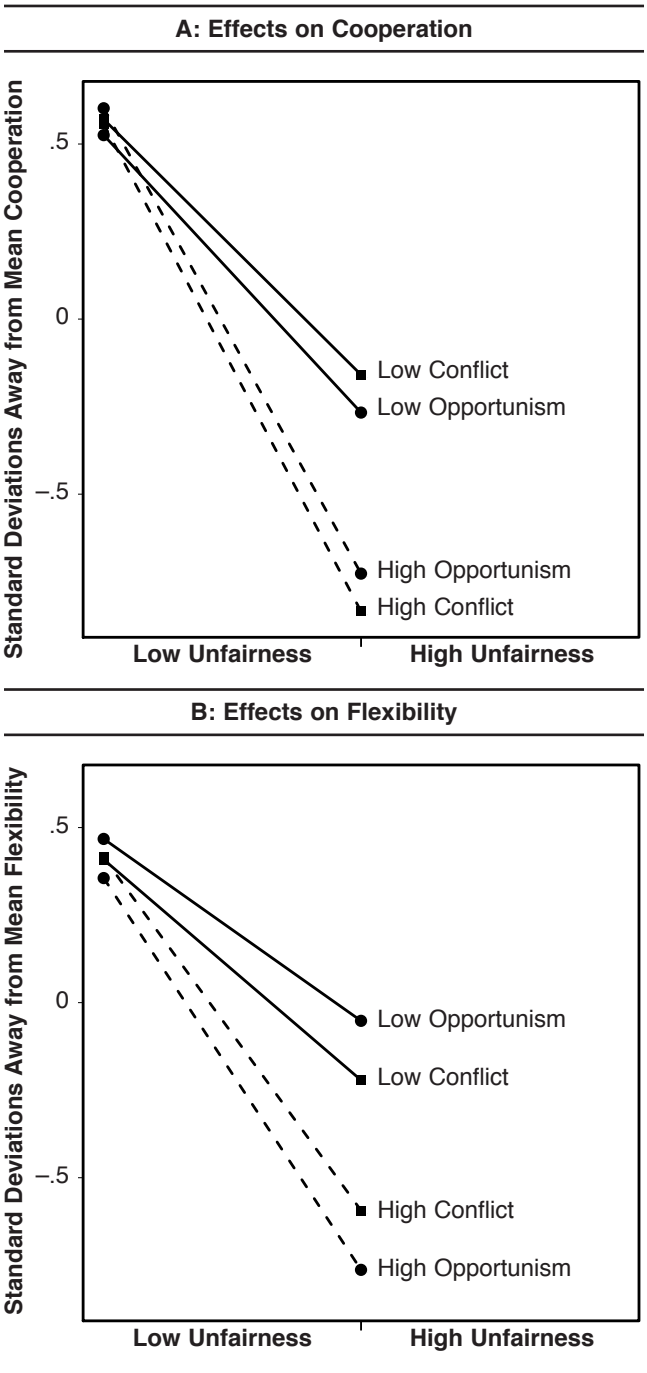
Alternative Models

To provide further support for our conceptual model and guidance for further research, we conducted several additional post hoc tests. Parallel to our argument that unfairness aggravates the negative effects of conflict on relational behaviors because the channel member attributes negative motives to the observed conflict, the case can be made that opportunism may aggravate the negative effects of conflict, in that the channel member might infer negative motives from the deception aspect of opportunism.[1] In line with this logic, we included the interaction between conflict and opportunism in Models 1 and 2. Neither interaction was significant ($p > .10$), suggesting that conflict and opportunism operate independently.

Similar to our rationale that contract utilization plays a role in aggravating or suppressing the effects of relationship-destroying factors on relationship performance, we explored whether other factors play similar roles in moderating the effects of relationship-destroying factors by conducting a series of post hoc moderation tests. Specifically, we investigated whether two positive relational elements help shelter a

[1]We thank an anonymous reviewer for this insight.

