

**Influence of Organizational Environment on Managerial
Choice of Dealer Performance Measures:
*A Multi Dimensional Framework***

Abstract

Performance is recognized as a very important construct in management literature (Furrer et. al. 2008). Appropriate measurement of channel members' performance in distribution networks is critical for channel managers for two reasons: 1) performance measurement is an important control tool which helps in aligning actions and behavior of channel members towards fulfillment of supplier's objective, 2) robust performance measurement system also helps in identifying good performing channel members from others; and thus helps in building a strong and sustainable distribution channel to ensure long term success of the firm. It also helps in equitable distribution of rewards to deserving channel members, which gives a positive inducement and keep the performing members positively motivated for future performance.

Performance has been broadly defined as the degree of success in achieving firm's objectives (Olson, Slater and Hult, 2005; Gaski and Nevin, 1985). Business objectives and performance intentions can vary hugely for different firms across different industry and also vary for a particular firm across time and place (ex. across product life cycle) (Swartz et al., 1996). This difference in objectives and thus in performance measures across firms has given rise to multiple measures of performance being suggested by various management scholars. Unfortunately, this proliferation of performance measures is managerially problematic as practitioners often find themselves in dilemma in deciding over key performance measures that they should use to evaluate their channel members' performance (Clark, 1999). In midst of these multiple measures management scholars still

struggle to find a consensus on the key measures of performance although, a broad consensus has emerged on one thing, i.e. performance is a multi-dimensional construct (Devinney et. al., 2005; Matsuno & Mentzer 2000; Bello & Gilliland (1997); etc.).

Multi-dimensionality of performance measurement still does not answer the critical managerial question, i.e. *What to measure?* With the lack of clarity on this question, practitioners tend to fall back on financial measures for dealer performance evaluation and other performance measures are overlooked, leading to an incomplete measurement of performance. The present study aims to address this gap in literature and develop a comprehensive framework for performance measurement of channel members.

The primary objective of this study is to examine the influence of organizational environment on the managerial choice of performance measurement of channel members (dealers) in distribution channels (Flaherty et al. 2007; Kabadayi et al. 2007; Achrol et al. 1983). We have selected three existing environmental constructs, i.e. munificence, dynamism and complexity (Dess and Beard, 1984) available in the management literature as the characteristics of organizational environment. We developed a conceptual framework for performance measures in this study, which provides the logical structure to the scattered measures of performance. The proposed '*Three Dimensional Framework*' is firmly grounded in 'Control Theory' and characterizes performance measures into 3 categories: 1) Output, 2) Behavioral and 3) Operational.

Primary data was collected from a national survey of 166 manager-dealer dyads of three firms in Indian automobile industry. Rigorous data analysis tools were used to empirically test the proposed framework and hypotheses. Results of the data analysis (using SEM)

provides strong empirical support for the proposed research model and clearly demonstrate that organizational environment has substantial influence on managerial choice of performance measures in channel relationships. The moderating influence of dealer size, dealer age and length of managerial experience on the relationship is also explored and found to be insightful.

This thesis extends the body of knowledge in the relevant area by first time examining the influences organizational environment on the choice of measurement instruments to measure dealer performance on three specific dimensions. The thesis explores new ground in establishing managerial choice of the performance measurement tool contingent on a given perceived environmental state. The study, by using rigorous methodology has also been successful in bringing out calibrated difference in the degree of emphasis on each measurement instrument in a given environmental state. Detailed guidelines are provided in the study to help channel managers in designing robust performance measurement systems for channel members suggesting specific approach to address inconsistencies in external environment. Research findings also indicate towards the influence of performance measures on the level of overall performance achieved by channel members and share insights on managerial emphasis on particular performance measures under contingent organizational environment.

By testing a series of hypotheses inspired by extant literature, we have effectively demonstrated the robustness of our model of choice of performance instrument in contingent environmental conditions. This ambitious scope of the work backed by rigorous research methodology applied for analyzing the data and interpreting the findings make this thesis a noteworthy study in management literature.