

A conceptual development of value appropriability for marketing channel strategy

Um desenvolvimento conceitual do valor de apropriabilidade para a estratégia de canal de comercialização

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Resumo

Channel strategy value relevance and the underlying value appropriation processes of channels center on a firm's ability to retain the tangible and intangible value created in channels. The contribution of a channel strategy to a firm is determined not only by the amount of value created during the distribution process, but also by the ultimate value appropriated by the firm. This study contributes to our knowledge of the value appropriation process in channels through an extension of existing literature on channel appropriability strategies. Our examination of the value appropriation processes in channels is integral to the execution of a maximization approach of value capture in channel strategy. We further propose that an emphasis on value appropriation may help a firm develop a comprehensive and appropriate channel strategy which ultimately contributes to intangible firm value. This research contributes to channels literature in the integration of different theoretical perspectives and suggestions for designing future research on the value creation side of channel strategies.

Palavras-chave: Strategy. Appropriation. Channels.

Abstract

A relevância do valor da estratégia de canais e os processos de apropriação de valor subjacentes aos canais estão centrados na capacidade da empresa em manter o valor tangível e intangível criado nos canais. A contribuição da estratégia de canal para uma empresa é determinada não só pela quantidade de valor criado durante o processo de distribuição, mas também pelo valor final apropriado pela empresa. Este estudo contribui para o conhecimento do processo de apropriação de valor nos canais por meio de uma extensão da literatura existente sobre estratégias de apropriabilidade de canal. Nosso exame dos processos de apropriação de valor em canais é essencial para a execução de uma abordagem de maximização de captura de valor na estratégia de canais. Propomos, ainda, que a ênfase na apropriação de valor pode ajudar uma empresa a desenvolver uma estratégia de canal abrangente e adequado, que, em última análise, contribui para o valor intangível da

organização. Esta pesquisa contribui para a literatura sobre canais com a integração de diferentes perspectivas teóricas e sugestões para a concepção de futuros estudos sobre a criação de valor das estratégias de canal.

Keywords: *Estratégia. Apropriação. Canais.*

Introduction

Understanding the value relevance of a channel strategy is essential to marketing accountability and successful strategic marketing planning (ANDERSON, 1982; RUST et al., 2004). Scholars and practitioners are interested in the role of a channel strategy as marketing channels represent not only the “ways to the market”, but also relational market-based assets which contribute to the value of a firm (SRIVASTAVA; SHERVANI; FAHEY, 1998). The contribution of a channel strategy to firm value may be achieved through value creation and value appropriation processes in channels (MIZIK; JACOBSON, 2003).

The basic functions of a distribution channel create value for a firm directly through making markets and executing transactions, generating both tangible and intangible value for a firm (ANDERSON; COUGHLAN, 2002; SIMON; SULLIVAN, 1993). From a marketing perspective, tangible value generated in channels includes sales and profits, whereas intangible value is based on the valuation of intellectual and relational assets embedded in channel relationships including a firm’s relationship with distributors, relational norms, and channel governance forms (HUNT; MORGAN, 1995; LUSCH; BROWN; O’BRIEN, 2011). The organization of channel functions embedded in the channel structure determines the overall capacity of a channel to create and retain value.

Value appropriation processes center on a firm’s ability to appropriate or retain the tangible and intangible value created in channels (MIZIK; JACOBSON, 2003). The tangible value is appropriated through the exchange process between a firm and its distributors (FRAZIER, 1983). Intangible value is inherently harder to measure and appropriate as it is not explicitly part of the exchange process but it emerges from the development of unique strategies that influence the overall value of the system and depends upon expectations of future gains beyond the present (JOSHI; HANSSENS, 2010). Thus, the sources of value appropriation from channels include both “value of its own” created in distribution processes and “value

in use” of intangible assets associated with channels (HANSSENS; RUST; SRIVASTAVA, 2009).

The contribution of a channel strategy to a firm is determined not only by the amount of value created during the distribution process, but also by the ultimate value appropriated by the firm (COLLIS; MONTGOMERY, 2008; TEECE, 1986). The known “leakage” in the value/profit appropriation process (TEECE, 1986) requires that firms not only focus on the value creation process in channels to enlarge “the size of a pie”, but also understand the value appropriation process to take a larger “share of the pie” (JAP, 2001). However, previous literature centers on the improvement of value creation processes or they use value creation to predict the effects of a channel strategy. For example, changing channel design by adding new channels and applying plural governance by adopting a dual-distribution system are expected to impact the financial market performance of a firm through facilitating channel operations (GEYSKENS; GIELENS; DEKIMPE, 2002; SRINIVASAN, 2006; SRINIVASAN; HANSSENS, 2009; VINHAS et al., 2010).