FIGURE 2
Effects of Negative Behavior Interactions on Cooperation and Flexibility for Low and High Unfairness



Notes: Dashed lines represent high levels of negative behaviors, and solid lines represent low levels of negative behaviors.

relationship from the harmful effects of conflict, opportunism, and unfairness by interacting total interdependence and relationship age with each relationship-destroying factor. Being locked into a highly interdependent relationship or simply having a long history together may cause channel members to ignore negative events or minimize retaliatory actions, which could suppress the negative effects of relationship-destroying factors on behavior (Jap and Ganesan 2000; Kumar, Scheer, and Steenkamp 1995a, b). We also investigated whether interdependence asymmetry aggravates the negative effects of relationship-destroying factors as a result of attributions of negative motives possibly stemming from concerns about a partner using its power in a coercive manner (Kumar, Scheer, and Steenkamp 1998). We conducted 18 post hoc moderation tests (3 moderators × 3 relationship-destroying factors × 2 outcomes) and added the interactions to Models 1 and 2. (The models already include the main effects of the control variables.) Only 2 of the 18 proposed interactions were supported, suggesting that the effects of the relationship-destroying factors on relational behaviors are relatively resilient to exchange conditions.

Discussion

Relationships almost invariably become damaged; understanding how is critical for long-term business success. Therefore, this study attempts to improve understanding of how and when relationship-destroying factors affect business performance. Specifically, we developed and empirically tested a conceptual model of the simultaneous effects of three relationship-destroying factors (conflict, opportunism, and unfairness) on channel member cooperation, flexibility, and, ultimately, performance. The results of our longitudinal analysis showed that perceived unfairness truly acts as relationship poison: It directly damaged channel relationships, aggravated the negative effects of both conflict and opportunism, and undermined the benefits of using contracts to manage the distribution channel. We now discuss these results in line with two recommendations: (1) how to manage the negative effects of unfairness and (2) how to use contracts effectively in the presence of relationship-destroying factors.

Managing the Effects of Unfairness

Of all the relationship-destroying factors we studied, perceived unfairness had the greatest impact on channel member cooperation and flexibility. Managing channel member conflict and seller opportunism are important, but reducing perceived unfairness seems more critical because it has large direct and indirect effects on channel relationship success. Firms might manage perceived unfairness in several ways. First, managers should include unfairness measures in their channel member surveys to gauge the firm-specific influence. Firms may find that the role of perceived unfairness is especially informative for their lost customer analyses. For example, research shows that perceptions of unfairness drive emotionally based punitive and retaliatory behaviors, so firms may want to determine whether perceptions of unfairness played a role in their customers' defections—especially if those customers needed to overcome high switching costs (Fehr and Gächter 2000; Offerman 2002; Turillo et al. 2002). Second, focus groups and other forms of qualitative research may give managers a more explicit understanding of the specific areas (e.g., returns, pricing, loyalty programs) in which unfairness is particularly problematic or leads to a high level of negative word of mouth.

Understanding the true effects of relationship-destroying factors requires a multitheory, holistic approach because, in

addition to its direct effects, unfairness aggravates the effects of both conflict and opportunism. The results from our sample suggest that the negative effects of conflict and opportunism mattered little if unfairness was low; therefore, managers should consider resolving unfairness issues before tackling conflict and opportunism to minimize its leveraging effect (Figure 2).

