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The nature and extent of institutional voids: signals from retail penetration across distinct product categories in India

Kumar Rakesh Ranjan[1]

Abstract Emerging markets (EMs) offer businesses unique opportunities as well as challenges. The presence of institutional voids in EMs poses a set of challenges that are difficult for individual firms to mitigate with only their own efforts, and require creative collaboration within a business system. Using distribution channels as a business system, and social exchange as the theoretical premise, I theorize that managers create a cyclical process with the intermediary – at times "Dumping product" on the intermediary, while on other occasions providing a Releasing (cooling-off) period. Furthermore, based on behavioral learning, I argue that rather than being an anomie, this Dumping-Releasing cycle is a perpetuating managerial action, which the manager proactively alters across intermediary size and location, resulting in super-normal performance. The underlying hypotheses of this model were tested using 34,434 purchase instances over a 92-week period within a pan-India distribution channel comprising 2,167 intermediary firms. The study's contribution to theory and practice, and future research opportunities are discussed.

Keywords: behavioral learning, channel, emerging market, institution, social relation, stocking

INTRODUCTION

Emerging markets (EMs) offer exciting opportunities for doing business (World Investment Report 2016, UNCTAD). However, the widespread production and distribution of heterogeneities makes business management challenging, which is aggravated by institutional voids such as weak institutional arrangements (Mair and Marti, 2009). Weak logistics infrastructures, small, family-run support service firms with low specialization and

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standardization, and poor contract-enforcing mechanisms (Dawar and Chattopadhyay, 2002; Khanna et al., 2005) pose operating challenges to large-sized professional enterprises. Therefore, even multinationals such as Unilever and Danone have made unexpected changes in their operations to achieve acceptable results in EMs (Sehgal et al., 2010). As the identified challenges are rooted in institutional structures, firm-level efforts alone cannot mitigate them (Khanna and Palepu, 2010; Khanna et al., 2005).

Given the uniqueness of EMs, extant business models and theories need contextual investigations and extensions (Hoskisson et al., 2000; Meyer and Peng, 2005). This study theorizes and empirically tests how managers use their relational skills to create small periods of oversupply and undersupply in order to boost performance. By so doing, I unravel a mechanism based on social exchange in order to illuminate an apparently anomalous managerial process that enables firms to effectively meet the institutional challenges of EMs while they engage with a large number of small partner firms. The study thereby contributes to the understanding of managerial actions in EMs; the manner in which large firms manage business association with several small firms, and; lastly, how small firms in unorganized EMs survive and thrive while engaging with firms which are many times larger than them.

Institutional voids affect business enterprises in several adverse ways (Parmigiani and Rivera-Santos, 2014), such as: (i) less observable product market and consumer attributes, (ii) limited access to financial and knowledge resources, (iii) difficulty in finding, training, and motivating qualified partners, and (iv) dependence on complex political and business ties to conduct business (Peng and Luo, 2000; Peng et al., 2008). Large firms try to mitigate the first two challenges by using a multi-level and decentralized distribution channel consisting of several intermediary firms – namely, carrying and forwarding agents, distributors, and retailers (Arya and Mittendorf, 2006; Niraj et al., 2001; Rao and McLaughlin, 1989). However, a lengthy channel reduces the control of the firm (henceforth, termed focal firm) and increases its dependence on a large number of less organized small firms (henceforth, intermediary firms or simply intermediaries). A channel manager appointed by the focal firm manages these intermediaries. The manager relies on interpersonal and social exchanges rather than formal or contractual ties to manage the institutional voids and associated uncertainties (Ambler et al., 1999; Peng et al., 2000; Xin and Pearce, 1996).

Social exchange is a prominent perspective in extant EM research (Anderson and Narus, 1990; Palmatier et al., 2007; Steensma and Lyles, 2000; Uzzi, 1996). An example of this is provided by research on inter-firm engagements, which refers to the engagement between an intermediary firm and the focal firm (also understood as buyer-seller or buyer-manufacturer) from the social and relational exchange perspectives (Heide et al., 2007; Xu and Meyer, 2013). Such research has dominantly focused on the distal outcomes of exchange such as information benefits and gains made in terms of local market capabilities (Sun et al., 2010; Xiao and Tsui, 2007). An understanding of the parsimonious process that characterizes these outcomes is lacking (Wasti and Wasti, 2008). I offer specific insight into how social exchange generates collective benefits in the channel, an issue that has required attention because of the EMs' structural transformation "into better developed market-based economies", which has been accompanied by intense multi-level exchanges and interdependencies (Luo et al., 2009, p.1114). I generate such details by unpacking manager-intermediary exchanges within the context of channel sales and using nationwide data to offer empirical evidence for theory.

The distribution channel context

The traditional definition of distribution encompasses the ability of a focal firm to design, manage, and control its channel partners as a captain or shepherd. However, the relational perspective emphasizes cooperation rather than control and considers the channel to be a confederation that creates value through coordinated activities (Anderson et al., 1997; Anderson and Narus, 1986). This perspective is guided by resource dependence theory (Casciaro and Piskorski, 2005; Pfeffer and Salancik, 2003), which asserts that the firm draws resources from its socio-economic context, including other organizations in its task environment, and that the channel is an effective enabler of such interdependencies.

Indirect channel sales process. The indirect sales channel is prevalent in the EM context, where it enables the efficient distribution of products and services. In this empirical context, channel sales are organized at three levels: primary sales – sales from the focal firm to the intermediary firm (or a distributor who sells downstream to a retailer and/or a wholesaler); secondary sales – sales from intermediary firm to retailers, and; tertiary sales – sales from retailers to consumers. The intermediaries perform the channel tasks of stocking, sorting-assorting, bulk-breaking, and at times, perform localized marketing tasks. They are reimbursed for their services by the focal firm through trade-margins and trade-promotions. The channel process is usually supported by a permanent or a third-party field force of the focal firm at each level. The channel manager oversees the sales force as well as channel flows of goods, funds, information, and marketing activities, and also coordinates the relational synergy within the channel. The focal firm plans and monitors the entire process and people involved, including channel managers, according to a predefined planning cycle or PC (usually, a month). The sales manager has to balance the interests of the intermediary (i.e. demand for higher margin and marketing support) with the interests of the firm (i.e. high sales at low cost), while safeguarding his or her own individual and professional interests. How managers steer the individual, focal firm, and intermediary goals amidst institutional voids, is an open question.