Our knowledge of the value appropriation process in channels is limited with regard to the underlying mechanisms of the appropriation processes and its impact on firm value. It is important and timely to examine the value appropriation process in channels as it is an integral part of the execution of a channel strategy to maximize the total value of channels (PITELIS, 2009). The appropriation that is easily recognized has been tangible value, with little work on the intangible value appropriation.

This study attempts to fill these gaps in the literature through a review and integration of appropriability in relevant literature to conceptualize channel appropriability strategies and indicate a firm’s ability of capturing value from channels. Next, we present research propositions based on the two channel strategies, vertical integration and channel compression, that predict channel appropriability and link these strategies to intangible firm value. The study closes with the discussion of theoretical and managerial implications.

Channel appropriability

Value capture from innovation and other economic ventures is focused on a firm's desire to capture or appropriate the rents or profits from their economic activity. Appropriability is originally defined as the capture of the full economic value of a commodity by firms or consumers (SAMUELSON; NORDHANS, 1985). The ownership of the economic value, both tangible and intangible, is distinct from the ownership of the assets, resources or innovations, as ownership does not guarantee the capturing of rents or profits (TEECE, 1986). This is referred to interchangeably as appropriation problems (HEIDE; JOHN, 1998), appropriation hazards (OXLEY, 1997) or appropriation concerns (GULATI; SINGH, 1998). As described in varying fields, the "appropriability problem" addresses the distribution of gains as an incentive for participants (WINTER, 2006). For innovators of new products, services, technologies or delivery systems, the viability of their company or the industry is dependent upon their ability to see a reasonable return. The most dynamic industries have higher rates of appropriability and higher levels of innovation (DOSI et al., 2006) which implies higher rates of return on their investments.

The inability to capture value or the un-appropriability of value is of concern to firms that create significant value from specialized assets (HEIDE; JOHN, 1998; TEECE, 1986) and own or develop innovative intangible assets/resources such as intellectual products (e.g., information, services, brands, processes, etc.) (ARROW, 1962; SAMUELSON; NORDHANS, 1985). Due to the nature of specialized assets, the inability to use the assets in other rent gaining capacity creates a dependence that can be taken advantage of and rents can be appropriated by partners (LAVIE, 2006). Distinctly, but equally important, the appropriability problems of proprietary processes also require mechanisms to increase and ensure appropriability of their invention. For example, through unique pricing strategies, they appropriate value from both direct users (direct appropriability) and indirect users (indirect appropriability) maximizing profits from intellectual products (LIEBOWITZ, 1985). Appropriability can be increased through a broader range of activities.

Teece (1986) provides a framework which consists of three elements: appropriability regimes, dominant design paradigm, and complementary

assets, to address the ability of firms to appropriate value from innovations. Appropriability regimes refer to "the environmental factors, excluding firm and market structure, that govern an innovator's ability to appropriate the profits generated by an innovation" (TEECE, 1986, p. 287). With a strong appropriability regime, a firm can retain profits from the innovation or other proprietary resources, while a weaker regime may make the profits hard to appropriate. Appropriability conditions are evidenced by the institutionally supported mechanisms of appropriability regimes, including patents to prevent duplication and secure royalty rents, secrecy, lead time in the market, efficiencies from learning curves, and complementary sales and service efforts (LEVIN; COHEN; MOWERY, 1985). These mechanisms of profit appropriation have been increasingly considered as fundamental drivers of a firm's competitive advantage. Empirical evidence also shows that greater appropriability has a positive and significant effect on a firm's economic performance (CECCAGNOLI, 2009).

A dominant design paradigm pertains to the specifications that define a product category's architecture (CHRISTENSEN; SUÁREZ; UTTERBACK, 1998). Dominant designs influence the distribution of profits among firms because they consist of numerous standards with market and industry acceptance, and isolating competition from designs. Once a dominant design emerges from diverse competitive designs, market competition will move away from design to other aspects, such as pricing, branding, and distribution (TEECE, 1986). Moreover, a dominant design is more likely to emerge in a product category with weak appropriability regimes of rents, suggesting that there are sufficient opportunities for firms to compete for the standards of a dominant design and distribution of profits (SRINIVASAN; LILIEN; RANGASWAMI, 2006; TEECE, 1986).