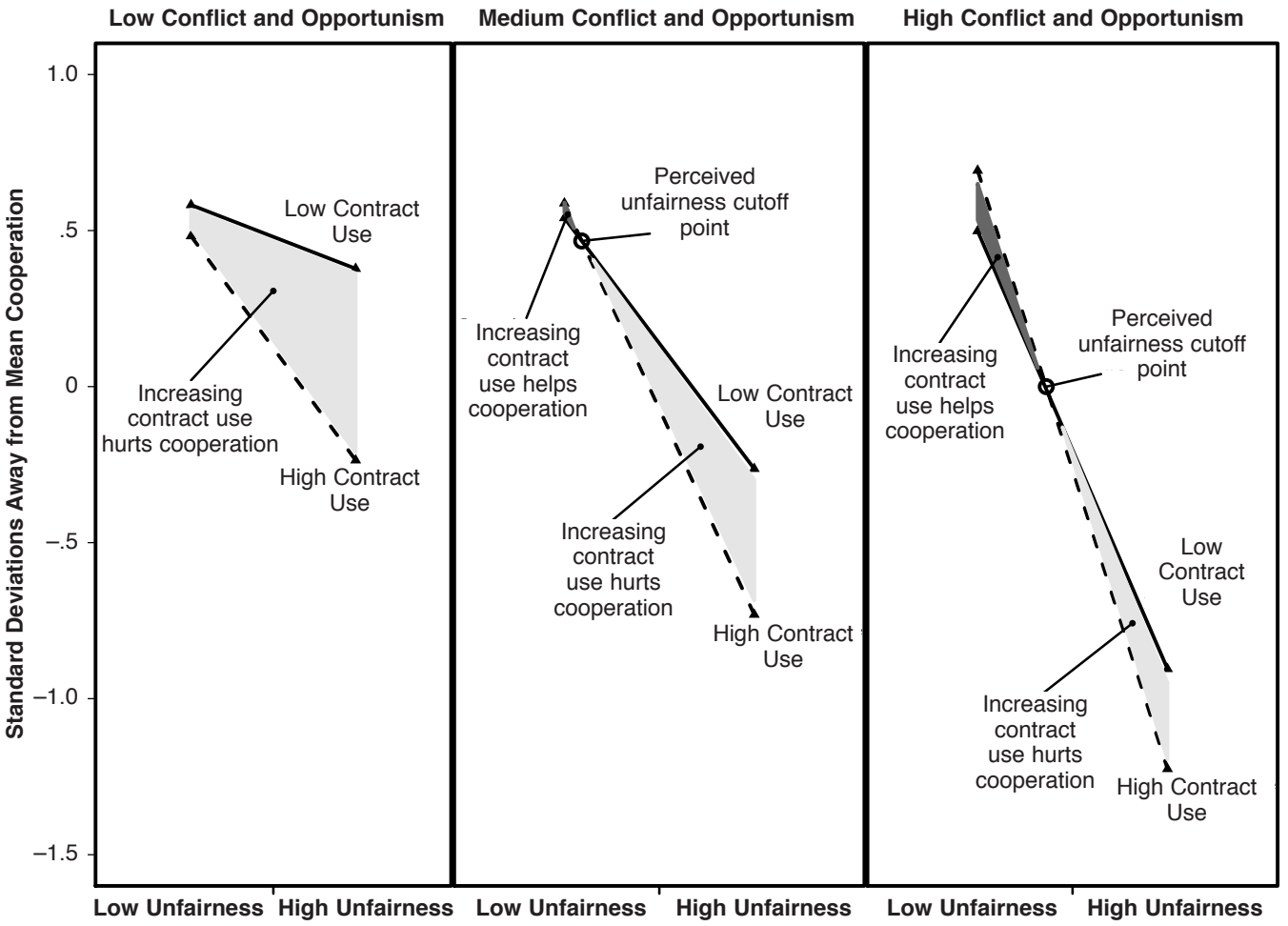
Firms also should consider more preemptive or proactive approaches to reducing unfairness. For example, they could develop specific training programs that stress the importance of fairness, identify the types of situations most likely to generate unfairness perceptions, and suggest preventative strategies. Managers who understand the importance of proactively managing unfairness will be better equipped to increase the quality of their channel relationships and prevent the loss of high-value channel members to relationship-poisoning inequity perceptions.

Managing Contract Utilization in the Presence of Relationship-Destroying Factors

The toxic effects of unfairness are not limited to direct effects or the aggravation of other negative behaviors; unfairness can cause contract utilization to harm, rather than help, channel relationships. This finding suggests a means to reconcile prior research that indicates that contracts both help and undermine relationships (e.g., Brown, Dev and Lee 2000; Jap and Ganesan 2000; Joskow 1987; Wuyts and Geyskens 2005). Our results highlight an important trade-off inherent in the use of contracts in interorganizational relationships: On the one hand, contract use can help suppress the negative effects of conflict and opportunism on relationships. On the other hand, it can aggravate the negative effects of unfairness. Therefore, the benefits of using a contract to suppress the negative effects of conflict and opportunism seem to be offset by its aggravation of the negative effects of unfairness. These results lead to an important question: When is it effective for firms to use existing contracts to manage distribution channels?