Empirical context of this study. A channel system is a fitting context for the study of the role that relational exchange plays in maneuvering institutional voids because: (1) channel management has a strong effect on the survival and growth of EM firms, requiring both tangible and intangible resource commitments (Lazzarini et al., 2008; Park and Luo, 2001), and; (2) more research on channel partnerships in EMs has been called for to make contribution to strategic management and supply-chain management (Luo et al., 2009). The focal firm that provided the empirical context uses a week as a basic unit of its channel sales planning cycle (PC), implying that sales activities are managed and tracked by the focal firm on a weekly basis. Three PCs comprising 4, 4, and 5 weeks constitute a quarter. Therefore, four quarters (twelve PCs or 52 weeks) comprise the sales year. PCs help the focal firm to avoid a clash between closing of its sales cycles and end of a calendar month, and as the intermediaries are not exclusive to the company, the company saves itself from having to compete with other players for the intermediary's limited funds on the last date of the calendar month.

Managerial anomie due to voids. Due to institutional voids such as poor technological advancement and infrastructure (Malik and Kotabe, 2009), intermediaries are less integrated with the focal firm, particularly when they are located in sub-urban and rural areas. Even the sales force has limited direct control over these markets due to the time-consuming and arduous demand of travel, which leads to the poor monitoring of processes and the less precise estimation of channel flow functions. At times, this can result in non-adherence by the intermediary to the guidelines of appointment set by the firm. Consequently, the managers frequently face a divergence between planned and actual sales at the end of a PC (Wright et al., 2005). The recourse the manager therefore takes includes: 1. applying relational pressures on the intermediary to adhere to expected norms; 2. setting inflated primary sales targets, and; 3. trying to push primary sales in order to receive a favorable evaluation near the end of a sales PC (when evaluation for the period is imminent). On one hand, excess inventory adversely affects the intermediary's return on investment and the channel hygiene (e.g., goods-return and product complaints due to stock-aging). On the other hand, push sales might provide benefits to the focal firm because the intermediaries usually put in an extra retailing effort, thereby keeping competing goods off the retailer's shelves However, push selling is a hesitant strategy for sustained sales growth because the means ("product dumping" or intense over-stocking) do not seem to be appropriate in the long term. It appears to be a strategy more suited to enhancing managers' and organizations' short-term gains from primary sales (Cullen et al., 2004) at the cost of the intermediary, which indicates an anomie behavior of sorts (Messner and Rosenfeld, 1997).

On the other hand, intermediaries are also dependent on the focal firm for their survival. There are occasions when the intermediary needs hand-holding in terms of business and distribution skills, super-normal market development support, and developing business linkages with other enterprises. These supports are frequently provided by the channel manager and the focal firm's sales team. An association with the focal firm is also a source of market reputation and status. Lastly, the intermediaries would also like to have favorable relationship with the channel manager, because managers command certain discretionary powers, which can help the intermediary during uncertain and difficult times. Therefore, the intermediary adopts a liberal rather than rigid approach in order to internalize some of the voids and uncertainties (Xu et al., 2013). Social and relational ties gain prominence as a coordination tool in the channel (Li et al., 2010), as the parties use their relational resources to exercise control over each other, align their interests, and meet their professional goals (the theory in support of this claim is offered in the next section).

Is the product dumping behavior that is extensively prevalent an accepted norm that deliver some long-term system-level benefits, or is it just a temporary reaction? I theorize that managers create a cyclical flexi-selling process with the intermediary which sometimes involves over-stocking (or Dumping on) the intermediary, and at other times provides a cooling-off (or Releasing) period in primary sales. Further, theoretical arguments regarding the Dumping-and-Releasing (D-R) cycle show that it is a proactive and perpetuating managerial action. I use a novel dataset to test the D-R cycle and its role in mitigating institutional challenges.

THEORY

Economic sociology and social exchange

EMs nurture the tradition of doing business via relational ties (i.e. social exchange) (Granovetter, 1985; Luo et al., 2009), which makes economic sociology an appropriate lens for viewing and understanding the business processes. Economic sociology signifies ongoing interdependent process within the channel, within which it considers economic exchanges to be inseparable from social exchanges (Granovetter, 1985).

Social exchange plays an important role in EMs because of their socio-cultural environment and historical evolution, which value relationships as institutions of social conduct. EMs' evolution in terms of providing support for business processes is not particularly pronounced, as they offer weak legitimacy in terms of formal regulative as well as normative institutions, which perpetuates the use of cultural-cognitive institutions such as social ties of personal attachment and favor to accomplish business goals (Batjargal and Liu, 2004; Cook and Emerson, 1978; McCarthy et al., 2012; Scott, 2008). Giving and receiving favor results in unspecified obligations, negating need for an immediate or specific *quid pro quo* within the manager-intermediary dyad. The associated transactions are not necessarily a contractual economic investment, instead share the aggregate of actual or potential resources that arises from their interaction (Geletkanycz and Hambrick, 1997). Thus, favor and attachment are collateralized as a presumptive guarantee, similar to material assets (Clark, 1987; Hochschild, 1979), which nurtures reciprocal forbearance through cooperative rather than contractual actions (Buckley and Casson, 1998; Burt, 1997). Economic resolutions of contention are not always transactional (Williamson, 1985), instead occur through: (1) information generation and localized coordination (Allen, 1974; Palmer, 1983; Pfeffer et al., 2003), which eases future transactions (Granovetter, 1973); (2) normative pressure, which creates the relational bond that upholds mutually agreed-upon terms without a formal contract (Koenig and Gogel, 1981); (3) relational ties, which induce individuals to transact out of social obligation, and extends beyond tangible benefits (Frenzen and Davis, 1990), and; (4) less concerns about opportunism, and lower monitoring and safeguarding costs (Heide and John, 1992; Jap and Anderson, 2003), which leads to better efficiency, better relationship continuity, and improved performance. Therefore, within a channel system, an initial relational exchange may happen with reservation and only during some sort of exigency, but the exchange can subsequently create grounds for relationships characterized by increased commitment, and these relationships can allow independent channel members to work together towards the goal of enhanced mutual performance (Birnberg, 1998; Wathne and Heide, 2000).