Complementary assets refer to distinctive assets of the firm or owned by their partners that collectively generate greater rents than the sum of those obtained from individual asset of each partner (DYER; SINGH, 1998; LAVIE, 2006). With weak appropriability regimes, a firm must develop alternative barriers to imitation to appropriate the value of the invention, for example, using an invention along with complementary assets, such as a distribution system and after-sales service (TEECE, 1998) or other forms of competence (DAY, 1994). Leveraging complementary assets is an effective way of appropriating the profits

of an innovation because they are difficult to access through market mechanisms, suggesting the ownership or control of specialized and co-specialized assets is an important strategy of profits appropriation (SHANE, 2001; TEECE, 1986).

In the context of marketing channels, we develop the idea that channel appropriability refers to the extent to which the value generated in marketing channels can be appropriated by a firm. It reflects a firm's ability to appropriate both tangible and intangible value from its channels. With a higher level of channel appropriability, a firm is more likely to extract the value created in channels. We focus on the intangible value created from a firm's marketing channels and propose that a firm can adjust the level of channel appropriability directly through channel planning and management, including channel design, structure, and governance, although other organizational resources and routines may also influence channel appropriability, such as brand, advertising, and product advantages.

Mechanisms of channel appropriability

To develop the idea of channel appropriability, we draw from work on appropriability from various theoretical perspectives to identify the underlying mechanisms of channel appropriability. We propose that existing views of appropriation albeit distinct, converge and provide a unique underpinning to evaluate appropriation in marketing channels. The three bases we draw on are: the Resourced Based View, the Dynamic Capabilities View and the Relational View. A summary is provided in Table 1. We conclude with a summary and insights on channel appropriability gained from these perspectives.

Resource Based View

The Resource Based View (RBV) argues that a firm's strategic resources are the major sources of sustained competitive advantages which drive the value creation process (BARNEY, 1991). The amount of value created is determined by the ownership of valuable resources and the exploitation of those assets enables a firm to perform better than competitors and in this light we focus on marketing channels as strategically valuable resources (COLLIS;

MONTGOMERY, 2008). Following RBV, marketing channels represent the market-based assets which facilitate the marketing processes toward enhancing competitive advantages (SRIVASTAVA; FAHEY; CHRISTENSEN, 2001). Although channels are primarily external and largely intangible assets to a firm, they can be augmented and leveraged to increase firm value because a firm can take advantage of them as intangible assets for other marketing and management purposes beyond distribution (HANSSSENS; RUST; SRIVASTAVA, 2009; SRINIVASAN; HANSSSENS, 2009; SRIVASTAVA; SHERVANI; FAHEY, 1998).

The inappropriability problem indicates that not all profits from a channel automatically flow to a firm even when the firm owns this channel. Concerns of opportunism an extreme case is perfectly zero channel appropriability which makes it possible that all the profits generated by a channel strategy are appropriated by the employees, customers, and distributors (BARNEY, 2001; DOSI et al., 2006). Alternatively, the channel owner may extract both rents generated from the partnerships with intermediaries and their complementary assets but also extract rents generated outside of the relationship (LAVIE, 2006). Thus, the level of channel appropriability may influence the strategic role of channels, and a firm's incentive to invest in a channel strategy depends on the ease with which it makes profits be captured.

Dynamic Capability View

The Dynamic Capability View (DCV) maintains that a firm's ability to integrate, build, and reconfigure internal and external competences to address environmental change provides competitive advantages (TEECE; PISANO; SHUEN, 1997, p. 516). The focus is on the realigning of resources given changes in the market place (EISENHARDT; MARTIN, 2000) and the dynamic capabilities are not the actual resources themselves but the processes, knowledge and routines that firms implement to realign the resources for competitive advantage. Dynamic capabilities do not appropriate value but allow firms to realign existing, newly created or acquired resources to appropriate value. It is suggested here that creating or acquiring new resources is possible through alliances or partnerships but the dynamic capability is not easily transferred as it may be based on tacit knowledge (TEECE; PISANO; SHUEN, 1997). The control of the

dynamic capability and the ability use these routines, processes or abilities without owning the resources provide a competitive advantage. Therefore, firms who use their dynamic capabilities to create value in alliances or with the combined resources of others, must focus on the ability to appropriate the value created from their dynamic capabilities (BLYER; COFF, 2003) in such alliances.

Partnerships and alliances in channels must use specific channels strategies to control and gain from their realignments and combinations of resources. Channel appropriability which reflects a firm's ability to appropriate value from channels can enhance the productivity of channels (MAKADOK, 2001). The value appropriation from channels can be achieved by building channel appropriability regimes that consist of factors governing a firm's ability to appropriate profits (TEECE, 1986). This profit appropriation may influence a firm's pursuit of innovation in channel management to attain new competitive advantages (HAUSER; TELLIS; GRIFFIN, 2006). When implementing a new effective channel strategy, such as adopting a new technology or a new channel structure, a firm needs to develop an isolating mechanism which limits competitors from imitating its innovative channel strategy and prevents the immediate dissipation of profits associated with the innovative channel strategies (LEVIN; REISS, 1988; MIZIK; JACOBSON, 2003).

