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SOURCES OF CONFLICT
BETWEEN FOREIGN MANUFACTURERS AND THEIR AGENTS
IN AN EMERGING MARKET

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Control in the International Distribution Channel : Its Extent, Area and Source

Abstract

This is a study of the extent, area and source of the foreign manufacturer control over his dealer in Saudi Arabia from the dealer perspective. The study developed constructs for control and the kinds of policies manufacturers follow to achieve control. From a questionnaire data the validity and reliability of the constructs was ascertained and statistical analysis applied. Results show the areas of advertising, guarantees, price, and goal setting to be the major areas under the manufacturer's control while the areas of human resource management and show-room were the least controlled. The study also found coercive policies, especially those relating to the physical product flow, to be more important in achieving control than non-coercive policies.

Sources of Conflict Between Foreign Manufacturers and Their Agents in An Emerging Market

The overriding importance of channel management in international markets cannot be exaggerated, yet until a few years ago, the study of channels of distribution in cross-border settings has received scant attention by academics. A few studies surfaced lately but they either deal with the choice between designs or entry modes (Anderson and Caughlan, 1987; Bello and Verhage, 1989; Klein, Frazier and Roth, 1990). Only a small number of studies deals with the issues of control, conflict or their causes (Yavas and Habib, 1987; Johnson et al, 1993; Al-Motawa and Ahmed, 1996). Even then there is no study devoted to conflict causes or its management per se across national boundaries, especially not one involving a manufacturer from a developed country and a distributor from a developing country. This is why we feel our study is important as it addresses the issue in such a situation: conflict between importers from the 'emerging' Saudi Arabian market and automobile manufacturers from around the world. This market happens to be one of a few 100 billion US dollars markets in the world and the largest in the Middle East.

CONFLICT: ITS CAUSES AND CONSEQUENCES:

It is generally agreed that conflict between two channel members is dysfunctional to both (Stern, El-Ansary and Brown, 1989; Rosenbloom, 1995.) Rosenbloom (1973) argued that conflict in the channel may be positively related to efficiency at low levels of conflict, but beyond a threshold it is not. Lusch's (1976) study could not support this but did find an inverse relationship between conflict within the channel and the retailer's performance. A recent study found a strong negative correlation between the dealer sales and the level of conflict between him and his supplier (Ahmed and Al-

Motawa, 1997). That the consequences of conflict between channel members are generally undesirable needs no further evidence and only makes the study of its causes more important..

Generally speaking the literature on domestic channel management in advanced countries abounds with studies of causes of conflict as viewed by the dealer. The causes are thought to lie in the attempts by the manufacturer to control or influence the dealer. The manufacturers in industries characterized by economies of scale and heavy investment are presumed to be anxious to control the dealer to assure the generation of volume (Mallen, 1967; Stern et al, 1989). The studies generally categorize the policies or strategies suppliers employ in dealing with their distributors into coercive and non-coercive strategies where the first category is supposed to increase conflict and the latter category lowers it. Most of the empirical studies support that stand (Hunt and Nevin, 1974; Lusch, 1976; Wilkinson, 1981; Gaski and Nevin, 1985; and Frazier and Rody, 1991). These are domestic advanced country studies. Frazier, Gill and Kale (1989), one of very few developing country studies, supported the presumed relationship in the case of Indian Tungsten industry.

All the above are domestic studies with no cross-border participation in the channel. Cross-border studies are rare. One of these is that of Johnson et al (1990) whose study found the use of mediated strategies (coercive) to have no significant effect on the level of conflict between the US suppliers and their Japanese distributors while the use of non-mediated strategies by the suppliers was found to relate negatively to the conflict level between them and their distributors. They suggest that Western influence practices are not effective in Japan and that the distributors, because of cultural differences, may not view the supplier as practicing pressure tactics even when the supplier thinks he is.

