

ECONOMIC RATIONALITY OR SOCIOLOGICAL LEGITIMACY? THE CONDITIONS UNDER WHICH MULTIPLE CHANNEL STRATEGIES ARE EFFECTIVE

INTRODUCTION

Firms adopt isomorphism strategies to gain legitimacy in their institutional environments (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1995). The institutional approach provides good explanations for phenomena that cannot be dealt with in terms of the principle of economic rationality. Several IMP researchers applied the concepts of legitimacy and isomorphism to their studies on business-to-business (B2B) networks (e.g., Low & Johnston, 2008, 2010; Person, Lundberg & Andresen, 2011). They address the issue of how firms' activity linkages and resources ties are legitimate in the business networks (Low & Johnston, 2008). The IMP perspective views legitimation as "the process in which general and specific business, social, technological, and political activities are generated, connecting the firms' resources (production, technical, financial, and marketing etc) with others in the networks" (Low & Johnston, 2008, p. 874). In other words, their interests are in how activities and resources are combined and connected, and then are institutionalized as routines and practices unique to industrial networks. From the legitimacy perspective, firm should conform to the routines and practices in their industrial networks.

However, is isomorphism always a correct strategy? For example, the effectiveness of isomorphism strategies of multinational enterprises depends on institutional distance between their home and host countries (Wu & Salomon, 2016). This study focuses on multiple channel strategies to investigate the effectiveness of isomorphism. Multiple channel systems have become a dominant channel design in various industries (Kabadayi, 2011). Here we use the term "multiple channel" broadly refer to a certain manufacturer's channel to their targeted segment by various numbers of "distinct" routes to market, such as offering numbers of formats for customers to procure a product or service. Combination of indirect and direct channel concurrently, generally referred as dual channel, is also considered as a subset of multiple channel.

Multiple channels have drawn researchers' interests in the research field of inter-firm relationships such as marketing channels. Why do firms adopt multiple channels? Why

multiple channels are commonly developed in certain industries? In those industrial networks, should new entrants isomorphically develop the strategies? The issue should be addressed in terms of not only the principle of sociological legitimacy but also the principle of economic rationality. This study assumes that decision of whether or not firms imitate the practices of others in the same industries follows both of the principles.

Previous business studies deal with various business phenomena they are interested in based on either of the principles. Thus, our empirical study contributes theoretically to the literature of a broad range of business studies by providing a holistic research model based on the principles of economic rationality and sociological legitimacy. Additionally, with reference to multiple channels it addresses, it contributes to the marketing channel literature.

LITERATURE REVIEW AND HYPOTHESES

Since proliferation of distribution channel options is observed recently, multiple channel strategies have become more the rule than the exception (Frazier, 1990; Käuferle & Reinartz 2013; Fürst, Leimbach & Prigge 2017; Kabadayi, Eyuboglu & Thomas 2007). Firms face an increased need to switch their current distribution channel systems to more complex multiple channel systems (Webb & Hogan, 2002) because of recent shifts in customer buying behavior, the globalization of markets, and the advent of the Internet. When multiple channels are well managed, manufacturers are able to enjoy rewards due to the increased coverage of their channels, the lower operational costs, and the customized marketing approaches (Eyuboglu & Thomas 2007). A properly designed and managed multiple channel systems may satisfy customers in the most cost-effective manner (Frazier and Antia, 1995; Moriarty and Moran, 1990). Multiple channels also may result in expansion of markets and, in turn, contribute to improvement of firms' financial performance and competitive advantages.

On the other hand, a dark side of multiple channels also exists. Firms trying to convert from one type of distribution channels to another often face resistance of channel members, conflicts in the relationships with them, and confusion of customers (Weiss and Anderson, 1992). Designing multiple channels is usually associated with complex channel management by manufacturers. Firms that desire to exploit market potential efficiently through multiple distribution channels have to avoid overly intensive distribution, to limit intra-brand competition, and channel cannibalization (Käuferle & Reinartz 2013). Since each channel combines different levels of service outputs, search

convenience, and costs (Coughlan *et al.*, 2006; Jindal *et al.*, 2007), manufacturers are required to carefully coordinate the conflicts of interest among various channel members. In this regard, managing multiple-channel is a quite burdensome and challenging task for manufacturers in most industries.

