

Tilburg University

A new perspective on punishments and rewards in marketing channel relationships

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Publication date:
2007

Document Version
Publisher's PDF, also known as Version of record

[Link to publication in Tilburg University Research Portal](#)

Citation for published version (APA):
Chow, M. W. (2007). *A new perspective on punishments and rewards in marketing channel relationships*. [Doctoral Thesis, Tilburg University]. CentER, Center for Economic Research.

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**A New Perspective on Punishments and Rewards in
Marketing Channel Relationships**

A New Perspective on Punishments and Rewards in Marketing Channel Relationships

Proefschrift

ter verkrijging van de graad van doctor aan de Universiteit van Tilburg, op gezag van de rector magnificus, prof. dr. F.A. van der Duyn Schouten, in het openbaar te verdedigen ten overstaan van een door het college voor promoties aangewezen commissie in de aula van de Universiteit op woensdag 19 december 2007 om 16.15 door

Man-Wai Chow

geboren op 2 februari 1980 te Gouda.

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Voor Papa en Mama

VOORWOORD

Eindelijk! Een gevoel van opluchting overheerst er op dit moment, mijn proefschrift is eindelijk af! Nooit had ik gedacht dat ik na vijf jaar studie er nog eens vier jaar promotie er achter aan zou plakken, en dat mijn verblijf op de Universiteit van Tilburg er één van ruim negen jaar zou worden. De reden om te gaan promoveren was ingegeven door het feit dat ik, na vijf jaar studie, nog lang niet het gevoel had dat ik daadwerkelijk afgestudeerd was. Mijn drang naar kennis was destijds een belangrijke motivatie om aan dit proefschrift te beginnen en omdat ik tijdens mijn laatste studiejaar erg enthousiast was geworden over academisch onderzoek. Terugkijkend op de afgelopen vier jaar kan ik zeggen dat ik destijds een juiste keuze heb gemaakt; de afgelopen jaren heb ik oneindig veel geleerd over het doen van gedegen academisch onderzoek en, niet onbelangrijk, ook veel over mezelf geleerd. Mijn promotie-tijd is een ontzettende waardevolle periode in mijn leven geweest, waar ik met veel plezier op terug kan kijken.

Ik prijs mijzelf gelukkig dat ik de kneepjes van het vak van de besten heb mogen leren en wil hier hen daarvoor danken. Ten eerste, Inge, heel veel dank voor alles wat je voor mij hebt gedaan. Je bereidheid om mij altijd te woord te staan heeft ervoor gezorgd dat ik ontzettend veel van jouw kennis en vaardigheden heb mogen leren. Jouw nimmer aflatende oog voor detail, zonder het totale overzicht te verliezen, heeft ervoor gezorgd dat na elke bespreking die we hadden, mijn proefschrift steeds weer een beetje beter werd. Ik ben er trots op dat ik je eerste AIO ben die je hebt mogen begeleiden, en ik ben ervan overtuigd dat er nog velen zullen volgen.

Ten tweede, Jan-Benedict, dank voor het feit dat je de begeleiding een tijdje hebt overgenomen en dat je mijn co-promotor bent. Ik heb het altijd heel erg gewaardeerd dat, ondanks je drukke schema, je altijd tijd vond om mij te helpen. Onze

besprekingen, ondanks hun beperkte tijd, waren altijd ontzettend vruchtbaar, niet alleen in termen van onderzoek maar ook in termen van motivatie. Ik kreeg altijd ontzettend veel energie van de drive en ambitie die je uitstraalt waar ik ontzettend veel respect voor heb.

Thirdly, Nirmalya, I would like to thank you for all the fruitful feedback that you had on my dissertation, and for being a member of my committee. I enjoyed working with you, as you were always to the point, and your industry experience was much appreciated. Stefan, dank voor het feit dat je in mijn commissie zitting neemt, en ook voor alle gesprekken die we hebben gehad. Het was altijd erg fijn om mijn gedachten te delen met een andere 'strategy-guy', dank je wel!

Marnik en Patrick, dank voor het feit dat jullie in mijn commissie zitting te nemen. Jullie opmerkingen hebben mijn proefschrift zeer zeker verbeterd.

Verder wil ik iedereen van het Marketing Departement van de UvT danken. Door jullie was de sfeer altijd uitstekend, een mooie combinatie tussen informaliteit en zeer hoge ambities, het was een geweldige ervaring! Een aantal mensen in het bijzonder wil ik hier nog noemen. Hans, dank voor het squashen, je SAShelpdeskfunctie en de afleiding die je mij vaak hebt geboden. Jan, wanneer gaan wij weer eens squashen? Roger, dank voor je overbuurmanschap! Henk, het was super om de kneepjes van het onderwijsvak van je te mogen leren, dank!

Then my buddies, Jia en Maciej. We started during the same year, and during the past four years you have helped me to finish this job, thank for all your support ! Ook wil ik de andere AIO's bedanken voor hun steun en gezelligheid: Berk, Carlos, Didi, Femke, Martijn, Robert, and Rita, thanx!

Mijn roomies: Martijn, ik vond het een eer om, met zo'n getalenteerd persoon zoals jij, de kamer te hebben mogen delen; ik heb veel van jouw kennis mogen profiteren.

Maciej, although we only shared a room during the last months of my dissertation, your presence and knowledge have been very welcome! Graag wil ik ook Ank, Heidi, Nancy, Nienke, Scarlett en Susanne Roelle danken voor hun administratieve en organisatorische ondersteuning van mijn proefschrift.

De welkome afwisseling van mijn proefschrift werd mij geboden door mijn vrienden die mij de afgelopen jaren er door heen hebben gesleept.

Karien, dank je wel je dat mijn paranimf bent, en voor alle toneelbezoekjes, borrels en alle andere leuke dingen die we hebben gedaan en natuurlijk al het belwerk, je bent een supervriendin!

Carlo, Georgette, Ilona, Judith en Tessa, jullie hebben mijn leven de afgelopen vier jaren veraangenaamd door de talloze keren dat we zijn wezen happen en stappen (in NL of in Singapore!), zeilen of wat dan ook hebben gedaan. Ik vind het super dat we na onze VITE-tijd nog steeds zo close zijn, dank voor jullie vriendschap!

Arien, dank voor alle mooie discussies die we hebben gehad, van Ajax tot Wouter Bos. Eva, onze jarenlange vriendschap is mij dierbaar! Christa, dank voor de spirituele klik! Eric, super dat je mijn fotograaf wilt zijn. Verder wil ik ook alle Liflaffers danken voor de kookgezelligheid en Jurre voor de mooie lessen.

Met veel liefde wil ik mijn familie bedanken. Ten eerste, Papa en Mama, dank jullie wel voor het warme nest dat jullie mij altijd hebben geboden en de steun die ik altijd van jullie heb gekregen. Man-Chie, dank je wel dat je vandaag mijn paranimf wilde zijn! Ik mag mij gelukkig prijzen met zo'n zus als jou, je bent voor mij de grote zus die mij altijd met raad en daad bijstaat! Andrew, thank you for helping me editing my first chapter. Oom Anton, Tante Tonny, Stefan, Anita, Leon, dank voor alle mooie tijd samen.

Tot slot, Olga, mijn allerliefste vriendin. Olga, sinds ik jou ontmoet heb is het alleen maar vooruit gegaan met mijn proefschrift ! Dankzij jouw steun en energie en alle leuke dingen die we hebben gedaan, waren de laatste maanden van mijn proefschrift een stuk aangenamer! Dank voor je liefde en warmte op de momenten dat het minder ging, ik heb je alles lief !

Man-Wai

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1. INTRODUCTION

Effective channel management has become a major issue nowadays to realize optimal business performance (Chang 2005). Frequently used strategies that are applied in channel management practice to obtain optimal business performance are punishments and rewards (Alonzo 1999; Kuipers 2001). These strategies are aimed at altering a reseller's attitudes and behavior and, ultimately, at increasing a reseller's performance. Common knowledge in managerial practice is that the use of punishments negatively affects and the use of rewards positively affects channel member performance. In academic research, it is surprising that the effects of punishments and rewards on channel member performance have only been scarcely studied. Only three studies on the effect of punishment on performance and three studies on the effect of rewards on performance have been carried out in the past three decades. Positive, negative, and non-significant results were found for the effect of punishment on performance and positive and non-significant results for the effect of on rewards on performance. Thus, the question remains if punishments and rewards are indeed effective since prior studies on the subject exhibit highly variable findings.

The aim of my dissertation is to resolve the indistinctness that currently surrounds academic research on the use of punishments and rewards in marketing channel relationships. To this extent, this dissertation consists of three parts. Part I (Chapter 2) presents a meta-analysis of punishments and rewards in marketing channel relationships. More specifically, this meta-analysis maps all the consequences that have been empirically related to the use of punishments and rewards. I find that research relating punishments and rewards to performance is scarce. After identifying relationship quality as the most frequently studied consequence of punishment and reward, I proceed with a moderator analysis to uncover the substantive and

methodological characteristics that may explain variation in the relationship between punishments and rewards and relationship quality. The results from this meta-analysis provide a stepping-stone for Part II (Chapters 3 & 4) of my dissertation.

In Chapter 3, I study the effect of a supplier's use of rewards on dealer performance. While performance is the most important behavior that suppliers are aiming for when administering rewards to their dealers, Chapter 2 shows that the effects of reward on performance have hardly been studied. I distinguish between non-contingent and performance-contingent rewards, since my meta-analysis reveals that the basis on which rewards are administered is an important determinant of the effectiveness of rewards,

In Chapter 4, I investigate the effect of the supplier's use of punishment on dealer performance, a relationship that has also rarely been studied in the extant literature as revealed by my meta-analysis in Chapter 2. The aim of this chapter is to uncover the controversy that currently surrounds the use of punishments. To the best of my knowledge, all studies except for Corsten, Kumar, and Kuzca (2006), have focused on the deleterious effects of punishments. Nevertheless, punishments are still frequently applied in daily business practice (Kuipers 2001; Snyder 2003). This raises the question as to whether there are not at least some positive effects of punishments, or at least under what conditions punishments may be beneficial. As my meta-analysis in Chapter 2 reveals that punishments have only been studied from a dyadic perspective, I contribute to the literature by including a vicarious learning perspective on punishment in marketing channel relationships. My conceptual framework not only includes the dyadic effects of punishments, but also includes network effects of punishments, which can explain positive effects of supplier punishment on dealer performance.

Finally, in Part III (Chapter 5), I will draw conclusions and make suggestions for further research.

2. A META-ANALYSIS OF PUNISHMENT AND REWARD IN MARKETING CHANNEL RELATIONSHIPS

2.1 INTRODUCTION

The use of punishment and reward in marketing channel relationships has received ample research attention during the past three decades (Frazier and Rody 1991; Johnson et al. 1993; Payan and McFarland 2005). Whereas punishment involves a source's (e.g. a supplier's) bestowal of aversive consequences upon a target (e.g. a dealer), a reward is the bestowal of consequences that a target evaluates as positive or desirable (Scheer and Stern 1992). Most academic research and managerial practice assumes that punishments and rewards are effective in altering channel members' attitudes and behavior, including satisfaction, conflict, commitment, and performance (see e.g. Brown, Lusch, and Nicholson 1995; Geyskens and Steenkamp 2000; Mackenzie, Podsakoff, and Rich 2001). Nevertheless, the question remains if punishments and rewards are indeed effective since prior studies on the subject report highly variable findings. For instance, whereas John (1984) finds a negative effect of punishment on conflict of $-.42$, Rawwas, Vitel, and Barnes (1997) report a positive effect of $.55$. As another example, whereas Frazier and Summers (1986) report a $-.25$ negative effect of reward on satisfaction, Geyskens and Steenkamp (2000) find a $.32$ positive effect for the same relationship.

To help researchers and managers synthesize this body of research, I quantitatively integrate prior research findings using meta-analysis. Meta-analysis is a powerful tool that can relate variability in study outcomes across the research stream to different substantive and methodological features of individual studies.

This study contributes to the literature in the following ways. First, I evaluate the current state of research on the consequences of punishments and rewards in marketing channel relationships by estimating the mean values for the effects of punishments and reward on a range of consequences.

Second, I identify three broad categories of characteristics that may moderate the magnitude of the relationship between punishments and rewards and relationship quality – the most frequently studied outcome of punishment and reward. First, I study the moderating role of the type of punishment and reward (Scheer and Stern 1992). Second, I study the moderating role of three study design characteristics, viz.: (1) the type of anchor that is used in the operationalization of punishments and rewards, (2) the type of channel context in which the study is executed (independent context vs. franchise context), and (3) the type of product (goods vs. services). Cultural context is the third category of moderator characteristics that is included in my analysis. Prior research in social psychology has demonstrated that culture moderates the effect of punishments and rewards on targets' outcomes, as cultural values shape preferences for punishments and rewards (Gelfand, Erez, and Aycan 2007). However, these results were obtained from intra-organizational settings, leading to the question if culture is also an important moderator in inter-organizational settings, as some marketing channels scholars have hinted (Johnson et al. 1993).

This chapter is organized as follows. First, I describe the selection of the studies that I include in my meta-analysis. Second, I provide an overview of the most frequently examined consequences of punishment and reward. Next, I provide a theoretical rationale for the moderating effects of the following three categories: (1) type of punishment or reward, (2), study design characteristics, and (3) cultural

context. Then, I discuss the method I have used, which is followed by the results. The final section of this study provides a discussion and suggestions for further research.

2.2 LITERATURE REVIEW

The following search strategy was conducted. First, keyword searches on electronic databases (ABI/Inform, EconLit, KluwerOnline, ScienceDirect, and SSRN) were conducted using words such as “punishment,” “reward,” “coercive strategy,” “influence strategy,” “dependence,” “power,” “promise,” and “threat.”

Second, a manual search was performed in marketing and management journals in which articles on punishment and reward in marketing channel relationships are most likely published (*Industrial Marketing Management, International Journal of Research in Marketing, Journal of the Academy of Marketing Science, Journal of Business Research, Journal of Marketing, Journal of Marketing Research, Journal of Retailing, and Strategic Management Journal*). Third, the references in the publications that I already obtained were screened for additional studies on punishment and reward in marketing channel relationships. Fourth, the Web was searched for working papers.

The decision to include a study in my meta-analysis is based on the following criteria. First, a study had to report sample size along with an effect size (e.g., r , β , univariate F) that allows the computation of a correlation coefficient (Hunter and Schmidt 1990; Peterson and Brown 2005). Second, only studies that investigate the administration of punishment and reward in a distribution channel context (survey or experiment) are included. Third, only studies that report separate effects of punishment and reward are included. Studies in which punishment and reward are part of a higher-order ‘coercive strategies’ construct and in which the separate effects of

punishment and reward are not reported (e.g. Frazier and Rody 1991), are not included in my meta-analysis. Finally, only studies focusing on the *use* of punishment and reward (as opposed to having the *ability* to exercise punishment or reward) were included (Gaski and Nevin 1985).

One study was excluded (Howell 1987) because it reanalyzed previously reported data. In some studies, data from more than one sample were examined (e.g. Boyle et al. 1992). In all, 39 articles from 18 journals and one working paper yielded 36 independent samples.

The effect size metric selected for my analysis was the zero-order Pearson product-moment correlation coefficient between punishment or reward and the consequence in question. For studies that did not report a correlation coefficient but an *F*-ratio with one degree of freedom in the numerator or a standardized regression coefficient, these were converted to correlation coefficients by means of formulas provided by Lipsey and Wilson (2001) and Peterson and Brown (2005). In total, 151 product-moment correlations involving punishment or reward from 36 independent samples reported in 39 articles and a total of 7,934 subjects (of which 7,522 were channel members and 412 were simulated channel members) were included in my meta-analysis.

2.3 CONSEQUENCES OF PUNISHMENTS AND REWARDS

A punishment is defined as a source's administration of punitive measures to a target. In contrast, a reward is a source's bestowal of consequences that are positive or desired by the target (Scheer and Stern 1992). Both punishment and reward are strategies aimed at altering a target's attitude, and behavior (Brown, Johnson, and Koenig 1995).

Table 1 provides an overview of the consequences of punishments and rewards that have been identified in the articles identified above. Although punishments and rewards have been related to over 20 outcomes, the majority of consequences of punishments and rewards pertain to the relationship's quality and can be classified in the following three categories of constructs: (1) satisfaction, (2) trust/affective commitment, and (3) conflict. Each construct will be discussed in more detail.

Satisfaction. Satisfaction is defined as a positive affective state resulting from the assessment of all aspects of a firm's business relationship with another firm (Geyskens, Steenkamp, and Kumar 1999). The bulk of studies on punishment as well as reward are related to satisfaction. More precisely, 24% of all correlations involving punishment (20 effect sizes) and 23% of all correlations involving reward (17 effect sizes) focus on satisfaction as a channel outcome, which is in line with the channels literature that has repeatedly stressed that satisfaction is an important channel outcome (Anderson and Narus 1990; Geyskens, Steenkamp, and Kumar 1999). For punishments, the effects range from negative to positive, but the majority of effects are negative (15 out of 20 effect sizes). For the rewards – satisfaction relationship, 11 out of 17 effect sizes are positive.

Trust/affective commitment. Trust is the extent to which a firm believes that its exchange partner is honest and/or benevolent (Geyskens, Steenkamp, and Kumar 1998). Affective commitment is the desire to continue a business relationship because of the intrinsic liking of the partner (Geyskens et al. 1996). Both trust and affective commitment are central tenets of relationship marketing (Morgan and Hunt 1994). For punishments, 7 out of 8 effect sizes are negative. For rewards, 7 out of 8 effect sizes are positive.

Conflict. Conflict is the tension between two social entities that arises from the incompatibility of actual or desired responses and includes latent conflict, which is the cognitive stage in which either party is aware of a conflict, and manifest conflict, which is the behavioral stage of conflict (Pondy 1967). The majority of the effect sizes for the punishment – conflict relationship is positive (9 out of 12 effect sizes). For the rewards – conflict relationship, 5 out of 8 effects sizes are negative.

It is noteworthy to mention that Table 1 shows that, although punishments and rewards are ultimately aimed at altering performance, only 14% of all correlations for punishment (12 effect sizes) and 15% for reward (11 effect sizes) are related to performance. Of the 12 effect sizes for punishment, six are positive and six are negative. For the reward – performance relationship, only one effect size out of 11 is negative.