Again the above study involved two advanced countries. Al-Motawa and Ahmed (1996) study is the only study involving an advanced country manufacturer and a

third-world dealer. They found coercive measures by the manufacturer to increase conflict with the dealer but could not detect a significant negative relationship between conflict and non-coercive measures by the manufacturer. This raises the question of comparing and contrasting channel structure and management and the effect of cultural and economic differences and how that affects conflict. Samiee (1993) hypothesized that channel structure in developing countries is characterized by: small institutions, generalists rather than specialists retailers who vary in form and have limited financial resources. He further added that channels are family dominated and have sporadic importing by non-agents. Other than the last two characteristics, the others do not seem to apply to the Saudi market, at least not in the passenger-automobiles markets. These characteristics may apply to sellers' markets as in the Indian Tungsten market of Frazier et al (1989), but not to the Saudi market which has been described as a buyers' market (Culpan, 1985).

All this aside, most of the above studies looked at conflict and its causes synthetically, building the measures up from issues. They did not try to isolate measures or policies as separate areas of conflict or single out a measure or a group of measures as causing or reducing conflict except as the two broad categories of coercive and non-coercive. Lusch (1976) study is an exception in this regard. He isolated four policy areas as a focus of contention between US auto manufacturers and their domestic dealers: vehicles availability, parts availability, product quality, warranty work and new vehicles inventory. He also found coercive policies by the manufacturer to generally explain more of the conflict variation than do non-coercive policies. In each category he isolated specific policies as impacting on conflict: mechanics training, dealer incentives, product warranty and inventory rebates (among the non-coercive policies) as reducing conflict while unfair distribution of vehicles, slow warranty payment and bureaucratic red tape (in the coercive group) were revealed as raising conflict.

In this study we will examine conflict in an international channel involving an advanced country manufacturer dealing with an 'emerging' market agent. We will

look at conflict over particular issues and at the impact of specific policies or strategies the manufacturer may employ on the level of conflict. Specifically we will address these questions:

- What policy areas are the major issues contended in the foreign manufacturer-local agent dyad in the Saudi passenger automobile market?
- Which general strategies between coercive and non-coercive groups explain more of the conflict variation.
- What particular policies in the coercive group are positively and significantly associated with conflict.
- What particular policies in the non-coercive group are negatively and significantly associated with conflict.

DATA AND METHOD:

Data was collected from a survey questionnaire of the Saudi agents of foreign automobile manufacturers. From that data indexes were constructed to reflect variables of interest and such indexes were tested for reliability and validity. Means and percentages were calculated to isolate the areas of conflict. After that correlations were calculated to gauge the strength of the associations. In the following pages we describe the data, the measurements and the tests before we discuss the findings.

DATA: The Saudi Chamber of Commerce and Industry supplied us with a list of direct agents of foreign automobile manufacturers. Saudi law requires every foreign supplier with operations in the Kingdom to have an agent. We were interested in direct agents who deal with manufacturer directly. We augmented the list with names of agents that were not in the list for some reason or another. Contacts were made with the agents and interviews were conducted with the general managers mostly in Riyadh, or with their branch managers if their headquarters were in another city as was in the case of a few. A questionnaire was filled during the interview or forwarded to the headquarters for the few outside Riyadh. Thirty-two agents were contacted,

twenty-eight of whom responded and twenty-six usable responses obtained. As a sample size, this compares well with the possible total number of direct agents when we remember that most manufacturers have a single direct agent in Saudi Arabia.

MEASUREMENTS:

Conflict: Conflict is here viewed as manifest conflict reflected in the frequency of disagreements between the manufacturer and his agent over various issues. While frequency by itself does not reflect the intensity of the conflict or the importance of the disputed issue, it was not possible for the authors to assess these other facets of conflict. Besides, the work of Brown and Day (1981) suggests that the inclusion of these additional facets in the measure adds little contribution to it both being highly correlated with the frequency of disagreements. We also stayed with the manifest definition of conflict for the purposes of comparability with other studies.

Respondents were asked to indicate the frequency of their disagreements with the manufacturer in each one of 22 possible decision issues. These included such things as: the number of mechanics, discounts, training, returns, spare-parts purchases, price, etc. For 'no disagreement at all' a score of one was awarded and a score of 5 for 'continuous disagreements' on a 5-point Likert-type scale with intermediate points in between. A summated index was constructed ranging from a maximum of 110 to a minimum of 22. This in addition to its separate policy component measures being separate indexes.