Learning and discretion

Behavioral learning explains that the manager and the intermediary would instinctively repeat past behaviors that yielded positive outcomes and avoid behaviors that resulted in negative outcomes. As push selling to the intermediary can have adverse effects, the focal firm tries to restrain this short-term agentic action through the control mechanisms of incentives and monitoring. The focal firm wants high primary sales (output measure of performance), but expects the primary sales to be driven by secondary sales (input measure of performance). However, when the manager's performance is evaluated, firms usually focus on output metrics given that measuring the input factors of performance is difficult. Input factors therefore take a backseat even in the minds of the managers. Moreover, generating secondary sales requires retailing activities to be improved and generating consumer pull requires a market development effort, both of which are long-term strategies. Additionally, as the effect of such developmental actions is unclear, the motivation to enact them declines. Lastly, given that channel managers receive limited direct supervision from their regional or national managers, they can learn to evade monitoring (Hambrick and Finkelstein, 1987), and can line up actions that favor their individual goals based on their local know-how. The contextual experience of managers places them in a good position to take advantage of this scenario as they try to optimize actions that maximize their primary sales. However, this requires the continuous and successful integration or absorption of existing capabilities (Kyriakopoulos and De Ruyter, 2004).

At the firm level, organizational learning connotes the firm's ability to learn from experience and experimentation (DiBella et al., 1996; Easterby-Smith et al., 2000). EM firms have a low level of experimentation, and experiential or improvization-based learning is prominent (Zahra et al., 2006). Organizational learning can lead to superior performance if the firms have higher absorptive capacity and if they can create effective new routines (Bontis et al., 2002; Nystrom and Starbuck, 1984). The organizational learning perspective indicates that bigger intermediary firms would be able to realize a superior absorptive capacity (Barkema and Drogendijk, 2007; Hurley and Hult, 1998; Minbaeva et al., 2003).

Managers also exercise certain discretion with regard to local promotions and the development of local trade incentive programs, which they can use to exercise control over the intermediary and meet their own short-term goals. As EM managers face low goal clarity, have uncertain means to attain goals, and face equivocal link between effort and performance (Mischel and Shoda, 1995), they tend to acquire and exercise higher degrees of managerial discretion. The focal firms allow such powers to be exercised in order to provide flexible, below-the-line marketing activities and customized market development programs, as several national programs may not have much relevance in a heterogeneous market of EMs and it is much more efficient to customize marketing programs. However, the same discretionary powers enable managers to exercise control over the intermediaries and to at times fulfill their own short-term goals, such as a fillip to the primary sales. Clearly, such a power differential will decrease, but in the due course will largely transform itself into a relational bond which acts as an alternative resource to enable managers exercise control, which is more rooted in attachment and favor. Certain intermediaries, especially big-sized urban intermediaries, can defy managerial control and discretion, as they are closer to the higher levels of authority (within the focal firm).

In sum, relationship and social-ties co-exist with contextual learning and agentic behavior (Xu et al., 2013). The manager can create relational bonds that involve giving and taking favor to mitigate some of the uncertainty of the voids. In general, the context necessitates cooperative as well as opportunistic behavior in order to gain relational suppleness and accommodate the uncertainty in the immediate task environment. Drawing from these theoretical bases, I generate specific hypotheses to elucidate the management of business processes by the manager, the focal firm, and the intermediary

HYPOTHESES

Condition of product dumping or overstocking and releasing or under-stocking

The channel system provides a mechanism for sharing and reciprocity (Morgan and Hunt, 1994; Uzzi, 1996), which becomes more relevant in an indirect multi-level channel that offers greater economic and structural uncertainty (Wathne et al., 2000). For example, the periodic performance evaluation pressure that builds-up at the end of every planning cycle (month), quarter, and year particularly triggers the discretionary and relational aspect within the dyad. Given the transferable nature of the manager’s job, short-term orientation further supplements such triggers and motivates tactics and strategies that fetch quick results. Product dumping for quick primary sales is one such tool for the manager. Given the heterogeneous development of business opportunities in EMs, when the managers visit such markets, they observe that some of them are unserved or underserved markets in the territory assigned to the intermediaries. The manager communicates such gaps as opportunities during critical periods and expects that the gaps can help liquidate the extra stocks if the (over-stocked) intermediary makes an additional selling effort. Intermediaries may or may not see such markets as sufficiently profitable. Therefore, on the one hand, to liquidate inventory quickly, they might develop such vacant markets, execute an extra market development effort, and perform range-selling to their retailers. On the other hand, intermediaries’ paucity of resources also triggers them to devise easier, quicker, and less expensive approaches, such as infiltration into adjoining territories for a windfall gain; violating territorial sanctity, and; at times, undercutting prices to get rid of the inventory and release their working capital quickly. Such infiltration does not always result in a cannibalization of sales for the focal firm, but to the contrary, can actually improve the firm's market coverage. For the specific intermediary, however, such a benefit is *ad hoc* and will suddenly dry-up once the owner intermediary acquires these markets back. Thus, dumping gives a jolt that makes the channel more opportunity seeking, thereby acting as an 'inexpensive' mechanism for driving up sales figures (Sarvary and Padmanabhan, 2001) – a mechanism that systemically combines managerial 'idiosyncrasy' and the intermediary's desire to fit into the informal environment.

EM managers face higher levels of uncertainty in their operations and performance and therefore try to gain better control over the outcomes (Lawrence et al., 2002; Phillips et al., 2004; Tracey and Phillips, 2011). Localized operations offer managers the capability to experiment with these intangible resources and enhance their absorptive capacity through the relational ties with the intermediary, accumulated learning from peers and teams, assimilation of ideas-that-work, and anecdotal sales stories that deliver value (Carpenter and Fredrickson, 2001). Such experiences result in *institutional bridging* with complementary institutions and help managers to negotiate the challenges of the low level of institutionalization and align the seemingly conflicting goals of the focal firm and the intermediary firm. Such bridging is further enabled by the manager's discretionary position of favor and attachment, and takes care of multi-pronged interests (i.e. the push of primary sales, followed by (favor) of improved marketing support). The subsequent liquidation of the over-supply results in observational learning for the intermediary and the firm, who become less hesitant to try it again, reconciling the cognitive distinctions and strengthening the dyadic outlook (Coff, 1999; Gavetti, 2005). Therefore, the manager would dump products to the distributors to give a fillip to their performance when the end of a PC is close (i.e. when it matters the most).

The intermediary firms, which are usually small enterprises, face the disadvantages of smallness and a constrained level of resources, along with the uncertainties imposed by their task environment. Therefore, intermediaries also have a need to prefer relational benefits over rigid contracts. The manager-intermediary dyad learns and makes sense of the uncertainties and device-flexible protocols that works for it as a collaborative unit. Consequently, while keeping their individual benefit and performance in sight, it also accommodates the needs of each other that were imposed under uncertainty. For instance, intermediaries might allow a primary sales push from the manager, and tolerate inventory pile-up. Subsequently, they may also apply some extra effort to liquidate the stocks, and may as a result identify new market opportunities that might have gone unnoticed during normal sales periods. Similarly, a manager can use low sales pressure that might release some funds for the intermediaries to manage their other business commitments, additionally utilizing the support of some market development initiatives to help liquidate the piled-up inventory (Parmigiani and Rivera-Santos 2014). Therefore, there are intermediary- as well as manager-level reasons to initiate and perpetuate product dumping.