Appropriating intangible value from channels can be achieved by reconfiguring and appropriating intangible channel resources for non-distribution purposes in rapidly changing environment (TEECE; PISANO; SHUEN, 1997). For example, a tight control over marketing channels can mitigate the inefficiency of patents in protecting profits of innovations (WINTER, 2006). Moreover, marketing channels provide access to complementary assets which benefit the profiting from the channel innovations (TEECE, 1986).

Relational View

The Relational View (RV) contends that a firm's interorganizational routines and processes can work as sources of its competitive advantages which generate relational value (DYER; SINGH, 1998). The relational value cannot be generated individually by either a firm or its distributors because it requires both partners to combine, exchange, and co-develop idiosyncratic resources. This shared relational value

in channels can be appropriated by either channel counterparts (LAVIE, 2006). Although equity and equality are important in this "pie sharing" process, the effects of the principles of sharing used by a firm to maximize value appropriation depends on the firm's complete understanding of its own position in the "pie creating" process (ADEGBESAN, 2009; JAP, 2001). Moreover, a firm needs to preserve the relational value created by its distributors by isolating competing firms from simply imitating its channel strategy (DYER; SINGH, 1998). The lack of capability to restrict competitive forces over distributors may hamper the extraction of relational value co-created with distributors (MIZIK; JACOBSON, 2003). Thus, channel appropriability is critical to a firm's profits from its channel network growth (FRELS; SHERVANI; SRIVASTAVA, 2003).

RV highlights the role of interorganizational assets, processes, and routines embedded in a pair or network of organizations, for example, relationship-specific investments made by distributors, knowledge-sharing routines between a firm and its distributors, complementary resources provided by distributors, and effective governance of a channel system are critical resources extended beyond firm boundaries (DYER; SINGH, 1998). This insight implies that intangible channel-related resources, as market-based assets of a firm, are appropriable to serve multiple business purposes (SRIVASTAVA; SHERVANI; FAHEY, 1998). This deployment of channel resources represents the appropriation of intangible value generated in channels. For example, a firm may appropriate some value of the relationship-specific investments made by its distributors through opportunistically using these investments for other purposes (HEIDE; JOHN, 1998). A firm's channel resources once brought into existence for one set of purposes can also aid others, thus constituting social capital available for use in channels (COLEMAN, 1998). The appropriability of a channel network, as an important attribute of exchange and transaction within channels, is one dimension of structural social capital embedded in channel relationship, and indicates the ease with which different types of relationships can be transferred within a network (ARGYRES; KYLE, 2007; BOLINO; WILLIAM; BLOODGOOD, 2002). For example, a firm's initial stock of trust with its distributors can be appropriated from existing channels to build trust in other newly added channels (UZZI, 1996).

In summary, the dynamic capability view suggests that channel appropriability indicates a firm's internally developed ability to extract value from channels. This capability is evidenced in the processes of appropriating tangible value from channels and transferring intangible channel resources for other business purposes. The resource based view suggests channel appropriability, determining the profits appropriated from value generated in channels, is an intrinsic characteristic of marketing channels as strategic resources. Moreover, the importance of this attribute is evidenced by how appropriable channels are when they are deployed for other business purposes. Finally, the relational view suggests that channel appropriability is manifested in a firm's appropriation of the relational value created in channel collaboration. By claiming interorganizational resources in channels as strategic resources, it also suggests that appropriation of intangible channel resources for other business purposes can lead a firm to appropriate more value from channels. Each of these views, RBV, DCV and RV provide unique aspects to understand appropriability from key resources, in this case channels of distribution, but they also point to the need to implement strategies to ensure appropriability or minimize the appropriability problem. The various views also bring to light that appropriation is not only of the actual profits from the interactions of resources and assets in marketing channels, but the rents, or the capturing of rents may be both profits and resources that go beyond the scope of jointly created rents or resources (LAVIE, 2006). To that extent we look further at two forms of appropriability in marketing channels, profit and resource appropriation.