Quality of Assistance (Non-coercive Measures): Here again and in the general tradition, representatives were asked to rate the quality of services their manufacturers offered them in 18 areas ranging from training of personnel to designing advertising campaigns, provision of credit, spare-parts supplies, market research, etc. The areas included such things as book-keeping and accounting and general advice that a businessman from a less developed country may stand in need-of. Again a 5-point

Likert-type scale was employed ranging from one for 'poor quality', all the way to five for 'very high quality' with points in between. In addition to the individual policy score we have an overall summated score.

Coercive Measures: These measures were similarly constructed by asking respondents to assess the likelihood of the manufacturer resorting to each one of eleven possible coercive actions to obtain the dealer's cooperation. These actions included delaying shipments, reducing shipments, shipping undesired models, delays in settling warranties dues, withdrawing facilities, ... all the way to threatening legal action or termination. Respondents (dealers) were asked to indicate if each action was 'highly-likely, rather-likely ... to highly-unlikely' on a 5-point Likert-Type scale. Again we have individual measures scores and a summated overall index.

ASSESSMENT OF RELIABILITY AND VALIDITY

Reliability: To assess the internal consistency of each of the constructs, Cronbach's Alpha was calculated and the coefficients for the three constructs were: 0.908 for the conflict measure, 0.888 for non-coercive measures and 0.831 for coercive measures. These levels are considered satisfactory indexes of reliability (Nunnally, 1978).

Validity: Content validity requires that a measure conforms to conceptual definitions of the concepts it is intended to measure and that the items comprising it are sampled adequately from the domain of the construct. To ensure this the authors initially reviewed the relevant channel literature in general and trade literature in Saudi Arabia in particular and came with an initial list of items (issues) representing each index. The list was then modified after unstructured interviews with some dealerships managers. As to discriminant validity to assess the unidimensionality of each construct, this was assessed by carrying out factor analysis. Each of the three constructs were found to load on a separate factor, hence confirming unidimensionality of the scales.

FINDINGS AND DISCUSSIONS:

Conflict: To assess the extent of conflict we calculated the means of the overall conflict measure which was found to be 42.23 points with a standard deviation of 10. Remembering that the range of the construct was between 22 and 110 this suggests that the conflict level was moderate to low (less than the possible mid-way point of 66), yet it is still substantial. Hence it is worth closer examination and so we arranged the different policy issue in order of the extent of disagreement as seen in Table I, below:

Insert Table I

It is clear from the Table that the 'retail price' is the single most contested issue with almost two-thirds of the sample stating that they had frequent disagreements with their respective manufacturers over it. This could be because of the fact that the government slaps a 15% custom duty on the manufacturer's sticker price that is affixed to the car in the show room and there is no room for haggling or discounting there. So once fixed by the manufacturer there is little modification or maneuvering around. That is bound to make the dealer have strong feelings about the price.

The next most controversial issue is the 'returns and compensation policy' where the dealers appeasement of unsatisfied customers would naturally be at the manufacturer's expense. 'Sales goals' is the third most contested issue between the manufacturer and his Saudi dealer. This is to be expected as manufacturers with mass production will be seeking volume sales and they judge dealers on that. On the other hand, dealers who face intense competition in a buyers' market and who are closer to the customers, would naturally resent what they see as too-high goals set by outsiders 'unfamiliar'

with the market. 'Compensation for warranties' is another area of frequent disagreements. So is 'advertising assistance' and promotional discounts' over which more than one third of the dealers disagreed frequently with the manufacturers they represent. Here again the dealer may feel he knows the peculiarities of the market best and would disagree with 'outsiders' over the strategy of approaching the customer.

These are the six areas where disagreement was the most frequent. At the other extreme we notice that questions of 'the number of salesman', 'where to get spare parts' are areas where the dealer and manufacturer seem to see eye-to-eye.

We thus conclude that it is areas of price, returns, goals, compensation and advertising over which the dealer and the manufacturer differ most frequently.