Dumping results in quick primary sales, but has several (adverse) repercussions as well: (1) poor RoI of the intermediary due to the slow rotation of working capital, (2) higher goods return from the market, and (3) territory infiltration and the negative outcomes of price under-cutting. There is an overall loss of value from the channel (Padmanabhan and Png, 1997). Given the implications, a proactive and relational manager acting out of reciprocity would return the favor by releasing the sales pressure in the following period because: (a) of the manager's sense of ownership of, and relationship with, the intermediary firm; (b) it allows intermediaries to liquidate stocks and recover their working capital in order to manage their other commitments; (c) it provides some release from work pressure for the sales force after a hectic end-of-PC; (d) it allows manager to put a concerted effort into a fragmented market at select locations and during select time periods (e.g., focus attention on other intermediaries to whom no primary sales were made in the just-concluded PC); (e) such favors help the manager to insist that intermediaries make an effort to liquidate some of the stocks on their own, thereby reducing their own effort and responsibility; and (f) lastly, as the evaluation pressure recedes for the sales manager, the release of primary sales pressure helps restore the system to normalcy. Thus, the releasing of sales pressure provides mutual benefits and an optimal outcome (Shugan, 1985), which inculcate the behavioral learning that perpetuates such processes.

During the dumping phase, the channel activity and economics align in favor of the channel manager, while these drivers are salient for the intermediary firm during the releasing phase. In both cases, the entities apply the relational lever to tilt the economic benefits towards themselves. Dumping delivers an immediate benefit to the manager, but is an investment for the intermediary. Managers reciprocate by offering commensurate sacrifices during the release. Therefore, I hypothesize that as the intermediary firm and the focal firm (channel manager) negotiate the institutional voids, they will utilize a flexible, cyclical process of Dumping and Releasing.

> *Hypothesis 1:* Manager dumps products on the distributors prior to the manager's evaluation or planning cycle, but follows it up with a period of cooling-off or Releasing by significantly lowering stock levels (as compared to the Dumping period).

Endurance of Dumping-Releasing cycle

The D-R cycle has its own costs and benefits, similar to any other relational process. I argue that the D-R cycle, which is usually triggered by short-run gains during pressing times, propagates because it generates the benefits of the routinization of activities (i.e. sales negotiation tasks) (Frazier and Kale, 1989); the internalization of uncertainty; reduced opportunism, and; a superior cooperative climate (Heide, 1994; Poppo and Zenger, 2002). The D-R cycle creates a basis for expected behavior and obviates the need for authoritative relations (Uzzi, 1996; Wathne et al., 2000). Due to locked-in relational investments in channel processes (Anderson and Weitz, 1992), and the impending threats to survival posed by the task environment, the cycle is not driven by automaticity. Rather, it entails a regular and rational social endeavor to sustain the channel tasks through the mutually beneficial and productive relationship (Peng et al., 2000; Wright et al., 2005). The cycle thus complements the economic channel processes by utilizing the social process to confine, mitigate and redress institutional deficiencies (Poppo et al., 2002).

A combination of product dumping and releasing primary sales pressure offers flexibility at multiple levels and on several occasions, satisfying the interest of the channel system. Such flexibility is beneficial because it helps the intermediary tag along multiple businesses, providing economies of scale. It also helps the intermediary to withdraw resources and remain agile in the face of uncertainty. The cyclical approach allows for this much-needed freeing up some of the entities' resource bandwidth, which can be dedicated to other tasks and exigencies that could not be planned *a priori* amidst institutional voids. At some times, the approach results in growth. At other times, it results in survival. The D-R cycle is beneficial to the dyad as a system and will therefore be perpetuated due to its behavioral learning. The amplitude of the cycle is contingent on the channel's social capital and supportive milieu (Fey and Furu, 2008; Foss et al., 2010), as well as its ability to steadily create favorable pattern or decision replicates in order to gain consistency. Concurrently, it naturally weans out less favorable patterns, drawing from a threshold level of absorptive capacity with respect to the consequences (Barkema et al., 2007; Michailova and Hutchings, 2006; Minbaeva et al., 2003; Xu et al., 2013).

Each D and R period would be separated by the period of normalcy, during which the entire system regresses and operates at levels in-between the two extremes of D and R. During these weeks of normalcy, the manager can design market activation and intermediary support, which is very similar to the planning task of firms operating in advanced economies. The intermediary as well as the manager also need the period of normalcy to keep the promises made during the extreme periods (e.g., during product dumping, a manager might claim: "I assure you that my sales team and we will do our best to help you liquidate the stocks at the earliest."). In sum, managers overstock to trigger performance, which the intermediary accommodates due to relational ties and in anticipation of future benefits. The intermediary puts in more effort and the manager releases sales pressure. Lastly, the manager takes the lead on steady market development tasks to generate additional pull for the product in the market during normal sales weeks, setting the ground for a fresh period of dumping. Therefore, I hypothesize

> *Hypothesis 2:* Product Dumping results in an overall sales gain – the average sales of Dumping and Release weeks (D-R weeks) are higher than the average of the normal sales weeks.

Selective nature of D-R cycle – Role of intermediary size and location

A D-R cycle has financial implications for the intermediary. To be considered responsive and put forth as a conscious and selective managerial effort (as opposed to a temporary reaction), it should accommodate the intermediary's financial position. I validate this important aspect of the cycle along with two close proxies of intermediaries' financial positions: (1) Is the strategy responsive to intermediary size? and (2) Does the strategy account for intermediary location? Moreover, as the overall goal of the intermediary as well as the manager is growth and profit, both parties would be oriented towards an overall gain-factor, and the D-R cycle should be growing, and should not wane into stagnation or decline in business terms. Therefore, beyond ensuring primary sales, a sales manager has to stay abreast of market developments and generate retail pull and coverage for the products. Such goals are accomplished through creative and localized marketing and sales programs, and through frequent interactions with the intermediary and the field salesforce. Given the market heterogeneity and the challenges of supervising an entire field operation, managers tend to focus on conceptualization, design, and evaluation, delegating a portion of the marketing responsibility to the intermediaries. These activities also contend for the manager's limited time and cognitive resources, necessitating a selective focus on the intermediaries – their size and location being easily accessible parameters to obtain – in order to maximize the effect of the D-R cycle. Such delegation of responsibility further adds to the relational touchpoints between the manager and the intermediary.

