A Study on the Bright Side and the Dark Side of Channel Relationships across Furniture Small-Medium-Enterprises: Which One Dominate Most?

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Abstract

Studies within Indonesian furniture industry revealed collaboration between small-medium (SME) manufacturers and their working partners may be of primary concern. Notwithstanding, several researches find such collaboration delivers bright and dark side of channel relationships and this needs further investigation. This study fills the void by integrating variables under social capital theory and transaction-cost-economies to uncover the influences of both sides. Based on a survey of 200 SME furniture manufacturers across Jepara, a central part of Indonesian furniture industry, this study finds relationship-specific-investments (RSIs) and opportunism as representatives of the dark side of channel relationships, play a more active role than the bright side represented by collaboration and agility constructs. In addition, RSIs perform two-sided functions in influencing relationship performance between the manufacturers and their connecting retailers. The results of this study provide new theoretical and managerial insights into the role of the elements of the bright and the dark side of channel relationships.

Keywords: Collaboration, agility, relationship-specific-investments, opportunism, relationship performance.

1. INTRODUCTION

Small-medium-manufacturers within Jepara furniture industry experiences significant decrease since 2005 in the number of manufacturers, export volume, and employment (Purnomo et al. 2016). Prestvik (2009), as cited in Melati et al. (2013) finds most small-scale furniture manufacturers perceive market access as their main problem-a constraint that was not a serious issue several years earlier. As such, Purnomo et al. (2009) offer collaboration along the value chain to produce new products or services and to improve value added processes.

Research found that collaborative relationships were not always beneficial, yet to some extents delivered negative impacts (Abosag et al. 2016; Villena et al. 2011; Zhou et al. 2015). Abosag et al. (2016) asserts the negative impacts could be reduced if channel partners can manage the interplay between the positive and negative elements of their relationships. Villena et al. (2011) and Wang et al. (2013) recognize the dearth of studies in this issue and suggest future research to combine social capital (SC) theory and transaction-cost-economy (TCE) theory in exploring the interplay of the bright and the dark sides of channel relationships.

Hence, this study fills the gap by deploying main constructs under both theories as elements in channel relationships within small-medium-manufacturers in a furniture industry. The study considers relationship performance as the final outcome of the channel relationships since SC and TCE can facilitate a firm’s performance improvement (Nahapiet & Ghoshal 1998; Villena et al. 2011; Wang et al. 2013). This study offers a further investigation to channels research by combining and comparing the bright side and the dark side of a channel relationship in a context of small-medium enterprises. From a practical viewpoint, furniture manufacturers may use the comparison as a basis for strengthening relationship with their retailers.

2. LITERATURE REVIEW

A. The Bright Side of Channel Relationships

The bright side of channel relationships may be grounded in social capital theory (Villena et al. 2011; Wang et al. 2013). Social capital refers to a valuable asset that stems from access to resources provided through social relationships (Granovetter 1992). Nahapiet and Ghoshal (1998) derive social capital in three dimensions: cognitive, relational, and structural. The cognitive dimension entails shared meaning and understanding between members; the relational dimension refers to trust, friendship, respect, and reciprocity developed through a history of interactions; and the structural dimension describes the pattern of relationships among members (Villena et al. 2011). This recent study reviews the literature pertaining only to relational dimension of social capital as it only focuses on the continuous development of relational bonding between channel members.

In the relational dimension, Sukresna et al. (2016) and Villena et al. (2011) argue through repeated transactions, the channel members have attained trustworthiness and affirmed norms of friendship and reciprocity within the relationship. Trust is likely synergistic with collaboration in curbing uncertainties within the relationships (Dyer 1997; Narayanan et al. 2015) and therefore collaboration is a construct that may deliver positive impacts within channel relationships.

Further, ongoing trusted relationship increases channel members' responsiveness and better product portfolios (Crook et al. 2011; Narayanan et al. 2015). The responsiveness, as a form of firm's agility (Gligor et al. 2015; Narayanan et al. 2015), stemmed from superior understanding between channel members, involvement of top managements, and intensive information exchange (Narayanan et al. 2015). Consequently, agility becomes the second construct involved in the bright side of channel relationships.

