

The Effects of Vertical Networks on Channel Governance Adaptation: A Transaction Cost Economics Approach

Wesley A. Pollitte – July, 2007

This research investigates the management of a supplier network from the perspective of the buyer concerning the adaptation of governance between a supplier and the buyer as network membership changes. Specifically, this study focuses on changes in governance between a supplier and a buyer in a vertical network when the supplier adds a new customer. The model is examined using a two-stage role-playing experiment with Supply Management professionals as key informants to capture the degree of vertical coordination before and after the addition of the supplier's new customer.

The experimental design is conducted in two phases; a concept validation and pre-test phase followed by the actual administering of the experiment in phase two. The first phase involves an iterative process to understand how the conceptual elements of the adaptive responses and construct items to be tested in the experimental design are perceived by Supply Management professionals. Upon establishing the conceptual domain, feedback will be solicited from Supply Management professionals on the wording and presentation of the scenarios (six total scenarios) used in the experiment. Upon completion of the scenarios, a pre-test will be conducted using Supply Management professionals through phone interviews to examine the comprehension and recall of the key components of each scenario.

The second phase of the experiment consists of a two-step experiment. Each informant is presented with a treatment that addresses a condition prior to the addition of a new customer by a supplier and a condition after the addition of a new customer by a supplier. In the first step, the informant is to select the preferred level of vertical coordination based on the conditions presented in the scenario. In the second step, after the new customer is added, an additional

variable is added to the scenario and the informant is to select a new level of vertical coordination. The hypothesized outcome of this research is to show that characteristics of the network influence the level of vertical coordination in the focal relationship between the buyer and the supplier.