2.4 QUANTITATIVE SUMMARY OF BIVARIATE RELATIONSHIPS

Since satisfaction, conflict, and trust/commitment have been most frequently related to punishment and reward, my subsequent analyses will only consider these three categories of constructs. Following previous research, I define relationship quality as a higher-order construct that is manifest in satisfaction, trust, affective commitment, and conflict (Crosby, Evans, and Cowles 1990; Dwyer, Schurr, and Oh 1987; Kumar, Scheer, and Steenkamp 1995). More specifically, better quality relationships result in greater levels of satisfaction, trust, and affective commitment, and lower levels of conflict. I begin my analysis by correcting each effect size for measurement error by dividing the correlation coefficient by the product of the square root of the reliabilities of the two constructs (Hunter and Schmidt 1990).

Table 1: Overview of Consequences of Punishments and Rewards

Consequences	PUNISHMENT				REWARD			
	Hypotheses punishments	Range of r values	# r values	Total N	Hypotheses rewards	Range of r values	# r values	Total N
Relationship quality								
Satisfaction	-	-.63, .35	20	4183	+	-.24, .78	17	3918
Trust	-	-.46, .41	6	1599	+	.03, .77	6	1486
Affective commitment	-	-.29, -.32	2	854	+	-.06, .20	2	854
Conflict	+	-.47, .67	12	2029	-	-.39, .26	8	1771
Performance								
Overall performance	-	-.21, .07	4	769	+	-.15, .43	2	300
Financial performance	-	-.24, .22	4	1147	+	.02, .20	5	1235
Sales performance	-	.02, .05	2	508	+	.03, .16	2	508
Relationship performance	-	.42	1	314	+	.02	1	314
Strategic performance	-	.11	1	295	+	.32	1	295
Other								
Attitudes								
Economic satisfaction	-	-.17, .18	4	583	+	.27, .41	4	644
Instrumental commitment	+	.01, .37	4	833	+	.15, .43	3	619
Normative commitment	-	-.43	1	203	+	-.25	1	203
Role ambiguity	-	-.38, -.08	2	747	-	-.34, -.17	2	747
Customer's role ambiguity	-	-.09	1	270	+	-.09	1	270
Conative orientation	-	-.16	1	151	-	-.13	1	151
Interfirm agreement	-	-.24	1	184	-	-.22	1	184
Identification	-	-.37	1	238	+	.47	1	238
Opportunism	+	.28	1	151	-	.21	1	151
Accommodative intentions	-	-.49	1	435	-	-.48	1	435
Propensity to leave	+	.22, .42	3	628	-	-.20, .20	3	628
Behaviors								
Target's legalistic pleas	+	.23	1	435	+	.23	1	435
Target's requests	-	-.06	1	435	-	-.06	1	435
Compliance	-	.09	1	356	+	.04, .80	2	589
Cooperative behavior	-	.11	1	123				
Communication	-	-.09, -.17	2	487				
Target's use of punishment	+	-.09	1	289				
Response strategies								
Loyalty	+	.03, .09	2	193	+	.02, .19	2	193
Neglect	+	.40, .45	2	193	+	-.31, .15	2	193
Voice	-	-.46, -.46	2	193	-	-.19, .23	2	193

When reliabilities were not reported or the construct was measured using a single item, I used a .80 reliability¹ (cf. Geyskens, Steenkamp, and Kumar 1999).

The obtained reliability-corrected correlations were then transformed to Fisher's Z-values. These Z-values were averaged and weighted by an estimate of the inverse of their variance (N-3) to give greater weights to more precise estimates. Finally, these mean Z-values were reconverted to correlation coefficients (Hedges and Olkin 1985). Homogeneity was tested by performing a chi-square test (Lipsey and Wilson 2001).

Table 2 provides an overview of pairwise relationships between punishments and relationship quality. On average, punishment is found to have a negative effect on satisfaction, trust, and commitment and a positive effect on conflict. The overall grand mean of punishment with relationship quality is -.30, but this effect is not homogenous ($\chi^2(39) = 1177.62, p < .00$).²

Table 2: Overview of Pairwise Relationships between Punishments and Relationship Quality

	Hypotheses punishment	# negative correlations	# positive correlations	Sample size adjusted mean	Reliability adjusted mean	Total N	Q (df)
Satisfaction	-	15	5	-.28	-.37	4183	766.58 (19) *
Trust	-	5	1	-.09	-.10	1599	291.08 (5)
Affective commitment	-	2	0	-.30	-.37	854	.09 (1)
Conflict	+	3	9	.31	.43	2029	584.86 (11) *

* $p < .001$

Table 3 provides an overview of pairwise relationships between rewards and relationship quality. In general, rewards have a positive relationship with satisfaction, trust, and commitment and a negative relationship with conflict. The grand mean of reward with relationship quality is .26, yet this effect is not homogenous ($\chi^2(32) = 1312.90, p < .00$).

¹ I also used .7 and .9 reliabilities. Results remained substantively the same

² In calculating the grand means, I reversed the effect sizes for conflict, since higher quality relationships are characterized by *lower* levels of conflict.

Since the grand mean correlations of punishments and rewards with relationship quality are not homogenous, I pursue a moderator analysis in order to uncover potential moderators for the relationship of punishment and reward with relationship quality.

Table 3: Overview of Pair wise Relationships between Rewards and Relationship Quality

	Hypotheses rewards	# positive correlations	# negative correlations	Sample size adjusted mean	Reliability adjusted mean	Total N	Q (df)
Satisfaction	+	11	6	.24	.35	3918	521.06 (16) *
Trust	+	6	0	.49	.67	1486	745.05 (5)
Affective commitment	+	1	1	.15	.19	854	14.55 (1)
Conflict	-	3	5	-.11	-.14	1771	361.51 (7) *

* $p < .001$

2.5 HYPOTHESES

I now hypothesize how three categories of moderators may impact the magnitude of the effect of punishment and rewards on relationship quality, viz: (1) type of punishment/reward, (2) study design characteristics, and (3) cultural context.

2.5.1 Type of Punishment/Reward: Contingent vs. Non-Contingent

The basis on which a punishment/reward is administered can be either contingent on compliance or non-contingent on compliance (Scheer and Stern 1992). A contingent punishment/reward administered by the source explicitly signals that the source mediates negative/positive consequences that it will bestow upon the target's behavioral response (Scheer and Stern 1992). A non-contingent punishment/reward is the unilateral administration of negative/positive consequences by the source, in the hope that the target will subsequently adopt the behavior sought by the source (Geyskens and Steenkamp 2000).

Punishment. A contingent punishment increases a target's role clarity as it strengthens a target's expectancy about how it should go about in fulfilling its job

properly (Mackenzie, Podsakoff, and Rich 2001; Podsakoff et al. 2006). However, the nature of a non-contingent punishment is such that the target has no expectancy about how it can avoid the non-contingent punishment. Targets are likely to show stronger affective responses in terms of anger and sadness upon receiving an unexpected punishment than upon receiving an expected (i.e. contingent) punishment (Bagozzi 1992; Perachhio and Tybout 1996). As a result, unexpected punishments are likely to have a stronger negative effect on relationship quality than expected (i.e. contingent) punishments. I therefore hypothesize:

H₁: The negative effect of punishment on relationship quality is stronger when punishment is administered noncontingently than when punishment is administered contingently.

Reward. The nature of a non-contingent reward is such that a target does not have any expectancy about when it can receive such a reward. When targets receive an unexpected reward, they are likely to show stronger affective responses in terms of joy and pleasure than when expected or contingent rewards are received (Bagozzi 1992; Perachhio and Tybout 1996).

In addition, a contingent reward can be perceived as controlling, as the basis on which the reward can be received is communicated (Geyskens and Steenkamp 2000). It thereby reduces a target's sense of autonomy and as such it can negatively affect relationship quality (Scheer and Stern 1992). A non-contingent reward, however, does not violate a target's autonomy as the reward is provided without any stated contingency. I therefore expect that contingency reduces the positive effect of reward on relationship quality.

H₂: The positive effect of reward on relationship quality is stronger when reward is administered non-contingently than when reward is administered contingently.

2.5.2 Study Design Characteristics

The following study design characteristics are included in my analysis: (1) the measurement of punishment/reward, (2) the type of channel context (independent context vs. franchise context), and (3) the type of product (goods vs. services).

Measurement of punishment/reward. The measurement of punishment and reward pertains to the type of anchor that is used to operationalize punishments and rewards. Prior research has suggested that the type of anchor used may influence the effect of punishments/rewards on relationship quality (Gaski and Nevin 1985; Gassenheimer and Scandura 1993). Anchors used include, among others, ‘very seldom – very frequently’ anchors, ‘agree-disagree’ anchors, ‘likely-unlikely’ anchors, and ‘very important- not important’ anchors. Of the different types of anchors that have been used, frequency anchors (asking how often a punishment or reward was administered) are expected to negatively affect the reliability of the punishment or reward scale. Asking how often a punishment/reward is received is tapping more into a target’s long-term memory compared to the other types of anchors, leading to a higher burden on the target’s cognitive capacity (Boyle et al 1992). I therefore hypothesize:

H_{3a}: The negative effect of punishment on relationship quality is weaker when punishment is operationalized using a frequency anchor.

H_{3b}: The positive effect of reward on relationship quality is weaker when reward is operationalized using a frequency anchor.

Type of channel context. The type of channel context refers to whether independent channel members versus franchises were researched. Exchange relationships in independent settings are characterized by lower interdependence between the parties compared to franchise settings. When interdependence is low, the effect of punishment on relationship quality is expected to be stronger, as the coercive action of punishment is seen as an infringement on a target's independence (Mohr and Nevin 1990).

The effect of reward on relationship quality is also expected to be stronger when the reward is administered in an independent setting compared to a franchise setting. As rewards are typically more expected to be received in franchise settings, the relatively more unexpected event of a reward in independent settings is likely to cause more positive affective reactions in terms of joy and pleasure, leading to a stronger effect on relationship quality (Bagozzi 1992; Perachhio and Tybout 1996). I therefore hypothesize:

H_{4a}: The negative effect of punishment on relationship quality is stronger when it is administered in an independent setting compared to a franchise setting.

H_{4b}: The positive effect of reward on relationship quality is stronger when it is administered in an independent setting compared to a franchise setting.

Services versus goods. Whereas prior research has repeatedly underlined the possibility that type of product (services versus goods) influences the effectiveness of punishments and rewards (Anderson and Narus 1990; Frazier, Gill, and Kale 1989; Frazier and Rody 1991; Stern and Reve 1980), it does not offer suggestions as to the

direction in which the type of product would moderate the effect of punishment or reward on relationship quality. Therefore, no firm hypotheses are offered for this study design characteristic.

2.5.3 Cultural Context

As the social psychology literature has shown that cultural values shape people's preferences for punishments and rewards, the cultural context in which punishments and rewards are administered may be an important moderator of the punishment/reward – relationship quality relationship (Gelfand, Erez, and Aycan 2007). Also the marketing channels literature has repeatedly emphasized that different cultural contexts may lead to different research findings (Frazier, Gill, and Kale 1989; Johnson et al. 1993; Johnson, Sakano, and Onzo 1990).

I conceptualize culture by using the Schwartz national culture framework (Sagiv and Schwartz 2000; Smith and Schwartz 1997). Schwartz's framework consists of three dimensions that reflect alternative solutions that emerge when groups cope with basic societal problems, which are: (1) assuring responsible behavior that preserves social welfare (cultural hierarchy vs. cultural egalitarianism), (2) the role of humankind in the natural and social world (cultural harmony vs. cultural mastery) and (3) the nature of the relationships between individuals and groups (cultural autonomy vs. cultural embeddedness) (Smith and Schwartz 1997). Schwartz's cultural framework is seen as a more refined and more complete framework than Hofstede's cultural framework (Brett and Okamura 1998; Gatley, Leesem, and Altmna 1996; Koen 2005), because "it is based on a conceptualization of values; it was developed with systematic sampling, measurement, and analysis techniques; and perhaps most important, its normative data are recent, collected in the late 1980s and early 1990s" (Brett and Okamura 1998, p. 500-501).

Cultural hierarchy. In hierarchical cultures, the social inequality in terms of distribution of power, roles, and resources is seen as legitimate. In high hierarchy cultures, punishments and rewards are used to respectively sanction and praise members to preserve the social fabric (Smith and Schwartz 1997). They affirm the chain of authority and are a “fact of life” in high hierarchy cultures (Sagiv and Schwartz 2000). Since punishments and rewards are more expected to be used in countries higher on cultural hierarchy, and since planned or expected outcomes evoke less affective responses like anger and sadness for punishment and joy and pleasure for reward (Bagozzi 1992; Perachhio and Tybout 1996), the negative effect of punishment and the positive effect of reward on relationship quality are both expected to be smaller in countries higher on cultural hierarchy. I therefore hypothesize:

H5_a: The negative effect of punishment on relationship quality is weaker in countries that are characterized by higher cultural hierarchy.

H5_b: The positive effect of reward on relationship quality is weaker in countries that are characterized by higher cultural hierarchy.

Cultural harmony. Countries that are high on cultural harmony are characterized by values like unity with nature, protecting the environment and world peace (Smith and Schwartz 1997). In such cultures, non-exploitative ways are used in order to attain organizational goals (Koen 2005). However, both punishments and rewards can be regarded as exploitative strategies or coercive actions, as a source is exercising its power when administering punishments and rewards (Gaski and Nevin 1985). As such, they go against the fundamental values of high harmony cultures. The negative effect of punishment on relationship quality will therefore be stronger, and the positive effect of reward on relationship quality weaker. Thus,

H6_a: The negative effect of punishment on relationship quality is stronger in countries that are characterized by higher cultural harmony.

H6_b: The positive effect of reward on relationship quality is weaker in countries that are characterized by higher cultural harmony.

Cultural autonomy. In countries that are high on cultural autonomy, people perceive themselves as autonomous and independent actors, who find meaning in their own uniqueness and they like to pursue their own ideas (Smith and Schwartz 1997). In high cultural autonomy cultures, punishments and rewards will be seen as an infringement on a target's autonomy as both punishments and rewards disrupt an individual's independence. Punishments are therefore expected to have a stronger negative effect on relationship quality, and reward a smaller positive effect, as autonomy infringement has a negative effect on relationship quality (Scheer and Stern 1992). Thus, I hypothesize:

H7_a: The negative effect of punishment on relationship quality is stronger in countries that are characterized by higher cultural autonomy.

H7_b: The positive effect of reward on relationship quality is weaker in countries that are characterized by higher cultural autonomy.

2.6 METHODOLOGY & RESULTS

Due to the relative small sample sizes for both punishment (n = 40) and rewards (n = 33) and multicollinearity problems, I will test the effect of each category of moderator separately.

Type of punishment or reward. To test hypotheses 1 and 2, I estimate the following equations:

$$(1a) \quad r_{pj} = b_0 + b_1 \text{CONT} + b_2 \text{TRUST} + b_3 \text{CONFLICT} + \varepsilon$$

$$(1b) \quad r_{rj} = b_0 + b_1 \text{CONT} + b_2 \text{TRUST} + b_3 \text{CONFLICT} + \varepsilon$$

where

r_{pj} = reliability-corrected correlation between punishment and relationship quality construct j (satisfaction, trust/affective commitment, or conflict³)

r_{rj} = reliability-corrected correlation between reward and relationship quality construct j (satisfaction, trust/affective commitment, or conflict)

CONT = contingency (1 = contingent; 0 = non-contingent)

To control for systematic differences in the magnitude of the effect of the constructs studied, I include dummy variables representing the following effects:

TRUST = 1 if j = trust/commitment, 0 otherwise

CONFL = 1 if j = conflict, 0 otherwise

Tables 3a and 3b show that contingency has a positive and significant effect for punishment ($H1: b_1 = .06, p < .001$) and a negative and significant effect for reward ($H2: b_1 = -.31, p < .05$). These results imply that non-contingent punishment has a stronger effect on relationship quality compared to contingent punishment. Also, non-contingent rewards have a stronger effect on relationship quality vis-à-vis contingent rewards, thereby corroborating hypotheses 1 and 2. Since contingency has a significant effect for both punishment and reward, it is included as a control variable in my subsequent analyses.

Table 3a: Effect of Contingency on Punishment – Relationship Quality relationship

	Hypothesized Effect	b	t-value
Intercept	N/A	.03	1.84**
Contingency	+	.06	3.10****
trust/commitment	N/A	.30	14.27****
Conflict	N/A	-.57	-34.88****

Max VIF = 1.11

³ I reversed the effect sizes for conflict as high quality relationships are characterized by *lower* levels of conflict.

Table 3b: Effect of Contingency on Reward – Relationship quality relationship

	Hypothesized effect	b	t-value
Intercept	N/A	.41	3.40****
Contingency	-	-.31	-2.27**
trust/commitment	N/A	.26	1.58*
Conflict	N/A	-.20	-1.20

Max VIF = 1.14

**** $p < .001$ (one-sided)

*** $p < .01$ (one-sided)

** $p < .05$ (one-sided)

* $p < .10$ (one-sided)

Study design characteristics. To test for the moderating impact of study design characteristics, I estimate the following equations:

$$(2a) \quad r_{pj} = b_0 + b_1 \text{ANCHOR} + b_2 \text{CONTEXT} + b_3 \text{PROD} + b_4 \text{CONT} + b_5 \text{CONFLICT} + b_6 \text{TRUST} + \varepsilon$$

$$(2b) \quad r_{ij} = b_0 + b_1 \text{ANCHOR} + b_2 \text{CONTEXT} + b_3 \text{PROD} + b_4 \text{CONT} + b_5 \text{CONFLICT} + b_6 \text{TRUST} + \varepsilon$$

where

r_{pj} = reliability-corrected correlation between punishment and relationship quality construct j (satisfaction, trust/affective commitment, and conflict)

r_{ij} = reliability-corrected correlation between reward and relationship quality construct j (satisfaction, trust/affective commitment, and conflict)

ANCHOR = anchor (1 = frequency anchor; 0 = other)

CONTEXT = channel context (1 = independent setting 0 = franchise setting)

PROD = type of product (1 = goods; 0 = services)

CONT = contingency (1 = contingent; 0 = non-contingent)

TRUST = 1 if j = trust/commitment, 0 otherwise

CONFL = 1 if j = conflict, 0 otherwise

Table 4a shows that, although the sign of context is in the hypothesized direction, its effect is non-significant ($p > .10$). The study design characteristics anchor and type of product are also found to be non-significant ($p > .10$).