Intermediary size – large vs. small intermediary: Intermediaries with large business turnover possess more resource slack and deeper market outreach. They are therefore able to manage inventory and absorb fluctuations in inventory levels better than their smaller counterparts. Managers maintain close ties with such intermediaries because these intermediaries can accommodate wider fluctuations in sales variations and thereby safeguard the interest of the managers better by allowing high amplitude D-R cycles. According to the "role performance" view, if the intermediary's role performance is higher, the target (manager) is highly motivated to maintain the exchange relationship (El-Ansary and Stern, 1972; Frazier, 1983). Bigger intermediaries have higher capacity to absorb market learning, and past negotiation and bargaining actions make them superior actors in terms of managing the challenges of the market. Moreover, as multiple manufacturers push sales efforts and the intermediary firms come to learn about such practices, the latter would also try to avoid, retaliate, or even use those practices to their own advantage by negotiating superior trade promotions and designing co-operative marketing budgets. Although conflicting forces exist, overall, I speculate a positive moderating effect of distributor size on the D-R cycle, with bigger distributors generating high amplitude cycles.

Intermediary location – rural vs. urban: EMs' distribution systems are growing and reconfiguring quickly (Dong et al., 2010). This trend is more prominent in urban than rural locations (Hounhouigan et al., 2014). The institutional voids feature unevenly across urban and rural locations (Park et al., 2006), resulting in differences in the level of managerial control across markets (Luo and Chung, 2013). Supervisory or top management control is higher in urban than rural locations, which might pacify the D-R cycle as the focal firm would insist on consistent sales. In rural locations, where there are a limited number of trained intermediaries, intermediary exclusivity is less. Consequently, any one firm's contribution to the intermediary's total sales is relatively less than that of its urban counterpart, and these markets are by and large a buyer's market because a large number of manufacturers are available for any intermediary to choose from (Wilemon, 1972). This supply of manufacturers reduces intermediaries' desire to put in the effort needed to maintain the channel relationship (El-Ansary et al., 1972). Coercive strategies are ineffective because the time needed to implement them and evoke a behavioral response is lengthy, and chances are high that the relationship will be terminated. In contrast, urban markets are characterized by superior managerial role, which enhances managers' credibility with the intermediary (Frazier and Summers, 1984). The chances of differences and ambiguities arising are much higher in rural areas, where such heightened differences in goal incongruence (e.g. the manager views retail expansion as an investment, whereas the intermediary views it as cost) would make the sales managers use distributive rather than cooperative strategies (Provan and Skinner, 1989). Therefore, urban intermediaries would invest effort into aligning themselves with the manager's norms and expectations (Bonoma, 1976; Frazier et al., 1984; Lusch and Brown, 1982). Lastly, in rural areas, financial controls are weaker, market potential is low, and challenges are less familiar. All this makes the manager more dependent on the intermediary for market insights. Therefore, creating a case for product dumping by the manager as less tenable, and two-way relational ties are difficult to invoke, as managers themselves are not sure of what the ideal amplitude of the D-R cycle should be.

> *Hypothesis 3:* Distributor size positively moderates the amplitude of the D-R cycle in a manner that the extent of product dumping and releasing is higher for the larger intermediaries as compared to the smaller intermediaries.
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> *Hypothesis 4:* Market size acts as a moderator of the amplitude of the D-R cycle in a manner that the urban markets show higher amplitude on the D-R cycle as compared to the rural markets.

DATA AND METHODS

Empirical Context

I studied the distribution system of a fast moving consumer goods company selling lighting equipment in India through a network of distributors and retailers. The primary sales are made through purchase orders raised by the intermediary, along with the requisite remittance or pay-orders, and credit sales are not allowed. The intermediary manages secondary sales to the retail outlets present in his or her assigned territory, and is supported by a sales team that is headed by a channel manager and maintained by the focal firm. The manager is usually the in-charge of a state and has a sales team consisting of officers and on-foot salesmen. The salespeople are responsible for one or two intermediaries each, whereas the officers take care of a few districts. A district may have 4-5 intermediaries to ensure adequate retail coverage. These intermediary firms have a small turnover (~2-3 thousand USD per annum on average), operate locally and usually from their home location as a single-person enterprise, and own minimal infrastructure. Although, the focal firm issues contract for the appointment of intermediaries, such contracts are guideposts for conducting business, and are rarely exercised legally. To understand the issue in context, several short interviews with managers, intermediaries, frontline salespeople were conducted. These individuals were also later touchbased to discuss the final model derived from this study. Large number of archival and anecdotal evidences were gathered and examined to understand the viewpoints that exist on this issue in popular press.

Data

I used the country-level sales data for the compact fluorescent lamp (CFL) category to test the hypotheses. The product was available in 30 stock-keeping units SKUs, typically designed along the parameters of different wattage and shapes (e.g. CFL 15W, CFL 20W, CFL 15SPR, and CFL 11MINI, where W stands for Watt and SPR for spiral). Data was available at the SKU level for 34,434 invoices of the 2,167 intermediaries operating across India. One hundred and six intermediaries with combined sales of 0.16% were dropped from further analysis because they transacted only once during the entire 92-week study period (during 2010-12). These intermediaries were assumed to either just started up or have closed down.

The consumer product utility across SKU with regard to consumer needs is fairly distinct, and substitutability across SKUs is low. The product is utilitarian in nature and therefore not subject to much impulse buying. Moreover, the product comes with a 1-year replacement guarantee for the period beginning on the date of manufacture. Therefore, consumers have very little motivation to stock up the product, and would avoid products that have an older manufacturing date. These conditions give the intermediaries little motivation to delay sales or hoard the products.

The marketing activities in this category (and in general for the lighting industry in the consumer category in India) are low-budget, simple and largely time-invariant. The company used limited advertising – one single ad-copy was broadcasted pan-India for a brief period a few times during the year (usually customized to local languages). Consumer promotions were rare, and the trade promotion was a standard quantity-purchase scheme for the intermediary that was consistently available pan-India for almost the entire year. In sum, there was practically no variance in the outcome variables that could be attributed to differential marketing activities.

