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“The Moderating Effects of a Network Norm of Obligation”
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The Moderating Effects of a Network Norm of Obligation

This paper examines the moderating effects of network norms of obligation which is defined as the sentiments and sense of responsibility that are expected to be fulfilled by the involved parties and that accrue among individual firms engaged in recurring contractual economic exchange. The purpose of our research is to propose a new dimension of norms, the obligational feature, to argue traditional dimensions that explain relational exchanges need a new dimension to explain how relational exchanges are maintained without legal safeguards. The study results show that the positive relationship between Transaction Specific Investments (TSI) and performance became stronger, and the negative relationship between opportunism and performance became weaker under high level of network norm of obligation. However, different from expectation, it was found to have a negative impact on the relationship between technological uncertainty and performance. A network norm of obligation has costs as well as benefits. It could effectively protect the party which invested in TSI and also reduce exchange the partners' opportunism, but it also constrains the behaviors of the firm.

Key words: Network Norm of Obligation, Governance Mechanisms, TSI, Opportunism, Uncertainty

Prior channel relationship studies (Wathne et al. 2000) have suggested some common ground among Transaction Specific Investments (TSI), opportunism, and uncertainty. These factors continuously and frequently appear in the exchange context, which means that one of the parties involved in a transaction will be vulnerable. For instance, safeguarding issues make the invested party more vulnerable than the receiving party because expected damage is obviously substantial if the exchange relationship is terminated. Pursuing individual interests at the expense of the exchange partner harms the encounter and the relationship and consequently the opportunistic party itself. Adaptation problems due to uncertainty also destabilize exchange relationships because there is likely to be an increase in the motivation to switch partners (Heide and John 1990). Therefore, this vulnerability translates into a need to develop control mechanisms to reduce transaction difficulties.

Previous researchers have identified several control mechanisms and provided useful insights regarding the efficacy of those mechanisms in interorganizational relationships (Jap and Ganesan 2000). However, as marketing scholars (Wathne and Heide 2004) gradually recognized and emphasized the importance of the network context in business relationships, research attention has been increasingly moving from dyadic relationships to relationships occurring in network settings (Wuyts Stremersch, Bulte, and Franses 2004; McFarland, Blidgood, and Payan 2008; Gu, Kim, Tse, and Wang 2010). Yet, there are still some gaps in the knowledge. First, empirical studies concerning network contexts are still rare (Ghosh and John 1999). Second, very few attempts have been made to investigate how the efficacy of control mechanisms in dyadic relationships varies when the relationship occurs in a context involving many actors, who are likely to influence the decision making process of the firms within the dyadic relationship.

To fill the gaps, we attempted to revisit the norms to better understand them in terms of obligatory attributes of norms. Our research was based on a question about the consequences of breaching relational norms. Rules, contracts, law, and relational norms can be broken or breached. If a party involved in a transaction breached one of the first three relationships, it would be punished by law. Yet relational norms are not established by law but by internalization, hence there is no legal safeguard when these norms are broken. We argue that traditional dimensions that explain relational exchanges, such as “informational exchange,” “solidarity,” and “flexibility,” are not enough to explain how these relationships are maintained without legal safeguards. Based on the consideration, we propose a new dimension of norms: the obligatory feature. This new dimension would help firms understand how such norms function in a network context, which is more virtual setting of research than dyadic context. To test the network norm of obligation hypotheses, we developed the construct of a network norm of obligation to address the obligatory facets of relational norms, focusing on the sense of duty shared by actors in a network. In addition to the consideration of a