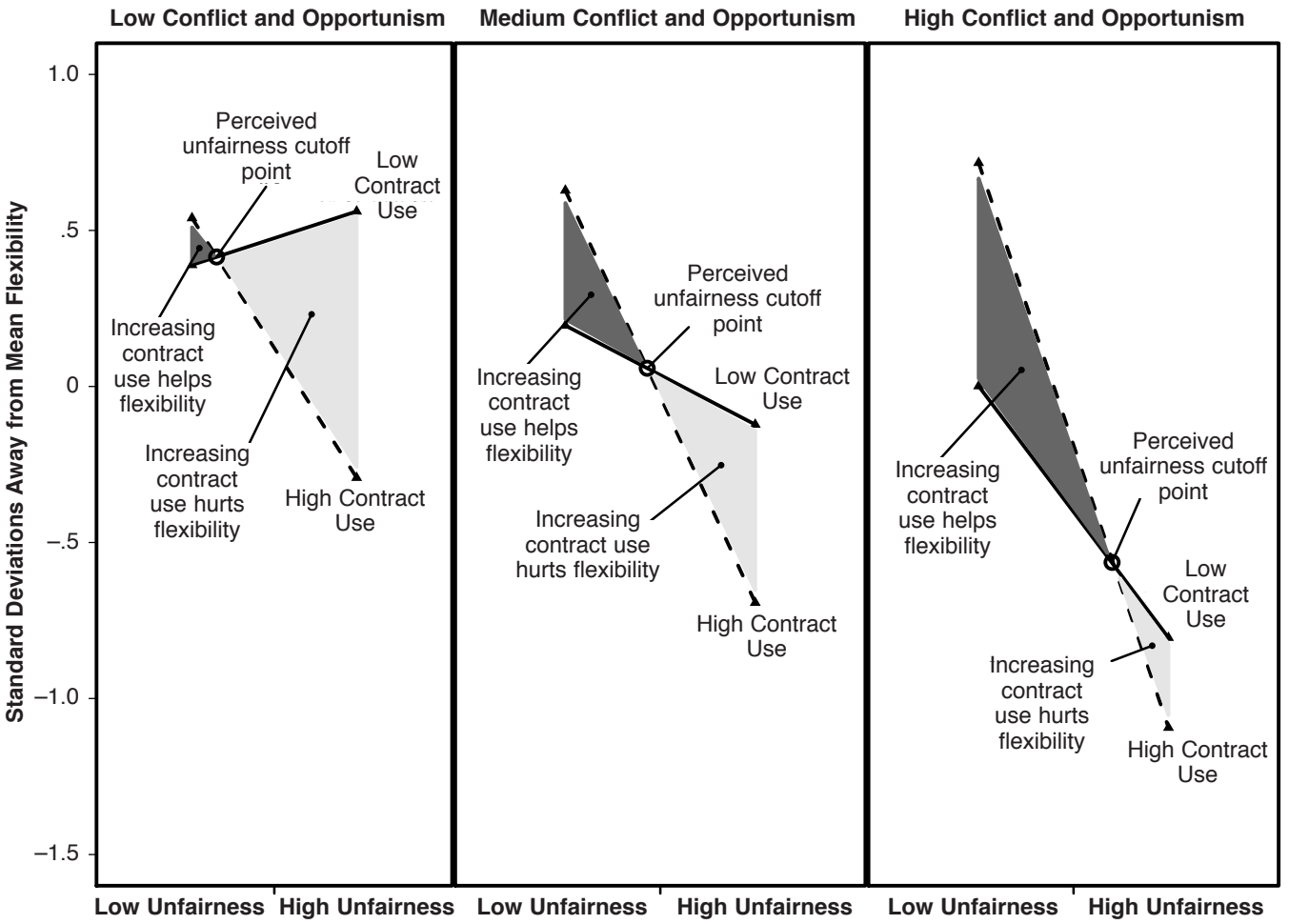
The effectiveness of contract use is not static but rather depends on the relative levels of conflict, opportunism, and unfairness. Positive net benefits may result from contract use if the levels of unfairness are not too high. We derive the cutoff point at which contract use becomes a net liability in Appendix C; we graphically illustrate these results for

FIGURE 3
Analysis of the Effect of Contract Utilization on Cooperation



Notes: Dashed lines represent high contract utilization, and solid lines represent low contract utilization; dark shading represents regions in which increasing reliance on contract utilization improves interfirm cooperation; light shading represents regions in which increasing reliance on contract utilization hurts cooperation.

FIGURE 4
Analysis of the Effect of Contract Utilization on Flexibility



Notes: Dashed lines represent high contract utilization, and solid lines represent low contract utilization; dark shading represents regions in which increasing reliance on contract utilization improves interfirm flexibility; light shading represents regions in which increasing reliance on contract utilization hurts flexibility.

both cooperation (Figure 3) and flexibility (Figure 4). Firms could perform similar trade-off analyses to determine where their firms typically operate and to gain insight into the most effective utilization of contracts in their day-to-day operations. Furthermore, to reveal the interdependencies of relative levels of conflict/opportunism and unfairness and when contract use has a net positive or negative effect, we graph the cutoff point at three levels of conflict and opportunism: low (one standard deviation below the mean), medium (mean), and high (one standard deviation above the mean).