Method

The total sales value of the intermediary was used to classify it by size. The mean value of the sales of INR 0.284 million for the entire period was used to split the data according to small vs. large intermediaries (1 INR = US$ 0.015). In the data geographical location was available for each intermediary, which helped us classify them into three locational categories (based on house rent allowance or income, provided by the Ministry of Human Resource Development, India). Twenty Indian cities were coded as tier I cities, 44 were coded as tier II cities, and the remaining 181 were classified as tier III cities. Lastly, the data for the 92 weeks was clustered into three sales conditions that enabled us to test the hypotheses: Releasing Condition – 24 weeks of understocking immediately after a planning cycle or month (i.e., weeks 1, 5, 9; 14,18, 22; …); Normal Condition 2–47 normal weeks (i.e., all the remaining weeks between the two sales extremes comprising conditions one and three (2,3,6,7, 10,11,12; 15,16…); Dumping Condition – 21 weeks of overstocking in the last week of a planning cycle or month (i.e. weeks 4, 8, 13; 17, 21, 26; ….). The descriptive statistics comprising total sales and sales in different volume conditions parsed along intermediary size and location is indicated in

Table I. I did a test of difference of means and ANOVA to test the hypotheses. The results of the analysis are described below.

INSERT TABLE I ABOUT HERE

RESULTS

Sales across stocking levels. In contrast to the regular stocking levels, there is a significant fall in sales in the Release Condition ($\mu_{\text{N-R}} = 1007$, $t = 2.71$, $p < 0.05$) and a significant rise in the Dumping Condition ($\mu_{D\text{-}N}=1625$, $t = 4.43$, $p < 0.01$). Further, average sales in the Dumping Condition are significantly more than in the Releasing Condition ($\mu_{\text{D-R}} = 2632$, t = 5.96, $p < 0.01$), supporting H1. Overall ($\mu_{\text{D+R}}$), there is a significant sales gain of ~2.4%, as compared to the Normal condition ($\mu_{\text{(D+R)-N}}=427$, $t = 2.14$, $p < 0.05$), supporting H2, the virtuous effect hypothesis. Increasing sales over a long period of time also implies growth for the intermediary firm (the assumption being that the primary sales are ultimately liquidated in the market and that there is no undue stock-piling in the entire system).

The sales growth might alternatively be due to: (1) a steadily increasing consumer base that is moving away from GLS (general lamp shapes or light bulbs available in the price range of INR 15-20) and towards CFL (available at ~INR100) because the latter consumers almost ten times less power; and/or (2) the replacement of old variants of CFL with improved and more expensive ones. A steady shift from a low-value to a high-value product is expected because as consumers break free from the initial price gap of GLS-CFL, they can be encouraged to accept slightly higher price variants. However, these macro factors do not nullify the DR effect because the Release week is always leading the Dumping week by 2-3 weeks of normalcy and therefore controlling for the above factors will only intensify the difference between the Dumping and Release periods.

To derive further insights into the issue of the responsiveness of the cycle, I examined the variations of sales according to: (1) the size of the intermediary firms and (2) their location.

Variations of sales across stocking level and intermediary firm's size. While there is clearly a main effect of week-type and intermediary size (as discussed above), Table 2 also indicates a strong and significant interaction effect between week-type (D-R conditions) and intermediary size (Small vs. Large). According to ANOVA, a pair-wise comparison, indicates that the gap between the small and the large intermediaries changes significantly across the Release, Normal, and Dumping Week-types, (μ_{L-S}= 12806, 14553, 17767; Week type*Intermediary size, F=18.9, p<.001), the rises being 13% (from Release to Normal) and 22% (from Normal to Dumping weeks), which supports H3 (see Table 2 for statistics and Figure 1 for plots). Sales differ significantly across the size of the intermediary firm (μ_S=9168, μ_L=24282, F=2192.9, p<.001). Larger intermediary firms are invoiced significantly more (~136%) than smaller ones. On the other hand, there were significantly lower D-R variations across smaller distributors, who were billed only marginally differently from the normal weeks (2.5% less in the Release period and 4.3% more in the Dumping period). However, larger intermediary firms show a dip of around 8.4% and a rise of around 15.1% as compared to the sales in the normal weeks.

INSERT TABLE II AND FIGURE 1 ABOUT HERE

Variation of sales across stocking level and location of the intermediary firm. The city classification has a comparable number of transactions with tiers I and II, which have ~7000 observations each, while tier III returned around 20,000 observations. Average sales value was significantly different across all three city-classes (F=50.94, p<.001): much higher in tier I, and surprisingly, much less for tier II towns as compared to tier III towns (μ_{III-II} = -1596, p<0.001). However, the push in tier I is much steeper than in the other two locations (μ_{I-II} = 5002, p<0.001,

μ_{I-III}=3406, p<0.001). I also observed a significant interaction between week-type and location (F=6.638, p<.001), which supports H4 (see Table 2 for statistics and Figure 1 for plots). While a rural distributor (tier II and III) showed a dip of around 5% during Release and a rise of around 8% during Dumping, metro distributors shows a fall of 11% and rise of 23%. One possible explanation for this might be the variation in the usage of CFLs. These markets are far from stable with regard to power types, replacement of GLS with CFLs, and experimentation along SKUs. In contrast, the tier I markets are neither as heterogeneous as the tier II markets nor as large as the metro markets.

DISCUSSION

EMs offer many opportunities for business enterprises to grow. However, operating within a weak institutional environment that poses extra operational challenges due to the high cost of creating and implementing formal contracts is considered a challenge. This study addresses the need for a theoretically sound and empirically proven model that can have value for managers operating in these markets. I theorize and test a novel D-R cycle that explicates how EM managers can proactively manage their relational ties and rely on behavioral learning and discretion to move a business system towards growth. While the Dumping period gives a jolt to the entire system and helps it to over-perform, the Releasing sales period allows scale-economies to be offered, which helps the system to manage other commitments and objectives that are important to the overall survival of the business under consideration. A period of normalcy in-between the D and R periods is similar to operating in traditional markets, in which the system can pursue stable and consistent actions. In fact, the D-R cycle helps the system enjoy a period of normalcy and enables it to pursue consistent, well-planned growth strategies by internalizing some of the uncertainties and creating extra resources that fuel traditional growth strategies during a period of normalcy.