Profit and resource appropriation in channels

All three theoretical views on channel appropriability suggest two mechanisms of value appropriation in channels, profit appropriation and resource appropriation. The profit appropriation refers to a firm's extraction of profits created in channels. Such profits are generated in the implementation of distribution functions by distributors independently or co-created by a firm and its distributors collaboratively. It appropriates the "value of its own" of channels. RBV assumes the channel appropriability is associated with the ownership of channels, or at

least complete control of the value creation process in channels (LAVIE, 2006). Without the assumption of channels ownership in RBV, the DCA implies that channel appropriability can be achieved through a firm's internal capabilities, such as processes, positions, and paths which facilitate the exaction of profits from channels. Regarding the co-created profits in channels, RV releases the ownership of channels and profits, and proposes the appropriation of jointly created profits as a critical indicator of channel appropriability.

The resource appropriation perspective pertains to using channels for multiple businesses purposes to appropriate the intangible value of channel resources, and appropriates the "value in use" of channels. RBV contends that the leverage of channels to facilitate other marketing and management processes may improve a firm's competitive advantages and increase firm value. DCA argues that the reconfiguration of channel resources to cope with environmental change is a key capability of a firm to attain new competitive advantages. From a network perspective, RV includes interorganizational processes between a firm and its distributors as sources of competitive advantages, and suggests that the transfer of appropriable channel resources for other business purposes may improve a firm's competitive advantages. Resource appropriation reflects the need to control and align resources in such a manner that the intangible value created solely or jointly is appropriated. Resources that are aligned through relationships or ownership and where the intangible value is appropriated by the channel designer are the ultimate goal of maximizing overall value and appropriation.

Channel appropriability can contribute to firm value through the profit appropriation and resource appropriation processes. Through the profit appropriation, a firm can enhance the level of its cash flows from channels by increasing and accelerating revenue streams. The isolating mechanisms developed for profit appropriation helps a firm enhance the level of cash flows by reducing the risk of competition and by lowering the vulnerability of cash flows due to competition. Thus, the stable and increasing cash flow tends to increase intangible firm value. The appropriation of intangible channel resources can reduce the required working capital for the similar resources. Moreover, the diversion of channel resources for other purposes naturally reflects the intangible value of channel relationships. In other words, the

higher possibility of channel resources is diverted the higher intangible value of channel resources, which leads to higher intangible firm value.

Channels of distribution have become strategic resources and drivers of competitive advantage. Firms have focused on developing unique channel structures, alliances, partnerships and proprietary logistics and channel processes to create value, increase cash flows (i.e., profits) (SRIVASTAVA; SHERVANI; FAHEY, 1998) as well as capture and appropriate resources (SRINIVASAN, 2006). Partnerships and alliances are particularly susceptible to appropriation concerns and hazards (GULATI; SINGH, 1998; HEIDE; JOHN, 1998; OXLEY, 1997). These appropriation concerns and hazards emanate from the limits of control (GULATI; SINGH, 1998), bounded rationality (WILLIAMSON, 1985), information asymmetry (DUTTA et al., 1995), free riding (FRAZIER, 1999) and other hazards that arising from a partner's active or passive opportunism (WATHNE; HEIDE, 2000). To avoid the loss of appropriable rents, profits and resources, firms in alliances or partnerships revert to vertical integration or contracts (KLEIN; CRAWFORD; ALCHIAN, 1978).

In the next section, we provide an overview of these channel strategies which determine the level of channel appropriability. We then link these channel appropriability strategies with intangible firm value by illustrating how they drive the profit appropriation and resource appropriation processes.

Channel appropriability strategies and intangible firm value

The level of channel appropriability is determined by the effects of various appropriability strategies used in channels (LEVIN; COHEN; MOWERY, 1985). In the context of marketing channels, we examine two strategies that drive channel appropriability: (1) channel integration and (2) channel compression. These strategies are involved in channel planning decisions and are direct means to increase channel appropriability and intangible firm value. Moreover, these strategies are manifested in the contracts between channel members. A contract is usually viewed as a formal, lawful, and enforced device of profit appropriation and utilization of channel resources (CECCAGNOLI, 2009; HURMELINNA-LAUKKANEN; SAINIO; JAUHAINEN, 2008). Terms in such a

contract emerge as a consequence of bargaining power between channel members, which make these strategies reasonable ways for value appropriation in channels. These strategies primarily and legitimately determine a firm's ability to appropriate value from distribution channels and they constitute the infrastructure for enhancing channel appropriability.

Channel appropriability strategies exert their influence on intangible firm value through the profit appropriation and resource appropriation processes. Although all these strategies can be adopted by a firm to increase appropriability, combinations of different appropriability strategies vary considerably across different industries and technologies (DOSI et al., 2006). This section illustrates the effects of these appropriability strategies on intangible firm value within different firm or industry situations.