Table 4b shows that the signs of the coefficients for both anchor and context are in the hypothesized direction, but both are non-significant ($p > .10$). Also the

effect of type of product is non-significant ($p > .10$). Thus it appears study design characteristics do not moderate the relationship between punishment or reward and relationship quality.

Table 4a: The Effect of Study Design Characteristics on the Punishment – Relationship Quality relationship

	Hypothesized effect	b	t-value
Intercept	N/A	.01	.05
Anchor	+	-.03	-.23
Context	-	-.07	-.44
Prod	N/A	-.29	-.95
Contingency	+	.16	1.23
trust/commitment	N/A	-.06	-.37
Conflict	N/A	-.11	-.83

Max VIF = 1.52

Table 4b: The Effect of Study Design Characteristics on the Reward-Relationship Quality Relationship

	Hypothesized effect	b	t-value
Intercept	N/A	.53	1.75**
Anchor	-	-.05	-.30
Context	+	.14	.66
Prod	N/A	-.22	-.69
Contingency	-	-.30	-1.84**
trust/commitment	N/A	.28	1.50*
Conflict	N/A	-.22	-1.23

Max VIF = 1.75

**** $p < .001$ (one-sided)

*** $p < .01$ (one-sided)

** $p < .05$ (one-sided)

* $p < .10$ (one-sided)

Cultural context. Finally, the following equations were estimated to test for the moderating effect of cultural context

$$(3a) \quad r_{pj} = b_0 + b_1 \text{CULHIER} + b_2 \text{CONT} + b_3 \text{TRUST} + b_4 \text{CONFLICT} + \varepsilon$$

$$(3b) \quad r_{ij} = b_0 + b_1 \text{CULHIER} + b_2 \text{CONT} + b_3 \text{TRUST} + b_4 \text{CONFLICT} + \varepsilon$$

$$(4a) \quad r_{pj} = b_0 + b_1 \text{CULHAR} + b_2 \text{CONT} + b_3 \text{TRUST} + b_4 \text{CONFLICT} + \varepsilon$$

$$\begin{aligned}
(4b) \quad r_{ij} &= b_0 + b_1 \text{CULHAR} + b_2 \text{CONT} + b_3 \text{TRUST} \\
&\quad + b_4 \text{CONFLICT} + \varepsilon \\
(5a) \quad r_{pj} &= b_0 + b_1 \text{CULAUTO} + b_2 \text{CONT} + b_3 \text{TRUST} \\
&\quad + b_4 \text{CONFLICT} + \varepsilon \\
(5b) \quad r_{ij} &= b_0 + b_1 \text{CULAUTO} + b_2 \text{CONT} + b_3 \text{TRUST} \\
&\quad + b_4 \text{CONFLICT} + \varepsilon
\end{aligned}$$

where

r_{pj}	= reliability-corrected correlation between punishment and relationship quality construct j (satisfaction, trust/affective commitment, and conflict)
r_{ij}	= reliability-corrected correlation between reward and relationship quality construct j (satisfaction, trust/affective commitment, and conflict)
CULHIER	= cultural hierarchy
CULHAR	= cultural harmony
CULAUTO	= cultural autonomy
CONT	= contingency (1 = contingent; 0 = non-contingent)
TRUST	= 1 if j = trust/commitment, 0 otherwise
CONFL	= 1 if j = conflict, 0 otherwise

Countries' positions on cultural hierarchy, cultural harmony, and cultural autonomy were taken from Schwartz (1994).

The results for punishments are shown in tables 5a-5c. Table 5a shows that cultural hierarchy ($H5a: b_1 = .14, p < .10$) has a significant effect in the hypothesized direction. Thus, in countries higher on cultural hierarchy, the negative effect of punishment on relationship quality is smaller. Tables 5b and 5c demonstrate that both cultural harmony and cultural autonomy are found to have no significant influence on the relationship between punishment and relationship quality ($p > .10$).

Table 5a: Effect of Cultural Hierarchy on the Punishment – Relationship Quality Relationship

	Hypothesized effect	b	t-value
Intercept	N/A	-.15	-.85
Cultural hierarchy contingency	+	.14	1.34*
trust/commitment	N/A	.05	0.03
Conflict	N/A	-.07	-.58

Max VIF = 1.11

Table 5b: Effect of Cultural Harmony on the Punishment – Relationship Quality Relationship

	Hypothesized effect	b	t-value
Intercept	N/A	-.43	-3.42****
cultural harmony contingency	-	-.14	-1.14
trust/commitment	N/A	-.02	-.15
conflict	N/A	-.09	-.77

Max VIF = 1.11

Table 5c: Effect of Cultural Autonomy on the Punishment – Relationship Quality Relationship

	Hypothesized effect	b	t-value
Intercept	N/A	-.30	-2.67***
cultural autonomy contingency	-	-.16	-1.15
trust/commitment	N/A	-.00	-.00
conflict	N/A	-.08	-.62

Max VIF = 1.11

**** $p < .001$ (one-sided)

*** $p < .01$ (one-sided)

** $p < .05$ (one-sided)

* $p < .10$ (one-sided)

The results for rewards show that cultural harmony is the only cultural dimension that moderates the reward-relationship quality relationship. Table 6b shows that in countries higher on cultural harmony, the positive effect of rewards is reduced, thereby corroborating hypothesis H6_b (H6_b: $b_1 = -.47$, $p < .05$).

Table 6a: Effect of Cultural Hierarchy on the Reward – Relationship Quality Relationship

	Hypothesized effect	b	t-value
Intercept	N/A	.31	1.20
cultural hierarchy	-	-.06	-.48
contingency	-	-.30	-2.12**
trust/commitment	N/A	.26	1.51*
conflict	N/A	-.20	-1.21

Max VIF = 1.14

Table 6b: Effect of Cultural Harmony on the Reward – Relationship Quality Relationship

	Hypothesized effect	b	t-value
Intercept	N/A	.17	1.05
cultural harmony	-	-.47	-2.02**
contingency	-	-.31	-2.39**
trust/commitment	N/A	.16	.97
conflict	N/A	-.30	-1.83**

Max VIF = 1.26

Table 6c: Effect of Cultural Autonomy on the Reward – Relationship Quality Relationship

	Hypothesized effect	b	t-value
Intercept	N/A	.40	2.48**
cultural autonomy	-	.04	.13
Contingency	-	-.30	-2.15**
trust/commitment	N/A	.26	1.55*
Conflict	N/A	-.19	-1.18

Max VIF = 1.14

**** = $p < .001$ (one-sided)

*** = $p < .01$ (one-sided)

** = $p < .05$ (one-sided)

* = $p < .10$ (one-sided)

2.7 DISCUSSION

My meta-analysis contributes to the literature in the following ways. First, my results show that punishment negatively affects relationship quality, with an average meta-analytic effect size of $-.30$. Rewards positively affect relationship quality, with an average meta-analytic effect size of $.26$. Thus, punishment and rewards have a medium effect on relationship quality (Cohen 1988), implying that they are important tools in managing marketing channel relationships.

Second, the results of my moderator analysis demonstrate that contingency is an important characteristic that affects the effectiveness of punishments and rewards. Whereas non-contingent punishments have a larger negative effect on relationship quality than contingent punishments, contingent rewards have a smaller positive effect on relationship quality than non-contingent rewards. None of the study-characteristics were found to have a moderating effect on the punishment/reward – relationship quality relationship.

Finally, I find that the cultural context in which punishments and rewards are administered has implications for the effect of punishment/rewards on relationship quality. For punishments, I find that the negative effect of punishment is smaller in countries higher on cultural hierarchy. The positive effect of rewards on relationship quality is smaller in countries higher on cultural harmony.

2.7.1 Limitations

One of the limitations of this meta-analysis is that I was only able to include constructs for which sufficient primary data were available. As such, my analysis pertains to the most commonly studied constructs, but this does not necessarily imply that these are the most important constructs.

Second, the majority of the primary studies in my meta-analytic data are cross-sectional, which delimits the ability to make causal inferences.⁴

Third, meta-analysis is constrained to examining moderating elements that can be coded from the extant literature. Additional moderators that may account for variance in effect sizes, but that could not be coded, include firm variables (e.g. organizational culture, power) and environmental variables (e.g. environmental uncertainty) (Jaworski 1988).

2.7.2 Research Implications

Based on the findings of my meta-analysis, several suggestions for further research can be made. First, my meta-analysis shows that relatively little research has been dedicated to the relationship between punishment/reward and performance, although performance is imperative to successful marketing channel relationships (Geyskens, Steenkamp, and Kumar 1999; Kumar, Stern, and Achrol 1992). Only 14 percent of the correlations found for punishment and 15 percent for rewards pertained to a performance construct. As such, I will investigate the effects of punishment and reward on performance in Chapter 3 and Chapter 4.

Second, I find that contingency moderates the effects of punishment and reward on relationship quality: when a punishment or reward is administered contingently, this weakens its effect on relationship quality. However, this effect may well be reversed when performance is taken as the dependent variable, since the social psychology literature has pointed out the positive effects of contingency on performance (see Podsakoff et al. 2006). In Chapter 3, I will focus on the relationship between non-contingent vs. contingent rewards and performance.

⁴ Only Mackenzie, Podsakoff, and Rich (2001) and Corsten, Kumar, and Kuzca (2006) use longitudinal data.

Finally, it is interesting to observe that Table 1 shows that punishments do not necessarily have a negative effect on performance, although this belief is widespread in the academic literature. The studies that were included in my meta-analytic dataset do not explain why punishment could have a positive effect on performance. However, intraorganizational research on punishment has given some indications why punishments could have a positive effect (see e.g. Schnake 1986; Trevino and Ball 1992). As punishment is a social phenomenon, the social context in which punishment is administered should be taken into account to fully understand its consequences (O'Reilly and Puffer 1989). When punishment is regarded from a network perspective, a punishment could function as a signal towards observers of punishment, motivating these observers to increase their performance in order to prevent themselves from being punished (Trevino and Ball 1992). In Chapter 4, I will take the broader network in which punishments are administered into account.

3. REWARDING REWARDS? A CONTINGENCY FRAMEWORK ON REWARDS IN MARKETING CHANNEL RELATIONSHIPS

3.1 INTRODUCTION

In marketing channel relationships, suppliers often use rewards to influence the attitudes and behavior of their dealers (Frazier and Rody 1991; Gaski and Nevin 1985; Mackenzie, Podsakoff, and Rich 2001; Scheer and Stern 1992). A reward is a supplier's bestowal of consequences that a dealer evaluates as positive or desirable (Scheer and Stern 1992). Examples of rewards used by suppliers include, among others, the administration of financial benefits and the granting of advertising support or business advice (Gaski and Nevin 1985; Mackenzie, Podsakoff, and Rich 2001).

Suppliers frequently provide rewards because they believe that this is *the* way to motivate their dealers to push the supplier's ware (Alonzo 1999; Chang 2005) and to influence their dealers' performance (Gaski and Nevin 1985). Or, as some managers put it: "We strongly believe that rewards should be given regularly for sustained improvement and performance, creating an ongoing campaign of motivation and communication" (Lee, Fisher, and Evans 2007, p. 8). However, even though the use of rewards is widespread in managerial practice, academic evidence on the rewards-performance relationship in marketing channel relationships is scarce.

To date, most marketing channels research has studied the effects of rewards on various dimensions of relationship quality, including satisfaction (Frazier and Summers 1986), conflict (Gaski and Nevin 1985), trust (Scheer and Stern 1992), and affective commitment (Boyle et al. 1992) (see Chapter 2, Table 3). The effect of the supplier's usage of rewards on dealer performance is, however, less frequently studied. To the best of my knowledge, only three studies have investigated the direct

effect of supplier reward on dealer performance. Whereas Gaski and Nevin (1985) find a positive effect of the supplier's use of non-contingent reward on the dealer's self-reported performance in the industrial machinery industry, Boyle and Dwyer (1995) find a non-significant effect of the supplier's use of contingent reward on dealer self-reported performance in the industrial supplies industry. In addition, Mackenzie, Podsakoff, and Rich (2001) find a non-significant effect of the supplier's use of contingent reward on an archival measure of dealer performance in the U.S. national insurance industry. These results demonstrate that it is still not known whether and how rewards affect performance.

The aim of this study is to investigate the effect of a supplier's use of rewards on dealer performance. I contribute to the literature in the following three ways.

My first contribution lies in the fact that I distinguish between two types of rewards, i.e. non-contingent and performance-contingent rewards. Marketing channels research has established that contingency is an important basis on which rewards are administered (Geyskens and Steenkamp 2000; Scheer and Stern 1992; see also Chapter 2). Nevertheless, no study has compared the effects of both types of reward on dealer performance.

Second, according to agency theory, which models the relationship between one party – the principal – who delegates work to another – the agent, and which is a major theoretical approach that is relevant in designing effective reward programs (Anderson and Oliver 1987), uncertainty is a major factor that affects how dealers respond to a suppliers' rewards (Eisenhardt 1988). Following Basu et al. (1985) and Coughlan and Sen (1989), I include two uncertainty aspects as moderating factors in my conceptual framework, viz. (1) the level of competitive intensity in a dealer's external environment, and (2) a dealer's risk aversion.

Third, I study the effect of a supplier's reward on an archival measure of dealer performance. To the best of my knowledge, only one study (Mackenzie, Podsakoff, and Rich 2001) has investigated this relationship before, but the results demonstrated a non-significant effect of the use of contingent reward on performance. Studying the effect of the use of reward on an objective measure of performance is important because managers are ultimately interested in archival performance measures (Alonzo 1999; Farrel 2002).

The results of this study will increase a manager's understanding of the effects of supplier rewards on subsequent dealer performance. As a result, managers will be able to better design effective dealer reward strategies. This should lead to higher dealer performance and, ultimately, to higher supplier performance as well.

3.2 CONCEPTUAL FRAMEWORK

Only three studies have investigated the effect of supplier rewards on dealer performance. However, they have reported diverging results. One possible reason for these diverging results is that these studies differ along two dimensions (see Table 1). First, different studies have investigated different types of rewards, viz. contingent vs. non-contingent rewards. A contingent reward is a supplier's promise to a dealer that it will bestow positive consequences after a dealer's behavioral response (Scheer and Stern 1992). In contrast, a non-contingent reward is a supplier's unilateral bestowal of positive consequences in the hope that the dealer will subsequently adopt the behavior that the supplier desires (Scheer and Stern 1992). Whereas non-contingent rewards are found to positively affect performance (Gaski and Nevin 1985), contingent rewards are found to have a non-significant effect on performance (Boyle and Dwyer 1995;

Mackenzie, Podsakoff, and Rich 2001).

Second, the studies presented in Table 1 have used different types of performance measures, viz. self-reported, perceptual measures vs. archival measures. Previous research has demonstrated that the way in which performance is measured bears serious consequences for the conclusions that can be drawn (Ailawadi, Dant, and Grewal 2004). Both Boyle and Dwyer (1995) and Mackenzie, Podsakoff, and Rich (2001) find a non-significant effect of contingent reward on a dealer's self-reported performance and a dealer archival performance respectively. Differences between perceptual and archival performance measures stem from, among others, the psychological processes that are present when performance is measured on a perceptual basis, including positive illusions and cognitive consistency (Ailawadi, Dant, and Grewal 2004). Cognitive consistency implies that persons have the desire to be consistent and rational in their responses, thereby producing relationships within a survey that do not exist in reality (Podsakoff et al. 2003). Positive illusions stem from the fact that respondents may have implicit theories on the questions being asked, which distort the actual relationship that exists (Podsakoff et al. 2003). Due to these processes, archival measures of performance gauge something different than self-reported measures of performance, even when the same performance dimensions are being taken into consideration.

A third reason why these studies may have yielded different results is that they did not consider moderating factors that could influence the reward-performance relationship.

Table 1: Overview of Studies on the Effect of Supplier Reward on Dealer Performance

Type of reward	Type of performance measure	
	Self-reported	Archival
Non-contingent	Gaski and Nevin (1985) (effect: '+')	<i>This study</i>
Contingent	Boyle and Dwyer (1995) (effect: n.s.)	Mackenzie, Podsakoff, and Rich (2001) (effect: n.s.) <i>This study</i>

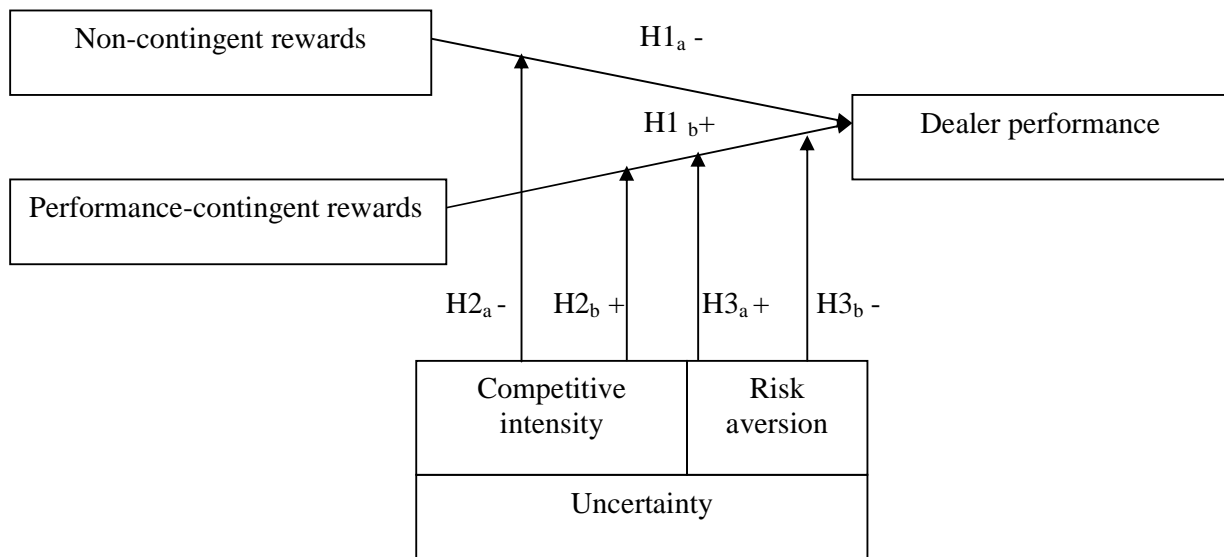
The aim of this study is to resolve the indistinctness that currently surrounds the rewards-performance relationship. To this extent, I develop a conceptual framework (see Figure 1) that:

- (1) distinguishes between non-contingent and performance-contingent reward,
- (2) includes two uncertainty aspects as moderators, and
- (3) uses an archival dealer performance measure.