Product dumping is not exactly the same as the push strategy discussed in marketing literature, even though at times I use the two terms interchangeably in this paper. A push strategy is accompanied by higher margins, which support the selling efforts of channel intermediaries (Emmons and Gilbert, 1998; Levy et al., 1983; Padmanabhan et al., 1997). Push tactics, and its implications have been well-charted for astute manufacturers who aim to increase wholesalers' or retailers' preference for their products (Levy et al., 1983). However, product dumping is not accompanied by a pre-strategized marketing plan and does not take the firm-level strategy of planning to liquidate stock into account. Anecdotal evidence suggests that firms see Dumping as an unwarranted action and discourage it. I assert that 'dumping', when examined in its entirety across the channel, is more than an opportunistic and reactive strategy. The activities surrounding it are based on collateralized social relations that are used to assure economic relations and help to reduce risk as well as to sustain predictable economic outcomes. Thus, in a way, product dumping is neither an impediment nor a cause of irrational friction. Instead, it acts as an asset that "rational" actors put to use in solving economic problems. I present the specific implications of the study for practice and research below.

Managerial implications

The final model and relationships were discussed in person by me with several managers and salespeople to assess the external validity of the theory proposed and tested in this research. In general, the findings were well received by salespeople and triggered curiosity among managers. Several interesting suggestions for future research possibilities were also noted.

The D-R cycle conjoins both buyer and seller side intricacies to enable small and large EM firms to come together and catch up with their developed market peers. The findings show that EM firms use social and relational means to try to overcome the stymied resource position and weak contractual processes that characterize their task environment. The D-R process is one such process, as has been foregrounded by this study. Relational exchange reduces the strain on tangible resources, offering a new insight into how firms can survive and thrive in these markets, even if they are not so resource-endowed to start off with.

The findings also depart from the relevance attached to consistent performance and instead, identify the importance of creating a managerial bricolage of high and low performances interspersed with a period of normalcy. Amidst uncertainty, a rigid performance expectation can be difficult to manage. This can eliminate certain small firms, which in the long run will be impedance for even bigger firms trying to gain foothold in EMs. I also indicate that firms' survival and sustenance are rather contingent on accommodating and sharing, and growing jointly in the process. The D-R cycle is one such creative possibility of joint performance.

Research on inter-organizational cooperation is in a state of confusion due to the application of distal constructs. I theorize the D-R cycle, which is managerially more actionable and specific. This study guides firms trying to enter EMs by highlighting the role of social exchange and indicating that as processes such as the D-R cycle are based on relational investments and may not immediately generate returns, firms should plan to have long-term orientation while operating in EMs.

Managing small enterprises such as intermediary firms. Small and medium enterprises are the mainstay of emerging economies. Such firms operate with highly limited resources and face the challenges of institutional voids. While the drivers of the creation of these enterprises and their competitive advantage have been widely studied, the specifics of what sustains and help small enterprises to thrive in EMs is limited (Baker and Sinkula, 2009). Ownership and using a combination of unique resources to generate superior performance (Barney, 1991) offer insightful explanations, but small firms usually take a frugal and cautious approach towards their resources. In so doing, they rely on flexible and agile approaches such as the D-R cycle to negotiate the uncertainty, and are not keen to expose and experiment with their limited resources too much.

Small enterprises usually lack structured business functions (De Kok et al., 2006). The D-R cycle co-creates value by improving the overall absorptive power (Thorpe et al., 2005) of the channel system that the small intermediary firms are a part of. The firms benefit from the enhancement of human capital, which extends beyond transactional benefits, and from the hand holding and informal learning opportunity provided by the focal firm (Argyris and Schön, 1978). Their relational ties and behavioral learning help them to ride the D-R seesaw, which over time aligns with their uncertainty to safeguard them and generate resources by deterring opportunism − especially when contracts are weak and absent, or difficult to enforce, and when resources are needed the most (for the intermediary as well as the manager). This process enables both the intermediary and focal firms to not only survive, but also to thrive in the face of challenges that threaten their very existence.

Managing large firms in EMs. The DR cycle is a higher level resource based on the capabilities to involve and integrate knowledgeable individuals (e.g., manager with intermediaries), and a relational competence concerning these parties. The relational competence ensures that lower order resources (i.e. tangible resources) get integrated well into higher order interactive and relational resources. The D-R cycle generates such higher order resources, which is difficult to acquire and/or develop, but once it has been created and sets in, it increases the levels of sustainability of the competitive advantage that distinguish successful EM firms from others that are not so successful. Within the limitation of this research, I neither theorize nor empirically test the antecedents of the D-R cycle. Nevertheless, my familiarity with the context of this study allows us to speculate that D-R cycles can be intentionally triggered by firms if they have learning intent and receptivity (Johnson and Sohi, 2003); access to value anticipation and combination abilities (Madhavaram and Hunt, 2008); and system perspective, openness and managerial experimentation (Jerez-Gomez et al., 2005). I task my peers to further investigate this interesting domain, which would provide further diagnosticity to the proposed DR cycle.

Theoretical implications

Although economic sociologists and strategic management researchers have paid considerable attention to social ties, the process outcome of those ties is not yet fully understood. I borrow as well as contribute to the theoretical basis of relational exchange, detail the effect of this exchange on performance, and highlighting how this effect is not uniform, but rather, is moderated across firm location and size. The D-R cycle illustrate how managers facing institutional voids use this social exchange as a substitute for the lack of formal institutional support (Xin et al., 1996; Zhou and Xu, 2012). Although managerial action alone cannot fill institutional voids, I find that it can create a system in which voids are neither abused nor evaded, but instead negotiated in a manner that jolts the system to generate better performance.

The D-R cycle is developed out of the models of businesses that operate in EMs OR out of models for businesses operating in EMs, but the cycle is either assumed to be present, or is considered to be unknown, at times due to scarcity of data (Luo et al., 2009; Palmatier et al., 2007). The D-R cycle acts as a useful template for managing businesses through creating an effective system-level routine (Nelson and Winter, 1982). Such a routine explains that complex co-ordination takes place across multiple entities through their integration of knowledge. The learning is transformed into specific tasks under conditions of channel interdependence, in which Dumping and Releasing subsequently lead to a distribution-related functional capability.

CONCLUSION

The D-R cycle proposed in this study offers a tractable investigation into how relational ties between two entities can result in superior performance within an important and novel EM context − more specifically, the intermediary firm-focal firm channel system operating under the agency action of the channel manager. I highlight how the intangible socially created jolts and recovery periods are actually the micro-processes of much-needed pathways to internalize inefficiencies, curtail conflict or opportunism, and improve joint action, which propel the entire system into a trajectory of improved performance and survival. This study is based on rich data and as such, generates insights into business management in the general EM context and the lesser-known phenomenon of channel management in particular.