Effects of channel integration

Forward vertical integration in channels is an integral part of channel design. In simple terms of make or buy (WILLIAMSON, 1985), vertical integration is the pure form of make, where a firm owns their channels of distribution. A firm gains the ownership and control rights of channel through vertical integration (LAFONTAINE; SLADE, 2007). The simultaneous use of vertically integrated channels (e.g. company-owned units in franchising) and market-based channels (e.g. franchised units in franchising) indicates the deployment of plural governance in marketing channels (BRADACH, 1997; BRADACH; ECCLES, 1989; HEIDE, 2003). Adjusting channel ownership and governance structure by adding vertically integrated channels affects not only the incentives of value creation, but also the value appropriation process in channels.

A firm's increased control over its vertically integrated channels can exclude competition over channels because vertical integration is an effective way to safeguard the firm from vulnerability, channel environmental uncertainty, and channel behavioral uncertainty (DUTTA et al., 1995; JOHN; WEITZ, 1998). This isolation from competitors helps a firm achieve profit appropriation in distribution channels. A firm with this high vertical control has a high possibility to take a larger portion of profits created by distribution functions because the ownership of a resource is a primary determinant of the value exacted from the resource (WINTER, 2006).

Although market-based channels might also help a firm to sustain the market share which is exposed to and might be taken by competitors because of their better responsiveness to market needs and market changes (YIN; ZAJAC, 2004), this effect on profit appropriation may be attenuated due to a firm's loss of control over market-based channels.

Vertical integration enhances a firm's bargaining power in channels which is an important determinant of profit appropriation. The enhancement of this power is achieved through a firm's reduced dependence on market-based distributors by increasing vertically integrated distributors. Moreover, the increased proportion of vertically integrated distributors offers more viable distributors in a channel system to mitigate the "small-numbers bargaining" problem, resulting in higher bargaining power of a firm (ANDERSON; COUGHLAN, 2002). Thus, as the percentage of vertically integrated distributors increases in a channel system, a firm's ability to claim value increases due to the stronger control and bargaining power over distributors.

Leveraging channels to improve interorganizational management and get access to interorganizational resources is a way to realize intangible value of channels. Vertical integration facilitates the utilization of channel resources beyond the distribution functions. For example, a firm can leverage the two-way, mutual-learning processes between vertically integrated distributors and market-based distributors to model the behaviors and responses of either channel (BRADACH, 1997). In this process, the market-based channels are diverted to solve the incentive problems in vertically integrated channels (also called "agency problem"), whereas the integrated channels are diverted to solve the opportunism problems in market-based channels (also known as "moral hazard problems").

Vertical integration may activate the deployment of complementary tangible or intangible resources embedded in channels. For instance, the effects of brand reputation and marketing strategies in integrated channels can extend to market-based channels. The increase of vertically integrated channels also provides a firm the opportunities to efficiently appropriate financial resource and marketing information from market-based channels. Moreover, various customer acquisition channels can be appropriated to improve customer management. For example, a firm can use vertical integration beyond

market-based channels to optimize the customer bases in terms of the quantity and quality of customers (VINHAS et al., 2010). Thus, the increasing use of vertically integrated distributors tends to strengthen a firm's the ability and opportunity to appropriate value from its channels. In sum, vertical integration can promote the profit appropriation and resource appropriation in channels, which increases a firm's intangible value. Accordingly, it is expected that:

Proposition 1 – Vertical integration in channels is positively related to intangible firm value.

Effects of channel compression

In a conventional marketing channel, the title and price of a product are transferred down along channel layers. The level of this transfer determines the physical length and structure of a channel. To manage the end market more efficiently, firms tend to use direct channel or short channels with fewer channel layers, resulting in compressed channel systems. Channel compression refers to the reduction of channel layers for a flat distribution system (ANDERSON; DAY; RANGAN, 1997). It generates a flat channel structure with fewer levels of supervision and control (PORTER; SIEGEL, 1965). Channel compression can be achieved by restraining multi-unit agreements in channels which allow a distributor to own multiple outlets simultaneously. This type of restriction reduces the number of layers in a channel system because the multi-unit agreement (e.g. master distribution) may introduce additional layers of control between a firm and its distributors (KAUFMANN; KIM, 1995). In franchised channels, the limited or non-usage of master franchisees who get the right and obligation to open a certain number of outlets (i.e. area development agreements) or who can grant franchise to a third-party owner operator (i.e. sub franchising agreements) represent channel compression in a specified territory. Another restriction of multi-unit agreement is to restrain the gradual expansion across territories, for example, restricting a distributor to open new outlets in a new territory (ANDERSON; COUGHLAN, 2002). These different types of restriction within and across territories indicate the scope of compression in channels

The scope of channel compression can help a firm take an advantaged position when claiming profits from channels. This is because the use of restricting a distributor's business coverage in channels is a negotiating strategy to balance dependence between a firm and its distributors, increasing bargaining power of the firm (ANDERSON; COUGHLAN, 2002). Moreover, when negotiating with a firm, distributors owning multiple outlets (e.g. a master distributor) tend to have stronger bargaining power, suggesting that the restraint of multi-unit owners in channels can strengthen a firm's ability to appropriate profits from channels (COLLIS; MONTGOMERY, 2008; KALNINS; LAFONTAINE, 2004).