B. The Dark Side of Channel Relationships

Dark side of channel relationships is characterized by the intensive conflicts and opportunism (Wang et al. 2013). Transaction-cost-economy (TCE) is perhaps the complete theory in describing the symptoms. This theory originates from the work of (Williamson 1975) with the main idea is to capture opportunistic behavior between parties. Two important assumptions in TCE are opportunism and bounded rationality (Grover & Malhotra 2003; Rindfleisch & Heide 1997). Whilst opportunism comprises the risk of parties not behave in the interest of the relationship, bounded rationality involves the risk of uncertainty (Chiles & McMackin 1996). The primary constructs related to governance in the TCE view are relationship-specific-investments (RSIs), uncertainty and transaction frequency (Grover & Malhotra 2003).

Among these three, RSIs is the most researched factor connected to opportunism (Grover & Malhotra 2003). Relationship-specific-investments refer to the degree to which transaction specific assets are invested in the relationship (Geyskens et al. 2006). These specific assets introduce risks such as possible hold-up due to opportunism (Grover & Malhotra 2003). The risk of opportunism can lead to additional costs of monitoring and coordination (Chiles & McMackin 1996). As such, in the context of an ongoing relationship between small-medium-manufacturers and their connecting retailers, this study focuses on relationship-specific-investments and opportunism as key constructs.

C. Hypotheses Development

Based on the above considerations, on the bright side strand, this study posits collaboration positively influences agility **(H1a)** (Chen et al. 2013; Narayanan et al. 2015) and reduces opportunism **(H1b)** (Zhou et al. 2015; Wang et al. 2013). On the dark side, RSIs positively influences opportunism **(H2a)** (Wang et al. 2013; Mysen et al. 2011) and reduces the agility of a firm since the RSIs may be used for a bargaining power over channel partners **(H2b)** (Narayanan et al. 2015). Notwithstanding, this RSIs may improve relationship performance with channel partner because the manufacturer could use the RSIs as a bonding to attract special attention from its retailers and thus harmonizing working relationship **(H2c)** (Wang et al. 2014; Mysen et al. 2011). In the final outcomes, agility positively influences relationship performance of manufacturer and its retailer **(H3)** (Brito et al. 2014; Gligor et al. 2015), whilst on the contrary opportunism diminishes relationship performance **(H4)** (Mysen et al. 2011; Wang et al. 2013).

The hypothesized pathways are depicted in Figure 1.

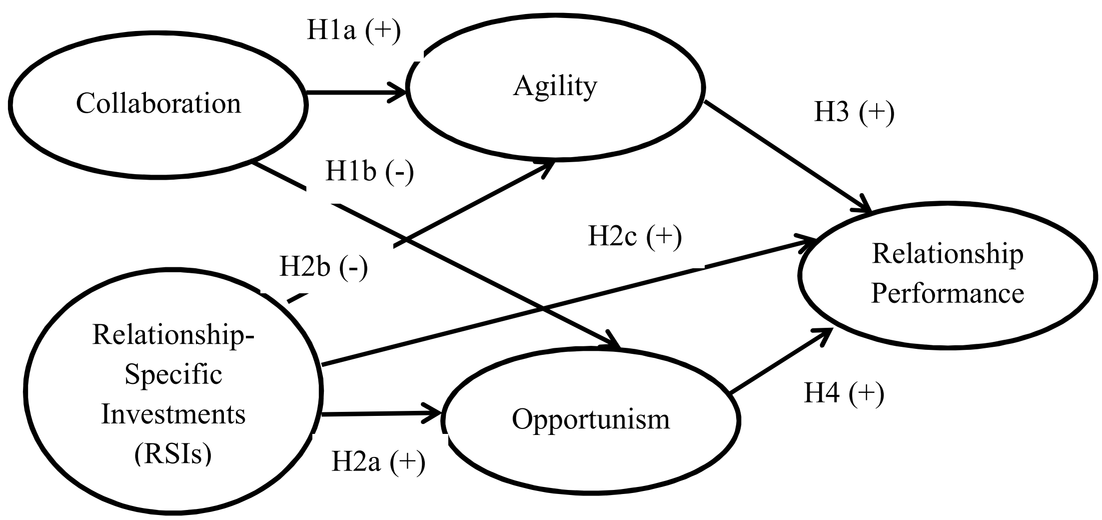

Fig.1. The hypothesized pathways of collaboration, agility, RSIs, opportunism, and relationship performance.