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Table I. Sales transaction between focal firm and intermediary firm for Consumer Care channel
(Across stocking-level weeks, and size of the intermediary firm, and the number of variants sold to them)

Stock levels conditions (week-type)	# of weeks of observation	# of intermediary firms	Av. Sales per intermediary firm (INR)					
			Total (μ, # of invoices, σ)	Small firms (μ_S, # of invoices, σ)	Large firms (μ_L, # of invoices, σ)	Tier I (μ_I, # of invoices, σ)	Tier II (μ_{II}, # of invoices, σ)	Tier III (μ_{III}, # of invoices, σ)
1: Releasing condition (R)	24	1597	16571, 5969 (24185)	8862, 2376 (10500)	21668, 3593 (28873)	17915, 1256 (25786)	14825, 1181 (21709)	16676, 3532 (24354)
2: Normal	47	2034	17578, 18410 (26716)	9096, 7681 (13121)	23649, 10729 (31829)	19966, 3753 (30894)	15680, 3660 (24832)	17394, 10997 (25707)
3: Dumping condition (D)	21	1912	19203, 10055 (30703)	9485, 4534 (15125)	27213, 5521 (37239)	24602, 1980 (40871)	16971, 2078 (27150)	18195, 5997 (27597)
Total	92	2167	17878, 34434 (27551)	9168, 14591 (13405)	24282, 19843 (32989)	20828,6989 (33330)	15825,6919 (25068)	17421, 20526 (26055)

Average sales per purchase order in INR

Table II. Interaction Effects of intermediary size and location with week-type

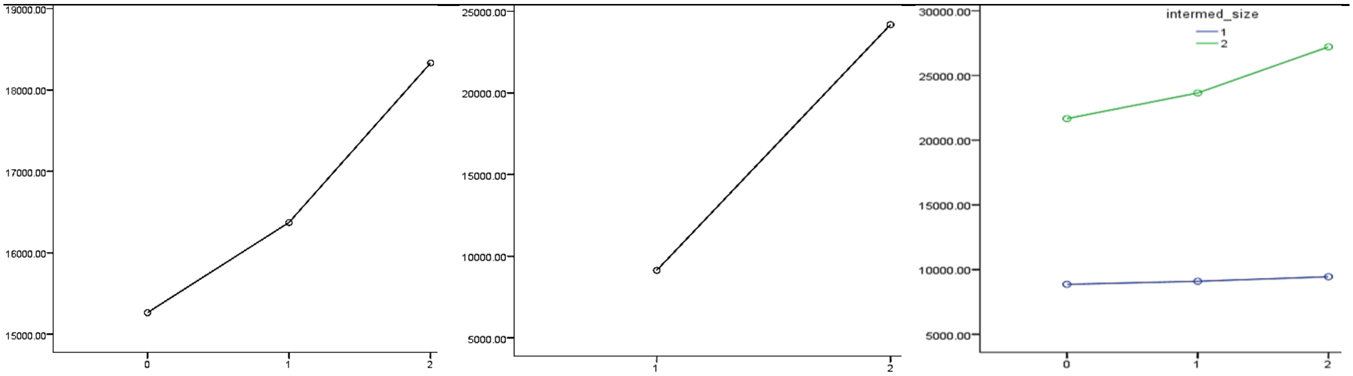
Source	Sum of Squares	F	p<	Partial η2
Dependent Variable: Sales				
Week type	40061804843	28.57	0.00	0.00
Intermediary size (Small, Large)	1537559822717	2193	0.00	0.06
Week-type*Intermediary size	26443244564	18.86	0.00	0.00
Dependent Variable: Sales				
Location (Tier I, II, III)	76926921340	50.94	0.00	0.003
Week-type (D, R, N)	40811594235	27.03	0.00	0.002
Location*Week-type	20046397255	6.638	0.00	0.001

Mean scores utilized to estimate differences and plot the interactions

Week type-Intermediary size	Mean	Std. error	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
Dependent Variable: Sales (and Week-type * Intermediary size interaction effects)				
R-S	8862	543	7797	9927
R-L	21668	442	20802	22534
N-S	9096	302	8504	9689
N-L	23649	256	23148	24150
D-S	9449	393	8679	10220
D-L	27214	356	26515	27912
Dependent Variable: Sales (and Location * Week-type interaction effects)				
T1-R	17916	775	16396	19435
T1-N	19966	449	19087	20845
T1-D	24602	618	23391	25812
T2-R	14825	800	13258	16392
T2-N	15680	454	14790	16570
T2-D	16971	603	15790	18153
T3-R	16676	462	15770	17582
T3-N	17394	262	16881	17908
T3-D	18195	355	17499	18890

D: Product dumping condition; N: Normal condition; R: Releasing condition
S: Small intermediary; L: Large intermediary

Sales (Y) against (X) where X is: 1. Week-type, 2. Intermediary size, 3. Week-type*Intermediary size



Sales (Y) against (X) where X is: 1. Week-type, 2. Location type, 3. Week-type*Location

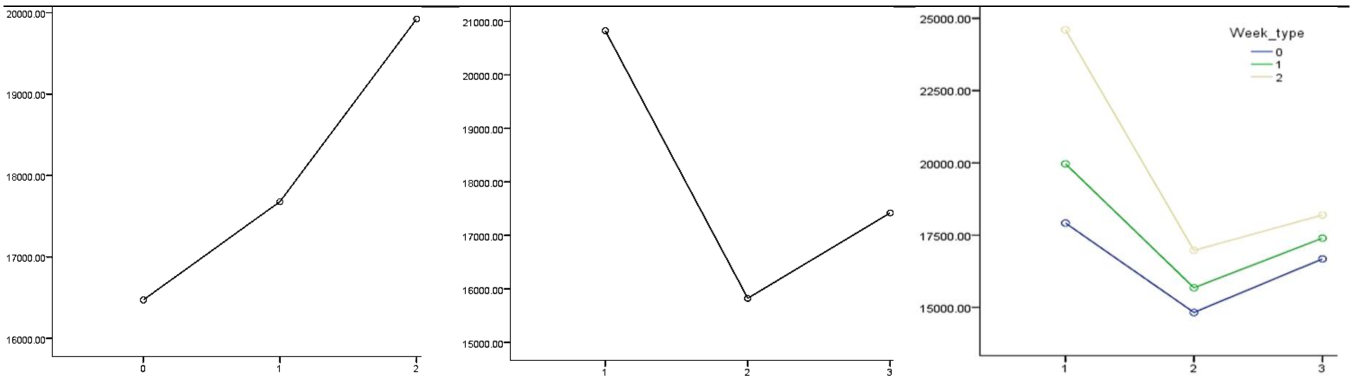


Figure 1. Interaction effects: Profile Plots