Although institutional theorists explain isomorphic behavior according to the principle of legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), our study assumes that simply conforming to strategic practices in the industries will lead to performance deterioration. A type of mimetic pressures is referred to as a bandwagon effect (Son & Benbasat, 2007). Additionally, firms often take certain actions to avoid the fear of being left out of their industries, or to foster their image and reputation within their industry (e.g. Ordanini, 2006; Standing, Love, Stockdale, & Gengatharen, 2006). In this manner, simple mimetic pressures cause organizations to imitate others' actions without a great deal of thought (March, 1981). Designing and managing multiple channels is too complicated to be implemented without setting their explicit strategical goals and analyzing their holistic channel portfolios and their potential impacts on firms' strategical and financial performance. Thus, without well-planned blue-prints, manufacturers are likely to suffer vertical and horizontal channel conflicts. As a result, they will incur high transaction costs. Accordingly, we hypothesize the following:

H₁: Manufacturers' investment in developing multiple channels that is stimulated by mimetic pressures to conform their competitors' strategies will decrease (increase) channel performance (transaction costs).

On the other hand, we presume that manufacturers' investment in developing multiple channels according to normative isomorphic pressures is likely to lead to reduction of transaction costs and transactional hazards. Normative pressures imply that strategic actions taken by organizations are subject to the values and norms shared among the members of their social networks including channel members (e.g. Scott, 2001; Grewal & Dharwadkar, 2002). Son and Benbasat's (2007) study on organizational purchasing behavior and B2B e-marketplaces found that the extent to which suppliers adopt e-marketplaces will positively influence the adoption of organizational buyers.

Similarly, when diversification of customers' purchasing is observed, manufacturers feel normative pressures to adopt multiple channels. Active adopters of channel multiplicity establish cooperative relationships with various channel members by dividing segment-related responsibilities among subsystems and thus decreasing channel

overlap in customers (Fürst, Leimbach & Prigge 2017). As a result, it could be argued that manufacturers' adoption of multiple channel based on normative pressures (i.e. multiplicity of their customers' buying channel) will facilitate information sharing within channel and thus likely to alleviate transaction costs. Therefore, we expect as follows:

H₂: Manufacturers' investment in multiple channels that is encouraged by normative pressures by their customers will improve (decrease) channel performance (transaction costs).

Manufacturers often enjoy synergy effects between direct and indirect channels. They utilize inter-channel synergies by properly designing downstream channels (Stone, Hobbs, & Khaleei, 2002). Multiple channel strategies enable manufacturers to foster customer relationships (Coelho & Easingwood, 2003). By doing so, manufacturers reduce not only horizontal conflicts but also vertical conflicts (Fürst, Leimbach & Prigge 2017). Manufacturers that have abundant experiences dealing with channel conflict and utilizing synergies between various channels could successfully suppress substantial transaction costs even when confronting new channel environments compared to the competitor that have not such capabilities. According to the discussion above, we propose as below.

H₃: Manufacturers that utilize synergy effects between their direct and indirect channels will more successfully restrain transaction costs when they invest in multiple channels.

Firms are assumed to save costs of transactions with their independent channel partners by exploiting knowledge acquired from their current direct channels. Multiple channel strategies enable firms to operate efficiently and effectively through competitive benchmarking and monitoring, to foster strategic capabilities and innovation due to openness of their structures, and to facilitate resource allocation (Jacobides & Billinger, 2006). Because spillover effects are expected between current channels and newly added channels, manufacturers can save transaction costs by adopting multiple channels. On the other hand, if manufacturers try to invest multiple channels due to malfunction of current channels, the outcomes of their try to adopt multiple channels will be skeptical. Since designing and structuring channel is highly important and accompanied with difficult-to-reverse investment (Folta, 1998; O'Brien and Folta, 2009), it should not be planned and conducted by a backward-looking reason (i.e. such as underperformance of current channel). Thus, we hypothesize as follows:

H₄: Manufacturers whose current channel is underperforming will experience higher transaction costs than manufacturers whose current channel is well-performing, when they invest to multiple-channel.

EMPIRICAL SETTING

Empirical Context: We test our hypotheses by using survey data from manufacturing firms of industrial goods in Japan. Each firm was asked to respond about their level of investment in multiple channel, perceptions of mimetic and normative pressures, perceptive evaluations of their current channel's contribution to firms' profitability and synergies between direct and indirect channels. Industrial manufacturers also were asked to answer about a variety of attributes such as number of employees, perceptive satisfaction of their financial performances and so on.

The sampling framework for our research was Kaisha-Shikiho (Japan Company Handbook: Toyo Keizai Inc.), from which a random sample of 3,000 Japanese manufacturing firms was selected from a broad range of B2B industries.

As the key data sources in this research, we identified the executives responsible for their respective marketing departments. A survey questionnaire, along with a cover letter introducing the research project, was mailed to the chosen 3,000 executives. Following the removal of responses containing incomplete information, 215 responses (response rate: 7.2%) remained and were used to test and validate the hypotheses posited in this study.