SOURCES OF CONFLICT:

Coercive Vs. Non-coercive Strategies: While the use of coercive policies was generally found to be positively associated with the level of conflict and the use of non-coercive policies was found to be negatively associated with it, the strength of the association differed. Lusch (1976) found coercive policies to explain more of the conflict than do the non-coercive elements. Mixed results were found in cross-country studies. Johnson et al (1990) found a significant relation of conflict with non-mediated (non-coercive) strategies but found a non-significant relation of conflict with mediated. On the other hand Al-Motawa and Ahmed (1996) found the reverse. Johnson et al (1990) explained it in that what the US suppliers consider as aggressive is not necessarily viewed similarly by the Japanese.

The Al-Motawa and Ahmed (1996) study was aggregated like most others (except for Lusch [1976]). In this study though, we dis-aggregated the policy indexes into their separate components in a multiple regression analysis. We tried to gauge the strength of the association via the multiple regression equations:

$$C_i = f(NCP_{i1}, \dots, NCP_{i17}) \quad (1)$$

and

$$C_i = f(CP_{i2}, CP_{i2}, \dots, CP_{i11}) \quad (2)$$

where:

C_i = the level of conflict as perceived by the dealer between dealer i and the manufacturer he represents.

NCP_{ij} = dealer i evaluation of the quality of the specific supportive action j , provided him by the manufacturer he represents, j varies from 1 to 17.

CP_{ij} = The dealer i estimation of the likelihood of the manufacturer resorting to action j in dealing with his agent i , j varies from 1 to 11.

To begin with the overall association was found to be significant but at more than 5% (5.8% for the non-coercive and 8% for the coercive). Within each equation many beta coefficients had the wrong sign, (half of those in the first equation and 4 in the second). Moreover, only five beta coefficients were significant at 5% or less and two of these had the wrong sign in equation (1), while in the second equation no beta coefficient was significant at a meaningful level. Hence we sought to get a better fit by using a step-wise technique that deletes insignificant variables one at a time. Only two variables significant at meaningful levels and with the right signs remained in each case and with the overall association significant too. The results are shown in Table II.

Insert Table II

Even though fewer variables surfaced as significant in each case, the results show that overall, coercive policies explain more of the variation in conflict than do the non-

coercive elements. This is so even though we initially had considerably more non-coercive elements than coercive (17 vs. 11). These partiality disaggregated model results are in line with previous aggregated results (Al-Motawa and Ahmed, 1996) and with Lusch (1976) results. Now let us look at the specific policies in each group and how each specific policy relates to conflict.

Coercive Strategies: Here we examined each specific policy by calculating the simple correlation coefficient for each of the eleven coercive strategies or actions with the summated measure of conflict. We identified three such measures each with a substantial simple correlation coefficient that was significant (at less than 1%) and had the right sign. This is given in Table III.

Insert Table III

The most critical two factors that the dealer feels the manufacturer is likely to resort to appear to be delays in payments, i.e., financial, a belief that has a lot to do with the conflict level between the two. The manufacturer must feel that by withholding the dealer's money he can get him to conform, and the dealer resents that obviously. Slow response to the dealers observations and complaints is another tool that the manufacturer uses to the frustration and resentment of the dealer. The manufacturer must think 'if the dealer is made to wait long enough he will get the message'. A fourth important element, though not very significant statistically (9%), is 'not allocating a fair quantity or the right mix of models'. It is interesting to note the Lusch (1976) also found the automobile manufacturer use of similar policies (slow payment and unfair allocation of cars) with his US dealers had similar effects on conflict. Such measures must come handy to the manufacturer given the geographical distance from his dealers in Saudi Arabia.

With regards to other possible measures such as 'taking legal action' against the dealer, 'withdrawing concessions' or 'terminating the contract', these do not appear to be related to the level of conflict. In reality these are not viable options available to the manufacturer. As Bradely (1991) noted, dealers in such situations may have more leverage in their local courts that put the burden of proof on the manufacturer.

The fact that only these strategies are strongly associated with conflict does not necessarily mean that the others are altogether irrelevant. As a matter of fact it may be argued that the three selected strategies, in addition to being important in their own right as causing conflict, are proxies for others. This is clearly suggested by Table IV which gives the significant inter-correlations of each of the three critical variables with the remaining policy variables of the coercive policies.