In five of the six scenarios in Figures 3 and 4, it is advantageous to increase contract utilization in some regions (dark gray) but better to decrease contract use in others (light gray). This finding supports the relevance of this analysis because the cutoff point falls within the range of our sample. The intersections of the low and high lines corresponding to contract use represent cutoff points beyond which increasing contract utilization is no longer a winning strategy.

Using Figures 3 and 4, we also illustrate the trade-off between contract utilization's benefits and harms. In general, increasing contract utilization is more advantageous when conflict and opportunism are high rather than low. Intuitively, at high levels of conflict and opportunism, the suppressive effects of contract utilization should be greater and therefore should make the strategy more effective. From a managerial perspective, these graphs reiterate that firms should not use a contract to manage one negative behavior at a time but rather must consider the joint implications of contract use on other negative behaviors. For example, a firm cannot blindly rely on contracts to suppress opportunism; it should also consider the potential downsides associated with aggravating unfairness perceptions.

Contract utilization also had a significant, negative direct effect on cooperation, implying that frequent contractual enforcement may diminish cooperation by creating a more formal, adversarial relationship environment. Further research on contractual governance should extend beyond simply "having" versus "not having" a contract to include

the impact of using or referring to a contract for day-to-day exchange management.

Limitations and Further Research

Although the data came from a large company with substantial product breadth, there is always some concern that the results may be idiosyncratic to this firm or industry. Using longitudinal data mitigates some concern (e.g., common method variance) but also introduces other issues, such as potential confounds caused by intervening events (Rindfleisch et al. 2008). Further research should try to confirm our findings with data in other industries and from other contexts.

Marketing programs (e.g., pricing, customer acquisition, loyalty programs) should be reevaluated in light of our results to determine whether they actually lead to perceptions of unfairness, such that the positive effects of the program may be overwhelmed by its negative effects (e.g., perceived unfairness). For example, do the positive effects of customers who receive special treatment (e.g., discounts, free shipping, extra benefits) outweigh the negative effects induced by the unfairness perceived by other customers, who may not receive these same benefits (i.e., bystander effect)? Studies outside marketing demonstrate that negative effects can eclipse positive effects, but we still cannot identify the extent to which this suggestion holds true in marketing relationships. In turn, additional research should investigate the most effective intervention strategies to minimize the damaging effects of perceived unfairness. If a channel member feels unfairly treated, how should the supplier mitigate the negative effects?

Our study uses a multitheoretical approach to build the model, but each theoretical perspective has its own boundary conditions and epistemology. Although beyond the scope of this study, researchers in the future should investigate the conditions in which each theoretical perspective is most relevant. For example, in conditions of high environmental uncertainty, does one particular relationship-destroying factor outweigh the effects of the other factors?

APPENDIX A
Scale Sources and Standardized Item Loadings

Constructs and Measures (Scale Sources)	Standardized Item Loadings		
	Year 1	Year 2	Year 3
Channel Member Cooperation (Koza and Dant 2007)			
We can work together well in this business.	.83	.88	.86
We can count on [Seller] to be a team player.	.93	.91	.94
We look after each others' interests in this relationship.	.86	.85	.86
We should describe our relationship as cooperative.	.88	.84	.91
Channel Member Flexibility (Kaufmann and Dant 1992)			
We would willingly make adjustments to help out [Seller] when faced with special problems or circumstances.	.56	.60	.54
[Seller] willingly makes adjustments to help us out when we are faced with special problems or circumstances.	.92	.91	.92
[Seller] gladly sets aside the contractual terms in order to work with us in difficult times.	.86	.87	.87
Seller Opportunism (Gundlach, Achrol, and Mentzer 1995; John 1984)			
In working with our firm [Seller]…			
Exaggerates its needs in order to get what it wants.	.73	.77	.71
Is not always sincere if that helps to promote their own objectives.	.89	.86	.88
Alters facts in order to meet their own goals and objectives.	.76	.89	.89
Does not negotiate from a good faith bargaining perspective.	.85	.90	.89
Perceived Unfairness (Kumar, Scheer, and Steenkamp 1995b)			
Our earnings from [Sellers'] business are fair given (reversed)…			
The duties and responsibilities that I perform for [Seller].	.84	.86	.85
What [Seller] earns from its sales through my business.	.89	.88	.92
The contributions I make towards [Sellers'] marketing effort in my market.	.78	.82	.79
Channel Member Conflict (Kumar, Scheer, and Steenkamp 1995a, b)			
Specifically, how often have there been disagreements between you and [Seller] about…			
Merchandise return policies of [Seller].	.58	.55	.58
[Sellers'] commission rates for its partners.	.69	.76	.67
Reporting procedures [Sellers'] partners are required to follow.	.71	.82	.79
Overheads associated with [Sellers'] business.	.87	.84	.86
Shipment and delivery of merchandise.	.54	.54	.64
Contract Utilization (adapted from Jap and Ganesan 2000; Lusch and Brown 1996)			
We often have to resort to our formal contract to resolve disputes with [Seller].	.73	.83	.83
We have to frequently point out to [Seller] that their request is beyond the scope of our contract.	.76	.86	.82
[Seller] often resorts to our formal contract to resolve disputes with us.	.78	.88	.83
[Seller] often reminds us of our contract to ensure that we are meeting our obligations.	.82	.86	.78

