

Manufacturers' Governance Mechanisms of the Distributors' Sales Force – Is there a Missing Link?

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Abstract:

This paper examines the main assumptions about channel governance mechanisms in the literature as a basis for a dissertation. The literature review reveals six categories of governance mechanisms and identifies that current research only focuses on a company level governance perspective. Individual target groups within the distributors have not been investigated although a few studies examine the control of dealers' top managers. As other studies emphasize the importance of distributors' sales force for the success of the manufacturers, it is suggested that future research should close the gap between channel governance mechanisms and distributors' sales force control.

Introduction

The governance of channel intermediaries is an important strategic task of sales and marketing departments (Mehta, Dubinsky, and Anderson 2002). Channel governance mechanisms, their arrangements and impact on success in international business have been intensively discussed in academic research (e.g. Luo et al. 2011). Based upon diverse research streams, the governance or control mechanisms of upward or downward channel members, i.e. of distributors or suppliers, are classified from various viewpoints and hence, given broad interpretations (Zhuang and Zhang 2011). However, one common denominator of these studies seems to be the discussion about governance mechanisms predominantly between companies from an inter-organisational perspective without adequate consideration of interpersonal aspects. As the various governance forms do not have direct real-world equivalents (Heide 1994), they still need to manifest themselves in the form of specific measures, instruments or practices - like finder's fees, social events or other incentives (Gilliland and Bello 2001). However, these means can be targeted to either the legal entity of the channel member (e.g. contracts) or to specific individuals of the channel member (e.g. spiffs). This paper attempts to examine whether previous studies have addressed the possible interpersonal nature of governance mechanisms or have solely focussed on the company level of governance in channel management research. Therefore, a systematic literature review was chosen to explore the current status quo of channel governance research. At the end this paper tries to contribute to this body of research by proposing an inclusion of the interpersonal perspective into the theory of channel governance mechanisms.

The nature of governance mechanisms and distributors

The channel governance construct appears noticeably in diverse research logics, including marketing (e.g. Lai 2007), relational contracting (e.g. Zhou et al. 2015), economics (e.g. Grewal et al. 2013), and organization theory (e.g. Joshi 2009). Hereby, the term channel governance refers to all coordinative and cooperative mechanisms and the means to organize and manage the business relationship with the channel partner in order to finally reach one's own and also common aims (Homburg et al. 2009). In this paper the governance of channel members is focused on distributors in a b2b setting that are used as intermediaries making a product or service of manufacturers available for business customers through their own sales force (Homburg, Kuester, and Krohmer 2009, 328). In this setting distributors take over the sales function of the manufacturer – fulfilling logistics, selling, marketing and other activities (Coughlan et al. 2006, 10). In terms of steering this outsourced function, inter-organisational

governance methods are conceptualized at a company level evaluating, influencing and guiding the manufacturer-distributor relationship (Grewal et al. 2013). Up to now, the research has tended to focus on the company level rather than on specific employee levels as there is usually no formal authority facilitating the monitoring and controlling of behaviour and outcome of the distributors' employees (Celly and Frazier 1996).

However, some researchers emphasize the importance of specific individuals for the sales and marketing success of the supplier. Hughes and Ahearne (2010) point out two important target groups within each distributor: firstly the managers and secondly the sales force. As the distributors' control system should be aligned with the manufacturers' goals to push their brand the dealers' managers play a crucial role. Second, the sales force of the intermediary is crucial as they finally sell the supplier's products to the end-customer (Badrinarayanan and Laverie 2011). Although, the sales force is monitored and controlled by the distributors' managers (Hughes and Ahearne 2010) the supplier itself can also directly influence the distributors' sales people, for example, through a tool known as „spiffs” – i.e., direct monetary incentives (Caldieraro and Coughlan 2007). Gilliland and Bello (2001) exemplify numerous different tools for governing intermediaries which could also be applied to the sales personnel of the channel member. However, inadequate resources, language barriers or the large size of the distributors' sales force (Yang, Su, and Fam 2012) make it sometimes more difficult to directly control the distributors' sales people. Thus, some manufacturers try to govern the distributors' activities through a mentor within the distributors' sales force, multiplying the influence in each distributorship. Interestingly, the importance of such a mentor for interorganisational management has already been emphasized in other disciplines (Gupta and Govindarajan 2000).

Is there a scientific gap in the governance of channel members?

Having discussed the three target groups within a distributorship where a manufacturer can focus on its governance mechanisms, the question arises whether writers have made an attempt to distinguish between these levels in their research too. If previous research on this subject has been mostly restricted to governance mechanisms from an institutional or interorganisational perspective a missing link between the target groups within the distributorship and the governance mechanisms used by the manufacturer could conceivably be observed. Therefore, a systematic literature review was chosen to help understand if, how and which of the channel member's units were addressed or assessed in the governance literature. This approach should further allow a deeper insight into governance mechanisms in general and how they are classified.