Insert Table IV

The table shows five additional variables to each be inter-correlated with one or more of the three variables significantly related to conflict. The three critical ones are hence associated with (and thus imply) stronger actions as the next step. The 'slow response to the dealers observations and complaints' may be meant to imply to the dealer that stronger action could be forthcoming if he does not mend his ways.

Non-coercive Strategies: Here only two variables surfaced as significant in their simple correlation coefficients with the level of conflict at the 5% level or less. Both had the right sign and considerable magnitude. These were 'advise on inventory management' and the adequacy of 'spare-parts' supplies (see Table V). These are two items the dealers found of a good enough quality to reduce conflict with the manufacturer. They both refer to the dealers physical stock. Since Saudi car dealers, unlike dealers in advanced countries, pay for the cars and parts, that means a good

portion of their capital is thus tied-up. They would therefore be appreciative of any supply system or advice to control such stock costs and would feel the manufacturer is genuinely helping them achieve their goals.

Insert Table V

Three other areas had a weaker relation in reducing conflict. These were 'promotional kits and techniques', 'help with market research and information' and 'training of technicians'.

None of the remaining non-coercive policy variables was revealed to be individually associated with conflict at any meaningful level. At least not directly. As a matter of fact one may also argue here that the two significant variables are proxies for other variables in addition to their own importance. The two significant variables happen to be associated with twelve more non-coercive policy variables to a significant degree as shown in Table VI below. These variable range from the 'training of salesmen' to 'help in order preparation' and 'training of management personnel'.

Insert Table VI

Hence these 'other policies' not directly related to conflict are not altogether irrelevant in reducing conflict, but they only strengthen the dealer's perception of the effectiveness of the two important inventory policy variables.

This leaves some policy variables that do not appear to be important, directly or indirectly, in reducing the manufacturer-dealer conflict in the eyes of the latter. These are:

- Help in designing local advertisements
- Help with book keeping and accounting
- Offering credit
- General advice from the manufacturer representative.

The twelve inter-correlated variables may be things that the dealers takes for granted, but the last four ones are things the dealer has no great use for. He must feel competent enough in the area of local advertising, nor would he want the manufacturer to 'pry' in his books. With regard to financial resources the dealer is financially independent enough not to care for the manufacturer credit as has been observed by some (Dunn 1979, Stern at 1989). Hence these elements have no impact in reducing conflict.

CONCLUSIONS

This was a cross-country channel study of the conflict between foreign manufacturers and their dealers in a strategic commodity in the important 'emerging' market of Saudi Arabia. The study sought to delineate the particular policy issues over which the two channel members do not see 'eye-to-eye' and to isolate the causes of conflict in the particular strategies the manufacturer employs to influence the dealer. The study makes a general comparison as to the association of each class of strategies between coercive and non-coercive. After that each class is further broken down into particular issues or actions to see which particular ones have something to do with the level of conflict. The study employs simple percentages, measures of central tendency, regression and correlation techniques to analyze data collected from a survey of automobile dealers. Constructs were developed and tested before being analyzed.

ing the literature which showed the negative relationship
ence and that coercive measures as a group increase
measures as a group, reduce it with some exceptions.
to that.

revealed that the questions of price, compensation for
ments, and advertising assistance were the areas with the
ence. The study also found coercive measures as a group
ed with conflict than non-coercive measures as a group.
asures those dealing with settlement of dues and delays in
complaints, are the tactics that cause conflict most.
the cancellation or legal action do not seem viable options
dealers opinion and hence do not contribute much to

strategies the assistance given by the manufacturer to the
of cars and parts appears to be valued the most by the
ing conflict. This we observed to be due largely to the
ese stocks. However, with regards to the assistance the
ees of local ads, accounting systems or credit, these are
and hence do not appear to reduce conflict.

both coercive and non-coercive groups, were found to
they were also revealed to be proxies for other policies
me other policies are important in an indirect manner.

give to manufacturers would be not to use pressure
to work in other countries. This is more important when
nal conflict has been proven to be in the case of autos in
(Motawa, 1997). Manufacturers should work more with

... rather than ship them undesired models or insufficient
...
... feel they should insist on being proper agents, i.e., they
... cars and pay for them. This frees their capital for other
... That will even be better for the manufacturers as it will
... thing, and may make the agents more willing to accept
... more models shipped and could thus generate more
... could mean that unsold cars disposal would be a problem as
... . A solution would have to be worked out.