From the perspective of agency theory, which is a major theoretical lens through which the design of optimal reward programs can be regarded (Anderson and Oliver 1987), uncertainty is a key reason why dealers to respond differently to a supplier’s use of rewards (Basu et al. 1985; Coughlan and Sen 1989). To account for the fact that “the sales-effort relationship is rarely deterministic or that the sales manager and the salesperson do not completely agree as to how sales respond to effort” (Basu et al. 1985, p. 271), I include the competitive intensity of the dealer’s environment as a moderator in my model (Achrol and Stern 1988; Jaworski and Kohli 1993; Moorman 1995). Second, individual differences between dealers affect the value they place on the rewards they receive, which in turn affects how receptive they

are to these rewards and how they respond to them (Kohli 1989). In this chapter, I focus on an individual characteristic that is closely related to uncertainty, which is a dealer's risk aversion. Risk aversion is the extent to which a dealer feels threatened by and tries to avoid unclear situations. It reflects how a dealer copes with uncertainty (Basu et al. 1985; Coughlan and Sen 1989).

Figure 1: Conceptual Framework



3.2.1 The Effect of Contingency on Dealer Performance

The contingency of rewards states the conditions on which rewards are administered (Cameron and Pierce 2002; Eisenberger, Pierce, and Cameron 1999; Scheer and Stern 1992). A performance-contingent reward is a supplier's bestowal of positive consequences upon a dealer *if* that dealer performs well. In contrast, a non-contingent reward is a supplier's unilateral bestowal of a reward upon a dealer, where no specific performance or behavior is required from the dealer in return (Scheer and Stern 1992).

Non-contingent rewards are likely to have a negative effect on subsequent performance for three reasons. First, suppliers who administer rewards

noncontingently may be perceived as unfair. As a clear basis on how dealers should go about to receive such rewards is missing, non-contingent rewards are considered arbitrary (Podsakoff et al. 2006). When dealers are treated unfairly, this has a negative impact on their performance (Greenberg 1990).

Second, as a clear link between how a dealer should perform in order to obtain a non-contingent reward is missing, such rewards may confuse the dealer, leading to higher role ambiguity, which negatively affects a dealer's performance (Mackenzie, Podsakoff, and Rich 2001). Third, as there is no clear link between a dealer's contribution and its reward, a dealer's perceived competence is not affirmed (Cameron and Pierce 2002). Perceived competence pertains to a target's beliefs about its capabilities or competence to produce desired results and determines how a target motivates itself and behaves (Bandura 1994). When a dealer's competence is not affirmed, this is likely to result in a reduced interest to perform, which will ultimately decrease the dealer's performance (Cameron and Pierce 2002).

I therefore hypothesize that a supplier's use of non-contingent rewards has a negative effect on a dealer's performance. Thus:

H1_a: A supplier's use of non-contingent rewards towards a dealer will decrease dealer performance.

When a supplier administers a performance-contingent reward to a dealer, the supplier explicitly signals that it bestows positive consequences upon a dealer's behavioral response. As a consequence, a dealer's autonomy may be infringed as it feels its behavior is being controlled, which could lead to reduced performance (Scheer and Stern 1992).

However, this negative effect is likely to be offset by three main mechanisms through which performance-contingent rewards are expected to produce a positive effect on a dealer's performance. First, a dealer's fairness perception increases when the dealer believes that the outcomes it receives are linked to the contributions that it makes (Podsakoff et al. 2006). Second, by linking rewards to a dealer's contribution, the dealer's role clarity is increased (Podsakoff et al. 2006). Role clarity has a positive effect on dealer performance because it clarifies the dealer's understanding of what the supplier would like him to do (Mackenzie, Podsakoff, and Rich 2001). Finally, a clear contribution-reward link has a positive effect on a dealer's perceived competence (Cameron and Pierce 2002; Eisenberger, Pierce, and Cameron 1999). Perceived competence pertains to a dealer's belief about its competence to produce desired results and influences a dealer's behavior. A dealer that is recognized for its competence in performing a task will show more interest and will likely do better on this task (Bandura 1986). Therefore, I hypothesize:

H1_b: A supplier's use of performance-contingent rewards towards a dealer will increase dealer performance.

3.2.2 Moderating Effects of Competitive Intensity

Competitive intensity refers to the level of competitiveness in the dealer's external environment, which is a major source of a dealer's environmental risk or uncertainty (Achrol and Stern 1988; Jaworski and Kohli 1993). A highly competitive environment poses several risk challenges to a dealer in terms of coordination, product-mix, and long-range planning, and increases a dealer's decision-making uncertainty (Achrol and Stern 1988). The higher a dealer's decision-making uncertainty, the lower its confidence in making the optimal decisions (Duncan 1972).

Higher decision-making uncertainty reduces a dealer's perceived competence, which is a dealer's belief or confidence in producing positive results. Thus, in highly competitive environments, a dealer's perceived competence is likely to be lower.

Non-contingent rewards negatively affect a dealer's performance, among others because they do not affirm a dealer's perceived competence (Bandura 1986; Eisenberger, Rhoades, and Cameron 1999). This effect is likely to be aggravated in a highly competitive environment that creates a lot of decision-making uncertainty. Thus, the negative effect of non-contingent rewards on dealer performance is likely to be larger when competitive intensity is higher.

H2_a: The negative effect of non-contingent rewards on dealer performance is larger when competitive intensity is higher.

Performance-contingent rewards positively affect dealer performance, among others because they affirm dealer competence. Highly competitive environments pose decision-making uncertainty towards dealers, and they are likely to want to reduce this uncertainty (Duncan 1972). As performance contingent rewards explicitly praise a dealer for its performance, a dealer receives information about if it is doing well, which increases its perceiving competence. As such, dealers receiving a performance-contingent reward in highly competitive environments will perform better compared to dealers receiving a performance-contingent reward in non-competitive environments. I therefore hypothesize:

H2_b: The positive effect of performance-contingent rewards on dealer performance is larger when competitive intensity is higher.

3.2.3 Moderating Effects of Dealer Risk Aversion

Risk aversion is defined as the extent to which a dealer feels threatened by and tries to avoid unclear situations (Basu et al. 1985; Coughlan and Sen 1989). A risk-averse dealer has a low propensity for risky behavior, resulting in higher levels of anxiety (Bandura 1994).

A supplier delivering a non-contingent reward to a dealer is compensating a dealer without expecting any specific behavior in return. The non-contingent character of the reward implies that no risky behavior is expected from the dealer (Coughlan and Sen 1989). Therefore, risk averse dealers are more likely to prefer non-contingent rewards than risk-taking dealers do, because they will experience lower levels of anxiety thereby increasing their confidence in making the right decision (Bandura 1994). This results in increased perceived competence. Since higher levels of perceived competence are associated with higher performance levels (Bandura 1986), the negative effect of non-contingent rewards on dealer performance is likely to be weaker for more risk averse dealers. I hypothesize:

H3_a: The negative effect of non-contingent rewards on dealer performance is smaller when the dealer's risk aversion is higher.

A performance-contingent reward places a large risk on a dealer, as the reward will only be delivered depending on specific dealer behavior (Coughlan and Sen 1989). Furthermore, as a dealer is not completely in control of its own performance, a performance-contingent reward increases a dealer's ambiguity surrounding the probability that it will receive the reward (Eisenhardt 1989; Sarin and Mahajan 2001). The high anxiety levels that a risk-averse dealer experiences will therefore be increased due to the performance- contingent reward. High levels of anxiety decrease

a dealer's confidence in making the right decisions. Therefore, the dealer's perceived competence decreases, and thus its interest in and motivation to perform (Bandura 1994). Therefore, risk-aversion is expected to weaken the relationship between a supplier's use of performance-contingent reward and dealer performance.

H3_b: The positive effect of performance-contingent rewards on dealer performance is smaller when the dealer's risk-aversion is higher.

3.3 METHODOLOGY

3.3.1 Sample and Data Collection Procedure

The hypotheses were tested in the Dutch automobile industry, which is characterized by a fragmented market in which the market leader has only 10% of market share. Furthermore, as the Netherlands have no domestic automobile manufacturers, most suppliers are large powerful automobile suppliers, which imply that automobile dealers are the more dependent party in the distribution channel. Suppliers in this industry frequently reward their dealers in both non-contingent and performance-contingent ways (see Buzzavo and Montagner 2005).

My sample was drawn from a list of 2,000 new car dealerships representing the entire country. All dealers received a personalized letter in which they were informed about the study and were referred to a website where they could fill out the questionnaire. Guaranteeing confidentiality, I asked dealers to report on their relationship with their automobile supplier whose product line accounted for the largest share of their firm's sales. All letters were addressed to the owner of the new-car dealership, which is the person most knowledgeable about the relationship with the supplier. I received 197 completed questionnaires.

To test for non-response bias, I used the extrapolation procedure suggested by Armstrong and Overton (1977). I split my sample in two on the basis of the survey return date of which the first 75% were specified as “early” and the last 25% as “late” respondents. I found no significant differences in terms of sales, sales potential, and years of employment between early and late respondents. Therefore, non-response bias may not be a significant problem ($p > .10$).⁵

3.3.2 Measures

The measurement scales that I use are either measures that have been used in previous marketing channels research, or they were newly developed based on construct definitions. The resulting scales were adjusted after five face-to-face interviews with automobile dealers. Each interview lasted on average an hour. See Measurement Appendix I for the measurement items.

The 4-item *non-contingent reward* scale measures the rewards that a dealer unconditionally receives from its supplier. The 3-item *performance-contingent reward* scale measures the rewards that a dealer receives from its supplier conditional upon performance. Both scales are based on Podsakoff et al. (1984).

Competitive intensity measures the extent of competitiveness in the dealer’s external environment. The four items were taken from Jaworski and Kohli (1993). The 2-item *risk aversion* scale measures the extent to which dealers try to avoid ambiguous situations in the supplier-dealer dyad and is based on Wutys and Geyskens (2005).

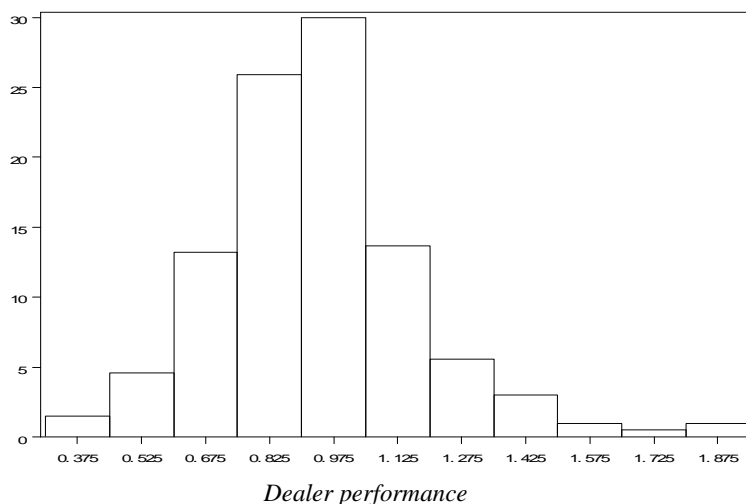
As my conceptual framework suggests a temporal ordering in the sense that a supplier’s administration of rewards influences a dealer’s subsequent performance, the data collection also bears this temporal ordering. Dealer sales numbers were

⁵ I also compared the first 25% with the last 75% of respondents in terms of sales, sales potential, and years of employment. I found no significant differences ($p > .10$).

collected 6 months after my independent variables were collected. In addition to realized sales numbers, I obtained the sales potential of each dealer's territory from a commercial database (NDA 2006). This interactive database estimates sales potentials of every new car brand that is available in the Netherlands for a specific zip code for a given period. It bases these estimates on the following factors: (1) historical car registrations per zip-code area, (2) market shares of each new car brand, (3) individual model strategies per automobile importer, and (4) macro-economic data (GDP, unemployment, interest rate, car prices, fuel prices) (NDA 2006). It is used both by car suppliers and car dealers, which underlines the source's trustworthiness.

Dealer performance was measured by dividing the dealer's realized sales number by its corresponding sales potential. By adjusting for the dealer's potential, my performance measure is more comprehensive and accurate than a measure based on realized sales only, as it takes into account regional differences of dealers (Kumar, Stern, and Achrol 1992). Figure 2 shows the distribution of my dependent variable.

Figure 2: Distribution of Dealer Performance Scores



3.3.3 Measure Validation

First, the item-total correlations for each scale were examined. Second, a confirmatory factor analysis was conducted (Anderson and Gerbing 1988). The six-factor model (13 items) exhibited an adequate overall fit: $\chi^2_{(59)} = 77.15$, Comparative Fit Index (CFI) = .97, Tucker-Lewis Index (TLI) = .96, root mean square error of approximation (RMSEA) = .04. All factor loadings were significant ($p < .001$), and exceeded the commonly recommended threshold of .40. These findings support the convergent validity of all items. These findings support the convergent validity of all items. Evidence of discriminant validity was attained by using the procedure suggested by Anderson and Gerbing (1988). Every pair of constructs passed this test.

Final measures were calculated by averaging the individual item scores. All alphas are close to or greater than .70, except for the performance-contingent reward scale ($\alpha = .62$), which is just slightly under the .65 criterion proposed by Nunnally (1978). Based on these results, I conclude that my measures demonstrate reliability, unidimensionality, convergent validity, and discriminant validity. In Table 2, I report the correlation matrix and descriptive statistics for the final measures.

Table 2: Correlation Matrix and Descriptive Statistics

	1	2	3	4	5
1. Non-contingent reward	1.00				
2. Performance-contingent reward	.29	1.00			
3. Competitive intensity	-.08	-.11	1.00		
4. Risk aversion	-.10	.02	.19	1.00	
5. Dealer performance	-.05	.16	-.00	-.17	1.00
Mean	3.80	4.59	4.32	4.60	.93
Standard deviation	1.41	1.30	1.24	1.03	.24
Cronbach's alpha	.76	.62	.70	.73	n.a.

N = 197

3.4 RESULTS

I regressed dealer performance on the hypothesized explanatory variables using Ordinary Least Squares. All independent variables were mean-centered in order to increase ease of interpretation (Jaccard, Turrisi, and Wan 1990). The following regression equation was estimated:

$$\begin{aligned} \text{PERF} = & b_0 + b_1 \text{NONCON} + b_2 \text{PERFCON} \\ & + b_3 \text{COMPIN} + b_4 \text{RA} + \\ & + b_5 \text{NONCON} * \text{COMPIN} + b_6 \text{PERFCON} * \text{COMPIN} \\ & + b_7 \text{NONCON} * \text{RA} + b_8 \text{PERFCON} * \text{RA} + \varepsilon \end{aligned}$$

where

PERF	= dealer performance
NONCON	= non-contingent reward
PERFCON	= performance-contingent reward
COMPIN	= competitive intensity
RA	= risk aversion

Table 3 presents the standardized regression coefficients. As hypothesized, non-contingent rewards are found to have a negative effect on dealer performance (H1_a: $\beta_1 = -.16, p < .05$). I also find support for H1_b (H1_b: $\beta_2 = .23, p < .001$). Thus performance-contingent rewards have a positive effect on dealer performance.

The results show a significant moderating effect of competitive intensity for performance-contingent rewards (H2_b: $\beta_6 = .16, p < .05$), but not for non-contingent rewards (H2_a: $\beta_5 = .00, p > .10$). Furthermore, the moderating effects of a dealer's risk aversion are significant and in the expected direction for non-contingent rewards (H3_a: $\beta_7 = .16, p < .05$) and for performance-contingent reward (H3_b: $\beta_8 = -.20, p < .01$).

Table 3: Results

	Hypothesized effect	β	<i>t</i> -value
Non-contingent rewards	-	-.16	-2.16**
Performance-contingent rewards	+	.23	3.05****
Competitive intensity	N/A	-.17	-2.45
Risk aversion	N/A	.03	.45
Non-contingent rewards x competitive intensity	-	.00	.09
Performance-contingent rewards x competitive intensity	+	.16	1.93**
Non-contingent rewards x risk aversion	+	.16	1.97**
Performance-contingent rewards x risk aversion	-	-.20	-2.37***

**** $p < .001$ (one-sided)

*** $p < .01$ (one-sided)

** $p < .05$ (one-sided)

* $p < .10$ (one-sided)

$R^2 = .10$

$N = 197$

To better understand the moderating effects of risk aversion and competitive intensity, I explore the conditional effects of non-contingent rewards and performance-contingent rewards at high (one standard deviation above the mean) and low (one standard deviation below the mean) levels of risk aversion and the conditional effects of performance-contingent reward at high and low levels of competitive intensity (Aiken and West 1991).

Figure 3 (part A) shows the conditional effect of non-contingent rewards on dealer performance for high and low levels of risk-aversion. The graph illustrates that for dealers that are low on risk-aversion non-contingent rewards negatively affect dealer performance, and this effect is significant ($b = -.05, p < .05$). For dealers that are high on risk-aversion, non-contingent rewards negatively affect dealer performance. However, this effect is not significant ($b = -.00, p > .10$).