APPENDIX A
Continued

Constructs and Measures (Scale Sources)	Standardized Item Loadings: Year 1	Year 2	Year 3
Contract Utilization (adapted from Jap and Ganesan 2000; Lusch and Brown 1996)			
We often have to resort to our formal contract to resolve disputes with [Seller].	.73	.83	.83
We have to frequently point out to [Seller] that their request is beyond the scope of our contract.	.76	.86	.82
[Seller] often resorts to our formal contract to resolve disputes with us.	.78	.88	.83
[Seller] often reminds us of our contract to ensure that we are meeting our obligations.	.82	.86	.78
Channel Member Performance (adapted from Lusch and Brown 1996)			
As compared to other similar [Seller's] resellers, our performance is very high in terms of…			
Sales growth.	.90	.85	.83
Profit growth.	.95	.97	.99
Overall profitability.	.93	.92	.91
Channel Member Dependence (Kumar, Scheer, and Steenkamp 1995a, 1998)			
If for some reason, our relationship with [Seller] ended…			
We would suffer a significant loss of income despite our best efforts to replace the lost income.	.98	.66	.46
The loss would seriously damage our reputation in this area.	.51	.67	.99
Seller Dependence (Kumar, Scheer, and Steenkamp 1995a, 1998)			
If for some reason, we ended our relationship with [Seller]…			
Such a loss would seriously hurt the sales of [Seller's] lines in this area.	.71	.66	.71
Such a loss would significantly damage [Seller's] reputation in this area.	.71	.82	.79
Such a loss would negatively affect the service [Seller's] customers have come to expect in this area.	.70	.68	.66

Appendix B
Two-Level and Combined Multilevel Models for Channel Member Cooperation, Flexibility, and Performance

$$\begin{aligned}\text{Cooperation}_{it} &= \beta_{0i} + \beta_1\text{Conflict}_{i(t-1)} + \beta_2\text{Opportunism}_{i(t-1)}\\ &+ \beta_3\text{Unfairness}_{i(t-1)} + \beta_4\text{Contract Use}_{i(t-1)}\\ &+ \beta_5\text{Unfairness}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_6\text{Unfairness}_{i(t-1)}\text{Opportunism}_{i(t-1)}\\ &+ \beta_7\text{Contract Use}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_8\text{Contract Use}_{i(t-1)}\text{Opportunism}_{i(t-1)}\\ &+ \beta_9\text{Contract Use}_{i(t-1)}\text{Unfairness}_{i(t-1)}\\ &+ \beta_{10}\text{Total Interdependence}_{i(t-1)}\\ &+ \beta_{11}\text{Interdependence Asymmetry}_{i(t-1)}\\ &+ \beta_{12}\text{Relationship Age}_{i(t-1)}\\ &+ r_{it},\ r_{it} \sim N(0, \sigma^2) \qquad \text{(Level 1)}\\ \beta_{0i} &= \gamma_{00} + u_{0i},\ u_{0i} \sim N(0, \tau^2) \qquad \text{(Level 2)}\end{aligned}$$