... leave agents more leeway in areas of compensations,
... Agents like-wise, should insist on more local input in
... marketing mix elements to give it a local flavor. Today these
... and administrative resources and there are numerous
... available to enable the locals to do a decent job.

... for other Gulf countries and other Middle Eastern import
... also relevant for newly industrialized countries' markets.
... that the products are not exactly substitutes and include
... cars that may require different analytical treatment. Also
... being obligopolistic, that limits the sample size. The
... by in-depth case studies and by other country studies.

Table I
Areas of Manufacture-Dealer Conflict

Disagreement	Percentage of dealers who disagree with the manufacturers rather frequently, often or always
	61.5
Financing policy	48.0
	38.5
Warranties	38.5
	34.6
	34.6
Cost of new cars	30.8
Complaints handling	30.8
Buy manufacturer	30.8
Between both	28.0
Cost of promotional campaigns	26.9
Cost of cars	26.9
Price level	23.1
Price level	19.2
In same region	19.2
	16.7
Advertising	15.4
Dealership salesmen	15.4
	9.5
Dealers and technicians	7.7
Dealers from manufacturer	4.0
	0.0

Table II

**Regression Results for the Conflict Measure
in each Group of Strategies
(Step-wise Analysis)**

Strategies)	R ²	Beta Coefficient	Sig. Level
coefficient of determination	0.50		
coefficient of association			.001
times in lieu of warranty		0.429	.0190
owed to dealer		0.402	0.0267
coefficient of determination	0.33		
coefficient of association			0.0039
promotional kits and		-.0369	0.0341
inventory management		-0.494	0.0062

Table III

Associated With Conflict: Coercive Sources
(Simple Correlation Analysis)

Strategy)	Correlation	Significance
Use of warranties	0.652	0.000
Allowed to dealer	0.640	0.000
Complaints & observation	0.510	0.008

Table IV

**Level of Critical Coercive Variables
Relations with other Coercive Variables**

	Slow response to dealer complaints and observations	Delay in settling dealer dues in lieu of warranties	Delay in dealer dues of any kind
... in lieu of	0.000		0.003
... ed to dealer	0.018	0.003	
	0.000	0.021	
... payment is	0.002		
... ase	0.001		
... in against	0.039		
... mplaints		0.0001	0.018
... s requests			0.028

Table V

**the Correlation's Coefficients of Conflict with
Non-Coercive Factors**

ables	Correlation's Coefficient	Significance Level
control	-0.496	0.010
	-0.493	0.010

Table VI

Non-Coercive Policies

Partial correlations of Critical Variables with others

Variable	Significance Level	
	Spare-parts Supplies	Advice on Inventory Control
Access	0.012	
Access and techniques	0.005	
Accessories	0.000	
Accessories	0.001	0.075
Access research & market information	0.003	
Access staff	0.017	
Access management personnel	0.021	
Access Saudi ads	0.039	
Access regarding inventory control	0.098	
Access for joining annual auto shows	0.055	
Access and marketing of new models	0.049	
Access to models	0.038	
Access		0.098
Accessories with other distributors and		0.045

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Abstract:

This is a study of conflict between foreign car manufacturers and their agents in Saudi Arabia. Constructs were developed to reflect: (1) conflict and the manufacturer's (2) coercive and (3) non-coercive strategies. Questionnaire data was collected from a sample of dealers and the appropriate statistical tests conducted. The results indicate a moderate to low conflict levels with the areas of price, returns, goals, compensations and advertising being the most contested. The results also show coercive strategies to explain more of the conflict than non-coercive strategies, and that in particular delays by the manufacturer in paying the dealers dues contribute most to conflict while the manufacturers help in controlling the dealer inventory levels reduce conflict the most.

Key words: Agents, Automobiles' Manufacturers, Coercive, Conflict, Emerging Markets, Foreign, Non-Coercive, Saudi Arabia.

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