To review the literature a systematic process described by Levy and Ellis (2006) was utilized. Peer-reviewed marketing journals ranked by the VHB-JOURQAL, a high quality classification of publications (Clermont and Schmitz 2008) were searched in the period from 1995 to May 2015. A total of 304 identified articles contained selected key words about „distribution or indirect channel or supplier” and „governance or control” in their abstracts. After separating conceptual papers, checking overlaps and rejecting articles in which channel governance is used in a different way or setting or not discussed at all, a backward and forward literature research was conducted. The resulting 34 articles were then analysed and coded first according to the underlying research streams, second the mechanisms of channel governance used, and third their operationalization.

Governance mechanisms – results from the review

As a result of the literature review six classification lines of non-market governance mechanisms have been identified. Many researchers (e.g. Yang, Su, and Fam 2012) base their studies on the

article of Weitz and Jap (1995) differentiating between the first three classes, i.e. authoritative or hierarchical, normative (also described as social or relational), and contractual control. Both authors further emphasise a relationship management perspective derived from a behavioural research paradigm as a fourth category which is utilized by other researchers (e.g. Brown, Grzeskowiak, and Dev 2009), too. However, these governance mechanisms based upon different power sources and manifested in various influencing strategies were ultimately rejected because of their inconsistent application and classification (Lai 2007) in inter-organisational research compared to the sales force research discipline (Plouffe, Bolander, and Cote 2014). Moreover, some writers establish a process view for classifying the governance mechanisms in which the three process elements - incentivising, monitoring and enforcement are predominantly used (Kashyap, Antia, and Frazier 2012). Finally, the laterality serves to separate distinct forms of governance. Based upon Heide's concept (1994) researchers distinguish between unilateral, bilateral and more recently also trilateral governance. However, unilateral governance equates to authoritative control, bilateral governance to normative control (Gilliand, Bello, and Gundlach 2010) whereas trilateral governance is defined as comparison and corroboration with the external market (e.g. Homburg et al. 2009).

Most of the researchers utilize two of the classified forms within their studies. Among those the normative governance mode is applied in nearly all the 31 identified – articles. Therefore, relational norms enable the parties to internalize and formalize their activities into accepted practices which finally guide the parameters of the business relationship (Yang, Su, and Fam 2012). Normative governance is predominately operationalized by the parameters flexibility, solidarity, mutual understanding and information exchange, participation and collaborative actions and (interpersonal) socialization. However, the operationalized scales aim only at the institutional or company relationship level and not at specific dealership employees. Although some of the authors even operationalize relational governance through social or collaborative actions such as joint planning, common workshops or conferences (e.g. Huang, Cheng, and Tseng 2014) they do not clarify with which of the distribution partners these actions are executed. Interestingly, only Luo et al. (2011) describe the emphasized interpersonal socialization through personal ties between the top managers of buyer and supplier. Despite this, other dealership employees are not the focus of their research. The second set of governance mechanisms used in the identified studies is the control through formalized rules. The researchers describe this form of authoritative governance either through formal, explicit or detailed contracts or through outcome, behaviour or process based control in their studies. Formalized contracts in business relationships are established between institutions and can therefore only be investigated at an institutional level. However, outcome, behaviour or process based control is also used in sales force control research (Piercy, Cravens, and Lane 2012) and could therefore, be operationalized at a personal level too. Conversely, the literature review indicates that the researchers analyse the control of activities, procedures and output performed only at the company level and not at an individual level. Grewal et al. (2013) exemplarily operationalize this governance mechanism through scales measuring the general distributor's performance and the overall influence on the distributor's promotional activities, product management efforts, and sales policy and procedures. Only Gençtürk and Aulakh (2007) operationalize control with one specific sales scale, i.e. the influence of the manufacturer on the sales force training. However, this measurement does not clarify whether the sales force is directly targeted or still indirectly governed through the distributor's management. The third governance mechanism includes one or more elements of the classic management control

process – i.e. incentivising, monitoring and enforcement – and is mostly combined with contractual governance forms by the researchers. Nevertheless, the operationalization of this governance mechanism is also restricted to the company level only for all examined studies. Gilliland, Bello, and Gundelach (2010) exemplarily use scales measuring to which extent extra incentives are received and performance standards are fulfilled by the distributor – and not by individuals.

Discussion and further outlook

Summing up, it can be stated that the literature review has not identified individual target groups of the studied governance mechanisms. As each distributor's sales force is crucial to the success of a manufacturer, the emphasis of the planned research will be on different types of governance mechanisms specifically targeted to each distributor's sales force or to possible mentors within the dealership. By understanding the differences between mechanisms directly targeted or mediatey directed through the managers or mentors to the distributors' sales force and their hypothesised impact on the distributors' performance, this research may contribute to an increased understanding of governance mechanism constructs. Consequently, the focus of future research will be an empirical analysis of the Austrian machinery construction business and their perception of the performance of their fourth biggest international distributor.

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