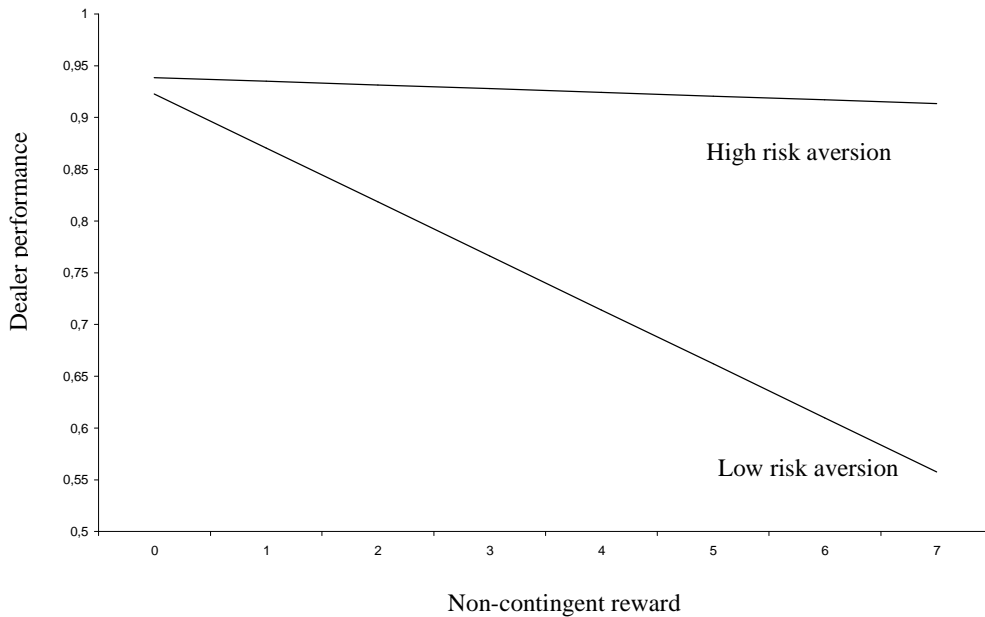
Figure 3 (part B) demonstrates that when a dealer is low on risk aversion, there is a positive and significant relationship between performance-contingent rewards and dealer performance ($b = .08, p < .01$). For dealers who are high on risk

aversion, performance-contingent rewards do not have a significant effect on dealer performance ($b = .00, p > .10$).

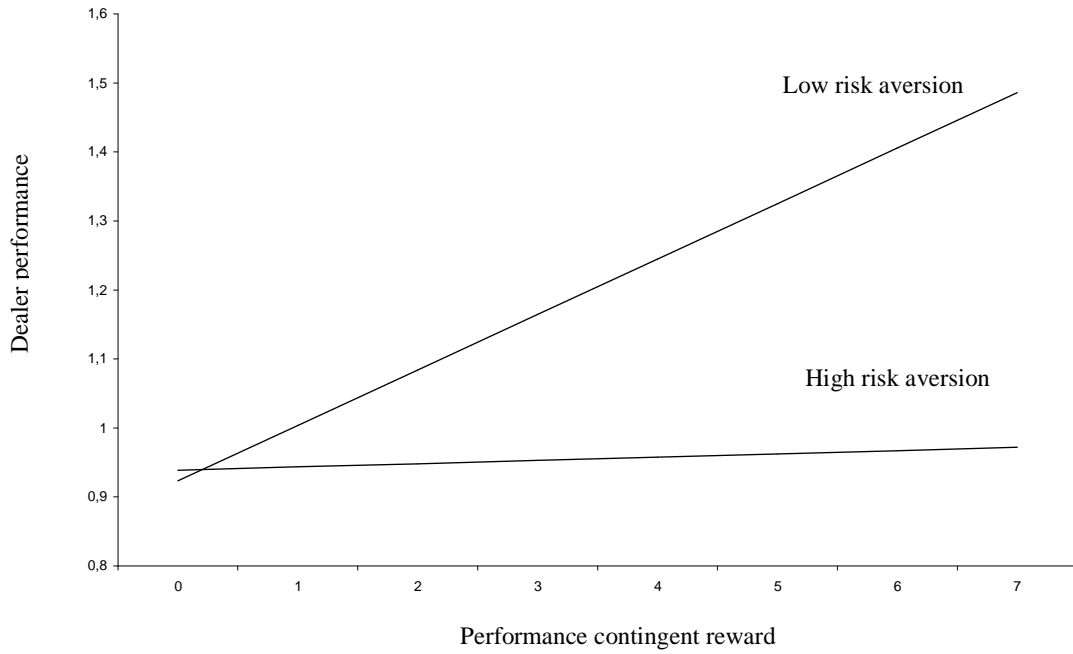
Figure 3 (part C) shows the conditional effect of performance-contingent rewards on dealer performance for high and low levels of competitive intensity. The graph illustrates that performance-contingent rewards have a positive, but non-significant effect on dealer performance under low levels of competitive intensity ($b = .02, p > .10$). Performance-contingent rewards have a positive and significant effect on dealer performance under high levels of competitive intensity ($b = .07, p < .00$).

FIGURE 3: Interaction plots

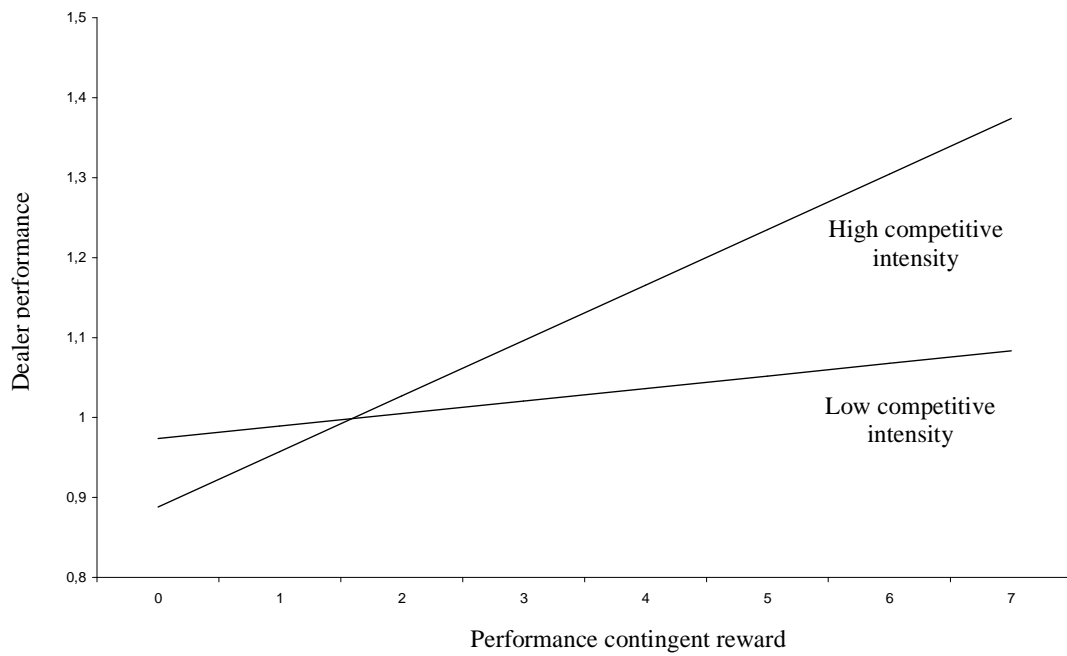
A: Effect of risk-aversion on non-contingent reward – dealer performance relationship



B: Effect of risk-aversion on performance-contingent reward – dealer performance relationship



C: Effect of competitive intensity on performance-contingent reward – dealer performance relationship



3.5 CONCLUSION

In this study, I have investigated whether a supplier's use of rewards increases dealer performance. I find that non-contingent and performance-contingent rewards have different effects on dealer performance. Whereas non-contingent rewards have a negative effect on dealer performance, performance-contingent rewards positively affect dealer performance.

Whereas previous marketing channels research has primarily found a positive effect of non-contingent rewards on dealer attitudes like satisfaction and trust (Geyskens, Steenkamp, and Kumar 1999; Scheer and Stern 1992), my results demonstrate that positive attitudes do not necessarily carry positive behavioral implications, i.e. increased dealer performance.

My results further show that the effectiveness of both non-contingent and performance-contingent rewards is conditional upon a dealer's risk aversion. For dealers low on risk aversion, the negative effect of non-contingent rewards is stronger, and the positive effect of performance-contingent rewards is also stronger.

These results show that suppliers should take into account a dealer's risk aversion, if they want to design effective reward programs. In addition, I find that the positive effect of performance-contingent rewards on dealer performance is strengthened in highly competitive environments, which implies that suppliers should make frequent use of performance-contingent rewards in such environments.

3.5.1 Limitations and Suggestions for Future Research

One of the limitations of this study is that the performance-contingent reward measure performed below expectations in terms of standard psychometric properties. It should therefore be refined in the future.

Furthermore, the generalizability of my results may be limited. I therefore encourage researchers to test my framework in different industries and countries, thereby increasing external validity.

Further research could also take into account different types of moderators, as more firm and environmental variables can be expected to influence the effectiveness of rewards (Anderson and Oliver 1987). For instance, apart from competitive intensity, environmental dynamism and munificence could be taken into account. Environmental dynamism reflects how dynamic an environment is in terms of changes in competitor strategies, customer preferences etc. A highly dynamic environment may cause performance-contingent rewards to be less effective as performance is highly contingent upon changes in the external environment. Environmental munificence characterizes the richness of resources and opportunities of an environment (Achrol and Stern 1988) and may lead to a larger positive effect of performance-contingent reward when munificence is high as performance is easier to obtain in rich environment. Other firm variables that may moderate the effectiveness of rewards are the level of received performance feedback and a firm's organizational culture (Anderson and Oliver 1987). For instance, when personal achievement is valued within a firm, non-contingent rewards may even have a more pronounced negative effect on performance. In contrast, the type and quantity of performance feedback could further strengthen the positive effect of performance-contingent

rewards on performance because detailed information is provided on how a dealer has performed.

Finally, as there is still much to explore on marketing channel dynamism, future research could try to collect more waves of data. By collecting data at more than two points in time, one could for example investigate whether the frequent use of rewards renders them more or less effective over time.

4. LEARNING FROM OTHERS: A VICARIOUS LEARNING PERSPECTIVE ON PUNISHMENT IN MARKETING CHANNEL RELATIONSHIPS

4.1 INTRODUCTION

The use of contingent punishments by suppliers in distribution channel relationships has received a substantial amount of research attention (see e.g. Frazier and Rody 1991; Kumar, Scheer, and Steenkamp 1998; Payan and McFarland 2005). A contingent punishment is the bestowal of aversive consequences by a supplier in response to a dealer's noncompliance (Scheer and Stern 1992). The ultimate goal of a supplier utilizing contingent punishment is to arrive at a desired behavior (e.g., increased performance) from its dealer. Examples of contingent punishment include, among others, reducing profit margins or holding back information when (sales) targets are not met. So far, academic research has only reported detrimental effects of contingent punishment. Therefore, it appears paradoxical that contingent punishment is frequently used in business practice (Kuipers 2001; Snyder 2003). The aim of this study is to shed more light on this controversy, and to investigate why and when supplier punishment may have a positive effect on dealer performance.

Exercising contingent punishment has repeatedly been found to have a detrimental effect on various relationship outcomes such as (a) conflict, as a punished dealer experiences tension and frustration (Frazier and Rody 1991) and (b) satisfaction, as punishment reduces a dealer's outcomes (Geyskens and Steenkamp 2000). Drawing on these results, some authors have stated that punishments are indicative of a "sick relationship" (Morgan and Hunt 1994, p. 32).

Surprisingly, only three studies have focused on the effect of a supplier's contingent punishment on dealer performance. Whereas Boyle and Dwyer (1995) find a negative effect of contingent punishment on a self-reported measure of dealer

performance, Mackenzie, Podsakoff, and Rich (2001) find non-significant effects of contingent punishment on both a dealer's in-role and extra-role performance.

Furthermore, in a study by Corsten, Kumar and Kuzca (2006), a negative effect of a supplier's contingent punishment on a dealer's self-reported performance is found, but also a positive effect of contingent punishment on an archival measure of performance. The authors explain this contradictory effect by concluding that the two types of performance are complementary measures of performance, i.e. they measure different performance aspects. Furthermore, the self-reported performance measure may suffer from common-method bias and may therefore be less valid than the archival performance measure. While the above study is the first to find a beneficial effect of punishment in marketing channel relationships, further research is needed to investigate why and under which conditions punishment may have a positive effect on performance.

I aim to contribute to the literature in the following three ways. First, I study the effect of supplier contingent punishment on (an archival measure of) dealer performance. This effect has scarcely been studied in the marketing channels literature (see also Chapter 2). Second, prior research on punishment in the channels literature has exclusively focused on the dyad as a unit of analysis. However, by neglecting the broader network in which dyads are embedded, an important element has been overlooked in studying contingent punishments, as a supplier punishing a dealer is a social phenomenon (Arvey and Jones 1985; Walters and Grusec 1977). Thus, I focus not only on the relationship between a supplier punishing a dealer and that dealer's performance, but I also investigate the phenomenon of vicarious learning, where a focal dealer indirectly learns by observing its supplier punishing other dealers. My contribution lies in the fact that I treat a dealer not only as a

recipient of a contingent punishment, but also as an observer of contingent punishment.

Third, I investigate to what extent the effectiveness of punishment depends on (1) the characteristics of the network in which the supplier-dealer dyad is embedded (Anderson, Håkansson, and Johanson 1994), and (2) the credible commitments that are used by the supplier and the dealer (Anderson and Weitz 1992; Blau 1964; Cook 1977). From a managerial perspective, my results can help managers decide when contingent punishments are effective.

The rest of this paper is organized as follows. I first examine the role of vicarious learning with respect to contingent punishment in marketing channel relationships and discuss my conceptual framework and hypotheses. Next, I describe data collection, and discuss results. The final section provides conclusions, managerial implications and suggestions for further research.

4.2 CONCEPTUAL FRAMEWORK

Contingent punishments are defined as the use of punitive measures by a supplier in response to a dealer's non-compliance (Scheer and Stern 1992). The effects of contingent punishment on various relationship outcomes have been widely studied. Table 1 presents an overview of marketing channel studies on the effects of contingent punishment. A number of things can be noticed.

First, with the exception of a study by Corsten, Kumar, and Kuzca (2006), contingent punishment has always been found to detrimentally affect various relationship outcomes (i.e. decrease positive outcomes like satisfaction, and increase negative outcomes like conflict). Second, performance as a dependent variable has only been studied in three studies. Boyle and Dwyer (1995) find a negative effect of

contingent punishment on a dealer's self-reported measure of relationship performance. In addition, Mackenzie, Podsakoff and Rich (2001) find non-significant effects of contingent punishment on both an archival measure of in-role performance and a dealer's self-reported extra-role sales performance. Finally, Corsten, Kumar, and Kuzca (2006) find a negative effect of contingent punishment on a dealer's self-reported performance measure, but a positive effect on an archival performance measure. Third, all studies on contingent punishment have been undertaken in a dyadic context. I aim to show that contingent punishment may positively affect a dealer's performance if the broader network is taken into account.

I define the network as all dealers that have a relationship with one and the same supplier. Within this network, a dealer occupies two roles. First, it can be the *recipient* of a contingent punishment from a supplier. Second, it can be an *observer*: it observes that the supplier is punishing other dealers.⁶ A dealer has an incentive to observe how a supplier punishes other dealers, as it may vicariously or indirectly learn the consequences of non-compliance (Bandura 1986; Manz and Sims 1981). Indirect or vicarious learning is learning through a discriminative environmental stimulus that occurs before the dealer's behavior (Manz and Sims 1981). An important foundation of vicarious learning is that it guides behavior by prior notions of others instead of relying on direct experience (Bandura 1977). Thus, apart from directly learning what the consequences are of non-compliance when a dealer is contingently punished, it also indirectly learns from a supplier's punishment behavior towards other dealers in the dealer network.

⁶ It is important to note that an observing dealer does not have to observe the punishment event directly; knowing that others might be punished is sufficient (Manz and Sims 1981; Trevino and Ball 1992).

Table 1: Overview of Contingent Punishment Studies

Authors (year)	Journal (*)	Dependent variable	Effect of contingent punishment
1. Frazier and Summers (1984)	JM	interfirm agreement	Negative
2. Frazier and Summers (1986)	JMR	satisfaction	Negative
		switching	Positive
3. Frazier, Gill, and Kale (1989)	JM	conflict	Positive
4. Keith, Jackson, and Crosby (1990)	JM	satisfaction	Negative
5. Frazier and Rody (1991)	JM	latent conflict	Positive
		manifest conflict	Positive
		conflict resolution	Negative
6. Boyle et al. (1992)	JMR	relationalism	Negative
7. Boyle and Dwyer (1995)	JBR	relationship performance	Negative
8. Brown, Johnson, and Koenig (1995)	IJRM	conflict	Positive
		satisfaction	Negative
9. Brown, Lusch, and Nicholson (1995)	JR	instrumental commitment	Positive
		normative commitment	Negative
10. Geyskens and Steenkamp (2000)	JR	economic satisfaction	non-significant
		social satisfaction	Negative
11. Mackenzie, Podsakoff, and Rich (2001)	JAMS	in-role sales performance	non-significant
		extra-role sales performance	non-significant
		role ambiguity	Negative
		trust	non-significant
12. Payan and McFarland (2005)	JM	compliance	non-significant
13. Corsten, Kumar, and Kuzca (2006)	WP	archival performance	Positive
		conflict	Positive
		satisfaction	Negative
		self-reported performance	Negative
		trust	non-significant

(*)

IJRM = International Journal of Research in Marketing

JAMS = Journal of the Academy of Marketing Science

JBR = Journal of Business Research

JM = Journal of Marketing

JMR = Journal of Marketing Research

JR = Journal of Retailing

WP = Working paper

There are two important and necessary conditions for vicarious learning to take place. First, a dealer should pay *attention* to other dealers; when attention is not being paid, it is unlikely that vicarious learning will occur. When a dealer pays attention or observes a supplier punishing other dealers, it forms an outcome

expectancy (Bandura 1986; Manz and Sims 1981), which is a judgment that a certain behavior will result in one or more consequences. Second, based on what a dealer has observed, a dealer should be *motivated* to change its own behavior; otherwise vicarious learning does not take place (Bandura 1977). If an outcome expectancy is credible, a dealer has an incentive to adapt its behavior (Bandura 1986).