A firm can maximize the profit appropriation by reducing the channel layers to manage revenue flows in channels directly, such as royalties. Royalties are directly related to the proportion of profits that a firm can receive from its channels because franchised distributors merely keep the profits after paying royalties to the firm. A master franchisee will retain part of the royalties passing through to a firm (JUSTIS; JUDD, 1986). By restricting the use of master franchisees, a firm gets direct access to the franchise fees (upfront fixed fees paid by franchisees to obtain the rights of operation) and royalties (as a percentage of the franchisee's sales in the end market) from individual existed or prospective franchisees, which go directly to the firm's profit stream (DESAI, 1997; HOSSAIN; WANG, 2008; SHANE; SHANKAR; ARAVINDAKSHAN, 2006). Thus, increasing the scope of channel compression improves a firm's position and ability to appropriate profits from channels.

The resultant direct interaction with individual franchisees from the scope of channel compression also provides a firm the opportunity to develop close relationships with franchisees. Improved channel relationships are appropriable intangible assets in channels which may facilitate a firm to appropriate its distributor's resources. For example, the frequent interaction promotes distributors to develop identification with a firm's brand, which leads distributors to behave beyond contractual obligations and contribute more resources to channel operation such as sales forces, market knowledge, and marketing support. Moreover, the high-quality and knowledgeable distributors are one of the most important resources embedded in a channel relationship (KALNINS; LAFONTAINE, 2004). The close and direct interaction

associated with the scope of channel compression makes it easier for a firm to select and manage distributors more efficiently.

Appropriating customer resources is a goal achieved by channel compression. End customers may not distinguish distributors from a firm and may attribute their credit or blame to either (KUMAR; STERN; ACHROL, 1992). Channel compression by reducing layers and the contractual formats in indirect channels provides access to end customers and increases the visibility of a firm to them, enabling the firm to acquire and leverage these customer-based assets (e.g. customer satisfaction and customer loyalty). For example, end customers might prefer to get technical support directly from a firm but finally get help from distributors. In this case, it is more likely for these customers to attribute their satisfaction, trust, and gratitude to the distributors instead of the firm. However, all or at least a large part of this credit will flow to a firm when the firm adopts a direct channel or an indirect channel with fewer intermediary layers.

Furthermore, channel compression gives a firm more flexibility to leverage a distributor's expertise. This flexibility is gained by a firm's reduced path dependence on the master distributors because the restriction on them in distribution process may reduce distributors' market power over the firm, opportunism, potential double-marginalization problems (KALNINS; LAFONTAINE, 2004). With this flexibility, a firm may reallocate functions among distributors to match their own expertise. For example, some distributors can focus on providing information to customer or promoting new products. Thus, expanding the scope of channel compression helps a firm to appropriate value from intangible channel resources, including channel relationships, customer credits, and a distributor's expertise and resources. In sum, the scope of channel compression can promote the profit appropriation and resource appropriation in channels, which increases a firm's intangible value. Accordingly, it is expected that:

Proposition 2 – The scope of channel compression is positively related to intangible firm value.

Channel compression is used to provide both firms in the channel partnership a long term strategic advantage. Each party attempts to mitigate risk which is difficult a priori and post hoc (BERGEN;

SHANTANU; ORVILLE JR., 1992). In the pre relationship stage, the firm creating the contract needs to send a signal to the other party that they believe in the viability of the relationship and one signal is the length of the contract (LAFONTAINE, 1992). The firm is locking in to a long term relationship which signals their intent to maintain and support the relationship. This signal is seen both by the partner and the marketplace. In the marketplace it is a signal of commitment and continuity of the relationships. Besides limiting the contractual forms or restrictions on types of ownership in a channel system, a firm can extend compression by extending the length of such restrictions. The continuity of channel compression is used to appropriate the effects of the length of channel compression contracts.