$$\begin{aligned}\text{Cooperation}_{it} &= \gamma_{00} + \beta_1\text{Conflict}_{i(t-1)} + \beta_2\text{Opportunism}_{i(t-1)}\\ &+ \beta_3\text{Unfairness}_{i(t-1)} + \beta_4\text{Contract Use}_{i(t-1)}\\ &+ \beta_5\text{Unfairness}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_6\text{Unfairness}_{i(t-1)}\text{Opportunism}_{i(t-1)}\\ &+ \beta_7\text{Contract Use}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_8\text{Contract Use}_{i(t-1)}\text{Opportunism}_{i(t-1)}\\ &+ \beta_9\text{Contract Use}_{i(t-1)}\text{Unfairness}_{i(t-1)}\\ &+ \beta_{10}\text{Total Interdependence}_{i(t-1)}\\ &+ \beta_{11}\text{Interdependence Asymmetry}_{i(t-1)}\\ &+ \beta_{12}\text{Relationship Age}_{i(t-1)}\\ &+ r_{it} + u_{0i} \qquad \text{(Combined Equation)}\end{aligned}$$

$$\begin{aligned}\text{Flexibility}_{it} &= \beta_{0i} + \beta_1\text{Conflict}_{i(t-1)} + \beta_2\text{Opportunism}_{i(t-1)}\\ &+ \beta_3\text{Unfairness}_{i(t-1)} + \beta_4\text{Contract Use}_{i(t-1)}\\ &+ \beta_5\text{Unfairness}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_6\text{Unfairness}_{i(t-1)}\text{Opportunism}_{i(t-1)}\\ &+ \beta_7\text{Contract Use}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_8\text{Contract Use}_{i(t-1)}\text{Opportunism}_{i(t-1)}\\ &+ \beta_9\text{Contract Use}_{i(t-1)}\text{Unfairness}_{i(t-1)}\\ &+ \beta_{10}\text{Total Interdependence}_{i(t-1)}\\ &+ \beta_{11}\text{Interdependence Asymmetry}_{i(t-1)}\\ &+ \beta_{12}\text{Relationship Age}_{i(t-1)}\\ &+ r_{it},\ r_{it} \sim N(0, \sigma^2) \qquad \text{(Level 1)}\\ \beta_{0i} &= \gamma_{00} + u_{0i},\ u_{0i} \sim N(0, \tau^2) \qquad \text{(Level 2)}\end{aligned}$$

$$\begin{aligned}\text{Flexibility}_{it} &= \gamma_{00} + \beta_1\text{Conflict}_{i(t-1)} + \beta_2\text{Opportunism}_{i(t-1)}\\ &+ \beta_3\text{Unfairness}_{i(t-1)} + \beta_4\text{Contract Use}_{i(t-1)}\\ &+ \beta_5\text{Unfairness}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_6\text{Unfairness}_{i(t-1)}\text{Opportunism}_{i(t-1)}\\ &+ \beta_7\text{Contract Use}_{i(t-1)}\text{Conflict}_{i(t-1)}\\ &+ \beta_8\text{Contract Use}_{i(t-1)}\text{Opportunism}_{i(t-1)}\end{aligned}$$

$$+ \beta_9 \text{Contract Use}_{i(t-1)} \text{Unfairness}_{i(t-1)}$$
$$+ \beta_{10} \text{Total Interdependence}_{i(t-1)}$$
$$+ \beta_{11} \text{Interdependence Asymmetry}_{i(t-1)}$$
$$+ \beta_{12} \text{Relationship Age}_{i(t-1)}$$
$$+ r_{it} + u_{0i} \qquad \text{(Combined Equation)}$$

$$\text{Performance}_{it} = \beta_{0i} + \beta_1 \text{Cooperation}_{i(t-1)} + \beta_2 \text{Flexibility}_{i(t-1)}$$
$$+ r_{it}, r_{it} \sim N(0, \sigma^2) \qquad \text{(Level 1)}$$
$$\beta_{0i} = \gamma_{00} + \gamma_{01} \text{Competitive Intensity}_i$$
$$+ \gamma_{02} \text{Firm Size}_i$$
$$+ u_{0i}, u_{0i} \sim N(0, \tau^2) \qquad \text{(Level 2)}$$

$$\text{Performance}_{it} = \gamma_{00} + \gamma_{01} \text{Competitive Intensity}_i + \gamma_{02} \text{Firm Size}_i$$
$$+ \beta_1 \text{Cooperation}_{i(t-1)} + \beta_2 \text{Flexibility}_{i(t-1)}$$
$$+ r_{it} + u_{0i} \qquad \text{(Combined Equation)}$$