3. METHODS

A. Measures

This study deploys five constructs: collaboration, relationship-specific-investments (RSIs), agility, opportunity, and relationship performance. Collaboration and RSIs act as antecedents, whilst agility and opportunism posit as consequences. Relationship performance is posited as the final outcome of channel relationships. All measures are anchored in 5-points Likert scale (totally agree-totally disagree). The agility construct captures perceptions of the manufacturer about itself, whilst the rest record the manufacturer's perceptions about the relationship with its connecting retailer.

Collaboration refers to a high level of purposeful bilateral engagement that is characterized by information exchange, cooperation and management involvement in the relationship (Narayanan et al. 2015). Adapted from literatures (Claro et al. 2003; Liu et al. 2016; Narayanan et al. 2015), the measure consists of eight items. Relationship-specific investments are the manufacturer's investments dedicated to the relationship with its particular retailer. Adapted from Heide (2003) and Mysen et al. (2011), the measure comprises four items. Agility is the firm's ability to adjust its supply chain to rapidly respond changes in market and customer demand. Based on the measures from Gligor et al. (2015), the measure encompasses seven items. Opportunism describes the extent to which the retailer's behaves in self-seeking activities with guile (Rokkan et al. 2003) and this measure consists of five items adapted from Wang et al. (2013) and Zhou et al. (2015). Lastly, relationship performance refers to the extent to which the manufacturer receives benefits as a result of the relationship with its connecting retailer. The measure adapts the scale of Sanders (2008) and Villena et al. (2011) and it consists of five items.

The measures development started from pooling existing measures from relevant literatures. Such collections were then underwent face validity test by discussions with the academic experts, followed by in-depth discussions with three eligible manufacturers. Prior to the in-depth discussions with the manufacturers, the measures were translated into Indonesian language by a trained translator. These steps ensure relevancy of items as well as words clarity of the questionnaire instrument.

B. Sampling and Data Collection

The unit of analysis for this research is the firm and the preferred target respondents are senior-level managers or owner with knowledge of business relationship with the firm's connecting retailer. A non-random purposive sampling is employed since the directory of Jepara's small-medium-manufacturers was incomplete. Based on Hair et al. (2010)' suggestion on sample for Maximum Likelihood (ML) estimation (100-200 samples), the research targets 200 respondents as sample. Such respondents are the small-medium-manufacturers which sell their products in at least an external retailer or an external shop (a retailer that is not involved in one group of company with the manufacturer).

The questionnaires are delivered in-hand by five trained surveyors. They accompany the respondents in filling the questionnaires in accordance to avoid misperceptions and thus this method ensures a very high response rate. All 201 distributed questionnaires are returned, in which only one questionnaire does not meet the criterion (a big-sized company). Hence, the final and usable questionnaires are 200 units.

C. Data Analysis

The data analysis starts with data cleaning to avoid missing data and outliers. Only one missing data was found and this is remedied by supplying an average value to the particular data. The outliers are not a serious problem since none of the values exceed 3.29 and 95% data is in the normal range (Field 2013). Next, the normality check is performed since the statistical process uses ML estimation (Cunningham 2008). All indicators reveal proper linearity and tolerable range of skewness (close to 0) and kurtosis, and thus these indicate accepted normality.

Following the steps, this study performs two-steps SEM by conducting Factor Analysis prior to do SEM (Worthington & Whittaker 2006). An Exploratory Factor Analysis (EFA) precedes Confirmatory Factor Analysis (CFA) using equally-divided data from a total 200 cases (Worthington & Whittaker 2006). The EFA (maximum-likelihood, direct oblimin rotation) is conducted to ensure the items are well-grouped into their respective constructs and to reduce data. The CFA confirms the result of EFA within the multivariate strand to be suitable for SEM analysis.

4. RESULTS

Demographics show 95% are male and the majority is high-school graduates (60%). Most respondents are the owner of the business (85%) whilst the rest are senior managers. Most companies aged more than 10 years (70%) and small-sized business with the number of employees between 10-20 people (71%). Their sales mostly below 100 million rupiah (81%) which may indicate they are mostly small-sized business. The majority of the respondent engages with 1-5 retailers (83%) with relationship duration of 1-5 years (90%). The connecting retailers mostly contribute a minimum of 20% total sales of the manufacturers (86%) and hence this may indicate a greater dependence of the manufacturer toward its connecting retailers.