Long-term compression contracts can increase the appropriated profits by a firm by reducing free-riding behaviors of distributors. On the one hand, long-term contracts incent a firm to establish a control system over distributors, for example, gathering information about distributor behaviors (EISENHARDT, 1989). On the other hand, with a longer time horizon of the contract, distributors are more likely to prosper from the gains from proper behaviors (SHANE, 1998). Empirical evidence shows that long-term contracts in large distribution systems can increase the survival possibility of individual distributors (SHANE, 2001), suggesting that more stable and consistent revenue will be appropriated by a firm.

A long-term compression contract can bring more appropriable resources in channels. Considering the signal effects of contractual arrangements (LAFONTAINE, 1992), the length of a compression contract reveals a firm's commitment toward long-term working relationship, enabling the accumulation and leverage of relational assets within channels. Moreover, distributors are more willing to make relationship-specific investments when they have long-term contracts with a firm because these contracts can reduce the possibility for the firm to opportunistically renegotiate the contracts (JOSKOW, 1987). Thus, a long-term contract of compression facilitates a firm to appropriate resource from channels. In sum, the continuity of channel compression may promote the profit appropriation

and resource appropriation in channels, which increases a firm's intangible value. Accordingly, it is expected that:

Proposition 3 – The continuity of channel compression is positively related to intangible firm value.

Conclusion

The paper attempts to integrate and contribute to strategic decisions in marketing channels. Exploring such strategies and empirical testing of the propositions contributes to our knowledge of marketing strategies and firm value (SRINIVASAN; HANSSSENS, 2009). An explicit focus on the value creation and value appropriation processes in marketing channels contributes to the marketing strategy literature in terms of the value relevance of a channel strategy. The emphasis on value appropriation may help a firm develop a comprehensive and appropriate channel strategy which ultimately contributes to intangible firm value (PITELIS, 2009). Moreover, this research tests the Relational View in marketing strategy literature. The effectiveness of this theoretical framework provides a new avenue for future research in marketing channels and marketing alliances at the interorganizational level (COMBS et al., 2011; PALMATIER; DANT; GREWAL, 2007).

This research makes contributions to channels literature in both routine and strategic management of channels. The integration of different theoretical perspectives not only provides an examination of the effectiveness of dominant theories in channels literature, but also provides suggestions for designing future research on the value creation side of channel strategies. The application of the Relational View evaluates interorganizational relationships and extends the previous effort in this research stream (PALMATIER; DANT; GREWAL, 2007). In addition, the identification of channel appropriability in this research suggests a new direction of analyzing strategic channel actions. Future research can apply the mechanisms of channel appropriability to examine the effectiveness of a channel strategy in terms of value appropriation.

Table 1- A summary of conceptualizations of appropriability

Domains	Sub-areas	Conceptualization	Examples	Representative Studies
Economics	Economic goods	A property of the economic good. It relates to the ownership of economic good, i.e., who have it?	Appropriability, In-appropriability	Samuelson and Nordhans (2010)
	Resource and economic development	The likelihood that natural resources lead to rent-seeking, corruption or conflicts which harm economic development in turn.	Technical appropriability, Institutional appropriability	Boschini, Pettersson and Roine (2007)
	Property rights	The ways used to creators of intellectual products to appropriate revenues from users of their products.	Direct appropriability, Indirect appropriability	Liebowitz (1985)
Industrial organization	Innovation at industrial level	The extent to which a firm can limit other firms from imitating its innovations.	Appropriability Spillover	Levin and Reiss (1988)
Strategic management	Innovation at firm level	The environmental factors, excluding the firm and market structure, that govern the technology proprietor's ability to capture profits generated by the technology.	Tight appropriability regime, Weak appropriability regime	Teece (1986)
	Interfirm relationship	The factors determine the proportion of relational rents appropriated by the focal firm.	Drivers of value appropriation	Lavie (2006); Adegbesan (2009)
	Social capital	Organization once brought into existence for one set of purpose can also aid others, thus constituting social capital available for use.	Appropriable organization	Coleman (1988); Nahapiet (2008)
Marketing	New product development / Dominant design	Same to the innovation at firm level	Appropriability regime	Hauser, Tellis, and Griffin (2006); Srinivasan, Lilien, and Rangaswam (2006)
	Market-base assets	Same to the innovation at firm level	Strength of the producer network	Frels, Shervani, and Srivastava (2003)
	Value capture strategy	The mechanism that prevent the immediate dissipation of profits associated with a value creating initiatives (e.g. an innovation)	Isolating mechanisms	Mizik and Jacobson (2003)
	Marketing channels	The opportunistic exchange partner could appropriate some faction of the value of the transaction-specific assets.	Appropriability problem	Heide and John (1998)

Source: Research data.

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