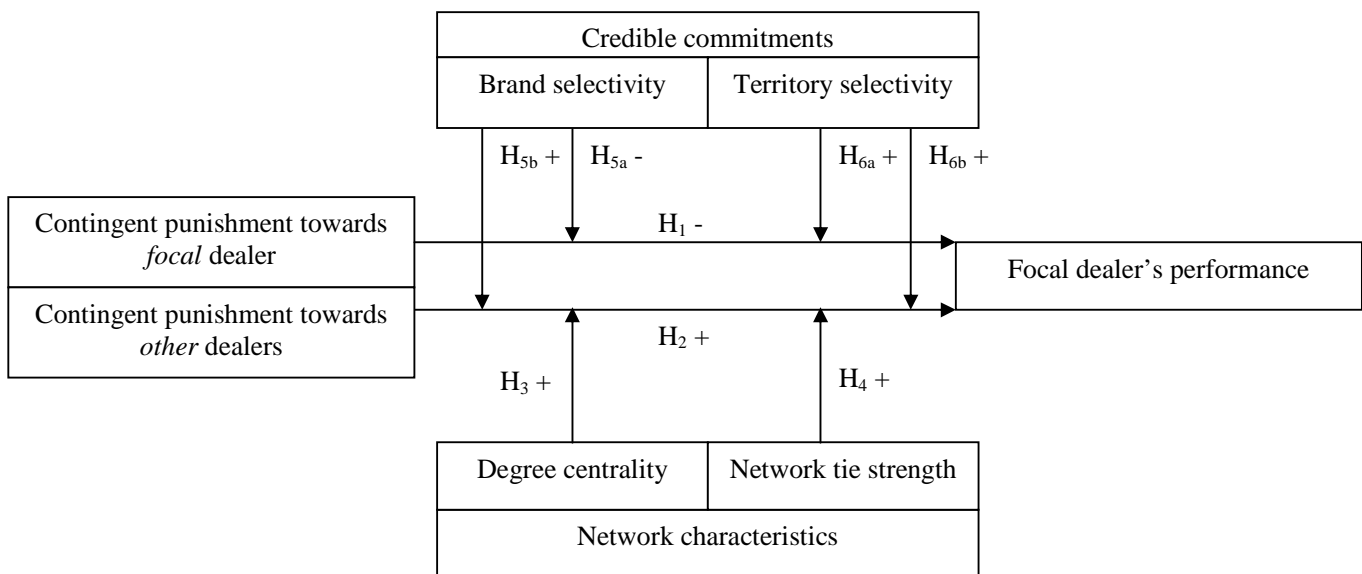
In my conceptual framework, I not only study the effect of contingent punishment on a dealer's performance, but I also take into account the effect of a supplier punishing other dealers in the dealer network on the focal dealer's performance. As a dealer vicariously learns the consequences of non-compliance, it is better informed about how it should comply with the supplier's standards, and this may positively affect its performance (Jaworski and Kohli 1991; Tubre and Collins 2000).

I further hypothesize that the effectiveness of contingent punishment is dependent on network characteristics, since the structure and quality of the network has its repercussions on the performance of dyadic relationships (Anderson, Håkansson, and Johanson 1994; Antia and Frazier 2001; Iacobucci 1996; Stern 1996). Extant research on vicarious punishment has pointed towards the fact that "future research should investigate differences in reactions when the observer identifies with or knows the discipline recipient" (Trevino and Ball 1992, p. 763). Knowing other dealers refers to the network characteristic of degree centrality, which is the number of direct links a focal dealer has with other dealers in the network (Marsden 1990). A second network characteristic pertaining to identification is network tie strength, which is the nature of the relational bonds between dealers in their network (Houston et al 2004). These relational bonds refer to the quality of relationships within a

network in terms of reciprocity and emotional closeness shared by dealers (Granovetter 1973).

I incorporate credible commitments as a second group of moderators in my conceptual framework. Credible commitments or pledges are specific actions undertaken by a channel member demonstrating good faith (Anderson and Weitz 1992). Credible commitments are a critical element of marketing channel relationships as they can facilitate and improve the effectiveness of the exchange process between a supplier and a dealer (Blau 1964; Cook 1977; Seabright, Levinthal, and Fichman 1992). I focus on brand and territory selectivity as these are: “the most widely studied hostage-based governance arrangements” (Ahmadjian and Oxley 2005, p. 219). Brand selectivity is the extent to which a dealer refrains from carrying brands of competing suppliers (Fein and Anderson 1997). Territory selectivity refers to the extent to which a supplier limits the number of dealers in a specific territory. Figure 1 shows my conceptual framework.

Figure 1: Conceptual Framework



4.3 HYPOTHESES

4.3.1 The Effect of Contingent Punishment on Dealer Performance

Contingently punishing a dealer is predicted to have a negative effect on that dealer's performance. The economic costs associated with conforming to a contingent punishment are expected to be high (Anderson and Narus 1984; Scheer and Stern 1992). Moreover, a punished dealer is likely to feel tension and dissatisfaction as its decision autonomy is being reduced, resulting in lower dealer morale (Brown, Lusch, and Muehling 1983; Hunt and Nevin 1974). An unsatisfied dealer with lower morale is likely to be less productive and will show lower performance (cf. Judge et al. 2001).

In sum, contingent punishment by a supplier towards a dealer is hypothesized to have a negative effect on the dealer's performance.

H₁: The use of contingent punishment by a supplier towards a dealer will decrease that dealer's performance.

4.3.2 The Effect of Contingent Punishment towards Other Dealers on Focal Dealer Performance

By observing a supplier punishing other dealers, a dealer vicariously learns about the consequences of non-compliance. Organizational learning theory conjectures that organizations, like individuals, not only learn from their own experience but also from experiences from others (Levitt and March 1988). A dealer observes the supplier's behavior towards other dealers, as individuals have the natural drive to compare the outcomes of others in similar positions with their own outcomes (Festinger 1954; Niehoff, Paul, and Busch 1998; Trevino and Ball 1992). Furthermore, a dealer observes other dealers in order to reduce uncertainty on how to properly fulfill its tasks (Greller and Herold 1975; Kohli and Jaworski 1994). When

vicariously learning from other dealers, a dealer develops an outcome expectancy that certain behaviors (i.e. non-compliance) are linked to specific outcomes (i.e. punishment). Thus, it specifically learns what the supplier wants to achieve in its relations with its dealers. As a result, vicarious learning increases a dealer's role clarity and makes it easier for the dealer to conform to the appropriate objectives, and as a result, it is likely to perform better (Jaworski and Kohli 1991; Tubre and Collins 2000). Furthermore, it has been shown that when performance objectives are clearer, dealers tend to be more motivated to attain higher performance (Jaworski and Kohli 1991). In sum, by observing how a supplier punishes other dealers, a dealer obtains a better understanding of what is expected, resulting in increased performance. I therefore hypothesize:

H₂: The use of contingent punishment by a supplier towards other dealers will increase the focal dealer's performance.

4.3.3 Moderating Effects of Network Characteristics

Degree centrality is defined as the number of direct contacts a dealer has with other dealers of the same brand (Freeman 1979). The more direct links a focal dealer has, the more central a dealer's position within the dealer network. A centrally located dealer has an advantageous position with respect to monitoring other dealers and access to information flows between other dealers (Mehra et al. 2006). Moreover, centrally located dealers are more likely to hear important news faster (Seibert, Kraimer, and Liden 2004). Thus, the more centrally positioned a dealer is, the better it is in a position to observe other dealers. As such, the process of vicarious learning is enhanced. Therefore, degree centrality is hypothesized to enhance the positive

relationship between a supplier's contingent punishment towards other dealers and a focal dealer's performance.

H₃: Degree centrality strengthens the positive relationship between a supplier's use of contingent punishment towards other dealers and a focal dealer's performance.

Network tie strength refers to the average quality of dealer relationships in a network in terms of emotional closeness and reciprocity (Granovetter 1973). Networks in which the average tie strength among dealers is high are characterized by high levels of trust and cooperation among their dealers (Coleman 1988). In addition such networks have been shown to be useful for transferring knowledge among their members, as trust and emotional closeness facilitate knowledge sharing (Uzzi 1996).

Knowledge sharing can increase a dealer's motivation to adapt its behavior on the basis of what it has learned and observed, as sharing knowledge with other dealers can make an outcome expectancy more credible (Bandura 1986; Manz and Sims 1981). A network with high network tie strength therefore facilitates greater vicarious learning and increases the positive relationship between a supplier's contingent punishment towards other dealers and the focal dealer's performance.

H₄: High network tie strength strengthens the positive relationship between a supplier's use of contingent punishment towards other dealers and the focal dealer's performance.

4.3.4 Moderating Effects of Credible Commitments

Brand selectivity is the degree to which a dealer refrains from carrying brands of competing suppliers (Fein and Anderson 1997). Granting brand selectivity towards

a supplier is a form of a credible commitment made by a dealer. It signals good faith as a dealer shows that it is willing, at least to some extent, to properly support the supplier's brand (Anderson and Weitz 1992; Fein and Anderson 1997; Frazier and Lassar 1996).

As brand selectivity is a credible self-interest stake, i.e. it is a foundation for mutuality and cooperation, it causes the dealer to expect reciprocal behavior of good faith from its supplier (Gundlach, Achrol, and Mentzer 1995). When a supplier is contingently punishing a dealer that refrained from carrying brands of competitive suppliers, this dealer is disconfirmed in the expectation of a supplier's goodwill, which leads to dissatisfaction (Oliver 1980; Yi 1990). A dissatisfied dealer is less likely to be productive (Judge et al. 2001). Brand selectivity is therefore expected to increase the negative relationship between a supplier's use of contingent punishment towards a dealer and that dealer's performance.

H_{5a}: Brand selectivity strengthens the negative relationship between a supplier's contingent punishment towards the focal dealer and that dealer's performance.

Territory selectivity is the degree to which the supplier limits the number of dealers in a specific territory (Fein and Anderson 1997). One motivation for a supplier to grant territory selectivity to dealers is to increase coordination in its relationships with its dealers (Frazier and Lassar 1996), as a smaller number of dealers requires less operational efforts (Cespedes 1988; Rosenbloom 1995). Moreover, the supplier is expecting receptivity for its co-ordination efforts, which should make coordination easier (Scherer and Ross 1990). Territory selectivity benefits dealers by lowering intra-brand competition and thereby protects dealers' sales volumes and margins to

some extent (Frazier and Lassar 1996). As territory selectivity causes dealers to be more receptive to management/co-ordination efforts such as contingent punishments, less dealer frustration and anger are expected to occur, which should lead to more satisfied dealers who are willing to be more productive (Judge et al. 2001). I therefore hypothesize that territory selectivity weakens the negative relationship between a supplier's contingent punishment towards a dealer and that dealer's performance,

H_{5b}: Territory selectivity weakens the negative relationship between a supplier's use of contingent punishment towards the focal dealer and that dealer's performance.

Brand selectivity and territory selectivity are also expected to moderate the relationship between the supplier's contingent punishment towards other dealers and the focal dealer's performance. When a dealer grants brand selectivity towards its supplier, it makes an asymmetric commitment (Achrol and Gundlach 1999; Fein and Anderson 1997; Gundlach, Achrol, and Mentzer 1995). Achrol and Gundlach (1999) have found empirical evidence that asymmetry in commitment in a relationship increases the likelihood and motivation for opportunistic behavior by the supplier, as the supplier can abuse its dominant position. In order for the dealer to ensure that the supplier is a trustworthy partner and is not exploiting the dealer, the dealer will be more motivated to carefully monitor the supplier's behavior (Bensaou and Anderson 1999), not only towards itself but also towards other dealers, in order to make sure that the supplier is not exploiting its dominant position (Trevino and Ball 1992). As a result, vicarious learning increases. Brand selectivity is therefore expected to increase the positive effect of a supplier punishing other dealers on a dealer's performance.

H_{6a}: Brand selectivity strengthens the positive relationship between a supplier's use of contingent punishment towards other dealers and a focal dealer's performance.

As there is less intra-brand competition and higher entry costs for new firms, more exclusive territories are less competitive, which makes a dealer's performance on average higher in such territories (Dutta, Heide, and Bergen 1999). As territory selectivity has an impact on dealer performance, a dealer is more motivated to observe how other territories are designed, to make sure that its supplier is treating other dealer similarly (Babakus et al. 1996; Grant et al. 2001). A dealer is often aware of inter-territory differences, as dealers frequently communicate about these differences (Grant et al. 2001). As Grant et al. (2001, p. 167) state: "Experienced salespeople are typically aware of inter-territory differences. They communicate with each other. They attend group meetings and share information."

As territory selectivity induces a dealer to monitor other dealers closely, it enhances vicarious learning. As a result, I hypothesize that the use of contingent punishment by a supplier towards other dealers will increase the performance of those dealers that have been granted territory selectivity.

H_{6b}: Territory selectivity strengthens the positive relationship between a supplier's contingent punishment towards other dealers and a focal dealer's performance.

4.4 METHODOLOGY

4.4.1 Sample and Data Collection Procedure

To test my hypotheses, I use the same sample of 197 automobile dealers (see Chapter 3 for more details). The automobile industry is a relevant setting for two reasons. First, automobile importers frequently use contingent punishments towards their re-sellers, i.e. automobile dealers. Second, dealers are typically well informed about how suppliers treat other dealers, because of the presence of many formal and informal relationships between automobile dealers (e.g. existence of formal local dealer networks, brand dealer networks, and a national dealer network).⁷

4.4.2 Measures

The measurement scales that are used are either measures that have been used in previous marketing channels research, or they were newly developed based on construct definitions. The resulting scales were adjusted after five face-to-face interviews with automobile dealers. Each interview lasted on average an hour. See Measurement Appendix II for the measurement items.

The 4-item *contingent punishment* scale measures the punitive measures given by a supplier in response to a dealer's non-compliance. It is based on scales by Podsakoff et al. (1984) and Scheer and Stern (1992). The 4-item *contingent punishment towards other dealers* scale contains similar items as the contingent punishment scale, yet the items are formulated in such a manner that they refer to the supplier's contingent punishment towards other dealers.

Degree centrality is defined as the number of direct contacts a dealer has with other dealers (Freeman 1979). *Network tie strength* indicates the average strength of

⁷ See www.dealerplaza.nl

dealer relationships in the brand dealer network (Granovetter 1973). Based on Antia and Frazier (2001) 4-item scales of degree centrality and network tie strength were developed.

Brand selectivity is the level of selectivity a dealer gives to a supplier with respect to the number of brands it sells. *Territory selectivity* is the extent to which a supplier grants territory selectivity towards a dealer. Both constructs are measured as proposed by Fein and Anderson (1997). *Dealer performance* was measured by dividing the dealer's realized sales number by its corresponding sales potential (see Chapter 3, p. 42 for more details on this measure)

4.4.3 Measure Validation

First, the item-to-total correlations for each scale were examined. Second, a confirmatory factor analysis was conducted (Anderson and Gerbing 1988). The six-factor model (24 items) exhibited an adequate overall fit: $\chi^2_{(237)} = 309.77$, Comparative Fit Index (CFI) = .97, Tucker-Lewis Index (TLI) = .97, root mean square error of approximation (RMSEA) = .04. All factor loadings were significant ($p < .001$), and exceeded the commonly recommended threshold of .40. These findings support the convergent validity of all items. Evidence of discriminant validity was attained by using the Anderson and Gerbing (1988) procedure. Every pair of constructs passed this test.

All finalized measures were calculated by averaging the individual item scores. Network tie strength was subsequently averaged over dealers of the same brand. This was done because the average network tie strength values across dealers within each brand more accurately reflect the average quality of relationships in the brand dealer network.

All alphas are equal to or larger than .70, except for the brand selectivity measure ($\alpha = .66$). Based on these results, I conclude that my measures demonstrate reliability, unidimensionality, convergent validity, and discriminant validity. In Table 2, I report the correlation matrix and descriptive statistics for the finalized measures.

Table 2: Correlation Matrix and Descriptive Statistics

	1	2	3	4	5	6	7
1. Contingent punishment towards focal dealer	1.00						
2. Contingent punishment towards other dealers	.55	1.00					
3. Degree centrality	-.13	.02	1.00				
4. Network tie strength	-.27	-.19	.29	1.00			
5. Brand selectivity	-.10	-.03	.07	.15	1.00		
6. Territory selectivity	-.08	-.15	.15	.17	.21	1.00	
7. Dealer performance	-.10	.06	.07	.02	.06	.21	1.00
Mean	2.75	4.23	5.30	4.59	3.32	3.05	.93
Standard Deviation	1.39	1.19	1.14	.56	1.23	1.26	.24
Cronbach's Alpha	.76	.82	.86	.85	.66	.70	n.a.

N = 197

4.5 RESULTS

I regressed a dealer's performance on the hypothesized explanatory variables using Ordinary Least Squares. The following regression equation was estimated:

$$\text{PERF} = b_0 + b_1 \text{CPUN} + b_2 \text{CPUN}_{\text{other}} + b_3 \text{DEGREE} + b_4 \text{TIE} + b_5 \text{CPUN}_{\text{other}} * \text{DEGREE} + b_6 \text{CPUN}_{\text{other}} * \text{TIE} + b_7 \text{BRASEL} + b_8 \text{TERSEL} + b_9 \text{CPUN} * \text{BRASEL} + b_{10} \text{CPUN} * \text{TERSEL} + b_{11} \text{CPUN}_{\text{other}} * \text{BRASEL} + b_{12} \text{CPUN}_{\text{other}} * \text{TERSEL} + \varepsilon$$

where

PERF = dealer performance
 CPUN = contingent punishment towards focal dealer
 CPUN_{other} = contingent punishment towards other dealers
 DEGREE = degree centrality
 TIE = network tie strength
 BRASEL = brand selectivity
 TERSEL = territory selectivity

All independent variables were mean-centered in order to enhance interpretability (Jaccard, Turrisi, and Wan 1990).

Table 3 presents the standardized regression coefficients. Consistent with H₁ and H₂, contingent punishment towards a focal dealer reduces that dealer's performance (H₁: $\beta_1 = -.16, p < .05$), whereas contingent punishment towards other dealers increases a focal dealer's performance (H₂: $\beta_2 = .13, p < .10$). No significant moderating effect was found for degree centrality (H₃: $p > .10$). Consistent with H₄, network tie strength increases the positive effect of a supplier's contingent punishment towards other dealers on the focal dealer's performance (H₄: $\beta_6 = .12, p < .10$).