Table 1 summarizes the factor reductions from EFA and is confirmed through CFA. All item loads are sound (> 0.6) and suitable for SEM analysis.

Table 1
Scale items.

Measures	Mean	SD	Loadings
A. Agility (Cronbach's alpha: 0.73)			
We:			
1. Can quickly detect changes in business environment*.			
2. Are successfully able to obtain the information we demand from our customers*.			
3. Can make definite decisions to address business opportunities.	2.02	0.65	0.70
4. Can make firm decisions to respond the business threats.	2.22	0.69	0.82
5. Can adjust our operations required for executing decisions*.			
6. Can increase short-term production capacity as needed (e.g. increasing work hour)*.			
7. Can adjust the specification of orders as requested by our customers*.			
B. Collaboration (Cronbach's alpha: 0.72)			
Regarding our working relationship with this retailer:			
8. We are commiting to deliver a successful collaboration*.			
9. There are significant efforts (e.g. adding fund or facilities) to develop a sustainable collaboration*.			
10. We create joint working plan*.			
11. We jointly deal with problems that arise in the collaboration*.			
12. We routinely exchange information through informal mechanisms.	2.54	0.85	0.73
13. We conduct regular meetings to evaluate business progress*.			
14. We share information that likely benefit the retailer*.			
15. We ensure that both of us always receive information about events that may influence each pa	2.38	0.72	0.79
C. Relationship-specific-investments (RSIs) (Cronbach's alpha: 0.80)			
Regarding our working relationship with this retailer:			
16. We incur significant investments (e.g. fund, employees, and equipments) only for this relationsh	2.70	0.93	0.67
17. We significantly adjust our work (e.g. overtime work) to serve the retailer's demand.	2.32	0.75	0.64
18. Our logistics has been adjusted to serve the retailer's demand (e.g. faster delivery).	2.38	0.76	0.78
19. Training our employees to serve the retailer has involved substantial commitments of time and	2.69	0.87	0.74
D. Opportunism (Cronbach's alpha: 0.93)			
Regarding our working relationship with this retailer:			
20. Sometimes, the retailer lies about certain things in order to protect their interests.	3.09	1.00	0.73
21. The retailer sometimes promises to do things without actually doing them later.	3.29	1.03	0.86
22. The retailer sometimes tries to breach our agreements to their benefit.	3.24	1.04	0.94
23. The retailer tries to take advantage of 'holes' in our agreements to further their own interests.	3.30	0.95	0.90
24. The retailer sometimes uses unexpected events (e.g. products delivery) to extract concessions	3.21	0.94	0.79
E. Relational performance (Cronbach's alpha: 0.78)			
In our cooperation with this retailer, we have successfully:			
25. Created new generation of products*.			
26. Opened up new markets*.			
27. Learned about customers' wants*.			
28. Improved products quality.	1.83	0.62	0.82
29. Improved quality of the production processes.	1.87	0.63	0.77

*Dropped during the EFA and CFA processes

Table 2 shows the results of SEM analysis. The normed chi-square (CMIN/DF = 1.81), CFI (0.96), TLI (0.94), RMSEA (0.06), GFI (0.93), and AGFI (0.89) indicate an excellent model (Hair et al. 2010). Model validation is approached with 1000 bootstraps, and again an excellent p (Bollen) of 0.01 indicates a valid and excellent fit model.

SEM analysis shows three paths are significant and two paths are insignificant. All displays sound discriminant validity and construct reliability. Collaboration positively influences agility **(H1a)** yet does not significantly reduce opportunism **(H1b)**. RSIs positively influence opportunism **(H2a)**, reduce the agility of a firm **(H2b)**, and positively influence relationship performance **(H2c)**. In the final outcomes, agility does not positively influence relationship performance **(H3)**, whilst on the contrary opportunism significantly diminishes relationship performance **(H4)**.

Table 2
Results of testing the research hypotheses.