Measurement Development: Multi-item measures for all focal constructs in our model were developed through an intense review of the relevant literature. Then some the expressions of the original measurement items were refined to make adjustments for the current empirical setting. After this refinement process, the modified items were included in the questionnaires. Through back-translation, all of the measures were translated from English to Japanese. Since Cronbach's alpha for each multi-item construct, composite reliability (CR) and average variance extracted (AVE) all exceed criteria, we conclude that our measures display high levels of convergent and discriminant validity.

Results:

We estimated our conceptual model for the performance impacts of interplays between manufacturers' adoption of multiple channel and two social legitimacy-oriented motivations and two current channel-related factors respectively. To generate interaction terms to minimize potential multicollinearity, we tried two methods; mean-centering and

residual centering procedure. Since the results are virtually the same, we report only the mean-centered results in Table1.

As shown from the results of preliminary empirical analysis in Table1, our expectations in H1 and H3 are supported, while two interaction effects depicted in H2 and H4 were not confirmed. Manufacturers that invest in multiple channel accommodate to mimetic pressures without a great deal of proactive strategic intent or well-coordinated plan, transactions costs of negotiation or bargaining likely upsurge (H1: $\beta = .12$, $t = 1.486$, $p < 0.1$). Our analysis result also shows that manufacturers' investment to multiple channel will pay off when they have already experiences and capabilities to utilize synergies between direct and indirect channel (H3: $\beta = - 0.16$, $t = -2.409$, $p < 0.01$).

Since the two two-way interaction terms for H1 and H3 were significant, we further analyzed the form of interaction using the simple slope tests outlined by Aiken and West (1991). Figure 1 shows that under the situation of substantial level of mimetic pressures from competitors, manufacturers' choice to adopt multiple channel would not be recommended. Also, shown from Figure2, we conclude that manufacturers investing multiple channel can effectively coordinate conflicts between diverse channel members and thus suppress transaction costs, only if the synergies between direct and indirect channel exist.

CONCLUSION

Focusing on the multiple channel phenomenon, current research shed light on economic rationality-oriented factors (i.e., contribution of current channel to firm's profitability and synergies between direct and indirect channels), as well as legitimacy-oriented factors (i.e., mimetic pressures and normative pressures). Although several prior studies already exist on the issue, they are drawing mainly on the channel conflicts or transaction cost (e.g., Eyuboglu and Kabadayi 2005; Fürst, Leimbach and Prigge 2017). Our analysis results showed that while Japanese manufacturers' investment in multiple channel was driven by not also rationality-oriented factors but also legitimacy-oriented factors, depending on which factors to invest in multiple channel, their impacts on channel performance (i.e. transaction cost) were unequal. Specifically, the investment based on the motive of mimetic isomorphism adversely affects channel outcome. On the contrary, synergies between in-house channels and independent channels played an important role for investment in multiple channel being rewarded. Current research arouses further studies to incorporate not only behavioral or efficiency factors but also broad social factors for understanding multiple channel phenomenon holistically.

Table 1 Estimated Regression Results (DV = Transaction Cost)

Independent variables	Coefficients	Coefficients	t	Hypotheses
	(non-standardized)	(standardized)		
Firm-Size	-0.017	-0.021	-0.166	
Sales Volume	0.092	0.139	1.139	
Mimetic Isomorphism (MI)	-0.012	-0.015	-0.175	
Normative Isomorphism (NI)	0.144	0.176	2.178*	
Synergy (SY)	0.044	0.054	0.817	
Discontent with Existing Channel (EC)	0.323	0.318	4.686**	
Investment on MC (MC)	0.008	0.010	0.118	
MI x MC	0.058	0.120	1.486 [†]	H1(supported)
NI x MC	0.024	0.049	0.596	H2(rejected)
SY x MC	-0.075	-0.155	-2.409**	H3(supported)
EC x MC	-0.050	-0.075	-1.059	H4(rejected)
Constant	3.526		8.497**	
F	5.798*			
R square	0.249			
adjusted R square	0.206			

[†] p < .1; * p < .05; ** p < .01 (one-tailed test)

Figure1 Post-hoc Probe of H1

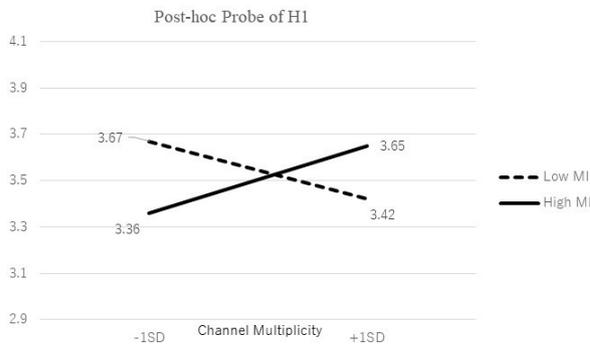


Figure2 Post-hoc Probe of H3