My results show no significant moderating effect of brand selectivity (H5_a and H6_a). Also territory selectivity does not moderate the relationship between a contingent punishment towards a focal dealer and that dealer's performance (H5_b). However, as expected, territory selectivity increases the positive relationship between a supplier's contingent punishment towards other dealers and a focal dealer's performance, thereby corroborating hypothesis H6_b (H6_b : $\beta_{12} = .14, p < .10$).

To better understand the moderating effects of network tie strength and territory selectivity, I explore the conditional effects of contingent punishment towards other dealers at high (one standard deviation above the mean) and low (one standard deviation below the mean) levels of network tie strength and the conditional effects of contingent punishment towards other dealers at high and low levels of territory selectivity (Aiken and West 1991).

Figure 2 (part A) shows the conditional effect of contingent punishment towards other dealers on dealer performance for high and low levels of network tie strength. The graph illustrates that for dealers situated in a network with high network

tie strength, contingent punishment towards other dealers increase dealer performance ($b = .06, p < .05$). In contrast, for dealers situated in a network with low network tie strength, contingent punishment towards other dealers does not affect dealer performance ($b = -.00, p > .10$).

Figure 2 (part B) demonstrates that when dealers are granted a high level of territory selectivity, territory selectivity increases the positive effect of contingent punishment towards other dealers on dealer performance ($b = .05, p < .05$). Furthermore, when a dealer is granted a low level of territory selectivity, territory selectivity does not affect the contingent punishment towards other dealers – dealer performance relationship ($b = -.00, p > .10$).

Table 3: Results

	Hypothesized Effect	β	t -value
Contingent punishment towards focal dealer	-	-.16	-1.81**
Contingent punishment towards other dealers	+	.13	1.39*
Degree centrality	N/A	.04	.48
Network tie strength	N/A	-.03	-.38
Contingent punishment towards other dealers x degree centrality	+	-.05	-.56
Contingent punishment towards other dealers x network tie strength	+	.12	1.48*
Brand selectivity	N/A	-.00	-.02
Territory selectivity	N/A	.25	3.34****
Contingent punishment towards focal dealer x brand selectivity	-	-.06	-.76
Contingent punishment towards focal dealer x territory selectivity	+	-.07	-.80
Contingent punishment towards other dealers x brand selectivity	+	.08	.90
Contingent punishment towards other dealers x territory selectivity	+	.14	1.38*

**** $p < .001$ (one-sided)

*** $p < .01$ (one-sided)

** $p < .05$ (one-sided)

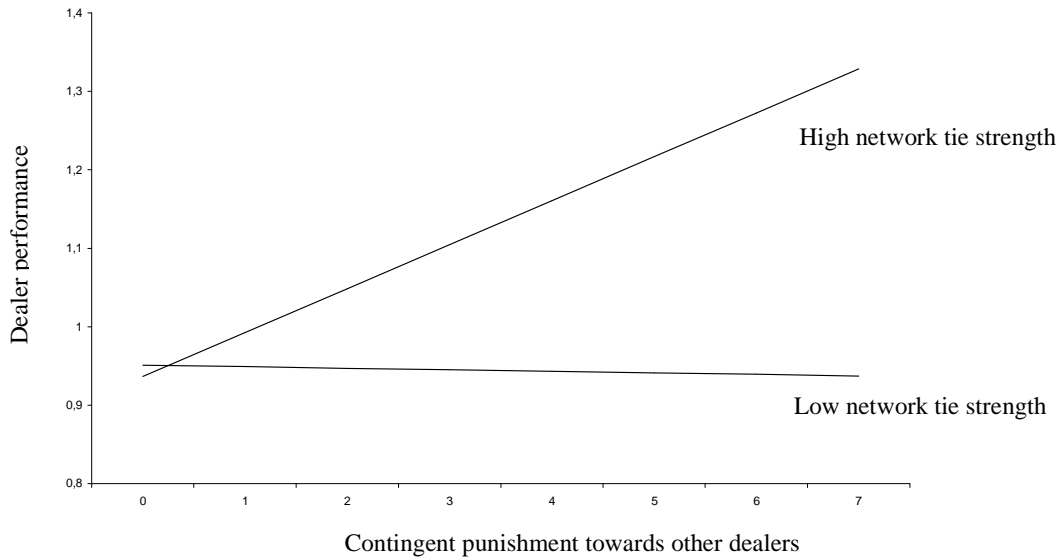
* $p < .10$ (one-sided)

$R^2 = .13$

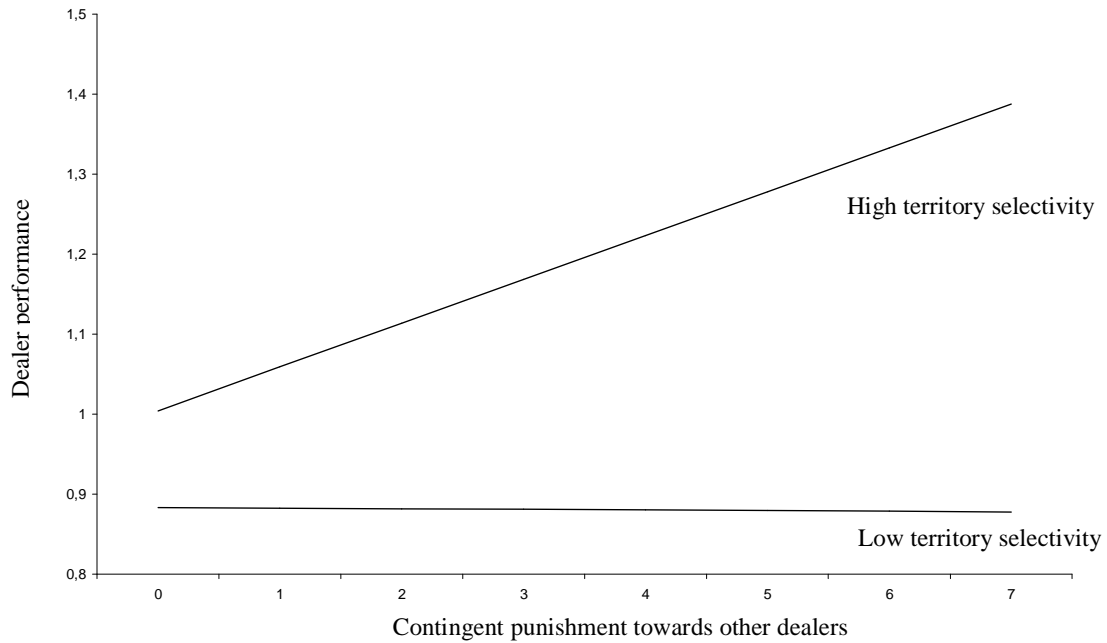
$N = 197$

Figure 2: Interaction plots

A: Effect of network tie strength on the relationship between contingent punishment towards other dealers and the focal dealer's performance



B: Effect of territory selectivity on the relationship between contingent punishment towards other dealers and the focal dealer's performance



4.6 CONCLUSION

The objective of this study was to investigate the paradox that exists between academic theory and marketing practice with respect to the use of contingent punishment in marketing channel relationships. I have attempted to resolve this paradox by contributing to the literature in three ways. First, I acknowledge the social character of punishment, by including the broader network in which a dealer is embedded when studying contingent punishment. By treating a dealer not only as a recipient but also as an observer of contingent punishment, my results show that contingent punishment can increase a dealer's performance. By observing other dealers, a dealer vicariously learns the consequences of non-compliance. As such, it is better informed on how it should perform, thereby increasing its performance. It thus appears that the use of contingent punishment is a double-edged sword: on the one hand, punishing a dealer reduces the dealer's performance; on the other hand, punishing other dealers increases a dealer's performance. As the aim of the supplier is to motivate its dealers to increase their performance, the important lesson that can be drawn from this study is that using contingent punishment is not always harmful.

Second, my study uses an archival measure of performance and finds a negative effect of a supplier's contingent punishment towards a dealer and a positive effect of a supplier's contingent punishment towards other dealers on a focal dealer's performance.

Finally, I show that the effectiveness of contingent punishments is dependent on network tie strength and territory selectivity. High network tie strength facilitates knowledge sharing among dealers; dealers in such networks are better able to learn vicariously, resulting in increased performance in the situation when a supplier punishes other dealers. High levels of territory selectivity also increase the positive

relationship between a supplier's contingent punishment towards other dealers and a dealer's performance. This is due to the fact that granting territory selectivity motivates dealers to observe other dealers more.

4.6.1 Limitations and Suggestions for Future Research

As my sample consists of a single industry within a single country, my results may have limited generalizability. Future research could investigate if my findings hold in different industries and different countries. Furthermore, as the brand selectivity measure performed below expectations in terms of standard psychometric properties, it should be refined in future research. Further research could also take into account a dealer's fairness perception of a punishment event, as contingent punishment could have a smaller negative effect on a dealer's performance when the punishment is regarded as fair (Ball, Trevino, and Sims 1994).

Finally, the focus of my study was the individual firm's perspective, i.e. the focal dealer. Future studies could collect data from both dealers and suppliers (Kim 2000).

5. CONCLUSIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Marketing channel management is a crucial element of a firm's marketing mix. By effectively managing its distribution channels, a firm can add value to its products, either by lowering their costs, or by increasing benefits delivered to end-consumers (Weitz and Wang 2004). However, creating and applying effective channel management tools is challenging as channel members have different, and potentially, disagreeing goals and perspectives. One of the most important ways to coordinate a marketing channel is through the use of punishments and rewards, as suppliers can use these to alter a dealer's behavior (Chang 2005; Payan and McFarland 2005; Weitz and Wang 2004).

While a wealth of academic research on the use of punishments and rewards in marketing channel relationships has advanced our knowledge, there is still much to uncover. More specifically, it is striking that the marketing literature has rarely examined the effects of punishment and rewards on performance, although performance is key to successful marketing channel relationships (Sansolo 1993; Sibley and Michie 1981). The main objective of this dissertation was therefore to investigate the effects of punishments and rewards on channel member performance. To address this research problem, I undertook three research projects. The main findings, managerial implications, and research implications and some suggestions for further research will be discussed below.

5.1 MAIN FINDINGS

Chapter 2. Chapter 2 is a meta-analysis of punishments and rewards in marketing channel relationships. I find that extant studies on the effects of punishment and rewards have mainly focused on relationship quality, including satisfaction,

trust/affective commitment, and conflict, as channel outcomes. Only 14% of all correlations involving punishment and 15% of correlations involving rewards pertain to performance, demonstrating that performance is scarcely studied as a focal outcome of channel relationships.

Whereas punishments are found to have an average correlation of $-.30$ with relationship quality, rewards have an average correlation of $.26$ with relationship quality. These effects are, however, not homogenous, as moderator analyses demonstrates. My results show that the following moderators influence the punishment/reward – relationship quality relationship. First, I find that the type of punishment/reward affects the punishment/reward – relationship quality relationship. Contingent punishments and rewards have a smaller effect on relationship quality than non-contingent punishments and rewards.

Second, the cultural context in which punishments and rewards are applied influences the effect of punishments and rewards on relationship quality. Using the Schwartz framework, I show that punishments administered in countries higher in cultural hierarchy have a smaller negative effect on relationship quality. Furthermore, the effect of rewards on relationship quality is smaller in countries higher on cultural autonomy.

Overall, Chapter 2 demonstrates that punishments and rewards have rarely been related to channel member performance. Furthermore, the bulk of studies on the punishment/reward – performance relationship have been cross-sectional in nature. In Chapters 3 and 4, I therefore study the effects of rewards (Chapter 3) and punishments (Chapter 4) on performance measured 6 months after the initial data collection of independent variables took place. Longitudinal surveys can provide a solution to potential common method variance bias, as the temporal separation of predictor and

outcome variables can reduce the cognitive accessibility of respondents to predictor and outcome variables when these would be measured at the same point in time (Podsakoff and Organ 1986).

Furthermore, Chapter 2 provides evidence that the effectiveness of punishments and rewards depends on the basis on which rewards are administered: contingent vs. non-contingent. Chapter 3 takes this distinction into account, and investigates the effects of both non-contingent and performance-contingent rewards on performance, while accounting for the moderating effects of uncertainty.

Chapter 3. In Chapter 3, I find that non-contingent rewards negatively affect a dealer's performance. I explain this by the fact that a clear link between a dealer's behavior and rewards is lacking, which leads to lower levels of dealer's perceived fairness and decreased levels of role clarity, both leading to lower levels of dealer performance. As expected, performance-contingent rewards have a positive effect on dealer performance. The effectiveness of both types of rewards depends however upon a dealer's risk aversion and the dealer's competitive intensity.

Chapter 4. In Chapter 4, I investigate the effect of contingent punishment on a dealer's performance. Although the academic literature has almost exclusively reported negative effects of punishment on various relationship outcomes (as shown in Chapter 2), it is noteworthy that contingent punishments are still often used in business practice. This brings me to the question whether there are possible positive effects of punishments. By introducing a network perspective, I explain how positive effects of punishments on dealer performance may materialize. A dealer vicariously learns from other dealers when these are punished, which increases the focal dealer's role clarity and thereby also its performance. The positive effect of other dealers being punished on the focal dealer's performance is increased when a supplier has granted

high levels of territory selectivity and when contingent punishments are applied in networks that have high network tie strength.

5.1.1 Managerial Implications

Chapter 2. The findings of my research demonstrate that punishments and rewards influence several relationship quality aspects including satisfaction, trust/commitment, and conflict. As such, punishments and rewards are important tools in marketing channel management. However, managers should be careful in applying punishments as my meta-analytic findings show that punishment has a negative effect on satisfaction and trust/commitment and can increase conflict. In contrast, rewards can increase satisfaction and trust/commitment and reduce conflict.

Furthermore, managers should be aware in which cultural context they are applying their punishments and rewards. As the negative effect of punishments is smaller in countries higher on cultural hierarchy, managers could choose to use them more often. Finally, managers should bear in mind that the positive effect of rewards is smaller in countries that are higher on cultural autonomy.

Chapter 3. The results of Chapter 3 have the following implications. First, when compensating their dealers, managers should strive for designing rewards that are contingent upon performance. In performance-contingent reward programs, there is a clear link between a dealer's contribution and its outcome, which increases perceived fairness and role clarity and strengthens a dealer's perceived self-competence, all resulting in a positive effect on a dealer's performance. Rewards that are given on a non-contingent basis produce a negative effect on a dealer's performance and should therefore be avoided.

Second, I find that the effectiveness of rewards is dependent on a dealer's risk attitude, as highly risk-averse dealers are difficult to influence with any type of rewards. When selecting dealers for inclusion in their dealer network, managers should try to take into account a dealer's risk attitude, and aim at finding other ways of compensating highly risk-averse dealers (e.g. fixed 'lump-sum' type of reward).

Finally, a dealer's external environment should be taken into account. My results demonstrate that performance-contingent rewards become especially effective in highly competitive markets, which should stimulate managers to use more performance-contingent rewards in these markets.

Chapter 4. Chapter 4 demonstrates that contingent punishment does not necessarily lead to negative outcomes when taking into account the network context in which a dealer is embedded. This may lead to the conclusion that applying contingent punishment is a good thing to do, as it clearly signals that non-compliance with a supplier's guidelines and standards will not be tolerated. However, my results also show the other side of contingent punishment, i.e. the direct negative impact on a dealer's performance. I therefore recommend managers to be careful in applying contingent punishment. Managers should clearly ask themselves what they want to achieve by punishing dealers, and even more important, they should acknowledge the fact that contingent punishment not only affects one dealer, but the entire dealer network. That is, managers should acknowledge that contingent punishment is a double-edge sword; capable of producing positive as well as negative results.

Furthermore, the quality of relationships within the network, i.e. network tie strength has important implications for the effectiveness of contingent punishments. The results of my study show that a network with high network tie strength enables dealers to better vicariously learn, thereby increasing their performance. I therefore

recommend managers to invest in the quality of relationships among their dealers, for instance, by organizing dealer's meetings or having joint dealer initiatives.

Finally, granting territory selectivity strengthens the relationship between contingent punishments towards other dealers and a focal dealer's performance. The important lesson that could be drawn is that managers should take into account the role of territory selectivity when applying contingent punishment. Granting territory selectivity is therefore not a trivial task and should be carefully used. For instance, granting high levels of territory selectivity ensures that dealers are more motivated to learn from other dealers.

5.1.2 Research Implications

Chapter 2 provided a stepping-stone for some interesting research avenues that I pursued in Chapters 3 and 4. Chapter 3 demonstrates that archival performance measures are fundamentally different from self-reported performance measures: I find a positive effect of contingent reward on archival performance, opposite to the non-significant results found in previous studies using self-reported measures (Boyle and Dwyer 1995; Mackenzie, Podsakoff, and Rich 2001). Researchers should therefore be careful in comparing results from studies that have used different operationalizations of performance.

Furthermore, whereas most of the extant literature has demonstrated that non-contingent rewards have a positive effect on relationship quality, I find a negative effect on performance, implying that relationship quality does not necessarily have to result in higher performance. Positive attitudes may not always have positive effects on behavior and researchers should be careful in generalizing findings from positive attitudes to positive behaviors. Further research should take both relationship quality

and performance into account to obtain a deeper understanding of the relationship between these two concepts.

Chapter 4 shows that the social context in which punishments are administered is an important determinant of a dealer's performance; researchers should include the social context when studying punishment. By including the social context, one acknowledges that a dealer is not only a recipient but also an observer of punishment.

5.2 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This dissertation can provide a starting point for several new research avenues. I will discuss these for rewards and punishments separately.

Rewards. Chapter 3 demonstrated that contingency is an important criterion that determines the effectiveness of rewards. However, I only investigated performance-contingent rewards. It would be interesting to study other types of contingencies, for instance participation-contingent rewards, where dealers receive a reward for participating in an activity, regardless of their performance (Eisenberger, Pierce, and Cameron 1999). Compared to non-contingent rewards, participation-contingent rewards convey information about a dealer's competence, which could lead to positive effects on a dealer's performance. However, compared to performance-contingent rewards, the positive effect of participation-contingent rewards is likely to be smaller, as the conveyed level of competence for participating is smaller compared to the conveyed level of competence for performing well.