Structural paths	Standardized path coefficients	Hypothesis testing
H1a: Collaboration → Agility	0.94***	Supported
H1b: Collaboration → Opportunism	-0.13	Not supported
H2a: RSIs → Opportunism	0.39***	Supported
H2b: RSIs → Agility	-0.54**	Supported
H2c: RSIs → Relationship performance	0.78***	Supported
H3 : Agility → Relationship performance	0.12	Not supported
H4 : Opportunism → Relationship performance	-0.19*	Supported

*$p < 0.1$
**$p < 0.05$
***$p < 0.01$

5. DISCUSSION

The central theme of this research is that the variables of the bright side and the dark side of channel relationships contribute to relationship performance between furniture manufacturer and its connecting retailer. This study empirically demonstrates that the dark side mostly affects the relational performance metrics. Specifically, the firm’s agility does not significantly affect relationship performance, whilst opportunism negatively influences relationship performance. In addition, RSIs as a driver of opportunism significantly affects relationship performance in a positive direction.

This study makes several contributions to the field. First of all, even though the impacts of the bright side and the dark side of channel relationships have been widely discussed separately (e.g. Narayanan et al. 2015; Villena et al. 2011; Wang et al. 2013), their join influence to relationship performance has little been investigated. This study finds the dark side of channel relationships dominates such relationships in the context of SMEs' furniture industry. It presents new insights into the functions of RSIs and opportunism.

Second, by investigating the role of RSIs, this study reveals that RSIs has two sided impacts toward relationship performance. This confirms the notion of RSIs as a valuable yet vulnerable assets (Rokkan et al. 2003). The positive influence within the RSIs' direct path to relationship performance may imply that the SME manufacturers view their RSIs as a binding factor that creates a feeling of thankfulness within their connecting retailers. Such feeling may be translated by the retailers into beneficial actions toward the manufacturers. In turn, their relationship quality may be improved continuously. On the contrary, the presence of opportunism as a mediating variable diminish the quality of the relationship and this imply that manufacturers should manage the feeling of anxiety toward opportunism, perhaps by applying relational governance structures (Zhou et al. 2015).

Third, contrary to the social capital theory tenet, the firm's agility does not affect relationship performance. This may imply that relationship performance between the manufacturers and their connecting retailers prefer join actions to seek business opportunities instead of merely a party's innovations to break any market barriers. Such joint actions may not be adequately reflected in the agility variable. The joint actions are based on trust and thus it is an element of relational social capital (Villena et al. 2011). Consequently, the agility variable has not fully reflects the element of social capital.

Fourth, from a managerial point of view, this study highlights that RSIs and opportunism play a more important role than a combination of collaboration and agility in influencing relationship performance. Manufacturers should be aware of the importance of developing relationship with their connecting retailers by positively deploying the manufacturers' RSIs. Manufacturers should communicate intensively with their retailers regarding the importance of RSIs in creating reciprocal bonding and joint actions. This in turn could help manufacturers to attain beneficial market information which finally may improve the business performance of both manufacturers and retailers.

Further, the presence of opportunism in diminishing relationship performance may urge the manufacturers to develop cautious steps in improving relationship performance with the connecting retailers. Even though the common relationship forms are informal, in some circumstances it may be better to upgrade such relationship into a formal contract as a governance tool.

Finally, the minimal influence of the elements of a bright side relationship does not mean that such positive elements should be ignored. Instead, the agility of manufacturers should include more relational social capital elements to gain a deeper trustworthy from the connecting retailers. The manufacturers also should increase their personal bonding in collaboration with their retailers as a form of structural social capital (Villena et al. 2011).

6. LIMITATIONS AND FUTURE RESEARCH

As with any research, this study has some potential limitations, which also reflect possible directions for future research. First, self-report measures presenting the possibility of common method bias. Therefore, future research may design measures from the connecting retailers to address this concern.

Second, this study is purely quantitative. Although the results mostly support the proposed relational paths in this study, the lack of a deeper investigation on the processes across the paths prohibits the study to find thorough answers based on the context of the study. Hence, future work may involve a mixed methods design to provide a more holistic perspective of the proposed model.

Third, owing to the finding on RSIs, future study could potentially investigate the effects of RSIs on improving relationship performance. Future research might adopt to join the issues of RSIs and collaboration. This would improve knowledge on the possible underlying mechanisms through which RSIs contributes to channel performance.

Finally, the generalizability of the results is limited since the study utilized survey data from Indonesian furniture manufacturers. Future research could extend its research scope to different research settings.

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