Appendix C
Derivation of Cutoff Points for Perceived Unfairness

We determine the maximum amount of unfairness allowable in the channel relationship before an increase in contract utilization switches from helping to harming cooperation and flexibility. In Figures 3 and 4, we illustrate that the expected levels of channel member cooperation and flexibility depend on the amounts of contract utilization (low versus high) in the channel relationship. The solid lines correspond to a channel relationship characterized by low contract use; the dashed lines represent a channel relationship characterized by high contract use. For five of the six scenarios in Figures 3 and 4, when unfairness is sufficiently low, the line for high contract utilization lies above the line corresponding to low contract utilization. Therefore, increasing contract utilization leads to increases in channel member cooperation and flexibility (dark gray shaded areas). However, after unfairness crosses a certain threshold (i.e., intersection of the low and high contract use lines), increasing contract use leads to decreases in channel member cooperation and flexibility (light gray shaded areas). Thus, the intersection of the lines for low and high contract utilization represents the switching point at which contract use changes from helping cooperation and flexibility to undermining them. For levels of unfairness above this intersection point, low contract use yields greater expected cooperation and flexibility than high contract use; for levels of unfairness below it, high contract use is more beneficial than low contract use. To determine this point analytically, we set the equations corresponding to low and high contract use to be equal and solved for the solution explicitly in terms of unfairness.

That is, let $\hat{y}_{(\text{High})it}$ represent the predicted value of a relational behavior (channel member cooperation or flexibility) for firm i at time t when the channel relationship features high contract utilization. Let $\hat{y}_{(\text{Low})it}$ represent the predicted value of a relational behavior for firm i at time t when the channel relationship features low contract utilization. We determine the intersection point at which the two predicted quantities are equal: $\hat{y}_{(\text{High})it} = \hat{y}_{(\text{Low})it}$ or $\hat{y}_{(\text{High})it} - \hat{y}_{(\text{Low})it} = 0$.

Setting $\hat{y}_{(\text{High})it} - \hat{y}_{(\text{Low})it} = 0$ and using the models in Appendix B, we find the following:

$$\left(\begin{array}{l} \beta_4 \text{High Contract Use}_{i(t-1)} \\ + \beta_7 \text{High Contract Use}_{i(t-1)} \text{Conflict}_{i(t-1)} \\ + \beta_8 \text{High Contract Use}_{i(t-1)} \text{Opportunism}_{i(t-1)} \\ + \beta_9 \text{High Contract Use}_{i(t-1)} \text{Unfairness}_{i(t-1)} \end{array} \right)$$
$$- \left(\begin{array}{l} \beta_4 \text{Low Contract Use}_{i(t-1)} \\ + \beta_7 \text{Low Contract Use}_{i(t-1)} \text{Conflict}_{i(t-1)} \\ + \beta_8 \text{Low Contract Use}_{i(t-1)} \text{Opportunism}_{i(t-1)} \\ + \beta_9 \text{Low Contract Use}_{i(t-1)} \text{Unfairness}_{i(t-1)} \end{array} \right) = 0.$$

Simplifying, factoring, and solving explicitly for the cutoff point in terms of unfairness yields

$$\text{Unfairness}_{i(t-1)} = \frac{(-\beta_4 - \beta_7 \text{Conflict}_{i(t-1)} - \beta_8 \text{Opportunism}_{i(t-1)})}{\beta_9},$$

or, more explicitly,

$$\text{Unfairness}_{i(t-1)} = \frac{\begin{array}{l}(-\hat{\beta}_{\text{Contract Use}} - \hat{\beta}_{\text{Contract Use} \times \text{Conflict}} \\ \times \text{Conflict}_{i(t-1)} - \hat{\beta}_{\text{Contract Use} \times \text{Opportunism}} \\ \times \text{Opportunism}_{i(t-1)})\end{array}}{\hat{\beta}_{\text{Contract Use} \times \text{Unfairness}}}.$$

The cutoff point for the amount of perceived unfairness at which increasing contract utilization changes from helping cooperation and flexibility to undermining them depends explicitly on the amount of channel member conflict and seller opportunism present in the channel relationship. Thus, our equation captures the trade-off involved with contract use.

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