Furthermore, although I find effects of rewards on performance, I have not studied the processes that underlie these relationships. The social psychology literature has demonstrated that rewards affect internal cognitive processes that subsequently

influence performance (Deci, Koestner, and Ryan 1999; Podsakoff et al. 2006). There are four mechanisms, through which rewards could influence dealer performance. These are (1) a dealer's perceived autonomy or self-determination, as performance-contingent rewards can be regarded as an infringement on a dealer's perceived autonomy (which is not the case with non-contingent rewards), leading to a lower intrinsic motivation to perform (Deci, Koestner, and Ryan 1999), (2) a dealer's fairness perceptions, as performance-contingent rewards establish a clear link between a dealer's behavior and reward (which does not hold for non-contingent rewards), they can be perceived as fairer, and a positive fairness evaluation is linked to higher performance (Greenberg 1990), (3) a dealer's role clarity, as performance-contingent rewards involve an assessment of a dealer's behavior, they clarify the dealer's understanding of what the supplier would like him to do (which is not the case for non-contingent rewards), which can lead to increased performance (Mackenzie, Podsakoff and Rich (2001), and finally (4) a dealer's perceived competence, as a dealer's behavior is assessed when it receives a performance-contingent reward, that dealer's perceived competence is positively affected, which can positively affect that dealer's performance (Eisenberger, Rhoades, and Cameron 1999). By including these underlying processes in future research, our understanding of how rewards influence performance can be increased.

Finally, I now only took the broader network context into account with respect to punishments. Apart from seeing other dealers being punished, seeing other dealers being rewarded can also provide role clarity for dealers in a network. Thus rewarding other dealers in a network could also increase a focal dealer's performance (Trevino and Youngblood 1990). Future research could take this broader network perspective into account when studying rewards.

Punishments. The results of Chapter 4 provide an intriguing dilemma. On the one hand and confirming conventional wisdom, I find that contingent punishment has a negative effect on a dealer performance. On the other hand, I find that contingent punishment towards other dealers has a positive effect on a focal dealer's performance. Because a focal dealer is not only a recipient, but also an observer of contingent punishment and as such vicariously learns, I find positive effects of punishment. However, if dealers differ in their reactions towards punishments, what should a manager ultimately do in order to increase its dealers' performance? Future research should be targeted at answering this question. An important research direction that could provide an answer is by focusing on the justice perceptions of punishments. When punishments are perceived as fair, this could dampen the negative effect of punishment (Trevino and Ball 1992). Such justice perceptions could be enhanced by stating very clearly the basis on which the punishments are administered. In this way, recipients and observers can better judge whether a punishment was fair or not.

Furthermore, by communicating that other dealers have received punishment, the process of vicarious learning can be increased. Thus, by clearly announcing that punishment has taken place, managers are more able to control the vicarious learning process. The effect of these punishment 'announcements' and their effect on vicarious learning should deserve research attention.

Finally, an important determinant of a punishment's effectiveness that also has received scarce research attention is the intensity of punishment. My research has demonstrated that punishment can be used to increase a dealer's performance, but what type of punishment in terms of intensity or severity managers should use is less clear. Previous social psychology research has shown that harsh punishment (as

compared to appropriate punishment) can increase the positive effect on observers of punishment (Trevino and Ball 1992).

MEASUREMENT APPENDIX I

Non-contingent reward (based on Podsakof et al. 1984, $\alpha = .76$)

1. My supplier freely offered its expertise to make a stronger dealer and a better partner out of me.
2. Even when I did not follow their 'standards', my supplier still provided my firm with many valuable services.
3. My supplier provided information, marketing support and/or assistances without requiring anything in return from me.
4. My supplier gave me important information without requiring anything in return from me.

very seldom (1) – very frequently (7)

Performance-contingent reward (based on Podsakof et al. 1984, $\alpha = .62$)

1. My supplier rewarded me when I performed well on pre-defined sales goals for cars, components or accessories.
2. When I achieved the targets on cars, components or accessories, my supplier granted bonuses to me.
3. When I met the minimum stock level of new cars, my supplier rewarded me.

very seldom (1) – very frequently (7)

Competitive intensity (Jaworski and Kohli 1993, $\alpha = .70$)

1. Competition between car dealers in my trading zone is cutthroat.
2. There are many 'promotion wars' between dealers in my trading zone.
3. Price competition between dealers is a hallmark of my trading zone.
4. Competition in my trading zone is relatively weak. ®

strongly disagree (1) – strongly agree (7)

Risk aversion (Wuyts and Geyskens 2005, $\alpha = .73$)

1. I experience unclear and ambiguous situations in my relationships with my suppliers as a threat to our firm.
2. Uncertain situations in my relationships with my suppliers are a threat to my firm.

strongly disagree (1) – strongly agree (7)

®= reverse coded item

MEASUREMENT APPENDIX II

Contingent punishment towards focal dealer (based on Podsakoff et al. 1984 and Scheer and Stern 1992, $\alpha = .76$)

1. My supplier retained a part of my differentiated margin because my performance was not up to par.
2. When I performed at a level below that was desired from my supplier, my supplier reduced my available financial resources.
3. When I did not comply with the requests of my supplier, it became somewhat difficult to work with my supplier.
4. When I did not reach pre-set sales targets, my supplier retained a part of my differentiated margin.

very seldom (1) – very frequently (7)

Contingent punishment toward other dealers ($\alpha = .82$)

1. When the performance of other dealers of the same brand was not up to par, my supplier retained a part of their differentiated margin.
2. When other dealers of the same brand performed at a level below that was desired from my supplier, my supplier reduced their available financial resources.
3. When other dealers of the same brand did not comply with the requests of my supplier, it became somewhat difficult for them to work together with my supplier.
4. When other dealers of the same brand did not reach pre-set sales targets, my supplier would retain a part of their differentiated margin.

strongly disagree (1) – strongly agree (7)

Degree of brand selectivity granted to supplier by dealer (Fein and Anderson 1997, $\alpha = .66$)

1. I only carry the brand of my supplier, for the type of car I sell.
2. I voluntarily refrain from adding suppliers that would compete with my supplier.
3. I am currently thinking about a multibrand strategy. ®
4. How many car brands that make cars competitive with your main brand do you carry? ® ___ car brands

strongly disagree (1) – strongly agree (7)

Degree of territory selectivity granted to dealer by supplier (Fein and Anderson 1997, $\alpha = .70$)

1. My supplier has given me an exclusive territory for their car brand.
2. My supplier voluntarily refrains from adding dealers that would compete with me.
3. My supplier has so many dealers that its dealers are bound to compete with each other when selling this supplier's car brand. ®
4. How many other dealers are selling the same brand in your trading zone [ZONE]? ® _____ other dealers

strongly disagree (1) – strongly agree (7)

Degree centrality (based on Antia and Frazier 2001, $\alpha = .86$)

1. I have many contacts with other dealers of the same brand.
2. Because I have contact with many other dealers of the same brand, I am very visible in my brand dealer network.
3. I am very active in my brand dealer network because I have contact with many other dealers of the same brand.
4. I maintain relations with few other dealers of the same brand. ®

strongly disagree (1) – strongly agree (7)

Network tie strength (based on Antia and Frazier 2001, $\alpha = .85$)

1. Common problems are on average frequently discussed within the brand dealer network.
2. On average, relations between dealers of the same brand are very close.
3. Within the network of dealers of the same brand, dealers share on average close ties amongst themselves.
4. On average, a lot of confidential information is shared among dealers of the same brand.

strongly disagree (1) – strongly agree (7)

®= reverse coded item

NEDERLANDSE SAMENVATTING (Dutch Summary)

Het effectief aansturen van distributiekanaalen is een belangrijk aspect in de strategie van een onderneming (Chang 2005). Binnen distributie kanaal management zijn het gebruik van straffen en beloningen veel gebruikte strategieën die in de praktijk worden toegepast (Alonzo 1999; Kuipers 2001). Deze strategieën zijn erop gericht om attitudes en gedrag van dealers te veranderen, met als uiteindelijk doel het vergroten van de prestaties van een dealer. De gangbare gedachte binnen distributiekanaal management is dat het gebruik van straffen de prestaties van dealers negatief beïnvloedt en dat het gebruik van beloningen de prestaties van dealers positief beïnvloedt.

Academisch onderzoek naar de effecten van straffen en beloningen op de prestaties van een dealer is echter schaars. Slechts drie studies hebben het effect van straffen, en drie studies het effect van beloningen, op de prestaties van een dealer onderzocht gedurende de laatste drie decennia. Studies naar het gebruik van straffen hebben positieve, negatieve en insignificante effecten op de prestaties van een dealer gevonden. Studies naar het gebruik van beloningen hebben positieve en insignificante effecten gevonden op de prestaties van een dealer. De vraag is dus of straffen en beloningen daadwerkelijk effectief zijn in het beïnvloeden van prestaties aangezien de resultaten van voorgaande studies zeer variabel zijn.

Het doel van mijn proefschrift is daarom het verkrijgen van helderheid in de onduidelijkheid die nu heerst over de effectiviteit van het gebruik van straffen en beloningen binnen distributiekanaalen. Om dit doel te bereiken heb ik drie studies uitgevoerd. Studie 1 (hoofdstuk 2) is een meta-analyse, die alle voorgaande empirische studies over straffen en beloningen in distributiekanaalen analyseert en synthetiseert. De resultaten van deze studie vormen een springplank voor studies 2 en

3. Studies 2 (hoofdstuk 3) en 3 (hoofdstuk 4) zijn empirische studies uitgevoerd in de Nederlandse autodealer industrie. Waar studie 2 zich focust op het gebruik van beloningen in distributiekkanalen en hun effect op de prestaties van een dealer, focust studie 3 zich op het gebruik van straffen en hun effect op de prestaties van een dealer.

2. Een Meta-Analyse naar Straffen en Beloningen in Distributiekkanalen

Hoofdstuk 2 is een meta-analyse naar het gebruik van straffen en beloningen in distributie kanaal management. Deze studie bestudeert de relaties tussen straffen en beloningen en hun effect op verschillende uitkomsten die in het verleden empirisch zijn onderzocht. Ik vind dat er relatief veel onderzoek is gedaan naar de relatie tussen straffen en beloningen en relatiekwaliteit.

Relatiekwaliteit focust op aspecten van een relatie in termen van tevredenheid, vertrouwen/toewijding en conflict. Verder vind ik dat er relatief weinig onderzoek is gedaan naar de relatie tussen het gebruik van straffen en beloningen en de prestaties van een dealer, slechts 14% van alle correlaties betreffende straffen en 15% van alle correlaties betreffende beloningen zijn gerelateerd aan de prestaties van een dealer.

Ik vind dat straffen een gemiddelde correlatie van $-.30$ hebben met relatiekwaliteit, en dat beloningen een gemiddelde correlatie van $.26$ met relatiekwaliteit hebben. Doordat deze effecten niet homogeen zijn heb ik een moderatoranalyse uitgevoerd. In deze analyse identificeer ik een aantal theoretische en methodologische studiekenmerken die de heterogeniteit in resultaten kan verklaren.

Mijn resultaten laten zien dat de volgende moderatoren de straf/beloning – relatiekwaliteit relatie beïnvloeden. Ten eerste vind ik dat het type straf/beloning de

straf/beloning – relatiekwaliteit relatie beïnvloedt. Voorwaardelijke straffen en beloningen hebben een zwakker effect op relatiekwaliteit dan onvoorwaardelijke straffen en beloningen. Ten tweede beïnvloedt de culturele context waarin straffen en beloningen worden gebruikt de effectiviteit van straffen en beloningen op relatiekwaliteit. Met behulp van het Schwartz cultureel raamwerk laat ik zien dat straffen die worden gebruikt in landen die hoger scoren op de culturele hiërarchie dimensie een kleiner negatief effect op relatiekwaliteit hebben. Verder is het effect van beloningen zwakker in landen die hoger scoren op de culturele autonomie dimensie van het Schwartz cultureel raamwerk.

Doordat hoofdstuk 2 duidelijk laat zien dat voorgaande studies nauwelijks de relatie tussen straffen en beloningen en de prestaties van een dealer hebben onderzocht, onderzoek ik het effect van beloningen (hoofdstuk 3) en het effect van straffen (hoofdstuk 4) op de prestaties van een dealer. Deze prestaties heb ik zes maanden gemeten na de initiële data verzameling van de onafhankelijke variabelen. Longitudinale enquêtes bieden een oplossing voor mogelijke ‘common method variance bias’, omdat de scheiding tussen afhankelijke en onafhankelijke variabelen over tijd, de cognitieve toegankelijkheid van respondenten tot afhankelijke en onafhankelijke variabelen vermindert in vergelijking tot wanneer ze op hetzelfde tijdstip zouden zijn gemeten (Podsakoff en Organ 1986).

Omdat de resultaten van hoofdstuk 2 laten zien dat voorwaardelijkheid een belangrijk kenmerk is dat de effectiviteit van straffen en beloningen beïnvloedt, focus ik mij in hoofdstuk 3 op dit aspect.

Over het geheel genomen vormen de resultaten van hoofdstuk 2 een startpunt voor hoofdstuk 3 en 4.

3. Belonende Beloningen? Een ‘Contingency’ Raamwerk van Beloningen in Distributiekkanalen

In hoofdstuk 3 onderzoek ik het effect van het gebruik van beloningen door een leverancier op de prestaties van zijn dealers. Het verhogen van de prestaties van zijn dealer is een van de belangrijkste doelen waar een leverancier naar streeft als hij beloningen toepast, echter hoofdstuk 2 toonde aan dat deze relatie nauwelijks empirisch is onderzocht. Ik maak een onderscheid tussen onvoorwaardelijke en prestatie-voorwaardelijke beloningen, omdat de resultaten van mijn meta-analyse lieten zien dat voorwaardelijkheid een belangrijke determinant is die bepaalt hoe effectief beloningen zijn.

Mijn resultaten laten zien dat onvoorwaardelijke beloningen een negatief effect hebben op de prestaties van een dealer. Dit negatieve effect wordt veroorzaakt door het feit dat er een duidelijke link ontbreekt tussen het gedrag van een dealer en de onvoorwaardelijke beloning. Doordat deze link ontbreekt, ziet de dealer een onvoorwaardelijke beloning als oneerlijker, en creëert het ook onduidelijkheid voor de dealer; deze twee gevolgen leiden beiden tot een lagere prestatie van de dealer. Zoals verwacht hebben prestatie-voorwaardelijke beloningen een positief effect op de prestaties van een dealer. De effectiviteit van beide beloningen wordt echter beïnvloed door een dealer's houding tegenover risico en het niveau van competitieve intensiteit in de dealer's omgeving.

4. Leren van Anderen: Een ‘Vicarious Learning’ Perspectief op Straffen in Distributiekkanalen

In hoofdstuk 4 onderzoek ik het effect van het gebruik van straffen door een leverancier op de prestaties van zijn dealers, een relatie die ook zelden is bestudeerd in voorgaande literatuur zoals mijn meta-analyse in hoofdstuk 2 liet zien. Het doel van dit hoofdstuk is om de controverse op te lossen die momenteel heerst rondom het gebruik van straffen. Zover ik weet, hebben alle studies behalve Corsten, Kumar, en Kuzca (2006), zich gefocust op de schadelijke gevolgen van het gebruik van straffen. Desondanks worden straffen nog steeds veelvuldig gebruikt in de dagelijkse praktijk (Kuipers 2001; Snyder 2003). Dit leidt tot de vraag of straffen wellicht ook positieve effecten kunnen hebben, of onder welke omstandigheden ze gunstige gevolgen kunnen hebben. De resultaten van mijn meta-analyse in hoofdstuk 2 lieten zien dat straffen alleen vanuit een dyadisch perspectief bestudeerd zijn; straffen hebben echter ook een invloed op het bredere dealernetwerk. Door het introduceren van dit netwerk perspectief laat ik zien dat straffen ook een positief effect op de prestaties van een dealer kunnen hebben. Omdat een dealer indirect leert van andere dealers als een leverancier deze andere dealers straft, creëert dit duidelijkheid voor de dealer wat hij moet vermijden om gestraft te worden, wat hem uiteindelijk motiveert om zelf beter te presteren. Dit positieve effect van straffen wordt versterkt als de leverancier verzorgingsgebiedexclusiviteit aan de dealer heeft gegeven, en als het netwerk van dealers een hecht netwerk is.

Implicaties

De resultaten van mijn studies hebben een aantal belangrijke management implicaties, waarvan de belangrijkste zijn:

- Managers moeten beseffen dat straffen een negatief effect en beloningen een positief effect op relatiekwaliteit hebben. De grootte van deze effecten wordt beïnvloed door het type straf/beloning en de culturele context waarin ze worden gebruikt. Het ontwikkelen van standaard straf/beloning programma's voor verschillende landen is daarom af te raden (studie 1).
- Managers moeten zich focussen op het gebruik van prestatie-voorwaardelijke beloningen, omdat deze de prestaties van een dealer vergroten. Het gebruik van onvoorwaardelijke straffen dient vermeden te worden, daar zij de prestaties van een dealer negatief beïnvloeden (studie 2).
- Wanneer managers hun dealers straffen, zal dit een negatief effect hebben op de prestaties van de gestrafte dealers. Echter, het leidt wel tot verhoogde prestaties bij de dealers die zich in hetzelfde dealernetwerk en die deze straf hebben waargenomen. Straffen hebben daarom niet altijd een negatief effect; managers moeten het totale dealernetwerk in ogenschouw nemen wanneer zij de daadwerkelijke effecten van straffen op de prestaties van een dealer willen weten (studie 3).

Tot slot

De resultaten van mijn proefschrift hebben helderheid verschaft in het gebruik van straffen en beloningen en hun effect op de prestaties van een dealer binnen distributie kanalen. De inzichten die verkregen zijn kunnen managers helpen om hun straffen en beloningen te optimaliseren om zo uiteindelijk, zo effectief en efficiënt mogelijk hun distributiekkanalen aan te kunnen sturen.

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